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Historically (Hawaii) has had less freedom to manage its finances than most other (school) districts in the U.S.

Public School Finance and Governance Issues in Hawaii

John A. Thompson

Public education in Hawaii is unique in at least two major ways. It is the only state in the union that has a single statewide school district that is governed in part by an elected board of education, and partly by the legislature of the state. It is also the only state in which none of the funding for education is raised through the use of the property tax.

Educational Governance and Finance Past and Present

Centralized government is and has been a concept that has a long history in this state. For example, for other than a period of approximately twenty years circa 1820 to 1840, during which American Congregational missionaries were in charge (and control) of the education of the indigenous Hawaiian population, the governance of public education has always been at the central governmental level. A Minister of Public Instruction, appointed by the king, and later also an appointed board of education governed public education during the period of the Hawaiian Monarchy. A Superintendent of Public Education and an elected board were in charge during the short period of the Hawaiian Republic. An appointed superintendent and an elected board (however, there were some short periods when the boards were appointed) governed during the time when Hawaii was U.S. Territory (1900–1958) (Wist, 1940). Since statehood (1958) a superintendent (appointed by the board) who serves as both a state superintendent and, at the same time, as the chief executive officer of a large local school district; and an elected Board of Education (B.O.E.) are responsible for the governance of the public schools. [Article X, Sections 2–3, Hawaii State Constitution]

However, there were at least four major areas of governance and organization over which the B.O.E. did not have control. Since statehood, and through the preceding periods, the area of educational finance, particularly the levying of taxes and the allocation of funds to the district and often to individual schools, has been under the control of the state, or territorial, or royal legislatures. The board has had neither taxing nor even allocation authority over the funds which were assigned to particular programs and/or personnel. In fact during the last twenty years, and as nearly as can be determined for many years previously, the allocations were not made to the B.O.E.

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but instead to the department head, i.e., The Superintendent of Schools in the same manner as allotments to the other executive departments (such as Health, Agriculture, Highways, etc.) of the state. Obviously a potential for conflict between the parties, existed notwithstanding the fact the superintendent is and was selected by the B.O.E.

A second area which since 1960 has been centralized at the state level is the provision of school facilities. The royal constitution of 1886 assigned the provision of suitable housing and transportation of students to the county governments of the state. That provision continued in force through the succeeding modes of government until shortly after the admission of Hawaii to statehood. In 1958 the state legislature enacted Chap. 27 H.R.S. which designated "State Functions and Responsibilities." During the 1967 session part II (which dealt with schools) was added:

The following functions and services heretofore performed by the several counties under contractual arrangement with the state, shall be directly administered and performed by the department or departments or divisions of government designated by the governor.

- (1) Planning, construction and improvements of public school facilities and grounds.
- (2) Repair, maintenance, custodial and janitorial services for public school facilities, and
- (3) Transportation of children.

In line with Chap. 26–6 H.R.S. the Department of Accounting and General Services (DAGS) had the responsibility for planning and construction of public buildings so the governor assigned those services along with school repair to DAGS.

Janitorial maintenance and custodial services were assigned to D.O.E. DAGS was also assigned responsibility for student transportation.

A subsequent legislature conveyed title to all school lands and the repayment of the outstanding balances of bonds that had been issued for the construction of schools by the various counties to the state.

Thus, the state through assignment to various executive departments took complete responsibility for school facilities, public libraries, and student transportation.

A third area in which other executive departments of the state and the D.O.E. share responsibility and authority is in the administration of personnel. Three generalizations can be made: (1) all of the teachers, administrators, and classified personnel in the D.O.E. are employees of the state of Hawaii; along with all of the other employees of the state. (2) All of the state (as well as the county) employees, with the exception of certain excluded management, were assigned into one of thirteen collective bargaining units as a result of the passage of Chap. 89 H.R.S. The law requires the governor, through the Office of Collective Bargaining to negotiate the salaries for each group of employees. For example, the teachers are in Unit 5. Therefore, for all practical purposes the governor sets the salary for each Unit 5 employee along with most other state employees since with rare exceptions the percentage increase in salaries has been the same among all the units that bargain under the statute. (3) All teachers in the state are on the same salary schedule so that urban, suburban, and rural teachers with the same amount of experience and education receive equal remuneration. Administrators are treated similarly except that their salary schedule recognizes differences in school size.

All persons hired for positions as classified staff are hired by the D.O.E. but they are placed for salary, longevity, and working conditions into the State Civil Service system. This system is not administered by the D.O.E. but by another executive department, the Dept. of Personnel Services (DPS).

The department shall administer the state personnel program, including personnel development and training and such central personnel services as recruitment, examination, position classification and pay administration for all departments—to determine that the personnel laws are applied and administered by departments in a manner consistent with the purpose and provisions of the civil service law. (H.R.S. 26-5)

To maintain an accounting of all permanent positions (these are positions which are tenurable and have been established and approved by the legislature for each department of the government) a system of positions numbers was created. These numbers identified the number of positions to which a department was entitled and were assigned by either DPS or DAGS to each individual position in each sub unit of each department. They were permanent to each sub unit and neither the position nor the duties attached to it could be changed without the approval of the department(s) cited above. Thus, for instance, each school would be required to have a position number for a principal, custodian(s), secretary, a specific number of teachers, etc.

Each department of the state has a position ceiling which corresponds to the number of permanent positions that have been allocated to that department, whether or not a position is filled at any particular time. Exceeding the position ceiling is considered a serious matter and may result in the loss of positions or the failure to be granted new positions.

Prior to recent legislation (see following section) the legislature created new positions for the D.O.E. in at least three different ways. (1) By increasing the number (ceiling) of positions, (2) By approving new programs which could include a number of new positions (which might be legislated to be either temporary or permanent), (3) Or by creating permanent positions for specific schools. For example, the present (1994) staffing ratio for intermediate schools mandates one vice-principal when the enrollment reaches 550 students. However, an individual legislator might be successful in having placed into the legislative appropriation bill a permanent V.P. position for an intermediate school in his/her district which has an enrollment that is lower than the state staffing ratio. The result is that in some cases schools with enrollments as small as 187 students have a vice-principal. Thus, a school that is on the staffing ratio whose enrollment declines below 550 will lose its vice-principal, but a school with a "pork" position will retain their V.P. regardless of the size of their enrollment.

Consequently, in the area of personnel which in the D.O.E. is the largest expenditure object, as it is in nearly every school district, the board of education has had almost no control over decisions involving classified staff and very little over creation of positions to be filled by certificated personnel. Other than for emergency hires the legislature has had control of the number and establishment of positions and through the mechanism of collective bargaining the governor and legislature has control of the salaries the employees will be paid.

A fourth area in which the board of education has little authority although they are charged with the responsibility of operating the schools is in the raising of revenue and the allocation of funds. School districts throughout the U.S., with very few exceptions do not have the right to determine the mode of taxation they wish to use to levy taxes for their districts. Legislatures and in some cases the state constitution determines the source(s) of wealth upon which revenue can be raised, but in other states the school districts have the authority to tax in what ever mode the state has prescribed. In Hawaii the D.O.E. has not been granted the right to tax any source of wealth to raise revenue. The result is that the Board has no independent taxing power and is entirely dependent on the legislature of the state to raise sufficient revenue to support the operation and capital requirements of the school district.

At the present time the state has chosen several modes of taxes and user fees to fill the coffers of the state general fund. The major sources are the individual and corporate income taxes which produce twenty four (24.7) per cent of the total general fund revenues, the general excise tax (34.1%), user fees (6.0%), federal funds (13.1%), and the balance from a variety of minor tax sources and transfer payments.

In addition the state has constitutional authority to borrow funds through the issuance of general obligation bonds. During the fifteen years prior to FY 94 the state had not used bonds for the specific purpose of building or repair of school buildings. They had chosen to pay for these expenditures by allocations from general fund revenues.

Have the previously described revenue sources, at the rates that taxes have been levied, been sufficient to adequately fund the public schools? That is a difficult question to answer, since the allocation of funds (which will be discussed next) is a major consideration in the response to that query. General fund tax revenues support all programs of the state government while allocations which are made by the legislature are directed to specific programs such as education.

The percent that is scheduled for allocation to K-12 education in the FY 95-97 budget totals fifteen + percent (15.4) of the total budget. This corresponds to budgets in the 1970's in which highs of twenty seven percent (27.1%) of the general fund expenditures were allocated to public education. Thus, while absolute dollar amounts have risen by about 200% during the past twenty years the proportion of the state budget dedicated to education has declined by approximately 43%. A decline of this magnitude has fueled a controversy over the question of sufficiency (which will be addressed later in this paper). Perhaps it is particularly appropriate since the D.O.E. has no independent source of revenue.

Since there is complete control of the finances of the D.O.E. by the state government a description of the process which results in allocations for public education may be instructive.

The "players" in the budget process are:

The Board of Education. The B.O.E. has the constitutional responsibility to formulate policy and exercise control over the public school system, but it has no power to tax or allocate monies. Its major function in the allocation process is to present to the governor an advisory budget which they perceive is necessary to operate the schools. The board, or its members, occasionally lobby for aspects of the allocation budget later in the process.

Governor. The governor has the constitutional responsibility to present a balanced biannual budget to the legislature. To carry out this function he receives the advisory budget from the B.O.E. as well as from each of the other departments of government. The Department of Budget and Finance (B&F) as part of the executive branch assists in the budget endeavor by forecasting the tax revenues for the upcoming biennium and creating an asking budget that is balanced.

The State of Hawaii uses a program budget format which means that all of the activities of each department are budgeted under of several level III programs. (There are 5 programs in the D.O.E.). The budget is arrayed by department, which is level II, and program within the department which is level III. Within each program the operating budget is predicated in one of three categories of funds:

1. Current services. These are funds which have been allocated in prior budgets to a particular level III program. Once an item (unless specified as non-recurring) has received an appropriation in a biannual budget it becomes a permanent item in subsequent budgets. Each of the current services workload items which is expressed in dollars is increased in each succeeding budget by an amount projected by B&F as suffi-

cient to adjust for economic growth in the state. As indicated earlier this includes the permanent employee count attached to the program.

2. **Workload increases.** This part of the budget is to allocate additional funds, if necessary, to carry out the activities which have been budgeted in the previous section to compensate for additional workload. In the case of the D.O.E. for example more dollars to pay for additional teachers would be allocated if the number of students in the system had increased.

3. **New Programs.** This part of the budget is to fund new initiatives within various departments of the government. If, for instance the D.O.E. wishes to develop a new instructional method, guidance program, or a new alternative education program for a sub-population of students, the funding and new positions would be budgeted in this part of the asking budget.

Another asking budget is developed for capital improvements. In Hawaii this might include anything from remodeling a room in a school to constructing an entire new school.

The governor's budget which invariably differs significantly from the advisory budgets from the various departments, is forwarded to each house of the legislature prior to the session which begins on January 20th of each year.

Legislature. When the governor's budget is transmitted to the legislature, it is distributed to the appropriate matter committees (there is an Education Committee in each house). The chair of the committee reviews the governor's budget, receives a copy of the B.O.E. advisory budget, and spending initiatives from interested legislators (these are entered as spending bills). The chair then holds hearings on the various aspects of the budget. The majority of the committee debate occurs around the third aspect of the governor's budget—New Programs—(the other two Current Services and Workload increases are considered pro forma) as well as items from the advisory B.O.E. budget which did not survive into the governor's asking budget, and spending bills from various legislators. At the conclusion of these hearings, the chair of the committee in each house submits to the Speaker of the House or the President of the Senate, their recommended appropriation for education of the biennium. Within the appropriations are amounts earmarked for specific projects often including "pet" projects of legislators which may not have appeared on either the advisory B.O.E. or the governor's budgets.

These recommendations are then forwarded to the "money committees" where each drafts its own appropriations bill. Since the bills from the two houses never agree, a joint appropriations committee is convened and hearings (mostly in closed sessions) are held. Amounts which had been in all of the preceding phases sometimes are changed, some items are deleted, and occasionally completely new items appear. When this Appropriations Bill is passed by the legislature the Department of Education finally knows how much has been allocated by the legislature to expend in each year of the biennium. [Art.VII Sec. 8 Hawaii State Cont.]

Governor. The governor may line item veto appropriations but has not done so during the past 20 years. However, even after he has signed the Appropriations Bill the governor can still regulate the expenditure of education funds. The statutes require the governor to maintain a balance between the quarterly tax revenues and the expenditures. To assist B&F makes a forecast of the revenues of each upcoming quarter. When these estimates are less than projected expenditures the governor can withhold money previously appropriated by the legislature (Chap. 37 HRS).

The Department of Budget and Finance has the authority to determine where the cuts will be made. They often decide on reduction or elimination of a particular project or a freeze on hiring certain personnel. Thus a new money item in education may make it through the appropriation process and still not be

funded due to action by the executive branch. There is no formal appeal route; to protest the cuts made by B&F. During FY 1993–94 the reduction amounted to 3% of the total available appropriation of the D.O.E.

There is no provision in the statutes to allow the D.O.E. to borrow money through issuance of bonds or warrants. Thus, the amount appropriated by the legislature and released by the executive branch is the maximum that can be expended. [Art. III Sect. 9 Hawaiian State Constitution]

Consequently, the D.O.E. does not know precisely the funds they have to expend until they receive notice of any actions taken by the executive branch on the funds previously appropriated by the legislature.

To summarize there are at least four general areas of educational finance which have been the focus of disputes on the operation of education in Hawaii. The centralization of the state government which has been a function of both the history of the state, and an effort to legislate educational equity for the students by control of the expenditures among schools are perhaps the root causes of the current concerns.

Placing the governance of education in the hands of a single board, but denying it the authority to make decisions over significant aspects of the enterprise has caused problems that ultimately impact finance.

Likewise, the interplay between the governance authority and the finance of capital improvements has sparked demands for a reform of this vital component of quality education.

Placing the revenue raising and allocating functions in as large and diffuse group as the state legislature has made it very difficult to both place, and if necessary, remedy the responsibility for finance problems. For example, since state legislators have responsibility for many statewide functions it is very hard to get constituents to vote a legislator out of office because of his/her voting record on a single item such as education. Blaming the board, when it does not have revenue raising or allocation authority is futile. Thus there has been much "finger pointing" throughout the last two decades, but until very recently not much real change in matters dealing with education finance.

The Nascent Reform Effort

During the past ten years the school district in Hawaii has undergone the same vituperation by the press and public as have educational institutions throughout the U.S. However, a peculiar set of circumstances, i.e., a school system operated at the state level, a single political party majority in the legislature and executive branch which has held uninterrupted power for thirty-four years (there are currently eight Republicans in a fifty-four member legislature), a status quo local press, and a historically well entrenched non-public school alternative, has until recently been successful in defusing and fractionalizing the negative criticism.

In the last three years the criticism has become more widespread and vocal, due in large part to complaints from island businesses about the poor quality of the public school graduates who enter the work force. This in turn has reached the legislature and a reform effort has begun.

The reform effort, as has been true in many mainland districts, has come in a series of "fits and starts" over the last three years. While the Board of Education has made some changes in the curriculum and operations in schools (increasing the requirements for high school graduation is perhaps the best example), most of the reforms which affect educational finance have come from the legislature as either new statutes or amendments to existing ones. While the statutory enactments have tended to deal with problems at the margin rather than at the core, when taken in total they give evidence of a substantial effort to reform the system.

The era may be considered to have begun during the legislative session of 1992 when two statutes on education were enacted. The first "School Community Based Education" (HRS 296 [c]) mandated the Board of Education to formulate policies, including criteria and procedures to determine which schools shall participate in a system to initiate a school/community-based management system in the public schools (@ 296c-2). It allowed SCBM schools to request departments of the state government to waive certain policies, rules, and procedures when requested, and approved by the board of education.

It should be noted that the statute referred to policies on governance but did not give the board the right to waive any statutory requirements including the amounts of monetary allocations to either schools or to the D.O.E.

The second statute provided for the establishment of a School Facilities Improvement Fund and was made a part of Section 237-31 HRS. The section created a special fund into which \$90,000,000 per year, until 1996, of the state excise tax receipts would be deposited, or in lieu of the receipts general obligation bonds would be issued for the improvement of school facilities. The funds could only be used for capital improvement projects which were approved by the legislature through inclusion in the Capital Improvements budget. A subsequent amendment to the act required school principals to prioritize the improvements by school and the board of education to send the legislature a statewide priority list for all of the schools. The legislature could choose to reprioritize the list as it saw fit. However, any money in the special fund could only be used for improvements to school facilities.

As described earlier in this paper, the state of Hawaii through the Dept. of Budget and Finance had assumed, over time, a high degree of control over the assignment of personnel allocated to every department of the state, including the D.O.E. The Dept. of Personnel Services had control of the working conditions, e.g. assignment of duties hours of work, etc. of employees, including D.O.E., who are classified under state civil service laws. Thus, the Department and the Board of Education had relatively little control over the assignment and working conditions of the employees allocated to them.

In 1993 the legislature, by adding Section 296-15.6 HRS titled "Reallocation of Vacant Positions" said that "the board of education without regard to the position variance requirements of the Dept. of Budget and Finance could reallocate existing positions throughout the department; reassign employee duties; and authorize position classifications." This addition to Chapter 296 HRS gave the D.O.E. sweeping new powers to administer its own personnel, and to better utilize them to achieve its educational goals. The statute promote a major reform in public education in Hawaii, and had an indirect, although very important, impact on funding.

Another sub section of 296-15.7 HRS allowed the department to create temporary positions without having to request them from either the governor, legislature, B&F, or DPS. However, any position created had to be within the amount of funds allocated to education by the legislature. Still another sub section, 296-36.6 HRS created a trust fund in the state treasury upon which the D.O.E. could draw, within the amount of allocated, funds for incentive and innovative grants to qualified (read SCBM) schools. The department could award money to individual schools which had not been allocated to them under any program funded by the legislature. This act along with the School Priority Fund and Sect. 296-15.6-7 gave the department significantly greater authority to allocate monies to schools without specific legislative program approval.

Perhaps the most far reaching reform effort was enacted during the 1994 legislative session. The bill, which has become known locally as the "Omnibus Bill" was drafted as a series of potential amendments to the state constitution, as well as, to several existing statutes. The constitutional amendments

would have changed the way school board members were selected, from elective to appointive, and reduced the scope of governance by the board. These amendments were defeated by the voters in the 1994 general elections, and did not become part of the reform package.

Included in the bill were several sections of the statutes that have finance implications, particularly in areas of budget making and resource allocation. The intent of the bill was to decentralize the curriculum and to a certain extent the allocation of resources directly to the school level. The introduction to the legislation has several statements which appear to signal the direction that the legislature wishes to pursue.

"Systemic reform cannot and will not be achieved overnight. Hawaii's top-down tri-level school management system has been in place for decades. It is a statewide system that encompasses school districts (actually these are sub-districts of the single statewide district which administers all the public schools—Ed. note) and school complexes within districts that are distinctly different and are progressing at varied speeds toward school based management. Restructuring must be viewed as a gradual process with changes occurring on a continuum culminating with schools functioning as independent learning units . . ."

The current budget format of the public education system has obscured funding decisions concerning individual schools. Under this structure the division of funds among schools has been an administrative process, outside of public view and beyond public control. Funds are dissipated in a burgeoning administrative bureaucracy and there is no clear accounting of how much money reaches the schools for instruction and activities that directly affect students and learning.

". . . The schools must assume control of personal and fiscal resources to determine the curriculum and instructional needs for their students."

The statute goes on to delineate a number of changes to facilitate this major restructuring effort. From a resource allocation perspective three major changes would occur:

(1) The Board of Education "shall have the power in accordance with law to formulate statewide educational policy, adopt student performance standards, monitor school success, and appoint the superintendent.

The superintendent shall be the chief executive officer of the public schools having jurisdiction over internal organization, operation, and management of the school system . . . The superintendent shall sign all drafts for payment of monies." Thus several management functions of the board were turned over to the superintendent.

(2) The state budget structure was changed into two major categories: (a) administrative expenses will include matters such as state, district (or other regional administrative costs), business services, personnel services, planning and evaluation, communication, and public relations. (b) Instructional expenses which include operation and maintenance of school facilities, instructional personnel, school level administration, food and health services, curriculum development and training, and other instructional expenses. In future state budgets these two must be presented separately, and the administrative expenditures shall not exceed 6.5 percent of the total department operating budget; nor can the D.O.E. transfer from instructional expenditures into administrative expenses.

(3) The legislature amended Chap 296 HRS to achieve more budget and allocation flexibility at the school level by mandating "an operating budget preparation and allocation process which shall provide maximum flexibility to individual schools, complexes, and learning centers in the preparation and execution of their operating budgets."

The D.O.E. had at least partly anticipated this legislation by creating a document titled, *Department of Education Budget Execution: Procedures and Guidelines for Allocation and*

Expenditure Plans, Fiscal Year 1993–94. The concepts outlined in this publication became called Lump Sum Budgeting.

Prior to the adoption of this set of guidelines the D.O.E. through its district offices, had allocated monies to each school based upon a set of school-level programs. Schools had little or no ability to shift funds from one program to another. The Lump Sum Budget concept (and the statute cited above) changed the allocation to schools to one lump sum allocation for both "B" (supplies) and "C" (equipment) funds so schools have the flexibility to move funds around among some of the department mandated programs to help them best meet their needs.

In the past the Dept. of Budget and Finance had allocated funds to the D.O.E. on a quarterly basis, and the department had allocated funds to schools on the same basis. If schools did not spend their monies, which were allocated by program, in that quarter the funds reverted back to the department and if they were not spent by the end of the fiscal year they reverted to the state general fund. An amendment to Chap. 37 HRS provided that for the D.O.E. fund would not lapse but could be carried over to the following fiscal year.

Twenty-eight programs in EDN 101 (Regular Instruction) were made eligible for lump sum budgeting such as class size relief, science and music equipment, school priority funds, environmental education, etc. Approximately 100 other school (EDN 101) programs were not eligible to have money shifted to other programs. The new statute may make it possible for additional programs to be part of the lump sum through future amendments.

In addition the D.O.E. enacted regulations pursuant to Chap. 296–15.6 (see previous description) which allowed schools to purchase additional personnel or exchange vacant positions for additional "B" or "C" funds without having to apply to B&F for a variance.

A final reform enacted by the 1994 legislature created a new class of schools to be called Student Centered Schools. The legislation created a new Part of Chap. 296 HRS which would give flexibility to up to a total of 25 public schools to implement innovative programs and administrative frameworks to best serve the needs of their students without regard to laws or regulations which would make such matters illegal. When a school decides to become student centered it establishes its own school board which must have representation from the principal, instructional and support staff, parents, students, and the community. This board must create a plan that includes a description of its framework, specific student outcomes, assessment mechanisms, and an annual independent fiscal and program audit.

After it has been reviewed, but not changed, by the state Board of Education, the local board is exempt from state school regulations, can establish its own collective bargaining unit, and govern the school in accordance with its framework. No tuition can be levied on students who attend one of these schools.

To finance the operation each school shall receive an allocation of state general funds equal to the statewide per pupil expenditure based upon average daily attendance. The 1993–94 per pupil cost is listed at \$5400.

This part of the statutes is a major departure from the statewide single school system that has been the norm for over a century in Hawaii. As of this writing no schools have yet sent a student centered school plan to the Board of Education.

Author's Note: The Board of Education has requested the State Attorney General to review this section of the Act. There is concern that it may violate sections of the Hawaii State Constitution as well as federal statutes as they relate to handicapped children. The governor has already signed this Act into law, but he might rule this section to be inoperable because it

conflicts with other statutes etc. This would allow the legislature to amend the Student Centered Schools section to make it conform to other laws. At this writing the Attorney General has not rendered an opinion.

Summary and Discussion

Although Hawaii has had a school district, as specified in several constitutions throughout the years, historically it has had less freedom to manage its finances than most other districts in the U.S. There are varied reasons for this state of affairs. Four examples, lack of fiscal autonomy, legislative power over allocations to both operational and capital budgets, sharing the personnel function with two other executive departments of the state and repair and maintenance with another, and a philosophy of centralized government, all contributed to a school system which over time became highly bureaucratized and more responsive to elements of the state government than to its clients.

Throughout the previous decade the Hawaii public schools began to come under increasing criticism, as did most school districts in the U.S. The state through its school district reacted in the same manner as most bureaucracies do when there is major criticism. First, there was denial of any problems coupled with strong support for the status quo. Second, they raised the specter of insufficient funds to change the system. Third, they began to agree to make changes contingent upon certain conditions being met. Unfortunately, several of the conditions required changes in the statutes which were neither easy nor rapidly accomplished.

The second section of this paper describes the statutory and regulatory changes which have begun to occur with the purpose of creating a more viable legal environment for public education. Few of the changes that were described would be considered by the national educational community as revolutionary. Instead they might be seen as adaptations of reforms which have previously occurred in many school districts and/or state legislatures. However, they are considered major shifts in public policy in Hawaii.

The statutory changes herein described have created an interesting contretemps in educational finance for the state. The legislature is attempting to maintain its historic and ideological posture of a centralized tax gathering and allocation function in funding the statewide school district; while at the same time attempting to decentralize the authority to make expenditure decisions to individual schools. Giving schools the authority to create and fill temporary personnel positions and "sell" vacant positions and use the funds for school level educational purposes that differ from the purposes for which the funds were allocated "flies in the face" of the supposed economies of scale of a centralized government, that has been a mainstay of public policy in the state. Attempts to reconcile these conflicting concepts has not been either easy or comfortable.

Apparently forgotten in these procedural efforts has been the concept of sufficiency. How well does the public school system fare financially in its mission to educate? The traditional method of evaluation of this concept is by comparison with other districts. The question becomes to whom should Hawaii be compared? There is no other statewide district with whom to compare, therefore researchers has suggested that two logical surrogates may be possible.

Henry Levin (1972) determined that Hawaii is more like a large city school district in terms of comparison of expenditures, than it is like a state with many districts. Thompson (1986) compared the per pupil costs of the sixteen largest urban districts to that of Hawaii. Place in rank order fourteen districts had higher costs than Hawaii. A second possibility is to compare with other states with comparable per capita incomes.

He also compared per pupil costs with the ten states that were closest in population and per capita income. The evidence varied. Four states had higher per pupil costs and five were lower.

Those data were suspect because of the extreme difference in costs of living (estimated to be approximately 40% higher than the national average) in Hawaii. How much should the higher costs be discounted because of the supposed scale economies?

The National Center for Educational Statistics (1993) gathered a number of indicators comparing both the U.S. states and the OECD countries on a number of educational inputs and outcomes. The data indicate that Hawaii spends approximately 3% of the state domestic product for funding elementary and secondary education. That was the lowest percentage of any state, save Nevada, and most of the OECD countries. Although the two major countries which ranked below Hawaii were Germany and Japan, both of whom have centralized educational systems.

The NAEP mathematics test for 8th grade students may be the only reasonable methods to compare student achievement among states and countries. When rank ordered Hawaii students ranked near the bottom (only four states and Jordan were lower) in math achievement. All of the problems associated with comparisons from rank ordered data should be noted; however, it is clear that Hawaii is not among the leading states or countries.

Within the state there are differences in achievement as well. Among a sample of elementary schools there were diseconomies of scale of some magnitude (\$472 on average) between small schools (less than 400 students) and two other strata of schools based on enrollment. (Thompson, 1994). But there was also evidence of significantly different and higher math achievement in the schools with small enrollment. These differences persisted even when socio-economic differences were controlled.

What do these somewhat fragmented data indicate about sufficiency? There are innumerable possible conclusions ranging from: "You get what you pay for." To "the highly centralized system forces inefficient and perhaps illogical expenditures so that monies do not reach the students." That is enough money is being spent, but not the right way.

There appears to be a general perception among the populace, and apparently among an increasing number of legislators that the schools are not performing as they would desire. Reform has begun, albeit slowly, in the allocation process of the state education budget, which had a general fund K-12 allocation of approximately \$689 million dollars in operating funds and a capital budget of \$94 million. The question of whether that amount is sufficient to properly educate 183,000 public school students is still open.

Endnotes

Hawaii State Constitution

Art. III Sect. 9

Art. VII Sect. 8

Art. X Sections 2-3

Hawaii Revised Statutes

Chap. 26-5

Chap. 26-6

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