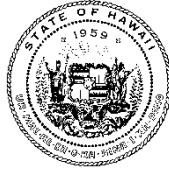


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TESTIMONY
OF
SARAH ALLEN, ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE
ON
GOVERNMENT OPERATIONS
January 28, 2020, 2:45 P.M.

SB2385
RELATING TO STATE PROCUREMENT OFFICE

Chair Thielen, Vice-Chair Inouye, and members of the committee, thank you for the opportunity to submit testimony on SB2385. The State Procurement Office (SPO) cannot support the bill as it stands, and offers the following comments.

History:

Act 50, HB162 SLH 2005, aimed to promote the growth and development of small business. A Senate Standing Committee Report on the bill said "Small businesses are the lifeblood of the State's economy".

On January 6, 2007 interim administrative rules, HAR chapter 3-124 Subchapter 9, Small Business Preference Rules became effective. However, due to the complexity and confusion about the rules, and the lack of appropriate business matrices and available data, agencies were not able to implement the small business program, even after the Hawaii Procurement Institute's 2009 training was conducted. On November 18, 2010, the Procurement Policy Board was unable to resolve issues relating to small business rules, therefore, the rules expired on February 24, 2011.

In 2014, the SPO sent out a survey to business communities asking for input on how the small business program should work. SPO received responses from 1500 small business owners, advocates, and State agencies, identifying the needs a small business office would fill. Twenty-six (26) State agency personnel identified the top two topics, 1) how to identify suitable projects and 2) how to identify small businesses.

The survey also received 505 responses from small business owners who identified the top three barriers in doing business with the State; 1) compliance, 2) procurement process and 3) red tape/paperwork. Thirty-five (35) out of forty (40) Small Business Advocate entities indicated support for a State Small Business Office. The survey also identified the need for small business self-identification and the sub-sets that the State should focus on; veteran, women, and Native Hawaiian-owned businesses. A successful small business assistance program also needs to identify, quantify, and address the needs of Hawaii's small businesses and measure and track their present and future participation in state contacts.

Act 42, SLH 2017, established, within the State Procurement Office (SPO), a three-year small business initiative to facilitate the collection and development of relevant data and information. The SPO would also convene stakeholders for the development of an effective small business program, including the development of Rules.

SPO was appropriated \$200,000 in late CY 2018 for the first year of the three-year program. The Bill had originally requested funding \$250,000 for each of the three years. The SPO partnered with Solutions Pacific (SP), whose Year 1 mission was to develop an awareness campaign, conduct market analysis, engage in outreach programs targeting small business, and promote the Small Business Office. Simultaneously the SPO began development of the Small Business Database as a module within the Hawaii Awards and Notices Database System (HANDS).

After the first year, the legislature and state did not appropriate any more funds and the small business initiative was suspended. Consequently, the contract with Solutions Pacific was terminated, the Small Business Advisory Group was disbanded, and the SPO Small Business database was deferred. Disappointingly, the demise of the Small Business initiative raised little to no concern by small business owners, advisory group members, or legislators. In fact, as of December 2019 only three-hundred vendors self-registered as a small business in the SPO Small Business Database Hawaii, compared to the more than 100,000 business registered with the Small Business Administration in Hawaii in 2015.

Recommendations:

If legislators intend to extend and revive the Small Business Initiative, the SPO cannot envision successful implementation of a Small Business assistance program in the State of Hawaii without implementing ALL of the following:

1. **Actualizing a Small Business Program.** A third attempt to implement this program with Rules will require first creating a Small Business Office, and hiring a consultant specialist in this area to assist with developing a working, implementable business model. However, even with funding for these areas, this program will still not become actualized without the clear, communicated support of the State, Legislators and the Community. SPO cannot not move forward as the sole champion for this effort.

2. **Mission and Conflict of Interest.** The management and oversight of a small business program is distinctly different in mission from the central state procurement office. Combining the responsibilities for both within the SPO is a conflict of interest because SPO's mission is to consider ALL contractors in policy. The Federal agencies determined this conflict existed which is why the Federal Small Business Office was created and is separate and apart from the normal contracting authority. Thus, the SPO recommends the State Small Business Office (SBO) be situated within the Business Development and Support Division of the Department of Business Economic Development and Tourism (DBEDT). DBEDT's mission is directly connected with maintaining and encouraging businesses within the State and the housing of the program would be best suited within this department.

Part of our efforts under Act 42 included an agreement with the then DBEDT Director, Louis Salaveria, to actuate this office at the ending of the three-year pilot. Due to the fact that we were not given forewarning that this Bill would be revived, we have not yet had a chance to meet and talk with the new DBEDT Director to ascertain his thoughts.

3. **DBEDT Small Business Office (SBO).** SPO recommends annual funding for three (3) full-time employees (FTE) with associated costs to effectively operate an office at \$250,000 annually. Based on future talks with the DBEDT Director, rental space might be required which would raise this cost.
4. **Develop the Business Model.** The SPO found during our work with Act 42 that our initial business model was too difficult to implement. It is clear that State needs the assistance of a consultant with experience in this area to: (1) Collect, collate and analyze all the current small business data from multiple sources; (2) Review current state procurement code and processes; and (3) Recommend a good working business model that is easily implementable. Thus, funding of \$500,000 to procure the services of a consultant to develop a business, model, assist in the development of administrative rules, and provide guidance on initializing and maintaining the program is essential.

Based on past attempts, working with a consultant will expand awareness, produce training and workshop campaigns and recommendations for implementable rules and statistics to be developed through the partnership of the Small Business Advisory Group, the Small Business Office (SBO), the SPO Administrator and the Procurement Policy Board.

5. **Development of effective rules.** This will set the groundwork for a small business set-aside program and basis for training, workshop campaigns, and an implementable program. Appropriation of additional funds would allow the SBO, in partnership with the SPO, to continuing working towards the goal of ensuring that small businesses are able to effectively participate in contracting opportunities.
6. **Contractor Small Business Database.** Currently, there exists several disparate databases across the State, listing small business owners, such as the Federal Small Business Office or the Department of Transportation's Diversity Office. However, for various reasons, these listings are not complete for the purposes of a state-wide small business set-aside, and thus State must hold the Contractor Database of Record to be

able to properly review the statistics on industry, capability, performance and minority standing, if any. SPO already has a perfunctory database which can be utilized presently. However, the SPO has started efforts to solicit for and obtain a full-module eProcurement System which will include a vendor management module, estimated to be realized in approximately 2.5 years. We recommend that no additional funds are spent on upgrading the present database as the eProcurement system will be able to:

- Allow contractors to self-identify on the registration system, and
- Enable simple controls and guidance for buyers to procure a set-aside without additional work burden.

Thank you.