

**Conf. Com. Rep. 1 (Majority) Conference on S. B. No. 14**

The purpose of the bill is to extend prepaid health care insurance to workers who do not have that kind of protection or have only inadequate prepaid health care insurance. The workers who will benefit from the legislation are regular members of the labor force whose employment is not subject to collective bargaining agreements. The bill is not applicable to union employees or to public employees.

The required prepaid health care plan may be one based on either the service principle or the reimbursement principle, and the workers included under the bill are only regular employees, not seasonal workers. The measurement of a regular worker is at least twenty hours of work per week for any one employer.

The required health care benefits are tied to the kind of health plans that have already been developed and found satisfactory by the general community, with flexibility provided as to the specific benefits on the basis of medically reasonable substitutions.

The bill provides for continuation of coverage in cases when an employee is hospitalized or otherwise prevented by sickness from working, by requiring the employer to pay his share of the premium for three months of hospitalization or disability or for the period for which the employer has undertaken to continue the payment of the employee's regular wages, whichever is longer.

Duplication of benefits is prevented by providing for exemptions for an employee who is already protected by health insurance under federal law (e.g., medicare), is covered as a dependent under a plan providing the benefits required by the bill, or is a recipient of public assistance (e.g., a working mother entitled to aid to dependent children). The bill also expressly permits an employee to pay a greater part of his wages for providing prepaid health care benefits for his dependents.

Exemption from coverage under the bill is provided for followers of certain faiths who depend on prayer or other spiritual means for healing.

The administration and enforcement of the Hawaii Prepaid Health Care Act are the responsibilities of the director of labor and industrial relations. In the matter of determining whether prepaid health care plan benefits meet the standards of the bill, the director will be assisted by an advisory council, appointed by him and consisting of representatives of the medical and public health professions, consumer interests, and prepaid health care protection organizations. The director's authority extends to appointing necessary assistants, rule-making, prescribing forms for reports and other records, assessing penalties (and remitting penalties).

Your Committee upon further consideration has made the following amendments to S. B. No. 14, S. D. 1, H. D. 2:

1. Section 1 is amended to clarify the language setting forth the purpose of the bill.

2. Section 5 is amended by adding a category of excluded service in the case of service as a real estate salesman or broker when the only remuneration is by way of commission. This exclusion parallels that applicable to insurance agents and insurance solicitors.

3. Section 6 is amended to authorize an employee who is a regular employee of two or more employers to determine which employer will be the principal employer. Section 6 is further amended to provide that when one of such multiple employers is a public entity, that employer will be considered the principal employer. Provision is also made to prohibit an employer from interfering with or coercing an employee in making the determination of who is the principal employer.

4. Section 12 is amended to authorize the employer to determine the kind of prepaid health care plan that will be provided (one that furnishes the health care benefits or one that defrays or reimburses the expenses of health care). In either case, the employer is authorized to select the particular health care plan contractor, with limitations against overloading the cost of the employee's share of the premium.

5. Section 13 is amended to provide that the employer will pay for at least one-half of the premium, and the employee will pay the balance; provided that in no case will the employee pay more than 1.5 per cent of his wages, and if the employee's share is less than one-half of the premium, the employer will then be liable for the whole remaining portion of the premium.

6. Section 14 is amended to change the eligibility period from sixteen weeks to four weeks; this amendment also provides consistency with Section 11. Further this provision is clarified by specifying that the eligibility period must be four consecutive weeks.

7. Section 21 is amended to prohibit an employee from waiving health care benefits or agreeing to pay more for his share of the premium than is required.

8. A section found in H. D. 2 is deleted; it would have required the prepaid health care plan coverage to be provided at an applicable community rate or at a uniform basic premium rate to all employers.

9. Part III (Sections 31 to 33) is amended to provide the necessary administration and enforcement authority to the director of labor and industrial relations.

10. Part IV (Sections 41 to 47) is added whereby a special premium supplementation fund is established to supplement premium costs paid by marginal small employers. Employers of less than eight employees will qualify for the supplementation if their share of the premium for their employees exceeds 1.5 per cent of their total payroll and if the amount of the excess is greater than five per cent of income, before taxes, directly attributable to the business in which the employees are employed. Income directly attributable to the business is specifically defined, and it is the responsibility of the employer to claim premium supplementation and prove his entitlement thereto.

11. Technical changes in language and numbering have been made throughout the bill to accommodate and conform to the substantive amendments.

Your Committee on Conference is in accord with the intent and purpose of S. D. 1, H. D. 2, as amended and attached in the form hereto as S. D. 1, H. D. 2, C. D. 1, and recommends its passage on final reading.

Representatives Kato, Lee, Lunasco, Nakama, O'Connor, Takamine, Wakatsuki, Aduja, Carroll and Leopold,  
Managers on the part of the House.

Senators Toyofuku, Altiery and Lum,  
Managers on the part of the Senate.

Senator Altiery did not concur.

**Conf. Com. Rep. No. 2 on H. B. No. 2065-74**

The purpose of this bill is to strengthen and extend the present erosion and sediment control activities of the State of Hawaii and to place the primary development, implementation, and the regulation of these activities at the county level.

Your Committee finds that presently there are two statutes, HRS 342 and HRS 180, which give regulatory powers to the Board of Health. Under HRS 342, the Department of Health regulates all point discharges and agricultural-related discharges, and under HRS 180 the Board of Health approves grading activities upon request of the City and County of Honolulu. Your Committee also finds that this bill would improve these existing procedures and provide better land management. It would also provide overall guidelines for statewide coordination of erosion control activities. This bill would bring together separate programs into improved, unified effort.

Your Committee upon further consideration has made the following amendments to H. B. No. 2065-74, H. D. 1, S. D. 1:

(1) The definition of "Conservation Standards" and "Standards" has been amended to mean standards adopted by the Department of Health within 90 days of the passage of this bill.

(2) Section 4 of the proposed Chapter has been amended back to the form found in H. B. No. 2065-74, H. D. 1, to specify time limitations for the Department of Health to adopt soil erosion and

sediment control rules and regulations in the absence of county ordinance enactment.

Your Committee on Conference is in accord with the intent and purpose of H. B. No. 2065-74, H. D. 1, S. D. 1, as amended and attached in the form hereto as H. B. No. 2065-74, H. D. 1, S. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Kawakami, Lunasco and Medeiros,  
Managers on the part of the House.

Senators Brown, Ching and Mirikitani,  
Managers on the part of the Senate.

**Conf. Com. Rep. No. 3 on H. B. No. 2538-74**

The purpose of this bill is to provide payment or reimbursement to a policyholder of any health or accident policy issued, for medical services performed by a dentist acting within the lawful scope of his license.

This bill recognizes the fact that there is a limited area of overlapping skills or services between the professional practice of a doctor and a dentist. Consequently, medical payment should be provided to a policyholder where the policyholder receives qualified services from a dentist in a procedure which can be performed either by a dentist or a doctor.

Your Committee upon further consideration has made the following amendment:

(1) The phrase "related to surgical or emergency procedures" has been inserted thereby clarifying the condition under which such medical service reimbursement or payment shall be provided. This would mean that costs of services rendered by a dentist performing any surgical or emergency procedure within the lawful scope of his license would be reimbursed to the policyholder.

Your Committee on Conference is in accord with the intent and purpose of H. B. No. 2538-74, H. D. 1, S. D. 1, as amended and attached in the form hereto as H. B. No. 2538-74, H. D. 1, S. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Roehrig, Kondo and Saiki,  
Managers on the part of the House.

Senators Ushijima, Takitani and Mills,  
Managers on the part of the Senate.

**Conf. Com. Rep. No. 4 on H. B. No. 2941-74**

The purpose of this bill is to amend Chapter 451A to require a medical examination, prior to the purchase of a hearing device, to determine the cause of hearing loss and whether the patient could benefit from a hearing device at all.

The addition of this requirement to the provisions of Chapter 451A would protect the hard-of-hearing public from purchasing hearing aids from which they cannot benefit. According to testimony received, a substantial number of the patients who consult physicians cannot benefit from a hearing device at all. A further benefit of a medical examination prior to sale is that

such an examination often uncovers other related health problems which might otherwise go untreated. By requiring this medical examination, which has become a routine practice in other health related fields, the general health care of the population stands to be improved.

Your Committee upon further consideration has made the following amendments to **H. B. No. 2941-74, H. D. 1, S. D. 1:**

(1) The requirement of an examination and authorization by an otorhinolaryngologist has been altered to require an examination and authorization by a physician. Your Committee finds that the medical profession, in general, is competent to provide the services required by this bill, and that there may not be a sufficient number of otorhinolaryngologists to fulfill these requirements.

(2) Your Committee, however, considered that the requirement of an examination and authorization by an otorhinolaryngologist for a patient ten years of age or under should be maintained. The existing law requires such examination by such a specialist.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2941-74, H. D. 1, S. D. 1**, amended in the form attached hereto as **H. B. No. 2941-74, H. D. 1, S. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Roehrig, Kondo and Saiki,  
Managers on the part of the House.

Senators Ushijima, Takitani and Forbes,  
Managers on the part of the Senate.

**Conf. Com. Rep. No. 5 on S. B. 1944-74**

The purpose of this bill is to clarify the Hawaii Revised Statutes, and to bring the statutes into conformance with the separate and co-equal status intended by the State Constitution for the executive, judicial, and legislative branches.

Although the Constitution incorporates the principle of the separation of powers and the principle that no one branch of government shall dominate another, the statutes are not completely consistent with these constitutional principles. This bill amends the various sections of the Hawaii Revised Statutes to achieve this needed consistency.

The amendments made by the House deleted all those sections of the bill which amended chapters 76 and 77 of the Hawaii Revised Statutes. This action was taken to preserve the present civil service system with reference to the judiciary personnel. Your Committee agrees that the present civil service system should be preserved and that the employees of the judiciary and the executive branch should belong to the single State civil service system administered by the department of personnel services. However, your Committee believes that in keeping with the principle of separate and co-equal branches of government, the judiciary

ought to have some input and participatory role in the administration of the civil service system, particularly as that system affects the judiciary employees. Your Committee has, therefore, made the following amendments to **S. B. No. 1944-74, H. D. 1:**

(1) A provision has been added to make the representative of the judicial branch a participant in the annual meetings of the civil service directors of the State and counties. Your Committee believes that such participation will not only permit the judiciary to have an input in the administration of the State civil service system, but it will also lead to a needed understanding of the system by the judicial branch.

(2) Chapter 76 has been amended to require the director of personnel services to consult with the judiciary in the development of the position classification plan, the formulation of personnel rules and regulations, and the administration of the State personnel system insofar as such plan, rules and regulations, and administration affect the personnel of the judiciary.

(3) Under the civil service laws, in certain matters, only the director of personnel services can take action, although the agencies concerned may initiate the steps necessary for the director to act. These matters include the classification, reclassification, allocation, or reallocation of a particular position, announcing vacancies, and preparing eligible lists. The amendment to chapter 76 proposed by your Committee includes a provision that any request by the judiciary for any such action by the director with respect to any judiciary position must be acted upon by the director within ninety days after receipt of such request. If the director takes no action within the ninety days, the chief justice may take the necessary action, pursuant to the applicable provisions of law and the rules and regulations. Any employee affected by the decision of the director or the chief justice, or any bargaining unit of the employees of the judiciary may appeal the decision or action taken by the director or the chief justice to an arbitration board consisting of members selected by each of the parties—the director, the chief justice, and the employee or the bargaining unit. The decision of the majority of the arbitrators will be final and binding. The intent of this mechanism is to substitute arbitration for appeal to the civil service commission on matters such as classification, reclassification, allocation, or reallocation of a particular position, vacancy announcements, and eligible lists where the statutes currently require the action of the director of personnel services. It does not supplant appeals to the civil service commission in cases where action by the director of personnel services is not required by statute. Thus, for example, in case of a dismissal or a demotion of a judiciary employee by the chief justice, the chief justice's decisions will be appealable to the commission in the same fashion as in those cases of similar actions taken by any other

appointing authority.

(4) The amendment to chapter 76 further makes it clear that nothing in chapter 76 or 77 shall be construed to permit the governor or any executive agency, including the department of personnel services, from preventing the judicial branch from establishing positions in the judicial branch, when the positions have been approved and funded by the legislature.

(5) Minor technical amendments have been made to conform chapter 77 to the amendments made to chapter 76.

(6) A new section has been added to the bill to make it clear that nothing in the bill should be construed as modifying chapters 76 and 77, except in a limited way as provided by your Committee's proposed amendments to chapters 76 and 77 and that nothing in the bill should be construed as altering the collective bargaining law and collective bargaining rights of the employees of the judicial branch or amending any collective bargaining contracts in existence or those which may be negotiated in the future.

In essence, the amendments proposed by your Committee attempt to provide the judicial branch, as a separate branch of government, with some input in the administration of State civil service system, particularly as the system applies to the employees of that branch. But the amendments retain the single statewide civil service system. Your Committee reiterates that it is the intent of the bill that the employees of the judicial branch are members and will continue to be members of the State civil service system.

Your Committee on Conference is in accord with the intent and purpose of S. B. No. 1944-74, H. D. 1, as amended, and attached in the form hereto as S. B. No. 1944-74, H. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Wakatsuki, Kato and Carroll,  
Managers on the part of the House.

Senators Ushijima, Takitani and Mills,  
Managers on the part of the Senate.

**Conf. Com. Rep. No. 6 on H. B. No. 2374-74**

The purpose of this bill is to amend Act 218, S. L. H. 1973, the General Appropriations Act of 1973, by making appropriations for the fiscal biennium July 1, 1973 to June 30, 1975 and authorizing the issuance of bonds.

#### THE STATE'S FINANCIAL PLAN

Against the need to meet the more urgent program priorities of the State, your Committee has necessarily had to conduct a thoroughgoing, examination of the financial condition of the State. This examination has included a review of the assumptions upon which the State's financial plan is based. The more important of these assumptions are: **first**, there will be no prolonged economic dislocations or outbreak of

hostilities in the Pacific; **second**, tourist arrivals and expenditures will continue to accelerate and the military establishment and defense spending in Hawaii will not be drastically altered from the present pattern; **third**, the pace of the national economy will continue to rise but at a slower rate during the next two years and that the slower rate of growth will not result in a recession; and **fourth**, there will continue to be restrictions in State expenditures but some of these restrictions may be eased as the condition of the State's general fund improves.

Since the enactment of the General Appropriations Act of 1973, there has been substantial improvement in the condition of the State's general fund. This improvement has resulted from a combination of two circumstances: (1) the fiscal controls and restrictions imposed by the administration on the expenditures of State agencies and (2) increased cash flows into the treasury, due partly to the process of recovery from the economic slowdown which began in 1971 and partly to more sharply increased inflationary trends. It now appears to your Committee that the general fund condition has improved to the extent that the more urgent program priorities can be provided for in this supplemental appropriations bill, and that this can be accomplished through a balanced budget for the fiscal biennium. In summary, with the enactment of this supplemental appropriations bill, the State's general fund condition is expected to be as follows:

#### Financial Plan Fiscal Biennium 1973-75

##### General Fund

(In million \$)

	Fiscal Biennium 1973-75
Revenues .....	\$1,128.1
Tax credit .....	(7.5)
Carry-over .....	3.9
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	1,124.5
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	1,124.5
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Balance .....	\$ 0

#### PROGRAM APPROPRIATIONS

In this part, your Committee summarizes some of the principal program recommendations which have been incorporated into the supplemental appropriations bill. Where appropriate, your Committee has also included expressions of legislative intent with respect to the implementation of program appropriations made for the fiscal biennium. While the summary in this report is not inclusive of all of the appropriations provided for in this bill, it serves to highlight those programs which your Committee finds require additional support.



The program needs of the State are many, and the financial constraints are unyielding. These two realities have forced your Committee to make some hard choices. From the standpoint of priorities, your Committee believes that the **immediate** needs of the people are those which must first be met, and this means, to most people, jobs, income, and security. While these needs are immediate, they can only be approached through a combination of short-term and long-term solutions. If there are any major program areas which your Committee may be said to have emphasized, it is the program area of human resources, where your Committee supports programs to meet the immediate needs of those in our society who are most in need, and in the area of education, where your Committee believes that the State must continue to give real meaning to the concept of equal educational opportunity.

## EDUCATION AND CULTURE

### LOWER EDUCATION

**Foundation program.** The State has long been committed to the policy of equal educational opportunity to all, regardless of economic or geographical circumstance. Nonetheless, there still exist disparities in the program offerings of the public schools, particularly as between urban and rural schools, and large schools and small schools. The State's foundation program, the basis for implementing the policy of providing a minimum educational program to all children in the State, is not yet found in all schools. Your Committee believes that this is an urgent problem, and it has therefore provided for an appropriation of \$566,000 for the specific purpose of implementing the foundation program throughout the State.

**Three-on-two.** The three-on-two program has been established to provide individualized instruction, the structuring of teaching and learning in the classroom to fit the needs and abilities of the individual child. Your Committee believes that the program is essential to provide children with more individually tailored learning experiences and that it should not be reduced. Therefore, your Committee has included an appropriation of \$833,000 for the funding of 100 teachers.

**Hawaii English program.** It is important that the continuity of the Hawaii English program not be disrupted for those children who have been in the program. The intent of your Committee is that, at this time, HEP should provide for continuity from kindergarten through grade five. Act 218, SLH 1973, appropriated \$1.3 million to provide for the vertical continuity of the program, and it is the expressed intent of the legislature that the funds appropriated should be applied to the program in fiscal year 1974-75.

**Special education.** Your Committee is aware of the need to assure that all identified handicapped students are served by the special education program. An appropriation of

\$209,000 has been included to support special education services and the funding of 28 additional positions.

**School repairs and maintenance.** There have been reports that a number of schools in the State are badly in need of repairs and suffer from inadequate maintenance services. Such conditions are harmful to the health and safety of children and others. A supplemental appropriation of \$500,000 has been included to provide adequate school repair and maintenance services.

**Vocational counseling.** The counseling program needs to be strengthened by giving emphasis to vocational counseling rather than college-oriented counseling. An appropriation of \$100,000 has been included to support vocational counseling by providing in-service training for teachers so that they and professional counselors may work effectively as a team in delivering vocational counseling services.

**Vocational education.** To the maximum extent possible, federal funds available or to be made available in the future should go to the installation of the restructured vocational education program in the secondary schools. It is a vital program which should be installed as rapidly as possible.

**School athletics.** The scope of athletic programs in the schools and the compensation given to coaches have been dependent on the size of the school, the income it realizes from gate receipts, donations, and other sources. As a result, the smaller schools are at a distinct disadvantage. Your Committee believes that this problem should be initially attacked by providing an adequate salary schedule for all athletic coaches, and it has included an appropriation of \$279,000 for this purpose.

### HIGHER EDUCATION

**College opportunities program.** A strong part of the program to provide viable options to all who seek a higher education is the college opportunities program, which provides financial support, counseling, and other assistance to students from socially and economically disadvantaged groups. This is a sound investment. It encourages disadvantaged persons to develop their full potential through education, and it demonstrates to their communities that upward mobility is possible. While initially confined to students from Kalihi-Palama and Waianae-Nanakuli neighborhoods, the program has now expanded to reach young people from other parts of the State. Your Committee supports the program and has included an appropriation of \$152,000 so that the State can continue to move in the direction of removing all barriers to higher education.

**Pacific and Asian affairs program.** Hawaii's ties to the Pacific and to the East are not only

inescapable—they should be consciously cultivated. The program of the Pacific and Asian Affairs Council is aimed at providing students from the secondary schools and community colleges with a greater understanding of Hawaii's Pacific and Asian heritage. The appropriation which has been included for the next fiscal year provides for the same level of State support for the program as in the current fiscal year.

**University without walls.** This program serves primarily the residents of Kalihi-Palama and Waianae-Nanakuli. It is designed to provide the adult working population with meaningful and varied educational experiences. The program's continuance is threatened by the discontinuance of federal funds. Your Committee believes that the program should be continued, and it has included an appropriation of \$125,000 to compensate for the impending termination of federal support.

**Library books and periodicals.** With the reduction of equipment purchases at the University of Hawaii and with the anomaly that library books and periodicals are categorized as "equipment," the libraries have been hard pressed to keep their library collections from deteriorating. A supplemental appropriation of \$140,000 has been included so that books and periodicals may be purchased to bring library collections up to standard.

Among other appropriations included in the bill to support and strengthen higher education programs are appropriations for PEACESAT, the low cost satellite communications system; the cooperative education work study program, free enrollment for senior citizens in university of Hawaii courses (as well as courses in the adult education program of the department of education); establishment of a women's study program; establishment of a chair for peace; and intramural activities of Hilo college and the several community colleges.

#### CULTURAL ENRICHMENT

Among the appropriations included in the bill to enrich the cultural and other experiences of Hawaii's youth and its citizens are appropriations for theater for youth, the Honolulu Community Theater, culture and arts programs on the Waianae coast, the Hawaii Youth Symphony, culture and arts programs in the Kalihi-Palama area, and the Young Farmer program.

#### HUMAN RESOURCES

**Progressive neighborhoods program.** An appropriation of \$477,000 has been provided for in the supplemental appropriation bill to continue the progressive neighborhoods program, including Quick Kokua and the various projects of the human service centers.

**Hawaii State senior center.** The senior center,

which has been operational since 1969, has proven to be a well-utilized and valuable program for senior citizens. Enrollment has grown quickly and the center currently serves approximately 3000 persons with an average daily utilization of about 250 persons. The center is currently being funded by Title III of the Older Americans Act, but at the end of the current fiscal year, the center will lose federal funding. The center's program is well worth retaining, and your Committee has included an appropriation to support the center's continuance.

**Senior center operations, statewide.** An appropriation of \$121,100 has been provided to continue the operations of senior centers and programs, including appropriations to Kauai Senior Centers, Inc., Moiliili Multi-Purpose Center, Area-Wide Horizons for Senior Citizens, and the Pau hana Years radio simulcast.

**Regulation of day care centers for the elderly and disabled.** In 1972, the legislature enacted Act 198 to assure the protection and safeguard the interests of the elderly and disabled in day care centers. This was to be accomplished through the development of minimum standards for day care centers and family day care homes and to recruit, license, and purchase the services of these centers. Your Committee believes that the act provides for an alternative to institutional care, and it has included an appropriation so that the purposes of the act can be achieved.

**Waianae-Nanakuli, Kalihi-Palama education centers.** These centers provide classes which are structured to meet the expressed needs and interests of the residents of the neighborhood. An appropriation of \$332,000 has been included to provide these classes as well as to continue to provide information and guidance on community education and vocational opportunities.

**Community Action Agency programs.** The continuance of various community action programs is threatened by the impending termination of federal support on June 30, 1974. An appropriation of \$484,000 has been included to provide for the continuance of Community Action Agency programs designated by the Office of Economic Opportunity in each of the four counties. The appropriations include support for the programs of Hawaii County Economic Opportunity Council, Maui Economic Opportunity, Inc., Kauai Economic Opportunity, Honolulu Community Action Program, Inc., and Hawaii Office of Economic Opportunity.

**Child care services.** Your Committee has provided \$200,000 to match federal funds under Title IV of the Social Security Act for the purchase of additional child care services. The appropriation will enable an equal geographic distribution of State-appropriated matching funds, service gaps to be filled by new programs where necessary, and the building of Title IV resources in some programs so that

there will be assets, not drains, on available community resources. It will also allow extension of service to previously passed over target groups, such as infants and toddlers and school-age children. The appropriation includes funding for the Operation Kokua Day Care Center and the Waianae-Nanakuli Child Development Center.

**Comprehensive manpower program.** An appropriation of \$200,000 has been included for the comprehensive manpower program, including funds to be expended by the Kalihi-Palama Manpower Center, the concentrated employment training and job placement program, and the Upward Mobility program.

**Payments to welfare recipients.** The monthly payments to welfare recipients are to be increased by three-fourths of one percent through an appropriation of \$371,000, an amount which is expected to be matched by \$202,000 in federal funds. The intent of this increase in monthly payments is to partially offset the general excise taxes paid by welfare recipients.

Among other appropriations included in the bill to promote the economic and social well-being of citizens are appropriations to continue the operations of the Waianae Rap Center and Kalihi-Palama Alternatives for Youth, to supplement the building fund of the Habilitat, Inc., to provide for the continuance of the immigration center, to provide funds for the legal aid program, and to provide for a demonstration day care facility for the elderly at Wilcox Memorial Hospital.

## HEALTH

**Comprehensive mental health services for children.** A major program included in the bill calls for the development and implementation of comprehensive mental health services for children. This is an area which has not previously received priority among the programs of the department of health. Your Committee believes that the early diagnosis and treatment of disturbed and troubled children are crucial to mental health. A study conducted by the Mental Health Association of Hawaii revealed that approximately 10 to 12 percent of the children in the State suffer from some kind of emotional, behavioral, or learning disturbance, and that only a small fraction of children with problems currently receive any kind of mental health services. This is a serious gap which needs to be closed through a program of greater scope and comprehensiveness. Your Committee has provided for an appropriation of \$760,500 so that such a program can be developed and launched. It is the intent of your Committee that the program shall include a delivery system to provide program outreach and services directly to children in the schools.

**Alcoholism.** Alcoholism continues to be one of the large problems of our society, not only

in Hawaii but elsewhere. At the present time, the Salvation Army detoxification center is the only center offering ambulatory care for persons intoxicated by alcohol. It operates on contract to the department of health. As the problem of alcoholism is so acute in the community, it is a program which deserves and requires State support. Your Committee has provided for an appropriation of \$50,000 to enable the department of health to contract for detoxification services.

**Mental health pilot project.** A supplemental appropriation has been included for a pilot project to study certain dietary changes of mentally ill persons. Research to date has found that, in some cases of mental illness such as hypoglycemia, dietary factors seem to have significant influence over the patient's condition. The project proposed is to explore these aspects and to promote specific dietary changes for mental patients as a possible, additional, or alternative approach in treatment.

**Molokai and Kahuku hospitals.** Appropriations have been included to subsidize the operations of the Molokai and Kahuku hospitals.

## ECONOMIC DEVELOPMENT

**Malaysian prawn research and development.** The department of land and natural resources has developed a practical mass culturing technique for the giant freshwater Malaysian prawn, and prospects are that it can be farmed profitably on a commercial scale. Additional funds are needed to continue the research and development effort. It is anticipated that funds will be available through the Sea Grant Program of the National Atmospheric and Oceanic Administration, and that the State supplemental appropriation of \$60,000 will be supported additionally by an expected \$120,000 grant.

**Kona coffee research and Kona coffee processors.** The labor-intensive coffee industry in Kona has been plagued by labor availability and costs. A joint report by the department of agriculture and the county of Hawaii recommends that research in uniform ripening and mechanical harvesting be conducted to determine and demonstrate whether coffee can continue to be economically viable in Hawaii. A mechanical shaker has been developed by the university, but additional research needs to be conducted to find ways to uniformly ripen the coffee beans. An appropriation of \$90,000 has been included to finance the research and demonstration project, after which a further program decision should be made. In addition, the sum of \$25,000 has been included to provide aid to Kona coffee processors, a key element to the survival and continuation of the coffee industry.

**Pineapple production research.** The sum of \$150,000 has been included to continue the funding of research on pineapple production

and labor efficiency. The additional funds will allow for intensive research to control plant parasite nematodes and pineapple diseases.

**Kohala grain research.** The amount of \$265,600 has been included to conduct grain research in connection with redevelopment of the Kohala area. To date, such research as has been conducted by the college of tropical agriculture has been of limited scope. With the additional appropriation, the research is expected to provide information for the development of livestock feeding enterprises in Kohala as well as for enterprises on other islands.

**Energy conservation.** Much of the present energy crisis is beyond the control of the State. But the State can devise short-term plans to minimize the impact of external events and, over the long term, proceed to investigate and develop alternative energy sources. An appropriation of \$150,000 has been made for the purpose of developing contingency plans for energy conservation, a statewide energy plan, a public information program for energy conservation, and for researching alternative energy sources under federal matching grants.

Included among other appropriations in the bill to promote economic development are appropriations of \$500,000 to extend credit operations under the farm loan revolving fund, \$21,000 to provide testing services for the public at the college of tropical agriculture, \$60,000 to combat papaya virus diseases, and \$120,000 to fund the Hawaii Sea Grant program.

#### ENVIRONMENTAL PROTECTION

**Environmental research.** There is a need to conduct research for the purpose of developing criteria to define the State's environmental support capabilities to enable the governor to identify areas which are in danger of environmental misuse or deterioration and to conduct research on solid waste recovery. An appropriation of \$100,000 has been included to conduct such research.

#### PUBLIC SAFETY

**Halawa jail.** An important aspect of the Correctional Master Plan is the establishment of a high security correctional facility for the "control of high custodial risk convicted felons or the temporary detention of high custodial risk persons awaiting trial." The governor has recommended, and your Committee concurs, that immediate steps should be taken to acquire the entire Halawa jail to be converted to and to serve as a high security correctional facility. An appropriation of \$1.8 million has been included to finance the operations of Halawa jail for the period ending June 30, 1975. It is anticipated that the State will enter into contractual arrangements for the city and county of Honolulu to continue to operate the jail until July 1, 1975, at which time the

State will take over the operations of the facility. The contract proposal has been recommended by the governor because it allows the State a transitional period to complete necessary plans for the eventual takeover.

**Hawaii state prison.** Supplemental appropriations have been included not only to improve conditions at the Hawaii state prison but to strengthen the rehabilitative aspects of the corrections program. Various community based work-or-education residential center programs are to be supported, including the community residential center, a behavior modification program to be conducted by the social welfare development and research center of the university of Hawaii, a transactional analysis program, a Hawaiiana program, a money management and family budget program, an ethics and social responsibility program, and adequate staff supervision for these programs.

**Judiciary.** The courts are to be strengthened through appropriations for additional district courts and through additional positions to cope with the substantial increase in traffic court workload.

#### INDIVIDUAL RIGHTS

**Office of consumer protection.** This is an office which needs to be strengthened. Its resources at present are not equal to the responsibilities charged to it by statute. To achieve the objectives of the programs of this office over the longer term, your Committee expects this office to provide a definitive program design of how this office is to provide leadership in acting on behalf of the interests of consumers, of how this office relates to other agencies charged by statute and engaged in programs which bear on the objectives of this office, and the benefits which are likely to be forthcoming from the programs of this office. These are the kinds of information which your Committee expects the office to provide in the next program and financial plan to be presented to the 1975 legislative session. In the interim, recognizing the immediate pressing workload which bears directly on the effectiveness of the office, your Committee agrees that additional appropriations are in order, and it has provided for an appropriation of \$37,000 to provide for the more critical staffing needs of the office.

**The courts.** The role of the courts in protecting the individual rights of citizens should be buttressed by adequate personnel support of their courts, to assure the effective and efficient administration of justice. Your Committee agrees that appropriations should be provided for additional circuit court judges.

#### GOVERNMENT-WIDE SUPPORT

**Campaign spending commission.** In the 1973 legislative session, Act 185 was enacted which

provides for the regulation of spending in political campaigns. However, the act did not provide for an appropriation. It is evident that, if the campaign spending commission is to implement the act effectively, it must be provided with an adequate and competent staff. It is estimated that there will be 1000 to 1800 campaign reports to be reviewed by the commission as a result of the forthcoming elections. Your Committee has provided sufficient funds for the commission to meet its operating requirements and to obtain staff support to cope with the large workload required by the initial implementation of the act.

#### CAPITAL IMPROVEMENTS

With respect to capital improvements, the non-enactment in the 1973 legislative session of a bond authorization to finance capital improvements has given added urgency to provide for project authorizations and adequate financing authority in the supplementary appropriations bill. By and large, your Committee finds that the recommendations for capital improvements made by the administration in the 1973 session and in this session are valid recommendations and the bill incorporates those recommendations. In addition, your Committee has identified other public facility needs which have been included in the appropriations bill. The more urgent of the authorizations provided for in the bill affect the public school system. Because of unanticipated increases and shifts in enrollment, there are specific situations where the accessibility and delivery of education programs will be seriously disrupted if the design and construction of school facilities do not proceed as currently programmed.

Because the issuance of general obligation bonds is the principal method used in the financing of capital improvements, your Committee has examined the debt structure and the constitutional debt limit of the State with a view toward assuring that the borrowing power of the State will not be exhausted and that a margin of safety will continue to exist. The supplemental appropriations bill provides for the issuance of some \$317 million in general obligation bonds to finance new projects or to supplement previously authorized projects. Of this amount, \$67.9 million are general obligation reimbursable bonds, i.e., they are bonds to be reimbursed by revenues from various enterprises and thus may be excludable, after appropriate review, from the debt which is counted against the constitutional debt limit. Thus, the authorizations in the bill which will be counted against the debt limit amount to some \$249 million. This amount will enable the State to remain safely under the debt ceiling. With the enactment of the bond authorization, the State will still have a debt margin in excess of \$100 million. The margin will increase substantially in the next fiscal year with the additional retirement of outstanding debt and the recalculation of the debt limit under conditions of higher general fund reve-

nues.

Your Committee on Conference is in accord with the intent and purpose of H. B. No. 2374-74, H. D. 1, S. D. 1, as amended in the form attached hereto as H. B. No. 3274-74, H. D. 1, S. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Suwa and Akizaki,  
Managers on the part of the House.

Senators Yoshinaga and Yamasaki,  
Managers on the part of the Senate.

#### Conf. Com. Rep. No. 7 on H. B. No. 2865-74

The purpose of this bill is to amend the meaning of the term "transfer" so that it will be possible for an employee to move laterally from one position to another, including movements between bargaining units.

The existing statute was written when all civil service employees were paid under the same salary schedule. Since that time, six separate wage board pay schedules have been adopted—two for blue-collar non-supervisors and four for blue-collar supervisors. Also, as a result of negotiations under the collective bargaining law, there may be variations in pay rates of the salary schedules for the several bargaining units. Because pay ranges and pay rates in the various pay schedules differ but are controlling as to whether the movement of an employee is lateral, upwards, or downwards, the term "transfer" needs to be broadened.

The bill also amends Section 28-11, Hawaii Revised Statutes, to provide security investigators of the Office of the Attorney General coverage under Chapters 76 and 77, Hawaii Revised Statutes, it being the intent that such security investigators as may now be employed be granted permanent civil service status without examination, reduction in pay, or any loss of rights and benefits including seniority, prior service credit, service anniversary date, and accumulated vacation and sick leave credits.

Your Committee, upon further consideration, has amended H. B. No. 2865-74, H. D. 1, S. D. 1, by adding a new section in chapter 79, Hawaii Revised Statutes, to provide for sick leave credit upon reemployment so that whenever any public employee entitled to sick leave benefits, including teachers, educational officers, and cafeteria workers, leaves government service in good standing, and is subsequently reemployed within a period of three years by any state or county agency, he shall be credited with the total amount of accrued sick leave he had accumulated at the termination of his previous government employment.

Your Committee on Conference is in accord with the intent and purpose of H. B. No. 2865-74, H. D. 1, S. D. 1, as amended and attached in the form hereto as H. B. No. 2865-74, H. D. 1, S. D. 1, C. D. 1, and recommends its passage on final reading.



**Conf. Comm. Rep. No. 8 on H. B. No. 3095-74**

The purpose of this bill is to simplify the state planning and budgetary process while still retaining the integrity of the analytic and accountability systems specified therein.

Since the inception of Act 185 almost all of the administrative, procedural, and mechanical aspects of the system have been devised and installed, with the exception of a full, formal variance report, which is not yet due. Nevertheless, neither the executive nor the legislature has been fully satisfied with the outcome.

Since Act 185 was unprecedented, it was inevitable that procedural and conceptual problems arise. These have been identified and relate chiefly to four areas.

One major problem is the requirement for a "pure" program-oriented structure. This requires the "shredding" of organizational units to form programs, greatly inhibits accountability for multi-departmental programs, and creates difficulty in planning for and coordinating multi-departmental programs.

A second major problem is the mass and detail of the data inputs and the volume of the report outputs prescribed by the Act.

A third major problem concerns the lack of a suitable mechanism for focusing and presenting information concisely. The summary plan as specified by the law does not provide decision-makers with a short, integrated, and easy-to-use description of the major programs, the issues inherent in them, and emerging problems requiring analysis.

The fourth major problem is the high personnel and dollar costs of producing all of the documents with the frequency specified by the Act.

The existence of these difficulties has had a number of consequences which dilute the effectiveness of Act 185 and threaten its long-term viability. These include: (a) a serious overburdening of the State's operating departments because of the data inputting requirements; (b) a lack of opportunity for the department of budget and finance to produce a significant program and policy analyses because of their preoccupation with the mechanics of managing the data flows and generating reports; and (c) a sense of frustration on the part of legislators because the sheer mass of the material submitted has obscured rather than illuminated facts and issues requiring their attention.

The objective of this bill, therefore, and the amendments thereto recommended by your Committee, is to revise and simplify Act 185

(Chapter 37, HRS) so as to make it both less burdensome and more useful. The particular changes to achieve these aims are discussed in the sections which follow and are arranged to follow the principal components of the Act.

**Definitions****A. Definitions changed**

1. **Source of funding.** This bill proposes that the term "source of funding" be changed to "means of financing". The reason for the recommendation is that, traditionally, "source of funds" is considered as describing revenues to be received by the state, and "means of financing" refers to the type of funding required to finance a program.

2. **Cost elements.** This bill proposes a change in the cost elements included in the research and development cost category from program design and test and evaluation to personal services, other current expenses, equipment, and motor vehicles. The original specification of the research and development cost elements describes the costs of the phases through which a program passes, while the cost elements for the operating cost category are object oriented. Because of this, the administration has been forced to develop a system which collects R & D cost information by object of expenditure and by cost phase. Your Committee feels that the R & D cost category should conform to those included in the operating cost category and therefore accepts the proposal.

3. **Program structure.** This bill alters the definition of program structure to allow for a structure which is organization oriented, objective oriented, or a combination of both. The administration has been forced to collect excessively large amounts of data because of the purely objective orientation. In addition, the resultant shredding of costs between programs has posed considerable problems. For these reasons, the definition has been made less restrictive, and all references to the program structure have been changed appropriately. Your Committee accepts this change.

4. **Capital investment costs.** In addition to the definition changes specified in this bill, your Committee feels that there is a need to change the definition of capital investment costs. There has been a certain amount of confusion over the term and the recommended change is intended to amplify and clarify its meaning.

**B. Definitions eliminated****1. Cost sub-elements.****2. Non-capital investment.**

This bill eliminates the above definitions. In the case of cost sub-elements, which exist within the capital investment cost category, they have been proven to require a needless amount

of data collection. For planning purposes, costs below the element level are unnecessary and appropriations are made at the element level for capital investments. Non-capital investment costs represent a cost category which has little use and/or understanding in state government. It is however, recognized that there is a type of cost other than operating and capital investment. This type of cost applies to programs which are not fully operational and which can be classified as research and development costs. Your Committee concurs with these recommendations in order to simplify the system and relieve the administration of some of its data collection and data handling problems.

### 3. Reimbursable general obligation bonds.

Your Committee recommends the elimination of the above definition because the term "general obligation reimbursable bonds" is already defined in the act and it would prove redundant.

#### C. Definitions added

1. **Interdepartmental transfers.** Your Committee proposes the addition of the above to clarify the distinction between funds which must be appropriated for a program and funds which a program expends, but which are transferred to it from a program to which they had been appropriated.

2. **Capital expenditures.** The above term was not included in the original definition but nevertheless used throughout the act. Your Committee recommends that addition of the terminology, and further recommends that the definition include reference to relevant expenditures other than payments to contractors.

#### The Plan

A. One of the principal changes proposed by the administration in this bill is to submit full program plans only biennially, in conjunction with the regular budget submissions in odd-numbered years.

The administration is convinced that to continue submitting reports with the frequency originally specified is not only costly in time, money, and effort, but yields little in the way of added benefits. These resources can be put to much better use in such tasks as gathering and refining data, identifying issues, and analyzing programs thereby improving the quality of decision-making — the real objective of the State's PPB system. Furthermore, the great majority of cases, long-range plans do not change so drastically from year to year as to warrant the costly repetitions involved in this effort.

Your Committee believes that the benefits achieved are not commensurate with costs incurred and favors adopting the proposed amendment. Nevertheless, your Committee also feels

that the legislature must have full program information on those programs for which a change is being proposed in the governor's "off-year" budget adjustments. The department of budget and finance should thus stand notified that revised individual program plans are to be submitted on every program in the "off-budget" year for which a significant policy change or substantial funding change is being undertaken by the executive. Furthermore, the department of budget and finance should move ahead with all deliberate speed in developing a system to update its program plans at regular periodic intervals during each year so that both the executive and legislature may easily and accurately determine the current status of any program.

B. This bill proposes to eliminate the requirement for program narratives for all levels above the individual lowest-level program plans. The reason for this is that in only a very few cases are there actual program managers to write such narratives; they contain a great deal of redundant material since they must repeatedly discuss the same items carried upward from the lower levels; the time required to prepare them is great and the work falls chiefly on the budget and finance staff during the crowded program review and budget-making period; and these narratives add anywhere from 500 to 2000 pages to program documents. Furthermore, the program memoranda, discussed in a subsequent section, cover almost exactly the same material as is required for the intermediate level narratives, but without their excessive repetition.

Your Committee recommends adoption of this proposed amendment.

C. This bill also proposes to revise and shorten the list of required items to be included in the lowest-level program plan narratives. This change is intended to shorten the narratives by including only relevant material and to focus greater attention on trends in the data and how they relate the budget period to that which came before it and the planning period which follows it. Explanations are also required for significant differences between current actual costs and performance and previously planned levels.

The list of required points for discussion is reduced from 10 to essentially 5 by eliminating those having applicability only when a major program change is being recommended. Where this is the case, however, the revised narrative requires a summary of the analytical basis for the change using the standard format of special analytic studies.

The potential saving in program submission pages from this change is between 1500 and 2500.

Your Committee recommends approval of this proposed change.

D. The administration's bill recommends elim-

ination of the non-capital investment cost category and the cost sub-elements under the capital investment cost elements.

Making provision for the non-capital investment cost category requires work, space in forms, programming, and computer file storage capacity yet it is seldom if ever used. To the extent that non-capital investment costs are actually experienced, they can be incorporated with the R & D cost category to which they are akin.

Similarly, proving for the cost sub-elements under capital investment (the only cost category to have cost sub-elements) uses up time, money, and space, yet these sub-elements (costs of consultants, landscaping, etc.) are not required in the budget, are seldom if ever used in planning decisions, and are in most cases not even available for the "out-years" of the planning period.

Your Committee recommends adoption of these changes.

E. This bill proposes to show, in the plan, personnel positions for each program as a whole, rather than by individual cost category within the program. This appears to be a conceptually desirable emphasis in the plan on the broader aspects of resource usage; furthermore, personnel positions continue to be shown by cost category in the budget displays. Your Committee, therefore, concurs in this proposal and recommends its adoption.

F. This bill proposes to add language to chapter 37 giving the director of finance authority to merge the plan and the budget where he deems it practical and desirable. Merger of the plan and budget would greatly reduce the number of reports to be prepared since so many common items of information have to be reported separately for the plan and the budget. Furthermore, combining the two documents would eliminate the problem of reconciling data, simplifying the computer files, facilitating the preparation of the plan and budget reports, and, most important, eliminating the apparent and undesirable dichotomy between planning and budgeting. Your Committee strongly recommends adoption of this proposal.

#### **The Summary Plan**

In light of the changes which have been proposed for the plan, as noted above, and in light of the change to be proposed in the following section having to do with the addition of cost element information to the budget, it appears to your Committee that there no longer is any justification for maintaining a summary plan. The complete plan is now of a manageable size and format and will be printed and furnished every member of the legislature. That is a notable gain in simplicity and your Committee recommends this change.

#### **The Budget**

None of the current requirements of the act provides for the printing of cost element information for the cost categories other than capital investment. This bill proposes to amend Section 37-71 to require the display of cost information at the cost element level for all cost categories for at least the budget period. This, and the proposed merger of the plan and budget will make this added item of information routinely available and as such represents a net gain in easily accessible information. Your Committee strongly recommends adoption of this proposed amendment.

#### **The Variance Report**

The approach taken by your Committee has been to delete the requirement for narratives to be prepared for the current fiscal year, while requiring the variances for the current fiscal year to be presented as purely statistical displays.

The maximum time to prepare current fiscal year information, including actual experience of the first quarter, should be provided, and therefore, your Committee recommends that the Variance Report should be submitted not less than twenty days prior to the legislative session, rather than the current requirement of December 1.

Your Committee also agrees that narrative explanations of differences between planned and actual costs and performance should be restricted to those cases in which the differences are, from either a programmatic or policy standpoint, significant. Unfortunately, these limits cannot be established in advance or on a universal basis so that it would appear that the principle and general limitations as expressed in the proposed amending language is as far as the law may safely go and your Committee recommends its adoption.

Variance reporting on capital investment costs is a much different situation from the operating and R & D cost categories. In the capital investment area comparisons of total appropriations and expenditures in any one year are, of course, meaningless. Even planned and actual capital expenditures for a given year are not particularly revealing. Moreover, cost data for the total capital costs of a program where more than one project is being carried out may well be more misleading than helpful: a cost over-run on one project may be counterbalanced by a cost under-run on another project with the net result showing no variance whatever. Clearly, therefore, capital investment variance reporting must focus on the individual capital improvement projects and it must be concerned with total expenditures to date as compared with total appropriations, costs to completion as compared with original cost estimates, currently scheduled completion date

as compared with the originally scheduled date, etc.

Fortunately, the full menu of required data is already a requirement of the plan (Section 37-69 (d) (1) (K)) and is provided by report P-79, capital improvement project details. This bill proposes to make this report the source of the basic quantitative data for capital investment variance reporting, supplemented by analyses of significant differences in the variance report proper.

Your Committee agrees with this proposal and recommends its adoption. Report P-79, however, is an extremely voluminous document covering up to two thousand capital improvement projects in considerable detail. Your Committee recommends that report P-79 continue to be submitted directly in the form of computer print-outs and in some reasonably limited number of copies. These should probably be directed to the respective appropriations committees and held there for ready reference by interested members of the legislature.

This bill also proposes to move the submission date for the variance report to the point 20 days prior to the beginning of the legislative session. Your Committee finds no objection to this change and recommends its approval.

#### **Program Memoranda**

This bill proposes to add a new Section 37-70 to the law in lieu of the existing Section 37-70 which deals with the summary plan recommended for abandonment. This new section adds the requirement for biennial production of program memoranda, specifies their content, and requires their submission in conjunction with the major program and budget submissions to the odd-number year sessions of the legislature.

Act 185, as originally drawn, did not provide for the vast amount of data generated by its provisions to be brought to a selective focus for decision-making purposes and it offered only a weak linkage between the more-or-less mechanical aspects of the program plans and budget and the analytic process. The addition of the requirement for a program memorandum for each major program, to be submitted biennially in conjunction with the program and budget submissions, fills a major gap in the PPB decision-making system. It provides a means of giving a selective overview of each major program, the principal changes being proposed for it with the analytic rationale for those changes, an assessment of emerging problems and alternative solutions thereto, and finally suggests a possible program of analyses to meet these emerging problems.

The administration's experience with implementation of Act 185 to date would seem to indicate that program memoranda could strengthen the resource allocation process by serving as an effective and efficient way of: (a) exchanging

views on program proposals between the governor and his cabinet members; (b) reaching and recording decisions during the program review process; (c) making the analytic rationale for those decisions known to the affected program managers; and (d) informing the legislature about the State's programs, policies, and problems and what the administration proposes to do about them. In addition, these documents will provide a quite adequate and economical substitute for the intermediate-level program narratives which were recommended for elimination in an earlier section.

In order to test the feasibility and potential usefulness of these documents, the administration has prepared a full set of eleven such program memoranda on a trial basis and has sent them to the legislature. Based on both theoretical considerations and the reaction thus far to these initial documents, your Committee feels program memoranda would be an extremely desirable addition to the statewide PPB system and recommends adoption of this proposal.

#### **Implementation Schedule**

This bill undertakes to amend Section 37-78 of the current statutes to include implementation dates for the various revised and new documents proposed. Generally, it calls for the first program memoranda in January 1975. Your Committee is aware of the many problems which must be overcome in a very short time if some appropriate earlier implementation were to be attempted, but in view of the major benefits to the legislature and the public, it is the Committee's intent that the administration incorporate all of the above discussed reforms, having been deemed feasible by the director of budget and finance, for presentation to the 1975 session of the legislature.

#### **Other Changes**

Your Committee recommends a number of detailed changes in the language of Chapter 37, HRS, in order to correct earlier grammatical, editorial, and typographical errors and, more importantly, to make the language throughout the section consistent.

In summary, your Committee has adopted the provisions of H. B. No. 3095-74, H. D. 1, except as they relate to the variance report. Whereas H. D. 1 deleted any reporting requirement on the part of the administration for the current fiscal year in the variance report, your Committee has reinserted this provision.

Your Committee on Conference is in accord with the intent and purpose of H. B. No. 3095-74, H. D. 1, S. D. 1, as amended in the form attached hereto as H. B. No. 3095-74, H. D. 1, S. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yoshinaga, Yamasaki and Anderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 9 on H. B. No. 2455-74**

The purpose of this bill is to provide health fund benefits to the beneficiaries of an employee who is killed in the performance of his duty. The amended form of the bill includes the general purpose of including employees who retired prior to the establishment of the fund as health fund members.

Because there are a number of widows of retired employees who retired before the health fund was established, and because of ignorance of the law or other reasons were denied the benefits of such a fund, your Committee supports the concept that they should now be included as beneficiaries of the fund. At the same time, those members who have died in service deserve the same consideration for their devotion and contributions to the service of the State and its several counties.

Your Committee upon further consideration has made the following amendments to **H. B. No. 2455-74, H. D. 2, S. D. 1:**

(1) The definition of "employee" has been changed back to the original statutory definition, as regards elective officers with at least ten years of service;

(2) The reference to "widow" in the definition of "employee-beneficiary" has been changed to "surviving spouse".

(3) The section on contributions by employee-beneficiaries has been clarified by listing the beneficiaries of an employee who is killed in the performance of his duty as eligible for benefits without any requirement of contribution by him to the fund.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2455-74, H. D. 2, S. D. 1**, as amended and attached hereto as **H. D. 2, S. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Lee, Takamine and Leopold, Managers on the part of the House. Senators Yoshinaga, Yamasaki and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 10 on S. B. No. 17**

The purpose of this bill is to reconstitute the board of paroles and pardons as a professional board with a full-time chairman to provide a more effective and efficient means to achieve the dual and inseparable purposes of parole, the protection of society on the one hand and the rehabilitation of the offender on the other.

Your Committee upon further consideration has amended **S. B. No. 17, S. D. 2, H. D. 2** to provide the following major changes:

(1) The present board of paroles and pardons is to be known as the Hawaii Paroling Authority.

(2) The members of the Authority shall be

appointed on the basis of their qualifications to make decisions that will be compatible with the welfare of the community and of individual offenders.

(3) The members of the Authority other than the chairman shall serve with pay equal to ninety per cent of the hourly rate paid the chairman for each hour of authorized service.

(4) Expenses of the Paroling Authority are included in the sum appropriated out of the general revenues of the State of Hawaii.

As amended, the bill provides that:

(1) Members of the Authority are to be nominated and with the Senate's approval, appointed by the Governor from a list of persons submitted by a panel composed of several distinguished members of the community who are interested in the field of penal corrections.

(2) The Governor is authorized to appoint three members to the Authority, one of whom is to be designated as chairman.

(3) The chairmanship of the board is made a full-time position with a salary of \$21,000.

(4) The Authority's responsibilities and duties shall include those that are clearly set forth in section 353-62, Hawaii Revised Statutes.

The bill further provides for the transitional requirements in the change-over of personnel, records, reference, and other similar matters from the former part-time board of paroles and pardons to the newly created Hawaii Paroling Authority.

Your Committee on Conference is in accord with the intent and purpose of **S. B. No. 17, S. D. 2, H. D. 2**, as amended and attached in the form hereto as **S. B. No. 17, S. D. 2, H. D. 2, C. D. 1**, and recommends its passage on final reading.

Representatives Lee, Takamine and Leopold, Managers on the part of the House. Senators Yoshinaga, Yamasaki and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 11 on S. B. No. 10**

The purpose of this bill is to amend Chapter 359G to facilitate the State's low and moderate income housing development programs. These changes include technical amendments to the law regarding the method and number of commissioners of the Hawaii Housing Authority, amendments to allow the authority to issue project notes in addition to general obligation bonds, changes in the restrictions on dwelling unit transfers, and a new section which would establish a home mortgage assistance program.

Your Committee upon further consideration of this bill has made the following amendments to **S. B. No. 10, S. D. 1, H. D. 3:**

(1) Section 5 of the bill has been amended to provide that a person who himself or whose



husband or wife or both own in fee simple or leasehold any lands suitable for dwelling purposes is not eligible to become a purchaser of a dwelling unit. The reference to lands within the county and in or reasonably near the place of residence or place of business of the person has been deleted.

(2) Section 10 of the bill has been amended to delete the provision limiting the value or price to the limits established under the section 235 program as administered by the Federal housing administration. Section 10 has also been amended to omit the requirement that the authority obtain the consent of the owner-occupant before his dwelling is condemned.

(3) Section 15 of the bill has been amended to require that projects independently developed comply with applicable county zoning designations.

(4) Section 23 of the bill has been amended to provide for the exchange of lands with unlike uses and reinstated the existing provisions relating to private lands in intensive agriculture.

Other nonsubstantive style and technical changes were also made for purposes of clarity.

Your Committee on Conference is in accord with the intent and purpose of **S. B. 10, S. D. 1, H. D. 3**, as amended and attached in the form hereto as **S. B. 10, S. D. 1, H. D. 3, C. D. 1**, and recommends its passage on final reading.

Representatives Wakatsuki, Cobb and Kondo, Managers on the part of the House. Senators Ushijima, Takitani and Mills, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 12 on H. B. No. 3094-74**

The purpose of this bill is to appropriate moneys out of the general revenues of the State in the total sum of \$326,894.34 to reimburse persons, firms, and corporations pursuant to Chapters 662 and Section 37-77, Hawaii Revised Statutes, entitled "State Tort Liability Act" and claims for legislative relief respectively.

Your Committee, upon reviewing the claims has included in this bill three claims against the State submitted by the Attorney General. Your Committee is in accord with such payments made therefor.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 3094-74, H. D. 1, S. D. 1**, as amended in the form attached hereto as **H. B. No. 3094-74, H. D. 1, S. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Young, Kondo and Amaral, Managers on the part of the House. Senators Toyofuku, Yamasaki and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 13 on S. B. No. 1860-74**

The purpose of this bill is to provide for tax credits under a single schedule.

Your Committee believes that the single

schedule will facilitate the claiming for tax credits. Briefly, for each income bracket, the taxpayer would simply multiply the number of qualified exemptions by the per qualified exemption tax credit amount. The new excise tax credit is scaled to fill similar needs of the various tax credits repealed by this bill.

Your Committee notes that under the existing various tax credits, the department of taxation has reported that approximately \$2,000,000 to \$2,500,000 is claimed per year.

Your Committee upon further consideration has amended the bill by increasing the tax credits in the schedule and by expanding the schedule to extend from an adjusted gross income of less than \$5,000 to an adjusted gross income of \$14,999. With this new excise tax credit and schedule, it is estimated that an additional \$7,500,000 will be claimed.

Your Committee on Conference is in accord with the intent and purpose of **S. B. No. 1860-74, S. D. 1, H. D. 1**, as amended and attached in the form hereto as **S. B. No. 1860-74, S. D. 1, H. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yoshinaga, Yamasaki and Anderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 14 on H. B. No. 2544-74**

The purpose of this bill, as amended, is to allow county redevelopment entities to sell, lease or sublease the land or completed auxiliary redevelopment projects to qualified developers or nonprofit sponsors. The sale, lease or sublease of such land or completed developments shall be at the fair market value which reflects the restrictions and covenants imposed upon the developers or sponsors.

This bill would also remove the restriction that counties must acquire land which is "essentially vacant" for their auxiliary redevelopment projects, so that renewal projects may be undertaken. The current stipulation that land which may be condemned for auxiliary redevelopments must be undeveloped vacant land is unduly restrictive as such land is difficult to locate in urban areas.

Your Committee upon further consideration has made the following amendments to **H. B. No. 2544-74, H. D. 1, S. D. 1**:

1. The sale, lease or sublease of the land or completed auxiliary development will be mandatory.

2. The disposition of such auxiliary projects shall further be made to nonprofit sponsors and qualified developers only.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2544-74, H. D. 1, S. D. 1**, as amended herein and attached in the form hereto as **H. B. No. 2544-74, H. D. 1,**

**S. D. 1, C. D. 1,** and recommends its passage on final reading.

Representatives Young, Kondo and Amaral, Managers on the part of the House. Senators Toyofuku, Yamasaki and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 15 on S. B. No. 2215-74**

The purpose of this bill is to amend certain terminology, procedures and laws of title 2, Hawaii Revised Statutes, relating to elections. Amendments to the present law are made in this bill in order for the lieutenant governor's office to administer elections more expeditiously.

Your Committee upon further consideration has made the following amendments to **S. B. No. 2215-74, S. D. 1, H. D. 1:**

This section is amended to allow each county council to move the deadline for filing nomination papers in a special primary or special election, in the event of a conflict between the county charter and this section.

Your Committee on Conference is in accord with the intent and purpose of **S. B. No. 2215-74, S. D. 1, H. D. 1,** as amended and attached in the form hereto as **S. B. No. 2215-74, S. D. 1, H. D. 1, C. D. 1,** and recommends its passage on final reading.

Representatives Wakatsuki, Takamine and Aduja, Managers on the part of the House. Senators Ushijima, Takitani and Mills, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 16 on H. B. No. 2747-74**

The purpose of this bill is to amend Act 83, Session Laws of Hawaii 1973, to appropriate additional funds to the Governor to be expended for feasibility studies and the planning and development of Molokai.

This bill amends Act 83 to provide general revenue funds of \$600,000 and general obligation bond funds of \$4,600,000. \$200,000 of the \$600,000 was originally appropriated in Act 83.

This bill authorizes the director of finance to issue general obligation bonds of \$4,600,000.

Your Committee upon further consideration has amended this bill to provide for annual progress reports to the legislature.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2747-74, H. D. 1, S. D. 1,** as amended and attached in the form hereto as **H. B. No. 2747-74, H. D. 1, S. D. 1, C. D. 1,** and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yamasaki, Toyofuku and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 17 on H. B. No. 2491-74**

The purpose of this bill is to amend Act 197, Session Laws of Hawaii, 1972, Section 6, to allow greater flexibility in financing a program for the planning and development of North Kohala.

Act 197 authorized a comprehensive program for the economic development of the North Kohala area and the program has been initiated. Section 3 of the Act appropriates the sum of \$3,700,000 from general obligation bond funds of the State for the purposes of planning and development.

This bill amends the lapse date from June 30, 1975 to June 30, 1979.

Your Committee upon further consideration has amended this bill to provide for annual progress reports to the Legislature.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2491-74, H. D. 1, S. D. 1,** as amended and attached in the form hereto as **H. B. No. 2491-74, H. D. 1, S. D. 1, C. D. 1,** and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yamasaki, Toyofuku and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 18 on H. B. No. 2329-74**

The purpose of this bill is to extend the lapse date (to June 30, 1979) for the planning and development appropriation for Kauai as established under Act 82, Session Laws of Hawaii 1973.

Your Committee upon further consideration has amended this bill to provide for annual progress reports to the Legislature.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2329-74, S. D. 1,** as amended and attached in the form hereto as **H. B. No. 2329-74, S. D. 1, C. D. 1,** and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yamasaki, Toyofuku and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 19 on S. B. No. 2100-74**

The purpose of this bill is to provide by law that any interest earned on funds held in escrow in connection with transactions involving sales and purchases of real property shall accrue to the credit of the purchasers unless otherwise instructed by the sellers and purchasers.

Under the present bill, interest earned on such funds will accrue to the purchaser or otherwise designated party only after sixty days. Your committee, however, is of the opinion that no waiting period should be required before interest can accrue to the credit of the purchaser.

**S. B. No. 2100-74, S. D. 1, H. D. 1** is therefore amended by deleting the words "held in escrow for more than sixty days," in Section 1 (page 1, lines 6 and 7) and Section 2 (page 1, lines 15 and 16). This will be replaced with the language found in **S. B. No. 2100-74, S. D. 1** which reads, "during the holding thereof." This amendment will conform the bill to decisions and recommendations carefully discussed by the members of this conference committee.

Your Committee on Conference is in accord with the intent and purpose of S. B. No. 2100-74, S. D. 1, H. D. 1, as amended and attached in the form hereto as S. B. No. 2100-74, S. D. 1, H. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Yuen, Kihano and Medeiros, Managers on the part of the House. Senators Ushijima, Takitani and Mills, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 20 on S. B. No. 1536-74**

The purpose of this bill is to provide for an increase in the number of scholarships and Board of Regents tuition waivers for students in the University of Hawaii System.

Recent budget cutbacks at the Federal level have significantly curtailed financial aids and grants, such as the National Direct Student Loan

Program (NDSL) and the Supplemental Economic Opportunity Grant program (SEOG), which have provided much of the financial assistance available to graduate students across the nation. At the University of Hawaii, these cutbacks have resulted in a loss of approximately 450 to 500 individual assistance grants in the present year, which would not be made up at the local level. The president's budget for 1975-76 has eliminated additional funding for the NDSL and SEOG programs, so our reliance on Federal assistance in the area of financial aid to students must be minimized considerably.

Concurrent with the loss of funds at the Federal level, tuition rates for the University of Hawaii System have recently been increased, with the first increase to take place in the Fall of 1974, followed by a second incremental increase in the Fall of 1975, as follows:

	1973-74 Resident Rate	1974-75 Resident Rate	1975-76 Resident Rate
Manoa Campus			
Undergraduate	\$170/year	\$322/year	\$450/year
Graduate	\$170/year	\$372/year	\$550/year
Law School	\$170/year	\$410/year	\$625/year
Medical School	\$170/year	\$447/year	\$700/year
UH at Hilo			
Lower Division	\$ 30/year	\$ 60/year	\$ 80/year
Upper Division	\$170/year	\$253/year	\$300/year
Other 4-Year Campuses	\$ N/A	\$297/year	\$400/year
Community Colleges	\$ 30/year	\$ 60/year	\$ 80/year

Thus, tuition rates within the University of Hawaii system will be nearly doubling in some cases, and more than doubling in others, in the space of one year's time, and will be going even higher the following year. This will create a significant financial burden for many of Hawaii's students who are currently enrolled in the system, and have budgeted their education with lower tuition expectations. Coupled with the loss of a significant amount of Federal funds through the NDSL and SEOG programs, this creates a situation which might interrupt or impede entirely the educational plans of many of Hawaii's students.

State scholarships have by law been awarded to full-time students who are well qualified and students in such necessitous circumstances that in the judgment of the University they would otherwise be unable to attend the University or a community college. These State scholarships are restricted to students who have been bona fide residents of the State of Hawaii for five consecutive years immediately preceding the term for which the scholarship is desired. Scholarships are awarded for a period of one academic year, and shall be renewed each year up to a maximum of four academic years for all recipients who maintain a satisfactory standard of scholarship and deportment.

Your Committee has found that existing laws governing awarding of State Scholarships are restrictive, in that they do not respond to the special needs of part-time students, such as housewives whose responsibilities will not enable them to attend the University full-time, and students who must carry less than a full course load because they are working their way through college, among others. Also to be considered is a new category of students, who move into a financial need status because of the tuition increases, but who do not require a full scholarship.

Your Committee has fully analyzed this Bill, and finds that, as amended herein, it responds to the situation and problems cited above. In order to provide a comprehensive understanding of the changes this Bill makes to existing law, and to provide the necessary directives to the University of Hawaii with respect to the administration of this law, your Committee has elected to cite herein the major changes which this Bill will effect. Specific changes which your Committee has made in the Conference Draft of the Bill are clearly designated by the lead-in words, "Your Committee has amended . . ."

The substantive amendments to State law, which your Committee has left unchanged from House Draft 2 of the Bill are as follows:

1. Section 305-15, Hawaii Revised Statutes, is amended to re-define the term "scholarship" into two separate categories as follows: (a) Of the total number of State Scholarships available each year, 85% shall be known as Hawaii State Scholarships and shall be awarded to well qualified, full-time students in such necessitous circumstances that in the judgement of the University they would otherwise be unable to attend the University, a college, or a community college; and (b) 15% of the scholarships available each year shall be known as Hawaii Merit Scholarships and shall be awarded to either full-time or part-time students who are well qualified. Hawaii Merit Scholarships shall be awarded for one semester only, but they may be renewed if the recipient continues to qualify. The five-year residency requirement has been retained for the awarding of all State Scholarships.

2. Section 304-17, Hawaii Revised Statutes, which defines financial aids units, is amended to correspond to the newly created distinction between Hawaii State Scholarships and Hawaii Merit Scholarships, and to provide that any unit of financial aid except the Hawaii Merit Scholarship may be granted for a full academic year, or a semester thereof, to prevent the non-

utilization of a scholarship or waiver in the second semester of an academic year if the original grantee has left school, or for some reason ceases to remain qualified to receive financial aid. Further amendments to this section provide that Hawaii State Scholarships may be renewed for up to four academic years, provided the recipient continues to maintain a satisfactory standard of scholarship, deportment and financial need. The present law provides for automatic renewal of scholarship for up to four academic years, based only on the maintenance of satisfactory scholarship and deportment. Your Committee concurs with prior Standing Committee Reports on this Bill that it is necessary that the renewal of scholarships not be automatic, and that the criteria of financial need should continue to be met.

3. This Bill increases the total number of financial aids units (a financial aid unit is a tuition waiver, a State Scholarship or a Hawaii Merit Scholarship) from nine percent to eleven percent of the total full-time undergraduate enrollment in the previous September for the 1974-75 school year, to increase again from ten percent to thirteen percent for the 1975-76 school year and thereafter. In numbers, this breaks down as follows:

	1973-74	1974-75	1975-76 and following*
Tuition Waivers	400	600	600
State Scholarships	2,234	2,298*	2,824*
Total Financial Aid Units	2,634	2,898*	3,424*

(\*NOTE: These figures are based on present enrollment in the University System, and would be adjusted annually to reflect changes in full-time undergraduate enrollment within the system.)

Your Committee has amended this bill to provide for the following:

1. Your Committee has amended Section 304-4, Hawaii Revised Statutes, to increase the number of Board of Regents' tuition waivers from the present 400 to 600. (This increase is reflected in the figures above.) Your Committee's recommended allocation formula for the awarding of these tuition waivers will be contained elsewhere in this report.

2. Your Committee has amended this Bill to add a provision which will enable new campuses within the system to have a financial aid quota which is calculated based on the projected full-time undergraduate enrollment of such a campus until such campus shall have graduated its first class.

3. Your Committee has amended Section 304-15, Hawaii Revised Statutes, to provide that the

Hawaii Merit Scholarships may be split up among several students, thus expanding the scope of the scholarship program to accommodate more students.

4. Your Committee has made other technical amendments to the Bill to provide consistent language throughout with respect to the above changes.

Your Committee has specifically avoided amending this Bill to specify particular groups within the University student community to receive specific quotas of financial aid. Your Committee strongly believes that to legislate specific quotas of financial aid for any particular student group would be discriminatory in nature, and thus the Committee chooses to leave the allocation of individual financial aid units to the discretion of the University of Hawaii, with the following guidelines, which have been determined after dialogue with the University administration and student groups:

	Tuition Waivers	Hawaii Merit**** Scholarships	Hawaii State*** Scholarships
Manoa/Hilo			
Band	0	75	0
Intercollegiate Athletics			
Men's Program	250**	30**	0
Women's Program	50**	45**	0
Graduate Students	200	0	0
Agriculture	0	24	0
Part-Time Students	0	58	0
Special & Foreign	60***	0	0
Manoa Campus			
Undergraduate	as available	as available	1,055
Law Students	0	0	60
Medical Students	0	0	75
Hilo College	40	as available	126
TOTALS	600	232	1,316

\*\*NOTE: It is intended that both men's and women's intercollegiate athletic programs shall be allocated a sufficient number of financial aid units in each academic year to fulfill national intercollegiate authorizations for the several sports offered by the local athletic programs.

\*\*\*NOTE: These special and foreign tuition waivers will be available to all campuses of the system, but will be allocated individually to these campuses from Manoa as the need arises.

\*\*\*\*NOTE: The figures presented herein represent the appropriate percentages applied to current enrollment figures for the University of Hawaii at Manoa and Hilo College.

Scholarship allocations for the community colleges, based on current enrollment figures are as follows:

	Hawaii Merit Scholarships	Hawaii State Scholarships
Hawaii Community College	16	93
Honolulu Community College	36	205
Kapiolani Community College	48	273
Kauai Community College	10	54
Leeward Community College	58	326
Maui Community College	15	88
Windward Community College	8	46
TOTALS	191	1,085

Your Committee strongly believes that the amendments to existing State law contained in this Bill as amended will go far in achieving an equitable distribution of financial aid units within the University of Hawaii System, and will fill a good part of the various needs for such aid which exist within the community.

Your Committee on Conference is in accord with the intent and purpose of S. B. No. 1536-74, S. D. 1, H. D. 2, as amended and attached hereto in the form of S. B. No. 1536-74, S. D. 1, H. D. 2, C. D. 1, and recommends its passage on Final Reading.

Representatives Sakima, Kunimura and Saiki, Managers on the part of the House. Senators Wong, Ushijima and Mills, Managers on the part of the Senate.

Conf. Comm. Rep. No. 21 on S. B. No. 748

The purpose of this bill is to increase the bonus payments available to retirants of the Employees' Retirement System by approximately 5.5 per cent. This bill establishes a new category of retirants eligible for these bonus payments and includes those who retired between July 1, 1965 and June 30, 1970. This bill further provides that each county will be held responsible for the cost of bonus payments to pensioners of the system who are retired employees of the respective counties while the State will assume responsibility for state employee payments. This bill also establishes a pension bonus fund into which all moneys, provided by the State and counties for bonus payments, are deposited.

Your Committee upon further consideration has made the following amendments to S. B. 748, S. D. 2, H. D. 1:



(1) An additional category of retirants or pensioners including those retired between the period beginning July 1, 1965 and ending June 30, 1970 has been included as qualifying for a five and one-half per cent bonus.

(2) Section 4 of the bill has been amended by changing the Hawaii Revised Statutes section reference from 88-99 to 88-109. Section 88-99 had inadvertently been cited as the appropriate Hawaii Revised Statutes section earlier. Other technical corrections were also included in the amended form of the bill.

(3) The sum appropriated for the purposes of this Act was increased from \$274,778 to \$510,000.

(4) The effective date of the bill was amended from "upon approval" to July 1, 1974.

Your Committee on Conference is in accord with the intent and purpose of **S. B. No. 748, S. D. 2, H. D. 1**, as amended and attached in the form hereto as **S. B. No. 748, S. D. 2, H. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Suwa, Akizaki and Ajifu, Managers on the part of the House. Senators Yoshinaga, Yamasaki and Anderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 22 on H. B. No. 2428-74**

The purpose of **House Bill No. 2428-74, H. D. 1, S. D. 2**, is to exclude from general assistance any person who is physically fit, able to work, and employable with certain exceptions. The department of social services and housing may provide general assistance to such persons meeting the three above mentioned conditions provided they meet all of the following conditions.

(1) The person is unemployed for reasons other than voluntary separation or for misconduct;

(2) The person has exhausted all of his benefits under chapter 383, the employment security law;

(3) The person has registered and is available for work as required by section 383-29, the claims section of the employment security law;

(4) The person has actively and diligently sought gainful employment; and

(5) The person has not refused to accept employment when offered.

Your Committee finds that the provisions of the bill are too restrictive. While your Committee recognizes the need to correct the problem of the "freeloaders" or those persons who are considered "professional recipients", the approach to reducing such abuses should not penalize those who have a real need for assistance. The provisions of the present bill may adversely affect those who have a valid need for assistance.

Your Committee upon further consideration has made the following amendments to **H. B. No. 2428-74, H. D. 1, S. D. 2**:

(1) The discretionary language as signified by the use of the verb "may" in the phrase "provided that the department MAY provide general assistance to such person where the department finds..." has been amended by substituting the verb "shall" for "may". This would require the department to provide assistance to those persons meeting certain stated conditions and would allow assistance to those persons who are physically fit, able to work, and employable but who, because of extenuating circumstances may need assistance.

(2) The exceptions under which a person shall be eligible to receive general assistance have been amended to read as follows: "...provided the department shall provide general assistance to such person where the department finds that:

(1) (A) He is unemployed for reasons other than voluntary separation without good cause or for misconduct; and

(B) He is actively and diligently seeking gainful employment; or

(2) (A) He has exhausted all of his benefits if he is entitled to such benefits under chapter 383; and

(B) He has registered and is available for work as required by section 383-29(a)(2) and (3)."

(3) Further, as a final condition to receiving general assistance, which is applicable to both (1) and (2) as delineated above under the second amendment, your Committee has included the following amendments to the present law: "The department shall further require [all physically fit persons,] **such persons**, as a condition to receiving general assistance, to register for work on public projects and to accept an assignment to work under section 346-31 or to accept such employment as may be offered to them by the department under [public service employment.] **section 346-102 or by an employer.**"

Your Committee would like to note that the specific references to sections 346-31 and 346-102 were made for clarification and emphasis. The intent here is to require that those persons on assistance who are able to work be utilized on public work projects or under public service employment. Such persons would be integrated into the existing work force performing needed services for the State and the counties. There should be no need to organize a separate work force requiring no separate supervisory and administrative personnel for the programs involved. This would mean that the State would be repaid for general assistance payments through services rendered by persons on such assistance.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2428-74, H. D. 1, S. D. 2**, as amended in the form attached hereto as **H. B. No. 2428-74, H. D. 1, S. D. 2, C. D. 1**, and recommends its passage on final reading.

Representatives Kato, Sakima and Yamada, Managers on the part of the House. Senators Toyofuku, Yamasaki and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 23 on S. B. No. 1498-74**

The purpose of this bill is to simplify certain procedures required of the Public Utilities Commission in approving proposed installation of utility facilities in, on, above, along or under public right of way. The requirement for written findings by the Commission that a proposed installation project meets prescribed standards will be removed. A literal interpretation of the existing Act 134, Section 4, Session Laws of Hawaii 1961, if applied, will require all franchised utilities to receive Commission approval before any work is performed in public rights of way regardless of the size of the project.

Since the passage of Act 134, Session Laws of Hawaii 1961, the Public Utilities Commission has promulgated standards for the installation of overhead and underground utility facilities in accordance with Section 269-14, Hawaii Revised Statutes. These standards and inspections by representatives of the Commission to insure conformity adequately protect the public's rights and interest. This bill eliminates much unnecessary work for the Commission, the Division and the utility companies.

Commission rules require that all utility companies submit a detailed capital and expenditure budget at the beginning of each calendar year and an estimate of expenditures for the ensuing four years. This permits the Commission time to study any proposed construction and installation projects in the light of the standards to be complied with.

Your Committee on Conference is in accord with the intent and purpose of **S. B. No. 1498-74, H. D. 1**, as amended and attached in the form hereto as **S. B. No. 1498-74, H. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Yuen, Kihano and Yamada, Managers on the part of the House. Senators Taira, Takitani and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 24 on S. B. No. 2024-74**

The purpose of this Bill is to establish University of Hawaii revolving funds for certain self-supporting or partially self-supporting program and service areas, and to authorize the Board of Regents of the University of Hawaii to make its own deposits of certain moneys received from the Federal government or from other private sources for research, training and other related purposes of a transitory nature, and moneys in trust or revolving fund accounts administered by the University. The Bill further provides for senior citizens sixty years of age or older to enroll on a space available basis in regular credit courses at any campus of the University of Hawaii without payment of tuition or fees.

The Bill provides specifically for the creation of revolving funds in the following program and service areas:

**1. Student Health Services.** The student health services is an example of an activity which would significantly benefit from a revolving fund account. At the present time, B account funds are used to purchase pharmacy items and laboratory and infirmity supplies, which are reimbursed to the student health services by students who use these items. Under the existing system, these fees are deposited in the general fund. Because B account funds were drastically curtailed in the present fiscal year, the inventory of drugs and supplies at the Student Health Center is virtually depleted at this time, having dwindled from a stock of 100 plus pharmaceuticals to 12 essential formulas. This has resulted in a substantial reduction in services available to students, even though the students are willing to reimburse the full cost of supplies. The establishment of a revolving fund account for this self-supporting aspect of the Student Health Center would not require an additional appropriation of B account funds, but it would enable the original appropriation to be recycled to serve the continuing needs of the students.

**2. Transcripts and Diplomas.** Like the Student Health Center, the service of providing transcripts and diplomas to students and alumni relies on B account funds which were drastically curtailed. The students pay fees which cover the full costs of the transcripts and diplomas, however, these fees are then deposited in the general fund. Once the appropriation in the B account has been exhausted, this service must terminate with an extremely detrimental effect to the students who are willing to pay for the service. Diplomas and transcripts are particularly critical for students who are applying to graduate school, or for scholarship assistance, and the inability of a student to procure these documents will mean the loss of scholarship or failure to gain admission to graduate school. Like the Student Health Center revolving fund, this will not require an additional appropriation. It will, however, enable the already appropriated B account funds to be re-cycled so that the University can continue to perform the vital service for which these funds were appropriated.

**3. Research and Training.** This bill creates a revolving fund for research and training programs, with the revolving fund to consist of ten percent of all income up to a maximum of \$200,000 annually from indirect overhead sources on account of all University-held Federal and other research and training contracts and grants. These funds shall be used for research and training purposes which may result in obtaining additional research and training grants and contracts.

**4. Waialeale Agricultural Station.** Your Committee has amended this bill to provide a revolving fund for the animal research farm operated by the College of Tropical Agriculture at Waialeale, Oahu. For this program, B account funds are used to provide feed and other supplies for the animals quartered at the facility. Like other programs considered herein, the B account funds for this

program have been substantially depleted from the original low appropriation, which results in drastically curtailed operations and services at the agricultural station. When the animals are sold for slaughter, the costs of their feed and quartering are recouped, and if these funds can be deposited into a revolving fund account, the research facility can be operated at a much more efficient and effective level to fulfill its vital research obligations.

**5. Vocational and Technical Programs.** Your Committee has further amended this Bill to create a revolving fund account for vocational and technical programs offered at the community colleges. Like items 1, 2, and 4 herein, the vocational and technical programs rely heavily on B account funds to provide certain supplies for which they are ultimately reimbursed. For example, in the auto-mechanics course at Honolulu Community College, funds must be drawn from the B account to purchase parts for a carburetor which is being rebuilt in class. When the owner of the car reimburses the college for the cost of repairs to his car, these funds are deposited into the general fund, but the B account for auto-mechanics has been depleted by that amount for the current year, thus limiting future such expenditures of this reimbursable nature which are necessary for the perpetuation of the instructional programs. If the reimbursement funds were to be placed into a revolving fund account, they could again be used to augment the instructional program, without additional cost to the State.

Your Committee has further amended this Bill to change the effective date of this Act from January 1, 1975 to July 1, 1974, and has made other technical amendments to renumber the sections of the Bill.

The revolving fund account established for research and training purposes stands on its own merits of serving to increase the flow of research and training grants into the State. The other four revolving fund accounts are in areas which have been particularly suffering during the present school year, as budget restraints and cutbacks in the B account funds have drastically curtailed the amounts of money initially available for these activities. The re-cycling process in each case would not require an additional appropriation of funds, but rather it would enable the appropriated sums to go farther in supporting the needs of the program activities. The amount of reimbursement dollars which would be diverted from the general fund revenues to the special revolving fund accounts for these activities is extremely small, but the boost that these accounts will give to these programs is substantial. In addition to freeing more money for these activities at no additional cost to the State, the creation of special revolving funds in these areas will also eliminate a great deal of red tape which ensues from numerous requests for small amounts of funds from B accounts to purchase such things as aspirins, transcripts, fodder and carburetors.

Your Committee on Conference is in accord with the intent and purpose of S. B. No. 2024-74, S. D. 1, H. D. 1, as amended and attached hereto in the form of S. B. No. 2024-74, S. D. 1, H. D. 1, C. D. 1, and recommends its passage on final reading.

Representatives Sakima, Kunimura and Saiki, Managers on the part of the House. Senators Wong, Toyofuku and Mills, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 25 on H. B. No. 1387**

The purpose of this bill is to direct the Board of Regents of the University of Hawaii to establish a baccalaureate program in tropical agriculture at Hilo College, with the program to begin in September 1975.

Your Committee is aware of the increasing emphasis being given to agricultural development on the island of Hawaii. Agriculture is a vital part of its economy and provides a major source of employment. In 1972, the agriculture-related industries including the expanding anthuriums, papaya and macadamia nut industries contributed \$71.5 million to the economy.

During the past decade, there have been several major factors which have altered the agricultural industry. For example, Oahu has experienced a tremendous population growth and a concurrent urbanization of much of its land, resulting in greatly increased competition for land. In contrast, Hawaii County's economy is largely based on agriculture. Since 1967, the Big Island has led the State in agricultural output; its share of the State agricultural production has risen from 27% in 1962 to 31% in 1972. Estimates by the State Department of Agriculture show that by 1980, Hawaii County's value production will increase to 34%. The County of Hawaii has emerged as the leading agriculture-producing area in the State, yet the full potential of the agricultural industry in Hawaii cannot begin to be realized without more education and research activities devoted specifically to the developing agricultural industry. The program of Tropical Agriculture at Hilo College, therefore, is a major key to the further realization of the Big Island's agricultural potential.

Presently, Hilo Community College offers only an Associate degree in agriculture. This vocational-technical program prepares the student for employment in government service, agribusiness, horticulture, ranching and related fields. Yet, employment opportunities will continue to be good for those possessing agricultural background and additional formal education and technical knowledge and skills. Only the most highly skilled and scientifically trained will have open opportunities for successful careers in agriculture. Any commitment to take advantage of the State's agricultural industry's potential requires that training, education and facilities be available in locations readily accessible to primary agricultural areas. It is for this reason

that an undergraduate program in Tropical Agriculture is recommended as a logical addition to the curriculum at Hilo College.

It is not the intent of your Committee that the program at Hilo College duplicate or in any way supersede the program at Manoa, but rather, that it should complement existing programs by providing a curriculum which is industry-oriented and which meets the needs of the County of Hawaii. Your Committee strongly recommends that the primary orientation and thrust of this new program be toward the achievement of community relevance, and that any research which is conducted within the program be aligned with the needs of the local agricultural community.

In this regard, your Committee directs the Board of Regents of the University of Hawaii to give this new program its full support and co-operation, including providing the program with the authority and the mechanism to work closely with the Cooperative Extension Service and the Hawaii Agricultural Experiment Station on Hawaii. Your Committee further directs the Board to include the program as herein described and intended in its budget request and program submission to the Legislature for inclusion in the 1975-77 biennial budget for the University of Hawaii.

Consistent with these recommendations, your Committee has amended the purpose clause of this Bill to stipulate, "...that the program should specialize in industry-related research, and be responsive to the needs of the agricultural community on Hawaii."

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 1387, H. D. 2, S. D. 1**, as amended, and attached hereto in the form of **H. B. No. 1387, H. D. 2, S. D. 1, C. D. 1**, and recommends its passage on Final Reading.

Representatives Sakima, Kunimura and Saiki, Managers on the part of the House. Senators Wong, Brown and Mills, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 26 on H. B. No. 2999-74**

The purpose of this bill is to enact State standards of education, training, and experience for persons who use x-rays in order to protect the public against unnecessary and excessive exposure to x-rays. Your Committee agrees the increasing use of x-rays makes the licensing and regulation of radiologic technologists necessary.

Your Committee upon consideration of the bill has amended it in the following respects:

1. Substituted the Director of Health or his designated representative as an ex officio voting member for a radiologic physicist. It has come to your Committee's attention that there are only two radiologic physicists in the State and an appointee may be difficult to find.

2. Insert an annual license fee schedule.

3. Eliminated the classes of radiological technician because no standards were enumerated for the classification in the Senate draft.

4. Exempted licensed medical practitioners in radiology along with dentist and dental technicians.

5. Deleted the provision in Sec. -7 of the proposed Act which relates to the board's power to approve a school for radiologic technologists because such function may conflict with that of another department.

6. Amended the revocation of license procedure to conform to Chapter 91.

7. Changed the effective date to July 1, 1974.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2999-74, S. D. 1**, as amended, and attached in the form hereto as **H. B. No. 2999-74, S. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives Kunimura, Kihano and Saiki, Managers on the part of the House. Senators Yamasaki, Ching and Henderson, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 27 on H. B. No. 2067-74**

The purpose of this bill is to establish a system of environmental review at the State and County levels which will ensure that environmental concerns are given appropriate consideration in decision-making along with economic and technical considerations.

Your Committee agrees with the intents and purposes expressed in **Senate Standing Committee Report No. 956-74** which are incorporated herein by reference except as modified herein. Your Committee upon further consideration of the bill has made the following amendments to **H. B. No. 2067, H. D. 1, S. D. 1**:

1. Under **H. B. No. 2067-74, H. D. 1, S. D. 1**, the environmental quality commission was empowered to establish a list of classes of action not otherwise specified for which, because such actions will probably have significant effects, the preparation of an environmental impact statement shall be mandatory. The requirement for a statement for such classes of action has been deleted. Your Committee believes that such a power in the commission is overly broad without reasonable certainty to the public as to what actions are intended to be covered.

2. Any action preparing any new county general plan or amendments to any existing county general plan initiated by a county was made exempt from the requirement of an environmental impact statement. Your Committee finds that a meaningful statement cannot be prepared for an action by a county initiating a comprehensive review toward effectuating a general plan or amendment thereof.

3. Other non-substantive typographical, style

and renumbering changes were made for purposes of clarity.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2067-74, H. D. 1, S. D. 1**, as amended and attached in the form hereto as **H. B. No. 2067-74, H. D. 1, S. D. 1, C. D. 1**, and recommends its passage on final reading.

Representatives King, Chong, Kondo, Roehrig, Carroll and Yamada, Managers on the part of the House. Senators Brown, Ushijima and Rohlfing, Managers on the part of the Senate.

**Conf. Comm. Rep. No. 27 on H. B. No. 2480-74**

The purpose of this bill, as amended herein, is to make several modifications to existing chapter 294, Hawaii Revised Statutes relating to No-Fault Insurance. Chapter 294 which was enacted by the Legislature in 1973 as Act 203, Session Laws of Hawaii 1973, created a comprehensive system of reparations for injuries and loss suffered by motor vehicle accidents. It provided for compensation to persons without regard to fault, and it provided for partial abolition of tort liability for motor vehicle accidents. While the basic purpose and intent of Act 203 remains valid, it is recognized that there is a need to make further modifications to Act 203 in order to improve and refine the motor vehicle accident reparation system.

Your Committee has studied and reviewed this bill together with several other bills introduced in the Legislature relating to the no-fault law. Although your Committee is proposing several changes to Act 203, we believe that these changes will promote and enhance the intent and purpose of Act 203. Most of the major provisions of the existing no-fault law will remain. Thus, the no-fault law will continue to provide a basic, comprehensive, equitable and reasonably priced auto insurance premium. It will continue to provide for a speedy, adequate and equitable reparation for those injured. It should provide for the stabilization and reduction of motor vehicle liability insurance premium rates. Its compulsory insurance system, under strong regulatory control by the commissioner, will assure all persons reasonable benefits at minimum cost.

Your Committee, after due deliberation, has agreed to the following resolution of the major areas of concern:

**(1) State Motor Vehicle Insurance Commissioner:**

Act 203, as enacted in the 1973 legislative session, provided for a new motor vehicle insurance commissioner, whose full-time job would be devoted to the regulation of this industry, and the general supervision of the relations of the insurers and insured.

Several sound reasons prompted this provision of the Act and your Committee believes this officer is needed for these reasons:

(a) Any new general law naturally entails problems and this is particularly true of our no-fault statute which is changing some 800 years of practice and precedent.

(b) Because of the nature of this change, the fact that it is going to affect the potential liabilities and actual expenditures of every family in the State, your Committee believes the problems attendant, and the interests of our citizenry, require prompt attention and resolution.

(c) Your Committee is of the belief that the active, aggressive leadership of a full-time individual, devoted to the full implementation of this Act and the no-fault program, will be a major contribution to the common good. Such direction is required to bring together the talents necessary for implementation. These skills include the legal, actuarial, and statistical expertise in an actively cooperative and integrated fashion to permit this accomplishment. The finest of these skills will be necessary to educate and to elicit the cooperation of the public and the interested work of the industry in an utterly new market.

(d) Further, the Committee realizes the need for such leadership is magnified, in that the public, though favoring no-fault legislation and a reduction in insurance costs, is wholly unaware of the massive changes in its liability picture or of the potential for greater costs built into any no-fault program if not properly run.

(e) A need exists for this new commissioner to provide the education of the public in its new or changed responsibilities, liabilities, and partial exoneration of former liabilities. Unlike a no-fault divorce law, this Act will directly affect every family in the State on Sunday morning, September first. We cannot rely upon advertising or the insurance agent to provide this. If we could, the need for this legislation would not have attained its present intensity.

(f) Finally, the full-time commissioner is needed in order to regulate the industry, to establish the basics of a new automobile insurance system: rate classifications, standards, territories, etc.

Therefore, your Committee has retained in the Act the provisions for an active and aggressive full-time motor vehicle insurance commissioner.

**(2) Commissioner's powers:**

One of the more significant changes in this bill, the Committee believes is the retention of the supervisory and regulatory powers to the commissioner. We have retained the powers which were granted in the original Act. The Committee believes that this action is necessary in view of the following reasoning.

(a) The Committee has been impressed with the fact that not all complaints about automobile



insurance from constituents concern the costs of coverage at the present time. There is also a heavy layer of complaint regarding the treatment insurers are affording the public. These complaints have ranged from those regarding the settlement of a claim, the amount of time involved in processing a claim, and such items as being surcharged for a variety of reasons not related to a past chargeable accident or conviction for a moving violation. Therefore the Committee is of the belief that some effort toward the standardization of the auto insurance delivery system is needed.

(b) Consideration of the presentation by the insurance industry of its case in the preceding sessions leads us to question the preparation of the industry to make this major conversion from a pure tort liability system to one of partial no-fault. We still do not have access to hard data from insurance carriers from which the all-industry conference "Joint Underwriting Plan" as previously submitted can be evaluated from the standpoint of what it would and would not do.

(c) It is the opinion of your Committee that the insurance industry, when compared to financial institutions and brokerage houses, is virtually unregulated. Your Committee has reason to believe that many of the abuses of this industry, of which the public complains, have resulted from this lack of regulation. For example, it is common knowledge that drivers are being surcharged above prevailing rates for their automotive coverage because they are engaged in certain occupations, because an insurer questions their marital status or because of age or sex. Perhaps the most common experience is that the male driver under twenty-five is heavily surcharged, regardless of his past driving record or convictions. On the other hand, this same under-25 male can drive his employer's car or truck and there is no surcharging for either sex or age.

It is therefore the considered judgment of the Committee, that some degree of supervision of this industry is needed to protect the buying public, to protect the small insurer from the major insurance company, to prevent the collusive making of rates and classifications, and to assure an orderly and functional transformation to the no-fault system from our 800 years of fault founded liability. Therefore, the original powers of the commissioner, granted in Act 203, are retained in this bill.

### (3) The Medical-Rehabilitative Limit:

Your Committee considered in detail the desirability and difficulties involved in establishing this three-way limit. The Act provides for the commissioner to study the medical benefits paid each year and to set this limit so as to cover 90% of all such claims. This limit then serves as the maximum payment of the no-fault policy proper for medical-rehabilitative costs, as the limit below which tort exoneration applies, and

as the threshold above which the classical tort action is permitted.

In response to claims that it would be virtually impossible to study the industry and establish this limit prior to the beginning of no-fault this September, and in order to facilitate the competition of open rating, your Committee has decided to establish this limit at \$1,500 for the first year of the no-fault program. Beginning with the second year and thereafter, the commissioner will annually set the amount of this limit to cover 90% of all medical-rehabilitative claims. Your Committee believes that the establishment of this figure at \$1,500 for the first year and 90% of medical-rehabilitative claims thereafter is a viable resolution of this problem.

Your Committee has agreed to retain the sliding threshold under existing law. The existing Act has been explicated to require that the commissioner tabulate all actual medical costs in determining this 90% figure. Specifically included are the benefits paid by insurers and self-insurers; all claims made during the year to insurers, self-insurers and via assigned claims; and all claims for medicals in tort litigation. In this fashion the commissioner will annually secure the actual costs paid by our citizenry for all medical-rehabilitative work required as a result of automobile accidents. Secondly, the bill has been amended to require the commissioner to make his annual tabulation of these costs during the twelve-month period beginning with July 1 and ending the following June 30 for use in the "no-fault term year" beginning the next September. By following this regimen, the very "oldest" costs being averaged in will be some fourteen months old. The objective here is to give the commissioner and the industry at least a two-month period in which to perform the work necessary for the establishment of the medical-rehabilitative limit and the rate making dependent upon it.

With a head start of a year, combined with computerization of this work by both the commissioner and the insurers, it would appear that sixty days is ample time to accomplish the task. Were we to allow a greater gap between the collection of these costs and their use in any given "no-fault term year", we fear that adverse effects would be sustained by the whole no-fault program — specifically a marked increase in tort suits permitted by claimants surpassing the medical-rehabilitative limit. As revised, the oldest medical costs to be averaged into the limit are fourteen months of age when first applied in September at the beginning of a "no-fault term year". By the end of that "year", the following August, those "oldest costs" will be twenty-six months of age — more than two years old. With the present inflation rate running between 15% and 20% a year, the Committee believes that allowing any period greater than two months would seriously jeopardize both the program and its object.

(4) Joint Underwriting Plan and Assigned Claims Plans:

Your Committee has thoroughly studied and considered the Act's Assigned Claims Plan, the industry proposal for a Joint Underwriting Plan, and the Administration's Insurance Placement Plan.

One of these plans is needed to service the risk which cannot be averaged into the general automobile insurance market without raising rates appreciably. These risks are the "high-risk driver", the high-risk operation (gasoline tanker, tour bus), the physically limited driver, the uninsured pedestrian victim, the public assistance driver, and the formerly convicted-licensed driver, among others.

Basically, the provisions of Act 203 are sound: it confines the higher costs to the group of drivers and risks covered; it covers many surcharged drivers and uses not specifically provided for in the Joint Underwriting Plan; and it serviced and protected financially the public assistance driver, the physically limited driver, and motorcyclists.

The industry recommended Joint Underwriting Plan had a number of new ideas to commend it. Among these was a board of governors to aid the commissioner in his administration of the plan. It also possessed a greater flexibility. The Administration plan also had amendments the virtue of which your committee has appreciated and incorporated in the Act. Your Committee has attempted to achieve as rational an amalgam of handling this major problem area and in composing the conflicting demands of the industry, the self-insurers, the interests of the government, and the needs of the public.

Our result is the composition of these revisions and amendments from Act 203, the industry's Joint Underwriting Plan, and the Administration's bill. Part II of the Act, the Assigned Risks and Claims Plan has been repealed and replaced with the Joint Underwriting Plan. Incorporated in the Joint Underwriting Plan are most of the consumer protective devices of the Act. A new limitation has been placed upon the provision of no-fault and mandatory insurance for the public assistance driver: only recipients of direct funding or medical services from the department of social services and housing or from the federal Social Security Administration are to be eligible. The plan includes a board of governors to assist and advise the commissioner in his execution and supervision of this plan. The board is made as representative as possible of the industry and the public which the plan is designed to serve. All major risks, or those drivers or uses with the more costly exposures are now explicitly included, e.g., the licensed formerly convicted driver, commercial operators, etc. One aspect of this plan is that insurers are permitted and required to pool their losses and bona fide expenses under the Joint Underwriting Plan thus to forestall any one insurer carrying an inor-

minate burden. This will also permit insurers to specialize in the handling of certain types of risks in which they have developed an expertise over the years, all under the supervision of the commissioner.

The Joint Underwriting Plan also provides for the assignment of claims of victims for whom no policy is applicable, such as the hit-skip victim. Under this part of the Joint Underwriting Plan, self-insurers are required to participate in a prorated payment of these claims and costs just as are insurers, since neither receives any premium income from such victims. The number of such claims should be quite limited since the hit-skip victim who is a member of a family with a no-fault policy would be covered under it.

Considering the public interest and past experience with industry's response to the "high-risk" driver, your Committee believes the Joint Underwriting Plan will meet the community needs.

(5) Definition: "Operation, maintenance, or use"

In view of the industry's objections to the definition of this phrase in the Act, your Committee has redefined it with particular reference to the inclusion or exclusion of loading or unloading a vehicle.

The Act included, as no-fault covered damage, all losses incurred during loading and unloading an insured vehicle. The industry recommended the exclusion of all such losses, requiring instead that a victim must be "occupying, entering", or "alighting from" a vehicle at the time of loss to be covered.

The industry, in testimony, cited the costly danger of having claims made for injuries sustained during loading operations which, in fact, were far removed from the parked, but insured, vehicle.

Your Committee has, therefore, sought to limit this threat, and simultaneously to provide coverage for losses commonly associated with the use or maintenance of a vehicle. By using a territorial criteria for this measure, we believe we have attained a moderate and moderating resolution. By requiring that an injury during loading, to be covered, must occur "in the immediate proximity of the vehicle" we have included under no-fault coverage such common one person accidents as the following:

(a) The mother-driver who turns an ankle while lifting an infant from a back seat of her parked car.

(b) The driver injured while hoisting a spare tire out of a modern, but impossible, trunk, preparatory to changing a flat.

(6) Drivers Education Fund Fee:

Your Committee has amended the chapter on highway safety, specifically its provision of a driver education program. A dollar fee for each vehicle insured is assessed the insurer for the specific purpose of funding this program.

Your Committee is convinced that every intelligent effort must be made to reduce automotive accident damage and that this is the most rational means of attacking our massive damage losses at their source.

#### (7) Primary Payment of Benefits: Auto Carrier

Your Committee considered the advisability of making the motor vehicle insurer or the health insurer the primary carrier or payer for medical-rehabilitative benefits under the no-fault policy. After repeated consideration and re-consideration of what may be rather balanced arguments on each side, your Committee recommends that the motor vehicle insurer be made the primary carrier. The result will be to give the health insurer the right of recovery for any medical expenditure in behalf of an automobile accident victim against the motor vehicle insurer. We have been led to believe that this will reduce the demands upon the victim to make more than a single claim, insurers' paper work, and administrative costs. Another argument made favoring this change from the present Act was that this mode of operation would speed the delivery of services and payments to the victim. We have continued the provision of the Act, however, that all benefits a victim may receive from social security, workmen's compensation, or public assistance shall be deducted from no-fault benefits which are due.

(8) Competitive Rating. Your Committee retained the open rating provision of Act 203. We have lengthened the period, however, from one year to three years as suggested by the Department of Regulatory Agencies. We believe this three-year moratorium upon the insurance commissioner's setting of motor vehicle insurance will stimulate competition among insurers and thereby reduce automobile premiums. Instead of requiring insurers to charge rates identical with each other, we have encouraged open competition. Your Committee believes that this approach towards reduction of automobile insurance premiums should be tested and be given a full opportunity to become workable. Additionally, a new provision has been added requiring the commissioner to intervene and either reduce rates which he finds to be excessive, or to raise rates found so inadequate as to be generative of insolvency or trade restraint.

(9) Severability. Your Committee is seriously concerned over the ramifications of the application of the concept of severability. Depending on the language used, different consequences may flow. **House Draft 2** of this bill had proposed that if the provision relating to the partial abolition of tort liability is declared invalid, then the whole Act will become null and void. Your Committee, after due consideration, believes that such pro-

posal may lead to consequences both unintended and undesired. If the legislature declares that the whole Act becomes null and void merely because one section of the Act is invalidated by the courts, a chaotic situation may arise in which hundreds of thousands of persons will be left without adequate insurance coverage. Your Committee believes that should the tort abolition provision be ruled invalid, then the courts should determine the validity or invalidity of other provisions of this Act as well as no-fault policies written pursuant to this Act in existence at that time.

The Conference has decided to add a further proviso to the effect that, should any of the thresholds be held constitutionally invalid, then only those sections of the chapter are to be voided which directly and functionally relate to the no-fault policy and coverage. This limits the resulting invalidation to the sections on the right to no-fault benefits, the obligation to pay them, the source of such payment, the conditions under which an auto may be driven, and a penalty section applicable only to these listed sections.

It is believed this provision is needed in order to avoid a sudden conversion of the entire State to all tort liability or, an equally sudden and chaotic termination of all no-fault insurance resulting from an otherwise unguided invalidation of the Act.

It is not the intent of your Committee that a person covered under no-fault should be able to obtain windfall recoveries in the event the tort exoneration provision of the Act is ruled unconstitutional. That is, such a person could conceivably collect up to the maximum of no-fault benefits, even though the tort threshold has not been penetrated. If, after this collection, such a person files a tort suit against a party at fault, and prevails and recovers because the court rules the tort exoneration provision invalid, that person could gain a windfall at the expense of insurers. He will have received no-fault benefits and recovered in tort and will be required only to disgorge one-half of no-fault benefits received from the insurer. Multiply this situation many times over and the consequence could be the demise of many insurers.

This situation need not happen if insurers by the use of judicious contractual language in no-fault policies provide that should the exoneration provision be ruled invalid, full subrogation rights would apply to all payments made by them.

(10) Discriminatory Rate Practices. Your Conference Committee has agreed to retain the present language of Act 203 with respect to prohibiting discriminatory practices. **House Bill No. 2480-74, H. D. 2**, had proposed that the prohibition against discrimination on the basis of age, sex, length of driving experience, or marital status be deleted from the law. However, it is the belief of your Committee that discriminatory practices against such persons should continue to be barred. We believe that there should not be

unequal treatment by insurers against any person based upon race, creed, ethnic extraction, age, sex, length of driving experience, credit bureau rating or his marital status.

It should be noted that it will still be possible, indeed the Act requires, that rates may be set in a reasonably discriminatory fashion on the basis of any scientifically founded criteria which can be shown to effect loss experience directly. Examples would be histories of past mobile traffic convictions directly related to the production of accidents, or, a health history found productive of sudden lethal cardiac collapses. But the Act prohibits the unreasonable discrimination against classes of drivers because they are young, or old, or divorced, or for any alleged amoral or immoral practices.

Your Conference Committee has agreed to a number of other changes to the chapter which are for purposes of clarity or are technical in nature. These changes are:

(1) Section 294-2(10). Restored the phrase "shall be subject to an aggregate limit of \$15,000 per person or his survivor and" in the definition of no-fault benefits.

(2) Section 294-2(11). Inserted a definition for "no-fault policy".

(3) Section 294-2(16). Inserted a definition of "self-insurer".

(4) Section 294-3. Inserted the terms "and his survivors" and "the operation" in this section for clarification purposes.

(5) Section 294-5(d). Provided that the primary no-fault coverage applicable to accidental harm is that of the policy covering the auto in which the claimant was riding. Specifically: the insurance follows the vehicle insured primarily, and the person only secondarily.

(6) Section 294-7. Inserted the terms "for accidental harm" and "to such person" for clarification purposes. Changed the penalty provision to the general section 294-39(a).

(7) Section 294-9(b). Restored Act 203 language respecting the prohibition against insurers from rejecting applications for no-fault policies.

(8) Section 294-9(c). Inserted the terms "the type of" and "insured" for clarity.

(9) Section 294-9(d). Retained Act 203 language stating that an insurer may reject or refuse to accept additional applications for no-fault policies for reasons stated in the Act. Your Committee does not believe that insurers should be granted the right to cancel all policies when such insurers are in financial difficulty or such insurers cease to write new policies in this State.

(10) Section 294-11(a)(1). Retained Act 203

language that the commissioner, by rule, shall provide deductibles for optional property damage coverage.

(11) Section 294-12 has been amended as to its penalty provision to conform to the new general penalty section 294-39(c). This completes the change of all penalties to purely civil in nature, thus removing all criminal sanctions.

(12) Section 294-13(b)(2). Retained Act 203 language to the effect that in rate making, due consideration shall be given to the investment income from reserves and unearned insurance premiums received. Your Committee does not think that such consideration should be limited to investment income from loss reserves and unearned premium reserves only.

(13) Section 294-13(b)(6)(B). Retained Act 203 language to the effect that the commissioner shall set, instead of merely approving, insurance rates.

(14) Section 294-13(b)(6)(E). Retained Act 203 language to the effect that the commissioner is to order insurers to rebate any excessive profits to policyholders.

(15) Section 294-13(d). Your Committee has provided that the commissioner shall have power to set rates, instead of merely approving rates. In addition, we have inserted the phrase "and to present evidence" as a right of interested parties on the impact and application of proposed rates changes.

(16) Section 294-13(j). In addition to the amendment extending the open rating provision to three years, the Committee has added the precautionary provision that the commissioner, in addition to monitoring rate making during this period, shall intervene and set rates whenever he finds these have been set excessively high or low — thus to protect both the industry and the public.

(17) Section 294-13(1). Explicit language has been added specifying that the 15% rate reduction is to be applied to all premium rates charged by all insurers for every policy or coverage offered — including the basic no-fault, collision, comprehensive, theft, fire, property damage, uninsured motorist, medical reimbursement, bodily injury, among others. This provision is necessary to avoid the possibility of a 15% cut in rates for some coverages, and an inordinate rise in the rates for others.

(18) Section 294-14. We have changed the requirement that insurers maintain a complete claims service office in every county. We believe that this requirement is too severe and impractical. Hence, this bill as amended requires that a complete claims service office be provided in the State.

(19) Section 294-14(c). Restored the Act 203

concept which provides for the licensing of health insurers to engage in the business of automobile insurance. Such licensing, however, is limited to the providing of medical-rehabilitative no-fault benefits and optional major medical coverages.

(20) Section 294-15. Changed the requirement of monthly reports by the insurers to the commissioner to quarterly reports. Your Committee believes that the monthly reporting provision is unduly burdensome and that the same purpose of the Act is accomplished by quarterly reports.

(21) Section 294-16. Inserted a phrase relating to the commissioner's reasons for making rates, etc. which are to be submitted to the legislature.

(22) The term "accidental harm" was inserted in place of "injury or death" wherever applicable for clarity. The term "self-insurer" was also inserted wherever applicable. Other minor technical changes or grammatical corrections were made.

(23) Section 294-34(f) has been added stating what is implicit in the Joint Underwriting Plan assigned claims plan. Here it is specifically required that all auto insurers shall be guarantors of all others. The assignment of claims under the Joint Underwriting Plan in the case of an insolvent insurer already does this for claimants in that predicament. This section provides a formalization of this guaranty for all policyholders of an insolvent insurer who have not made a claim as of the time of such insolvency. Instead of having these paid-up or partial-installment paid insureds in limbo, this section assigns these policies to all insurers equitably. Then, policyholders paying on an installment plan may continue to do so with the insurer assigned. Requiring that all insurers fully service these and the paid up policyholders equitably, avoids the forced duplicate payment of premiums by the latter, and, more importantly, this method will avoid the sudden introduction of a large number of uninsured motorists on the road.

(24) Section 294-39. The general penalty provision was thought necessary in order to provide one overall scheme for the entire chapter. It has also been amended to excise all criminal penalties for auto owners, insurers, and all agents and salesmen. This is consonant with modern practice and avoids the introduction of a criminal, or jail, sanction into what is simply governmental regulation of the civil, contractual relations of the public with private profit business corporations. However, by setting the civil penalties as high as \$10,000 for certain violations, we believe the chapter is equipped with sufficient teeth to maintain respectability.

(25) The Act has been amended to delete the repeal of the financial responsibility in chapter 287. This is necessary in order to protect the public, both the injured and uninjured, against the uninsured motorist. This deletion also prevents the continuation of an effective sanction against the uninsured: the seizure of his driver's license and auto license plate after an accident.

Your Committee believes that this bill, as amended herein, represents a distinct improvement over the existing Act 203. While we are still greatly concerned as to the ultimate cost effects of the no-fault law, as amended herein, we believe that this bill retains the large benefits set forth under Act 203 while minimizing the cost of such benefits to the motoring public.

Your Committee on Conference is in accord with the intent and purpose of **H. B. No. 2480-74, H. D. 2, S. D. 2**, as amended and attached in the form hereto as **H. B. No. 2480-74, H. D. 2, S. D. 2, C. D. 1**, and recommends its passage on final reading.

Representatives Yap, Kihano, Kishinami, Kawakami, Medina, Takamine, Wakatsuki, Fong, Medeiros, Saiki and Yamada, Managers on the part of the House. Senators Ushijima, Takahashi, Wong and Mills, Managers on the part of the Senate.



**Special Comm. Rep. No. 1**

Your Interim Committee on Public Employment to which was referred **H. R. No. 80, H. D. 1**, entitled: "HOUSE RESOLUTION REQUESTING THE HOUSE PUBLIC EMPLOYMENT COMMITTEE TO STUDY THE MILITARY'S INFLUENCE ON HAWAII'S EMPLOYMENT SITUATION AND TO SUBMIT A REPORT THEREON", begs leave to report as follows:

The purpose of this Resolution is to request the House Public Employment Committee to conduct a full-scale study to determine: (1) The dimensions of military-generated employment in Hawaii; (2) The fluctuations of military-generated employment in Hawaii over the past ten years; (3) The number of Hawaii residents (defined as people paying taxes to the State of Hawaii) involved in military-generated employment in Hawaii; and (4) The effect of the Vietnam peace on employment in Hawaii.

Although no staff funding was available to carry out the objectives of this Resolution due to the State's tight budgetary situation, it was decided to move ahead with the implementation of **H. R. No. 80, H. D. 1**, on the basis of voluntary assistance from the University of Hawaii and the community. This was due to strong public interest in employment effects of possible American disengagement from Indochina, selective Defense Department cutbacks throughout the United States and the recent publication of the Defense Department's long-range plan for military facilities in Hawaii (the so-called FRESH report).

Your Committee proceeded to receive testimony relating to the military's influence on Hawaii's employment through public hearings at the State Capitol on October 25th and 26th. This was followed by a field trip to the Pearl Harbor Naval Shipyard on November 19th.

The lack of professional staff limited efforts to "conduct a full-scale study" as called for by **H. R. No. 80, H. D. 1**, but sufficient information was accumulated and analyzed to issue this report.

**BACKGROUND**

**H. B. No. 1260-74** which later became Act 175 of the Fifth Legislature, State of Hawaii, appropriated \$25,000 to: "... (1) compile a systematic review of peace research projects that have been completed or are being conducted at the university; (2) prepare a comprehensive design for future coordinated peace research projects including studies of the economic, social and political role of the military in Hawaii as well as the consequences of reduced military spending in Hawaii; and (3) prepare and submit a peace research budget for the university for the 1971-72 fiscal year."

In addition, Senator Nadao Yoshinaga introduced **S. B. No. 1854-70** of 1970 which stated:

"... There is appropriated out of the general revenue of the State, the sum of \$25,000 to be expended by the University of Hawaii for peace research work, including research projects in the area of the economic, social, and political role of the military in Hawaii and of the consequences of reduced military spending in Hawaii..." Although this bill did not come to the floor for a vote, it did serve to clearly establish an area of legislative concern.

In response to the above, the University of Hawaii, under the direction of Professor Michael Haas, produced a 91-page document in January, 1971 titled, "Peace Research at the University of Hawaii", and a 111-page document titled "A Peace and Conflict Studies Program for the University of Hawaii" two-months later.

The studies identified economic and non-economic areas that could be usefully explored by further research.

As far back as 1961, the Economic Research Center (created by the 1959 Legislature and dissolved in 1973), completed a report titled, "Military Expenditures and the Employment Multiplier in Hawaii" (by Dr. Kyohei Sasaki). In 1965, the ERC completed "Fluctuations in Defense Spending and Their Economic Impact on Hawaii" (by Dr. Y. Wu and S. Wang) and in July 1972, the ERC completed "An Income-Employment Forecasting Model for Hawaii: 1971-1970".

**INTRODUCTION**

The summary report of testimony received at our public hearings can be found in Appendix A. The expert and lay testimony along with other materials obtained by your Committee, indicate that any study on the military's influence on Hawaii's employment situation cannot be divorced from the broader issue of federal policies that have impact on Hawaii's economy and social fabric. For although direct, military-generated civilian employment in Hawaii is quite small (roughly 6% of total civilian employment in 1972), the indirect multiplier effects of the civilian payroll and other federal actions can be quite large.

For instance, civilian employment generated by defense contracts are never included in the official figures, even though the amounts are substantial.

Other indirect effects of the military on state resources include the State's responsibilities to provide adequate public school facilities and welfare services (if necessary) for qualified military dependents.

The statistical data concerning these indirect and probably substantial effects of the military on Hawaii's economy are not available; this suggests that follow-up research, refinements, and updating of the reports noted under **Background**, above, are in order.

## FINDINGS

Your Committee had the benefit of testimony from a broad cross section of the community (see Appendix A) and the field trip to the Pearl Harbor Naval Shipyard. The testimony was overwhelmingly in favor of closer dialogue between the military and the state government. And, as indicated in the previous section, your Committee soon found that more useful policy initiatives could be formulated within the context of a focus on the impact of federal policies on Hawaii's economy and social fabric. It was felt that confining ourselves merely to an examination of the military's impact on employment could divert needed attention from more basic and relevant issues.

Specifically, our findings include:

(1) There has been no systematic effort by Federal agencies in Hawaii to plan for the possibility of conversion of military activities to peacetime activities.

(2) As stated by Mr. Knud Lindgard of the American Federation of Government Employees, Local 882, with regard to the Army's efforts to minimize the impact of civilian manpower cutbacks by natural attrition, "... the method of attrition has just about exhausted every possibility for retention of all current employees and ... any cut now, however small, will most certainly result in actual separations ..."

(3) Dr. Yasumasa Kuroda, Professor of Political Science at the University of Hawaii, observed that "... unlike the mainland where the relocation of workers is relatively inexpensive, any large scale unemployment in the State of Hawaii would create a situation where the unemployed workers would find it difficult to move elsewhere because of Hawaii's geographical isolation from the rest of the country."

(4) Mr. Ian Lind, a PhD candidate in Political Science at the University of Hawaii, suggested that "... the dimensions of military-generated employment cannot be expressed purely in terms of dollars and cents. Our interest should not be limited to the question of **how many** persons are affected by military spending, but rather should extend to the question of **how they** are affected." He submitted two major findings: (1) Profits from military spending in Hawaii are captured by relatively few corporations and are not equitably distributed throughout the population; and (2) There is solid evidence showing that the multiplier effect per government dollar is much greater if spent on "people-oriented" (e.g. health, education, etc.) activity than on military activity.

(5) Dr. Moheb Ghali of the University of Hawaii, observed that in 1972 military expenditures were roughly equivalent to tourist expenditures. He stated that between 1960 and 1970, total armed forces civilian employment increased by 5% but **total** state employment went up by

31.6% over the same period.

(6) Mr. Jan K. Bohren, Chief, U.S. Civil Service Commission, Honolulu, noted: "Heads of the military establishments here and in Washington, are not blind as to the effect on communities of fluctuating employment levels, and I think this has proved true in Hawaii since its Statehood as evidenced by gradual, controlled increases and decreases in employment rather than drastic buildups and cutbacks."

(7) Dr. Edwin Pendleton, Acting Director of the Industrial Relations Center, University of Hawaii, described the overlapping jurisdictions of various federal bodies relating to grievance procedures and personnel actions. He pointed out that the situation could cause inequities and inefficiencies.

(8) Mr. Samuel Slom of the Bank of Hawaii, stated: "While the military is important as an economic factor in Hawaii, the claim that the military dominates the employment picture is grossly exaggerated. More concern should be paid to the record of Hawaii's state and local government employment, which has more than doubled since 1960, and which represents more than twice the share of total employment accounted for by the military."

(9) A letter from a civilian Hawaii resident working for the military notes that the current reduction-in-force (RIF) actions on some military bases are hitting residents more than mainland hires. He notes that "it would be more logical and cheaper for the Federal Government to terminate the transportation agreements of certain mainland hire employees, assign them to existing vacancies on the mainland, and keep the local hire employees in their present positions." As it is now, he alleges that qualified local people are being released while some mainland hires with the same skills are kept on and, in fact, have their transportation allowances (giving them government-paid trips to the mainland and back) renewed.

(10) Statistical data can be found in Appendix B.

## CONCLUSIONS

In general, most of the statistical requirements of H. R. No. 80, H. D. 1, have been adequately covered. Appendix B details some of the basic data called for by the Resolution.

It is clear, however, that more in-depth research and analysis is needed, especially with respect to the multiplier effect of military programs on employment. Such additional research and analysis would make it easier for state planners to anticipate in more precise detail the impact on Hawaii of the injection or withdrawal of defense money. This data would then hopefully allow state planners to minimize potential dislocations in the state's economy where military programs are modified or eliminated. In particular, a study is needed on the various effects of cutbacks in the

three major areas of defense spending in Hawaii: (1) civilian payroll, (2) military payroll, (3) purchases of supplies, equipment, and services.

It is also clear that a sizeable and unplanned-for reduction in defense spending could have serious implications on the economy of the State, as fluctuations in the rate of growth of military expenditures have had a major influence on the rate of growth of employment. In this regard, the State would be faced with two kinds of problems. The first and most immediate problem would be to assist civilians who are laid off by the military. The second problem would be to reduce the impact of such a cutback on local industry and business, and to find alternate sources of demand for businesses and industry heavily dependent on military spending. A 1970 report of the department of planning and economic development, for example, estimated that if all civilian defense workers were laid off, service industries such as health, real estate, and banking would be adversely affected, and further that there would be an approximate fourteen per cent decline in the State's total retail sales. Also, there are indications that employment in industries such as electrical machinery, miscellaneous manufacturing, and transportation equipment would be directly affected by defense cutbacks.

#### RECOMMENDATIONS

(1) It is suggested that there be created a joint state-military commission. Such a commission would include various representatives of the state government from both the executive and legislative branches and two representatives selected by the Commander-in-Chief of the Pacific.

The commission would coordinate efforts of the State and of the military to assure that the influence of the military on Hawaii's employment and economic situation continues to be a favorable one, to provide for long-range planning as much as possible, and to assure continued communication between the State and the military. The commission would also consider such areas as the military's impact on the environment and the social impact of the military.

The commission could also work closely with representatives from private industry to communicate military procurement requirements and purchasing plans to private businesses and vice versa. This would promote efficiency in procurement of certain materials by the military and would further promote the growth of the economy of the State.

Also, such a commission could consider ways in which the scientific and engineering expertise of the military can be applied to have beneficial corollary effects on the economy. Technical, scientific and engineering experts brought in from the mainland by the military, for example, might be encouraged to disseminate some of their knowledge to assist in the establishment of new

local industries, or to assist in making the State a research center for the Pacific, or to assist in instruction in systems and programs the military has expertise in. We note, for example, the use by the State of naval personnel in giving courses to state employees on PPBS. Obviously, the encouragement of such development would have beneficial effects for the military as well.

(2) It is also suggested that the above commission be supplied with adequate staff support. Appropriations would necessarily have to be provided for by the Legislature.

(3) Finally, it is suggested that a Resolution to the Congressional Delegation asking for their support of the above commission would be useful.

Signed by Representatives Chong, Nakama and Poepoe.

#### Appendix A

#### SUMMARY OF PUBLIC HEARINGS INTERIM COMMITTEE ON THE MILITARY'S INFLUENCE ON HAWAII'S EMPLOYMENT SITUATION

October 25th & 26th, 1973  
State Capitol

Rep. Anson Chong, Chairperson  
Members: Rep. Andrew Poepoe  
Rep. Keo Nakama

#### Goals of the Committee

A major goal of the committee is to find ways to bring about closer cooperation between the military and the State in the area of employment in Hawaii. In order to achieve this goal, hearings were held to determine the dimensions and the fluctuations of military-generated employment in Hawaii, the number of Hawaii's residents involved in military-generated employment, and the possible effects of the Vietnam peace on Hawaii's employment.

The committee will develop recommendations for submission to the Speaker and the House prior to the beginning of the next session. The following summary notes were prepared by Committee Administrative Aide Althea Nagai and Representative Anson Chong. Testimony is presented in alphabetical order.

**Testimony by Mr. Lawrence Ah Nee, President, Service Employees International Union, Local 556**

**Preliminary Conclusions.** Non-appropriated fund employees have been neglected. Although they are covered by Executive Order 11491, they are not covered by Civil Service Laws. They receive no appropriations from Congress. Wages are determined from profits made through goods and services provided to officers' clubs, NCO, KMC, and PX's. The exact number of workers under non-appropriated fund activities is dif-

ficult to determine, although a rough estimate would be from 12,000 to 15,000 employees.

**Recommendations.** This committee should visit military bases and talk to employees "where I think you can get more information than the hearings here." A committee should be formed from all segments of Hawaii's society (military, civilian, and labor) to investigate the situation of civilians employed by the military, especially those under non-appropriated fund activities.

**Testimony by Mr. Jan Bohren, Area Manager, U.S. Civil Service Commission**

**Preliminary Conclusions.** Public Law 92-392 and the Prevailing Rate System provide a system for fixing and adjusting the rates of pay between the two main pay systems in the federal service. The law also provides for periodic wage surveys to insure that the rate system follows and duplicates existing pay trends in the private business sectors in Hawaii.

The impact of P.L. 92-392 on Hawaii is not large — total military payroll affected by the law is less than \$200,000 per year. There are about 180 employed by the military who are receiving a retained rate of pay under this new Prevailing Rate System.

Heads of the military here and in Washington are aware of the impact of fluctuations in levels of employment, as shown by the gradual changes in employment rather than drastic increases and decreases.

**Testimony by Mr. Gardner Brown, First Vice President, Retired Enlisted Association, Pacific**

**Preliminary Conclusions.** There are 5000 to 7000 retired military personnel in Hawaii and a gradual increase in retirees monthly. The pay received by the retirees is part of defense expenditures in Hawaii.

**Recommendations.** The impact of retired military personnel in Hawaii should be determined.

**Testimony by Dr. Moheb A. Ghali, Director, Economic Research Center**

**Preliminary Conclusions.** While military expenditures have been one of the major components of total expenditures in Hawaii, their impact has been less than the impact of tourism growth. In 1972, military spending in Hawaii amounted to \$765.5 million, or 20% of total personal income, roughly equal to total visitor expenditures during the year. However, the growth of military expenditures from 1962 to 1972 has been less than the growth of tourism.

Over the past 10 years, the rate of growth of military expenditures has been subject to large fluctuations and have played a major role in fluctuations of the rate of the growth of employ-

ment.

**Recommendations.** Further extensive analysis should be done on the dimensions and fluctuations of military-generated employment.

**Testimony by Mr. William Hightower, Regional Representative, AFL-CIO**

**Preliminary Conclusions.** There probably will not be a great reduction in civilian employment on military bases. Since the end of the Vietnam War, there has been a 5% reduction in civilian labor force on military bases, mostly in the area of early retirements. There have been few, if any, who have actually been laid off.

**Recommendations.** The State government should work with the federal government in establishing an apprenticeship program for training workers for the Pearl Harbor shipyard. The Navy does have such a program, but there is still difficulty in finding replacements for those who have retired.

**Testimony by Dr. Yasumasa Kuroda, Department of Political Science, University of Hawaii**

**Preliminary Conclusions.** Peace may not be welcomed if it means loss of employment. The United States spends more than half of its national budget on defense and military purposes. Certain communities, industries, and segments of the labor force in Hawaii are dependent on such funds.

Any large scale unemployment in Hawaii would create difficulties. The unemployed worker would find difficulty moving elsewhere due to Hawaii's geographical distance from the rest of the country. There would be a greater burden placed on the Social Service and Housing Department to take care of the needy families. If many unemployed workers did move to mainland, it may add to the racial tensions already existing there, due to the racial composition of the people of Hawaii.

Factors external to this environment may lessen impending problems. Ease of adjusting to cuts in Hawaii would depend on the state of the national economy. The role of the Congressional representatives from Hawaii are also crucial in adjustment and preparation for major defense cutbacks.

**Recommendations.** Effects of changes in defense spending and commitments on attitudes, values, institutions, decision-making systems, and military-civilian relationships in communities in Hawaii must be assessed.

Military use of land in Hawaii should be evaluated.

Hawaii's representatives in Washington should be encouraged to work for federal spending in non-military areas such as funds for oceanographic research in Hawaii.

A special agency, or the Department of Planning and Economic Development should help to prepare the state for defense cut-backs, in order to prevent economic and social disaster.

The Department of Planning and Economic Development and the planning sections of the military should coordinate activities so various military facilities could be made available for public use and used by the military only in times of emergency.

A study should be done on decisions involving planning and recruiting of defense-related industries, facilities, and funds, and the role of community and state leaders in making such decisions.

**Testimony by Mr. Ian Lind on behalf of the American Friends Service Committee**

**Preliminary Conclusions.** The profits derived from about one-third of all military spending are concentrated in a few corporations, rather than being equitably distributed among the whole population. 5% of the companies in the state receive 62% of all defense contracts.

Similar levels of federal spending in areas directed at human needs, such as provisions for medical services, education, and housing, would generate substantially greater economic benefits for Hawaii than military spending.

**Recommendations.** The impact of the military on Hawaii's business should be determined, perhaps through a survey of all who have received defense contracts over the past years, with emphasis placed on determining the number of employees affected by such contracts, the percentage of total business derived from federal and military work, and the impact of military cut-backs on total business.

Programs of comprehensive planning for economic conversion should be established. Corporations should be encouraged to develop impact studies and plans for converting to non-military work. Such plans could serve as a basis for determining federal government support necessary during any prospective transition period.

Public hearings on problems and possibilities of conversion to a non-military economy should be held.

The state should support proposals which push for greater spending for social services rather than military needs.

The state should insist on co-determinations in all matters concerning the military's future role in Hawaii. Such matters include land use, construction, etc. Citizen groups should be encouraged to participate in co-determination.

**Testimony by Mr. Knud Lindgard, Unit Chairman for Army Activities, American Federation of Government Employees, Local 882**

**Preliminary Conclusions.** A large number of civilian defense workers can be expected to retire from 1970 to 1975. Defense cut-backs would result in employees hired within the last few years being laid off first, due to their fewer years of employment as compared to those hired during World War II and the Korean War. The employees hired during the last decade are of lower grades and are younger. Hence, in the next two to three years, there will be a slump in the federal sector and a shortage of critical skills.

Any cuts from now will result in actual separations. In the past, the army has minimized the impact of such cuts through systematic personnel attrition, but this method has exhausted the possible retentions for employees.

**Recommendations.** A permanent committee should be set up to establish closer dialogue with the military. This committee should include all federal agencies, the state government and the military. The State of Hawaii, through legislative efforts, should work for the fullest cooperation with the federal government as well as the federal agencies in this matter.

**Testimony by Dr. Edwin Pendleton, Director, Industrial Relations Center, University of Hawaii**

**Preliminary Conclusions.** Executive Order 11491 has shifted labor-management relations in federal employment toward private sector industrial relations systems. However, union rights in general and scope of bargaining between labor and management are far more limited in federal government.

Executive Order 11491 has improved ways to settle disputes between employees and employers and procedures of handling unfair labor practices.

**Recommendations.** One comprehensive procedure should be established to handle all grievances. At present, there are several alternatives to handle employee grievances.

A single administrative agency should be formed to administer all aspects of labor-management relations in the federal service. Presently, there are three divisions which do so.

Collective bargaining laws for federal employees should be established. Executive orders are subject to changes in the Executive branch of government and could be amended subject to the whims of the President. For instance, the President has the power to abolish E.O. 11491.

Studies should be done to determine the impact of collective bargaining on federal employment, perhaps in areas of wage levels.



**Testimony by Samuel Slom, Department of Research, Bank of Hawaii**

**Preliminary Conclusions.** Military-generated employment as a percentage of total employment in Hawaii has declined since 1960. A continuation of this decrease is anticipated.

Civilian defense employment can be expected to stabilize at a lower level in the near future, barring any major military or political changes.

The claim that the military dominates the employment picture is "grossly exaggerated." Mr. Slom noted that 21,190 are employed by the military, constituting 6% of total employment in 1972.\*

**Recommendations.** More concern should be paid to the impact of state and local government employment which has more than doubled since 1960 and which represents more than twice the share of the total employment accounted for by the military.

\*\*\*\*\*

**In addition to the above, the following attended the hearings as resource persons and / or observers:**

Mr. Frank Callender, Representing the 14th Naval District, P.O. Box 110, FPO, San Francisco, Calif. 96610.

Mr. John E. Au and Mr. Mark S. Tsushima, Representing the Personnel Division (Civilian), US Army, Pacific, APO, SF, Calif. 96558.

**Data and other information was mailed to the committee by:**

General D.V. Bennett, Commander in Chief, US Army, Pacific; Rear Admiral Richard A. Paddock, Commander in Chief, 14th Naval District; Dr. Thomas K. Hitch, Dept. of Business Research, First Hawaiian Bank.

**Interim Committee staff has obtained considerable materials and is currently digesting and analysing the data.**

\*Dr. Ghalil and Mr. Lind stated that Mr. Slom under-estimated the impact of the military on civilian employment in Hawaii because the figures quoted do not reflect indirect employment generated by the military, especially those employed as a result of defense contracts. They noted that the percentage of civilian workers employed by the military is higher than percentages employed by agriculture and tourism from the viewpoint of Hawaii's total employment picture.

**Appendix B**

**TABLE 1**

**THE MILITARY'S INFLUENCE ON HAWAII'S EMPLOYMENT**

**Military — Generated Civ. Employment**

	<b>Air Force</b>	<b>Army</b>	<b>Navy</b>	<b>Total</b>
1960	2,720	4,950	10,980	18,650
1961	2,780	5,120	10,990	18,890
1962	2,810	5,000	10,890	18,700
1963	2,790	4,940	10,690	18,420
1964	2,810	5,020	10,710	18,540
1965	2,940	5,200	10,900	19,040
1966	3,250	5,620	11,860	20,730
1967	3,540	5,980	13,010	22,530
1968	3,730	6,120	13,280	23,120
1969	4,030	6,440	13,050	23,520
1970	3,600	6,100	12,300	22,080
1971	3,430	6,020	12,070	21,520
1972	3,380	5,990	11,820	21,190
Av. Annual Growth 1962/72	1.9	1.8	0.8	1.3

TABLE 1-A

THE MILITARY'S INFLUENCE ON  
HAWAII'S EMPLOYMENT

## Additional Civilian Governmental Employment Comparisons

	Non- Military	Total Federal Employment	State & Local Government Employment	Total Government Employment	Total <sup>1</sup> Private Employment	Total Employment	Total Labor Force
1960	8,360	27,010	22,500	49,510	178,540	228,050	235,140
1961	8,400	27,290	23,100	50,390	182,520	232,910	242,850
1962	9,070	27,770	23,400	51,170	183,410	234,580	246,180
1963	9,490	27,910	24,980	52,890	185,970	238,860	250,880
1964	9,900	28,440	26,000	54,440	193,140	247,580	257,630
1965	10,650	29,690	28,150	57,840	201,930	259,770	269,020
1966	10,890	31,620	31,010	62,630	210,130	272,760	281,880
1967	11,370	33,900	32,440	66,340	216,860	283,200	293,400
1968	11,840	34,970	34,260	69,230	228,670	297,900	306,780
1969	11,170	34,690	36,440	71,130	246,750	317,880	326,700
1970	11,300	33,380	40,260	73,640	263,930	337,570	350,030
1971	11,400	32,920	45,300	78,220	266,560	344,780	363,390
1972	11,510	32,700	46,720	79,420	272,810	352,230	374,540
Av. Annual Growth	2.4	1.6	7.1	4.5	4.0	4.2	4.3

<sup>1</sup>Self-Employed Included.

Prepared by Bank of Hawaii, Department of Business Research (10/73)

TABLE II

THE MILITARY'S INFLUENCE ON  
HAWAII'S EMPLOYMENT

## Percent Distribution Of Employment

Employment As A Percent Of  
Labor Force

	Federal Government					Federal Government				
	Non- Military	State & Local Government	Total Government	Private	Total Employment	Non- Military	State & Local Government	Private	Total Employment	Private
0	8.2	3.6	9.9	21.7	78.3	100.0	7.9	3.6	9.6	75.9
1	8.1	3.6	9.9	21.6	78.4	100.0	7.7	3.5	9.5	75.
2	8.0	3.8	10.0	21.8	78.2	100.0	7.6	3.7	9.5	74.
3	7.7	4.0	10.4	22.1	77.9	100.0	7.3	3.8	10.0	74.
4	7.5	4.0	10.5	22.0	78.0	100.0	7.2	3.8	10.1	75.
5	7.3	4.1	10.9	22.3	77.7	100.0	7.1	4.0	10.5	75.
6	7.6	4.0	11.4	23.0	77.0	100.0	7.4	3.9	11.0	74.
7	7.9	4.0	11.5	23.4	76.6	100.0	7.7	3.9	11.0	73.9
8	7.8	3.9	11.5	23.2	76.8	100.0	7.5	3.9	11.2	74.5
9	7.4	3.5	11.5	22.4	77.6	100.0	7.2	3.4	11.2	75.3
0	6.6	3.3	11.9	21.8	78.2	100.0	6.3	3.2	11.5	75.
1	6.2	3.3	13.2	22.7	77.3	100.0	5.9	3.1	12.5	73.
2	6.0	3.3	13.2	22.5	77.5	100.0	5.7	3.1	12.5	72.

Prepared by Bank of Hawaii, Department of Business Research (10/73)

TABLE III

**PAYROLLS OF CIVILIANS EMPLOYED  
IN THE ARMED FORCES**

	Civilian Payroll of Military Generated Employment			Total Civilian Payroll	Total Federal Defense Expenditures	Civilian Payroll As A Percent Of Total Federal Defense Expenditures
	Air Force	Army*	Navy*			
	\$ Millions					
1960	15.5	33.1	70.4	119.0	373.1	31.9
1961	16.6	36.7	71.8	125.1	401.9	31.1
1962	17.6	38.2	77.0	132.8	375.8	35.3
1963	18.6	39.7	77.4	135.7	368.6	36.8
1964	20.4	43.1	80.3	143.8	415.9	34.6
1965	19.0	47.1	87.2	153.3	459.6	33.3
1966	20.8	52.9	99.5	173.2	517.2	33.5
1967	21.1	55.7	112.3	189.0	584.8	32.3
1968	23.4	62.4	123.1	208.9	606.1	34.5
1969	22.8	66.5	136.5	225.8	657.9	34.3
1970	23.5	72.1	144.7	240.3	675.2	35.6
1971	22.6	75.8	155.6	254.0	722.1	35.2
1972	22.8	81.6	156.4	260.8	763.4	34.2

\*NOTE: Civilian Payroll for National Guard included in Army Total and Civilian Payroll for Coast Guard included in Navy Total.

**COMPANIES RECEIVING THE LARGEST DOLLAR VOLUME OF  
DEPARTMENT OF DEFENSE PRIME CONTRACT AWARDS  
STATE OF HAWAII, FY 1969-1972**

Rank	Company	Total Amount (\$ Mill. )
1.	Del E. Webb Construction .....	\$ 41,681
2.	Hawaiian Telephone Company .....	33,825
3.	International Business Machines* .....	28,605
4.	Control Data Corporation* .....	17,240
5.	E. E. Black Ltd. ....	15,795
6.	Sperry Rand Corporation* .....	12,376
7.	Standard Oil (California)* .....	11,562
8.	Dynallectron .....	10,802 (Percentage of Total
9.	Kentron .....	9,783 Contract Awards,
10.	University of Hawaii .....	8,704 Top 10: 43%)
11.	Ling Temco Vought, Inc.* .....	8,436
12.	Lockheed* .....	8,342
13.	Castle & Cooke .....	7,272
14.	Quality Pacific Ltd. ....	6,913
15.	Hawaiian Electric Company .....	6,418
16.	G.E.N.C.O. ....	5,985
17.	Podmore Construction Inc. ....	5,964 (Percentage of Total
18.	Akwa Downey Construction .....	4,904 Contract Awards,
19.	Xerox Corporation* .....	4,854 Top 20: 56%)
20.	MeadowGold Dairy .....	4,820
21.	Dillingham Corporation .....	4,751
22.	Burroughs Corporation .....	4,749
23.	Pioneer Contracting Company .....	4,300 (Percentage of Total
24.	Robert McMullen & Son .....	4,299 Contract Awards,
25.	AVCO* .....	4,096 Top 25: 62%)

\* These companies ranked among the nations 100 largest Department of Defense contractors during Fiscal Year 1972.

SOURCE: "Department of Defense Prime Contractors Who Received Awards of \$10,000 or More — Hawaii"  
FY 1969-1972, Directorate for Information Operations, Department of Defense.

The number of jobs generated by the military in Hawaii for Hawaii residents as of October 15, 1973, are:

	<b>Civilian Employees</b>
Department of Navy	13,500
Department of Army	8,300
Department of Air Force	3,650
Pacific Exchange System	1,550
Department of Coast Guard	170
General Service	80
	<hr/> 27,250 <hr/>

Many of the Departments listed below are greatly increased in size due to the military in Hawaii, and are all civilians.

Federal Aviation Administration	725
U.S. Postal Service	1,400
National Guard	590
All Dept. of Agriculture Agencies	158
All Commerce Dept. Services	185
Dept. of Health, Edu. & Welfare including Social Security	108

Administ. and Food & Drug Administ.	
All Justice Depts.	124
All Treasury Dept. Activities	390
Veterans Administration	100
All Other Federal Agencies	290
	<hr/> 4,070 <hr/>

The AFL-CIO Unions that make up the Metal Trades Council (MTC), AFL-CIO in Hawaii are:

Boilermakers, Local 204  
Carpenters, Local 1011  
Electrical Workers, Local 1186  
Machinists, Lodge 1998  
Navy Yard Riggers (Ironworkers),  
Local 742  
OPEIU, Local 460  
Painters, Local 1903  
Plumbers & Pipefitters, Local 811  
Service Employees, Local 556  
Sheet Metal Workers, Local 293  
Technical Engineers, Local 121

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#### HAWAII FEDERAL CIVIL SERVICE BARGAINING UNITS

EXCL. ORG.	ACTIVITY	UNIT	TOTAL EMPLOYEES
MTC	Shipyard — Pearl Harbor	CA & WB	4,025
MTC	Shipyard — Pearl Harbor	Professional	322
MTC	Shipyard — Pearl Harbor	NAF Restaurant	46
MTC	PWC — Pearl Harbor	CA & WB (Power Dept.)	129
MTC	NSC — Pearl Harbor	WB	358
MTC	U.S. Army Hawaii	CA & WB (Motor Pool)	153
MTC	U.S. Air Force — Hickam AFB	NAF Billeting	58
MTC/SEIU	Nav. Sta. — Pearl Harbor	NAF Navy Exchange Pearl	1,100
MTC	PWC — Pearl Harbor	CA & Professional	200
MTC	Hawaii Regional Exchange	NAF Army — AF Exchange	1,080
MTC/SEIU	U.S.N. Camp Smith	NAF Exchange	120
		<b>MTC TOTALS</b>	<hr/> 7,591 <hr/>
IAM	PWC — Pearl Harbor	WB	1,033
IAM	Navy Comsy — Pearl Harbor	CA & WB	128
IAM	Navy Comm. Sta. — Wahiawa	WB	101
IAM	V.A. Hawaii — Engineers	CA & WB	532
IAM	U.S. Army Hawaii — Fire Dept.	Firefighters Personnel	34
IAM	U.S. Army Hawaii — Sup. & Maint.	CA & WB	674
IAM	U.S. Army Hawaii — Support Serv.	CA & WB	387
IAM	U.S. Army Hawaii — Reserves	CA & WB	45
IAM	U.S. Army Hawaii — Tripler Gen'l Hospital	CA & WB	625
IAM	U.S. Army Pacific — 652nd Eng. Bat.	CA & WB	6
IAM	CSCPAC — Computer	CA	75
		<b>IAM TOTALS</b>	<hr/> 3,640 <hr/>

AFGE	Navy Comm. Sta. — Wahiawa	Telephone Operators	35
AFGE	NAS — Barbers Point	WB	325
AFGE	NAS — Barbers Point	CA	238
AFGE	MCAS — Kaneohe	CA & WB	220
AFGE	NAD — Oahu	WB	423
AFGE	NAD — Oahu	CA	278
AFGE	Nav. Sta. — Pearl Harbor	Firefighters	158
AFGE	Nav. Sta. — Pearl Harbor	Police / Guards	150
AFGE	U.S. Army Haw. — Int. Sec.	Guards	25
AFGE	U.S. Army Pac. — Data Proc.	CA	96
AFGE	U.S. Army Pac. — DSSLOG	CA	311
AFGE	CFMA (Pac.) — Finance	CA	36
AFGE	U.S. Air Force — Hickam	Fire	74
AFGE	U.S. Air Force — Hickam	Security	25
AFGE	U.S. Air Force — Hickam	GS — Pacom	232
AFGE	Nat'l Guard — ARG		184
AFGE	Nat'l Guard — ANG	Tech.	167
AFGE	U.S.N. Barbers Pt. NAS	NAF CO Mess	20
AFGE	U.S.N. Barbers Pt. NAS	NAF Exchange	332
AFGE TOTALS			3,329
IBEW	U.S. Air Force — Hickam AFG	WB	1,407
IBEW	Army — Strat. Comm. Sig. Gp.	CA & WB	171
IBEW TOTALS			1,578
SEIU	NSC — Pearl Harbor	CA	441
SEIU	Sub Base — Pearl Harbor	CA & WB	264
SEIU	Mar. Bks. — Pearl Harbor	NAF Laundry	65
SEIU	Inact Ship Fac. — Pearl Harbor	CA & WB	40
SEIU / RCIA	Marine Corps Exchange 11-5	Non-Approp.	200
SEIU / RCIA TOTALS			1,010

### Special Comm. Rep. No. 2

Your joint Senate-House Interim Committee on Education, appointed in accordance with **Senate Concurrent Resolution No. 66**, 1973 Session, to study major educational issues, begs leave to report as follows:

### INTRODUCTION

Three tasks were completed by your Committee during the interim period. Two of those tasks, the reapportionment of the board of education and a proposal for an alternative form of governance for public education, have been reported upon in a separate committee report. The third task, a review of the implementation of the legislative auditor's recommendations on the management of the department of education and a review of other selected issues, is the subject of this committee report.

Your Committee made extensive use of the interim period to conduct on-site visits at a number of schools in different parts of the State in order to gain firsthand knowledge from school personnel and to make its own observations about the educational concerns of the legislature. In addition to school visits, your Committee held meetings with DOE officials to determine the department's progress in implementing the

legislative auditor's recommendations to improve the management and operations of the department. Several other meetings were held to ascertain how effective the department has been in handling certain educational issues. Part I of this report summarizes our review of the department's implementation of the audit recommendations. Part II contains the findings and concerns of your Committee with respect to the educational programs and issues examined during the interim period.

### PART I. IMPLEMENTATION OF THE LEGISLATIVE AUDITOR'S RECOMMENDATIONS

During the 1973 legislative session, the legislative auditor submitted two reports on the management and operations of the department (*Management Audit of the Department of Education; Financial Audit of the Department of Education*). The two reports contained a broad range of recommendations designed to assist the department in improving its organization, management, and operations. Through the adoption of **Senate Concurrent Resolution No. 50**, the legislature supported the audit recommendations and requested the department to implement the recommendations. The direction to your Committee through **Senate Concurrent Resolution No. 66** was to assess the department's implementation



progress and to report to the legislature.

In response to your Committee's request, the department submitted an implementation status report, which was thoroughly reviewed in a series of committee meetings and study sessions. Your Committee's evaluation of the department's implementation efforts is as follows:

**General.** The general evaluation of your Committee is that there has been little in the way of actual improvements to management systems since the issuance of the audit reports. Much of the department's implementation plans hinge on studies yet to be completed or initiated. This is particularly true with respect to the organization and staffing of the department. With respect to curriculum management, there is some general sense of where the department should be headed but little actual accomplishment. With respect to personnel management, the department has not been responsive and continues to engage in practices which were strongly criticized in the audit. In financial management, the department has indicated its implementation of the more routine recommendations dealing with accounting and internal control systems but has not addressed itself to those recommendations designed to promote economy in the department.

**Board of Education.** The main function of the board should be the formulation of educational policy. However, the major audit finding with respect to the board was that it expends more of its efforts toward managing and controlling the operations of the department of education rather than formulating policies and overall strategies for public education. Apparently to show that it has taken up policy matters during the past year, the board submitted extracts of its minutes to your Committee. The board appears to have missed the major thrust of the recommendation. The audit did not state that the board did not consider policy issues; what it found was that, as between policy matters and managerial and operational control matters, the focus of the board was on the latter, such as accepting gifts and approving routine appointments. What the minutes do show is that the board has yet to develop comprehensive guidelines for the kinds of management and operational decisions which the department should be permitted to make without prior board approval. This is a matter which continues to require the board's attention.

**Organization and Management Generally.** The department's implementation of the recommendations concerning organization and management generally is apparently contingent upon at least two studies yet to be completed. One is a staffing study by the consultant firm of Booz, Allen and Hamilton, which is currently under way. The other is an organizational strategy study which has not yet been initiated but for which specifications are to be prepared by March 1974. It was not made clear to your Committee how the staffing study could proceed without first establishing the framework of the department's organizational

strategy. Your Committee cautions the department and the board that it expects these two pivotal studies to be integrally related however and whenever they are completed. In addition, there is the question as to whether the department itself will be the controlling agency in the implementation of any staffing recommendations which might be forthcoming from the consultant study. A review of the contract and the correspondence related to the contract indicates that the department of budget and finance is overseeing the staffing study, and the board should fully consider what the effects of such control might be, particularly with respect to the board's role in making policy for and in supervising the department.

**Curriculum Management.** The progress in the implementation of curriculum management recommendations has been mixed. The design of one new system in curriculum management, dealing with pilot-testing, has been completed. It is a step forward in attempting to bring so-called innovative projects under some semblance of supervision and control. Your Committee recommends that the project management manual be improved in at least one key respect. The manual does not contain the criteria by which new project proposals are to be assessed. Such criteria should be established to assist those who will be reviewing and recommending actions on project proposals.

While a number of curriculum management improvements are apparently also dependent on the completion of the staffing study and the organizational strategy study, your Committee believes that there are other recommendations which need not await prolonged study and which could be implemented forthwith. For example, to bring order out of confusion with respect to the vast number of curriculum documents circulated by the department, the legislative auditor recommended that the department should conduct an inventory of all "guides," "handbooks," "manuals," "outlines," "trial units," and other documents pertaining to curriculum by whatever labels such documents are issued. The auditor further recommended that all such curriculum documents should be reviewed for their continuing relevancy and applicability to the curriculum. Decisions should then be made and communicated to units of the state office, districts, and schools as to which documents constitute "official" guides and which documents have no official standing. Recommendations of this type do not require exhaustive study and implementation could be initiated almost immediately. Your Committee requests that the department proceed to implement those recommendations concerning curriculum management which it has unnecessarily deferred.

**Personnel Management.** The audit report contained numerous recommendations concerning personnel management. Generally, it can be said that the department is unresponsive to the recommendations. For example, the auditor

recommended improvement of the department's personnel records management, including integrating records and recordkeeping and eliminating nonessential and duplicate information. In its initial response to the audit report, the board of education agreed to the recommendation. However, the department's latest response is that the "files and records **currently** being maintained serve definite needs and cannot be integrated or eliminated at this time." The current practice of the department is the same non-system of recordkeeping which was found in the audit to have been deficient in the first place.

One of the more serious findings of the audit is that the department lacked valid minimum qualification requirements for positions in the department. Without such formal requirements, the department is open to criticism that job vacancy announcements can be tailored to fit certain individuals. The audit also found that the training and experience specified as minimum qualification requirements in requests for the creation of positions or in announcements of position vacancies were often unrelated to the work required to be performed. This was particularly true in the areas of business, accounting, facilities, and personnel. The auditor found that, in a vast majority of cases, the DOE either specifies an academic degree in the field of education and teaching experience or a teaching certificate even though the nature of the work to be performed calls for knowledge, skills, and experience quite different from those for teaching. Such practices are neither fair to those who have both the training and the experience to perform technical non-educational jobs nor do they assure that those with academic backgrounds in education will adequately perform the technical work required.

In response to the recommendation that official minimum position requirements be established for each position, that the requirements be related to the job to be performed, and that the requirements be consistently applied, the department in its audit implementation report stated that "minimum qualification requirements have been updated and revised," and that "implementation, in accordance with the spirit and intent of the audit recommendation, is considered completed."

Your Committee has reviewed the "revised" minimum requirements for various positions in the department. It is evident that the department has continued to insist on academic backgrounds in education for technical, non-educational positions, and far from opening up technical positions to those with the technical competency in a particular field, its practices are still restrictive — and still unfair.

Because of the lack of response on the part of the department, your Committee requested the auditor to conduct a spot review of current hiring practices. From the information provided by the auditor, it is evident that the department is not disposed toward correcting those personnel practices which are invidious.

The following case illustrates your Committee's concern:

On December 3, 1973, the department announced the anticipated vacancy of the position of director of the facilities branch. This is a position well-known to most legislators. As stated in the vacancy announcement, the basic function of the position is: "To administer, direct, supervise and coordinate on a statewide basis all activities involving school and public library facilities development, land acquisition, capital improvement budgets, repair and maintenance, custodial services, landscaping, student transportation and teacher housing." This is a position obviously requiring a high degree of technical competency in such fields as physical planning, architectural design or engineering.

The department chose to emphasize the following minimum qualifications for professional training: "Applicants must either: 1) possess the Hawaii Professional School Administrator's Certificate; or 2) possess a Master's degree in education or a State of Hawaii Professional Teaching Certificate and have 20 additional credits beyond the credits required for the Professional Certificate. A Master's degree or equivalent, with concentrations in school facilities, design and construction is desirable." The experience requirements were: "Five years experience in school design and construction, plus three years administrative and supervisory responsibilities, or equivalent." The specification of the Hawaii Professional School Administrator's Certificate and the Master's degree in education is new. They were not included when the position was last advertised in 1964.

The vacancy announcement attracted five applications, all from within the office of business services. Only one of the five applicants was deemed to have met both the educational background and experience requirements. Indeed, except for that one person who was ultimately selected for the position and the retiree from the position, it is doubtful that any other person in the State could meet both the minimum educational qualifications and the work experience requirements. It should be noted, for example, that neither the present director nor the previous director of the physical planning and construction office of the university of Hawaii would be able to meet the minimum qualifications for the position. In spite of the fact that the position is an attractive one, commanding both respectable responsibilities and a respectable salary, not a single application was received from outside the office of business services even though the position was advertised in the metropolitan newspapers.

While nothing in this examination should be construed to reflect unfavorably on the person selected for the directorship, two principal observations may be derived from the above case. *First*, there is little to support the inclusion of any

educational degree requirements for the position and much less any requirements for either the School Administrator's Certificate or the Master's degree in education. Your Committee does not believe that it should be a "usual" practice to include such requirements as was reported by department officials to the auditor's representatives. By adhering to and emphasizing education degree requirements, the department denies itself the opportunity to recruit from a much broader pool of technically qualified personnel. *Second*, in the absence of approved and formal minimum requirements for the position (and none could be found for the position of director), suspicion will continue to persist that job vacancy announcements are tailored to specific personnel. Your Committee believes that neither condition should be allowed to continue, and it requests the board to review the department's practices in the context of the findings and recommendations originally made in the audit report.

**Financial Management.** The department has indicated that it has complied with most of the recommendations relating to accounting and internal control systems. However, the department appears to have done little to bring about cost savings in its equipment procurement and repair and maintenance procedures. With regard to the recommendation that the department develop equipment standards so that volume purchasing can be implemented, the department replied that it is engaging in bulk purchasing through the consolidation of district requests. Your Committee doubts that any meaningful volume purchasing program can be implemented if the state office merely reacts to district requests and takes no initiative otherwise.

With regard to the audit recommendation that the department secure repair and maintenance contracts on a wider scale, the department replied that it will try to set up a contract for typewriters. It attempts to justify the various types of typewriters, etc., on the basis that such variety provides relevant education by simulating the "real world" of many typewriters. Your Committee continues to doubt whether relevant education in the use of typewriters necessitates the purchase of 13 different models of typewriters, as one district did. Your Committee recommends that the department again review and proceed to implement the recommendations relating to the purchase and service of the department's equipment, an area which should be a prime target for effecting cost savings.

## PART II. EDUCATIONAL ISSUES AND PROGRAMS

**Foundation Program.** Your Committee was distressed to find during its visits to schools that the Foundation Program has been reduced in some instances even below minimum levels. The problem is especially acute in the smaller schools, particularly in the nonurban areas, or in those schools which are experiencing declines in enrollment, because the allocation of teacher positions

to schools has been made on the basis of teacher-enrollment ratios. There were cases where no secondary English classes were being taught by anyone with a major in English, where a choice had to be made between offering industrial arts and foreign languages in a secondary school, where virtually all music education had been dropped, and so forth.

Your Committee is firmly committed, as we believe the entire legislature is committed, to the principle of equality of educational opportunity for all of Hawaii's children. We support the contention that each student in our public school system should have the same opportunity as every other student to learn a given minimum of course content and to be exposed to a given minimum of on- and off-campus experiences which are judged to be of educational value. The department of education developed the Foundation Program several years ago to set forth that minimum level of courses and services which shall be so offered in our public schools. Your Committee has come to the realization, however, that if the educational system continues to deliver courses by only the means it has utilized all of this time, that is, by full-time, regularly employed teachers, there is little possibility that a student in Kohala will have the same course opportunities as the student in Honolulu. It is time to seriously consider additional means of offering courses and services to students in every school in the State. Those additional means might include the application of electronic technology as well as capitalizing on the wealth of talent that abounds among people of the community who might be more than willing to supplement regular classroom instruction and share their talents with young people.

**Special Education.** Your Committee was pleased to learn that the special education master plan and program design appear to be well on their way to completion. The department has assured your Committee that the consultant firm, Management Analysis Center, Inc., has the appropriate background and capabilities to produce a plan which the legislature could consider and assess for implementation. Your Committee was also pleased that the consultant firm has already been informed of the fiscal constraints under which any plan might have to be implemented. A progress report can be expected in March 1974, and the completed plan in August 1974.

In the meanwhile, your Committee has learned that the funds appropriated by the 1973 legislature for additional positions for special education have not been released by the executive. The administration is urged to give special education the high priority it deserves in budget implementation. Providing the special education program for all who need it is a matter of great urgency. The State has declared its commitment to students with a variety of handicaps just as it has declared its commitment to all its "normal" students. Greater provisions should be made to put that commitment into action.

**3 on 2 Program.** Your Committee continues to receive strongly conflicting opinions about the effectiveness of the 3 on 2 concept and hopes that the department will continue its evaluation of this innovation, especially in those grade levels and classes where the children are products of 3 on 2 arrangements. It is particularly important to know the carryover effects of 3 on 2 beyond the third grade. Your Committee also believes that parental reactions should be considered in any evaluation of an educational program, but particularly so in one that has spurred some controversy.

With regard to the department's test of the modified 3 on 2 organizational pattern whereby the third person on the team is an educational assistant rather than a teacher, your Committee was assured by the department that the test is currently being conducted and that the results will be available by the 1975 legislative session. Your Committee reaffirms its expectation that the evaluation report presented next year will be based on a valid, reliable test that can serve as a basis for legislative decision-making on the modified 3 on 2 and "regular" 3 on 2 concepts. Your Committee believes that the legislature has waited sufficiently long for the department to use the educational assistants for the purpose for which appropriations were made.

**Hawaii English Program.** Your Committee has several concerns about the Hawaii English Program (HEP). Your Committee is highly disturbed at the department's uncertainty over the future of HEP. Your Committee was told during the interim that:

- there is no recorded commitment for the implementation of HEP from grades kindergarten to 12;
- the only firm commitment appears to be for kindergarten to grade 3 for all students although the logical extension would be through grade 6 since the K-6 package was developed as a system; and
- the decision to implement the secondary HEP program now under development is a separate matter and will be decided only after those packages are developed.

Your Committee is also disturbed that the department is awaiting the evaluation results for the limited fourth grade implementation before deciding whether the priority for the next several years should be placed on further lateral coverage at the kindergarten level, further vertical coverage for those fourth graders who have had HEP but will not have it any more, or further vertical coverage for next year's fifth graders, and to what extent. Your Committee has long been under the impression that the commitment of the board and the department has been for both horizontal and vertical coverage to grade 12, particularly grades K-6. To be sure, the fiscal situation of the State has forced a reduction in program levels, but what is still required is the overall implementation plan

of HEP, and the alternative programming which might be selected under different fiscal conditions.

Your Committee also reviewed the department's procurement system for HEP materials and remains uneasy in particular about the prospects for the joint venture being able to arouse commercial interest in publishing HEP materials for off-the-shelf purchase by other school systems. The department attributed the delay in the joint venture's attempt to solicit proposals to the fact that DOE did not order any fourth grade materials until the school year had started, thus preventing the joint venture from calculating the costs of producing HEP materials. Your Committee believes that the entire matter of HEP procurement should continue to be monitored by the legislature.

The HEP program is nearing several key dates in its implementation schedule and your Committee has taken note of those dates. The first is the anticipated delivery of the fourth grade materials for the second semester of this school year. Although the legislature appropriated sufficient funds for the continuation of HEP for all fourth graders who had HEP last year, the executive withheld those funds. After the school year began, the executive approved the ordering of materials for disadvantaged areas only, which amounts to approximately one-fourth of the fourth grade population. Those materials were promised for late January 1974. While your Committee is disappointed that not all of the appropriated funds have been made available, it expects that the department will ensure that those who receive the new materials will achieve maximum utilization of them. Your Committee also expects that the department is physically geared to receiving the materials and distributing them to the schools in the shortest possible time.

The department is also planning to issue two more evaluation reports on HEP — one in March 1974 and the other in June 1974. Your Committee expects both reports to reflect consideration of the criticisms voiced of the program and of the department's previous reports. Parental input and grassroots teacher input should be included in these evaluations.

**Enrollment Projections.** Your Committee also pursued the matter of enrollment projections and their place in the department's budget and personnel allocation process. Your Committee's interest in the department's enrollment projection process was spurred during the 1973 session when it was discovered that the department's budget had been submitted on the basis of an anticipated enrollment that was far larger than could possibly be realized. Further study during the interim plus the release of the official enrollment figures for September 1973 confirmed the importance of minimizing the errors in projections and of adjusting the allocation process to minimize the trauma to schools when personnel must be shifted. Your Committee was told that as many as 150 teachers were "excess" at the beginning of the



school year, i.e., 150 more than the number to which the enrollment entitled the department. As late as two full months into the school year the department indicated it was still in the process of shifting personnel, but was meeting resistance on the one hand from those schools which were scheduled to lose personnel and unhappiness on the other hand in those schools which were entitled to additional personnel but had to wait for the transfers to be effectuated.

While your Committee believes that it is unreasonable to expect absolute precision in enrollment forecasting, some improvement should be made. More importantly, however, your Committee is disturbed that the teacher position allocation process has not been flexible enough to reduce the chances of districts being locked into overallocations when enrollments do not come up to estimates. The department has indicated that next year, the districts will retain a "pool" of unallocated positions until school starts. When school begins and the actual enrollment is determined, then the districts will be able to more readily provide the additional teachers to those schools which are entitled to them. Your Committee hopes this will alleviate the problem, and it will continue to oversee the matter.

#### SUMMARY

The range of issues considered by your Committee in this report as well as in the other special committee report which it has submitted underscores the importance of establishing a mechanism for continuing legislative oversight and monitoring of educational program and management issues. Your Committee believes that such continuing oversight and monitoring should be provided during legislative sessions and from one session to the next. An uninterrupted examination is essential to spur the department to effectuate (and to enable the legislature itself to initiate, as necessary) improvements in educational programs and departmental management. Your Committee believes that this continuity in legislative monitoring of our educational system between sessions can best be provided for through the work of a joint interim committee, in much the same fashion as your Committee has operated during the past interim period. Accordingly, your Committee recommends the establishment of a joint interim committee on education as a standard legislative practice for legislative work on education during future interim periods.

Representatives Sakima, Young, Akizaki, Kato, Kawakami, Kimura, Kishinami, Kondo, Lee, Takamine, Wedemeyer, Amaral, Wing Kong Chong, Hapai, Oda and Saiki, Committee from the House. Senators Hara, Taira, Ching, Anderson and Forbes, Committee from the Senate.

#### Special Comm. Rep. No. 3 (Majority)

Your Joint Senate-House Interim Committee on Education, appointed in accordance with Senate Concurrent Resolution No. 66, 1973 Session, to study major educational issues, begs leave to report as follows:

#### CONTENT OF REPORT

Three major tasks have been completed by your Committee. *First*, it has developed a reapportionment plan for the board of education to be effective in the 1974 elections. *Second*, it has developed an alternative structure for the governance of public education, which does not include an elected board, but provides for far greater and more meaningful public input into the school system than exists today. *Third*, it has reviewed a number of educational issues, including the implementation of the legislative auditor's recommendations on the management and organization of the department of education.

In Part I of this report, your committee submits its findings and recommendations with respect to the apportionment of the board of education. In Part II are the findings and recommendations with respect to an alternative structure for the governance of public education. The findings and recommendations resulting from the examination of educational issues and the department's implementation of the auditor's recommendations are covered in a separate committee report.

One point may require clarification at the outset. The question may be raised as to why your Committee finds it necessary to recommend the reapportionment of the board of education while recommending, at the same time, an alternative structure which does not include an elected board. The answer is one of timing. The requirement for an elected board is a constitutional requirement. If an amendment is to be put before the people to change that requirement, the earliest that it can be done is in the 1974 general election. However, the 1974 election is also the time when elections are to be held for the board of education. In such a situation, your Committee believes that the responsible legislative action is to provide that the 1974 election of the board of education be held on the basis of a properly apportioned board, while at the same time allowing the people themselves to decide whether they wish to adopt a new form of governance for public education. If the amendment is ratified by the people, appropriate provisions would provide for a transitional period before the new form of governance is fully implemented. These considerations are discussed in Part II of this report.

#### THE COMMITTEE'S APPROACH

One of the major issues which has confronted the legislature for the past few years in the program area of education is the matter of the governance of the public education system. "Governance" has often been narrowly thought of only in terms of reapportioning the elected board of education. While your Committee has recognized the urgency of the reapportionment matter, it has also recognized that "governance" incorporates a much wider area of concern than simply the means by which a board will be formed. Governance in education includes both the structural aspects as well as the functional aspects.



"Structural aspects" mean all of the organizational units, their composition, and their method of selection. "Functional aspects" mean the authority and responsibilities of each organizational unit, i.e., the powers each one may exercise and the functions each must perform. A comprehensive analysis of educational governance must of necessity include all of these elements and the relationships which exist among them. Such a comprehensive analysis should be undertaken even under ordinary circumstances. However, the need to do so became even more apparent when the legislative auditor issued his management audit report of the department of education. The auditor traced the causes of many of the management problems of the department to the basic anomalies in governance.

Your Committee approached the entire governance issue, keeping in mind two principles to be held primary: *first*, that public input into the educational system must be provided for; and *second*, that the means by which all officials responsible for education are accountable to the public must be clearly drawn. We believe that the alternate proposal we have selected will do this and we report on that proposal in Part II of this report.

#### PART I. REAPPORTIONMENT

The current apportionment of the board of education has been declared to be malapportioned by the United States District Court. The basis of this ruling is the equal protection clause of the Fourteenth Amendment to the U.S. Constitution, which requires that each member of an elected body represent, as far as practicable, voters equal in number to the number of voters represented by every other member. Adherence to this requirement would assure that every man's vote is equal in weight to the vote of every other man. This principle is popularly known as the one-man, one-vote principle.

The reapportionment of the board of education by the legislature is a matter of some urgency, inasmuch as the United States District Court ruled on July 6, 1973, that the court would "give the next session of the Hawaii State Legislature a final opportunity to correct the malapportionment" of the board, that the court would "not allow the 1974 school board election to proceed under the present malapportionment," and that the court would take "whatever additional action . . . may be necessary to ensure that school board districts will be constitutionally apportioned by the 1974 election."

Your Committee held public hearings in all school districts in the State in order to obtain the maximum public input possible on the board question and thus to be in a position to recommend legislative action during the 1974 session. Your committee frequently heard the suggestion that, reapportionment being the knotty problem that it is, perhaps the legislature should leave the matter for the courts to resolve. However, it was

our conclusion that such inaction would be a shirking of legislative duty, for reapportionment is a legislative, and not a judicial, responsibility.

In its deliberations on reapportionment, your committee first reviewed the principles by which any reapportionment plan should be drawn and then considered the various alternative plans. Finally, your committee selected one reapportionment plan for recommendation to the legislature.

#### The Principles of Reapportionment Considered

Foremost among the principles which any reapportionment plan must follow is the one-man, one-vote requirement of the Fourteenth Amendment. The controversy in the application of this principle to elected bodies has arisen not so much from the principle itself as from the strictness with which the principle must be applied. Thus the question is, with what degree of mathematical exactitude shall the number of people per representative be assigned? The courts have acknowledged that mathematical precision is a practical impossibility and not a workable constitutional requirement. In other words, if there were 500,000 people and 10 members in the elected body, the precise number of people per representative would be 50,000 people. However, to achieve that ideal of 50,000 population in every district is an impossibility. The realistic next possibility, then, is to consider the extent to which the number of people per representative should be allowed to deviate from the ideal. This has been a two-step process. The first step deals with "de minimis" or that range of deviations which might be considered to be unavoidable and thus acceptable without question and without justification in all cases. The June 1973 case<sup>1</sup> which appears to have set the upper limits on what might be acceptable as de minimis involved a total deviation of 9.9%. In another case,<sup>2</sup> the court decided that a total deviation of 11.9% requires justification. Thus it might be argued that the courts have drawn a line somewhere around 10% — justification being required if the total deviation surpasses 10%, no justification being required for deviations less than 10%.

In the second of this two-step process, court ruling on various cases appear to have set some guidelines on what is acceptable deviation after sufficient justification is established. The court for several years had ruled that deviations beyond de minimis must be justified "based on legitimate consideration incident to the effectuation of a rational state policy." The court had also agreed that maintaining political subdivision boundaries is a rational state policy — i.e., the preservation of county or city boundary lines, for example. However, although the court had ruled in several cases that the deviations were too large even when rational state policy was offered as justification, it was not until last year that it set forth anything more definite on the acceptable limits. In a

<sup>1</sup>White v. Regester, 41 LW 4885.

<sup>2</sup>Abate v. Mundi, 403 U.S. 182 (1971).

decision on reapportionment in Virginia,<sup>1</sup> the court first held that the applications of the rational state policy of preserving traditional county and city boundaries were consistent, and then held that the total deviation of 16.4% was not unconstitutional. The court also said that the 16.4% deviation "may well approach tolerable limits." This statement, plus the fact that earlier cases which were struck down offered deviations ranging from 24.8% to 33.5%, suggests that somewhere around 16.4% may well be the upper limits after the integrity of political subdivisions has been established.

Your Committee determined early in its public hearings and in its deliberations that the preservation of basic island units, as provided for in legislative apportionment, was to be a principal consideration. The citizens of the neighbor islands, in particular, repeatedly requested that their island units be kept intact in any board reapportionment. Your Committee believes that the preservation of island units as political units is important in Hawaii, where the disparities in population density and life style between Oahu and the neighbor islands are so pronounced. Thus, the principle of preservation of basic island units was given equal weight with the one-man, one-vote principle in assessing the options which were offered for reapportionment.

#### THE VARIOUS OPTIONS CONSIDERED

**1. Members elected at-large statewide:** It was suggested that all members of the board be elected in a statewide election. One variant proposed a school district residency requirement for candidates. Another particular variant of the statewide election included the proposal that, in the primary election, the voters would vote for only the candidates in their particular school district but that, in the general election, the voters would vote for all candidates in a statewide election. In effect, this particular variant limits the voter's right to vote for all candidates in the primary, and at this point it is not clear how vulnerable this might be to constitutional challenge. In any event, your Committee has serious reservations that sufficient and qualified candidates can be attracted to run on a statewide basis. A statewide race is an expensive proposition, and it does not appear to your Committee that a position on the board of education is sufficient inducement to persuade citizens to mount statewide campaigns. Moreover, to have the individual voter select nine or eleven candidates from a list of eighteen or twenty-two names grossly violates the sound election principle of the short ballot. There is the additional consideration that, given the population balance in this State, the voters of Oahu would be the dominant voice in ultimately deciding who sits on the board. In view of these disadvantages, your Committee does not believe that election of board members in statewide elections, including the requirement of school district residency or (even if

constitutional) the variant of primary elections by districts, offers a sound basis for board reapportionment.

**2. The 19-member board as provided by House Bill 932:** House Bill 932 provides for 19 members to be apportioned as shown in Table 1 of Appendix A and as summarized below:

Hawaii school district	2
Maui school district	1
Kauai school district	1
Oahu school districts:	
Honolulu	8
Central	1
Leeward	2
Windward	1
Oahu at large	<u>3</u>
	19

Two items should be noted before we proceed with our evaluation of this option. The first is that the bill may have erroneously overallotted one member to the Honolulu District and underallotted one member to the Windward District, according to the State statistician. The second item to note is that the inclusion of at-large membership (3 members for Oahu) as well as district membership (12 among the 4 Oahu districts) has necessitated calculating the deviations separately, once for the statewide deviation and once for the Oahu deviation.

When your Committee applied the two principles of reapportionment considered of primary importance by your Committee, that is, the one-man, one-vote requirement and the preservation of basic island units, it was found that the bill provides only for the latter. It does not adhere very well to the one-man, one-vote principle. The total deviation from the statewide average is 49.9% if the Oahu districts are combined. The deviation from the Oahu average for the Oahu districts is 120.04% if we accept the bill in its original form, or 64.64% if we make the change in allotment between the Honolulu and Windward districts. These deviations are clearly much beyond the apparent, tolerable limits of 16.4%.

**3. 19-member board as proposed by the board of education.** The alternative reapportionment plan presented by the board of education also calls for 19 members, but allots all members to districts. The apportionment is displayed in Table 2 of Appendix A and is summarized below:

Hawaii	2
Maui	1
Kauai	1
Oahu:	
Honolulu	9
Central	2
Leeward	2
Windward	<u>2</u>
	19

Again, basic island units are preserved, but the total deviation, both from the statewide average

<sup>1</sup>*Mahan v. Howell*, 410 U.S. 315.

and from the Oahu average, 49.94% and 34.63%, respectively, appear to be beyond the tolerable limits allowed so far by the courts.

**4. 25-member board.** A 25-member board, whose district lines would be identical to state senatorial lines, was also suggested to your Committee. Membership would be distributed as shown in Table 3 of Appendix A and as summarized below:

Hawaii	3
Maui	2
Kauai	1
Oahu	<u>19</u>
	25

This proposal meets the test for preservation of island units, but again the deviation from the statewide average, 29.95%, appears to be beyond the tolerable limits allowed thus far by the courts. While the apportionment of the State Senate has survived constitutional challenge, this has been on the grounds that the under-representation of Kauai voters in the Senate is offset by the over-representation in the House. No similar argument could be mustered for a unicameral body, such as the board of education.

**5. 30-member board.** The 30-member board differs from all of the smaller boards in that Kauai is allotted two seats. Thus the distribution is as shown in Table 4 of Appendix A and as follows:

Hawaii	3
Maui	2
Kauai	2
Oahu	<u>23</u>
	30

Here, again, although the basic island units are kept intact, the deviation of 39.44% appears to be beyond the tolerable limits.

**6. 35-member board.** In the 35-member board, Hawaii and Oahu gain seats, as shown in Table 5 of Appendix A and below:

Hawaii	4
Maui	3
Kauai	2
Oahu	<u>26</u>
	35

There is a reduction in the deviation span to 23.31% but still apparently larger than the tolerable limits.

**7. 37-member board.** The 37-member board appears to yield the deviation closest to the tolerable limits allowed by the court after the preservation of county lines is affirmed as rational State policy. The distribution of members would be as shown in Table 6 of Appendix A and as follows:

Hawaii	4
Maui	3
Kauai	2
Oahu	<u>28</u>
	37

The resulting deviation of 16.74% comes close to the 16.4% allowed so far by the courts with justification.

**8. 39-member board.** The 39-member board retains the distribution of members as in the 37-member board, but increases the Oahu representation by two, as shown in Table 7 of Appendix A and below:

Hawaii	4
Maui	3
Kauai	2
Oahu	<u>30</u>
	39

This option yields the lowest possible deviation, a deviation of 10.39%.

**9. 40- and 41-member boards.** The 40- and 41-member boards, as shown in Tables 8 and 9 of Appendix A, were also examined. In both cases, the additional board member would be added to the Oahu representation. In the case of the 40-member board, the deviation would be 10.54%; in the case of the 41-member board, the deviation would be 10.80%. As the size of the board increases beyond 39 members, the deviations begin to increase again.

### Recommendations

After due consideration of all of the reapportionment options, your committee has concluded that the most viable options are severely limited. The inescapable fact is that, when basic island units are preserved and, at the same time, the one-man, one-vote principle is adhered to, there is little choice but to seriously consider only a handful of options — all of them involving large boards. A large board will present problems, including unwieldiness in operation and greater expense to the State. Your Committee reluctantly concluded that, under the strictures of the United States and State Constitutions and the court rulings therefrom, it must nevertheless recommend that the legislature amend the statutes to provide for a large but properly apportioned board. It appears that the 37- or 39-member board falls closest to existing court guidelines for acceptable deviations. In the case of the 37-member board, the deviation is 16.74%. In the case of the 39-member board, the deviation is 10.39% if Oahu is treated as one district. The difference in numbers between the 37- and 39-member boards is a mere two members, but the judicial considerations in favor of the smaller deviation outweigh the disadvantage of the additional two members.

Thus, your Committee recommends the following:

1. That the legislature enact a bill which provides for a 39-member board of education, to be apportioned among the school districts, as shown in the recommended reapportionment plan included in this report as Appendix B.

2. That the bill be enacted and transmitted to the governor with as much speed as reasoned legislative procedure will allow, to give potential candidates as much time as possible to prepare for the 1974 election.

3. That the members of the legislature encourage their constituents to find as many qualified citizens to run for positions on the board, in order to ensure that the voters will have a wide enough choice from which to select effective board members.

## Part II. An Alternate Proposal

Throughout this interim period, your Committee has approached the matter of governance of education from a broader perspective than simply the reapportionment of the board. Any study of educational governance which is limited to only one level of governance, i.e., a state board, or to only one method of governance, i.e., an elected board, is too piecemeal an approach. In addition, the basic anomalies in the structure and the roles now provided for the executive, the board, and the department have prevented the department from operating the educational system in the most effective and efficient manner possible. These anomalies are not likely to be resolved by merely reapportioning the board of education. Therefore, your Committee believes that an alternative form of governance should be considered and, in this part of the report, a proposal is offered which is comprehensive in resolving a number of problems while at the same time incorporating public input and public accountability. This your Committee has done by restructuring the lines of responsibility which affect the State superintendent of education and by providing for public participation and public input at every level of the school system, including at the school level, district level, and state level.

In all of its public hearings throughout the State, your Committee was told by the public of their desire that a means be left open to them to determine how the educational system shall be operated. It is primarily on this basis that the majority of those who testified favor the election of the board of education. They want a voice, and justifiably so, in the education system. They regard their votes to be their voice and, because of the accountability to the public which is inherent in any elective office, they feel that the elected board would preserve the public's role in educational governance. Your Committee also believes that public input and accountability should be the benchmarks for any system of educational governance. It also believes, however, that the public's call for input is a call for *meaningful* public input — in other words, public input when and where that input will have some impact and

influence on education. It believes that meaningful public input can occur at those points in the educational system where decisions are made which directly affect parents and students and where services are directly delivered to consumers.

## PUBLIC INPUT AT THE SCHOOL LEVEL

Your Committee approached the matter of public input by opening the range of alternatives to more than governance at the state level and to more than the retention of the elected board. It examined all levels of governance, from the state level down to the school level. An inescapable conclusion is that it is at the school level that students and parents are most affected by the school system, for it is in the schools that educational services are delivered to the actual consumers. The identification of parents is with the school — not with the complex, the district, or the state office. The reactions of parents to educational services is also in terms of each school. Thus, it is of prime importance to provide a means whereby the public can more effectively influence the services provided by individual schools.

Your Committee believes that public participation should occur at the school level more than at any other level in the system's hierarchy. The school level presents the most tangible opportunities for parents to seek improvements in education. There is a clearer and more direct interaction between the school and the parents than between any other level in the DOE structure and the parents. Your Committee also believes that public participation at the school level should be institutionalized and formalized and that it should be secured and recognized under some legal framework.

The recommendation of your Committee is that a school council be established for each school. The primary function of each council would be to review the programs and operations of the school and to assess the needs of the school and how well the school is progressing in meeting those needs, and suggesting improvements. In performing its function, the council would include the participation of students and others in the community served by the school. The council would also secure the participation of teachers, administrators, and others on the school staff. To secure maximum public input, the parents of the students in each school would select the members of the council. Rather than through the formal election machinery, this would be accomplished by the school principal calling one or more meetings of parents for the purpose of selecting the council or through such existing organizations as local units of the PTA or other parent organizations. With regard to the council's primary function of reporting on school progress, the guidelines to enable it to do so effectively would be set forth in the legislation establishing school councils.

Your Committee believes that the school councils will have the effect of revitalizing participation

in parent organizations, whether such organizations are affiliated with the Hawaii Congress of Parents and Teachers or are independent organizations. By giving the councils legal status and guidelines as to the functions they are to perform, parent organizations will have a recognized and formal mechanism by which they can suggest and seek improvements to their schools.

#### IMPROVING GOVERNANCE AT THE DISTRICT LEVEL

At the district level, the current provision for a district school advisory council in each school district should be continued. The primary function of the district school advisory councils would be to review and make recommendations on issues which are of district-wide concern. It is recognized that the decision-making role of the district at present is quite nebulous. If district councils are to have a meaningful role in the governance of public education, the role of school districts will have to be clarified. It is the expectation of your Committee that such redefinition will occur, thereby providing a more meaningful role and strengthened role for the district councils. In keeping with the concept of providing maximum and meaningful public input, your Committee recommends that members of each district council be selected by the school councils in the district. In addition, the district councils are to have the primary responsibility in selecting the State board of education.

#### IMPROVING GOVERNANCE AT THE STATE LEVEL

In addition to its concern that there be meaningful public input into the governance of the education system of the State, your Committee has also been concerned about reducing the present confusion over the powers and responsibilities between the board and the chief executive, both of whom are separately accountable to the public by virtue of their elected status. Your Committee believes that the confusion would be resolved by elevating the superintendent to cabinet officer status as a gubernatorial appointee and changing the function of the State board of education to an advisory board. The State board would be selected by the district advisory councils, again in keeping with the concept of maximizing public input. The board would be advisory to the superintendent and would also solicit advice and information from the district and school councils for transmittal to the superintendent. The most important benefits which will derive from this structure at the state level are these:

- The lines of accountability will be clearly drawn so that both the public and the employees of the administration will be able to fix responsibility for educational decisions.

- The board, by virtue of being appointed, can remain a manageable size and yet represent all island units.

- The superintendent will be able to make more definitive decisions than either the board has been able to do or he has been able to do under the present structure since his recommendations must be channeled through the board.

Your Committee has heard the suggestion that the governance of education at the state level should include an elected State superintendent. However, an elected superintendent would further complicate, rather than resolve, executive-DOE relationships. Moreover, the superintendency, as the administrative head of the department, is a managerial, professional position for which a qualified person should be selected on the basis of his professional background and administrative skills rather than on the basis of his appeal to the electorate.

#### RECOMMENDATIONS

Your Committee recognizes that this alternate proposal involves both constitutional and statutory changes. Since constitutional amendments require voter approval, the 1974 election would be the earliest opportunity to obtain approval of this proposal. That is also the time when elections are scheduled for the board of education. In terms of timing, then, your Committee suggests that the implementation of those changes which affect the elected State board be deferred until 1976 in order to be fair to those candidates who will be participating in the 1974 board of education election.

For the three levels of governance, then, your Committee recommends the following:

##### *At the school level*

- That the legislature provide for a school council at each school to review the programs and operations of the school, to assess the needs of the school and how well the school progresses in meeting those needs, and to suggest improvements.

##### *At the district level*

- That the legislature amend the statutes which establish district school advisory councils to provide for their selection by school councils and to include as part of their function the selection of the State board of education.

##### *At the state level*

- That the function of the State board of education be changed to an advisory function and that the State superintendent be appointed by the governor.

#### ACKNOWLEDGEMENT

Your Committee acknowledges with gratitude the scores of public-spirited citizens who testified at the public hearings of your Committee and the hundreds who attended. Their participation has



been valuable. It is with the confidence that your Committee has discharged its responsibility to develop all proposals which are in the public's interest that it renders this report.

Representatives Sakima, Young, Akizaki, Kato, Kawakami, Kimura, Kishinami, Kondo, Lee, Takamine, Wedemeyer, Amaral, Wing

Kong Chong, Hapai, Oda and Saiki, Committee from the House. Senators Hara, Taira, Ching, Anderson and Forbes, Committee from the Senate.

Representative Takamine did not concur with Part II; Representative Lee did not concur.

No. of members	19
Statewide average registered voters per member	17,781

APPENDIX A  
Table I

19-MEMBER BOARD  
(House Bill 932)

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Avg	
				No.	%
Hawaii .....	34,958	2	17,479	- 302	- 1.70%
Maui .....	24,581	1	24,581	+ 6,800	+38.24%
Kauai .....	15,701	1	15,701	- 2,080	-11.70%
Oahu .....	262,597	15	17,506	- 275	- 1.55%
	337,837	19			Span — 49.94%

Deviation from Oahu Avg\*

				No.	%
Oahu:					
Honolulu .....	152,228	8	19,029	- 2,854	-13.04%
Central .....	31,634	1	31,634	+ 9,751	+44.56%
Leeward .....	34,977	2	17,489	- 4,394	-20.08%
Windward .....	43,758	1	43,758	+21,875	+99.96%
(at large — 3 members)					
	262,597	12			Span — 120.04%

NOTE: House Bill 932 may have erroneously overallocated one member to Honolulu District and underallocated one member to Windward District. If Honolulu District were to be allocated seven members instead of eight, and Windward District two members instead of one, this would reduce the deviation span among Oahu districts from 120.04% to 64.64%, as shown in the table below.

Deviation from Oahu Avg\*

				No.	%
Oahu:					
Honolulu .....	152,228	7	21,747	- 136	- 0.62%
Central .....	31,634	1	31,634	+9,751	+44.56%
Leeward .....	34,977	2	17,489	-4,394	-20.08%
Windward .....	43,758	2	21,879	- 4	- 0.02%
(at large — 3 members)					
	262,597	12			Span — 64.64%

\*Oahu average voters per member — 21,883

No. of members	19
Statewide average registered voters per member	17,781

Table 2

**19-MEMBER BOARD**  
(Board of Education Proposal)

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Avg	
				No.	%
Hawaii .....	34,958	2	17,479	- 302	- 1.70%
Maui .....	24,581	1	24,581	+6,800	+38.24%
Kauai .....	15,170	1	15,701	-2,080	-11.70%
Oahu:					
Honolulu .....	152,228	9	16,914	- 867	- 4.88%
Central .....	31,634	2	15,817	-1,964	-11.05%
Leeward .....	34,977	2	17,489	- 292	- 1.64%
Windward .....	43,758	2	21,879	+4,098	+23.05%
	<u>337,837</u>	<u>19</u>			Span — 49.94%
Deviation from Oahu Avg*					
				No.	%
Oahu:					
Honolulu .....	152,228	9	16,914	- 592	- 3.38%
Central .....	31,634	2	15,817	-1,689	- 9.65%
Leeward .....	34,977	2	17,489	- 17	- .97%
Windward .....	43,758	2	21,879	+4,373	+24.98%
	<u>262,597</u>	<u>15</u>			Span — 34.63%

\*Oahu average voters per member — 17,506

No. of members	25
Statewide average registered voters per member	13,513

Table 3

**25-MEMBER BOARD**  
(Based on Senatorial Districts)

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Avg	
				No.	%
Hawaii .....	34,958	3	11,653	-1,860	-13.76%
Maui .....	24,581	2	12,291	-1,222	- 9.04%
Kauai .....	15,701	1	15,701	+2,188	+16.19%
Oahu .....	262,597	19	13,821	+ 308	+ 2.27%
	<u>337,837</u>	<u>25</u>			Span — 29.95%

Table 4

## 30-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	3	11,653	+ 392	+ 3.48%
Maui .....	24,581	2	12,291	+1,030	+ 9.15%
Kauai .....	15,701	2	7,850	-3,411	-30.29%
Oahu .....	<u>262,597</u>	<u>23</u>	11,417	+ 156	+ 1.39%
	<u>337,837</u>	<u>30</u>			Span — 39.44%

\*Statewide average registered voters per member — 11,261

Table 5

## 35-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	4	8,740	- 912	- 9.45%
Maui .....	24,581	3	8,194	-1,458	-15.11%
Kauai .....	15,701	2	7,850	-1,802	-18.67%
Oahu .....	<u>262,597</u>	<u>26</u>	10,100	+ 448	+ 4.64%
	<u>337,837</u>	<u>35</u>			Span — 23.31%

\*Statewide average registered voters per member — 9,652

Table 6

## 37-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	4	8,740	- 391	- 4.28%
Maui .....	24,581	3	8,194	- 937	-10.26%
Kauai .....	15,701	2	7,850	-1,281	-14.03%
Oahu .....	<u>262,597</u>	<u>28</u>	9,378	+ 247	+ 2.71%
	<u>337,837</u>	<u>37</u>			Span — 16.74%

\*Statewide average registered voters per member — 9,131

Table 7

## 39-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	4	8,740	+ 78	+ .90%
Maui .....	24,581	3	8,194	-468	-5.40%
Kauai .....	15,701	2	7,850	-812	-9.34%
Oahu .....	<u>262,597</u>	<u>30</u>	8,753	+ 91	+1.05%
	<u>337,837</u>	<u>39</u>			Span — 10.39%

\*Statewide average registered voters per member — 8,662

Table 8

## 40-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	4	8,740	+294	+3.48%
Maui .....	24,581	3	8,194	-252	-2.98%
Kauai .....	15,701	2	7,850	-596	-7.06%
Oahu .....	<u>262,597</u>	<u>31</u>	8,471	+ 25	+ .30%
	<u>337,837</u>	<u>40</u>			Span — 10.54%

\*Statewide average registered voters per member — 8,446

Table 9

## 41-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Average*	
				No.	%
Hawaii .....	34,958	4	8,740	+500	+6.07%
Maui .....	24,581	3	8,194	- 46	- .56%
Kauai .....	15,701	2	7,850	-390	-4.73%
Oahu .....	<u>262,597</u>	<u>32</u>	8,206	- 34	- .41%
	<u>337,837</u>	<u>41</u>			Span — 10.80%

\*Statewide average registered voters per member — 8,240



No. of members	39
No. of registered voters statewide	337,837
Average no. of voters per member	8,662

## APPENDIX B

RECOMMENDED BOARD OF EDUCATION APPORTIONMENT  
39-MEMBER BOARD

School Districts	Registered Voters	No. of Members	No. of Voters per Member	Deviation from Statewide Avg	
				No.	%
Hawaii .....	34,958	4	8,740	+ 78	+ .90%
Maui .....	24,581	3	8,194	-468	-5.40%
Kauai .....	15,701	2	7,850	-812	-9.34%
Oahu:					
Honolulu					
1.....	54,514	6	9,086	+424	+4.89%
2.....	43,690	5	8,738	+ 76	+ .88%
3.....	52,868	6	8,811	+149	+1.72%
Central .....	33,825	4	8,456	-206	-2.38%
Leeward .....	33,942	4	8,486	-176	-2.03%
Windward ...	43,758	5	8,752	+ 90	+1.04%
	<u>337,837</u>	<u>39</u>			Span — 14.23%

The district boundaries are aligned as closely as possible with the newly apportioned legislative representative districts.

The Hawaii district includes the first, second, third and fourth representative districts.

The Maui district includes the fifth and sixth representative districts.

The Kauai district includes the twenty-seventh representative district.

The Honolulu district is subdivided into three sub-districts. Sub-district 1 includes the seventh, eighth, ninth and tenth representative districts.

Sub-district 2 includes the eleventh, twelfth, thirteenth representative districts, less 3,305 voters from the thirteenth district.

Sub-district 3 includes the fourteenth, fifteenth, sixteenth and seventeenth representative districts, plus 3,305 voters to the fourteenth district and less 4,214 voters from the seventeenth district.

The Central Oahu district includes the eighteenth and twenty-second representative districts, plus 6,249 voters to the eighteenth district and 930 voters to the twenty-second district.

The Leeward Oahu district includes the nineteenth, twentieth and twenty-first representative districts, less 2,035 voters from the nineteenth district and 3,372 voters from the twentieth district.

The Windward Oahu district includes the twenty-third, twenty-fourth, twenty-fifth and twenty-sixth representative districts, plus 2,442 voters to the twenty-third district.

**Special Comm. Rep. No. 4**

Your House Interim Committee on Lands appointed to review the public policies relating to the protection of shoreline resources, begs leave to report as follows:

**BACKGROUND**

In mid-1973, public attention was drawn to charges made by an environmental group that sand was illegally being mined from a public beach on Molokai. Although the validity of these charges is still at issue in the courts of our State, the disclosure raised questions regarding the adequacy of public policies and administrative practices in protecting the shoreline resources of our State from environmental degradation. Thus, by your memorandum of September 17, 1973, this Interim Committee was established to study the need for corrective legislative action to strengthen or otherwise enhance public policies relating to the conservation and protection of natural resources on or near the shores of our State.

In pursuance of this mission, your Committee initially set for itself four related tasks, as follows:

- To determine the adequacy of laws and rules and regulations to protect the public interest in shoreline resources.
- To determine the appropriateness of the activities prohibited and the penalties which apply to violations.
- To determine the adequacy by which the laws and rules and regulations are being enforced.
- To recommend such legislation and enforcement policies and practices as may be appropriate to assure adequate protection of the public interest in shoreline resources.

Subsequently, your Committee conducted staff studies to identify problems and shortcomings in pertinent laws, rules and regulations and in the administration thereof.

Additionally, public hearings were held in early October 1973, to receive testimony from public officials, special interest groups and individuals. Among those testifying were the director, department of land and natural resources; director, department of transportation; State surveyor; district engineer, U.S. corps of engineers; planning director, County of Maui; representatives of the construction industry and the cement and concrete products industry; representatives of environmental and conservation groups; and marine scientists.

**FINDINGS AND RECOMMENDATIONS**

Your Committee believes that there are short-

comings in present public policies and practices relating to shoreline resources which are deserving of immediate legislative attention. In short, there are conflicts, ambiguities and inconsistencies in statutes; significant variations between statute and rules, and between the rules of the several counties; and deficiencies in the enforcement of such laws, rules and regulations. The highlights of your Committee's findings are detailed below.

**1. Statutory conflicts.** Currently, there are two statutes in force both of which regulate the taking of natural material from shoreline areas. They are: Section 7-3, HRS, which prescribes general prohibitions relating to the removal of sand, coral and rock from government beaches; and Part II, Chapter 205, HRS, as amended, which also regulates the taking of sand, coral, rock, and other beach compositions from shoreline areas. The latter statute is commonly referred to as the "shoreline setback law."

Your Committee finds that the prohibitions stipulated in Section 7-3 and Chapter 205 are inconsistent and ambiguous. For instance, Section 7-3 permits the removal of sand, coral and rock for commercial purposes in counties other than the City and County of Honolulu when authorized by government agencies; whereas, such removal is prohibited under Chapter 205 unless the mining operation is exempted for a specific duration by law. (Chapter 205 allows sand mining operations which were in operation since June 22, 1970, to continue but only until July 1, 1975.) Other discrepancies are also noted between these two statutes.

Your Committee believes that, in this instance, the provisions of the shoreline setback law should prevail and that all other laws not consistent therewith should be amended or repealed.

**2. Statutory ambiguity.** On the basis of testimony received by your Committee, there appears to be some confusion in interpreting the shoreline setback law and its definition of the area from which commercial sand mining is prohibited. Chapter 205 defines the prohibited areas as "the shoreline area or within 1,000 feet seaward of it or in ocean water of 30 or less feet in depth..." This proviso is interpreted by some to mean that sand mining can legally occur within 1,000 feet of the shoreline if the depth is more than 30 feet. The department of land and natural resources, however, interprets this proviso to mean that the sand to be mined must be both 1,000 feet from the shoreline and in water 30 feet or more in depth.

To alleviate this confusion, your Committee suggests that the statute be amended to clarify the legislative intent in establishing the prohibited zone as it applies to the commercial removal of sand and other beach compositions.

### 3. Inconsistencies Between Statute and Rules.

The shoreline setback law establishes statewide policies for the regulation of shoreline areas the enforcement of which is delegated to the counties except for conservation lands. Your Committee's review of the rules and regulation of the several counties pertaining to shoreline setbacks reveals notable differences in several instances, which are described below.

a. **Penalties.** Maximum penalties for violations of the shoreline setback law are not stipulated in Chapter 205 but are provided for in the rules and regulations promulgated by counties. These penalties, however, vary from county to county. For instance, the maximum fines are established as follows: City and County of Honolulu and the County of Maui — \$1,000; County of Kauai — \$500; County of Hawaii — none prescribed.

Your Committee believes that since the basic regulatory policies are established by statute, the penalties for violations thereof should also be established by statute. In doing so, violations in one part of the State would be subject to the same maximum penalty that can be imposed for similar violations in any other part of the State.

b. **Definition of "Domestic Use."** The shoreline setback law prohibits the taking of sand, soil, coral, rock and other beach compositions except for reasonable, domestic, non-commercial use. By common usage, "domestic use" means for one's own personal use. However, the term "domestic use" as appears in the shoreline setback law is significantly qualified by definitions given to the same term in the rules and regulations of certain counties. That is, the rules and regulations of three of the counties prohibit the removal of sand, coral, etc., for domestic use if the materials removed are to be used for "construction, repairs, reconstruction, grading or filling." This standard is a far more restrictive prohibition than the general standard of the shoreline setback law but it does prevent the excessive taking of sand, coral and other shoreline compositions.

For the sake of uniformity and consistency, your Committee feels that the statute should provide a common standard for the State as a whole. In this case, the more restrictive standard set forth in the rules of the three counties appears to better promote the conservation of shoreline resources and, thus, should be considered for adoption as the statewide standard.

4. **Enforcement administration.** Your Committee finds that there is virtually no organized program for enforcing or monitoring the removal of sand, coral, and other beach compositions from shoreline areas. Inspections, if any, are sporadic and ineffective.

Admittedly, there is only one commercial sand

mining operation which is now permitted to remove sand from the shoreline setback area until July 1, 1975. But, this fact does not negate the need to maintain surveillance to assure that this operation or any other activity within the regulated shoreline area conforms with law. Your Committee notes, further, that there is increased interest in the mining of sand from the offshore ocean bottom which, if allowed, should be continually monitored to see that such operations fully conform to the conditions set by license or permit. Failure to enforce the policies established by law renders these policies meaningless and ineffective in protecting shoreline resources, and is contrary to the intent of the legislature.

Your Committee believes, therefore, that it is in the public interest to provide for a systematic inspectional program to monitor and control commercial activities involving the mining or removal of resources within the shoreline setback area and the territorial waters of the State. Such a program can be financed through the imposition of inspectional fees upon the operator as a condition precedent to the issuance of a license or permit to engage in sand mining and other similar commercial activities. The practice of levying inspectional fees could also be initiated for commercial mining activities conducted inland on public lands which are now permitted by government license, such as the removal of rocks, gravel or cinders from inland quarries.

### CONCLUSION

The inquiry made by your Committee into the policies and practices relating to the protection of shoreline resources disclosed the need for legislative action to (1) remove conflicting laws, (2) clarify legislative intent, (3) provide for greater uniformity in definitions and penalty standards, and (4) strengthen enforcement administration. Appropriate legislation will be drafted to accomplish the foregoing objectives for consideration by the legislature during the 1974 regular session.

Signed by Representatives Kawakami, Kimura, King, Kondo, Aduja and Medeiros.

### Special Comm. Rep. No. 5

Your Joint Committee on the Department of Education — College of Education Working Relationship, appointed during the interim to study the problem of effective, complementary working relationships between the University of Hawaii and the Department of Education in the area of the public school curriculum, begs leave to report as follows:

### INTRODUCTION

Your Committee pursued several lines of inquiry. It met separately with members of the College of Education faculty, the Curriculum Research and Development Group (CRDG) at the University Laboratory School, and the Office of Instructional Services, Department of Education,

to obtain firsthand views of the problems as perceived by those at the operations level. Your Committee also met with officials of the department and the college for an administrative review of the working relationships. It made a full committee visit to the University Laboratory School, the principal site of curriculum development work being conducted by the two agencies. The Committee also asked for, received, and studied an inventory of the various development projects presently under way or moving into installation from both the Department of Education and the College of Education. The extent of participation and cooperation between the two agencies was the focus of these reports. In addition to these activities, individual members of your Committee talked informally with a number of persons associated in various capacities with curriculum research, development, installation, and evaluation in both the college and the department.

The findings and conclusions of your Committee with respect to the problems examined are presented in two parts. Part I summarizes the findings and suggests some lines of corrective action or further efforts by the two agencies to achieve a more stable and effective working relationship than has prevailed in the past. Part II presents briefly your Committee's recommendation for periodic legislative review of the situation.

#### PART I. FINDINGS

**General.** Your Committee finds that in general the principle of cooperation and coordination in curriculum change efforts is fully recognized and accepted by the two institutions, if not always matched in performance. The desire and intent to work harmoniously and effectively together for the benefit of children and youth in our schools appear genuine. In several areas, particularly in development work, the degree and quality of cooperation and coordination are commendable and illustrate the heights of the possible. However, there are areas of weakness and specific trouble spots which require the earnest attention of the two agencies to resolve. Chief among them are the following:

**The Joint Agreement.** Your Committee finds that the **Joint Agreement and Plan for Cooperation in Instructional Improvement and Curriculum Research, Development, and Adoption**, that document defining the respective responsibilities of the two agencies, is neither fully understood nor fully accepted by some members of the two agencies. The value of a formal agreement defining roles, responsibilities, and a workable division of labor between independent organizations engaged in common or related undertakings is recognized, but ambiguities and gray areas render the present document a less than effective compact. It is seen by some as confined too strictly to one style of curriculum development; others note the absence of evaluation and teacher training considerations in the curriculum change processes described; still others see some

pre-emption of functions that should be lodged in departments other than those designated. The need is apparent for revisions of the Agreement, arrived at through a wider base of participation by personnel from the two agencies.

**Curriculum Implementation.** Your Committee notes that the larger problems of coordination fall in the broad area of curriculum implementation. Jurisdictional issues, not always entirely confined to inter-agency relationships but also frequently including intra-agency relationships, underlie most of the problems. For this reason a mutually accepted division of labor, both between and within the agencies seems essential.

In discussions of the approval/adoption process for such locally developed curricula as the Hawaii English Program, Foundational Approaches to Science Teaching (FAST), and the Hawaii Music Program, your Committee notes some confusion over the terms adopted, **mandated**, **approved**, and **accepted**. There appears to be no clearly stated definitions for these terms nor a uniform understanding of what they mean operationally. What is the process involved in getting a program adopted or approved? Who grants the approval? Are commercial materials subject to the same approval process as curricula developed specifically for Hawaii's students? Is state mandation the only way to secure funds for needed materials, teacher training, or field supervision? How will teachers obtain help for new programs approved or accepted but not budgeted for such support as teacher training and field services? Your Committee feels that these and related questions should be addressed and clarified.

The question of who should manage the implementation of new curricula seems at issue. Should it be the developers, who have familiarity with the requirements of the program? Or should it be the department's general education branch, which is concerned with the general curriculum of the schools? It would seem axiomatic that the task should be handled by that agency or the division of that agency best qualified and equipped to do so, and the resources directed accordingly. Under our state system, no other course seems reasonable or defensible if our children and youth are to be served effectively and if state resources are to be conserved. Every new installation should be planned and executed by the agencies on the basis of mutually understood and accepted arrangements which keep these ends in perspective.

In discussions of other issues related to implementation, the question of installation costs and installation models other than the large statewide plan followed by HEP were discussed. Your Committee was informed that the costs of FAST are comparable to costs of the current science program at the junior high school level and that schools have been able to purchase the materials out of their own funds; further, that installation has proceeded quietly and efficiently, following teacher demand. Coordination of in-

stallation has been through the districts and the problems have been few. In the case of the Hawaii Music Program, your Committee was told that the materials are being published commercially and are available to schools in the same way as other commercial materials. The cost is modest and within the reach of most schools. There appears to be no serious problem of coordination in the installation of these two programs developed by the college, but there are some indications of needed support from the department in the area of teacher training and field services.

#### **Continuity and Long-Range Commitment.**

Your Committee finds a lack of continuity between stages in the entire process of curriculum change, from initial approval of project proposals, through design and development, to installation, to evaluation. The most serious evidence of this lack is the less-than-firm commitment demonstrated by the department toward programs developed both by the department itself and the college.

Elsewhere legislators have expressed concern about the department's uncertainty over the future of HEP. The department is reported to have testified that its only firm commitment appears to be for grades K-3, although the logical extension would be through grade 6, since the K-6 package was developed as a system. It is further reported that decisions to implement the secondary HEP program now under development will be made by the department only after the packages are developed. As another example, the Hawaii Music Program, approved for development by the appropriate authority and created specifically to the needs of Hawaii students, remains to be placed on the Approved Instructional Materials list for Hawaii at the same time it is spreading rapidly in mainland school systems and already adopted in several.

Examples like the foregoing illustrate the need for better articulation of the curriculum change process from beginning to end. Costly developments cannot be justified if they are to be treated in casual fashion. And pupils should not be denied promising programs in which state dollars have been invested. A smoothly functioning system will ensure that projects move without delay from stage to stage, and that they are evaluated at strategic intermediate check points so that new products will be made available to students and teachers as rapidly and as efficiently as possible.

**Curriculum Evaluation.** Your Committee notes a number of complex problems related to curriculum evaluation with which the department and the college are grappling. The problems of coordination arising in this area related to such issues as the use of evaluation designs and measures deemed inappropriate for new programs (like HEP or FAST) or wanting in quality; the use of evaluation as a means of deferring the installation or further expansions of promising new programs; and failure to recognize the weight and

significance of formative (or developmental) evaluation data in making assessments of new programs. It was pointed out to your Committee that nearly without exception, commercial materials in wide use in our schools neither undergo classroom validation of the sort employed by the projects, nor is their effectiveness ever tested as a condition of adoption for use in our schools.

The evaluation of program effectiveness by fair and valid means has long been a matter of vital concern to legislators. Your Committee notes with satisfaction that the department and college are working together and giving priority attention to this difficult and challenging problem.

**Teacher Preparation for New Curricula.** In hearings of the House Education Committee in the past, legislators have remarked on the high cost of inservice training and field support required to install such innovative curricula as the Hawaii English Program. Legislators have asked what the college was doing to provide essential preservice and inservice training and field support. Responses to these questions have indicated that a promising start has been made in using course structures in both the College of Education and the College of Continuing Education for inservice work.

In spite of this commendable progress, your Committee sees small evidence in either reduced training costs to the state or expanded services to the department's teachers that would demonstrate an effective coordination between the state's training institution and new curriculum directions for the schools. Your Committee also notes a conspicuous absence of a teacher training component in the Joint Agreement with respect to both its place in the curriculum change process and the responsibility therefor. However, your Committee was informed, and notes with satisfaction, that the college is presently moving to divert a substantial portion of its personnel and resources to providing essential services to the department in its major curriculum endeavors. This development should be encouraged and supported.

**Flexible Use of Personnel.** Some concerns were expressed over the problem of obtaining and keeping qualified personnel in curriculum projects without incurring risk or prejudice to these personnel. Your Committee was made aware of difficulties encountered by department personnel on leave to curriculum projects managed by the university. Your Committee also learned that the difficulties extend even to those working on department-managed projects. In some cases teachers had no choice but to return to their former positions when their leave was up or to resign from the department. In another case a teacher inquiring after openings in her former district was informed she would be placed at the bottom of the district's waiting list. It appears there is considerable risk for DOE personnel who move from secure teacher or officer positions into a project, particularly if the project is funded by



outside or temporary sources. Not only does it appear that DOE personnel policies are rigidly interpreted, limiting the flexible deployment of staff to needed areas, but also that the scarce nature of special talents required for curriculum work and the value of these talents to the school system are not recognized, nor their place legitimized in personnel practices.

Your Committee's attention was called to specific provisions of the Joint Agreement regarding the hire of limited term staff. Despite some ambiguity of language, the intent of the provisions appears to be the flexible and productive exchange and use, by the two agencies, of the state's personnel in curriculum improvement endeavors. It is the hope of the Committee that the department and the college will work out mutually agreeable arrangements that will make such exchanges routine without bias or detriment to the individuals involved.

## PART II. SUMMARY

Only the more obvious of the problems uncovered in your Committee's inquiry have been discussed in the preceding section. In spite of these, the overall picture is positive; good progress is being made toward mutually satisfactory relationships that will facilitate and enhance the process of educational change and improvement in the schools of Hawaii. However, because effective coordination between these two state agencies is of crucial importance to education, it is the recommendation of your Committee that the situation be periodically reviewed and the two agencies encouraged to bring persisting problems to the attention of the Legislature. Such reviews should be conducted with certain principles in mind, *vis.*:

1. DOE-UH cooperation and coordination in curriculum improvement are essential, but they must be achieved in ways that do not compromise the authority of either agency.

2. To maintain a cutting edge in education, systematic research and development must be an institutional responsibility regularly supported, but they must be tailored to the state's capacity to support, manage, maintain, and absorb.

3. The locus of responsibility for systematic research and development obviously lodges in the university, which traditionally has had this role. Likewise the locus of responsibility for curriculum implementation is in the department, which runs the schools. While accepting these primary responsibilities, however, the department and university must recognize that neither is an exclusive responsibility. Any division of labor arrived at must be flexible enough to allow the accomplishment of tasks in a manner conserving of the state's resources and of greatest benefit to students.

4. The college's teacher education program, both preservice and inservice, and various other

services the college can render play an important role in curriculum change and improvement. Change and improvement efforts, by whichever agency undertaken, should harness this resource effectively.

5. All major curriculum change efforts, by whichever agency undertaken, should enlist wide community input and support. Education, as the state's largest enterprise in cost and clientele, requires no less.

Your Committee has taken the liberty of introducing **House Bill 3033-74**, which articulates the responsibilities for curriculum development between the principles involved. Further, a committee should again be established during the 1974 interim which would provide a mechanism for continuing legislative oversight into this important problem.

Signed by Representatives Sakima, Kimura, Kishinami, Kunimura, Medina, Suwa, Young, Oda and Saiki.

## Special Comm. Rep. No. 6

Your Special House Committee on Energy to which was referred **H. B. No. 2997-74** entitled: "RELATING TO PETROLEUM PRODUCTS", begs leave to report as follows:

The purpose of this bill is to establish by law a uniform and equitable system of measurement for all deliveries of petroleum products.

The major effect of this bill is to require by law that all retail sales of gasoline be measured in temperature corrected gallons. This requirement already exists in the State Petroleum Products Rules adopted in 1972. However, your Committee believes it should be more firmly established by being given the weight and authority of law.

The state of Hawaii is a pioneer in requiring temperature corrected deliveries to retail dealers and to the consumers. The importance of temperature correction can be illustrated by the fact that without it, the consumers of Hawaii would have been shorted 3.4 million gallons of gasoline in 1973 at a loss of \$1.7 million.

The Department of Agriculture strongly supports passage of this bill. At the hearing scheduled for this bill, no one appeared before your Committee to testify against it.

Your Special House Committee on Energy is in accord with the intent and purpose of **H. B. No. 2997-74** and recommends that it pass second reading and be placed on the calendar for third reading.

Signed by Representatives Wong, Ushijima, de la Cruz, Kawakami, Roehrig, Yap, Yim, Ajifu, Amaral and Leopold.

## Special Comm. Rep. No. 7

Your Special House Committee on Energy to which was referred **H. B. No. 2995-74**, entitled: "RELATING TO DISCLOSURE BY LIQUID

FUEL DISTRIBUTORS.”, begs leave to report as follows:

The purpose of this bill is to require liquid fuel distributors to report monthly on their manufacture, import and sales activities to the Department of Regulatory Agencies. With the information provided, it is hoped that the State will be able to develop accurate records on Hawaii's supply and consumption of petroleum and petroleum products.

Your Committee believes that the development of such records is necessary for the State to have available for future use. Although the present energy crisis appears to be abating, energy shortages will continue in the years ahead. It is also possible that another energy crisis may occur.

In your Committee's investigation of the current energy crisis, we found a scarcity of readily accessible and usable information on Hawaii's petroleum supply and consumption. This scarcity of information greatly hampered the efforts of your Committee and the efforts of the State in assessing the extent of our shortfall.

Your Committee has amended this bill to clarify the information desired and the procedures to be followed in the submission of the monthly reports.

Your Committee held a hearing on this bill and a related bill, **H. B. 2996-74** which provides for making public records of those reports now submitted by liquid fuel distributors to the Department of Taxation. At the hearing, the Department of Taxation advised your Committee that it does not favor opening to the public any information filed by taxpayers. Your Committee concurs in the policy that information obtained for tax purposes generally should not be used for non-tax purposes. It is your Committee's opinion that the Department of Regulatory Agencies would be a more appropriate agency to gather and maintain information on liquid fuel distributions in the State.

Your Special House Committee on Energy is in accord with the intent and purpose of **H. B. No. 2995-74**, as amended herein, and recommends that it pass second reading in the form attached hereto as **H. B. No. 2995-74, H. D. 1**, and be placed on the calendar for third reading.

Signed by Representatives Wong, Ushijima, de la Cruz, Kawakami, Roehrig, Yap, Yim, Ajifu, Amaral and Leopold.

#### **Special Comm. Rep. No. 8**

Your Interim Committee on Housing begs leave to report as follows:

The Interim Committee was established for the purposes of investigating the problems related to the housing market, and making inquiries into the proposals which the State and the various counties have regarding housing legislation.

In recent years, the housing market — including rentals and sales — has steadily risen despite the

increase in units over general population increases during the past decennial period. This has resulted in large numbers of households who must either pay 25% of their income for shelter or who are forced to live in doubled-up or dilapidated conditions. The problem has been especially acute for those households whose incomes are stable, i.e., the elderly, or whose incomes do not rise as fast as the increase in housing prices, which has been estimated at 8% compounded annually. Moreover, the conditions in the private market have had adverse fiscal consequences for the State in terms of welfare costs for housing. Rent subsidies allocated for the department of Social Services and housing amounted to **\$32.3 million** in 1973 and **\$37.1 million** in fiscal year 1974-75, and is estimated to rise \$5.3 million per year. The House of Representatives, in recognition of the problems that affect the general welfare of the public as well as the fiscal condition of the State, formulated the Interim Committee to explore the areas of housing and introduce legislation to alleviate the problems of the housing market.

The Interim Committee conducted a series of discussion meetings with various groups and concerns including mortgage lenders, architects, and the representatives of the State and County housing agencies. These meetings were held primarily to acquaint the members with the market situation as it existed then and to determine what the various governmental agencies were proposing to do in light of that situation (Appendix 1 contains a review of the housing market and the various State and County housing proposals begin on page 7). Also, the Committee conducted field trips of major State and private housing projects as well as make one trip to the County of Maui to discuss their methods of housing development and financing. Your Committee finally did a special study of the flat grant program that the Department of Social Services and Housing is proposing to implement to determine its impact on the State as well as the welfare recipients and to further determine its legal validity in light of legal challenges in other States (see Appendix 2).

#### **Findings**

Your interim Committee finds that the housing problem ultimately must be alleviated through the addition of new increments to the housing stock to restore the balance between the demand and supply sectors of the market. However, your Committee has found that there are a number of factors in the supply sector which make the market response to the housing demand highly elastic. The most critical factor remains the unavailability of urban-zoned land which can be purchased at a price which will make a project and its units marketable. Moreover, the other factors of production, including materials, labor and capital are also increasing and add to the final cost of the unit. All of these components of development and their respective costs make it virtually impossible for many private firms to provide low and moderate income housing without governmental assistance or subsidies. Consequently, your Com-

mittee believes that the responsibility for the provision of low and moderate income units rest with all levels of government, and primarily with the State. It is incumbent upon the State to provide this kind of housing not only for the general welfare of the public but also to deal with the externalities of the market place evidenced by the \$37 million spent on welfare rent subsidies by the State's flat grant proposal that is an attempt to deal with the increasing welfare costs. Appendix 2 contains a study of the flat grant program, its impact on the State and the welfare recipients, and the legal validity of flat grant in light of legal challenges that have been made against its concept in other States.

This provision of additional units by the State would be made through a more vigorous implementation of Chapter 359G which cannot be affected with the issuance of \$35 million of general obligation bonds authorized under that chapter. The State, which has heretofore financed low and moderate income projects through advances from the general fund, was stymied in its attempt to raise general obligation bond proceeds because of an Internal Revenue Service policy on arbitrage bonds. Arbitrage bonds are those bonds the proceeds of which are reinvested at a "materially higher" rate than what they were originally sold for. The question of what was a "materially higher" rate of interest was in doubt until the fall of 1973. This question was significant because the income earned from arbitrage bonds would be taxable, thus making them either costlier for the State to sell or not marketable at all to investors. Because Chapter 359G calls for the bond proceeds for housing to be loaned at 1% higher than what they were sold for there remained a possibility that the bonds would be considered arbitrage bonds. Once this problem was resolved the State could reimburse the general fund, which had advanced \$24 million for housing financing — and make new loans available for development. Although the State had only \$11 million remaining from the bond issue for new loans, it will eventually have the full \$35 million "revolving" as old loans are repaid.

At the county levels, increased housing production is dependent on several factors: 1) federal funding for low and moderate income housing; 2) State financing of county projects.

The Federal funding for county projects is dependent on two considerations: 1) whether the counties can utilize the Farmers Home Administration programs to finance their housing projects; and 2) whether the City and County of Honolulu (and eventually the remaining counties) can effect the transfer of the powers, duties, and obligations for the Honolulu Redevelopment Agency to the newly-created Department of Housing and Community Development.

The counties' use of Farmers Home housing assistance is in turn tied to two factors: 1) a change in Section 359G exempting FHA from the buy-back restriction imposed in that section; and 2) a

change in federal policy with regards to the security for its multiple housing unit loans. With the exemption from the buy-back restriction, the Farmers Home Administration would be able to make available its home loans in projects which have received interim financing by the State. In this manner, the State can continue its policy of loaning its money on a short term basis thereby increasing its efficiency and use. The federal policy change with regards to the security behind loans for multiple unit structures will aid counties like Hawaii which has considerable leasehold acreage that could be developable for low and moderate income housing. The call for this change, through a legislative resolution, would support legislation that has already passed the Senate (S. 3066 Congressional) which contains a provision for this change.

The transfer of the functions of HRA to the City and County's new Department of Housing and Community Development is necessary for the City to continue to receive federal funds for redevelopment purposes. Because the City Charter established the new department and abolished the HRA, the federal government, through HUD, is reluctant to extend funding to an entity which has been technically abolished. The City and County has proposed legislation (see County Proposals) that would legally recognize the new department, thus enabling it to finance redevelopment projects and assume the other functions, powers, and obligations relating to urban redevelopment.

Your Committee has found that because of the critical problem of the availability of moderately-priced, urban-zoned land, especially on Oahu, there exists a need to reassess the type of housing developments that will occur and be encouraged by the State in the future. Your Committee, in meeting with various representatives of the building and development sectors, has found that the availability of land that is developable (e.g., flat land) and priced so that the consumer can ultimately afford its pro-rated cost, is decreasing. With this in mind, your Committee invited several different groups of architects, planners, and landowners to discuss their ideas and plans for denser types of urban development in town and in the suburban areas.

Among the ideas discussed was the redevelopment of underutilized areas within the downtown Honolulu area, principally the Kakaako district. One of the basic ideas behind the development is to place housing as close as possible to areas of work and amenities that are offered within the highly urban areas of Honolulu, thus reducing the commutation of these people. Because Kakaako is an area where government infrastructure is basically complete, the redevelopment of this area would not require large amounts of capital improvements spending. Mr. Don Dumlaio, the architect who worked on and presented the conceptual plan for the Kakaako area foresees the need for the State to become actively engaged in the redevelopment of that district to deal with the problems presented by the under-

taking, including: a) displacement and relocation of existing users and owners; b) condemnation of land; and c) the consolidation of parcels to allow the development of large multi-unit structures rather than smaller, individual high rises. Through the powers vested in the State under Chapter 359G, these functions could be carried out to enable this area to be redeveloped, primarily with private financing. Because of the State involvement, a portion of the units developed could be set aside for low and moderate income households.

Your Committee also invited the Campbell Estate to discuss with them their proposals for a "new town" development on their lands in Ewa. Their plans call for the development of up to 300 acres of land, now in agriculture, over the period of 30 years, comprising a population of between 60,000–150,000 persons. The development would be patterned after the successful new town of Columbia with the town comprising a number of small neighborhoods, each with its own neighborhood center and elementary school. Within the development larger areawide centers would contain intermediate and high schools and shopping centers. The conceptual plan also calls for areas to be set aside for businesses to be established within the town to provide nearby employment. In addition, the Campbell Estate's proposed gift of 200 acres of its land for a second four-year university campus would also provide an employment center as well as an educational facility to service the new town and the leeward area in general.

The Interim Housing Committee notes that there would be substantial capital improvements required for this development, particularly secondary schools. Moreover, notwithstanding nearby employment, the "new town" as proposed by Campbell Estate will not be self-contained, and the residents will be commuting to work. This disadvantage may in part be offset by the fact that there is only one landowner involved in the development, obviating the necessity of condemnation and land assembly. Land would be offered on a leasehold basis, thus eliminating the large land cost as a part of the final cost of each unit.

#### STATE PROPOSALS

The State, in its presentation to the Interim Committee, suggested changes to Chapter 359G to improve the workability of the State's program for the development of low and moderate income housing. These changes include technical amendments to the law concerning the staff of the development program and the commissioners of the Hawaii Housing Authority. The substantive changes include the following: 1) authorizes the Director of the Department of Budget and Finance to issue short term project notes in addition to the general obligation bonds presently authorized. The cumulative total of bonds and notes outstanding would remain the same at \$60,000,000. This change recognizes the fact that the State has acted primarily as a financing entity for housing developments; a majority of State-

assisted projects have been aided through interim construction loans made from the bond proceeds. The authorization to issue project notes further recognizes the short-term nature of the State commitment to any particular project. 2) amends the current restrictions on the transfer of State-assisted units. The present law (Sec. 359G) sets the price of the units upon their resale at the greater of their original cost or the fair market value of the unit, less subsidies made by the State. This has given the State the responsibility of buying back the units near their fair market value. The State recommends that a twenty year buy-back be in effect for any unit which receives State aid. The amendment to this section would also allow the Farmers Home Administration to be exempt from the buy-back restrictions. Your Committee received testimony from the Farmers Home Administration in regard to this amendment. Farmers Home has loan programs for low and moderate income housing which could be used in conjunction with State projects if the buy-back restrictions were not applicable to it. As the mortgagee in the loan program, they outlined their concerns to your Interim Committee with respect to the protection of the federal government's investment in the unit. Specifically, they raised the following questions: a) the buy-back restriction's effect on the transfer or voluntary conveyance of a unit or a loan to another eligible buyer in case of default; b) the inability of the Farmers Home to dispose of a unit that it takes possession of in a foreclosure; c) the sufficiency of the repurchase price determined by Section 359G to cover the government's investment in the unit.

The State also recommends the establishment of a program to make available loans to eligible borrowers to help pay for the interest cost of private mortgages. In light of the high prices and the cost of money alluded to in Appendix 1 (see Housing Market Trends and Mortgage Activity in Hawaii), the State sees a need to aid those households who cannot otherwise qualify for private home loans. The loan would be for a maximum of \$50 per month for five years, and be repayable at the end of the fifth year through refinancing or amortized over ten years after the loan closing.

Your Interim Committee received testimony from the State to allow it to develop commercial properties as a part of its housing developments. This change would allow the State to subsidize some of its project units through the sale of commercial developments. Additionally, the ability to develop commercial properties would make the redevelopment of areas such as the Kakaako District feasible.

Further proposals would allow the State to enter into joint agreements with developers of privately-initiated projects if the Hawaii Housing Authority finds that the project's units are designed for low and moderate income households. The agreement could allow the authority to take control and dispose of the units (including the



placement of a buy-back restriction on the units) while allowing the project to be exempt from county building and zoning codes and ordinances.

### COUNTY PROPOSALS

**Introduction:** Your Committee on Housing found that the individual counties are having difficulty obtaining housing subsidies and other forms of financial aid from both the federal and State governments. In order to address the problems and possible solutions in this situation, the Housing Committee invited the various counties to give their proposals on housing, realizing the fiscal constraints which have reduced or terminated two of their most important sources of funding.

#### PROPOSAL: THE CITY AND COUNTY OF HONOLULU:\*

The City and County of Honolulu's legislative proposals would enable it, through its newly-created department of Housing and Community Development, to develop housing on a more independent basis. There are four legislative suggestions:

1) Amend Chapter 46 of the Hawaii Revised Statutes (referring to the general powers of counties) to provide for the financing of federal-assisted projects by the newly-formed Department of Housing and Community Development.

2) Recognize the development of housing by the counties as a public purpose, in order that the proceeds of the sale of general obligation bonds may be used for the development of low and moderate income housing. Recognition of this public purpose would involve an amendment to Section 47-3, HRS, as follows:

"Section 47-3. Purposes of issuances. Such bonds shall be issued only for public improvements of the county, **including housing, and further including**, without limitation, special improvements, the cost of which is assessed or assessable in whole or in part against properties benefited or improved by such improvements; provided that the issuance of such bonds for such special improvements shall be limited to special improvements initiated by the county."

3) Recognize the Department of Housing and Community Development as formed per Chapter 11, Section 6-1103(b) of the revised City Charter. This recognition would be through the amendment of Chapter 53, Sections 1 and 2, Hawaii Revised Statutes. The amendment would remove any discrepancies between the State statutes and the City Charter and clearly establish the new City department as a legitimate agency. This legitimacy

\*Although these proposals have been advanced by the City and County of Honolulu, the powers that would be granted through legislative adoption would be applicable to all counties.

is essential if the department hopes to obtain financing through the sale of short term project notes, etc.

4) Give the City the power to condemn land other than that which is "essentially vacant." Also, allow the City the power to sell-lease, or sublease land or completed developments and to act as a developer on projects developed under the auspices of Chapter 53-21, HRS. These changes require amendments to Chapter 53-21 of the Hawaii Revised Statutes.

5) Provide for general excise tax exemptions for developments of low and moderate income housing regulated by the State or County. Current Statute restricts the granting of excise tax exemptions to projects which qualify for federal assistance under such programs as FHA 235 and 236. Because of the Presidential impoundment of the funds for these programs, the present criteria for qualifying for the exemptions is no longer valid. Chapter 237-29 of the Statutes should be amended to allow excise tax exemptions to low and moderate income housing developments provided that they are regulated as to their profits by the State or the County.

#### PROPOSAL: County of Hawaii

The County of Hawaii's suggestions for legislation are divided into general and geographically-specific proposals.

##### General Proposals

1) Adopt a concurrent resolution which would urge the Farmers Home Administration to loan its funds for multiple family housing on leased land. Current rules and regulations of the Farmers Home Administration permit loans to be made only if they are secured by fee simple land. To free these federal funds for rural projects\* especially in light of the large amounts of leasehold property in the State, the County or the State, or both, could guarantee the mortgage loans, thus providing additional security for the note.

2) Adopt a program for the advanced acquisition of land for housing purposes (**Senate Bill 10** incorporates a section that will accomplish this). This program, like the one proposed for the Housing Authority in **S. B. 10**, should be independent of the State's normal land acquisition process. This independence is necessary for: a) financing and b) the length of time that is taken for acquisition. To tie a program for acquisition to the annual legislative appropriation process would thoroughly hamper the program's effectiveness from the outset, as funding for individual acquisitions would be erratic. Moreover, to allow the State to acquire the land, as it is now doing with other departments, would result in long, costly

\*For the purposes of the Federal Housing Administration's approval of loans, a "rural" area is defined as that district that contains a population of 10,000 persons or less.



delays involved with each acquisition, as the current agency responsible for all State land acquisitions has a large backlog of requests.\* Both of these problems would mean that the State, or County could not act quickly enough to secure a parcel of land before it is sold and/or before its price appreciates.

#### Proposals for County Regions

**The Hilo Region:** This region is the most populous district on the island and includes Puna, and North and South Hilo. The major housing problems in this area is and will be housing for low income families and elderly persons (63.4% of Hawaii's population 60 years and older live in the Hilo region).

To meet the problems in this area, the County of Hawaii recommends that the State through HHA consider the following actions: 1) allocate a portion of FHA Section 23 leasing funds (if it becomes available) to subsidize elderly households in North Hilo, at Laupahoehoe. 2) build multiple-family units for agricultural workers in the Pahoa area of Puna. 3) plan CIP appropriations for new roads in order that State lands may be accessible for housing development.

**The Kohala Region:** The area is characterized by resort development in the South Kohala area, with agricultural activities predominant in the Hamakua and North Kohala districts. The overriding concern expressed by Hawaii County for this area is for the problems of inadequate housing in the North Kohala area, particularly as the sugar plantation there phases out its operations. Because of the closing down of Kohala Plantation, housing construction has curtailed. This has resulted in a net decrease in the housing stock as demolitions exceeded the number of new units that were constructed. Moreover, future low and moderate income housing construction will be difficult to develop as land prices for residential parcels have appreciated. To deal with this situation, Hawaii County proposes the following: 1) allocate a portion of FHA Section 23 leasing monies, if it is available, to service the elderly in North Kohala. 2) initiate land exchange(s) between Kohala Plantation and the State to provide publicly-owned property (after the exchange) in the Honokaa district for housing purposes.

#### The Kona Region

The Kona Region of Hawaii can actually be divided into two distinct districts, North and South Kona. North Kona is devoted primarily to resort development and ancillary housing construction for investment and second home purposes. South Kona, on the other hand, is mainly residential in nature, as many households have

moved there because of the high housing prices in North Kona. South Kona is also characterized by its large amounts of leasehold property (as opposed to fee, and a significant number of single, elderly Filipino households who currently occupy dilapidated units. Hawaii County's recommendations for Kona are as follows: 1) With the aid of the State, initiate land exchanges between private landowners and the State in order that publicly owned lands would be more appropriately located in South Kona for low and moderate income housing purposes. 2) Urge the Farmers Home Administration to make loans for multiple-family housing projects on leasehold land. The State and/or County may provide additional security by guaranteeing the loan.

#### The Ka'u Region

Ka'u is largely dependent on agriculture as its economic mainstay and most of its housing needs are currently met by the sugar plantation which is allowing its employees to purchase new housing as part of its plantation housing phase-out program. A resort development in Ka'u by C. Brewer Co. will generate some housing demand, but most of the resort's employees would be adequately housed by C. Brewer, as required by the County. The major recommendation by the County for this region is for the State (through Act 105) and County to actively pursue housing loans administered by the Farmers Home Administration.

#### PROPOSAL: KAUAI COUNTY

The housing market in Kauai County is characterized, as in all counties, by shortages in the low and moderate income housing stock, especially units for the elderly. These shortages have been aggravated by the closing of several pineapple and sugar plantations, the last closing to occur in June of 1974, when the Hawaiian Fruit Packers, Ltd., will discontinue their operations. Moreover, there has been no organized effort from the private sector to meet low and moderate income housing needs as most production has been aimed at serving the tourist industry requirements, i.e., vacation homes.

The Kauai County's program calls for the construction of 1040 units for the 1973-1975 period, and a similar production goal for the ensuing three year periods (1976-1978, 1979-1981, 1982-1984). This is based on the construction of 250, 480, and 310 units for the 1st, 2nd, and 3rd years respectively of each three year period. To reach these production levels, the County will be heavily dependent on the Hawaii Housing Authority and its Act 105 financial powers, since the FHA housing programs are no longer in existence. Basically, Kauai's housing program will be contingent upon the State funding of its project requests which it will submit each year at a specified date. The first project request, which was forwarded on October 15, 1973, has already been accepted. Subsequent requests will be made on January 15, 1974, and on or before July 1 of each year thereafter.

\*The Department of Land and Natural Resources handles all land acquisitions except those for the Department of Transportation, and has a current backlog of acquisition requests.

**Maui County**

Of all Counties in the State, Maui County has been one of the most heavy users of the FHA 235 and 236 subsidies. After the termination of these programs the county is now turning its attention to two major federal programs under the Farmers Home Administration and the Federal Housing Administration's Section 23 Leasing Program. With the proposed amendment of Chapter 359G which would exempt the Farmers Home Administration from the Act 105 buy-back provision, the County, in conjunction with the State, can make use of the long term loans offered by FHA. In addition, Maui County will be reviewing the new changes in the rules and regulations of the Section 23 leasing program to determine whether the federal lease subsidies may be used to amortize the County's housing development costs.

**SUMMARY OF  
LEGISLATION INTRODUCED**

**H. B. 2541, H. D. 1**

Currently all counties are limited in their financing of housing projects to those developments that are part of urban renewal areas. Financing is through short term project notes which are guaranteed by the Federal government. The counties cannot issue general obligation bonds for housing projects as Section 49-1 limits the purposes for which bonds may be issued by the counties. H. B. 2541, H. D. 1 would broaden the purposes for which bonds may be issued to any use which is authorized by general law subsequent to the adoption of this bill. Thus, the amendments contained in H. B. 2541 would act as enabling legislation for any specific use (i.e., housing), for which bonds are authorized.

**H. B. 2544, H. D. 1**

In carrying out redevelopment projects all counties must presently adhere to a restriction in the Hawaii Revised Statutes which limits the condemnation powers of the redeveloping agency, as it relates to "auxiliary redevelopment projects." These auxiliary projects which must be developed prior to all redevelopment projects are developed to accommodate those households who are displaced by the urban renewal activities of the redevelopment agency. However, current law restricts the condemnation of land for these auxiliary projects to "essentially vacant land." Because of this requirement, redevelopment projects are hampered, as "essentially vacant land" is difficult to acquire except in very distant rural areas far from the redevelopment area. One of the purposes of H. B. 2544, H. D. 1 is to allow the counties more flexibility in developing their renewal projects by removing the stipulation that all land condemned for auxiliary redevelopment projects must be undeveloped vacant land.

**H. B. 1447, H. D. 1**

The Federal government, through the Depart-

ment of Housing and Urban Development is undergoing a shift in their funding of local redevelopment projects. Heretofore, funding was channeled through a number of local agencies including separate autonomous entities such as the Honolulu Redevelopment Agency. Currently, through its revenue sharing and block grant funding programs, federal money is being allocated directly to city or municipal administrations. This shift was recognized by the City and County. In 1972 this change was officially sanctioned by the adoption of the revised City Charter. H. B. 1477, H. D. 1 amends the various sections in the Hawaii Revised Statutes relating to county redevelopment entities to allow a county department or similar adjunct of the counties to assume the powers, functions, obligations, and contracts of its various redevelopment agencies. Although this bill presently is applicable to the City and County of Honolulu, this bill would allow the other counties to effectuate the same change, thus taking advantage of the change in federal funding policies.

**H. B. 2056**

The Farmers Home Administration has a housing assistance program which includes subsidies of mortgage payments on units down to 1%. Loans made under this program are direct loans from the FHA and are made for housing units in "rural areas" (generally, a population of 10,000 or less for an area constitutes a "rural area"). Because of the termination of the Federal Housing Administration's subsidy programs Farmers Home housing assistance is one of the remaining federal home subsidy programs which can serve as a source of long term mortgage financing for low and moderate income units in the State. With the State's emphasis on interim financing of State-assisted projects, the Farmers Home programs could be useful as take-out money, especially in the neighbor island counties who have previously relied heavily on FHA 235 and 236 programs. The only constraint to this financial arrangement is the buy-back restriction in Chapter 359-9 which limits the repurchase or assumption of a unit assisted under Chapter 359G to the Hawaii Housing Authority and the Federal Housing Administration. Without being able to foreclose on its long term loans and take possession of a unit developed through 359G, the Farmers Home Administration has not been able to participate in projects in which the State has loaned interim money, and on which the buy-back restriction is in force. H. B. 2056 would amend Chapter 359-9 to exempt the Farmers Home Administration from the buy-back restrictions, thus enabling it to make available its long term low interest loans to mortgagors in State projects.

**H. B. 2059**

In investigating the housing market situation and the availability of mortgage money, the Housing Committee found that because of an excess demand for money over the savings inflow, terms for borrowing had become very restrictive (see Mortgage Activity). At the time of the

Committee's inquiry, mortgage interest rates were as high as 10%. In addition, down payment requirements were increased and loan amortization periods decreased, causing many potential homebuyers to be ineligible for mortgage financing. Although mortgage terms are easing, the relatively high unit prices still require substantial mortgages with their correspondingly high monthly payments. **H. B. 2059** was introduced to provide State assistance to households who cannot presently qualify for home loans. The bill would provide loans for interest payments on private loans of up to \$50 per month for sixty months, or five years. This loan would be repayable through refinancing by the borrower or through a series of monthly payments extending over 10 years after the loan closing.

#### **H. B. 2058**

Despite the possible easing of the rental market which may take place in part because of military housing production, the Housing Committee found that the distribution of rents in the market was still high. Correspondingly, there have been reported instances of landlords taking advantage of this relatively tight market situation through indiscriminate rent gouging and eviction. To protect tenants against unfair treatment by landlords while simultaneously giving them a means to redress their grievances, the Committee saw a need to protect the organizational and union activities of tenants. **H. B. 2058** would amend the current Landlord-Tenant Code by prohibiting landlords from evicting tenants on the grounds of their activities or participation in tenant unions.

#### **H. B. 2055, H. D. 1**

In assessing the sales housing market during the interim, the Housing Committee found a decrease or stabilization of unit prices per the average prices of the multiple listing service (see Table 2). The rapidly increasing prices combined with the tight money situation were important factors in the slowdown in the market. However, as was discussed with the participants in the Committee's December 13th meeting, the money market will be easing. With the increase in available money for mortgages, the allocation of funds between home owners and investors will change as lenders will become less inclined to loan their funds strictly to owner occupants. An upsurge in housing prices is anticipated once this occurs. **H. B. 2055, H. D. 1** is intended to deal with this situation by increasing

the holding period that property must be held before it can be recognized as a capital asset and treated preferentially through the capital gains tax upon sale. The current holding period, which is six months, would be increased to three years, and the capital gains rate itself will be increased to 11% (as compared with the present 3.08% for corporations and approximately 4% for individuals). This change in the treatment of capital gains approximates the proposed changes in the Federal Tax Code which calls for an increase in holding periods with regards to capital assets.

Signed by all members of the Committee.

### **APPENDICES**

#### **APPENDIX 1**

#### **HOUSING MARKET TRENDS**

From 1940 to 1973 the housing stock increased 176.5% in contrast to a population increase of 96.9%. On Oahu, this disparity in growth rates was even more pronounced: population increased by 163.1% as compared with a 271.9% increase in housing units. Despite what seems to be an adequate supply of housing, the market indices of prices, rents, real estate land valuations, vacancies, % of married couples that are doubled-up with relatives, cost of living indexes for housing, and the distribution of renters to owners indicate that the housing market is generally tight, and many households have not been able to actively participate in it.

#### **Housing Prices And Costs**

The last comprehensive source of data for housing prices and rents is the decennial census of 1970. Although the information is dated, the price and rent distributions in the census publication on general housing characteristics can be compared with later (though less comprehensive) data to get an idea of prices and rents. For the home ownership market in 1970, the median price for a unit in the Honolulu SMSA\* was \$38,100, as compared with the State median of \$35,100. However, a more significant piece of information on the housing market is the units available for occupancy, since they are the ones that matter to households looking for shelter. Median prices for available units was \$42,500 for the City and County of Honolulu, which is a clearer indication of the high prices in the market (see Table #1).

Table 1

#### **RENTAL AND SALES DISTRIBUTIONS FOR VACANT UNITS**

<b>Vacant for Rent</b>			
Amount	Total	Honolulu SMSA	Outside SMSA
less than 40	303	99	204
40-59	512	445	67
60-79	253	172	81
80-99	217	187	30
100-149	793	708	85
150-199	913	837	76

**Vacant for Rent**

Amount	Total	Honolulu SMSA	Outside SMSA
200 and over	2045	1850	195
Median Rent	\$ 174	\$ 182	\$ 87

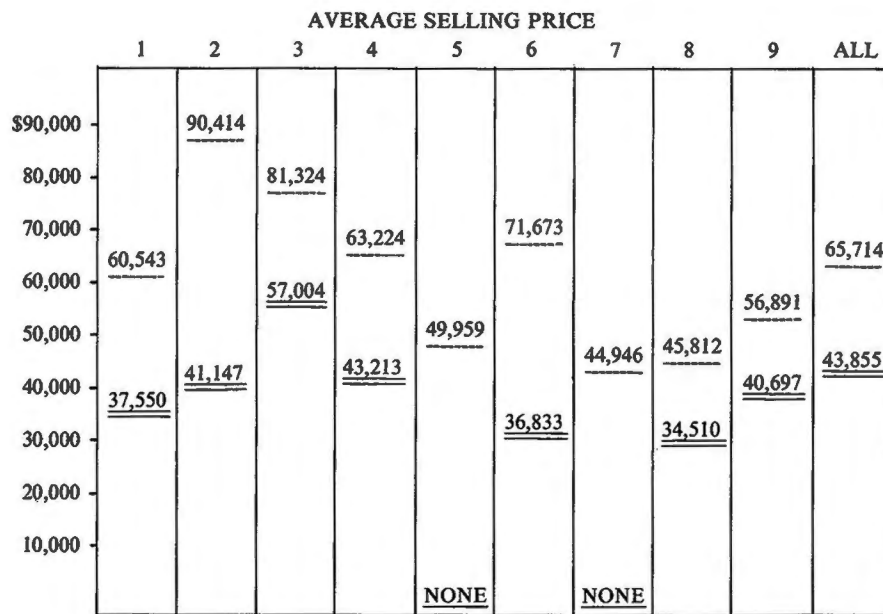
**Vacant for Sale**

Amount	Total	Honolulu SMSA	Outside SMSA
less than 5000	3	2	1
5000-9999	4	—	4
10,000-14,999	9	5	4
15,000-19,999	15	8	7
20,000-24,999	40	34	6
25,000 and over	641	574	67
Median Price	\$41,600	\$42,500	\$31,400

The recent trend in housing prices is reflected — although only partially — by FHA data on the average values of homes insured under Section 203 and by price information collected by the Multiple Listing Service of the Honolulu Board of Realtors. The Federal Housing Administration's data shows a property value average of \$38,713 for 1970 (which closely approximates the \$38,100 median price for Honolulu in the 1970 census) and, in 1972, an average of \$46,622, or an increase of about 20% over two years. This compares with a two year increase of a little over 6% for the U. S. and an average national value of \$25,249 for 1972. Housing prices for single family units from the Multiple Listing Services' 1972 Statistical

Review\* gives us another clue as to the magnitude of prices of new units available for sale. In the review, the average price for all tax map key zones on Oahu was \$65,714 (see Table #2). These prices ranged from a low of \$44,946 in Zone 7 to a high of \$90,414 in Zone 2. Conversely, the condominium submarket had markedly lower price levels than these associated with 1-family units, with an average of \$43,855 for all Oahu tax map key zones. The price range for condominiums was from \$34,510 in Zone 8 to \$57,004 in Zone 3. These figures seemed to verify the observations made by realtors that the condominium market is "soft" and that more households should be encouraged to live in them.

Table 2



----- Single Family Residential  
by Tax zone

——— Condominium by Tax Zone

Another index that points to the relative imbalance in the supply and demand for housing are the vacancy rates for housing units, especially those for sale. The 1970 census showed a vacancy factor of 1.4% in Honolulu and .7% in the rest of the State for owner-occupied units. Recent data from FHA's postal vacancy survey tabulated in

February of 1973 saw vacancy rates of 1.5% on Oahu, .5% on Kauai, .8% on Maui, and 3.3% in Hilo. These figures are supported by the rentals and prices of units available for occupancy as of 1970. For Honolulu, the median rent was \$182 and the median price for vacant sales units was \$42,500. The overall State medians are lower as

neighbor island prices and rents are only \$87 and \$31,400 respectively (see Table #1).

In the rental market recent developments indicate a loosening of this situation and a stabilization, at least temporarily, of rents. Of particular import for the civilian market is the construction

of units by the military. The projected unit totals for the armed forces during the 1970-1975 period are 1770 for the Marines, 3240 for the Army, 800 for the Air Force, and 1308 for the Navy (see Table #3). If current plans are implemented as scheduled at least a thousand military households now living in civilian quarters may vacate their units.

Table 3

## Military Housing Production

	Completed	Projected	Total
Marines	640	1770	2410
Army	600	3240	3840
Air Force	400	800	1200
Navy	250	1380	1558
	1890	7118	9008

## Trends in Residential Construction on Oahu

Private residential construction on Oahu hit record proportions during 1973 with authorizations (including additions and alterations) totalling \$345 million, a 41 percent increase over the previous year level. Of this figure, new housing units comprised \$312.9 million or 71 percent of residential construction authorizations.

The value of building permits for new private single-family housing amounted to \$100.9 million last year, an increase of \$10.9 million and 10.8 percent over 1972. These authorizations represent a total of 3,008 single-family units, a decrease of 344 units or 10.2 percent from 1972 and a reflection of rising prices of single-family housing

on Oahu. Calculations show that the permit value of new private single-family buildings (not including land) averaged \$33,584 last year, an increase of 20 percent over the 1972 calculated average of \$26,930.

All previous new private multi-family housing construction records were shattered last year when authorizations reached \$212.0 million, an advance of \$80 million and 38 percent from 1972, which was also a booming year after a slowdown in 1970 and 1971. A record number of 10,057 new units were authorized, adding 2,792 units to the 1972 total of 7,265. The calculated average price of new private multi-family units (building only) rose from \$18,179 in 1972 to \$21,077 in 1973, an increase of 13.7 percent.

## SUMMARY OF SELECTED HOUSING AUTHORIZATIONS FOR OAHU, 1970-1973

Year	Private Single Family				Private Multi-family			
	New	Additions & Alterations	Total		New	Additions & Alterations	Total	
	#Units (\$000)	(\$000)	(\$000)	(\$000)	#Units (\$000)	(\$000)	(\$000)	(\$000)
1970	3809	76,958	12,380	89,338	4,172	94,025	1,161	95,186
1971	3771	85,213	15,250	100,463	4,087	73,845	3,848	77,693
1972	3352	89,966	20,636	110,602	7,265	132,071	1,727	133,798
1973	3008	100,912	25,650	126,562	10,057	211,968	6,482	218,450

Source: Bank of Hawaii, Department of Business Research

## Mortgage Activity in Hawaii

At the end of 1973, some financial institutions announced a drop in interest rates on conventional home loans. Rates have been steadily falling since then, and by the end of February, most major home loan institutions had cut their best rate to 8 3/4 percent. Although prospects look good for future easing about mid-1974, 8 percent may be the lowest for the foreseeable future. Mortgage loan officers are quick to note that some savings and loan associations' cost of money has risen to 6 percent or more, due to the

Federal Government's raising of interest-rate ceilings on deposits last July. And a two-point spread is the very minimum a savings and loan institution needs to cover operating and equipment costs if it is to compete favorably with banks.

Following this trend, two major home loan banks in Hawaii lowered their best rate from 9 1/4 percent in January to 8 3/4 percent at the end of February on conventional loans up to 30 years. The loan to value ratio continues at a maximum of 80 percent of the appraised value



or purchase price, whichever is lower. The maximum loan offered by First Hawaiian Bank remains at \$60,000; at Bank of Hawaii it is \$65,000. In addition, a 10 percent down payment loan up to 30 years is available at First Hawaiian Bank provided one also carries private mortgage insurance. Any loan requiring private mortgage insurance is assessed an additional 1/4 percent premium over and above the current rate (presently 9 percent for this type of loan), and may not exceed a maximum of \$52,500.

Terms, interest rates, and loan to value ratio of savings and loan associations closely parallel those of banks. However, maximum loans range from \$60,000 to \$75,000.

In general, a four-to-one income ratio is the main requirement qualifying any individual for a conventional home loan. Even with the inclusion of items not considered previously such as tips and wife's income, this ratio can be met by only a very limited share of Hawaii's population. For example, consider the purchase of a \$75,000 home, fee simple. A buyer would need \$15,000 down for an 80 percent loan of \$60,000. With a mortgage rate of 8 3/4 percent over a 30 year term, his payments including principal and interest, taxes, and insurance would amount to more than \$540 a month. In order to qualify for such a loan, the buyer would need an annual gross income of more than \$25,000. In 1971, according to figures from the Department of Taxation, only 9.6 percent of couples filing joint tax returns in the state and only 0.5 percent of individuals filing single returns reported income in excess of \$25,000. If the buyer is financially obligated to other sources, the total debt (including the mortgage payment) cannot exceed 33 1/3 percent of his gross income, according to a source at the Bank of Hawaii.

At the present time, there is renewed interest among Mainland institutions in buying Hawaii mortgages. These Mainland investors, whose purchases of loans pump fresh lendable funds into Hawaii, were all but out of the market earlier last year, according to a financial editor of the *Honolulu Advertiser*. A loan officer notes that presently slightly more than one-half of the loans made at the Bank of Hawaii draws upon Mainland money, mainly from Florida and the mid-western states.

Locally the savings inflow has not prospered. Four savings and loan associations in Hawaii found themselves "in the red" last November when there were more withdrawals than deposits for the month. Along with the slowdown of savings entering savings and loan institutions is the lessened demand for loans, despite the lower interest rates. Reasons given for this slack are: consumer wariness due to other crises, high price of homes, and realtors selling on agreement of sale, which puts off permanent financing for a few years. There have also been claims of a soft real estate market.

In times such as this, the investor-buyer does not find himself in a very lucrative position. He is finding it difficult to rent his units at enough to break even with his tax shelter. Also, in an attempt to curb speculation, some lenders limit their loans to owner-occupants only. This rule, however, is enforced only at the time the loan is taken out since there is no stated minimum length of occupancy for owners.

Statistics from Title Guaranty of Hawaii, Inc. confirm reports of a slowdown in the local real estate market. For example, the number of mortgage loans made by Hawaii's savings and loan institutions continued, on the whole, to rise after interest rates began to drop late in 1970 following the 1960-70 tight money period. This trend has dropped off sharply since mid-1973. Over the twelve-month period ending July 31, 1973, a monthly average of 958 mortgage loans were recorded. In November, only 252 mortgages were recorded at local savings and loan institutions, fewer than there have been in any month since March, 1971 and a 75 percent drop from November, 1972 figures.

The following table shows mortgage recordings of savings and loan associations for a twelve-month period ending December, 1973.

Month	Number	Amount
January 1973	828	\$37.5 million
February	656	27.0
March	956	52.9
April	855	43.3
May	1045	47.6
June	1098	47.8
July	890	47.1
August	893	40.0
September	543	32.9
October	395	16.5
November	252	10.3
December	305	19.4

Source: "Mortgage Recording Reports", Title Guaranty of Hawaii, Inc.

The slowdown of home sales has caused prices to fall as sellers have had to settle for less than their asking prices in order to sell. Average prices recorded by the Multiple Listing Service at the end of July, 1973 were \$76,000 for a single-family dwelling units, down from an average of \$85,000 in the first half of that year, and \$48,000 for condominiums.

## APPENDIX 2

Over the past few years welfare costs in Hawaii have been rising at a high rate. With increasing fiscal problems of the State and a desire for some controls over spending, the spiraling costs of welfare have become a focal point of attention. As part of the response for greater fiscal and program responsibilities, the Department of Social Services and Housing has had to look for alternatives to the present system of public assistance



and has been moving toward the adoption of a flat grant system of payments.

The concept of flat grant in Hawaii is not new, as there has been a partial flat grant system in effect since 1965. Under the partial flat grant system, a single cost figure covering the basic items of food, household supplies, personal essentials, education and community, transportation, and laundry is determined based on size of family. This is called the Monthly Standard Allowance. It is only a partial flat grant system because rent and utilities and special circumstance items are not covered by the MSA.

Rent and utilities involve another category of payment, with specific ceilings set by size of family. The ceilings set by DSSH are the following:

Size of Family	Rental
1 person	\$57
2-3	74
4-6	91
7 or more	103

Payments for rent and utilities can be exceeded for successive three month periods if the recipient fails to obtain housing within limits due to lack of available housing in the community. The recipient must prove that he is actively searching for less expensive housing, but if none can be found then successive three month periods may be approved.

What has occurred is a policy allowing what is paid for rent to be determined by what the recipient actually pays and which frequently exceeds the DSSH's stipulated "maximum." The "as paid" rental payments have been seen as part of the reason for spiraling costs of assistance and inequities of payments between recipients of similar circumstances.

Also not included in the MSA are special circumstance items, which allow payments for approximately twenty-five items. In order to qualify for a given special circumstance item payments, a

recipient must request the item and must be qualified according to regulations as determined by the caseworker. The recipient can then receive payments for a special circumstance item.

A modification of the partial flat grant system was effected on July 1, 1973 at which time all basic and special items were standardized, except for the three special circumstance items. Excluded from the flat granting of special circumstance items was moving expenses, rental deposits and air transportation for recipients' return to their mainland homes. These will be paid on an "as needed" basis. Excluded too from this new schedule of payments was shelter (rents and utilities) costs. The shelter costs are determined on an "as paid" basis without any ceilings.

A cause of the escalating cost of public welfare and the rise in caseload is seen as the inability of DSSH to set a ceiling on housing. One of the main reasons for the push toward flat grant has been to control the spiraling costs of shelter which is estimated to rise \$5.3 million a year. Because of the limitation of the partial flat grant system which excluded flat granting of shelter costs DSSH proposed setting a schedule of rental payments which would be standardized based on size of family. The schedule is as follows:

Size of Family	Standard Shelter Allowance
1	\$131.25
2-3	153.00
4-6	167.25
7 & over	171.50

The standard shelter allowance was seen as inadequate by recipients and DSSH also realized the housing difficulties in Hawaii. In December, 1973 a modified flat grant system was proposed in which each applicant-recipient family would be guaranteed a standard private shelter amount by size of family as shown above. However, a maximum allowance for rental would be available in which DSSH would pay above the standard shelter on an "as paid" basis up to the maximum or ceiling. The maximum allowance is as follows:

Family Size	Maximum Shelter Allowance	Increase over Standard Shelter Allowance
1	\$165	\$33.75
2-3	200	47.00
4-6	250	82.75
7 & over	275	103.50

Reasons given by DSSH for wanting to implement a flat grant system are the following:

1. Gives the recipient family a sum of money, like salary, to budget and manage. Thus, it gives a recipient family a greater sense of dignity. The recipient would be able to make his own

choices about how to spend his money. By promoting a recipient's independence in budget planning and management, it would show a greater respect for his dignity.

2. Treats all families uniformly and fairly. One of the main reasons for a flat grant system

would be to reduce inequities especially evident in the system of individual budgeting of rental costs on an "as paid" basis. Families of similar size and circumstances may not receive the same amount of payment.

3. Helps DSSH better control spiralling rental costs. A ceiling on maximum rentals by size of family will mean that families paying more than maximum must move to cheaper quarters or use other budgeted monies.

4. Provides a "bonus" to families living in low rentals. These families may continue to live in sub-standard housing and have more money to spend on other things or move up to better quarters. It provides an "incentive" to recipients to find the lowest price decent housing.

5. Helps the eligibility worker to cut down on paper work and thus enable them to serve the recipient. A single payment based on established standards will make the eligibility process more simple and economic and lead to improving the efficiency and effectiveness in program administration.

6. Prevent the Department from losing federal matching funds due to computational errors. The State receives forty percent of its funds from the federal government.

7. Provides flexibility — rental ceilings can be upped or lowered as the housing demand changes.

8. Meets the federal requirements, which is necessary. The flat grant method is in compliance with Sec. 402(a) (23) of the Federal Social Security Act which requires the Department, through fair averaging method to arrive at a figure by size of families, and/or living arrangements. Flat grant was the only system that was acceptable to meet federal requirements and establish new standards. Under the social security amendment, the department had no alternative but to adopt the flat grant system.

9. Predictability of welfare costs would be easier and more accurate as standard payments are established and not affected by changes in conditions of recipients as is now the case.

With implementation of a system of flat grant, it is anticipated that 2,000 families, about 20-25% of the assistance population will have reductions in payments. These affected families are basically those whose rental exceed maximums. Fifty-two percent of the families will have increases in rentals and twenty-eight percent will have no changes.

The Department of Social Services and Housing estimates start-up costs at \$3.7 million but effective costs will be \$5.3 million yielding a net

savings of \$1.6 million the first year of implementation. It is anticipated that in future years the escalating costs will be stabilized and an additional savings can be assumed if the Department makes no changes in ceilings.

Although the concept of flat grant has not been challenged, the adequacy or levels of payments are questioned. Opposition to implementation of the flat grant system is based mainly on the issue of housing, or lack of it.

Other shortcomings of this system have been pointed out such as the belief that it is too rigid and would not take into account individual differences and circumstances. Also the adverse effects of reduction of payments on the approximately one-third of the families has not been considered or studied. However, the crux of the problem is the housing issue and whether the levels allowed even under the maximum ceilings are adequate and sufficient in relation to the cost of housing in Hawaii.

Realizing the housing costs in Hawaii and the difficulties which would be anticipated, DSSH established the Housing Location Unit in September 1973. The HLU was established to try and save money. Recipients claimed that there was nothing available in adequate housing in the community within the standards set by DSSH. The purpose of this Unit is to locate housing within reasonable limits and within limits of the flat grant rental schedules. When the Legislature provided funds to create the HLU, it stipulated that the unit locate housing at the lowest available rent.

The services provided by HLU are specifically for current recipients and applicants of Public Assistance who are paying rents above the agency ceiling. The HLU locates and follows through on placements. Once a housing unit has been found and secured, a letter is sent to the recipient, who has been referred by the Income Maintenance Coordinator. An appointment is arranged with the recipient to discuss the availability of the unit and the possibility of moving. Arrangements are also made for the client to inspect the unit. If the client accepts the unit, arrangements are made to relocate the recipient. If, however, the client refuses the unit, the amount of his rent is reduced to the amount of the unit refused. The recipient is counselled before he sees the unit and told that if he does refuse his payment will be reduced accordingly.

In locating units, the HLU uses a set of guidelines called the Minimum Housing Standards, which is used by locators when inspecting the acceptability of units. The HLU also uses a rent schedule under the modified flat grant system in accepting housing units. The HLU finds approximately 200 units a month. The average cost for units located are:

Furnished rooms	
Share kitchen 7 bathroom	\$50-65
Furnished Studio	Single, \$88-family of 3, \$195
1 Bedroom	\$150 to 225, furnished (tops)
2 Bedrooms	\$225 to 260, tops
3 Bedrooms	\$240 to 300, tops
4 Bedrooms	\$275
5 Bedrooms	\$275

The Housing Location Unit has found as of Dec. 31, 799 units available for rent. The actual number of placements by HLU is not known at this time; however, the refusal rate by recipients has been high. In January, the HLU placed twenty-seven referrals at a savings of \$1500 per month. There are conflicting reports about why there is a high refusal rate in accepting lower cost housing which the HLU claims meets housing standards and cost standards. The HLU contends that it is a matter of attitudes and a preference of the recipient to take a cut in payment than move. Some recipients can afford to take this cut and do not suffer hardship, as in some cases they can supplement rent with other income such as disregarded income in determining welfare. A lot of the resistance from the clients is evident, according to the HLU, because for most of those over maximum levels, it would be a big comedown to move.

On the other side are the recipients who claim that housing locators are telling recipients to overcrowd. They cited the case of a family of five who were told to move into a one bedroom apartment renting for \$180. They also say that people are being asked to move far from their roots. The HLU claims that it attempts as much as possible to relocate people in the same area and not disrupt the social environment of recipients. Another complaint of the recipients is that there is no guarantee that units people are asked to move to are decent, safe and sanitary. In some cases the unit which was inspected by the locator is not the unit that the recipient receives, and the unit is usually not fit to live in. Basically, the complaints center around the issue of relocating a family away from its familiar social environment and the consequences of such movement.

Those at the HLU feel that DSSH should take a hardline on people who refuse housing units which have met the HLU standards. They are working on a mandatory policy which would cut rental payments for refusal or even hold checks. According to the HLU there is a housing shortage, but at the same time it depends on what you will accept where.

It is apparent that the implementation of a flat grant system will be subject to questions and challenges. One of the areas which could lead to a serious challenge to the implementation of a flat grant system involves the question of the legality and constitutionality of such a system. The adoption of flat grant systems by some states have resulted in court suits brought by recipients on both statutory and constitutional ground. The challenges to flat grant systems have led to sev-

eral Supreme Court decisions which for the most part favor the states and gives them broad discretion in allocation of welfare funds.

#### FLAT GRANT AND THE COURTS.

In *Rosado v. Wyman*, 397 U.S. 397 (1970), which involved a case challenging New York's system of a fixed maximum allowance per family for AFDC, the Court ruled against New York, because in adopting the system it reduced the content of standard of need in calculating allowances. A state cannot decrease the content of standard of need unless it can demonstrate that the items formerly included no longer constituted a part of the need of the majority of welfare recipients. The Court, however, declared that the state has a great deal of discretion in its determination of level of benefits and that a state may, after recomputing its standard of need, pare down payments to accommodate budgetary reality by reducing the percentage of benefits paid.

The Court warns, however, that while the state is free to effect downward adjustments in level of benefits it also forces the state to accept the political consequences of such a cutback. By the Social Security Act, section 402 (a) (23), which calls for adjustments to costs of living, Congress has introduced an incentive to abandon a flat "maximum" system and encourage those states desirous of containing their welfare budget to shift to a percentage system.

The conversion to a flat grant maximum system is justified as an advance in administrative efficiency and section 402(a) (23) does not prevent states from pursuing this goal of administrative efficiency, but it cannot achieve this purpose at the expense of significantly reducing the content of their standard of need. Section 402 (a) (23) invalidates any state program that substantially alters the content of the standard of need in such a way that it is less than it was prior to enactment of 402 (1969) unless a state can demonstrate that the items formerly included no longer constituted part of the reality of existence for the majority of welfare recipients.

In *Dandridge v. Williams*, 397 U.S. 471 (1970), AFDC recipients in Maryland challenged the State's maximum grant policy on the basis that it violated the Social Security Act of 1935 and the Equal Protection Clause of the Fourteenth Amendment. The Supreme Court decided in favor of the State of Maryland declaring that the regulation was not prohibited by the SSA and that the state has great latitude in distributing its funds and that maximum grant regulations

are permissible. The Court also ruled that it did not violate the Equal Protection Clause.

The Court had stressed in *King v. Smith* the "undisputed power" of the state to set levels of benefits and standard of need. There is nothing in the federal statute that forbids a state to balance the stresses that uniform insufficient payments would impose on all families. The Maryland maximum grant regulation is constitutionally valid. It is enough that the State's action be rationally based and free from invidious discrimination.

In *Jefferson v. Hackney*, 406 U.S. 535 (1972), AFDC recipients in Texas challenged the system which used a percentage reduction factor to arrive at a reduced standard of need. The AFDC recipients charged that the factor was lower for AFDC than for other categorical assistance programs.

The Court decided in favor of Texas declaring that their system does not violate Section 402 (a) (23) of the SSA nor does it violate the Equal Protection Clause of the Fourteenth Amendment as recipients claimed. The Court ruled that although states are required to make cost-of-living adjustments to their standard of need calculations, it does not prohibit the use of percentage-reduction systems that limit the amount of welfare assistance actually paid.

States have considerable latitude in allocating their AFDC resources since each state is free to set its own standard of need and to determine the level of benefits by the amount of funds it devotes to the program.

So long as its judgements are rational and not invidious, the legislature's efforts to tackle the problems of the poor and the needy are not subject to a constitutional straitjacket.

The Department of Social Services and Housing is confident that a court challenge to the flat grant policy will as in other suits in other states be ruled in favor of the state. Legally and constitutionally the state seems to have been given a strong position in deciding how it allocates its welfare funds. If a state is rational and not discriminatory in its determination of the standard of need, the legality and constitutionality of flat grant systems has been upheld in the courts.

The Court challenges to flat grant systems center on the issue of compliance of state policy with the Social Security Act, especially section 402 (a) (23). In Hawaii's situation, however, one of the reasons for a turn to flat grant was to comply with section 402. Because DSSH did not make cost-of-living adjustments in 1969 when the amendment was implemented, the State cannot reduce its welfare expenditures below the 1969 levels. The only acceptable method for meeting federal requirements and curb spending was either adopting a ratable reduction system or flat grant. The ratable reduction system had de-

fects and flat grant seemed the better alternative. Once a flat grant baseline is established, bringing greater equity of payments through fair averaging, the State can then proceed to reduce payments to keep costs down. Such a system is legal and constitutional, as the case in *Jefferson and Hackney* involved a similar system and the Court ruled in favor of the state.

The methodology used by DSSH in determining the standard of need and calculating the payment levels has been carefully scrutinized by federal and state officials and no problems were discovered. DSSH feels that its methodology was fair and the level of payments it provides are above OEO standards. DSSH also feels that part of the push toward flat grant was made to comply with section 402 (a) (23) of the Social Security Act and the states were mandated to re-establish new need standards and in the process given considerable leeway in determining its methodology. However, the federal government did not object to flat grant systems or percentage reduction systems and instead allowed a state to determine how it would allocate its funds without federal interference.

The concept of flat grant, per se, is not being challenged. The level of payments under flat grant is the basic obstacle to acceptance of this plan with the housing issue in Hawaii at the heart of the matter. The issue revolves around the question of the availability of adequate low cost housing, housing which would be within the limits set by the DSSH shelter standards.

If flat grant is implemented, even in its "modified" version about 2,000 families will have decreases in rental allowances. No longer paid on an "as paid" basis, recipients will either have to move to cheaper housing or take cuts. The Housing Location Unit claims that it finds many suitable units but it is the recipient's resistance to relocate which caused the problems. Recipient groups, however, claim that units found by the HLU are sometimes substandard or are not suited to a particular family. Also, the social costs of relocating a family are not considered. The Legislative Coalition has proposed a maximum shelter allowance which is higher than the DSSH allowable maximum, but which the Coalition claims is necessary considering Hawaii's housing situation. They propose the following:

Family Size	Maximum Shelter Allowance
1-3	\$225
4-6	300
7 & over	400

The Department, however, have figures that show that even if such standards are implemented, there would still be a percentage of the recipients who would be over the maximums. They feel that using a "modified" schedule with rental ceilings should alleviate some of the hardship and that a line has to be drawn somewhere or rental costs will not be controlled.

At present, it seems that DSSH has determined objectively and thoroughly a flat grant system which is an answer to its needs and problems. There remain, however, two areas which deserve further analysis and study.

One of the areas that needs to be further studied is the housing question. The housing issue forms the crux of the opposition of recipients to the implementation of a full flat grant system. On the other hand it is the housing issue which has pushed DSSH toward flat grant. Questions remain, however, as to whether there is adequate housing at the rental ceilings under the flat grant schedule. Are there adequate numbers of housing units to accommodate low income people? Can people afford to take rental cuts and why or why not? There are also questions about the Housing Location Unit. Is it effective?

Unless the housing issue is somehow clarified in relation to the conflicting claims by DSSH and recipients the effectiveness of a flat grant system would be questionable.

The second area which deserves attention deals with the effects of the implementation of a flat grant system. There seems to be little study of the effects of this system by DSSH which are not fiscal in nature. What will happen with the implementation of such a program? What are the implications for recipients with an increase or decrease in benefit levels? Can people live on the allocated amounts standardized under flat grant? What are the possible social implications of a flat grant program when people are relocated or have their budgets cut?

Ultimately, a flat grant system will have to be evaluated with consideration of both the benefits and costs of such a system. There has been much done on the benefits and costs in terms of fiscal implications, but little inquiry into the possible social benefits and costs. If the program will affect people then there should be some awareness of what this change will mean to people.

Signed by Representatives Young, Yuen, Cobb, Kondo, Kunimura, Lee, Sakima, Takamine, Wasai, Aki, Amaral, Carroll and Poepoe.

#### Special Comm. Rep. No. 9

Your Special House Committee on Energy established pursuant to **H. R. No. 140** entitled: "HOUSE RESOLUTION ESTABLISHING A SPECIAL COMMITTEE TO INVESTIGATE THE AVAILABILITY OF AND THE DEMAND FOR GASOLINE, PETROLEUM PRODUCTS AND OTHER ENERGY SOURCES AND THE PRICING AND DISTRIBUTION PRACTICES AND PATTERNS OF THE PETROLEUM AND RELATED INDUSTRIES, begs leave to report as follows:

The attached report, INVESTIGATION OF THE HAWAII GASOLINE MARKET, is herewith submitted in compliance with the requirement in **H. R. No. 140** that we report to the House of Representatives, during the regular session of 1974, the status and progress of our activities and findings.

The establishment of your Committee was a manifestation of the House's great concern over the energy crisis which was gripping Hawaii so severely at the time. The aspect of the energy crisis causing the greatest public concern was the gasoline shortage which in the month of January, 1974 was at its most critical stage.

Because of the great public concern over the social and economic disruptions caused by the gasoline shortage, we decided to make the Hawaii gasoline market the subject of our investigation. We attempted to examine how the market is structured locally and how it fits into the national energy context. We examined how the energy crisis affected Hawaii's gasoline market in terms of the roles played by the oil companies and the actions of the federal government, particularly the Federal Energy Office.

Shortages in gasoline and other oil products are expected to persist over the next several years. We in Hawaii — as in the rest of the nation — can no longer remain complacent about our energy requirements. The persistent shortages and the ever-present possibility of another energy crisis will necessarily weigh heavily on our future actions. Energy related factors will have to be taken into consideration in our future considerations of political, social and economic issues.

It is our hope that our report will give legislators and the general public a better understanding of the local gasoline market and how and why it was affected by the energy crisis. While we have concentrated on gasoline, much of our findings can also apply to other oil products. Since Hawaii is almost totally dependent on oil-derived products for our energy needs, much of our findings with respect to gasoline can also be applied to our other energy sources. We hope our report will serve as a useful tool in introducing the energy factor in the development of future public policy for Hawaii.

Your Committee wishes to take this opportunity to acknowledge the services of Dr. James Mak of the Economics Department, University of Hawaii and Mr. Yen Lew, Office of the Ombudsman. They provided the staff assistance for us during our investigation and in the preparation of our report. We extend our appreciation to President Harlan Cleveland of the University of Hawaii and Ombudsman Herman Doi for their cooperation in assigning Dr. Mak and Mr. Lew to us on rather short notice. Mr. Pat Jaress and Mr. John McConnell of the Attorney General's Office and Mr. Henry Tsuyemura of the Legislative Auditor's Office also assisted in our investigation. Mr. Keith Chun, Mr. Thomas Heau and Miss Constance Ishii provided research assistance. Dr. Daniel Suits and Mr. Alan Murakami of the University Economics Department assisted with some of the economic analyses for us. The office of Representative Patsy T. Mink kept us up-to-date with developments in Washington and provided us with



prompt responses to our inquiries. Peggy Kusano edited the report. Our deepest appreciation to all concerned.

In closing, Mr. Speaker, your Committee would like to extend its appreciation to you for your support and encouragement of our activi-

ties.

Your Committee commends the attached report to you for your attention.

Signed by Representatives Wong, Ushijima, de la Cruz, Kawakami, Roehrig, Yap, Yim, Ajifu, Amaral and Leopold.

INVESTIGATION  
OF THE  
HAWAII GASOLINE MARKET

A REPORT TO THE HOUSE OF REPRESENTATIVES  
PURSUANT TO H. R. NO. 140, REGULAR SESSION OF 1974

March, 1974

Submitted by the Special House Committee on Energy:

Richard S.H. Wong, Chairman  
Charles T. Ushijima, Vice-Chairman  
Pedro de la Cruz  
Richard A. Kawakami  
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## INTRODUCTION

## BACKGROUND OF THE INVESTIGATION

Insofar as the gasoline situation was concerned, the new year did not begin auspiciously for Hawaii. The shortages which began to appear in December became increasingly more severe as January progressed.

By mid-month, some service station dealers were being forced to close down for lack of gasoline. Others started to impose restrictions on their hours of service, on the amount of gasoline delivered per sale and, in some cases, on who they would sell to (preference being given to commercial accounts and regular customers). Most drivers, caught in this sudden shortage, sought desperately to find gasoline anywhere and anyway they could.

Lines of cars, often several blocks long, formed at those stations which had gasoline to sell. Many of these lines started forming at night as people sought to assure themselves of gasoline by waiting hours in the dark for the stations to open.

By the time the State and the Neighbor Island counties stepped in and imposed rules governing the sale of gasoline, the public mood had reached near panic proportions.

How did this gasoline shortage happen? What has been the role of the oil industry in this shortage? How did the federal government, especially the Federal Energy Office, handle it and how well was it handled? Has Hawaii been receiving its fair share of gasoline under the FEO allocations? These are among some of the key questions which have been raised. In this report, we tried to answer these as well as other pertinent questions.

## FOCUS OF THE INVESTIGATION

We pursued two major areas of investigation, the operations and practices of the oil companies in Hawaii and the rules and policies of the FEO. We attempted to see how the two interacted and how this interaction affected the supply of gasoline to Hawaii, especially during the two critical months of February and March, 1974.

Our attention on the oil companies in Hawaii was primarily on the five majors — Standard of California (known as SOCAL), Shell, Union, Phillips and Texaco — although we also considered the two independents, Armour and Time (Sav-Mor). Particular attention was paid to SOCAL because it operates the only gasoline producing refinery in Hawaii and because it is the largest gasoline marketer in the State.

We also examined the operations and plans of Hawaiian Independent Refinery, Inc. (HIRI) as they pertain to the gasoline market in Hawaii. Finally, we examined the plans for the refinery to be constructed by Dillingham and Continental Oil (CONOCO).

## CONDUCT OF THE INVESTIGATION

Our investigation of the oil companies was based on a questionnaire of thirty-eight detailed questions which was presented to all the companies. The questions covered the gamut of the companies' operations in Hawaii with reference to their import and export of crude (in the case of SOCAL) and products, costs and prices, exchange agreements, inventory and storage capacity, investment in Hawaii and financial performance. The companies were requested to submit written answers to the questions and to appear before the Committee for follow-up questioning.

The schedule of hearings was as follows:

Date	Subject
January 31, 1974	Activities of Federal Allocation Officer (FEO), Department of Agriculture Gas Rationing Plan and activities of Governor's Energy Task Force
February 11, 12, 1974	Preliminary questioning of oil companies on their operations in Hawaii and their interpretation of the FEO Regulations, presentation by the Department of Agriculture on temperature corrections of petroleum products
February 20, 1974	Operations and Plans of HIRI, proposed refinery by Dillingham-CONOCO
Date	Subject
February 25, 1974	Continued questioning of SOCAL
February 27, 1974	Questioning of Time
February 28, 1974	Continued questioning of Shell and Phillips
March 5, 1974	Continued questioning of HIRI
March 6, 1974	Questioning of Armour

In addition to the written responses submitted by the companies and their oral responses presented at the hearings, the committee's staff also obtained information from the companies through the inspection of records and additional questioning at company offices. The Committee also reviewed the FEO Regulations and followed closely the practices and decisions of the FEO in an effort to determine the effects on Hawaii.

From the information thus gathered and analyzed, this report was prepared.

## I

### THE NATIONAL ENERGY CRISIS

The U.S. is the largest user of energy in the world. With 6 percent of the world's population, we consume about one-third of the world's energy production. Since 1949, America has not been self-sufficient in energy, and the discrepancy between domestic energy production and consumption has steadily widened.

Over the past 20 years, demand for energy in the U.S. has been growing at rates averaging between 4 to 5 percent per year. More recently, demand has accelerated to over 5 percent per year, while domestic production has increased only about 3 percent per year. As a result, domestic resources, which provided 95 percent of America's energy requirements in 1960, supplied 88 percent in 1970 and only 83 percent in 1973. We imported the rest, mostly in the form of oil.

But oil represented only half of our energy supply. Last year, we were only 65 percent self-sufficient in oil (based on an estimated demand of 17.5 million barrels per day), compared to 78 percent self-sufficiency 4 years ago. We imported the remaining 35 percent, and nearly half of that came from the Arab countries. If unrestrained, the U.S. would be importing 49 percent of its crude oil and petroleum products requirements by 1980, and by 1985, 57 percent.

Increasing dependence on foreign oil is the result of a number of factors operating on both demand and supply. On the supply side, domestic exploration peaked in 1956 while production peaked in 1970. Furthermore, refinery expansion in the U.S. has nearly ceased. The halt can be explained by a number of factors: (1) environmental restrictions made it difficult to find refinery sites; (2) the mandatory oil import quota program, in effect since 1959, made it difficult to guarantee supplies of crude oil; and (3) tax and other economic benefits made it more profitable to locate economic activities overseas. On the other hand, the continuing shift from coal to oil and the shrinking supply of natural gas are major reasons, among others, explaining the accelerating rise in demand.

There have been signs of an approaching energy crisis for several years, electrical brownouts and shortages in fuel oil being the most promi-

ent. The situation worsened during the winter of 1972-1973 when numerous schools and businesses on the mainland were closed due to the lack of fuel. Shortages in gasoline became apparent during the first half of 1973, and beginning in May of that year, many oil companies participated in the voluntary allocation of gasoline to their dealers and commercial accounts.

Even then, these shortages were considered spot shortages, seriously affecting only selected areas of the country. However, what appeared to be an unwelcome discomfort became a crisis of major proportions when the Arabs announced an oil embargo against the U.S. in the midst of the October, 1973 Arab-Israeli war.

It has been estimated that, for the first quarter of 1974, the Arab embargo will reduce supplies of both crude oil and product by about 14 percent below anticipated demand.<sup>1</sup> This is based on the assumption of unconstrained demand which did not take into account the effects of rising prices, possible embargo leakages, or large inventory drawdowns. For the second quarter, the estimated shortfall is 16 percent. This translates into individual shortages of 12 percent for gasoline, 27 percent for aviation jet fuel, 6 percent for middle distillates, and 32 percent for residual fuel oil.<sup>2</sup> It should be emphasized that these shortfall estimates are for the whole country. Regional shortages could be substantially more or less than the national averages.

In the following pages we examine the effects of the energy crisis in Hawaii. We focus only on the shortage in motor gasoline, as it affects most directly everyone in our State.

## II

### GASOLINE MARKET IN HAWAII

In 1972, the amount of gasoline sold in Hawaii was 270.6 million gallons. This represented less than three-tenths of one percent of the total U. S. gasoline consumption in that year.<sup>1</sup>

There are presently seven companies which sell gasoline in Hawaii. Five of these — Texaco, Shell, Standard Oil of California (SOCAL), Phillips, and Union — are among the top fifteen oil companies in terms of gasoline sales in the U. S.<sup>2</sup> The remaining two, Armour and Time, are independents. There are two refineries in Hawaii, one owned by SOCAL, and the other by Hawaiian Independent Refinery (HIRI), although the latter has no gasoline production capability at present. There is also a proposal by the Dillingham-Conoco combine to build

<sup>1</sup>The ratio of premium to regular gasoline is roughly 7 to 3 here in Hawaii, while it is 2 to 3 for the U. S. as a whole.

<sup>2</sup>The national ranking in 1970 in gasoline sales and respective market shares were:



another refinery in Hawaii to serve the local market.

#### DEMAND FOR GASOLINE

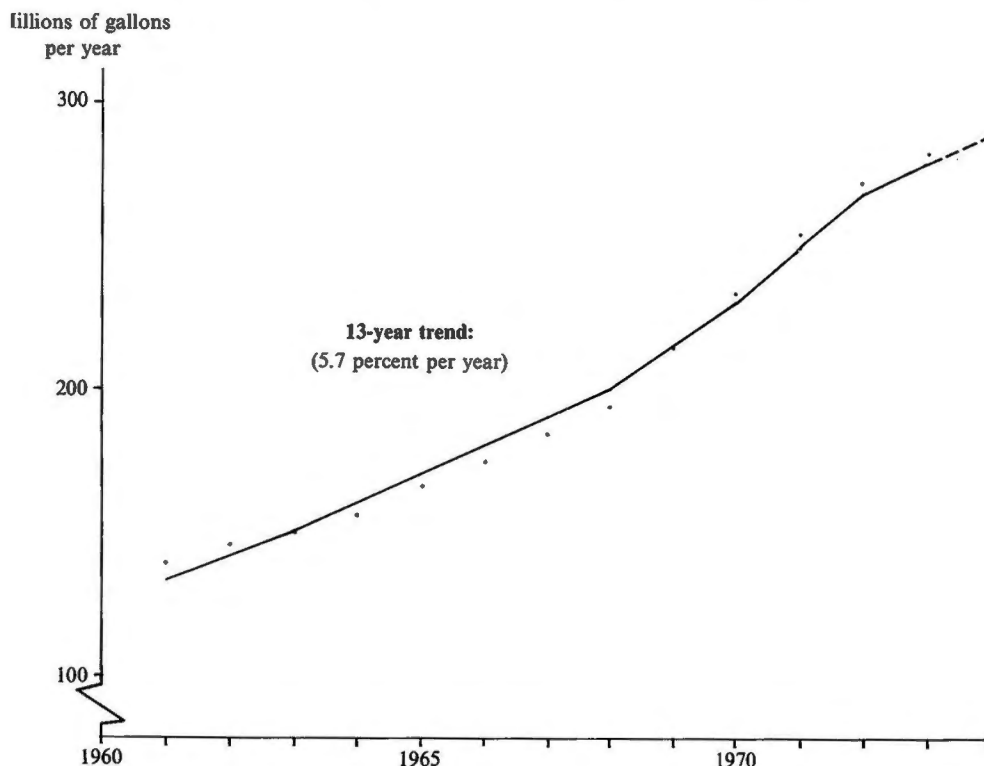
Since 1961, gasoline consumption has been growing in Hawaii at an annual compound rate of 5.7 percent (See Figure 1). The rate of increase in demand, however, has been accelerating, and growth between 1969 and 1972 has been at a higher rate of 6.3 percent per year. An examination of Figure 2 shows that even

the shipping strike in 1972 did not have a significant effect in reducing consumption. Compared to the other forty-nine states and Washington D. C., Hawaii ranks among the top twenty in terms of the annual rate of growth in demand in recent years.<sup>3</sup>

As Figures 3 and 4 clearly show, a very high correlation exists between the growth of gasoline demand in Hawaii and the growth in the number of registered passenger cars.<sup>4</sup> For every one percent growth in the latter, demand for gasoline has grown by a corresponding one

FIGURE 1

#### TREND OF GASOLINE CONSUMPTION IN HAWAII



Source: Data on annual consumption prepared by Tax Foundation of Hawaii from Department of Taxation, Tax Research and Planning Office, Fiscal Year Summaries of "Liquid Fuel Tax Base, Collections and Distribution". Calculations shown are based on a trend fitted to the most recent 5-year period.

Company	Rank	% of U.S. Market
Texaco	1	8.13
Shell	2	7.87
SOCAL	8	5.02
Phillips	10	3.97
Union	11	3.29

Source: Investigation of the Petroleum Industry, Report to the Permanent Subcommittee on Investigations of the Committee on Government Operations, United States Senate, 93rd Congress 1st Session (Washington D.C.: U.S. Government Printing Office, July 12, 1973), Table II-7, p. 22. Table II-7, p. 22.

<sup>3</sup>See Appendix C.

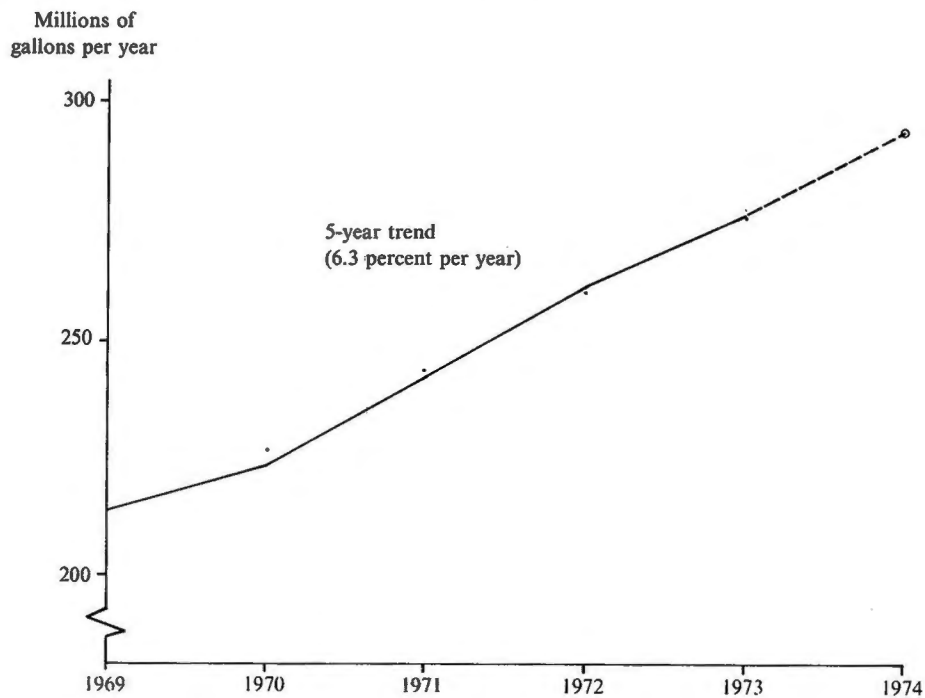
<sup>4</sup>For a more detailed analysis of the determinants of demand for gasoline, see Appendix A.

<sup>1</sup>Statement of William E. Simon, Administrator, Federal Energy Office, before the Appropriations Subcommittee on Interior and Related Agencies, March 4, 1974.

<sup>2</sup>Statement of Dr. John C. Sawhill, Deputy Administrator, Federal Energy Office, before the Joint Economic Committee, Congress of the United States, February 19, 1974.

FIGURE 2

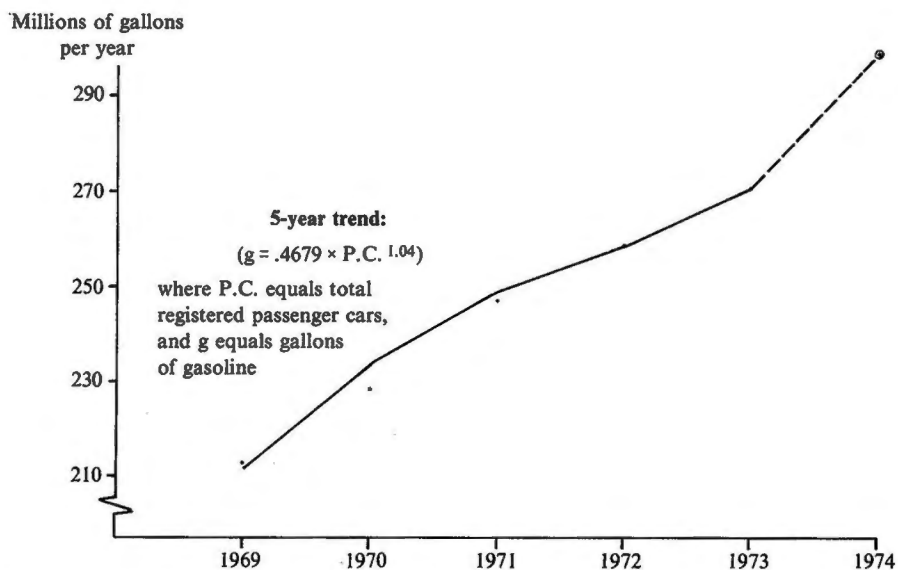
## TREND OF GASOLINE CONSUMPTION IN HAWAII



Source: Data on annual consumption prepared by Tax Foundation of Hawaii from Department of Taxation, Tax Research and Planning Office, Fiscal Year Summaries of "Liquid Fuel Tax Base, Collections and Distribution". Calculations shown are based on a trend fitted to the most recent 5-year period.

FIGURE 3

## TREND OF GASOLINE CONSUMPTION IN HAWAII

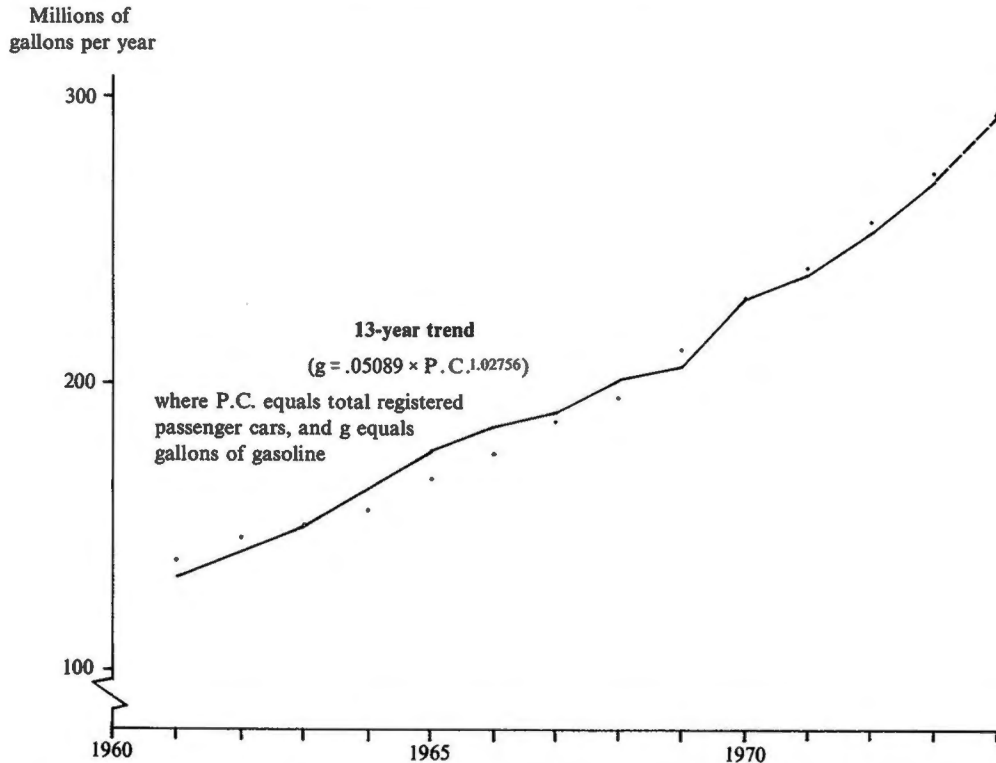


SOURCE: Data on annual consumption prepared by Tax Foundation of Hawaii from Department of Taxation, Tax Research and Planning Office, Fiscal Year Summaries of "Liquid Fuel Tax Base, Collections and Distribution".

Data on passenger cars prepared by State Department of Planning and Economic Development, "The State of Hawaii Databook 1973: A Statistical Abstract".

FIGURE 4

## TREND OF GASOLINE CONSUMPTION IN HAWAII



**SOURCE:** Data on annual consumption prepared by Tax Foundation of Hawaii from Department of Taxation, Tax Research and Planning Office, Fiscal Year Summaries of "Liquid Fuel Tax Base, Collections and Distribution".

Data on registered passenger cars prepared by State Department of Planning and Economic Development, "The State of Hawaii Databook 1973: A Statistical Abstract".

percent.<sup>5</sup> The demand does evidence month-to-month variations, but as Figure 5 shows, the pattern of variations corresponds closely to national consumption, with peak demand coming during the late spring and summer months for reasons which are not altogether clear.<sup>6</sup> Indexes for only 1972 are presented, because that year was chosen as the base year under the Federal mandatory petroleum allocation program.

<sup>5</sup>The relationship holds true for registered motor vehicles as well. Simple regressions show the following:

1969-73:  $R^2$   
 $\ln \text{ gas} = -1.219 + 1.079 \ln \text{ motor vehicles}$  .993  
 (.052)

1961-73:  $R^2$   
 $\ln \text{ gas} = -1.034 + 1.064 \ln \text{ motor vehicles}$  .991  
 (.058)

<sup>6</sup>For caveats relating to the Ethyl Corporation data, see Appendix C.

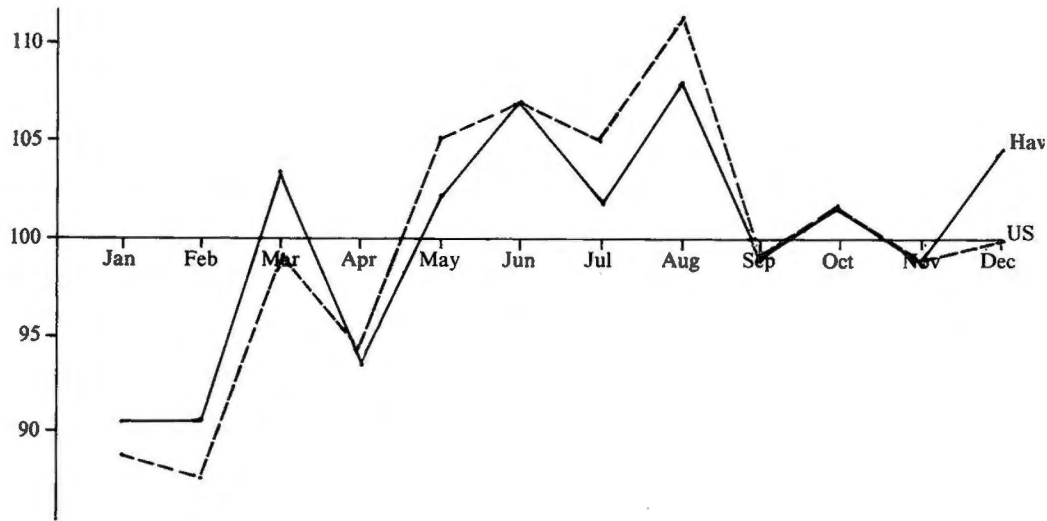
In comparing the demand for gasoline in Hawaii and the U.S. by type of users, we find that the larger proportion of gasoline sales in Hawaii is made through retail outlets, with a smaller proportion being sold wholesale in bulk to commercial users.<sup>7</sup> Table II-1 summarizes the data on total gasoline sales to different classes of users in Hawaii for 1972 and 1973. It shows that approximately 86 percent of all gasoline sales in Hawaii was made through retail (including PX) outlets, that 11 percent went to wholesale or commercial bulk users, and that approximately 3 percent was channeled to State, local, and Federal governments. Corresponding figures for the nation as a whole were 81 percent, 17 percent, and 2 percent, respectively.<sup>8</sup>

<sup>7</sup>These latter are those who maintain or substantially control their own storage tanks.

<sup>8</sup>Federal Register, Part II, vol. 39, No. 1 (Washington D. C.: January 16, 1974), p. 2066

FIGURE 5

Indices of Gasoline Sales in Hawaii and the US: 1972  
(1972 Mean=100)



Source: Ethyl Corporation Yearly Report of Gasoline Sales by States 1972  
(Houston: Ethyl Corporation, 1972), pg 8

Note: Growth trend has not been taken out of either series.

#### OIL COMPANIES IN HAWAII

Table II-2 summarizes the annual gasoline sales for 1972 and 1973 by the seven companies

doing business in Hawaii.

Roughly 40 percent of the sales were imported,

TABLE II-1

#### TOTAL GASOLINE SALES BY FUNCTIONAL USE

	1972 (MIL. GALS.)	PERCENT OF TOTAL	1973 (MIL. GALS.)	PERCENT OF TOTAL
Retail	199.8	73.8	212.8	74.5
PX	33.3	12.3	33.2	11.6
Wholesale	29.3	10.8	31.0	10.8
State & Counties	5.2	1.9	5.0	1.7
Federal (net of combat)	3.1	1.2	3.7	1.3
TOTAL	270.7	100.0	285.7	100.0

SOURCE: Calculated from data submitted to the House Special Energy Committee.

TABLE II-2

## GASOLINE SALES IN HAWAII: 1972 and 1973

COMPANY	1972		1973	
	(mils. gals.)	Market Shares	(mils. gals.)	Market Shares
SOCAL	82.18	30.4	89.15	31.2
Shell	78.98	29.2	83.69	29.3
Union	45.74	16.9	48.81	17.1
Phillips	29.04	10.7	29.71	10.4
Texaco	21.89	8.1	21.70	7.6
Armour	9.71	3.6	9.65	3.4
Time	3.09	1.1	3.01	1.0
TOTAL	270.63	100.0	285.71	100.0

SOURCE: Calculated from data submitted by oil companies to the Special House Committee on Energy.

and the remaining 60 percent came from SOCAL's Barbers Point refinery on Oahu, presently, the only refinery in Hawaii capable of producing gasoline. All the other companies acquire at least part of the gasoline they sell through exchange with SOCAL, and the sales data for the individual companies (Table II-2 excepting SOCAL) include these quantities.

An exchange, unlike a sale, involves no money transfers. SOCAL supplies prearranged amounts of gasoline to each of the other companies on agreement, and the return is made, gallon for gallon, on the Mainland.<sup>9</sup> All gasoline sold by the two independents, Armour and Time (through its Sav-Mor gas stations), come from SOCAL via exchange. By contrast, the approximate ratio is 75 percent for Phillips, 70 percent for Texaco, and 40 percent for Shell. Union Oil Company has no regular agreement with SOCAL but does make spot exchanges with them as well as with the other major oil companies.

Table II-2 clearly shows that the market for gasoline is dominated by the five major oil companies. The two independents have less than 5 percent of the total. Among the majors, SOCAL is the leading firm, holding approximately 31 percent of the market share, and is followed close-

ly by Shell with 29 percent. The others taper off sharply, with Texaco, the national leader in gasoline sales (1970), holding last place among the majors at 7.6 percent.

Interesting too is a comparison of the users to whom each of these companies sell. Tables II-3 and II-4 show that SOCAL leads in sales to retail (non-PX) outlets with one-third of that market, and Shell has a monopoly on the PX market. The two of them together have a near monopoly (over 95 percent) on sales to State, local and Federal governments. Union and SOCAL dominate in sales to commercial wholesale bulk accounts with over 80 percent.

There are some differences in the importance of the various categories of sales to each of the companies. Table II-5 shows that at least 79 percent of every company's sales goes to retail (including PX) stations, with Armour and Time selling exclusively through their own retail outlets. For Shell, its PX market is nearly as important as its retail market off the military bases. Commercial wholesale bulk accounts are significant only to SOCAL and Shell, representing 18 percent of the total sales for the former, and 21 percent for the latter. Government accounts (net of combat) are minor in importance, and do not account for more than 7.5 percent of any one company's annual motor gasoline business.

From the data and analysis presented here, it seems quite clear that SOCAL is the largest and the only wholly integrated operation in Hawaii. In the next chapter, a picture of its overall operations in Hawaii is presented.

<sup>9</sup>There may be a premium paid on top of the exchange quantities to cover the cost of transport. For example, Armour Oil Company pays a premium of approximately 1¢ per gallon to have the gasoline shipped via Standard's pipeline from the Barbers Point refinery to Armour's storage facility on Sand Island.



TABLE II-3

## COMPANY SHARES OF HAWAII GASOLINE MARKET BY FUNCTIONAL CATEGORIES

(1972)

COMPANY	RETAIL	PX	WHOLESALE	STATE & COUNTIES	FEDERAL (net of combat)
(1)	(2)	(3)	(4)	(5)	(6)
Socal	32.5	.0	49.2	49.9	11.2
Shell	19.6	96.9	8.2	46.8	86.9
Phillips	13.6	.0	6.1	.0	.0
Texaco	9.8	3.1	3.9	3.2	.0
Union	18.1	.0	32.7	.1	1.9
Armour	4.9	.0	.0	.0	.0
Time	1.5	.0	.0	.0	.0
TOTAL	100.0	100.0	100.0	100.0	100.0

SOURCE: Calculated from data submitted to the House Special Energy Committee.

TABLE II-4

## COMPANY SHARE OF HAWAII GASOLINE MARKET BY FUNCTIONAL CATEGORIES

(1973)

COMPANY	RETAIL	PX	WHOLESALE	STATE & COUNTIES	FEDERAL (net of combat)
(1)	(2)	(3)	(4)	(5)	(6)
Socal	33.3	.0	51.2	28.5	25.2
Shell	19.7	100.0	7.4	71.1	72.9
Phillips	13.1	.0	5.8	.0	.0
Texaco	9.7	.0	3.5	.3	.0
Union	18.2	.0	32.2	.1	1.9
Armour	4.5	.0	.0	.0	.0
Time	1.5	.0	.0	.0	.0
TOTAL	100.0	100.0	100.0	100.0	100.0

SOURCE: Calculated from data submitted to the House Special Energy Committee.

TABLE II-5

## PERCENT OF EACH COMPANY'S SALES BY FUNCTIONAL CATEGORIES

	SOCAL		SHELL		PHILLIPS		TEXACO		UNION		ARMOUR		TIME	
	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973
Retail	78.9	79.6	49.7	50.1	93.9	93.9	89.4	95.0	78.9	79.4	100.0	100.0	100.0	100.0
PX	.0	.0	40.8	39.7	.0	.0	4.7	.0	.0	.0	.0	.0	.0	.0
Wholesale	17.5	17.8	3.0	2.7	6.1	6.1	5.2	4.9	21.0	20.5	.0	.0	.0	.0
State/ Counties	3.1	1.6	3.1	4.2	.0	.0	.8	.1	.015	.014	.0	.0	.0	.0
Federal (net of combat)	.4	1.1	3.4	3.25	.0	.0	.0	.0	.131	.15	.0	.0	.0	.0
TOTAL	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Calculated from data submitted to the House Special Energy Committee.

## III

STANDARD OIL COMPANY  
OF CALIFORNIA (SOCAL)

SOCAL's Hawaii operation is part of SOCAL's integrated subsidiary, Western Operations, Inc. through which the company conducts its business in the western United States. Its production and its import program of crude oil and refined products into Hawaii are determined by the development of an "operating plan" which includes its total operations in the western states as well as the South Pacific area (i.e. American Samoa, Tahiti, and Wake Island).

An operating plan normally covers a forward period of two to five years and is prepared at six month intervals. As needed, there are interim operating plans which cover forward periods ranging from the immediate few months ahead up to one to two years.

To prepare the operating plan involving Hawaii, SOCAL integrates a number of inputs such as:

(a) Estimates of market demands for refined products, including projections of growth in demand, which are prepared by SOCAL's Western Operations Marketing Department.

(b) Estimates of domestic crude supplies, both those produced by SOCAL and those purchased from other companies. These estimates are supplied by the Western Operations Producing Department and the Supply and Distribution Department.

(c) Estimates of the amounts and types of foreign crude oil, foreign unfinished oils and refined products available, which are determined by the Corporation Supply and Distribution Department.

partment.

Based on these inputs, a refining program is developed with the objective of matching market demand with refinery output in the most economical manner. For the West Coast — Alaska — Hawaii complex, this involves consideration of the characteristics and capacities of five refineries. In general, no single refinery output will exactly match the product requirements in its normal distributive area. Thus, while the product output of the Barbers Point refinery is more than adequate to meet the company's local gasoline sales, supplementary imports are necessary to meet demands for jet kerosene, fuel oils, and most specialty products such as lubricants, greases, etc.

## THE HAWAII OPERATION

The focus of SOCAL's operation is on its local refinery located at Barbers Point, Oahu. The current operable crude running capacity of that refinery is 40,000 barrels per day.<sup>1</sup> This is an average maximum rate and includes the average effects of maintenance turn-arounds and normal variations in crude oil types and availability.<sup>2</sup>

In 1972, crude oil and other raw materials included in crude oil were processed at 97.5 percent of capacity. In 1973, the average was 106 percent. Thus, until the worldwide shortage of crude oil forced a slowdown to 94 percent of capacity in February, the Hawaiian refinery essentially had operated at full capacity.

Of their 40,000 barrels per day potential throughput, 14,000 is the average maximum in gasoline production. Hence, with an actual

<sup>1</sup>Each barrel is equivalent to 42 gallons.

<sup>2</sup>That is, over short periods, the refinery can operate at a much higher rate.

throughput for gasoline of over 4.6 million barrels in 1973, the refinery was producing motor gasoline at over 90 percent of capacity.

The crude oil for the Barbers Point refinery comes via several means and from both domestic and foreign sources. For example, in 1973, over 80 percent of the crude came from inter-company Chevron Oil sales, with the remaining quantities largely acquired through SOCAL's production and by exchange and purchase from other companies. In terms of their sources of origin, a little more than 70 percent of the crude came from Indonesia, 20 percent from Saudi Arabia, 3 percent from Kuwait, 3.7 percent from Iran, and the rest from the U.S. West Coast.<sup>3</sup> Thus, less than 3 percent of the crude imports in 1973 came from domestic production.

#### SOCAL'S GASOLINE BUSINESS

Motor gasoline is considered a "light product",

along with such other products as aviation gasolines, jet fuels, diesel fuels, heating fuels (distillate), lubricating oils and greases, liquefied petroleum gas, and a few others. The two largest components in volume and in value of SOCAL's total Hawaii sales are jet fuel and motor gasoline. Together, they account for 83 percent of the volume and 81 percent of the value of SOCAL's 1973 total Hawaii sales in light products.<sup>4</sup> While motor gasoline represented 21 percent by volume of sales, its value was much higher, at 29 percent.<sup>5</sup> Relatively, gasoline is a high-valued product.

Table IV-1 presents a comprehensive picture of SOCAL's gasoline business in 1973. The data clearly show that its Hawaii marketing division is engaged primarily in the local business, with negligible imports and minor exports. Strikingly, the amount SOCAL supplies to its competitors in exchange is nearly equal to its own sales in the Hawaii market.

TABLE III-1

#### SOCAL'S HAWAII MOTOR GASOLINE BUSINESS, 1973

	Gallons (millions)	Gallons (millions)
Production at Barbers Point	194.39	
Imports	.02	
<b>TOTAL</b>		<b>194.41</b>
Sales in Hawaii (incl. combat)	96.89	
Regular exchange agreements	84.28	
Spot exchanges	3.83	
Exports to South Pacific	6.29	
<b>TOTAL</b>		<b>191.29</b>
Net surplus		<b>3.12</b>

SOURCE: Calculated from data submitted by oil companies in testimony before the Special House Energy Committee. Entries on exchanges are estimated by the Committee staff.

Note: The Committee was unable to locate the whereabouts of the 3.12 million gallons of "surplus" gasoline.

#### IV

##### THE FEDERAL MANDATORY PETROLEUM ALLOCATION PROGRAM

In 1970 the oil industry began to sound warnings of an impending energy crisis in the U.S. While charges and counter-charges continue to surface in a fruitless effort to place the blame, it was not until April, 1973 that President Nixon announced he was ending the fourteen year old mandatory oil import quota program which was "of virtually no benefit any longer . . . (and had)

<sup>3</sup>These proportions are not too different from the 1972 proportions. For 1972, these percentages were: Indonesia, 71 percent; Saudi Arabia, 26 percent; Iran, 8 percent; and U.S., 1.4 percent.

the very real potential of aggravating our supply problems."<sup>1</sup>

Allocation of fuels was not seriously considered until early 1973. On April 30, Congress passed

<sup>4</sup>Total sales information for non-light products was not included in the testimony submitted by SOCAL and, thus, no comparison with light products is possible.

<sup>5</sup>By value, it is meant, net ex-tax realization.

<sup>1</sup>"Oil Imports Restricted Until Six Months Before Arab Embargo", *Congressional Quarterly Weekly Report*, XXXI, No. 50 (Dec. 15, 1973), p. 3279. For a brief survey of the charges and countercharges, see the collection of articles in this same issue.

an amendment to legislation extending the economic stabilization program, thus giving the President discretionary authority to distribute petroleum products. Then on May 10, Deputy Treasury Secretary William E. Simon announced the beginning of a voluntary allocation program. By July 3, however, Simon conceded that the voluntary program was not working effectively. Shortly after the Arabs announced an oil embargo in October, Congress passed legislation directing the President to implement a mandatory allocation program, and President Nixon signed it into law on November 27, 1973. Scheduled to begin December 27, revisions to the initial regulations necessitated a postponement of the program implementation date until January 15, 1974.

#### HAWAII AND THE VOLUNTARY ALLOCATION PROGRAM

Figures 6(a) — 6(f) illustrate the effects of the voluntary allocation program. The asterisks (\*) indicate those months in which a company went on voluntary allocation.

Although the methodology used is primitive, these figures nonetheless show quite clearly that there was no uniform policy adopted by the five major oil companies to restrain sales under the voluntary allocation program. While Texaco, Phillips and Shell remained on voluntary allocation once they initiated company programs, Union Oil Company dropped voluntary allocation after the first two months (in May and June) and resumed it only in December, 1973. Likewise, Standard abandoned voluntary allocation after three weeks in May and resumed it in November.

Thus, while gasoline sales by Texaco, Shell and Phillips declined *relatively* between June and December, Union and SOCAL picked up the lost sales of their competitors. For this reason, Hawaii did not feel the full impact of the gasoline shortage until December, by which time both SOCAL and Union Oil Company had curtailed supplies. Had those two large suppliers remained on voluntary allocation from the very beginning, Hawaii would have felt the effects of the energy crisis much sooner than December, 1973.

Still, in looking over the total gasoline picture for the year, Figure 6(f) suggests that the voluntary allocation program that went into effect in May probably placed a mild restraint on gasoline consumption in Hawaii in 1973.

#### HAWAII AND THE MANDATORY ALLOCATION PROGRAM

Although the mandatory petroleum allocation program took effect on January 15, 1974, it did not really begin for the public until February. Moreover, for the months of February and March, two distinctively different programs relating to motor gasoline allocation were in force.

From its inception, the program was designed

to ensure an equitable distribution of petroleum products among users. After two and a half months, however, the program has not achieved the equity in gasoline distribution for the public that it sought to achieve; blame for the program's failure thus far must rest primarily with the Federal Energy Office (FEO), which was established to run the program.

#### THE FEBRUARY GASOLINE ALLOCATION PROGRAM

The mandatory allocation program is described in detail in the Federal Register,<sup>2</sup> but perhaps the best way to understand the program as it applies to the allocation of gasoline is by way of an over-simplified example. Let us take SOCAL.

Because it is an importer and (or) refiner, SOCAL must file an FEO-1000 form<sup>3</sup> with the Federal Energy Office specifying the available supply and the allowable requirements for motor gasoline in the State of Hawaii.<sup>4</sup> In practice, SOCAL first determines the available supply of gasoline it has in its western operating region. This is done by adding up (1) SOCAL's estimated production from its five refineries, (2) imports, if any, (3) purchases from other companies, if any, and (4) inventory adjustments.

From available supply, 3 percent is isolated as a set-aside for the individual states to alleviate hardship cases. In Hawaii, the state set-aside program is administered by the Department of Planning and Economic Development.

Each one of SOCAL's marketing divisions then determines the maximum allowable requirements (called the "allocation requirements" by FEO) for the State under its jurisdiction. Since FEO has chosen 1972 to be the base year,<sup>5</sup> SOCAL's Hawaii division, for example, must go back to its historical record to determine the base period volumes, or the amount of gasoline each customer purchased in each month of that year. For most of the buyers, SOCAL assigns, as the allocation requirement (i.e. maximum allowable requirement) for the present 1974 month, whatever amount the purchaser bought in the corresponding month in 1972.

<sup>2</sup>"Petroleum Allocation and Price Regulations", **Federal Register**, XXXIX, No. 10 (Washington D.C.: Tuesday, January 15, 1974), pp. 1924-1961.

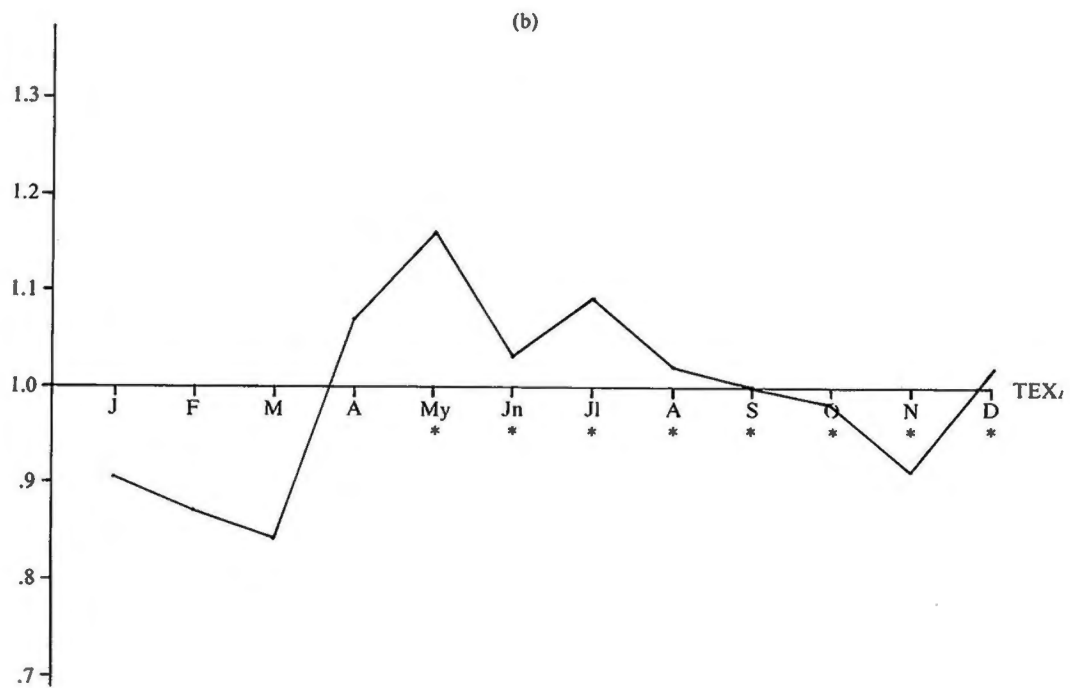
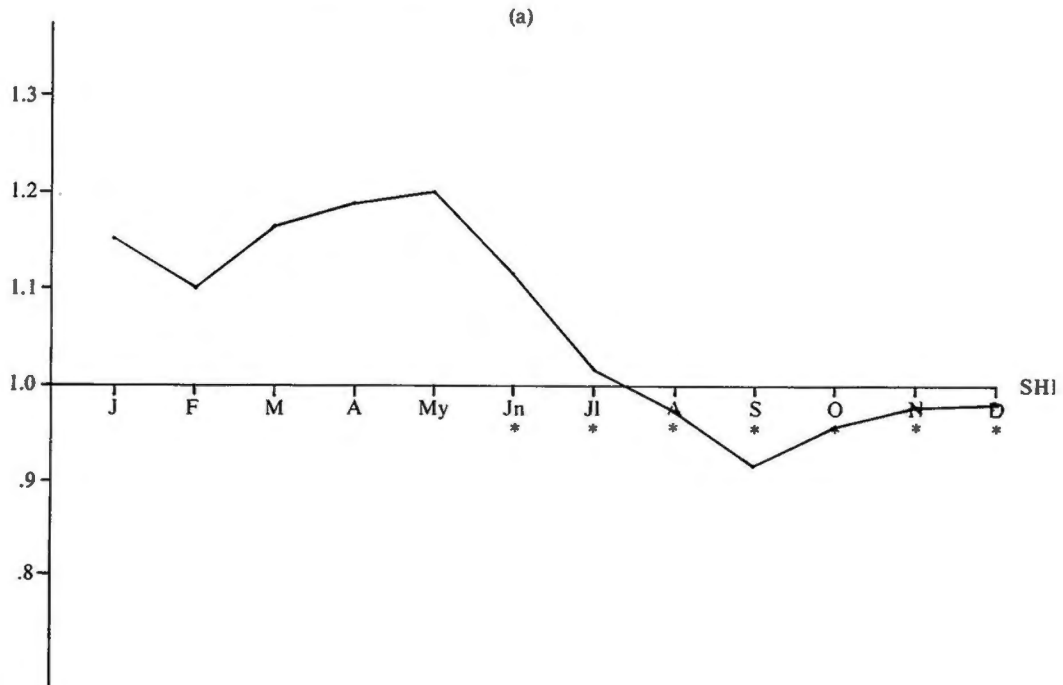
<sup>3</sup>A sample of which is contained in Appendix E.

<sup>4</sup>For the sake of convenience and simplicity, Washington D.C. shall be included in any reference to "states".

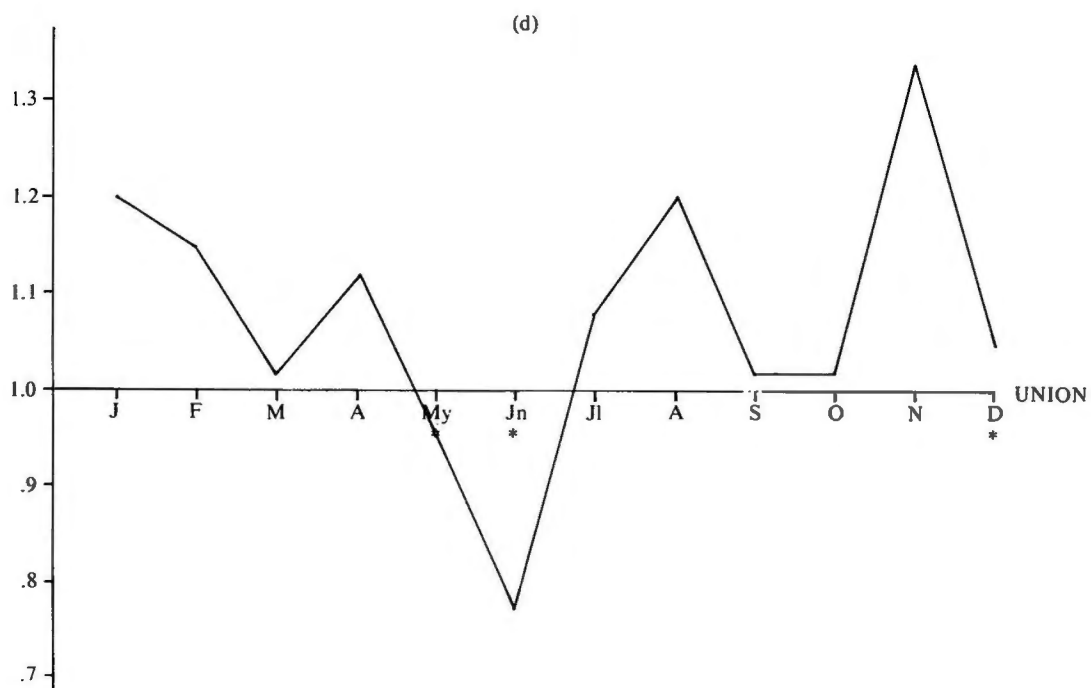
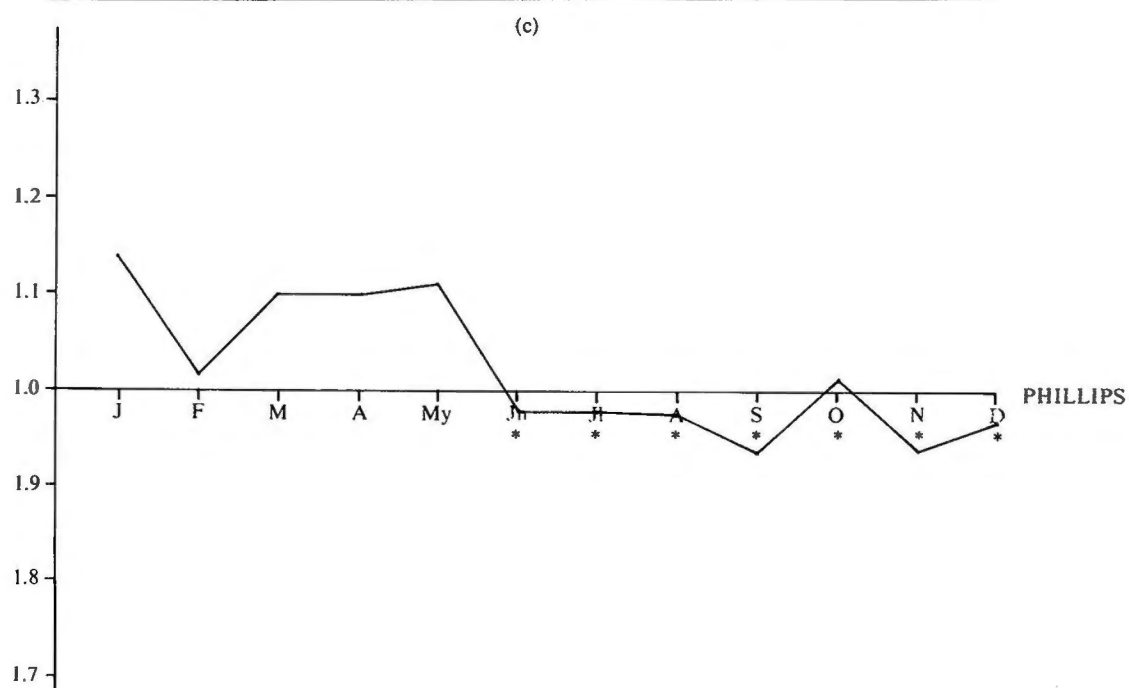
<sup>5</sup>The choice of 1972 as the base year may discriminate against some states which may have had unusually low consumption in that year due to factors beyond their control (e.g. shipping strike). However it is still not an un-

FIGURE 6

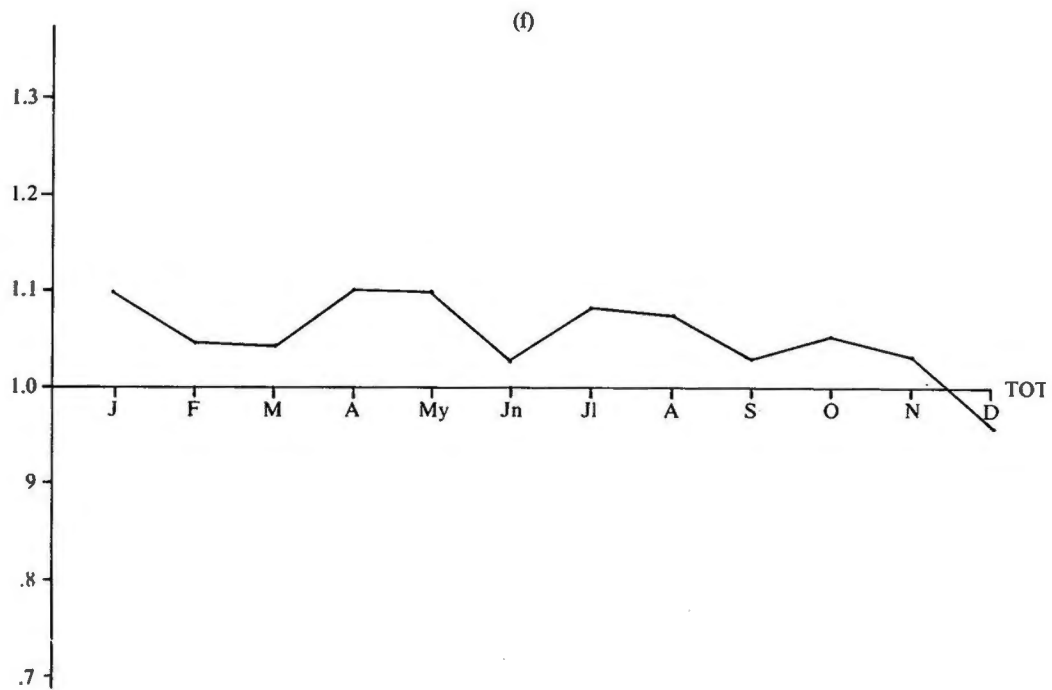
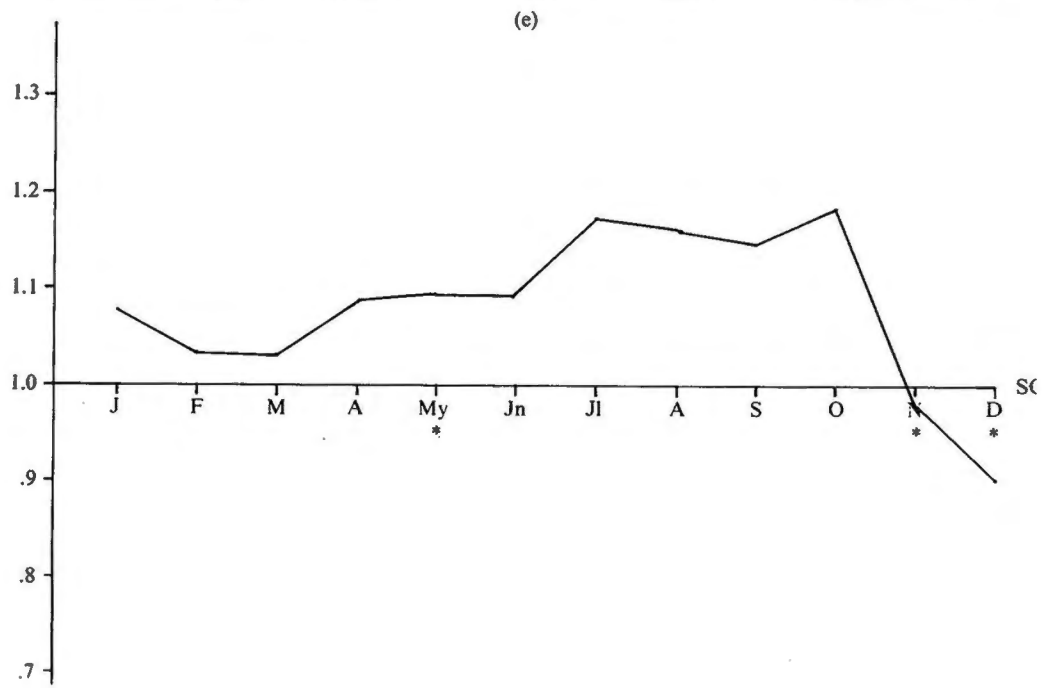
Ratio of Monthly Gasoline Sales: 1973 over 1972



The asterisks (\*) indicate the months during which the company went on voluntary allocation.







Note: Totals include Armour and Time.

Some users are given special treatment by order of FEO. These are customers engaged in agricultural production, energy production, sanitation services, telecommunication services, and transportation services (except aviation). SOCAL must assign to these customers, 100 percent of their current 1974 requirements.

By adding up the allocation requirements of all the users, SOCAL obtains an allocation requirement for Hawaii for a given month. On top of that figure, the company can make some adjustments for new businesses and for "unusual growth"<sup>6</sup> experienced by some of its customers since 1972. Application for such base adjustments are made on FEO-17 forms.<sup>7</sup> Additional adjustments can be made to correct for "regional imbalances" which stem from shortages "significantly greater than are being experienced elsewhere in the nation... due to weather variation, seasonal demand, or other circumstances beyond... control."<sup>8</sup>

AL	Alabama
AK	Alaska
AR	Arkansas
AZ	Arizona
CA	California
CO	Colorado
CT	Connecticut
DC	Washington, D.C.
DE	Delaware
FL	Florida
GA	Georgia
HI	Hawaii
IA	Iowa
ID	Idaho
IL	Illinois
IN	Indiana
KS	Kansas
KY	Kentucky
LA	Louisiana
MA	Massachusetts
MD	Maryland
ME	Maine
MI	Michigan
MN	Minnesota
MO	Missouri
MS	Mississippi
MT	Montana
NE	Nebraska
NC	North Carolina
ND	North Dakota
NH	New Hampshire
NJ	New Jersey

reasonable choice. Choosing 1973 as the base year would have presented more problems of equity, because there was no uniformity among the oil companies in applying the voluntary petroleum allocation program in that year.

<sup>6</sup>Unusual growth is defined as more than 10 percent growth since the base year for gasoline.

<sup>7</sup>See Appendix E. These forms must be filed with the supplier by June 1, 1974.

<sup>8</sup>See regulation 211.14 in the *Federal Register*, (p. 1935.)

NM	New Mexico
NV	Nevada
NY	New York
OH	Ohio
OK	Oklahoma
OR	Oregon
PA	Pennsylvania
RI	Rhode Island
SC	South Carolina
SD	South Dakota
TN	Tennessee
TX	Texas
UT	Utah
VA	Virginia
VT	Vermont
WA	Washington
WI	Wisconsin
WV	West Virginia
WY	Wyoming

Thus, by summing up the base period quantities and the adjustments, SOCAL calculates a final allocation requirement for Hawaii for a particular month. It then adds up the allocation requirements for each one of the states in the western region and obtains the allocation requirement for the whole western region. Then, by dividing the allocable supply of gasoline for the region by the allocation requirement, SOCAL obtains an allocation fraction for the western region.<sup>9</sup>

The allocation fraction thus gives us an idea of what percent of the maximum allowable requirement SOCAL is able to meet for the given month.<sup>10</sup> If SOCAL's allocation fraction for the western region in the month of February, 1974 is .98, for example, it indicates that the company is able to meet 98 percent of the maximum allowable requirement in that region. The company then supplies to each state in the western region an amount of gasoline equal to 98 percent of each state's own allocation requirement. In this way, each state is treated "equally".<sup>11</sup>

Since each supplier doing business in Hawaii files an FEO-1000 form, it is possible to calculate an allocation fraction for the whole state, covering all the oil companies. For February, 1974, the allocation fraction for the State of Hawaii was .859 (see Table IV-1). Because a different collection of firms operates in each state, even if each company treats each state under its marketing jurisdiction "equally", it is likely that, barring coincidences, there is a different allocation fraction for each state. Column (2) in Table IV-1

<sup>9</sup>See note (a) under Table IV-1 for the formula.

<sup>10</sup>Net of the 3 percent state set-aside.

<sup>11</sup>Although equal treatment is not a provision of the mandatory allocation program, in general, the companies doing business in Hawaii have applied the equal treatment principle, much to the dismay of State officials who feel that, among other reasons, Hawaii has much less discretionary driving than elsewhere, and an equal percentage curtailment of supply would tend to hurt Hawaii more than other states.

The state set-aside is similarly prorated.

TABLE IV-1

## FEDERAL ENERGY OFFICE MOTOR GASOLINE ALLOCATIONS: FEBRUARY, 1974

STATE	ALLOCATION <sup>a</sup> FRACTION	INITIAL AVAILABLE SUPPLY (MIL. GALS.)	FEB. 19 & FEB. 23 EMERGENCY ALLOCATIONS (MIL. GALS.)	FINAL FEBRUARY SUPPLY (MIL. GALS.)
(1)	(2)	(3)	(4)	(5)
AL	.789	107.8	10.8	118.6
AK	.839	8.4	.0	8.4
AR	.797	80.9	.0	80.9
AZ	.829	73.7	7.4	81.1
CA	.828	680.2	.0	680.2
CO	.858	96.2	9.7	106.4
CT	.821	87.7	.0	87.7
DC	.767	17.4	1.7	19.1
DE	.794	20.5	2.0	22.5
FL	.863	294.8	29.5	324.3
GA	.834	173.8	8.7	182.5
HI	.859	18.3	1.8	20.1
IA	.883	104.2	.0	104.2
ID	.863	30.8	.0	30.8
IL	.813	324.9	32.5	357.4
IN	.854	169.2	16.9	186.1
KS	.865	108.1	.0	108.1
KY	.755	104.0	10.4	114.4
LA	.877	163.1	.0	163.1
MA	.812	165.1	16.5	181.6
MD	.773	112.4	11.2	123.6
ME	.740	34.6	3.5	38.1
MI	.822	295.5	.0	295.5
MN	.974	168.9	.0	168.9
MO	.833	156.2	15.6	171.8
MS	.814	80.0	8.0	88.0
MT	.861	27.4	.0	27.4
NE	.826	50.8	.0	50.8
NC	.782	168.5	16.8	185.3
ND	.874	24.5	.0	24.5
NH	.832	17.9	1.8	19.7
NJ	.808	212.5	21.2	233.7
NM	.888	48.3	.0	48.3
NV	N/A	19.7	2.0	21.7
NY	.812	412.4	41.2	453.6
OH	.902	319.8	.0	319.8
OK	.868	122.4	.0	122.4
OR	.788	67.7	6.8	74.5
PA	.807	313.2	31.3	344.5
RI	.837	27.2	2.7	29.9
SC	.783	90.9	9.1	100.0
SD	.865	26.6	.0	26.6
IN	.778	152.6	15.3	167.9
TX	.858	538.1	.0	538.1
UT	.818	31.0	.0	31.0
VA	.822	147.4	14.7	162.1
VT	.775	12.9	1.3	14.2
WA	.805	112.4	.0	112.4
WI	.874	138.8	.0	138.8
WV	.817	39.8	4.0	43.8
WY	.874	21.0	.0	21.0
TOTAL	.833	6,821.0	354.5	7,175.5

SOURCE: FEO (D.C.), kindly supplied by U.S. Representative Patsy Mink.

NOTE: (a) Allocation fraction is defined as 
$$\frac{\text{allocable supply}}{\text{allocation requirements}}$$

where: allocable supply = available supply — state setaside

state set-aside = .03 (available supply)

allocation requirements = adjusted 1972 base where adjustments are made on the basis of received FEO-17's or else estimated.

shows, for example, that for February, 1974, the state allocation fractions ranged from a low of .740 for Maine to a high of .974 for Minnesota. The national average was .833.

It appears, therefore, that at least in the early period of the mandatory allocation program, it is the oil companies which principally determine the initial allocation fractions for each state. That is because the key element in the ratio is the available supply, the determination of which remains within the realm of corporate decision-making.<sup>12</sup>

Once these initial allocation fractions are determined, FEO then attempts to bring about some semblance of equity by redistributing gasoline from some states to other states. In its February 9 redirection decree, FEO increased the allocations of thirteen states by 2 percent each<sup>13</sup> and decreased the allocations of 10 states by 2 percent each.<sup>14</sup> The order was subsequently rescinded when FEO learned that, due to the confusion created by the new program, the data submitted by the oil companies were not comparable. Consequently, there was no satisfactory method available to determine what is an equitable distribution of gasoline for individual states.

FEO officials finally conceded that the February allocation program was in shambles. Teams of observers were then sent out to different states and made subjective evaluations on the relative scarcities of gasoline supplies, and upon these evaluations new allocation orders were sent out on February 19 and 23. These emergency allocations, as summarized in Table IV-1, column (4), show that a total of 29 states received additional allocations, including Hawaii. The amounts received were an extra 10 percent for each state, except for Georgia, which received a 5 percent adjustment. Hawaii received its emergency allocation only after it threatened to sue FEO for unfair treatment.<sup>15</sup> There was, in short, no systematically justifiable method for gasoline re-allocation in the month of February.

#### THE MARCH MANDATORY ALLOCATION PROGRAM

The March program was nearly a total modification of the February program. There were two reasons for the change: (1) to preclude the necessity for re-adjusting gasoline supplies in the middle of the month, and (2) to bring more equity to the gasoline allocation program.

FEO's concern over equity — as was everyone else's — was paramount since the mandatory al-

location program essentially pits each state against all the other states over the total available supply of gasoline in the country. According to FEO, the February system "will work, but until more applications for adjustments to base periods are filed and processed by suppliers, and the FEO, imbalances among the states are highly likely to occur".<sup>16</sup>

To best understand how the modified program works, we focus on Hawaii's March gasoline allocation (Table IV-2). On the basis of information submitted by individual oil companies on the FEO-1000 forms, FEO calculated the initial available supply of gasoline for Hawaii. For March, the amount was 19.6 million gallons (column 4), and represented the quantity which the oil companies indicated they would deliver to Hawaii.<sup>17</sup>

FEO then estimated Hawaii's March demand for gasoline by using the percentage increase in motor vehicle registrations in Hawaii between January 1, 1972 and January 1, 1974<sup>18</sup> to adjust upward the level of consumption in March,

<sup>15</sup>We say "only", because the team which came to Hawaii concluded that Hawaii showed no visible signs of hardship. The gist of Hawaii's argument, however, was that Hawaii was being unfairly treated because it had taken positive steps to reduce gasoline lines by adopting a mandatory Oregon-type gas plan. Maryland's suit was successful.

<sup>16</sup>Letter (dated February 26, 1974) from John W. Weber, Assistant Administrator for Operations and Compliance (FEO) to Governor Daniel J. Evans of the State of Washington. According to one FEO aide, "We had envisioned that the oil companies would pick up our allocation method... but they didn't. They just sat back and watched the show." (*Honolulu Star Bulletin*), February 21, 1974.) Actually, our own observations, based on testimonies heard before the Special House Committee on Energy attribute the slowness of the base adjustments to a number of factors: (1) The FEO-17 forms are detailed and sometimes too complicated for users to fill out, (2) The reluctance of oil companies, excepting Union Oil Co., to recognize and expedite processing of applications based on "unusual growth", and (3) FEO's own decision allowing the deadline date for submission of these applications to be extended till June 1, 1974.

<sup>17</sup>The 19.6 million gallons do not include the amounts for Armour and Time since, for unknown reasons, these two companies did not submit FEO-1000 forms for February and March. All the quantities referring to Hawaii (below) should therefore be raised by approximately 1 million gallons to account for Armour and Time. (See Appendix D.)

<sup>18</sup>For Hawaii, the net adjustment was 10.76 percent, or:

$$\frac{\text{column (3)} - \text{column (2)} \times 100}{\text{column (2)}}$$

<sup>12</sup>This is to be qualified later in VI when we analyze the crude reallocation program.

<sup>13</sup>These were Arkansas, Delaware, Illinois, Kentucky, Maine, Maryland, Mississippi, New Jersey, North Carolina, Tennessee, Texas, Virginia, and Washington D.C.

<sup>14</sup>These were Iowa, Kansas, Minnesota, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Wisconsin, and Wyoming.

1972 (column 2). Thus, for the month of March, 1974, the estimated demand for gasoline in Hawaii was 24.7 million gallons (column 4).

By dividing the initial available supply by the estimated demand (column 4 divided by column 3), FEO obtained an allocation fraction (column 5) of .794 for Hawaii. In other words, subject to subsequent adjustments by the FEO, the amount of gasoline which the oil companies indicated they would deliver to Hawaii represented 79.4 percent of the estimated March, 1974 demand,<sup>20</sup> giving a shortfall of 20.6 percent. The average allocation fraction for the country was .843 with the range from a low of .617 for New Hampshire to a high of 1.107 for Wyoming.

Simply put, had there been no readjustments by the FEO, some states would have had shortfalls and other states would have had surpluses; the largest shortfall (relative to need) would have been 38 percent (New Hampshire) and the largest surplus would have been 10.7 percent (Wyoming). Based on what the oil companies had indicated on the FEO-1000's, the shortfall for the country as a whole was 16 percent.

Rather than redistributing gasoline from some states to others, FEO then attempted to narrow the state-by-state inequalities by ordering the oil companies to deliver an extra 472 million gallons of gasoline to various states. Two criteria were used to assign these extra allocations.

First, FEO raised the allocation fractions of those states below .85 up to at least that threshold. For Hawaii, it meant an increase of the available supply from 19.6 million gallons to 21 million gallons.<sup>21</sup>

The second criteria was a more curious one. FEO calculated a second estimate of demand for March, 1974<sup>22</sup> by increasing the February, 1974 initial available supply for each state (column 6) by 13.6 percent — 10.7 percent for the three extra days in March over February, and an additional 2.9 percent for the normal seasonal increase in consumption. For Hawaii, the second estimate of

demand came out to 20.8 million gallons (column 7).

FEO then raised every state's March, 1974 allocation to an amount as close as possible to the second demand estimate, **after first raising every state's allocation up to an amount equivalent to an allocation fraction of .85.** We have already noted that, in raising Hawaii's March allocation fraction from .794 to .85, the available supply of gasoline was increased to 21 million, and as this figure was already higher than the second demand estimate of 20.8 million, FEO made no additional adjustments for Hawaii. Hawaii's final March allocation thus remained at 21 million gallons for an allocation fraction of .85. In other words, the shortfall was reduced from an initial estimate of 20.6 percent for March, 1974 to 15 percent by FEO direction.

On the other hand, in the curious case of Colorado (CO), its initial allocation fraction was .886 and thus already higher than the .85 threshold. In spite of this, FEO further raised its March allocation, because its initial available supply based on the .886 fraction (106.9 million gallons; column 4) was still short of the second demand estimate of 109.9 million gallons. Thus, FEO raised Colorado's March allocation to 109.9 million gallons for a final March allocation fraction of .917. In other words, Colorado's shortfall was reduced from 11.6 percent to 8.3 percent. The second criteria was not applied to those states whose initial allocation fractions were already greater than one, and not one state had its final allocation that was less than its initial amount.

Thus, by FEO direction, the national shortfall was reduced from 16 percent to 10 percent, a short-term policy decision to shorten gas station lines, accomplished by drawing down existing inventories.<sup>23</sup>

#### WERE MARCH ALLOCATIONS EQUITABLE?

It is obvious that the March allocations were not equitable. Although the spread between the have-states and the have-not states narrowed somewhat by FEO action, the margin remained a very wide 25 percent between the 21 states which received 85 percent of their estimated requirements and Wyoming which received 11 percent more than it needed. Perfect equality calls for every state to have a March allocation fraction of .896. While it may be true that, "given physical constraints implicit in the gasoline distribution system, perfect equality can never be achieved", the March allocations still fall short of the goal to ensure that regional or state differences will be no greater than 5 percent from

<sup>19</sup>These data were obtained by request from oil companies submitting FEO-1000 forms, and the caveat relating to Hawaii (see footnote 17) remains.

<sup>20</sup>This is unrestrained demand and therefore is upward biased, because it does not take into account, for example, the effects of rising prices. Since mid-October, 1973 gasoline prices in Hawaii (wholesale and retail) have increased by 30 percent, or more. Conservatively, these price increases should have reduced consumption by 6 to 10 percent.

<sup>21</sup>This was accomplished by ordering the five majors here to each raise their available supply by 7.1 percent.

<sup>22</sup>Although it erroneously called it "Initial March 1974 Supply".

<sup>23</sup>Whether or not this draw-down will have significant implications for the coming months is yet unknown.

TABLE IV-2  
FEDERAL ENERGY OFFICE MOTOR GASOLINE ALLOCATIONS FOR MARCH, 1974

STATE	MAR. 1972 CONSUMP- TION (MIL. GALS.)	MAR. 1972 <sup>a</sup> CONSUMP- TION ADJ. FOR MOTOR VEHICLE GROWTH (MIL. GALS.)	AVAILABLE SUPPLY BE- FORE FEO ACTION (MIL. GALS.)	ALLOCA- TION FRACTION BE- FORE FEO ACTION (4)/(3) =	FEB. 1974 INITIAL SUPPLY (MIL. GALS.)	EST. MAR. <sup>b</sup> 1974 DE- MAND BASED ON INITIAL FEB. 1974 SUPPLY (MIL. GALS.)	FINAL MAR. 1974 ALLOCA- TION BY FEO (MIL. GALS.)	FINAL MAR. 1974 ALLOCA- TION FRACTION (8)/(3) =
		(3)				(7)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AL	148.9	161.9	126.8	.783	107.8	122.5	137.6	.850
AK	8.5	9.1	9.5	1.044	8.4	9.5	9.5	1.046
AR	91.6	95.1	84.5	.889	80.9	91.9	91.9	.967
AZ	95.9	108.6	81.2	.748	73.7	83.7	92.3	.850
CA	845.0	917.2	73.3	.799	680.2	772.7	779.7	.850
CO	101.9	119.8	106.1	.886	96.7	109.9	109.9	.917
CT	141.5	150.8	107.2	.711	87.7	99.6	128.2	.850
D.C.	20.1	20.2	19.0	.941	17.4	19.8	19.8	.979
DE	23.1	23.6	18.8	.797	20.5	23.8	23.3	.987
FL	349.1	412.5	318.0	.771	294.8	334.9	350.6	.850
GA	246.1	280.6	218.0	.777	173.8	197.4	238.5	.850
HI	22.3	24.7	19.6	.794	18.3	20.8	21.0	.850
IA	129.2	133.4	108.3	.812	104.2	118.4	118.4	.888
ID	38.3	45.1	37.0	.820	30.8	35.0	38.4	.850
IL	424.8	457.8	343.8	.751	324.9	369.1	389.2	.850
IN	221.4	227.4	193.7	.852	169.2	192.2	193.7	.852
KS	105.6	116.6	118.6	1.017	108.1	122.8	118.6	1.017
KY	131.9	147.9	114.3	.773	104.0	118.1	125.7	.850
LA	145.3	161.6	164.0	1.015	163.1	185.3	164.1	1.015
MS	187.1	203.8	182.8	.897	165.1	187.6	187.6	.920
MD	146.9	167.2	135.9	.813	112.4	127.7	142.1	.850
ME	38.8	42.8	37.4	.874	34.6	39.3	39.3	.918
MI	355.1	391.1	332.0	.849	295.5	355.7	335.9	.858
MN	154.0	165.8	169.3	1.021	168.9	191.9	169.2	1.020
MO	213.5	232.5	166.0	.714	156.2	177.4	197.7	.850
MS	92.5	103.3	78.7	.762	80.0	90.9	90.9	.880
MT	31.4	38.2	26.8	.702	27.4	31.1	32.5	.850
NE	70.6	78.3	51.5	.659	50.8	57.7	66.5	.850
NC	165.6	189.5	199.4	1.052	168.5	191.4	199.4	1.052
ND	26.5	28.8	24.0	.833	24.5	27.8	27.8	.967
NH	28.8	34.5	21.3	.617	17.9	20.3	29.3	.850
NJ	271.8	289.8	234.7	.810	212.5	241.4	246.4	.850
NM	52.7	59.5	48.8	.820	48.3	54.9	54.9	.922
NV	28.5	32.2	27.3	.848	19.7	22.4	27.4	.850
NY	499.9	519.2	418.0	.805	412.4	468.5	468.3	.902
OH	392.9	409.3	348.3	.851	319.8	363.3	363.3	.888
OK	122.2	134.1	133.2	.993	122.4	139.0	134.1	1.000
OR	93.7	102.5	78.0	.761	67.7	76.9	87.2	.850
PA	387.7	417.7	353.8	.847	313.2	355.8	355.8	.852
RI	30.4	33.1	28.1	.849	27.2	30.9	30.9	.930
SC	113.4	184.5	153.7	.833	90.9	103.3	105.9	.850
SD	32.1	35.0	29.1	.831	26.6	30.2	30.2	.864
TN	167.7	188.5	175.5	.931	152.6	173.4	175.5	.931
TX	574.2	630.2	657.9	1.044	538.1	611.3	657.8	1.044
UT	45.1	50.3	44.1	.877	31.0	35.2	44.1	.876
VA	198.3	227.4	174.0	.765	147.4	167.4	193.2	.850
VT	18.6	21.3	18.4	.864	12.9	14.7	10.4	.862
WA	126.8	136.2	130.1	.955	112.4	127.7	130.0	.955
WI	160.4	175.5	143.4	.817	138.3	157.1	157.1	.895
WV	67.2	73.2	48.9	.668	39.8	45.2	62.2	.850
WY	17.6	19.6	21.7	1.107	21.0	23.9	21.7	1.108
TOTAL	8,203.0	8,969.0	7,561.0	.843	6,821.0	7,748.0	8,033.0	.896

SOURCE: FEO (D.C.) and kindly supplied by U.S. Representative Patsy Mink.

NOTES: (a) Adjusted by the percentage change in motor vehicle registrations between January, 1972 and January, 1974.

(b) the February, 1974 initial supplies were raised by 10.7 percent for the three extra days in March over February and by an additional 2.9 percent for the normal seasonal increase.



each other.<sup>24</sup> Interestingly, if we assume that the 28 states which received emergency allocations in February had the greatest needs, 17 of these, including Hawaii, had allocation fractions of .85 in March, out of the 21 states which had the same and lowest fraction.<sup>25</sup>

There remain numerous criticisms of FEO performance to date, with perhaps the most serious one being that which relates to the methodology it used to allocate gasoline in March. This is not to say that the modified program lacked positive features. The best of these was the decision to calculate the March, 1974 demand based on an adjustment for motor vehicle registrations, rather than on FEO-17 forms. Had the FEO calculated allocation fractions and readjusted supplies using these demand estimates alone, it would have had a simple and equitable program.<sup>26</sup> Instead, FEO went one step too far by establishing a second allocation criterion based on another and highly questionable set of demand estimates. Because these new demand estimates were based on the initial February, 1974 supplies, by applying that second criterion, FEO in effect perpetuated the inequities inherent in these initial supplies.<sup>27</sup> The methodological error that was committed here is serious and totally inexcusable. It shows convincingly, along with many other shortcomings,<sup>28</sup> that since its inception, FEO has been responsible for many inequities and has been the source of much of the confusion surrounding the Federal mandatory petroleum allocation program.

In April, the search for equity will continue. According to FEO's Deputy Administrator, Dr. John C. Sawhill, "For the month of April, the Federal Energy Office is planning to take action that will produce a distribution of gasoline among the states such that no one state shall have an allocation fraction which is five percent greater or less than any other state. This action will require some redistribution among

states—i.e. taking supplies from states with adequate supplies and allocating them to states experiencing shortages".<sup>29</sup> It is anticipated that the proposal favors Hawaii and the western region (excepting Alaska).

In conclusion, focus not on what the oil companies say they will do; focus on what FEO does.

## V

### THE ENERGY CRISIS AND THE INDEPENDENTS

The two independent oil companies in Hawaii, Armour Oil Company of Hawaii, Ltd. and Time Oil Company of Nevada, are both strictly in the retail business.<sup>1</sup> They obtain their gasoline from SOCAL in Hawaii<sup>2</sup> through exchange and return the exchanged quantities gallon for gallon on the West Coast of the United States. Although it would be tempting to assume that the energy crisis and the Federal mandatory allocation program would have the same impact on both companies, in actuality, the effects have been markedly different. While Armour Oil Company remains financially sound,<sup>3</sup> Time Oil Company is threatened with having to close its six retail stations on Oahu in order to avert losses. The stark contrast between these two companies is explained by the fact that they have basically different kinds of operations.

#### TIME OIL COMPANY

In the midst of the gasoline shortage in Hawaii, Mr. George Shawver, President of Time Oil Company in Nevada, startled members of the Special House Committee on Energy with a report that its six Sav-Mor gasoline stations would be unable to sell almost 30 percent of their monthly allocation in February. The apparent reason was that Sav-Mor's gasoline prices were 8 to 14 cents per gallon higher than those charged by their competitors, and motorists preferred to wait, even in longer lines, at gas stations elsewhere rather than pay the higher prices at Sav-Mor.

<sup>24</sup>The quote came from the memo attached to the March FEO fact sheet, and kindly supplied to us by U.S. Rep. Patsy Mink.

<sup>25</sup>An apparent error in the data on actual March, 1972 consumption resulted in Connecticut scheduled to receive 48 percent more gasoline in March than in February, although its final allocation fraction was only .85. After correction, its final March allocation fraction settled at .993.

<sup>26</sup>Some minor adjustments still need to be made for states having disproportionately large numbers of out-of-state motor vehicles. To be equitable, an adjustment should be made only for the percentage increase in out-of-state vehicles since the base year.

<sup>27</sup>Which, to recall, FEO had to readjust on February 19 and 23.

<sup>28</sup>Many of which are contained in a new FTC report on the first 45 days (January-February) of the Federal mandatory allocation program. The Committee has not yet received a copy as of this writing date (March 22).

<sup>29</sup>Statement of Dr. John C. Sawhill, Deputy Administrator, Federal Energy Office, before the Joint Economic Committee, Subcommittee on Consumer Economics, March 14, 1974.

<sup>1</sup>Hawaiian Independent Refinery produces no gasoline at this time, only liquid petroleum gas, naphtha, kerosene, light gas oil, heavy gas oil and residual fuel. In 1972, 81.5 percent was delivered to foreign destinations and to the U.S. military for use on the high seas. In Hawaii HIRI sells low-sulphur residual fuels to utilities. Thus, it has been essentially a foreign operation, although it does have plans to expand into the Hawaii market in the near future.

<sup>2</sup>Although Armour, for example, does import canned motor oil.

<sup>3</sup>According to the testimony of its President, Mr. Ogden Armour, before the Special House Committee on Energy, March 6, 1974.

Why did Sav-Mor charge much higher prices than other companies? According to Mr. Shawver, the reason was that Time Oil had to pay much higher wholesale prices than its competitors. In February, Time paid 39.9¢ per gallon for regular and 42.9¢ per gallon for premium, in comparison to the 28–30¢ per gallon wholesale for regular and 31–34¢ per gallon for premium charged by the major oil companies to their dealers.<sup>4</sup> Before the energy crisis, Sav-Mor's gasoline prices were 8–9¢ per gallon lower than those at other stations.

The story of this sudden reversal in the price structure since the energy crisis presents an interesting example of how government policy can sometimes produce disastrous results on private enterprise.

Prior to the mid-1950's, the U.S. was essentially self-sufficient in crude oil. In fact, individual producing states had restricted output by proration to prevent over-exploitation of reserves. Then the Middle Eastern and Venezuelan oil fields opened up and pushed world crude oil prices downward.

Fearing that this new inexpensive foreign oil would threaten U.S. domestic production and thereby jeopardize our national security, President Eisenhower imposed the mandatory oil import quota program in March, 1959 under the Reciprocal Trade Agreements Act of 1955. The goal of the program was simple: restrict the flow of cheap foreign crude oil into this country in order to artificially prop up domestic crude oil prices.

Thus, from 1959 till 1973, the oil import program worked as planned, maintaining a price differential of \$1.50 to \$2.50 per barrel between U.S. and foreign crude oil. Imports were restricted by issuing free quota tickets to refineries in quantities equal to the "desired" amount of crude to be imported.

The Government then favored small independent refineries by issuing import tickets on a sliding scale, giving proportionately more tickets to smaller refineries. The most preferentially treated refineries were those with capacity throughputs of 10,000 barrels or less of crude per day.

Time Oil Company's affiliate, U.S. Oil and Refining Company had already built a refinery

of 10,000 barrels per day capacity in Tacoma, Washington, to exclusively process foreign crude oil with the Time Oil group marketing its output. Thus, although Time Oil Company obtains the gasoline it sells in Hawaii from SOCAL, it returns the same quantities to SOCAL on the West Coast through (i.e. by "buying" from) U.S. Oil and Refining Company.

By relying on cheap foreign crude, Time was able to successfully compete against the major oil companies. However, effective May 1, 1973 President Nixon ended the oil import quota program to forestall impending shortages. The announcement came only six months before the Arab oil embargo plunged the United States into the gravest peace time energy shortage in history.

The oil embargo and the cutback in Arab oil production drove up world crude oil prices that were between \$2.00 and \$2.50 per barrel to over \$11.00 per barrel. The Nixon Administration then attempted to prevent gasoline prices in the U.S. from rising to the feared \$1.00 per gallon level by declaring a price ceiling of \$5.25 per barrel on domestic crude oil.<sup>5</sup> The result was to artificially maintain low crude oil prices to the major oil companies here to the detriment of those independents like Time Oil Company, which now has to incur relatively higher costs because they had to pay wholesale gasoline prices based on prevailing crude oil prices. For example, the most recent crude which the U.S. Oil and Refining Company purchased from Venezuela was \$15.00 per barrel. Suddenly, then, independents like Time found themselves no longer price competitive with the major oil companies which have had access to cheaper domestic crude oil.

Time Oil's difficulties were further compounded by the State's mandatory GASPLAN which prevented gas stations from opening for business on weekends. Subsequent to Mr. Shawver's testimony, the State's GASPLAN administrators announced they would allow only the six Sav-Mor stations to open on Saturdays but to sell only to U-drives, emergency and commercial vehicles, and medical doctors who need emergency gasoline supplies.<sup>6</sup> The stations did not re-open because, it was later explained, the anticipated extra business from the restricted clientele would not have covered the expected costs of keeping the gas stations open.

#### ARMOUR OIL COMPANY

Armour Oil of Hawaii Ltd. operates five Armour service stations on Oahu and one in Hilo on the island of Hawaii. The Hilo retail outlet is a Texaco station.<sup>7</sup>

<sup>4</sup>Estimated from data submitted by oil companies to the Committee. It should be noted that wholesale prices do not reflect the total cost of selling gasoline. For example, in addition to the wholesale prices, Time had to pay 4¢ per gallon for federal tax, 8.5¢ for Hawaii state and county taxes, 2¢ for general excise tax, and 1.5¢ to Oahu Transport for hauling the gasoline from Barbers Point to the gas stations. On top of these must be added operating as well as capital costs.

<sup>5</sup>Exempted were new oil.

<sup>6</sup>Since mid-March, GASPLAN administrators have decided to allow all gas stations to open on Saturdays to serve the general public.

<sup>7</sup>The Hilo operation is small and no further reference will be made to it.

In sharp contrast to Time Oil Company, Armour's President, Mr. Ogden Armour, painted a favorable financial picture of his company. Although SOCAL had cut back Armour's February and March allocations to 100 percent of its 1972 sales, with higher retail prices, Armour's profit "is not bad the way it is," he said, and February prices of \$4.8¢ per gallon for regular and 58.8 cents per gallon for premium were still below the FEO ceilings.

Why is Armour so different from Time Oil Company? Armour, like Time, obtains the gasoline it sells on Oahu through exchange from SOCAL. Unlike Time, it returns the exchanged quantities to SOCAL on the West Coast by buying gasoline from Gulf Oil Company. In other words, Armour has no refinery capacity of its own; its overall operation is one of a jobber. Since Gulf is a large processor of both domestic and foreign crude oil, the prices it can charge for its products are controlled by the Federal Government's Cost-of-Living Council. Thus, Gulf's wholesale prices to Armour are much lower than those paid by Time Oil Company, the latter being based exclusively on the prices of foreign crude oil.

Why should Gulf continue to sell to Armour Oil Company rather than to its own retailers? The reason is that under the Federal mandatory allocation program, the supplier on record in 1972 must remain the supplier in 1974. Thus, the Federal Government's program has not only maintained Armour's price competitiveness, it has also guaranteed Armour a continuing source of supply.

## VI

### THE ENERGY CRISIS AND THE MAJOR OIL COMPANIES

Petroleum products, like other goods and services in a free enterprise economy, conform to the laws of demand and supply. As the price of gasoline, for example, rises, the amounts that consumers wish to buy diminish. Conversely, at higher prices, suppliers are willing to provide larger quantities because they are now more willing to undertake activities which were previously unprofitable at lower prices. Thus, prices are the mechanism which ensures that what buyers want to buy are matched in quantity and in quality by what sellers are willing to sell. From an economic standpoint, therefore, there cannot be "shortages" as long as the price mechanism is allowed to operate freely.

In other words, there is an alternative solution to the energy crisis other than Government regulation; and that solution is **not** to regulate the oil industry. In the absence of regulation, gasoline prices in the short-run will rise in the U.S. and thereby reduce consumption to a level equal to the available supply. In the longer run, rising prices will spur domestic exploration and production. Historically, the production of crude oil in the U.S. has increased by at least one percent for

every one percent increase in the price of oil (see Figure 7), after a lag of about 3 to 5 years.<sup>1</sup>

Although the free market solution would be more efficient in solving the U.S. energy crisis, it obviously has been rejected by both the Federal Government and the American public on the grounds that adopting such a policy would enable the oil companies to make "windfall profits" at the expense of the public.

The mandatory petroleum allocation program was thus conceived to achieve several objectives which were thought not entirely possible to attain under the free market solution:

(1) That there be an "equitable" distribution of petroleum products among the various users, states and regions.

(2) That independent oil companies remain viable.

(3) That oil companies be prevented from making "windfall profits", without discouraging them from exploration and development of new sources of supply.

(4) That unemployment be minimized.

The program has already had far reaching effects on the oil companies. It has practically transferred decision-making powers at nearly every stage of the oil business from the oil companies to the Government.<sup>2</sup>

To prevent "windfall profits", the Government set a price ceiling (\$5.25/bbl.) on most domestic crude oil, but to encourage greater domestic production, it exempted "new oil" and production from "stripper wells".<sup>3</sup> Exempted too was foreign crude, in order to encourage greater imports.<sup>4</sup>

The Government further ordered those refineries which have crude to operate at more than 76.65 percent of capacity between February 1 and April 30, to sell their "excess" crude to refineries which would otherwise operate at below 76.65 percent capacity. The goal of this decree was to provide a more even regional and refinery distribution of crude oil supplies so that those regions and refineries which had been less severely affected by the Arab oil embargo would share some of the burden of those regions and refineries

<sup>1</sup>Testimony by the Honorable George P. Shultz, Secretary of the Treasury, before the Committee on Ways and Means, House of Representatives, U.S. Congress, February 4, 1974. However, the expert consensus is that only a small amount of additional oil from domestic sources can be expected in the next 6 to 18 months, in spite of rising crude oil prices.

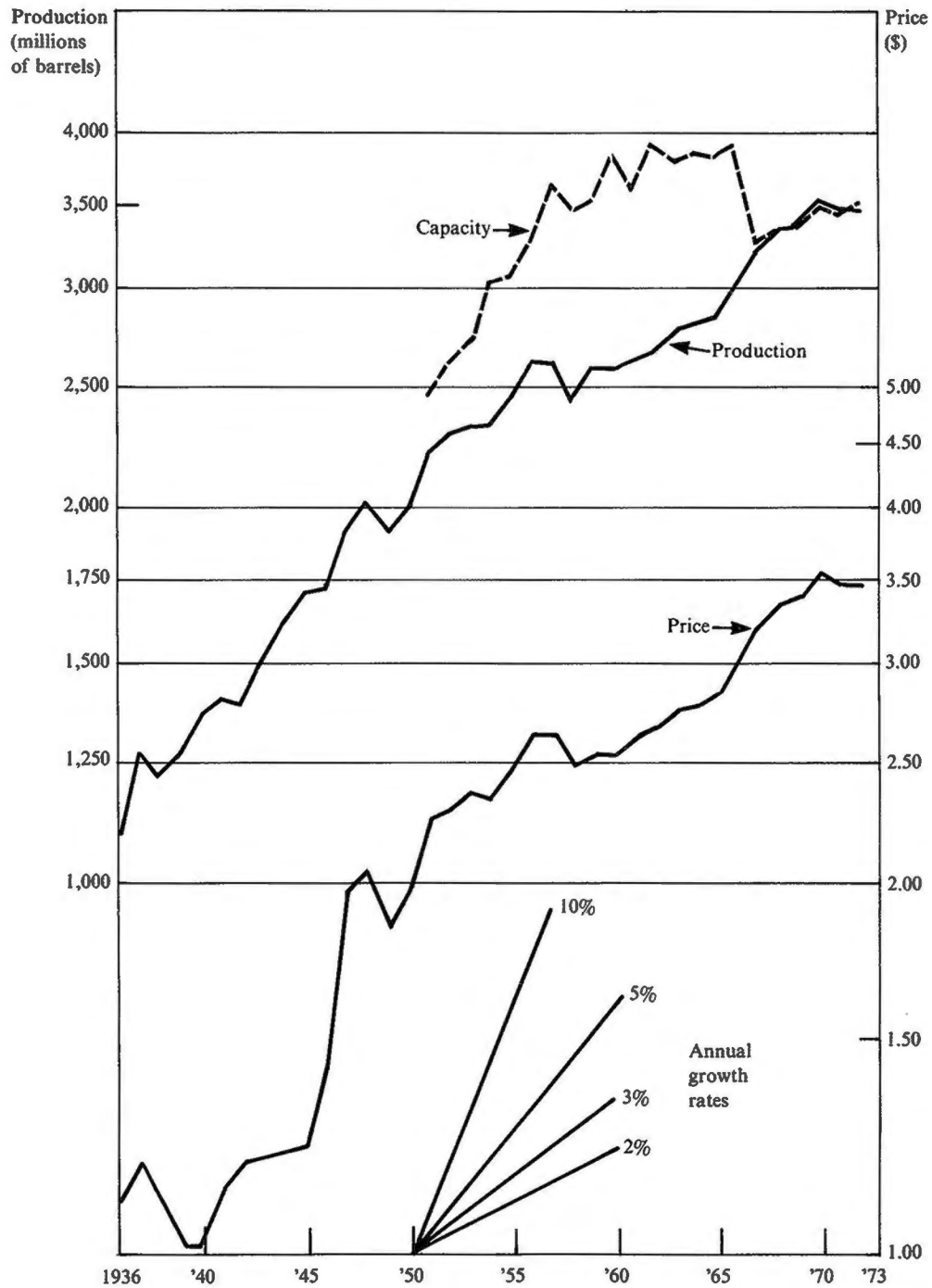
<sup>2</sup>Including state and local governments.

<sup>3</sup>Stripper wells are those which produce less than 10 bbls. of crude per day. The average well produces roughly 18 bbls. per day.

<sup>4</sup>But recall the effect of the \$5.25 price ceiling on Time Oil Company.

FIGURE 7

Crude Oil Production, Capacity, and Price Per  
Barrel at Wells, 1936-1972



Source: United States Department of the Interior, Bureau of Mines

which had been less severely affected. SOCAL, for instance has been ordered to sell 1.2 million barrels. Hawaiian Independent Refinery, Inc. (HIRI), by contrast, has been placed on the buy list for approximately 900,000 barrels. Nationally, 38 companies were required to sell a total of 52 million barrels of crude to 92 crude deficient companies.<sup>5</sup> Gulf alone has been ordered to divest 12 million barrels.<sup>6</sup>

In principle, the idea behind crude redistribution is admirable. Moreover, it is simpler to correct regional imbalances by redistributing crude oil rather than to redistribute finished products. In practice, however, the idea backfired, because it discouraged the importation of much needed crude oil. FEO Administrator Simon noted that the current crude program would intensify gasoline shortage on the East Coast which has traditionally relied heavily on imports. Simon estimated that, for the months of February, March and April, the program would cause a loss of up to 280 million gallons of gasoline in the East.<sup>7</sup> Wisely, plans are presently under way to revamp this provision of the regulations.

Not only has FEO fixed the utilization rate of the refineries, it has also specified what mix of products should come out of these refineries; and further, regulations concerning the distribution of finished products have already been discussed in IV and V. Finally, the Government also regulates prices at the wholesale and retail levels.

Accordingly, we cannot escape from the conclusion that, since the implementation of the mandatory allocation program in January, the major oil companies have become the tools of the Federal Government. They have no real powers to decide over production, pricing, and distribution, when it is exactly those powers which distinguish them as free enterprises.

## VII

### LOOKING AHEAD

On March 18, 1974, the Arab nations announced the lifting of the oil embargo against the United States and the restoration of part of the production which had been cut back since last October. Even with the lifting of the embargo, FEO officials estimate that new Arab oil will not appear at the retail level in the United States for another 60 to 90 days. Additionally, because

foreign oil now sells for more than twice the price of most domestic crude oil, importation of the Arabian crude will raise domestic retail prices by perhaps an additional 10 cents or more per gallon of gasoline. With domestic price controls still in effect, we should expect to see substantial variations in prices among dealers.<sup>1</sup>

Moreover, the lifting of the embargo will not end our energy problems. FEO has estimated that if the embargo were lifted and pre-embargo shipments resumed beginning in April, the total shortfall — based on unconstrained demand — would be about 8 percent.<sup>2</sup> The individual shortages would be 4 percent in gasoline, 13 percent in jet fuel, 3 percent in middle distillate, and 16 percent in residual. For practical purposes then, there will be no general shortages in gasoline and middle distillates; spot shortages will remain for some time to come.

In the months ahead, FEO plans to shift from allocation to conservation, and will later include research and development.<sup>3</sup> It remains likely, however, that the allocation program will last through the coming summer months.

On the local level, the lifting of the oil embargo will enable Hawaiian Independent Refinery and Dillingham-CONOCO to resume refinery expansion and building plans. If these plans are realized, the supply of petroleum products here will become much more elastic in the future.

There are many people who believe that the energy crisis — at least the shortage that appeared before the Arab oil embargo — was contrived by the major oil companies in order to drive out the independents, raise prices and profits and to induce Federal action in support of building the Alaskan pipeline, resumption of drilling in the Santa Barbara channel, relaxation of environmental standards and so forth. Congressional investigations are presently being initiated to look into these questions of possible collusion within the oil industry. There are reports of possible future anti-trust actions. Industry spokesmen however have denied any collusion.

To conclude this study, it is interesting to compare the various programs that individual states have devised to cope with the energy crisis. Based on a survey conducted between February 14 and 19 by the Office of Energy Conservation (FEO), 6 states (including Hawaii) had mandatory state-sponsored "rationing" programs;<sup>4</sup> nine states

<sup>5</sup>Statement of Dr. John C. Sawhill, Deputy Administrator, Federal Energy Office, before the Senate Committee on Interior and Insular Affairs and the Senate Commerce Committee, U.S. Congress, February 27, 1974.

<sup>6</sup>On February 15, Gulf Oil Corporation brought suit against FEO in the United States District Court for the District of Columbia seeking, among other things, a court order enjoining operation of the crude oil allocation on the grounds that it was confiscatory and discriminatory. *Ibid.*

<sup>7</sup>FEO (D. C.) release, February 28, 1974.

<sup>1</sup>As we have already witnessed between Sav-Mor and the other retail stations. The price of gasoline on the East Coast is expected to rise to 75 cents per gallon.

<sup>2</sup>Statement of Dr. John C. Sawhill, Deputy Administrator, Federal Energy Office, before the Joint Economic Committee, Congress of the United States, February 19, 1974.

<sup>3</sup>Remarks by John C. Sawhill before the Washington Journalism Center, Watergate Hotel, Washington D.C., March 6, 1974.

<sup>4</sup>Mostly based on the Oregon odd-even plan.

had voluntary state-wide programs, while the rest either had no programs or had programs only at the county levels; and twenty-one states had implemented state-wide conservation programs.<sup>5</sup> Hawaii does not yet have a conservation program, but indications are such a program is in the planning stage.

### VIII

#### CONSIDERATIONS FOR HAWAII'S FUTURE

Although the worst effects of the current energy crisis appears to have abated, the future is filled with uncertainties. We can expect spot shortages and higher prices in petroleum products in the years ahead. Depending on political developments in the Middle East, a resumption of the Arab embargo remains a constant possibility. The era of abundant oil and low-cost energy from oil is coming to an end.

What the future consequences of the energy crisis bodes for Hawaii is uncertain. Issues of national and even international concern are involved which are out of the hands of the state. However, this does not mean that we must remain mere spectators to the unfolding drama of events. There are public policy considerations and decisions that can be taken locally to better prepare Hawaii for future contingencies. We call them to the legislature's attention.

First, the State of Hawaii should compile and maintain accurate data on the supply and demand for petroleum products in the State. One of the major problems encountered during the severe gasoline shortage of early 1974 was the lack of such data. This lack hampered the State's efforts to assess the extent of Hawaii's shortfall to make policy decisions based on solid information and to justify the State's appeals to the FEO for additional supplies of gasoline. In the event of another severe shortfall, the State should be prepared with accurate data at hand. One bill recommended by the Committee — H. B. No. 2995-74, H. D. 1, relating to disclosure by liquid fuel distributions — would, if enacted, authorize the coupling of this needed data.

Second, the State should encourage the development of alternative energy sources to reduce our present almost-total reliance on oil. According to recent reports, one of the most promising alternatives for Hawaii is geothermal power. If it can be successfully developed, geothermal power could provide Hawaii with an abundant, low-cost indigenous source of energy.

Third, the State should encourage greater efforts at energy conservation in the future. With continued shortages ahead, we should try to keep our energy demands down within available

supplies in order to avoid socially and economically disruptive shortfalls.

Fourth, we should intensify our efforts to develop an efficient public transportation system, especially for commuter use. The private passenger car is an inefficient mode of transportation in terms of energy consumption for simply traveling between home and work.

Fifth, we will now have to take into account the energy factor in future public policy decisions.

In closing, we would like to express our hope that this report has proven informative and useful; informative in that it has helped to clarify some of the unknowns and uncertainties surrounding the energy crisis, useful in that it provides the Legislature with a reference for future decision-making.

### APPENDIX A

#### DEMAND FOR MOTOR GASOLINE IN HAWAII

##### OBJECTIVE:

In this Appendix, we attempt to derive a mathematical model that is associated most closely with the recent trend in gasoline consumption (sales) in the State of Hawaii. Having derived the model, it is then possible to estimate the demand for gasoline in 1974 under the assumption that there is no energy crisis. The difference between the projections and the estimated 1974 supply can be used to calculate the relative shortfall in gasoline.

##### METHODOLOGY:

The study utilizes simple and multiple least squares regression analysis. Associated independent variables are run against the dependent variable simply and in combination to obtain the "best linear fit" to the observed data. Due to the exponential nature of the growth trend over time, the models are logarithmic, i.e., they take the basic form:

$$\ln y = a + \ln x + u$$

Data come from various sources. Data on liquid fuels are obtained from the Tax Foundation of Hawaii and from the Department of Taxation, Tax Research and Planning Office. All other data are obtained from the State of Hawaii Data Book and from records kept by the Department of Planning and Economic Development.

##### REGRESSION EQUATIONS:

Regressions for gasoline are run for twelve- or thirteen-year, and four- or five-year periods to determine if the growth during the most recent years are significantly different from the longer time trend. The equations derived are presented in Table A-1.

<sup>5</sup>It is not known what the substance of these plans are.



TABLE A-1

## ESTIMATED DEMAND EQUATIONS FOR MOTOR GASOLINE SALES IN HAWAII

12 or 13 years	R <sup>2</sup>	most recent 4 or 5 years	R <sup>2</sup>
(1) $\ln g = 7.746 + .057t$ (.002)	.985	$\ln g = 7.097 + .0628t$ (.004)	.985
(2) $\ln g = .018 + .964 \ln \text{RPI}$ (.081)	.989	$\ln g = -2.824 + 1.319 \ln \text{RPI}$ (.162)	.971
(3) $\ln g = -.676 + 1.02 \ln \text{PC}$ (.048)	.976	$\ln g = -.759 + .372 \ln \text{RPI}$ (.299)	.989
(4) $\ln g = 4.775 + .631 \ln \text{PC}$ (.297)	.98		
$+ .372 \ln \text{RPI}$ (.299)			

Where g: Thousands of gallons of gasoline.  
t: Time (1961 = 1, 1962 = 2, etc.)

RPI: Annual personal income deflated by the annual consumer price index for Hawaii.

PC: Total registered passenger cars.

Note: Values in ( ) are standard errors.

## FINDINGS:

Simple regressions demonstrate that the trend of gasoline consumption over the last thirteen years has grown substantially and at an accelerating pace. Gasoline consumption in 1973 was 86% above the 1961 level. Moreover, while consumption has grown by a rate of 5.7% annually between 1961 and 1973, data for the last five years alone reveal that consumption has increased at a 6.3% annual rate between 1969 and 1973.

Each of the coefficients derived from the simple regression equations are highly significant individually, and the associated R<sup>2</sup> value is similarly high. For example, the time coefficient has a T-value of approximately 22, with an R<sup>2</sup> of .985. Similar T-values and R<sup>2</sup> values are obtained for total registered passenger cars and real personal income.

These initial results suggest that a strong association exists between these independent variables and gasoline sales.

However, in general, when combinations of independent variables are used in the same regression equation, typical multicollinearity problems arise. Standard errors of regression coefficients grow substantially, indicating that the weights of each variable of the equation can not be verified statistically. In other words, the effect of one variable can not be clearly isolated from the effects of the second variable due to the large variation of both coefficients. For instance, both defacto population and total registered passenger cars individually exhibit significant correlation with

gasoline consumption. However, when both variables are introduced into the regression simultaneously, large standard errors for the coefficients make it impossible to verify that the coefficients are significantly different from zero. Hence, although it would be unwise to neglect these variables in the analysis, the researcher could not say statistically how important one variable is relative to the other. With the existence of the collinear relationships between independent variables such as these, analytical techniques to separate each effect from the other proves futile. More refined data in a format which would allow the researcher to hold the effect of one variable constant while varying the other is necessary if such a study is desired. Unfortunately, these data do not exist; real world conditions negate the validity of a truly scientific experiment.

In one particular instance, however, the results are revealing. When total registered passenger cars are included with real personal income in a regression equation, the following result is obtained:

$\ln g = 4.775 + .631 \ln \text{PC} + .372 \ln \text{RPI}$  (1)  
Adding  $(.372 \ln \text{PC} + .372 \ln \text{PC})$  to the right side of the equation yields:

$\ln g = 4.775 + 1.003 \ln \text{PC} + .372 \ln \text{RPI/PC}$  (2)

From equation (1), the model predicts that if both PC and RPI increased by 1%, then gasoline consumption can be expected to increase by approximately the same proportion. Equation (2), however, suggests that if real personal income increased by a certain amount, the associated

increase in gasoline consumption would be proportionately less, total passenger cars remaining constant. In addition, the effect of an increase in total passenger cars would be a more than proportional increase in gas consumption, but at a decreasing rate as PC increases — the denominator of RPI/PC increases while RPI remains constant, reducing the overall ratio. Economically, the equation states that as more cars are added to the state, gasoline consumption initially increases more than proportionally, but subsequently at a decreasing rate. It is speculated that perhaps this is a reflection of a trend toward the multi-car family.

It should be noted that one would probably be unwise to discount real personal income as a factor in the equation, despite its moderately large standard error. Since the standard deviations for both coefficients are approximately equal, the analysis suggests that the same magnitude of accuracy for measuring each coefficient exists; although the weight of RPI is probably less than that of PC.

#### PROJECTIONS:

The following projections are offered as an approximation utilizing the aforementioned models. The regression equations of the most recent five- or four-year trends are used to project the high values for gasoline consumption estimates. The medium projection values assume that the regression equations for the most recent twelve- or thirteen-year periods are appropriate. Finally, the low projection estimates are calculated assuming a 20% reduction in the **change** in the independent variable between 1973–1974. The results are summarized in Table A-2.

The results projected on the basis of de facto population are extraordinarily high and are not tenable. Because of the consistency of the other forecasts, it is believed that we have developed significant models for the projection of gasoline demand, provided they are not relied upon to estimate too far into the future.

TABLE A-2  
ESTIMATED 1974 GASOLINE DEMAND  
in the  
ABSENCE OF THE ENERGY CRISIS  
(in thousands of gallons)

Model Based on:	LOW <sup>1</sup>	MEDIUM <sup>2</sup>	HIGH <sup>3</sup>
Total passenger cars	287,920	294,155	320,495
Defacto			
Real personal income	287,827	291,228	311,791
Time	294,717	298,096	307,851
Total passenger cars, real personal income	301,225	305,074	N/A

<sup>1</sup>based on an assumed decline in the **change** in the independent variable between 1973–74.

<sup>2</sup>based on the calculated twelve- or thirteen-year trend.

<sup>3</sup>based on the calculated four- or five-year trend.

NOTE: These projections are adjusted for the difference between Tax Office data and data supplied by the oil companies in testimony before the House Special Energy Committee in order that these demand projections may be compared against supply estimates in Appendix C.

#### APPENDIX B

##### COMPARISON OF MOTOR GASOLINE SALES DATA

In this Appendix, we compare three sets of data on motor gasoline sales in Hawaii:

(1) The Hawaii tax base data which include all gasoline sales in Hawaii except some amounts sold to the Federal Government (net of combat).

(2) Ethyl Corporation data from oil refiners supplying roughly 97% of the fuel requirements in the U.S.

(3) Data submitted by the seven oil companies doing business in Hawaii to the House Special Energy Committee.

Since the year 1972 is the year chosen by the Federal Energy Office as the base year for the mandatory allocation program, data only for that year are compared on a month to month basis. The data are presented in Table B-1.

A comparison of these data shows that, on an annual basis, the Tax Office data on gasoline sales in Hawaii are very close to the data submitted by the oil companies; they are smaller than the oil companies' data (excluding sales to the Federal Government) by only 1.2 percent. They are larger than the Ethyl Corporation data by 3.2 percent.

However, the differences are quite marked when we compare the month to month data. If we assume that the data submitted by the oil companies are accurate, then we must conclude that the monthly Tax Office data are not reliable

enough to present an accurate picture of monthly gasoline sales in Hawaii. The discrepancies in March and April are especially serious; but we are unable to determine the causes based on information available to us.

The smaller variations, according to testimonies by oil company executives, may stem from differences between the accounting month (e.g., a company may choose to close its books early in one month) and the delivery month. The Tax

Office data would thus be based on the accounting month while company data reflect actual deliveries by month. The latter is the data upon which the oil companies base their monthly gasoline allocations.

At the last moment, we received the American Petroleum Institute data on "motor gasoline" and "total gasoline" consumption (kindly supplied by U.S. Rep. Patsy Mink). These are included here without analysis.

TABLE B-1

## COMPARISON OF GASOLINE SALES DATA BY MONTH: 1972

	HAWAII TAX (a) BASE: GALS. IN THOU- SANDS	ETHYL CORP. REPORT		OIL COMPANY TESTIMONIES			
		GALS. IN THOUSANDS	% DIF- FERENCE FROM HA- WAI TAX BASE	GALS. IN THOUSANDS (INCL. FED. GOVT., AND NET OF COMBAT)	% DIF- FERENCE FROM HA- WAI TAX BASE	GALS. IN THOUSANDS (EXCL. FED. GOVT., AND NET OF COMBAT)	% DIF- FERENCE FROM HA WAI TAX BASE
Jan.	20,326	19,471	-4.2	20,649	1.6	20,508	.9
Feb.	20,164	19,326	-4.1	20,396	1.2	20,245	.4
Mar.	18,922	21,975	16.1	23,284	23.1	23,133	22.3
Apr.	25,092	19,806	-30.4	21,011	-16.3	20,795	-17.2
May	22,603	21,780	-3.6	23,085	2.1	22,849	1.1
Jun	22,400	22,774	1.7	23,351	4.2	23,095	3.1
Jul.	21,542	21,693	.7	23,027	6.9	22,709	5.4
Aug.	24,879	22,998	-7.6	24,455	-1.7	24,122	-3.0
Sept.	22,073	21,061	-4.6	22,380	1.4	22,052	-.1
Oct.	20,560	21,795	6.1	23,107	12.4	22,751	10.7
Nov.	21,504	21,193	-1.4	22,311	3.8	21,982	2.2
Dec.	24,330	22,176	-8.9	23,550	-3.2	23,249	-4.4
TOTAL	264,395	256,048	-3.2	270,606	2.3	267,490	1.2

SOURCES: Hawaii tax base data are obtained from *Energy Statistics of Hawaii, 1973*, Statistical Report 100 (Honolulu: Dept. of Planning and Economic Analysis Division, 1974), Table 4.

Ethyl Corporation data are obtained from Ethyl Corporations' *Yearly Report of Gasoline Sales*, 1972, p. 8.

The Hawaii Oil Company data are obtained from testimonies submitted to the Special House Energy Committee.

NOTES: (a) Due to a one-month lag in reporting deliveries (sales) the March tax figures, for example, represent February deliveries. The lag has been corrected to reflect deliveries in this table by making the proper adjustment.

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Division of Statistics & Economics  
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## MOTOR GASOLINE CONSUMPTION IN THE UNITED STATES

(FIGURES ARE IN GALLONS)

States	January	February	March	April	May	June	July
Alabama	132,926,000	131,301,000	150,680,000	144,841,000	159,397,000	156,558,000	154,256,000
Alaska	6,048,000	7,433,000	7,433,000	9,828,000	8,148,000	10,332,000	12,767,000
Arizona	83,416,000	81,864,000	94,862,000	85,200,000	83,292,000	95,048,000	96,477,000
Arkansas	69,740,000	80,828,000	93,510,000	91,200,000	96,419,000	102,873,000	101,896,000
California	771,789,000	758,515,000	845,225,000	806,299,000	856,969,000	866,480,000	848,517,000
Colorado	90,010,000	94,890,000	94,092,000	98,710,000	115,333,000	120,200,000	128,602,000
Connecticut	99,302,000	98,537,000	108,062,000	108,745,000	113,681,000	111,850,000	111,986,000
Delaware	21,038,000	19,927,000	23,570,000	22,918,000	25,489,000	25,421,000	26,548,000
District of Columbia	19,522,000	17,649,000	20,163,000	17,420,000	19,550,000	19,980,000	16,833,000
Florida	308,588,000	325,635,000	350,242,000	314,320,000	331,930,000	326,985,000	328,325,000
Georgia	199,179,000	198,371,000	229,492,000	216,774,000	228,718,000	228,529,000	232,465,000
Hawaii	19,572,000	19,488,000	22,219,000	19,948,000	19,357,000	22,050,000	21,504,000
Idaho	27,280,000	30,185,000	37,702,000	31,608,000	38,728,000	42,621,000	44,312,000
Illinois	357,248,000	358,751,000	396,064,000	377,738,000	434,022,000	425,415,000	409,071,000
Indiana	196,205,000	197,956,000	224,774,000	212,725,000	254,501,000	234,954,000	243,225,000
Iowa	120,190,000	140,065,000	83,330,000	134,849,000	176,680,000	115,505,000	166,038,000
Kansas	59,240,000	159,122,000	73,717,000	113,827,000	161,868,000	135,234,000	124,711,000
Kentucky	119,376,000	116,672,000	134,540,000	130,849,000	146,143,000	147,996,000	142,101,000
Louisiana	123,960,000	124,510,000	138,764,000	135,531,000	148,394,000	146,068,000	141,779,000
Maine	34,751,000	35,452,000	38,553,000	35,352,000	42,375,000	46,917,000	53,435,000
Maryland	132,757,000	130,721,000	146,032,000	140,330,000	153,325,000	156,949,000	154,926,000
Massachusetts	171,533,000	167,575,000	187,120,000	178,208,000	195,945,000	196,723,000	195,906,000
Michigan	341,501,000	345,414,000	365,758,000	348,758,000	404,433,000	403,716,000	389,453,000
Minnesota	142,617,000	150,164,000	148,372,000	153,490,000	184,797,000	193,545,000	181,324,000
Mississippi	84,022,000	91,659,000	92,712,000	95,894,000	110,028,000	108,277,000	103,182,000
Missouri	209,819,000	189,501,000	191,759,000	218,717,000	213,396,000	237,819,000	243,394,000
Montana	28,604,000	28,648,000	28,772,000	28,556,000	35,060,000	36,732,000	35,867,000
Nebraska	70,431,000	62,648,000	72,114,000	68,632,000	76,877,000	83,454,000	85,666,000
Nevada	26,640,000	24,021,000	25,106,000	28,640,000	27,823,000	30,566,000	34,717,000
New Hampshire	27,789,000	28,425,000	29,681,000	27,615,000	32,223,000	34,605,000	37,871,000
New Jersey	254,659,000	248,828,000	238,819,000	270,384,000	272,082,000	260,207,000	267,370,000
New Mexico	38,900,000	54,523,000	49,387,000	51,607,000	54,262,000	59,393,000	62,100,000
New York	474,507,000	435,704,000	499,763,000	466,689,000	528,826,000	526,358,000	517,726,000
North Carolina	196,431,000	200,696,000	171,237,000	271,611,000	236,063,000	238,275,000	238,253,000
North Dakota	18,542,000	31,512,000	21,528,000	29,110,000	39,298,000	41,583,000	39,216,000
Ohio	350,890,000	399,053,000	395,206,000	398,369,000	427,846,000	431,033,000	430,185,000
Oklahoma	108,884,000	109,980,000	128,826,000	123,100,000	132,570,000	138,834,000	132,282,000
Oregon	83,111,000	80,198,000	93,244,000	94,041,000	101,997,000	111,659,000	114,112,000
Pennsylvania	348,030,000	335,936,000	369,881,000	431,848,000	361,453,000	603,540,000	415,026,000
Rhode Island	24,606,000	34,905,000	29,881,000	34,788,000	36,549,000	35,476,000	34,037,000
South Carolina	101,691,000	104,946,000	116,001,000	111,464,000	119,754,000	123,146,000	125,983,000
South Dakota	29,993,000	30,509,000	29,009,000	32,871,000	35,018,000	41,568,000	46,916,000
Tennessee	168,079,000	153,729,000	163,246,000	171,256,000	189,697,000	161,355,000	200,073,000
Texas	524,169,000	517,759,000	577,307,000	557,218,000	601,088,000	620,187,000	604,986,000
Utah	41,666,000	42,417,000	46,016,000	44,023,000	51,596,000	55,021,000	56,706,000
Vermont	17,767,000	17,872,000	18,584,000	17,013,000	20,008,000	20,817,000	23,104,000
Virginia	158,770,000	155,388,000	180,738,000	175,941,000	188,267,000	212,890,000	177,474,000
Washington	111,886,000	117,647,000	127,151,000	138,575,000	150,363,000	141,485,000	151,680,000
West Virginia	49,957,000	60,706,000	53,671,000	59,550,000	64,967,000	62,915,000	65,417,000
Wisconsin	150,910,000	156,309,000	162,836,000	154,102,000	196,772,000	201,519,000	190,698,000
Wyoming	16,290,000	15,846,000	18,559,000	22,344,000	17,780,000	29,992,000	35,073,000
Total United States	7,364,831,000	7,520,390,000	7,945,310,000	8,053,426,000	8,721,157,000	8,980,655,000	8,795,571,000

NOTE: The gallonage shown above represents consumption of motor gasoline, excluding sales to U.S. Government and sales of aviation gasoline. These figures replace all those previously published.

August	September	October	November	December	1972 Total Year	States
163,603,000	148,246,000	152,306,000	148,345,000	153,922,000	1,796,381,000	Alabama
12,516,000	10,543,000	9,365,000	8,779,000	8,652,000	111,844,000	Alaska
99,267,000	90,431,000	91,115,000	94,259,000	98,994,000	1,094,225,000	Arizona
103,702,000	90,439,000	97,681,000	89,989,000	95,142,000	1,113,419,000	Arkansas
899,651,000	830,645,000	837,115,000	822,593,000	851,954,000	9,995,752,000	California
128,778,000	113,714,000	110,868,000	97,412,000	102,907,000	1,295,516,000	Colorado
115,491,000	108,433,000	111,302,000	109,264,000	112,628,000	1,309,281,000	Connecticut
24,778,000	27,596,000	24,652,000	24,031,000	23,834,000	289,802,000	Delaware
20,571,000	19,498,000	20,053,000	20,528,000	20,655,000	232,422,000	District of Columbia
333,284,000	305,098,000	313,263,000	323,831,000	337,902,000	3,899,403,000	Florida
243,297,000	202,412,000	246,272,000	222,924,000	231,082,000	2,679,515,000	Georgia
22,979,000	21,083,000	21,798,000	21,210,000	22,553,000	253,761,000	Hawaii
48,980,000	40,675,000	40,279,000	35,093,000	33,852,000	451,315,000	Idaho
417,881,000	399,914,000	430,447,000	406,246,000	424,975,000	4,837,772,000	Illinois
252,062,000	224,605,000	239,880,000	225,844,000	234,253,000	2,740,984,000	Indiana
132,266,000	147,806,000	134,048,000	142,298,000	160,382,000	1,653,457,000	Iowa
117,768,000	126,742,000	118,642,000	32,187,000	205,296,000	1,428,354,000	Kansas
148,725,000	133,800,000	133,721,000	133,147,000	138,549,000	1,625,619,000	Kentucky
160,253,000	134,221,000	143,414,000	160,835,000	127,409,000	1,685,138,000	Louisiana
58,339,000	45,275,000	44,149,000	42,480,000	40,787,000	517,865,000	Maine
164,727,000	148,219,000	149,708,000	148,186,000	149,514,000	1,775,394,000	Maryland
210,212,000	189,304,000	194,247,000	192,322,000	197,227,000	2,276,322,000	Massachusetts
415,066,000	372,608,000	391,237,000	384,099,000	385,144,000	4,547,187,000	Michigan
198,273,000	179,359,000	188,169,000	170,778,000	170,131,000	2,061,019,000	Minnesota
105,909,000	103,057,000	107,000,000	94,427,000	106,506,000	1,202,673,000	Mississippi
235,736,000	217,556,000	243,302,000	229,186,000	215,509,000	2,645,694,000	Missouri
55,729,000	49,211,000	41,072,000	31,664,000	27,133,000	427,048,000	Montana
86,869,000	72,561,000	73,701,000	65,536,000	65,494,000	883,983,000	Nebraska
36,830,000	37,539,000	32,597,000	32,753,000	28,722,000	365,954,000	Nevada
41,222,000	33,397,000	34,687,000	31,502,000	31,579,000	390,596,000	New Hampshire
304,595,000	260,622,000	262,085,000	212,641,000	317,878,000	3,170,170,000	New Jersey
64,757,000	53,055,000	47,900,000	50,501,000	60,445,000	646,830,000	New Mexico
549,999,000	504,746,000	534,295,000	481,505,000	506,677,000	6,026,795,000	New York
243,003,000	224,898,000	238,198,000	212,777,000	242,267,000	2,713,709,000	North Carolina
61,983,000	42,169,000	37,372,000	12,016,000	48,258,000	422,587,000	North Dakota
453,840,000	397,795,000	426,481,000	422,525,000	426,823,000	4,960,046,000	Ohio
138,221,000	128,649,000	125,867,000	123,327,000	125,557,000	1,516,097,000	Oklahoma
117,787,000	108,187,000	103,088,000	77,731,000	106,559,000	1,191,714,000	Oregon
406,819,000	423,993,000	393,021,000	245,256,000	573,326,000	4,908,129,000	Pennsylvania
36,545,000	34,551,000	32,223,000	32,742,000	35,011,000	401,314,000	Rhode Island
135,959,000	110,439,000	148,278,000	130,360,000	135,807,000	1,463,828,000	South Carolina
49,748,000	49,192,000	39,531,000	42,787,000	37,351,000	464,493,000	South Dakota
180,474,000	191,647,000	171,856,000	176,702,000	175,461,000	2,103,575,000	Tennessee
616,667,000	571,956,000	584,513,000	573,478,000	538,827,000	6,888,155,000	Texas
59,679,000	51,534,000	50,832,000	47,620,000	47,621,000	594,731,000	Utah
25,270,000	20,842,000	21,998,000	19,817,000	19,505,000	242,597,000	Vermont
192,240,000	176,797,000	183,402,000	179,981,000	182,800,000	2,164,688,000	Virginia
162,747,000	140,189,000	143,757,000	134,516,000	127,550,000	1,647,546,000	Washington
68,807,000	54,579,000	70,761,000	62,947,000	60,550,000	734,827,000	West Virginia
210,696,000	179,800,000	188,452,000	178,816,000	175,920,000	2,146,830,000	Wisconsin
36,435,000	26,153,000	23,275,000	18,995,000	18,338,000	279,080,000	Wyoming
9,171,035,000	8,375,780,000	8,603,275,000	7,978,788,000	8,765,218,000	100,275,436,000	Total United States

May 23, 1973