



**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**

January 27, 2022, 3:00 P.M.

**SENATE BILL 2384  
RELATING TO PROCUREMENT**

Chair Moriwaki, Vice-Chair Dela Cruz, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 2384. The State Procurement Office (SPO) submits the following comments:

In 2019, SPO sent out a brief survey to registered vendors to gather information about their experience with the Hawaii Products program, only 13 vendors (out of 49 vendors contacted) responded. The average respondent gave a neutral score of 3.3 out of 5 on a usefulness scale of Hawaii Product Preference. Seven out of 13 vendors responded that they used Hawaii Product Preference in State Solicitations in the last 24 months.

Most of the listed Hawaii Products are in the Construction and Soil Amendments category where vendors acquire aggregates locally for use in various construction mixes. In this case, with vendors using the same sources for aggregates and raw materials, everyone qualifies for the Hawaii Products list. This defeats the purpose of the preference and creates extra work for each vendor who must complete and submit form SPO-038, Certification for Hawaii Product Preference. Additionally, the Department of Education (DOE) has not used the Hawaii Product Preference in evaluating for food awards.

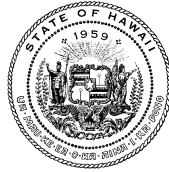
Based on the expectation that all procurements are found price fair and reasonable, these are the disadvantages to local preferences:

- They violate the open competition principle of free market. The costs of goods or services may be increased for taxpayers due to preference percentage. (Hawaii Product Preference Average is 10%).

- They reduce competition. Businesses and services which do not gain from participating in the procurement process may choose to withhold a bid or proposal, which ends up creating a smaller market competing for the state's business.
- Higher costs to administer and maintain preference programs.

Thank you

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 OPERATIONS

THURSDAY, JANUARY 27, 2011, 3:00 P.M.  
CONFERENCE ROOM 016, STATE CAPITOL

S.B. 2384

RELATING TO HAWAII PRODUCTS PREFERENCE.

Chair Moriwaki, Vice Chair Dela Cruz, and members of the Committee, thank you for the opportunity to submit testimony on S.B. 2384. The Department of Accounting and General Services (DAGS) strongly supports the intent of the bill and offers the following comments.

Elimination of this preference as it applies to construction would simplify the solicitation documents, increase the efficiency of the bid evaluation process, and eliminate the possibility of the State paying more for construction without justifiable benefit due to application of the Hawaii products preference.

Section 103D-1002, HRS, is intended to encourage the use of Hawaii products by bidders to support local industry.

Contractors and subcontractors have indicated that they now choose to use Hawaii products even without the incentive provided by this statute because of availability and competitive pricing. There are also Leadership in Energy and Environmental Design (LEED)

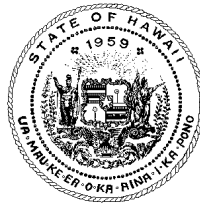
incentives for the use of regionally extracted or manufactured products associated with new construction.

Because the Hawaii products preference can reduce the bid amount (for the purposes of evaluation) by ten or fifteen percent of the cost of the Hawaii products a bidder proposes to use, it may increase the cost of construction for the state. If the industry no longer requires this incentive to use Hawaii products, there is no benefit to the public to justify the added construction cost associated with the preference and it is contrary to the Legislature's goal to increase the economy, efficiency, effectiveness, and impartiality of the public works construction procurement process.

Further, the preference has also decreased the efficiency of the construction procurement process because it can be difficult for agencies to determine whether it is being fairly assessed. This occurs because some bidders claim the preference by providing a lump sum price (instead of using the appropriate unit for the material) or listing a quantity that is very different from that of other bidders. Because some differences in quantity can be attributed to the contractor's method of work, it is difficult for agencies to discern when a bidder is attempting to gain a competitive advantage by skewing the pricing of the Hawaii Products.

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

DAVID Y. IGE  
GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF PUBLIC SAFETY**  
1177 Alakea Street, 6<sup>th</sup> Floor  
Honolulu, Hawaii 96813

**MAX N. OTANI**  
DIRECTOR

**Maria C. Cook**  
Deputy Director  
Administration

**Tommy Johnson**  
Deputy Director  
Corrections

**Jordan Lowe**  
Deputy Director  
Law Enforcement

No. \_\_\_\_\_

TESTIMONY ON SENATE BILL 2384  
RELATING TO HAWAII PRODUCTS PREFERENCE.

by  
Max Otani, Director  
Department of Public Safety

Senate Committee on Government Operations  
Senator Sharon Y. Moriwaki, Chair  
Senator Donovan M. Dela Cruz, Vice Chair

Thursday, January 27, 2022; 3:00 p.m.  
State Capitol, Conference Room 016 and Videoconference

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

The Department of Public Safety (PSD) supports Senate Bill (SB) 2384, which repeals the procurement preference for Hawaii products.

Although PSD supports the repeal of the procurement preference for Hawaii products, the Department is committed to continuing its support of local producers and to source available locally produced products that are competitively priced.

Thank you for the opportunity to present this testimony.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
Senate Committee on Government Operations  
January 27, 2022 at 3:00 p.m.

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

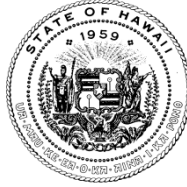
### SB 2384 – RELATING TO HAWAII PRODUCTS PREFERENCE

Chair Moriwaki, Vice Chair Dela Cruz, and members of the committee:

The University of Hawai'i is in support of SB 2384, Relating to Hawaii Products Preference.

In the last several years, there have been no situations where the Hawai'i Products Preference has changed the award of a project. The University supports the idea of eliminating 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 SB 2384.



**TESTIMONY BY:**

JADE T. BUTAY  
DIRECTOR

Deputy Directors  
ROSS M. HIGASH  
EDUARDO P. MANGLALLAN  
PATRICK H. MCCAIN  
EDWIN H. SNIFFEN

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION**  
869 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813-5097

January 27, 2022  
3:00 P.M.  
State Capitol, Teleconference

**S.B. 2384**  
**RELATING TO HAWAII PRODUCTS PREFERENCE**

Senate Committee on Government Operations

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The Department of Transportation (DOT) **strongly supports** the proposed repeal of the procurement preference for Hawaii Products. As the bill outlines, the preference for Hawaii products was established to encourage the use of Hawaii products by bidders to support local industries. Contractors and subcontractors bidding public works projects have indicated it has become a common practice to source products locally due to availability and pricing, which levels the playing field for all vendors. In addition, if the original intent of the preference has basically been met, the continued practice of applying the bid adjustment for the preference in the bid evaluation only, thereby impacting the bid order used for the determination of award, directly adds to the cost of construction to the State and taxpayers. If, in fact, contractors and subcontractors no longer require the added incentive to use Hawaii products, the value and benefits of the preference are no longer significant as it relates to increasing economy, efficiency, and effectiveness for public works construction. Awarding contracts, at possibly higher costs based on the preference adjustment, is not in the best interest of the State and taxpayers.

Further, the application of preferences, whether Hawaii products or others, have been direct issues of protest for DOT projects. For example, the 2020 Maalo Road Resurfacing, Mile Post 1.0 to Mile Post 2.0 Project was delayed more than 120 days because of a protest in part on the interpretation of the Hawaii Products Preference. Protests, like this example, negatively impact timely project delivery that may increase costs and present further delays, which adversely affect the scheduled completion of projects for the State and its communities.

Thank you for the opportunity to provide testimony.

**DAVID Y. IGE**  
Governor

**JOSH GREEN**  
Lt. Governor



**PHYLLIS SHIMABUKURO-GEISER**  
Chairperson, Board of Agriculture

**MORRIS M. ATTA**  
Deputy to the Chairperson

State of Hawaii  
**DEPARTMENT OF AGRICULTURE**  
1428 South King Street  
Honolulu, Hawaii 96814-2512  
Phone: (808) 973-9600 FAX: (808) 973-9613

**TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER  
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE COMMITTEE ON GOVERNMENT OPERATIONS**

**JANUARY 27, 2022  
3:00 P.M.**

**CONFERENCE ROOM 016 and VIDEOCONFERENCE**

**SENATE BILL NO. 2384  
RELATING TO HAWAII PRODUCTS PREFERENCE**

Chairperson Moriwaki, and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 2384. This measure repeals procurement preference for Hawaii products. The Department offers comments and concerns regarding this bill.

The Department appreciates the intent of this measure to improve the public works construction procurement process, however, respectfully notes that there may be significant unintended consequences of implementing a blanket repeal of all preferences for Hawaii products. While the elimination of the preference for construction matters appears to be an effective means to lower the cost and improve the efficiency for construction projects, the preference for locally grown agricultural products serves an important role in achieving the State's food production and sustainability goals.

Among other things, the preference provides an important incentive for local producers to increase local production and expand markets to the government sector; keeps state procurement funding in the local economy; bolsters the local economy through sales, income, tax, and employment multipliers; reduces the risk of introducing invasive species, diseases and undesirable vectors into Hawaii's fragile environment



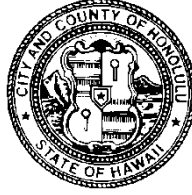


through import of fresh produce, plant and animal materials; and reducing the appurtenant regulatory enforcement costs to sustain inspection, intervention, and eradication efforts and initiatives.

If the legislature is inclined to move this measure, the Departments recommends retaining the preference for locally produced agricultural goods and eliminating the preference for construction materials and goods.

Thank you for the opportunity to testify.

RICK BLANGIARDI  
MAYOR



ANDREW T. KAWANO  
DIRECTOR DESIGNATE

CARRIE CASTLE  
DEPUTY DIRECTOR

TESTIMONY OF ANDREW T. KAWANO  
DIRECTOR OF BUDGET AND FISCAL SERVICES  
CITY AND COUNTY OF HONOLULU  
BEFORE THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS  
**January 27, 2022, 3:00 PM, Conference Room 016 and Videoconference**

TO: The Honorable Sharon Y. Moriwaki, Chair  
and Members of the Senate Committee on Government Operations

RE: SUPPORT OF SENATE BILL 2384, RELATING TO HAWAII PRODUCTS  
PREFERENCE

The Department of Budget and Fiscal Services, City and County of Honolulu (City), **supports** Senate Bill (SB) 2384, Relating to Hawaii Products Preference.

Bid preferences require additional time and resources to review and analyze, complicates and further delays the procurement process, increases chances for protest and complaints, and increases costs to the City. In general, any bid preference promotes inefficiencies and may lead to instances where applying preferences may result in awarding a contract that is actually higher than the low bid.

For the reasons stated above, the City supports Senate Bill 2384.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact the Department of Budget & Fiscal Services' Division of Purchasing at 808-768-5535 or [bfspurchasing@honolulu.gov](mailto:bfspurchasing@honolulu.gov).

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Website: [www.gcawhawaii.org](http://www.gcawhawaii.org)



# GCA of Hawaii

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

Quality People. Quality Projects.

Uploaded via Capitol Website

January 24, 2022

TO: HONORABLE SHARON MORIWAKI, CHAIR, HONORABLE DONOVAN DELA CRUZ, VICE CHAIR, COMMITTEE ON GOVERNMENT OPERATIONS

SUBJECT: **SUPPORT OF S.B. 2384, RELATING TO HAWAII PRODUCTS PREFERENCE.** Repeals procurement preference for Hawaii products.

HEARING

DATE: Thursday, January 27, 2022  
TIME: 3:00 p.m.  
PLACE: Capitol Room 016

Dear Chair Moriwaki, Vice Chair Dela Cruz 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 S.B. 2384, which repeals the procurement preference for Hawaii products.

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 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.



Email: [communications@ulupono.com](mailto:communications@ulupono.com)

SENATE COMMITTEE ON GOVERNMENT OPERATIONS  
Thursday, January 27, 2022 — 3:00 p.m.

**Ulupono Initiative respectfully opposes SB 2384, Relating to Hawai'i Products Preference**

Dear Chair Moriwaki and Members of the Committee:

My name is Micah Munekata, and I am the Director of Government Affairs at Ulupono Initiative. We are a Hawai'i-focused impact investment firm that strives to improve the quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food; renewable energy and clean transportation; and better management of freshwater and waste.

**Ulupono respectfully opposes SB 2384**, which repeals the procurement preference for Hawai'i products.

In 2021, the State Legislature passed two critical pieces of legislation to influence local food purchases by state institutions. Through Act 175, SLH 2021, the State Legislature tasked the Department of Education to serve school meals containing 30% locally sourced ingredients by 2030, supporting farm to school efforts to increase local, nutritious product consumption for our keiki and provide a consistent local market for Hawai'i's farmers and ranchers. Through Act 176, SLH 2021, the State Legislature expanded its commitment across all state institutions by mandating a 50% locally sourced meals by 2050 goal. Last year marked an important State commitment to supporting local producers and local communities.

Ulupono supports the State's farm-to-school and farm-to-institution efforts to increase local food in statewide meal programs. We understand that cheap imported products from the continental U.S. constantly challenge local food product prices. Hawai'i's small farm size and high input costs make it challenging to compete with large mainland producers that can scale operations to achieve low market prices. Hawai'i producers need all possible support in order to compete with imports, including government policies such as a local procurement preference.

The State's establishment of the goal-oriented approach to local food adoption for

*Investing in a Sustainable Hawai'i*



institutional meals makes a statement to prioritize fresh, nutritious local food for students and local communities, to support local farmers and ranchers, and to achieve Hawai'i's local food production goals. By removing this local product preference, this bill threatens each of these important sustainability efforts while also directly disregarding the State's most recent commitments to Act 175 and Act 176, SLH 2021.

Ulupono respectfully requests that any repeal of procurement preference for local food or agricultural products be removed from the bill if this committee seeks to move this measure forward.

Thank you for this opportunity to testify.

Respectfully,

Micah Munekata  
Director of Government Affairs

**LATE**

**SB-2384**

Submitted on: 1/27/2022 10:36:20 AM

Testimony for GVO on 1/27/2022 3:00:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Hunter Heavilin	Individual	Comments	No

Comments:

Aloha Chair Moriwaki, Vice Chair Dela Cruz, and members of the committee,

This bill, while address concerns around inflating the costs of the local building industry, would also remove support for Hawaii agriculture.

Please ammend the bill to retain language that would continue a procurement preference for local agricultural goods and products.

Mahalo for the opportunity to testify,

Hunter Heavilin