



**STATE OF HAWAII  
STATE PROCUREMENT OFFICE**

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TESTIMONY  
OF  
BONNIE KAHAKUI, ACTING ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE  
ON  
WAYS AND MEANS  
FEBRUARY 26, 2021; 9:30 A.M.

SENATE BILL 1391, SD1  
RELATING TO PROCUREMENT

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee, thank you for the opportunity to submit testimony on SB1391, SD1. The State Procurement Office (SPO) offers the following comments and recommendation.

Chapter 103D, Hawaii Revised Statutes (HRS), Hawaii Public Procurement Code (Code), is the single source of public procurement policy to be applied equally and uniformly, while providing fairness, open competition, a level playing field, government disclosure and transparency in the procurement and contracting process vital to good government. During the planning stages of a procurement, the Procurement Officer has the responsibility to determine if life-cycle costs should be considered, especially when it is expected that offers will include items that have substantially different operations, support, and disposal costs.

Source selection consideration can be appropriate for an item as simple as an automobile tire or as complex a major weapons system. For more complex systems, planning should also address:

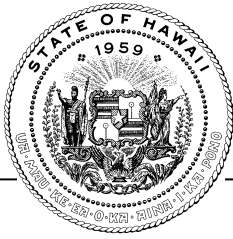
- Factors with significant effect on life-cycle cost results and implement tradeoff studies to evaluate alternative actions which could reduce costs related to those factors
- Life-cycle costs in product design
- Contract commitments (when appropriate) that will affect control of life-cycle cost results

SECTION 3 of the bill is not necessary and should be addressed case by case by the Procurement Officer. Once determined that that life cycle costs will be considered in the evaluation of offer, the solicitation would be prepared appropriately.

Solicitation Requirements. If you intend to consider life cycle costs in offer evaluation, the solicitation must:

- Advise prospective offerors how life cycle costs will be considered in making the contract award decision.
  - Award may be made based on lowest evaluated cost, including life-cycle costs, or life-cycle costs may be considered as a factor in an award decision that also considers other characteristics of the item or system.
  - When life-cycle costs continue over a period of years, solicitations will often provide for adjustments to consider one or more of the following:
    - Time value of money
    - Cost uncertainty
    - Inflation
- Require offerors to estimate key elements of life cycle cost. To estimate preparation, the solicitation must provide relevant information (e.g., projected item usage, operating environment, and the operating period that will be considered in offer evaluation).
- Require offerors to provide relevant cost estimates along with appropriate information to support life-cycle cost estimates.
  - Estimate requirements typically include elements such as:
    - Average unit price, including (when appropriate) recurring and nonrecurring Unit operating and support costs (e.g., manpower, energy, and parts requirements)
    - Unit disposal costs (e.g., the cost of removing equipment from the Government facility)
    - Unit salvage or residual value
    - Related information should provide estimate support production costs (e.g., test or operational data)

Thank you.



# HAWAII STATE ENERGY OFFICE STATE OF HAWAII

DAVID Y. IGE  
GOVERNOR

SCOTT J. GLENN  
CHIEF ENERGY OFFICER

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Testimony of  
**SCOTT J. GLENN, Chief Energy Officer**

before the  
**SENATE COMMITTEE ON WAYS AND MEANS**

Friday, February 26, 2021  
9:30 AM  
State Capitol, Conference Room 211

In SUPPORT of  
**SB 1391 SD1**  
**RELATING TO PROCUREMENT.**  
(Written Testimony Only)

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee, the Hawaii State Energy Office (HSEO) supports SB 1391 SD1, which requires the Procurement Policy Board to adopt rules relating to life-cycle cost analysis by December 31, 2021.

Currently, the revised definition of life-cycle cost analysis in this measure reflects the Hawaii Revised Statutes (HRS) Section 196-11, which defines life-cycle costs to mean “the sum of the present values of investment costs, capital costs, installation costs, energy costs, operating costs, maintenance costs, and disposal costs over the life of the project, product, or measure.”

However, since the enactment of the life-cycle cost definition in HRS §196-11, the Legislature has established the zero emission clean economy target in HRS §225P-5, which directs the state to “to sequester more atmospheric carbon and greenhouse gases than emitted within the State as quickly as practicable, but no later than 2045.”

Also, the State Supreme Court recently ruled that the Public Utilities Commission must consider life-cycle greenhouse gas emissions in its decision making under HRS §269-6. Given this target and the increasing role life-cycle analysis has in government decision making, HSEO respectfully recommends the Legislature consider integrating

the consideration of greenhouse gas emissions into life-cycle cost analysis. This could be done through amending the definition or other means.

HSEO understands that the Procurement Policy Board falls under the purview of the State Procurement Office and looks forward to collaborating with and assisting them on this measure. HSEO defers to the State Procurement Office on the feasibility of completing the required rules within the calendar year.

Thank you for the opportunity to testify.

DAVID Y. IGE  
GOVERNOR



CURT T. OTAGURO  
COMPTROLLER  
AUDREY HIDANO  
DEPUTY COMPTROLLER

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY  
OF  
CURT T. OTAGURO, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
COMMITTEE ON WAYS AND MEANS

FRIDAY, FEBRUARY 26, 2021, 9:30 A.M.  
CONFERENCE ROOM 211, STATE CAPITOL

S.B. 1391, S.D. 1

RELATING TO PROCUREMENT.

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee, thank you for the opportunity to submit testimony on S.B. 1391, S.D. 1.

The Department of Accounting and General Services (DAGS) appreciates the modifications which have been made to the bill and offers the following comments with concerns as this bill relates to construction procurements.

We concur with the State Procurement Office's recommendation that Section 3 is not necessary for the following reasons:

- For competitive sealed bids, the most effective times to consider life-cycle costs are during the planning and design phases of a construction project, not during the solicitation process. In addition, the consideration of life cycle costs in the evaluation of competitive sealed bids creates more ambiguity in construction solicitations and increases the potential for protests of an award.

- The DAGS has considered life-cycle costs in the evaluation of competitive sealed proposals for design-build construction projects. Our experience in this area suggests that it would not be in the best interest of the State to mandate the consideration of life cycle costs nor the methodology used to determine life cycle costs in the context of competitive sealed proposals. For example:
  - When the goals for a particular project are ranked as a prelude to the development of evaluation criteria, sometimes life-cycle costs are ranked low enough that including them in the evaluation criteria would not be in the best interest of the project.
  - A low life cycle cost is not always best for a project. For example, sometimes an equipment which has a higher life-cycle cost has other factors which make it far superior in terms of performance and should be rated higher than an equipment with low life-cycle cost that is less superior in terms of performance or other factors.
  - Finally, the more complex a project is, the more difficult it can be to determine which aspects to consider and apply a fixed methodology to be used to fairly evaluate proposals against each other.

All factors considered, the determination to utilize life-cycle costs should continue to be made on a case-by-case basis at the appropriate project development and implementation stages to maximize project benefits.

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