



**STATE OF HAWAII**  
**STATE PROCUREMENT OFFICE**

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TESTIMONY  
OF  
BONNIE KAHAKUI, ACTING ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE  
ON  
GOVERNMENT OPERATIONS  
FEBRUARY 4, 2021, 3:00 p.m.

SENATE BIL 1391  
RELATING TO PROCUREMENT

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

Chapter 103D, Hawaii Revised Statutes, the 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 weapon 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.

This bill proposes to add the definition of life-cycle costs. The following is recommended as provided by The National Institute of Governmental Purchasing, Inc., recognized nationally by its membership.

SECTION 2. Section 103D-104, Hawaii Revised Statutes, is amended by adding a new definition to be appropriately inserted and to read as follows:

"Life-cycle costs" means the sum of ~~the present value of investment costs, capital costs, installation costs, energy costs, operating costs, maintenance costs, and disposal costs, over the lifetime of the project, product, or measure total cost of acquiring, maintaining and supporting, and (if applicable) disposing of an item.~~"

- Procurement costs are all costs, including contract costs, associated with acquiring an item for Government use. For complex items, several contracts may be required; and costs may involve research and development as well as production, delivery, and installation of an item.
- Operating and support costs are all costs, including contract costs, associated with equipment, supplies, and services needed to operate and maintain an operational system.
- Disposal costs are all costs, including contract costs, associated with removing equipment from service and disposing of it. Evaluations that consider life-cycle cost should also consider any significant salvage or resale value at the time of disposal.

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.

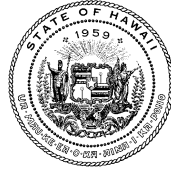
Solicitation Requirements. If you intend to consider life cycle costs in offer evaluation, the solicitation must:

- 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.

DAVID Y. IGE  
GOVERNOR



CURT T. OTAGURO  
COMPTROLLER  
AUDREY HIDANO  
DEPUTY COMPTROLLER

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
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WRITTEN TESTIMONY  
OF  
CURT T. OTAGURO, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
COMMITTEE ON GOVERNMENT OPERATIONS

THURSDAY, FEBRUARY 4, 2021, 3:00 P.M.  
CONFERENCE ROOM 016, STATE CAPITOL

S.B. 1391

RELATING TO PROCUREMENT

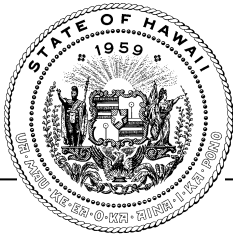
Chair Moriwaki, Vice Chair Dela Cruz, and members of the Committee, thank you for the opportunity to submit testimony on S.B. 1391.

The Department of Accounting and General Services (DAGS) opposes S.B. 1391. We offer the following:

- 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 consideration of life cycle costs is already mandated by Hawaii Revised Statutes (HRS) §196-19 – Life-Cycle Cost Analysis and HRS §103D-410 Energy Efficiency Through Life-Cycle Costing, though neither sections mandate it be considered during the evaluation of 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 of competitive

sealed bids. Life-cycle cost may already be considered as part of evaluations for competitive sealed proposals, however it need not be mandated, as other factors may be more important for the success of a particular project, and each project is unique.

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



# 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 GOVERNMENT OPERATIONS**

Thursday, February 4, 2021  
3:00 PM  
State Capitol, Conference Room 016

Comments in support of  
**SB 1391**  
**RELATING TO PROCUREMENT.**

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

It is common practice when comparing energy technologies and when designing buildings or systems to consider not only the initial cost of the item, but also the other costs – such as maintenance, operation, and fuel – when determining which is truly the lower-cost option over the long term. Since energy is often a major operational cost for buildings, life-cycle costing is often part of the design process for commercial buildings.<sup>1</sup>

Currently, Hawaii Revised Statutes (HRS) Section 196-11 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.”

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.”

Moreover, 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 them on this measure.

Thank you for the opportunity to testify.

<sup>1</sup> National Institute of Standards and Technology, LIFE CYCLE COSTING MANUAL for the Federal Energy Management Program. Handbook 135, 2020 Edition. <https://nvlpubs.nist.gov/nistpubs/hb/2020/NIST.HB.135-2020.pdf>



**KYD, Inc. dba k. yamada distributors**

*An independent leader in packaging and wholesale distribution*

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SB1391, Relating to Procurement  
Senate GVO Committee Hearing  
Thursday, February 4, 2021  
3:00 pm – Conference Room 16  
Position: Comments

Chair Moriwaki, Vice Chair Dela Cruz, and Members of the Senate GVO Committee:

I am Kevin Wong, Chief Sales Officer of KYD, Inc, distributor of Hawaii's Finest Products. As a local manufacturer and distributor in Hawaii, we continually review business practices to meet evolving energy and water needs while delivering quality services to our customers.

SB1391 proposes the procurement policy board adopt specific procurement rules incorporating life-cycle operation as a requirement of state procurements by December 31, 2021.

Among the tasks designated to the procurement policy board:

- (A) A determination of which types of procurements shall require analysis and identification of life-cycle costs used in bid evaluation;
- (B) A specification of methods for determination of life cycle costs used in bid evaluation; and
- (C) A specification of criteria and methods for appropriate weighting of life-cycle costs and bids in bid evaluation

Our comments include:

- Clarification is needed on who provides the life cycle analysis. More discussion is needed about the impact on the bid solicitation process if the bidder or the state procurement policy board is required to submit this information for each procurement solicitation. In either situation, the life cycle analysis preparer has limited access to the defined components of such an analysis. The preparer has no control over end-user costs, such as disposal costs.
- A publically disclosed report is needed about the procurement policy board's objective selection of which types of procurements require analysis and identification of life-cycle cost used in bid evaluation.
- While life cycle analysis can affect the State and Counties' operating and maintenance costs, it can also limit the availability of products and limit the flexibility to purchase and deliver needed products. These limitations result in increased costs and must factor in shipping disruption and product shortages. Hawaii, particularly in these pandemic times, competes globally for the short supply of materials and products. We are at a disadvantage because we lack the economy-of-scale volume compared to larger states.

Thank you for the opportunity to provide testimony.



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