

NEIL ABERCROMBIE
GOVERNOR



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STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

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TESTIMONY
OF
DEAN H. SEKI, ACTING COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
ON
April 3, 2012

S.B. 2780, S.D. 1, H.D. 1, Proposed H.D. 2

RELATING TO THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Chair Oshiro and members of the Committee, thank you for the opportunity to testify on S.B. 2780, S.D.1, H.D. 1, Proposed H.D. 2.

The Department of Accounting and General Services (DAGS) supports the intent of Part I and provides comments and opposes the annual reporting provision of Part II of S.B. 2780, S.D.1, H.D. 1, Proposed H.D. 2.

With respect to Part I, DAGS believes a more appropriate funding source should be general funds and CIP funds. As reflected in the Proposed H.D. 2, Part I does not provide a stable source of revenue for the shared services technology special fund (the special fund). The revenue source would be dependent on the amount of vacancies each agency has. Mechanically, the best time to do the transfers of funding related to vacant positions would be at the end of the fiscal year so hiring is not jeopardized. This becomes an unrealistic solution as the special fund will not have cash during the year in which to encumber funds for purchases of equipment and services. If vacancy savings transfers were done during the year, in substance this would be a restriction on agencies. To allow the Office of Information Management and Technology to

fulfill their mission and complete their planned initiatives, a stable source of funding is required to plan and acquire the necessary services and equipment.

With respect to Part II of the Proposed H.D. 2, DAGS defers to the State Procurement Office as their existing duties and responsibilities encompass inventory management of state property. DAGS also provides the following comments. First, we concur with the intent to notify nonprofit agencies and the Department of Education which DAGS believes can be accomplished through awareness via a surplus equipment web page which is part of the State Procurement Office website. Secondly, the bidding out of the surplus property should be done if the level of effort will exceed the perceived value to be received from the sale. It would make no sense to go through a reverse procurement process to receive less funds than the cost incurred to conduct the solicitation. Additionally, in some cases, we would need to pay the recycling company to dispose of the equipment.

Lastly, DAGS opposes the provisions of Part II of the Proposed H.D. 2 requiring a legislative report containing certain enumerated data as the benefits of the information gathered does not justify the administrative burden required to prepare it.

Thank you for the opportunity to testify on this matter.

NEIL ABERCROMBIE
GOVERNOR



SANJEEV "SONNY"
BHAGOWALIA
CHIEF INFORMATION
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STATE OF HAWAII
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TESTIMONY OF
SANJEEV "SONNY" BHAGOWALIA, CHIEF INFORMATION OFFICER
TO THE HOUSE COMMITTEE ON
FINANCE

Tuesday, April 3, 2012, 4:00 p.m.
State Capitol, Conference Room 308

SB 2780, SD 1, Proposed HD2

RELATING TO THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Chair Oshiro, Vice Chair Lee and members of the committee, thank you for the opportunity to testify on SB 2780, SD 1, Proposed HD 2.

The Office of Information Management and Technology (OIMT) supports the intent of the bill. However, we are extremely concerned about funding the information technology transformation initiatives by transferring personal services savings from general, special and revolving funds to the Shared Services Technology (SST) Special Fund.

The proposed means of financing the SST Special Fund may not be adequate to support the transformation of information resources management (IRM) and information technology (IT) as envisioned by both the Administration and the Legislature. Funding for the supplemental budget year must be with the surest means of financing available, general funds and general obligation bonds, for the State of Hawaii to achieve the greatest strides in the IT modernization initiative. This will allow OIMT to immediately begin acquiring and implementing the critical foundation elements needed for the larger transformation projects.

~~The sustainability of the SST Special Fund is also of concern if the only funding mechanisms are solely the three percent of the central services special funds and the personal services savings proposed. Additional means of funding the SST Special Fund, such as realignment of existing budget resources from departments, fee-for-service models, department assessments for enterprise services, and department~~

budget transfers are being explored, and will be identified in the forthcoming Business and IT/IRM Transformation Strategic Plan.

As the SST Special Fund is the first of its kind for the State, and only recently established in July 2011, it has not yet been proven to be a successful means of financing the large initiatives required to begin transforming the State's IT environment and improving government business processes. The timing of the availability of funds, accumulated throughout the course of the year rather than being available at the beginning of the year or in predictable increments, coupled with the uncertainty of the amount that will be available, especially given the potential for "raiding" of the special funds before the SST's three percent is taken, complicates planning and precludes investments beyond the most basic day-to-day operating expenses. As evidence, consider that since its inception in July 2011 through March 2012, the SST Special Fund has only accumulated approximately \$312,000 or less than 30 percent, of its FY12 target of \$1.2 million.

Also, with the central special funds totaling only \$33 to \$41 million annually, the three percent of those funds directed to the SST Special Fund is only enough to pay for current bare-bones-level operations of the OIMT office, with no funding available for investment in the State's IT infrastructure and shared services.

With additional contributions from other sources, the SST Special Fund can be utilized in the future (starting fiscal year 2014) as the operating budget for OIMT. It will also be able to cover training, maintenance agreements, and enterprise-wide upgrades. However, major investments in central infrastructure and services will need to be funded separately from ongoing operating costs.

We respectfully recommend that the Committee appropriate funding through general funds and general obligation bonds as identified in SB 2780, SD 1, HD 1.

Thank you for the opportunity to testify on this matter.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2780, S.D. 1, PROPOSED H.D. 2

April 3, 2012

RELATING TO THE DEPARTMENT OF ACCOUNTING AND GENERAL
SERVICES

Senate Bill No. 2780, S.D. 1, Proposed H.D. 2, proposes to require all departments to transfer the following for fiscal year 2012 and 2013 to the shared services technology special fund: 1) special or revolving fund moneys deemed to be in excess of fiscal year 2012 and 2013 requirements for personal services costs and 2) ten percent of all appropriations attributable to general, special or revolving fund vacant positions. This bill also proposes to amend Chapter 103D, Hawaii Revised Statutes, to require all departments to attempt to sell or donate office equipment to schools, nonprofits or salvage businesses before disposal.

The Department of Budget and Finance supports the intent of the bill. The department would suggest, however, that a general fund appropriation may be more appropriate to provide additional funding to support the State's technology transformation initiative and the shared services technology special fund.

The proposed transfers of excess special or revolving fund moneys for personal services costs and ten percent of general, special or revolving funds attributable to vacant positions do not take into consideration that the positions may have been kept vacant to meet necessary general fund budget restrictions or due to special or revolving fund revenue shortfalls. Many of these special and

revolving funds and related programs are now getting back on their feet after weathering the effects of the economic downturn and previous special and revolving fund "raids" (i.e., transfers to the general fund) but these transfers would be required without regard to the sustainability of the funds in future years. There is also a concern about implementation of transfers related to vacant positions because positions can be filled until the last day of the fiscal year, leaving no time for transfers to be processed.

I would also be concerned if this approach is the sole strategy to fund the Chief Information Officer's (CIO) initiatives of the shared services technology fund. In concert with the CIO, the planned objectives of the Office of Information Management and Technology (OIMT) require a more significant funding commitment than the amount of funding that could be derived from taking a percentage of vacancy savings. The objectives of the CIO and the Administration's expectation of OIMT are great and the anticipation is that the sheer magnitude and scope of the proposed projects will require an equal amount of funding commitment.

Date: 04/03/2012

Committee: House Finance

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 2780,SD1,HD2 Proposed RELATING TO THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

Purpose of Bill: Appropriate moneys including by authorizing general obligation bonds, for the information technology transformation initiative in fiscal year 2012-2013. Requires state departments to attempt to sell or donate office equipment to schools, nonprofits, or salvage businesses before disposal. Effective July 1, 2112. (SB2780 HD1)

Department's Position:

The Department of Education appreciates the concept of this bill as it supports the statewide needs for technology improvement. However, we have concerns regarding two sections in the proposed House Draft 2.

Section 2, regarding personal services savings, would result in funds that have been collected from students and parents for school lunches to be transferred to the shared services technology fund. There is not a clear link between the shared services technology fund and the charges for school lunches, as called for in HRS 23-11.

Implementation of Section 4, requiring transfer of general funds attributable to vacant positions, would impose a hardship on the Department of Education for three reasons.

- First, our general fund salary budget already includes a negative amount of over \$48 million for turnover savings.
- Second, the schools are allowed to "sell" vacant positions and use the funding for non-salary costs, which reduces the salary savings available for transfer.
- Third, when schools have vacant classroom teacher positions that they do not "sell," the Department pays the cost of substitute teachers to conduct classroom instruction during the recruitment and hiring process.

Thank you for the opportunity to provide testimony on this proposed draft.