

SB 1285

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 1285, S.D. 1

February 24, 2011

RELATING TO CAPITAL INVESTMENTS

Senate Bill No. 1285, S.D. 1, proposes to amend Chapter 37, Hawaii Revised Statutes, to include agency-wide technology or computer systems with an estimated useful life of over seven years to be considered capital investments and financed by bond funds.

We support this Administration measure.

We note, however, that under applicable federal law, the weighted economic lives of bond-financed capital improvements multiplied by 1.2 may not be less than the weighted average maturity of the bond issuance. The weighted economic lives will be determined using the anticipated life of each bond-financed capital improvement (including technology and computer system projects and all other projects) funded by the affected bond issuance. Because projects can be funded by more than one bond issuance based on expenditures, it will be necessary to continually monitor the amount of technology and computer system expenditures affecting our bond issuances.

NEIL ABERCROMBIE
GOVERNOR



BRUCE A. COPPA
Comptroller

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TESTIMONY
OF
BRUCE A. COPPA, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
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RELATING TO CAPITAL INVESTMENTS

Chair Ige and members of the Committee, thank you for the opportunity to submit written testimony on S.B. 1285, S.D. 1.

The Department of Accounting and General Services (DAGS) strongly supports S.B. 1285, S.D. 1.

DAGS has an immediate and pressing need to upgrade its legacy systems and hardware to ensure reliable, efficient, and effective technology solutions for State agencies and to our citizens through transparency in the access to government records and services. To accomplish this upgrade, millions of dollars are needed and the traditional financing source of general fund appropriations are unrealistic and archaic in today's environments.

Currently, the State's accounting platform, the Financial Accounting Management Information System (FAMIS) is over 25 years old. Replacement of it has been estimated at \$50

million. Another alternative would be to implement an Enterprise Resource Planning (ERP) integrated system to provide interfaces between all programs such as budget, general ledger, personnel, and payroll to eliminate the redundancy of data that now exists with our incompatible systems. The ERP solution will cost in the millions to purchase and implement and perhaps be equal to or greater than the FAMIS replacement cost of \$50 million. With the State facing an \$800 million deficit in the upcoming biennium, the funding for these system replacements cannot be from general funds. The only viable alternative would be to treat it as a capital project and utilize general obligation bond financing.

Is this approach reasonable? Yes and it is the current practice in private industry where legacy system implementation is treated as a capital project for three reasons. First, the life of the asset or system, because of the extensive effort required to develop and implement legacy applications including changes in corporate culture (doing things differently), corporations utilize these systems for a minimum of 10 years. Secondly, because of its life, it is treated as depreciable asset, like a building. Lastly, these projects are funded with long term borrowings or possibly equity capital.

In the long term, we must begin to think about how the CIO will implement the IT strategic plan. It would be tragic to see the demise of the implementation of the IT strategic plan and the CIO by the CIO's failure to implement the IT strategic plan because the required funding to purchase the hardware, software, and other resources (i.e. consultants) were not available. That will happen like the countless other general funded IT initiatives (i.e. alternate data center) which have failed due to a lack of funding. S.B. 1285, S.D. 1, is the financing vehicle to overcome the funding road blocks and elevate the State's IT capacity.

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