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WRITTEN ONLY
TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 722, S.D.1

March 21, 2017
2:00 p.m.
Room 308

RELATING TO EFFICIENCY MEASURES

Senate Bill No. 722, S.D. 1, proposed to recommence the efficiency measures pilot project originally required under Act 67, SLH 2015. The Director of Finance and the selected State department would conduct the pilot project with the intent of addressing several issues, including the formulation of the best definition of "efficiency measure" to be used for State budgeting, development of program expectations, determination of appropriate benchmarks, and determination of optimal program funding levels.

This bill acknowledges that this department submitted a report to the Legislature regarding the initial pilot project on December 30, 2016, raising concerns regarding the proper definition of efficiency measures and the resources necessary to provide data on efficiency measures. We appreciate that the Legislature has acknowledged some of our concerns and has tried to address them with this bill. The bill amends Act 67 to define "efficiency measure" as the direct cost to the State to do or produce something or some service without wasting funds, material, time or energy. However, we still have the following concerns with implementation of this measure:

First, there may be technical issues with providing direct costs of a product or service. State agencies generally do not keep track of the cost of each employee or other costs attributable to a particular product or service and may not even have the capacity to do so. Very specific cost tracking would be more feasible with an Enterprise Resource Planning system, which is not yet available.

Second, it appears unreasonable to measure the direct costs of a product or service in a silo. State agencies and personnel often handle multiple tasks concurrently and some may never have the opportunity to work on one task at a time. All products and services are not created equal and higher costs may reflect complexity or busy periods, such as the end of the fiscal year. Conversely, lower costs do not necessarily reflect efficiency but may instead reflect an inadequate product or service.

Third, it may not be possible to breakdown centrally budgeted costs into units, which may be necessary to determine the direct cost of a product or service. Also, depending upon what is being measured, there is the potential to duplicate costs such as overhead if processes happen concurrently. However, it would also be unlikely that efficiency measures would include all program costs.

Fourth, extensive training for executive department staff would be required and would likely need to involve all departmental budget, fiscal and human resource staff, at a minimum. State support agency staff were reduced during the last recession and have not been restored, thus, they would need to re-prioritize their workloads.

Thank you for your consideration of our comments.