

DAVID Y. IGE
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**TESTIMONY
OF
BONNIE KAHAKUI, ACTING ADMINISTRATOR
STATE PROCUREMENT OFFICE**

**TO THE HOUSE COMMITTEE
ON
GOVERNMENT REFORM
FEBRUARY 3, 2021, 8:30 A.M.**

**HOUSE BILL 878
RELATING TO HAWAII PRODUCTS**

Chair McKelvey, Vice-Chair Wildberger, and members of the committee, thank you for the opportunity to submit testimony on HB878. The State Procurement Office (SPO) provides the following comments:

The SPO supports the proposed amendments. In processing applications for Hawaii Product Preference (form SPO-038), the SPO has found that contractors source their products locally and will utilize their supplier's Hawaii Product, as part of their Hawaii input, to qualify for Hawaii Product Preference. This practice levels the playing field, as all contractors qualify for Hawaii Product Preference. Due to the 10% preference, the practice could inflate the industry rates, adding to the cost to the State and taxpayers.

In 2019, the SPO sent out a short survey to all registered vendors asking questions about their experience with the Hawaii Products program. Only 13 vendors responded with the following results:

In the past 24 months, have you used your Hawaii Product Preference in State solicitations that allow for preferences?

13 Vendors Responded
YES: 7 (53.85% of respondents)
NO: 6 (56.15% of respondents)

How useful is the Hawaii Product Preference to your company? On a sliding scale of 1 to 5 – Not useful (1), Slightly useful (2), Neutral (3), Useful (4), Very useful (5)

The average of the 13 respondents: 3.3 (Neutral)

Various vendors stated reasons for their score:

- We use it on our bids.
- Encourages contractors to use our products in their bids.
- I have never made a sale from any contractor or architect through this service.
- We only use it for the Public Safety bid for the correctional facilities.
- We hardly use it.
- We are a 100% Hawaii Product.
- It helps us keep production local.
- Customers today likes to see that we as business people are supporting local. We use this information to show we support local. This helps in bidding.
- Allows us to be competitive given the high bureaucratic & taxation costs of doing business in Hawaii.
- I don't even know what that is. The procurement department has too many branches and is hard for non-state worker to navigate.
- All of our competitors are also on the list.
- Cause I wanted to.
- Don't know what it is.

As a result of the survey, only 27% of Hawaii Product Vendors responded and gave a neutral rating score of 3.3 for the Hawaii Product Preference program.

Thank you



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Government Reform
February 3, 2021 at 8:30 a.m.

By
Jan Gouveia
Vice President for Administration
University of Hawai'i

HB 878 – RELATING TO HAWAII PRODUCTS

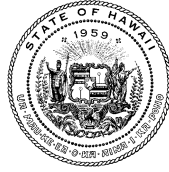
Chair McKelvey, Vice Chair Wildberger, and members of the committee:

The University of Hawai'i is in support of HB 878, Relating to Hawaii Products.

In the last several years, there have been no situations where the Hawai'i Products Preference has changed the award of a project to a higher bidder using the preference. The University supports the idea of exempting construction from the Hawai'i Products Preference as this would streamline the bid preparation and bid award phases for projects.

Thank you for the opportunity to testify in support of HB 878.

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
SENATE COMMITTEE ON GOVERNMENT REFORM

WEDNESDAY, FEBRUARY 3, 2021, 8:30 A.M.
CONFERENCE ROOM 309, STATE CAPITOL

H.B. 878

RELATING TO HAWAII PRODUCTS

Chair McKelvey, Vice Chair Wildberger, and members of the Committee, thank you for the opportunity to submit testimony on H.B. 878.

The Department of Accounting and General Services (DAGS) supports the proposed legislation to exempt construction procurements from this requirement for the following reasons:

- It has achieved its goal with respect to construction procurements.

When this preference was first enacted, there were issues with the availability and price competitiveness of local construction materials; those issues do not exist today in Hawaii's construction industry. Contractors and subcontractors have indicated that they would now choose to use Hawaii Products even without the incentive provided by this preference.

- There are also other reasons to use Hawaii products, such as LEED conformance requirements for the use of regionally extracted/manufactured products associated with new construction.

- It is contrary to the legislature's goal to increase the efficiency, effectiveness, and economy of the public works construction procurement process.
 - It reduces the efficiency of the construction procurement process due to the difficulty of determining whether it is being fairly assessed. Some bidders claim the preference by providing a lump sum price (instead of using the appropriate unit of measure for the material) or claim a quantity which is very different from that of other bidders. Since some differences in quantity can be attributed to the contractor's method of work, it is difficult to determine when a bidder is attempting to gain a competitive advantage using this preference by skewing the pricing of Hawaii products.
 - It is no longer effective because it is not required to incentivize the use of Hawaii products in construction.
 - It is not economical because the public no longer benefits from the added construction cost associated with application of the preference.

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

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LATE
GCA of Hawaii
GENERAL CONTRACTORS ASSOCIATION OF HAWAII
Quality People. Quality Projects.

Uploaded via Capitol Website

February 1, 2021

TO: HONORABLE ANGUS MCKELVEY, CHAIR, HONORABLE TINA WILDBERGER, VICE CHAIR, COMMITTEE ON GOVERNMENT REFORM

SUBJECT: **SUPPORT OF H.B. 878, RELATING TO HAWAII PRODUCTS.** Exempts construction procurements from section 103D-1002, Hawaii Revised Statutes, as it applies to construction procurements.

HEARING

DATE: Wednesday, February 3, 2021
TIME: 8:30 a.m.
PLACE: Capitol Room 309

Dear Chair McKelvey, Vice Chair Wildberger and Members of the Committee,

The General Contractors Association of Hawaii (GCA) is an organization comprised of approximately five hundred (500) general contractors, subcontractors, and construction related firms. The GCA was established in 1932 and is the largest construction association in the State of Hawaii. Our mission is to elevate Hawaii's construction industry and strengthen the foundation of our community.

GCA is in **support** of H.B. 878, which exempts construction procurements from section 103D-1002, Hawaii Revised Statutes, as it applies to construction procurements.

The purpose of section 103D-1002, HRS, is to incentivize contractors and subcontractors to use Hawaii products to support the local industry. However, the incentive has had unintended consequences including increased construction costs, decreased efficiency of the procurement process, and increased opportunities for bid protests. The preference has been difficult to evaluate and removing this preference will simplify the construction procurement process.

The GCA agrees with the justification sheet provided by the Department of Accounting and General Services for this measure. Specifically, that the preference should be removed from the procurement process for construction because it is no longer needed to incentivize Hawaii products and does not justify the increase in construction cost when the preference is applied. Additionally, the preference is contrary to the Legislature's goal to increase the economy, efficiency, effectiveness, and impartiality of the public works construction procurement process.

For these reasons we ask that the Committee pass this measure.

Thank you for this opportunity to testify in support of this measure.