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TESTIMONY
OF
SARAH ALLEN, ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE HOUSE COMMITTEE
ON
FINANCE
MARCH 30, 2016; 3:00 P.M.

SB2494 HD1
RELATING TO PROCUREMENT
(PROCUREMENT; STATE PROCUREMENT OFFICE DATABASE; APPROPRIATION)

Chair Luke, Vice-Chair Nishimoto and members of the committee, thank you for the opportunity to submit testimony on SB2494 HD1. The State Procurement Office's (SPO) strongly supports the intent of this bill and offers the following comments:

Access to meaningful metrics is vital for decision-making. State Agencies and Departments must have access to business analytics to find effective ways to cut costs, increase efficiencies and leverage economies of scale. An organized, state-wide contracts database could offer that dashboard to both the government and the community.

This measure, however, must provide the resources necessary for a project of this scope and magnitude which will take several years to complete. The investment required can be sizable: including positions and funding for the positions, and the ancillary costs for location, equipment and on-going maintenance costs. As important and valuable as this project is, the SPO has no resources available.

The SPO proposes three options, all of which require varying levels of resources.

Option 1: One-Stop Shop

The Committee on Government Operations has recommended funding for this first option, the One-Stop Shop. The funding required is with the understanding that each CPO jurisdiction is responsible for any costs necessary to implement a bridge program as stated in HD1.

Given adequate resources, SPO can create a "One-Stop Shop" that will "pull" data from the multiple databases (based on mandated fields), and a function that will show corresponding award data. This is a searchable database for both governmental bodies and the community to see. It would include information on the solicitations, associated award notice and any other procurement notices. It would not include all contract data, but rather a high level summary of that data. This will greatly ease the burden on the business owner, and allow for some analysis to reduce duplication of work. Not all CPO jurisdictions have systems which are accessible for us to "pull" data. Thus, Legislature would need to add language to this bill stating that CPO jurisdictions would need to be responsible for any costs necessary to implement a bridge program to collect this data.

The cost of establishing the database and application is $100,000 and does not include staff to manage or cost to maintain from year to year. This searchable site can be developed within a year.

Option 2: eProcurement System & One-Stop-Shop

Option 2 combines Option 1 and 2 to implement the most cost-effective, efficient option. Although Option One would not include all contract data such as the contracts themselves, it would be implemented quickly and there would be visibility to at least a high level idea of the State-wide procurements. In addition to this One-Stop-Shop, SPO recommends the implementation of a robust eProcurement System. This system would be mandated within the Executive Branch, but also available to be used by any CPO jurisdiction. It would allow the Executive Branch CPO visibility into all contract data.

In addition, among the 19 Departments that fall under the Executive Branch CPO, there is very little consistency with the way procurement solicitations go out, and with what is expected from vendor proposals. The inconsistencies and incongruent processes increase procurement processing time per requirement, which increases time spent by State Buyers, reducing efficiency of procuring personnel, and increasing confusion and money spent by Vendors. The ability to create one set of templates and expectations for doing business with the Executive Branch will incentivize more businesses to want to do business with the State, enhance competition, and reduce the costs that vendors must consider with bid and proposal costs.

There is currently very little transparency on the Executive Branch Procurement Spend. This lack of transparency leads to probable duplication of effort and redundancy in procurements, failure to leverage economies of scale, very little data for decision making and ultimately, increased costs to the State Budget. eProcurement System

A robust online electronic procurement system for issuing solicitations, receiving responses, and issuing notices of award will improve the consistency and transparency of procurements conducted by the 19 Departments under the Executive Branch CPO. In addition, an eProcurement system would allow for establishment of state-wide catalogs, sourcing management and spend analysis. These areas would increase the level of transparency and give decision-makers the necessary business analytics to make well-informed, smart choices. Moreover, the State will achieve significant cost savings and tangible benefits including:

- Increased competition,

- Leveraged economies of scale,
- Improved cost and pricing methods,
- Improved negotiation standing,
- Decreased processes and leveraged learning curve and specialization,
- Reduced turnover time to award, and
- Reduced interest payments to vendors for late payments.

The cost for this system would be approximately $2.5 million over the initial span of 2-3 years. This amount includes access for implementation across the whole State. Thereafter, the system would be self-sustaining with no additional monies needed for maintenance.

Option 3: All Procurement Contract Database

This database would include all contracts for the entire state. Because of the substantial storage needs, and the unknown volume of documents, this will be the most expensive option. We are estimating a starting cost of at least $4 million. It is not known whether this database will have to be developed from scratch and how complex the coding will be for this purpose. Maintenance costs would be estimated at 23% of the base, or $920,000 annually.

Thank you.

Email: communications@ulupono.com

HOUSE COMMITTEE ON FINANCE
Wednesday, March 30, 2016 — 3:00 p.m. — Room 308

Ulupono Initiative <u>Strongly Supports</u> SB 2494 SD 2 HD 1, Relating to Procurement

Dear Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

My name is Murray Clay and I am Managing Partner of Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally produced food; increase affordable, clean, renewable energy; and reduce waste. We believe that self-sufficiency is essential to our future prosperity and will help shape a future where economic progress and mission-focused impact can work hand in hand.

Ulupono <u>strongly supports/supports</u> SB 2494 SD 2 HD 1, which requires the State Procurement Office to establish a database of all government procurement contracts, because it aligns with our values of transparency and efficiency. Such a database should contribute to more efficient contracting which we believe could further efforts to contract for local food, renewable energy, and energy efficiency.

State procurement is one of the major pathways through which local farmers can obtain large volumes of sales and ultimately grow their businesses. Yet, there are differing policy philosophies to determine the best procurement structure to allow for more locally produced foods to enter into the State's procurement channels. Similar difficulties exist for renewable energy and energy efficiency contracting. However, there is not an easily searchable procurement database to identify the best procurement policies.

Currently, there are 20+ differing departments with differing procurement processes and criteria. Since different departments have different procurement needs, flexibility is important but standardization is ideal for tracking. The current procurement database identifies recipients of procurement contracts, but the information is extremely difficult to navigate. At best, one can identify 40,000 different procurement line items across the publicly available database going back roughly 15 years.

Since the database needs a lot of work, it effectively means the State Procurement Office cannot truly identify procurement trends and effectiveness of policies designed to improve procurement. For Ulupono, a local food and renewable energy investor, this means as we

try to identify the best solution for increasing locally produced foods into the system, we do not know what policies are effective, why they are effective, and what to do in the future. If a database were available, this can re-shape and make procurement much more efficient and effective for many issues, not just local food and renewable energy procurement. Over the last 15 years of data, it appears, the State has spent ~$26.4 billion in procurement contracts. This figure appears to be grossly underestimated based on differences in data quality/availability over time..

Without better data tracking and analytics, we do not know, nor will we know going forward, if there are better policies and strategies to allow the State to get the most for its money. A more efficient, transparent, and effective State government is predicated on developing a rich and user-friendly database for the State Procurement Office.

While funding for databases is challenging given the State's fiscal situation, given the massive amount of money the State expends through the procurement process, it should be better able to track where the money is going and why. If not, the State will continue to open itself up to being penny wise and pound-foolish. Spending a relatively small amount of money could result in significant long term savings and efficiencies.

As Hawai'i's local food and renewable energy issues become more complex and challenging, organizations need additional resources and support to address and overcome them. We appreciate this committee's efforts to look at policies that support local food and renewable production as well as good governance in general.

We believe that by collaborating, we can help produce more local food and renewable energy and support economically robust homegrown industries, which strengthens our community by bolstering our self-sufficiency in these critical areas. Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner