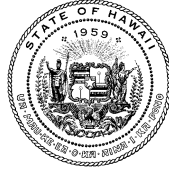


DAVID Y. IGE
GOVERNOR



CURT T. OTAGURO
COMPTROLLER
AUDREY HIDANO
DEPUTY COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS

THURSDAY, FEBRUARY 6, 2020, 3:45 P.M.
CONFERENCE ROOM 225, STATE CAPITOL

S.B. 2088

RELATING TO PROCUREMENT

Chair Thielen, Vice Chair Inouye, and members of the Committee, thank you for the opportunity to testify on S.B. 2088.

The Department of Accounting and General Services (DAGS) offers the following comments:

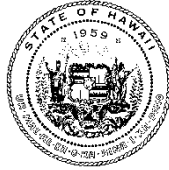
- The Hawaii products preference has achieved its goal with respect to construction procurements.

When this preference was first enacted, there were issues with the availability and price competitiveness of local construction materials that do not exist today in Hawaii's construction industry. Contractors and subcontractors have indicated that they would now choose to use Hawaii products even without the incentive provided by this preference.

- There are also other reasons to use Hawaii products, such as LEED conformance requirements for the use of regionally extracted/manufactured products associated with new construction.
- Application of this preference is contrary to the legislature's goal to increase the economy, efficiency, and effectiveness of the public works construction procurement process.
 - It is not economical because the public no longer benefits from the added construction cost associated with application of the preference.
 - It reduces the efficiency of the construction procurement process due to the difficulty of determining whether it is being fairly assessed. Some bidders claim the preference by providing a lump sum price (instead of using the appropriate unit of measure for the material) or claim a quantity which is very different from that of other bidders. Since some differences in quantity can be attributed to the contractor's method of work, it is difficult to determine when a bidder is attempting to gain a competitive advantage using this preference by skewing the pricing of Hawaii products.
 - It is no longer effective because it is not required to incentivize the use of Hawaii products in construction.

Thank you for the opportunity to submit testimony on this matter.

DAVID Y. IGE
GOVERNOR



SARAH ALLEN
ADMINISTRATOR
BONNIE KAHAKUI
ASSISTANT ADMINISTRATOR

**STATE OF HAWAII
STATE PROCUREMENT OFFICE**

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TESTIMONY
OF
SARAH ALLEN, ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE
ON
GOVERNMENT OPERATIONS

February 6, 2020, 3:45 P.M.

SB2088
RELATING TO PROCUREMENT

Chair Thielen, Vice Chair Inouye, and members of the committee, thank you for the opportunity to submit testimony on SB2088. The State Procurement Office (SPO) submits the following comments:

The SPO does not see value-added to increasing the percentage for Class I and Class II Hawaii product items when it is hardly used now. In fact, SB2835 and its companion bill HB2279 talks about exempting construction procurements from the Hawaii products preference, in HRS §103D-1002.

Currently, the Hawaii Product Preference can reduce the bid amount (for the purposes of evaluation) by 10 or 15 percent of the cost of the Hawaii products a bidder proposes to use, but it may increase the cost of the good(s). The 20% and 25% preferences are extremely high, which means the State and counties could expect to pay up to 25% more for the same goods.

As of today, there are approximately 48 vendors registered on Hawaii Products List; 11 are listed under non-construction related products. In 2019, SPO sent out a short survey to all registered vendors asking questions about their experience with the Hawaii Products program.

Only 13 vendors responded with the following results:

In the past 24 months, have you used your Hawaii Product Preference in State solicitations that allow for preferences?		
13 Responded:		
Answered	Responses	Percent
7	Yes	53.85%
6	No	46.15%
How useful is the Hawaii Product Preference to your company? On a sliding scale of 1 to 5 – Not useful (1), Slightly useful (2), Neutral (3), Useful (4), Very useful (5)		
The average of the 13 respondents: 3.3 Vendor Reasons for Score are shown below;		
<ul style="list-style-type: none"> • We use it on our bids. • Encourages contractors to use our products in their bids. • I have never made a sale from any contractor or architect through this service. • We only use it for the Public Safety bid for the correctional facilities. • We hardly use it. • We are a 100% Hawaii Product. • It helps us keep production local. • Customers today likes to see that we as business people are supporting local. We use this information to show we support local. This helps in bidding. • Allows us to be competitive given the high bureaucratic & taxation costs of doing business in Hawaii. • I don't even know what that is. The procurement department has too many branches and is hard for non-state worker to navigate. • All of our competitors are also on the list. • Cause I wanted to. • Don't know what it is. 		

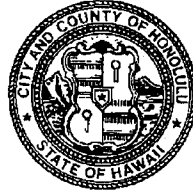
As a result of the survey, only 27% of Hawaii Product Vendors responded and gave a neutral rating score of 3.3 for the Hawaii Product Preference program. Additionally, the Department of Education (DOE) has not used the Hawaii Product Preference in evaluating for food awards. Since the usage of Hawaii Product Preference is low, there is no discernible benefits to increasing the percentages.

Based on the industry average of 10% preference, and the expectation that all procurements are found price fair and reasonable, these proposed percentage increases are high, and the SPO does not see a justification for increasing the procurement preference percentages for Class I and Class II Hawaii product items.

Thank you

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MAYOR



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DIRECTOR

MANUEL T. VALBUENA
DEPUTY DIRECTOR

TESTIMONY OF NELSON H. KOYANAGI, JR.
DIRECTOR OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
BEFORE THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS
February 6, 2020, 3:45 PM Conference Room 225

TO: The Honorable Laura H. Thielen, Chair
and Members of the Committee on Government Operations

RE: IN OPPOSITION OF SENATE BILL 2088, "RELATING TO PROCUREMENT"

The Department of Budget and Fiscal Services, City and County of Honolulu ("City"), **opposes** Senate Bill No. 2088, Relating to Procurement.

The increase of an additional ten percent (10%) to be subtracted for class I and class II Hawaii product items bid or offered may lead to an increase in the procurement costs to the City. The preference could inflate pricing and discourages competition for the procurement. The preference has and could lead to instances where applying the preference will result in awarding a bid that is substantially higher than the low bid. The preference has been difficult to implement in public works construction bids. Bid preferences require additional time and resources to review and analyze, complicate and further delay the procurement process, and increase the chances for protests or complaints.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact the Department of Budget & Fiscal Services' Division of Purchasing at 808-768-5535 or bfspurchasing@honolulu.gov.