



STATE OF HAWAII | KA MOKU'ĀINA O 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 30, 2024, 3:00 PM

SENATE Bill 2202
RELATING TO SMALL PURCHASES

Chair McKelvey, Vice Chair Gabbard, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 2202. The State Procurement Office (SPO) opposes the change in Section 1, page 1, lines 3-6:

"(c) Procurements 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."

Comments: 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. Increasing the small purchase threshold to \$50,000 for electronic procurement would result in less transparency, reduced competition, 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.

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 don't have insight into their data.

All jurisdictions should be taking advantage of technological advances and not resort to labor intensive, manual processes.

Recommendation: The State Procurement Office recommends leaving 103D-305(c) untouched to read:

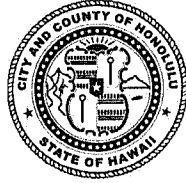
(c) Procurements of \$25,000 to less than \$250,000 shall be made in accordance with small purchase procedures; provided that such small purchase procurements through an electronic system be required.

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

DEPARTMENT OF BUDGET AND FISCAL SERVICES
KA 'OIHANA MĀLAMA MO'OHELU A KĀLĀ
CITY AND COUNTY OF HONOLULU

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CARRIE CASTLE
DEPUTY DIRECTOR
HOPE PO'O

January 29, 2024

The Honorable Angus L.K. McKelvey, Chair
The Honorable Mike Gabbard, Vice-Chair
and Members of the Committee on Government Operations
State Capitol
415 South Beretania Street
Honolulu, Hawai'i 96813

Dear Chair McKelvey, Vice-Chair Gabbard, and Committee Members:

SUBJECT: Testimony in **Support** of SB 2202, Relating to Small Purchases
Hearing: Tuesday, January 30, 2024, 3:00 p.m., Room 225 & via videoconference

The City and County of Honolulu ("City"), Department of Budget and Fiscal Services ("BFS"), is in support of SB 2202. This measure is part of the Hawaii Council of Mayors' Package and we humbly ask for your support. The measure would increase the threshold of small purchase procurements from \$25,000 to \$50,000. The increased costs for goods over the years, particularly during the COVID pandemic, has created many difficulties regarding small purchases. Relief from the burden of the procurement process for low cost items due to a small purchase threshold of \$25,000, which has not been adjusted for inflation since 1997 (Section 8 of Act 352, SLH 1997), would help our City Departments work more efficiently considering significant labor shortages.

Thank you for the opportunity to testify in support of this measure. We will be available for any questions regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew T. Kawano".

Andrew T. Kawano
Director

APPROVED:

A handwritten signature in black ink, appearing to read "Michael D. Formby".

Michael D. Formby
Managing Director



Mitchell D. Roth
Mayor

Deanna S. Sako
Managing Director

Robert H. Command
Deputy Managing Director

County of Hawai'i
Office of the Mayor

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January 29, 2024

Senator Angus L.K. McKelvey, Chair
Senator Mike Gabbard, Vice Chair
Senate Committee on Government Operations

Hawai'i State Legislature
415 S. Beretania Street
Honolulu, Hawai'i 96813

Subject: S.B. 2202 RELATING TO SMALL PURCHASES
Hearing Date: Tuesday, January 30, 2024, at 3:00 p.m.
Time/Place of Hearing: Via Videoconference, Conference Room 225

Aloha Chair McKelvey, Vice Chair Gabbard, and members of the Committee on Government Operations,

The County of Hawai'i, Department of Finance, is in support of S.B. 2202, which is included in the Hawai'i Council of Mayors' Package.

This measure seeks to increase the threshold for small purchase procurement from \$25,000 to \$50,000. The escalating cost of goods presents challenges with small purchases. Providing relief from the complexities of the procurement process for low-cost items, which until recently would have been avoided as small purchases, is essential for the efficiency of our county operations. It is noteworthy that the \$25,000 amount for small purchases has not been adjusted for inflation since 1997 (Section 8 of Act 352, SLH 1997).

Thank you for the opportunity to testify in support of S.B. 2202.

Sincerely,

Diane Nakagawa
Director of Finance
County of Hawai'i