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TESTIMONY
OF
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STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE
ON
WAYS AND MEANS
FEBRUARY 28, 2024, 10:01 AM

SENATE BILL 2202 SD1
RELATING TO SMALL PURCHASES

Chair Dela Cruz, Vice Chair Moriwaki, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 2202 SD1. The State Procurement Office (SPO) opposes this bill in its entirety. We offer the following comments and the recommendation.

Comments:

Section 2, page 3, lines 7 to 8:

(c) [~~Procurements~~] Except as provided in subsection (d), procurement of ~~(\$25,000)~~ \$50,000 to less than \$250,000 shall be made in accordance with small purchase procedures; provided that [such] small purchase procurements through an electronic system shall be required.

Increasing the small purchase threshold to \$50,000 for electronic procurement would result in less transparency, reduced competition which may lead to increased costs, procurement irregularities, and higher risk of parceling, which is the artificial division of purchase of same, like, or related items of goods, services, or construction into several small purchases or smaller quantities, in order evade the statutory competitive requirements. By using an electronic system, accurate procurement data should be immediately available to the jurisdiction, negating the need for agencies to compile and provide procurement data.

Public procurement's primary objective is to provide everyone equal opportunity to compete for government contracts, and to prevent favoritism, collusion, or fraud in awarding of contracts. Additionally, obtaining quotes without an electronic procurement (eProcurement) system may lead to the agency only going to the same vendors repeatedly, which would be in violation of HRS 103D-101(a)(6)(A) Encourage economic competition by:

“(A) Ensuring that all persons are afforded an equal opportunity to compete in a fair and open environment.”

Between January 2020 and December 2023, there are 9,260 awards for less than \$50,000 posted on the Hawaii Awards & Notices Data System (HANDS) with a total approximate value of \$145 million. If the bill passes, approximately 2,315 awards annually, valued at approximately \$36 million each year, would lack transparency and would fail to give vendors equal opportunity to compete for government contracts.

Calendar Year	Number of Transactions Less than \$50K	Total Amount
2020	2,176	\$33,350,953.69
2021	2,284	\$34,013,129.78
2022	2,447	\$39,701,045.34
2023	2,353	\$38,672,279.53
Total	9,260	\$145,737,408.34

Calendar Year	Number of Transactions \$25K to less than \$50K	Total Amount
2020	519	\$19,745,404.15
2021	544	\$20,889,861.01
2022	648	\$25,271,510.61
2023	634	\$24,651,174.02
Total	2,345	\$90,557,949.79

Of the 2,315 annual solicitations, approximately 586 per year are between \$25K to less than \$50K with a total value of \$22,639,487. This represents the average number of solicitations that would only require three quotes if the bill passes and would lack transparency and assurances to the vendor for an open and fair competition.

These figures represent only account for 13 of 23 jurisdictions. The jurisdictions include Executive, University of Hawaii, Department of Education, County of Maui, Judiciary, Department of Education, Office of Hawaiian Affairs, School Facilities Authority, Honolulu Authority for Rapid Transit, Maui County, House of Representatives, Senate and Hawaii Health Systems Corporation. Other jurisdictions are using their own system and we do not have access or insight into their data.

All jurisdictions should be taking advantage of technological advances and not resort to labor intensive, manual processes. Resorting to manual processes is contrary to enhancing operating efficiencies. Procurement automation is one way to supplement processes in the wake of labor shortages.

Section 2, page 3, lines 12 to 17:

(d) In an affected area of federally declared disaster, procurement of \$75,000 to less than \$250,000 shall be made in accordance with small purchase procedures; provided that small purchase procurements through an electronic system shall be required; provided further that procurements pursuant to this subsection shall be reported to the state procurement office.

The governor must submit a request to the president to declare a federal disaster. The governor has the authority to waive the procurement code, in its entirety or parts in a declared emergency. Additionally, if passed the language does not address how long this provision will be in effect, after the federal disaster is declared or will it align with the dates of the governor's emergency proclamation.

Recommendation: The SPO recommends that HRS 103D-305 is left unamended.

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