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TESTIMONY  
OF  
BONNIE KAHAKUI, ACTING ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO  
THE SENATE COMMITTEES  
ON  
GOVERNMENT OPERATIONS  
AND  
HUMAN SERVICES

FEBRUARY 8, 2022, 3:00 PM

SENATE BILL 3039  
RELATING TO PROCUREMENT

Chair Moriwaki, Chair Buenaventura, Vice Chair Dela Cruz, Vice Chair Ihara, and members of the committees, thank you for the opportunity to submit testimony on SB3039. The State Procurement Office (SPO) **strongly supports** this bill, which promotes fair and reasonable cost and prices for health and human services purchases, increases the small purchases threshold for health and human services, increases efficiency of short-term treatment purchase of service, and abolishes the community council on purchase of health and human services by repealing section 103F-202 Hawaii Revised Statutes (HRS).

Thank you



**Testimony to the Senate Committees on  
Government Operations and Human Services  
Senators Sharon Moriwaki and Joy San Buenaventura, Chairs  
Senators Donovan Dela Cruz and Les Ihara, Vice-Chairs  
Tuesday, February 8, 2022, 3:00 p.m.  
Via Videoconference  
SB 3039, Relating to Purchases of Health and Human Services**

Dear Chairs Moriwaki and San Buenaventura, Vice-Chairs Dela Cruz and Ihara, and members of the GVO and HMS Committees:

On behalf of the Hawai'i Alliance of Nonprofit Organizations, I would like to offer our comments on SB 3039, Relating to Purchases of Health and Human Services.

Hawai'i Alliance of Nonprofit Organizations (HANO) is a statewide, sector-wide professional association of nonprofits. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i. Our member organizations provide essential services to every community in the state.

SB 3039 would make various amendments to Chapter 103F, HRS. HANO provides the following comments on Sections 2 and 5 only.

Section 2 of this bill inserts language with the intent to ensure "fair and reasonable costs and pricing." This language appears to be nearly identical to that of Section 103D-312, HRS. HANO opposes Section 2 of this bill as it will unnecessarily create additional burden on nonprofits responding to procurement requests.

For the purchase of health and human services, departments already require proposers to provide a full detailed budget which includes line item expenses, staff positions, and salary amounts. It is our understanding that such a detailed price breakdown is not normally required from or provided by vendors via the Chapter 103D, HRS, procurement processes. Therefore, the State agencies are already receiving detailed cost data for evaluative purposes when proposals are submitted for health and human service purchases.

HANO further notes that while nonprofits provide these itemized budgets in contract proposals or renewals, the budgets the agencies are working with underestimate the actual cost of delivering quality services, including the increases in labor costs over time. Our providers are currently providing this cost data but are not seeing contract amounts

that reflect fair and reasonable costs. HANO is concerned that Section 2 of this bill will be used to justify further diminishment of health and human service contract amounts.

Section 5 of this bill would increase the small purchase threshold for health and human services from \$25,000 to \$100,000. HANO supports this increase as it will make the procurement of these small purchase more efficient for nonprofit organizations.

Mahalo for the opportunity to provide written testimony.

Lisa Maruyama

President and CEO



## **SB3039 Procurement Cost Analysis for Health and Human Services**

### **COMMITTEE ON HUMAN SERVICES**

Senator Joy A. San Buenaventura, Chair

Senator Les Ihara, Jr. Vice Chair

### **COMMITTEE ON HEALTH**

Senator Jarrett Keohokalole, Chair

Senator Rosalyn H. Baker, Vice Chair

Thursday, Feb 8 2022: 3:00 pm : Videoconference

## **Hawaii Substance Abuse Coalition opposes SB3039 and Recommends Amendment**

*ALOHA CHAIR, VICE CHAIR AND DISTINGUISHED COMMITTEE MEMBERS. My name is Alan Johnson. I am the current chair of the Hawaii Substance Abuse Coalition (HSAC), a statewide organization for substance use disorder and co-occurring mental health disorder treatment and prevention agencies.*

### **Reasons for Opposition.**

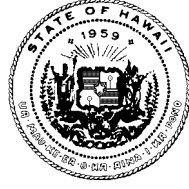
1. The State has an efficient and beneficial process that could be followed. Every so many years, the state does periodic rate analysis on providers that considers salaries based on market rates, and general administrative costs to determine fee for service rates, which are point in time and do not consider cost of living adjustments for the next several years.
2. These rates are infrequently adjusted, often going up to more than 8 years before increased for some contracts and 4 years for other contracts before adjusted upwards.
3. The state sets its maximum rate in the RFP and almost always, providers apply at the maximum rates – mostly because the rates are low.
4. This new process is very administratively burdensome, causing much work for the state and much more administrative work for providers,
5. It is very difficult and time consuming to break up costs by each contract for behavioral health because its main activity is group counseling involving patients from various funding sources. Better to do a cost analysis periodically at the time when rates are adjusted.
6. Administration efforts have gone up 4-fold over the last 4-5 years. Increasing more administrative work detracts from time to provide clinical care.
7. Moreover, let's examine more work efficient ways for the state to have assurances that rates are reasonable. (Quite frankly, they are low.)

**Providers often fund raise to cover costs because the rates are not sufficient.**

1. The state pays for the uninsured or underinsured patients. Such patients come to substance use disorder treatment often having a multitude of illnesses. They have co-occurring mental health conditions such as PTSD, depression, anxiety and more including some that have psychosis, bi-polar and severe mental illness. Moreover, many patients have diabetes, hypertension, COPD, cancer, cardiac conditions and more. They don't have insurance, so residential facilities must provide their own doctor and nurse care that is expensive and not reimbursed.
2. Agencies must fund raise to cover costs not adequately covered by state rates because some of the patients have greater needs with multiple chronic illnesses.
3. Moreover, rates are not adequate to cover depreciating assets, the rates only cover operations.
4. Agencies who fund raise to refurbish or expand their building must record fund raising as revenue while the costs are depreciated over 30 years. This accounting rule artificially inflates revenue and net result because it looks like agencies are making money during the years of fund raising while they are not, it's an accounting procedures issue with costs spent but recorded as expenses over long periods of time.

We appreciate the opportunity to provide testimony and are available for questions.

DAVID Y. IGE  
GOVERNOR



CATHY BETTS  
DIRECTOR

JOSEPH CAMPOS II  
DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF HUMAN SERVICES**  
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February 8, 2022

TO: The Honorable Sharon Y. Moriwaki, Chair  
Committee on Government Operations

The Honorable Joy A. San Buenaventura, Chair  
Committee on Human Services and the Honorable

FROM: Cathy Betts, Director

**SUBJECT: SB 3039 – RELATING TO PURCHASES OF HEALTH AND HUMAN SERVICES.**

**HEARING:** Tuesday, February 8, 2022, 3:00 pm  
Via Videoconference, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) supports this administration measure, provides a comment, and defers to the State Procurement Office and other departments.

**PURPOSE:** The purpose of this measure requires cost or pricing analysis for purchase of health and human services; adds definition of "policy board;" increases the small purchase threshold for purchase of health and human services; authorizes heads of purchasing agencies to issue requests for statement of qualifications and to establish lists of qualified providers for treatment purchase of services; and abolishes the Community Council for health and human services.

Section 5 of the proposed measure seeks to increase the small purchase of health and human services threshold from \$25,000 to \$100,000. The proposal will allow DHS to expedite and reduce administrative costs of its purchases of health and human service expenditures of \$25,000 to \$100,000 based upon bid quotation submissions from vendors, instead of the

competitive request for proposal process that often takes up to several months to complete and allows offerors the opportunity to protest the award.

Thank you for the opportunity to provide comments on this measure.