CHAPTER 6

PATERNALISTIC GOVERNMENT

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"Why is it that the State seems to 'bully' the counties?"

Unlike its counterparts on the Mainland, Hawaii is dominated b a paternalistic, highly centralized state government that taxes resident heavily to provide services traditionally considered the province o local (i.e., county) governments. In principle, governmental decision making and the financing and delivery of public services should b decentralized to the greatest extent possible. In Hawaii, these func tions are almost unbelievably centralized. To understand how w residents of Hawaii could allow this, one must consider the past.

A powerful centralized government is part of the historic fabric o Hawaii. Captain Cook saw it when he landed in 1778, and it wa perpetuated with the subsequent establishment of the Hawaiian king dom and in the flourishing sugar plantations. This centralized rul spilled over into the structure of a territorial government that had th power to set policy throughout the islands. Local government was, a most, a mere afterthought.

Treated like children. From the start, the four counties wer treated like children and given limited responsibilities. They wer charged with providing only sewer and water services, police and fire protection, and street lighting. Everything else came from "the boss," the territorial government.

And how did the counties pay for the few services they provided? As it does today, the property tax provided the bulk of the counties' revenues. The counties, however, had little control over property taxes. In fact, the counties did not even set their own property-tax rates until 1989.

The counties used to follow a convoluted process which required them to submit their annual budgets to the territorial treasurer showing estimated expenditures, nonproperty tax revenues and the amount remaining to be financed out of the property tax. For Hawaii and Kauai counties, the treasurer then evaluated the need for property taxes and computed the rate. Honolulu and Maui county boards of supervisors were allowed to set the rates but, in all cases, the amount of property taxes raised by each county was set by the territorial legislature. And what if the counties wanted to raise more? Forget it—there was no way it could be done.

Strong federal control through an appointed governor taking orders from Washington, D.C. perpetuated the concept that a strong central government should decide how public services should be paid for and delivered throughout Hawaii.

Constitutional conventions convened both before and after statehood persisted in retaining all taxing power at the territorial/state level, relegating few responsibilities to local or county government. Odd arrangements developed. For example, local government was empowered to hand out traffic citations but resulting revenues went to the territorial/state government. This unusual situation continues today.

In almost every other area, the territorial/state government retained as much power to set policy as it could. Even where functions had been delegated to the counties, the territorial/state government sometimes chose to take them back.

Centralized control. Other evidence of this dictatorship—oops, I mean strong centralized control—occurred immediately after statehood when the equal pay for equal work principle was established in the civil service system. This did not refer to equal pay between the sexes. Rather, it addressed the requirement that all governments pay uniform salaries to employees performing similar jobs, regardless of the level of government or, for that matter, government's ability to pay such salaries.

The unfairness of that requirement was perpetuated with the adoption of collective bargaining early in the 1970s. Since bargaining units represent public workers at both the state and county levels, the outcomes of negotiations and arbitrations are subject to approval by the State and the counties. However, the law gives the State five votes, while the four counties have one vote each. It doesn't take a math whiz to figure out that the State will always control the outcome. This perpetuates the frustration of counties that must pay the same wages as the State, while lacking the revenue resources.

For many years, the counties received a nearly 40 percent share of total collections of the general excise tax. But the State unilaterally replaced this in 1965 with a new system of grants-in-aid. The formula dictated that the size of the grants would be based on each county's "relative fiscal capacity and relative fiscal need." In other words, by some arbitrary analysis as to whether a county was pushing the property tax to the hilt. Of course, politics played a dominant role.

At the same time, a new system of capital improvement allocation was adopted which required state and county cost-sharing. Projects which the State might consider discretionary were put on this track. On the other hand, if the State decided a project was of high priority, a county contribution often was not required. Thus, the State controlled where and when development was to proceed.

As the initial post-statehood boom began to taper in the early 1970s and the State became hard-pressed for revenues, another look was taken at the system of grants-in-aid. The impetus for change came with the federal revenue-sharing program. The federal government did not want the State to use local sharing of federal revenue as an excuse to reduce state assistance to local governments. Therefore, the feds dictated that, if the states wanted revenue-sharing funds, they had to promise not to take away any existing state funds for local governments.

The State of Hawaii was constrained a bit by this, but did its best anyhow to retain control. It refused for the next 15 years to increase annual grants to the counties.

In the meantime, among the hottest topics of debate in the fiscal area at the 1978 constitutional convention were state-county relationships. In the end, the constitutional convention decided that control of the real-property tax system should be turned over to the counties.

Thinly veiled distrust. Students of good government saw this as a small step, but at least it was in the right direction. Still, key political leaders had doubts. As a result, the constitutional convention inserted a provision that effectively postponed a transfer of complete control to the counties for 11 years. This period was one year longer than the date for another constitutional convention—evidence of thinly veiled distrust of the counties. Obviously, the state folks planned to revisit the issue before effective control shifted.

But the people of Hawaii seem to have had an even greater distrust of constitutional conventions. When the question was placed on the ballot in 1986, voters soundly defeated the calling of another convention.

Upon taking control of the property tax, the counties realized that this was not a complete solution to their problems. There was and is a growing mismatch between the property tax (and other available county resources), on the one hand, and their growing responsibilities, on the other. In theory, property taxes are "underutilized" by the counties, and can (and should) be raised. The reality, however, is that residents feel so burdened by their total state and county tax bill that they will not stand for substantial increases in their property taxes.

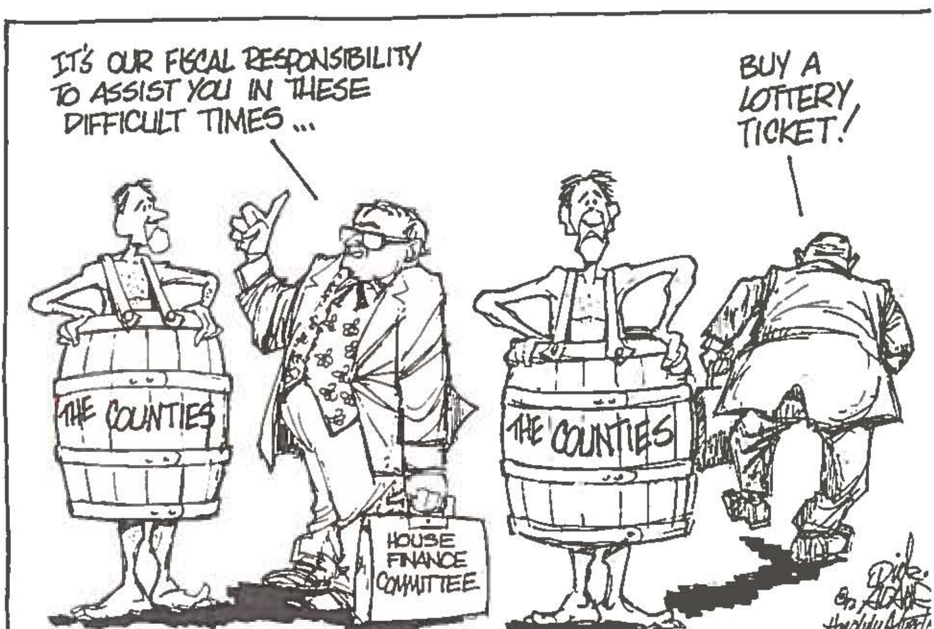
What had been relatively inexpensive functions of county government 25 years ago have now become very costly due to new federal mandates. The counties have resorted to unfair (and unwise) property-tax rate differentials—taxing nonresidential property at rates up to three times higher than residential rates—and substantial increases to regressive user fees and charges in an attempt to make ends meet.

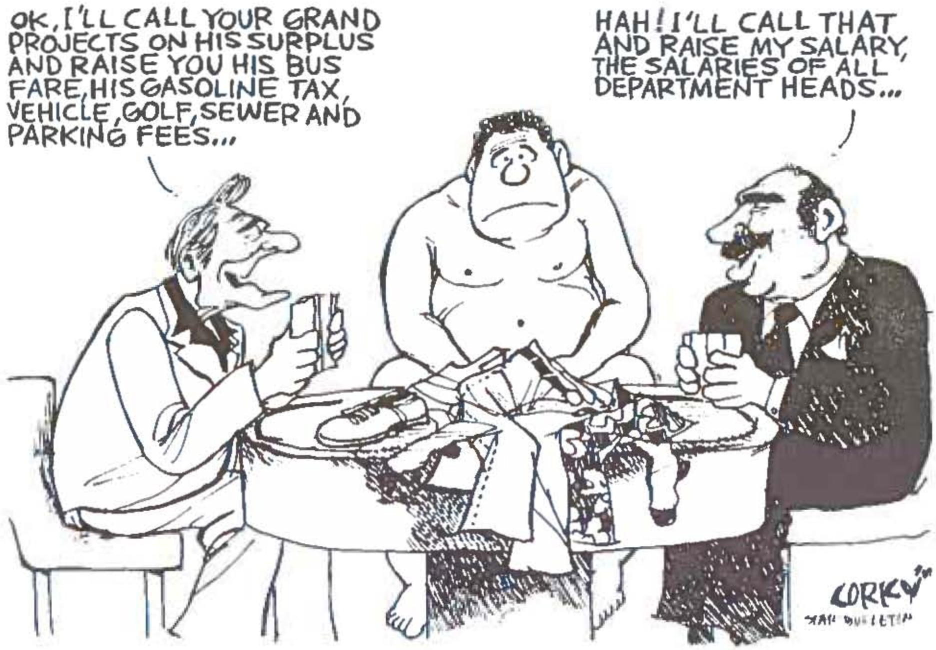
Time and time again (for example, with respect to mass transit on Oahu), the State has been unwilling to share its tremendous wealth with the counties, insisting instead that the counties raise taxes on their own.

Dominant role. The State's dominant role doesn't apply just to public finances, but to all phases of government policymaking responsibilities. For example, land use policies are controlled, if not dictated, by the State Land Use Commission. Only after this august body has passed judgment on which lands will be reclassified from conservation or agricultural into some higher use do the counties have a say, and then only to the extent of how these lands are to be developed.

A recent sore which continues to fester is how the State has by-passed the counties' authority to oversee construction standards. When the State's affordable-housing super-agency was established in 1988, it was made omnipotent for five years during which it could supersede all other laws governing the use, zoning, planning and development of affordable housing. This in effect allowed the agency to ignore local ordinances governing urban zoning, building codes and construction standards. To say the least, this did not sit well with county officials.

From kingdom to territory to statehood, the people of Hawaii have opted for (or been saddled with) a strong central government despite the fact that local government is closer and more responsive to the people. Does the State bully the counties? Now that you know the history, what do you think?

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HAH! I'LL CALL THAT AND RAISE MY SALARY, THE SALARIES OF ALL DEPARTMENT HEADS...
CORKY