

**PROCUREMENT POLICY BOARD
Meeting Minutes**

Monday, September 29, 2014, 1:30 p.m.

**Kalanimoku Building
1151 Punchbowl Street, Conference Room 410, Honolulu, Hawaii 96813**

web-video conference connection with:
**County of Maui Building
South High Street, Room 616, Wailuku, Hawaii 96793**

Members Present

Howard S. Garval, MSW
Chair Greg King, Chair (via Adobe Connect)
David Langille
Dean Seki, Secretary

Staff

Sarah Allen, State Procurement Office (SPO)
Ruth Baker, SPO
Corinne Higa, SPO
Bonnie Kahukui, SPO
Stella Kam, Department of the Attorney General
Hōukūlei Lindsey, SPO
Andrew Lum, SPO
Michael Ong, SPO
Robyn Pfahl, SPO
Mara Smith, SPO
Donna Tsuruda-Kashiwabara, SPO
Paula Youngling, SPO

Others

Shannon Alivado, General Contractors Association of Hawaii
David Ching, Hawaii Procurement Institute
Rina Chun, Hawaii State Legislature
Ken Takenaka, GCA

I. Call to Order, Public Notice, Quorum

Chair Greg King called the meeting to order at 1:35 p.m.

II. Approval of Minutes of Meeting on August 4, 2014.

PPB approved the minutes of its August 4, 2014, meeting.

- David Langille made the motion to approve the minutes. Dean Seki seconded the motion. The minutes were approved unanimously.

III. Procurement Policy Board Operations

A. Vacancies and Status of PPB Nominating Committee

Ruth Baker reported that the Governor recently named his two appointments to the PPB Nominating Committee (NC), Doug Murdock and Melissa Pavlicek, whose appointment is pending confirmation from the Governor. With these last two appointments, the NC can be activated to address PPB vacancies. The Boards and Commissions Office advised that both Howard Garval and Kathy Suzuki-Kitagawa are holdovers until the start of the 2015 Legislative Session and are eligible to serve another term, without needing to re-apply for their positions. Ms. Kam advises that holders may remain until the end of the legislative session, pursuant to HRS 26-34(b). Ms. Baker reported that Ms. Suzuki-Kitagawa has indicated interest in remaining on the PPB. Mr. Garval also stated his willingness to continue serving on the PPB. Ms. Baker stated that the NC will accept applications from individuals interested in serving on the PPB for all open vacancies, review qualifications, and make recommendations to the Governor.

Mr. Seki asked Ms. Kam of the Department of the Attorney General if the PPB can take up an initiative to amend the requirements of the board positions, 103D-201(b)(3), during the meeting or in new business. Mr. Seki asked if the SPO can make amendments to lessen the restrictions on the current PPB qualifications to open board membership up to more people. Ms. Allen said that the SPO and PPB can review and amend the positions descriptions, which can be reviewed at the next PPB meeting.

B. Election of Officers Pursuant to HRS §103D-201E

Ms. Pfahl stated that the PPB needs to vote on its slate of officers: Chair, Vice Chair and Secretary. She added that the PPB has a statutory requirement for a Chair, but a Vice Chair is also recommended, in case the Chair is unable to attend a meeting. Mr. Seki said the position of Secretary usually defaults to Comptroller.

Mr. Seki made a motion to nominate Mr. King as Chair. David Langille seconded the motion. Motion passed unanimously.

Mr. Langille made a motion to nominate Howard Garval as Vice Chair. Mr. Seki seconded the motion. Motion passed unanimously.

Mr. Garval made a motion to nominate Dean Seki as Secretary. Mr. Langille seconded the motion. Motion passed unanimously.

Ms. Alivado, from GCA, asked the PPB for clarification on the two Health and Human Services positions that Mr. Garval and Ms. Suzuki-Kitagawa fill. Mr. Garval confirmed that he and Ms. Suzuki-Kitagawa represent the Health and Human Services. He noted that he believes both of their terms expire at the same time – the day before the start of the 2015 Legislative Session – so there will be no representation from Health and Human Services on the PPB after January 21, 2015, and asked the PPB to consider staggering the terms in the future.

Mr. Seki asked if Mr. Garval and Ms. Suzuki-Kitagawa can remain on the PPB in a temporary capacity and expressed his concern about having a gap until they are confirmed. Ms. Kam does not believe there are restrictions beyond the limit of two terms and eight consecutive years, but she will report back to the PPB at the next meeting on this issue. Mr. Seki commented that historically, the Legislature does not confirm until the end of the session.

C. Procurement Policy Board Resources and Support

As requested by the PPB at its last meeting, Ms. Pfahl is developing an internal PPB/SPO working document of mandated requirements and resource references for PPB operations. The impetus for this PPB request was the lack of institutional memory from the previous SPO administration, and the difficulty of changing administrations to reference PPB processes. She found that the PPB does not have official by-laws; however, the PPB is guided by numerous sections found in HRS, as well as policies from the Office of Boards and Commissions.

Ms. Pfahl found two issues regarding PPB support and resources that were mandated in statute yet not implemented by the previous SPO administration. She found that per HRS 103D-201, relating to the creation of the PPB, provides for at least one designated full-time PPB support staff. The previous SPO Administrator had his private secretary handle tasks pertaining to the PPB. The SPO and Comptroller need to discuss whether to come up with that position or revise the statute.

1) DAGS/SPO Employee Designated to PPB Support

Ms. Allen reported that she spoke to Mr. Seki about HRS §103D-201 language that mandates the Department of Accounting and General Services (DAGS) to “provide at least one full-time support staff and funding necessary to support the policy board.” There is no established board administrator position. As with most boards, this position assists with logistics, events, planning and research, as well as preparing documents for board review and action. This position is usually filled by an attorney. Ms. Allen plans to request an immediate position creation and fulfillment of a Board

Administrator to support the PPB with skills and focused support to effectively carry out its policy making duties, and relieve the Board's increasing burden on the SPO's resources, freeing other SPO employees to focus on their individual positions. Ms. Allen reported that approximately 910 hours has been spent by numerous SPO staff on PPB support this year alone. Although the SPO is doing a wonderful job pulling together to serve the PPB, it can do an even better job with additional resources for a highly-specialized employee dedicated to the PPB.

Mr. Seki reported that Ms. Allen showed him the HRS about the position. He checked with DAGS Administrative Services Officer and informally with the Special Assistant to the Comptroller, who happens to be an attorney, who said that their interpretation of the language is that the SPO staff is DAGS staff, although there is no designated position. Mr. Seki said that as Comptroller he will support any budgetary requests for additional staff, if it falls within the budget instructions.

2) Compliance Audit Unit

Ms. Pfahl also found that per HRS, the Office of the Auditor is charged with established and maintaining a procurement compliance audit unit. Ms. Pfahl spoke with the Acting State Auditor, who confirmed although the compliance audit unit is in statute, it is an unfunded mandate and she has not been able to establish a designated unit per se. The State Auditor is meeting the minimum requirements of selected contract review by "risking procurement" in all their audits involving procurement projects. HRS §§103d-107, -108, and -109 mandates a long list of responsibilities and actions for a compliance audit unit, including: reviewing and auditing procurement practices; review and assess innovations in procurement methods; advocate competition, fairness, and accountability; review and assess applicable procurement innovations; review current or proposed statutes and rules; review selected contracts; conduct studies, research, and analysis, and make reports and recommendations; establish and maintain a procurement library; report on noncompliance and make recommendations; and participate in legislative hearings and policy board meetings. Ms. Pfahl shared that such analysis and data will be very helpful to provide metrics for the policies that the PPB is implementing. The SPO has a planned meeting with the Acting State Auditor, who is willing to discuss the matter and ways that her Office of the Auditor can help.

IV. Administrative Rules Overview

A. Overview of interim and permanent rulemaking procedures

Ms. Pfahl provided a resource guide outlining the difference between interim and permanent rulemaking processes for the PPB. She has been working with DAGS staff on this timeline and checklist. HRS §103D-202 authorizes the PPB to issue administrative rules with two different methods of rulemaking, requiring that "[a]ll

rules shall be adopted in accordance with chapter 91; provided that the [PPB] shall have the power to issue interim rules by procurement directives, which shall be exempt from the public notice, public hearing, and gubernatorial approval requirements of Chapter 91. The interim rules shall be effective for not more than 18 months.”

Ms. Pfahl said that the PPB can decide to use the two processes in parallel. The interim rulemaking procedure allows the PPB to test, clarify and modify procurement policy while it considers making such rules permanent.

B. Electronic HAR upgrade initiative

Andrew Lum of the SPO reported that the Hawaii Administrative Rules on the SPO website are now searchable because of the use of optical character recognition (OCR) software. Users on the SPO website will be able to use the search command in large documents. The SPO will work on getting the HAR more user-friendly and more searchable. In the past, the HAR were scanned photocopy images and users could not use the search command.

Ms. Pfahl added that this will help the public in accessing, researching and understanding procurement process through more accessible rules. The Lieutenant Governor’s Office keeps the official, signed and time-stamped rules on file and the SPO is the custodian of the rules for the public, needing to have it available on its agency website. Ms. Pfahl explained that although the official HAR versions are the stamped originals, and SPO will continue to provide scanned versions, also posting “unofficial” clean word docs converted to PDFs will increase efficiency.

V. SPO Recommending HAR changes and Decision Making on Select Initiatives

The SPO has been working on a number of initiatives that either require or would benefit from the Procurement Policy Board engaging in Hawaii Administrative Rule changes.

Ms. Allen reported that the PPB has already discussed items A) Inventory Services, B) Professional Services, and E) “Etc.” The SPO is now requesting the PPB to review and consider approving the aforementioned items. The PPB is also being presented with SPO suggested changes to items C) Past Performance, D) Communication During Source Selection, and F) Exemption Language for discussion.

A. Inventory Services – amending HAR §3-130

The PPB was provided information about the proposal to amend HAR §3-130 to align inventory accountability designations with statute and make other inventory management clarification, through interim rulemaking and rulemaking pursuant to HRS Chapter 91. HRS §103D-1204 delegates inventory responsibility to the department heads, while HAR §3-130-3 delegates inventory accountability to the CPOs. The purpose of this HAR §3-130 amendment is to clarify that inventory

accountability is the responsibility of "the head of the department, or the head of the board or commission, agency, bureau, or office of the State."

Michael Ong, Inventory Specialist of the SPO, reported that the rules and the HRS need to be aligned. Several rules need to be revised and should name who is responsible and accountable for inventory in general. The SPO is also recommending changes, such as the repeal of rules that still mention inventory, and the streamlining of the management process.

Mr. Garval asked what the end result look like, and Mr. Seki asked how the SPO would be involved. Ms. Allen responded that if the HAR clearly reflects the legislative intention of the HRS, the department heads will be responsible for their own inventory and the SPO would remain involved in the overall Inventory system. Mr. Ong reported that the rules currently require all requests for inventory disposal be signed-off by the CPO. All executive agency disposals must receive the SPO Administrator's signature as the CPO, regardless of what department had control of the inventory item. The SPO's responsibilities are to maintain centralized inventory, enforce the rules and perform inventory reviews.

Mr. Seki proposed that the PPB vote on each item as it comes up. Mr. King and Mr. Garval voiced their agreement on the process. Ms. Pfahl clarified that the PPB will vote on authorizing interim rulemaking, which will be made through a procurement directive. Ms. Allen said that the PPB has been provided draft rules and is asked to vote to facilitate the propagation of interim rules, and then it can work on making this rule permanent.

Mr. Garval made a motion to authorize the propagation of interim rules for Inventory Services. Mr. Seki seconded the motion. Motion passed unanimously.

Ms. Pfahl stated that the procurement directive on this will be given to Ms. Kam for review, then to Chair King for signature and Mr. Seki as comptroller of DAGS.

B. Professional Services – repealing HAR §3-122-66

The PPB was provided information about the proposal to repeal HAR §3-122-66, "Waiver to requirement for procurement of professional services," which has been invalidated by the Hawaii Supreme Court in Asato v. Procurement Policy Board, Hawaii, 2014. The purpose is to align HAR with current law, clarifying that HAR §3-122-66 is no longer able to be utilized when procuring professional services,

Ms. Allen reported that this is to repeal the rule (HAR §3-122-66) that allows for an option in procurement of professional services pursuant to HRS §103D-304(g), for situations where a review committee receives less than three qualified persons' submittals to provide professional services under specific selection criteria. She added that repealing HAR §3-122-66 is through interim rules only. The SPO does not intend on making this a permanent rule change because the SPO is requesting the

legislature to review HRS §103D-304(g) and change the statute to specifically allow for the PPB to promulgate rules to address situations of less than three qualified submittals, which would then authorize the PPB to reinstate HAR §3-122-66.

The SPO has drafted this Legislative request through DAGS. If the Legislature does not approve the statutory change, the PPB will have to decide how to address this very specific issue in the event that there less than three qualified submittals. SPO Procurement Specialist Donn Tsuruda-Kashiwabara said that in the current situation, the proposal will have to be resolicited, as explained in a recent Procurement Circular.

Mr. Langille made a motion to authorize the propagation of interim rules regarding Professional Services, repealing HAR 3-122-66. Mr. Garval seconded the motion. Motion passed unanimously.

C. Past Performance - amending HAR §3-122

Ms. Allen reported that the SPO has been conducting research and a feasibility study, as requested by HCR 176 (Session Laws of Hawaii 2014), on requiring past performance to be a consideration factor in all public contracts. The SPO has conducted a survey, assembled focus groups, looked at benchmarking across the states, and reviewed what the federal government is doing to address past performance in procurement. The SPO recognizes that there are many issues of how to deal with past performance during procurement, and what kind of infrastructure is needed for collection of information in a fair method after a contract has been awarded.

Ms. Allen stated that the rules that are now being presented to the PPB for consideration clarifies that past performance is a part of responsibility and adds a definition of past performance. She added that this does not immediately affect request for proposal or invitation to bid processes because the SPO recognizes that they are more complex issues regarding implementation.

Ms. Pfahl added that this is part of a step-by-step process in addressing government and contractor accountability. She explained the proposed revisions as outlined in a handout provided to the PPB.

- 1) Amend HAR §3-122-1 -establishes definitions of: past performance, responsibility determination, and clarification communication;
- 2) Add HAR §3-122-9.03 -Clarifies that due diligence is a general provision requirement for making responsibility determinations;
- 3) Add HAR §3-122-52.1 - Allows for clarification communication during the initial evaluation process to address relevance issues of an offeror's performance information for responsibility determinations;
- 4) Amend HAR §3-122-108 -clarifies that responsibility determinations include consideration of relevant and recent past performance and creates opportunity

for clarification communication; through interim rulemaking and rulemaking pursuant to HRS Chapter 91.

Mr. Garval asked for clarification on the meaning of “responsibility.” Ms. Pfahl explained that responsibility is outlined in the HRS and in the HAR, stating that a contractor has to be responsible and responsive. Responsibility of offerors is outlined in HRS §103D-310, requiring that “the procurement officer shall determine whether the prospective offeror has the financial ability, resources, skills, capability, and business integrity necessary to perform the work.” Ms. Allen added that a contractor is asked about responsibility with finances, tax payments, and labor laws. Procurement officers may also request financial statements for certain procurements to ensure that a contractor is financially strong so they don’t fail the day that they are awarded a contract.

Ms. Pfahl pointed out the proposed language establishing a clear definition of “responsibility” in HAR § 3-122-9.03 “Responsibility determination. The procurement officer shall make a determination of responsibility for any awardees. In making a responsibility determination, the procurement officer shall possess or obtain information sufficient to be satisfied that a prospective offeror meets the applicable standards set forth in the solicitation and pursuant to the designated method of procurement. The procurement officer shall consider recent and relevant past performance of the contractor as it applies to a responsibility determination for the current solicitation.”

Mr. Seki asked for the definition of “responsiveness.” Ms. Tsuruda-Kashiwabara read the definition from HRS §103D-104 “Responsive bidder” means a person who has submitted a bid which conforms in all material respects to the invitation for bids.” Ms. Allen added that while this definition is under invitation for bids, however, all types of procurements are to be responsive.

Ms. Kam pointed out that two statutes are worded differently. For bids, the definition includes “responsive” and “responsible,” while in the request for proposals process, the statute states that the award should be made to the “responsible” offeror. Ms. Kam reported that one of the hearings officers at the Department of Commerce and Consumer Affairs did address and include the issue of responsiveness in one of his decisions, stating that responsiveness is not a criterion is for disqualifying a proposal.

Ms. Pfahl stated that any criteria established for responsiveness in the Invitation for Bid (IFB) process has to be objective. The problem of including past performance in IFBs now is that it will never be viewed as objective. This is not a problem for Request for Proposals (RFP) because proposals can, and often do, create more detailed criteria that do not need to meet the same restrictions of IFB criteria. The SPO will work towards making proposed guidelines for past performance evaluation and application as objective as possible. Ms. Allen added that the SPO hasn’t directly addressed this complex past performance issue yet because it has been conducting research, is now asking for PPB administrative guidance with current statutes, as

well as waiting for Legislative guidance to move forward with more past performance initiatives.

Mr. Garval commented that one of the issues is that the state agency doing the procurement doesn't evaluate contractors in terms of performance, they don't have information. He said that HRS §103F has almost nothing about past performance in scoring criteria, but experience can be counted in health and human services procurement.

Ms. Allen stated that some problems in past performance can be a combination of government delays and contractor problems. Without proper documentation, communication and a good process, procurement can unintentionally disqualify good contractors.

Shannon Alivado of General Contractors Association (GCA) submitted testimony on past performance. GCA cited that the report is yet to be released to the Legislature, and GCA doesn't know what the report includes. She voiced concern on the implementation, objectivity, funding and fairness in past performance. Others have proposed revisions to 103D to the Legislature in past sessions, and have had discussions about past performance with county and state agencies. She said that GCA would like to see what happens to SPO's proposed bill during the next Legislative Session. GCA asked that the PPB defer its decision on past performance until after the SPO's report is released. Written testimony from Peter Landry, Chair of the Building Industry Association's Legislative Committee is attached. The American Institute of Architects - Hawaii State Council also submitted written testimony about its concern of regarding adoption of interim rules regarding past performance without adequate public notice or public hearing.

Ms. Pfahl responded that the study requested by HCR 176 (SLH 2014), which will be finalized and delivered to the State Legislature and shared with as many people as possible, will make numerous recommendations with feasibility considerations. The report is comprehensive to serve as a resource with a current Hawaii analysis, benchmarking from other states and federal laws, feasibility considerations, contain comments from stakeholders, procurement community survey results, legislative history, as well as address the logistics on the implementation of an information system that can be easily accessed by CPOs. The implementation will require resources. Also, an interim process will be in place to allow contractors to review their evaluation after contract close-out.

Mr. Seki recommended that the PPB to consider holding off on making a decision on past performance until after the feasibility report is released and hold discussion at a future meeting.

Ms. Pfahl said that the PPB has the authority make rules to clarify and implement the statute as written.

Chair King supports past performance as long as it is implementable, and noted that its implementation will require tremendous resources. Ms. Allen said that it is difficult to implement objective past performance. She recalled that the state previously tried to include a comprehensive past performance calculation, but failed because it combined all relevant and non-relevant experience, and it became subjective.

Mr. Garval said the points are well-taken, and asked if there is an alternative that will allow the SPO to spend more time and energy on review of offerors. Ms. Allen said that other states are clearly implementing past performance, and supports finding a way that implementation can work in Hawaii.

Ms. Allen welcomes any input from the PPB.

This HAR revision issue to address Past Performance was being presented to the PPB for the first time. The PPB took no action on Past Performance.

D. Communication During Source Selection – amending HAR §3-122

The PPB was provided background information on the proposed rule changes to HAR §3-122. Ms. Allen explained that the impetus is that otherwise responsible offerors are omitted from the “priority list” pool of potential awardees because procurement officers are currently barred from any form of communications, even to resolve apparent mistakes or clarify information applicability for initial responsible and responsive determinations made during the Competitive Sealed Proposal procurement process.

The purpose of this rule change is to authorize creation of a limited form of communication during the competitive sealed proposal process and responsibility determination process through “clarification communication.” Steps in this change will:

- 1) Amend HAR §3-122-1 - establishes a definition for "clarification communication";
- 2) Adding HAR §3-122-16.10 - establishes a clarification communication process;
- 3) Add HAR §3-122-52.1 - Establishes a process for clarification communications during Competitive Sealed Proposal process;
- 4) Amend §3-122-108 - creates opportunity for clarification communication during determination of responsibility of offerors; through interim rulemaking and rulemaking pursuant to HRS Chapter 91.

Note: Legislative initiative has been started, to also clarify legislative intent that limited clarification communication may be utilized to increase effective and efficient procurement, amending HRS §§103-104 and -303.

Per Ms. Allen this creates an opportunity for communication if there are any questions or need for clarification. Ms. Kam noted that the draft HAR also says "bids," and should be revised to be limited to "proposals" only. Ms. Allen agreed and said it should be corrected to say proposals.

Ms. Kam questioned why this communication is necessary, because HAR §3-122-53 allows for communications during discussions. Ms. Pfahl said that those discussions and determination of responsiveness are not even allowable for anyone who makes mistakes in their proposal because "discussions" are only available to the "priority listed" proposals, and mistakes in proposals sometimes prevents offerors from getting to the priority list where communications are authorized. Ms. Kam suggested that the language be revised to follow language as in 103D-302.

Chair King wanted to check on the responsiveness issue, and said that PPB doesn't have to vote on this during this meeting now. Mr. Garval commented that it will be important that communication boundaries are narrow because we don't want to open up discussions to all offerors.

This HAR revision issue to address communication during source selection of Competitive Sealed Proposals was being presented to the PPB for the first time. The PPB took no action on communication during source selection.

E. "Etc." - amending HAR §3-120-4 and Exhibit A

The PPB was provided background information about the proposal to amend HAR §3-120-4 and Exhibit A, which provides and exemption for "New or used items which are advantageous and available on short notice through an auction, bankruptcy, foreclosure, etc." Ms. Allen said that the impetus is that there is an unclear application of "Etc." in Exhibit A. This use of "etc." may be interpreted a number of ways, and has opened the door for expanding the scope of this exemption, creating confusion and uncertainty for procurement officers. The proposal is to delete the "etc." from Exhibit A's Exemption Number 6 description to avoid ambiguity and limit the exception to situations that "are advantageous and available on short notice through an auction, bankruptcy, or foreclosure."

The proposal is to amend HAR §3-120-4 and Exhibit A to delete "Etc.", through interim rulemaking and rulemaking pursuant to HRS Chapter 91.

Mr. Garval made a motion to authorize interim rules to remove of the word "Etc." in HAR §3-120-4 and Exhibit A. Mr. Langille seconded the motion. Motion passed unanimously.

F. Exemption Language - amending HAR §§ 3-120-4, Exhibit A, and HAR §3-122-14

Ms. Allen explained that there is a lack of accountability and transparency when items are "exempt" from the procurement-code pursuant to either board determinations (Exhibit A), or CPO determinations (through SPO form 007). She

noted that when departments know that they have an exempt contract, they often think that contract law and due diligence does not apply to them. The purpose of this rule change request is to clarify that, although a specific item may be "exempt" from the procurement code process, the procuring public employees are still responsible for procuring all items in a responsible and ethical manner pursuant to HRS §103D-101.

The means would be to amend HAR §§ 3-120-4, Exhibit A, and 3-122-14 with clarification language requiring responsible and ethical procurement for exemptions, through interim rulemaking and rulemaking pursuant to HRS Chapter 91.

The SPO wants to remind all public employees that they are still bound by ethical and contractual responsibilities, regardless if the procurement method is in 103D or exempted from the specific 103D processes.

Ms. Kam advised that referencing HRS §103D-101 is not possible because it is "exempt from the chapter." Ms. Pfahl read the ethical requirements of ethical public procurement language in HRS §103D-101, which includes 11 items: act as a fiduciary and trustee of public moneys; remain independent; act only in the public interest; abide by laws; identify and maximize efficiencies; encourage economic competition; avoid unethical behavior; avoid social interactions with any actual or prospective interested parties during the procurement process; maintain confidentiality; remain impartial; and identify and eliminate any conflict of interests.

Mr. Seki said that the intent is there, and the HRS §103D-101 language is clean, asked if they can approve a change in language that Ms. Kam approves, and the PPB vote on this today. Chair King agreed that it would be good to make a stronger point. Mr. Garval asked if the HAR can repeat the language without referring to the statute.

Ms. Pfahl said that the PPB can put specifications on the PPB's exemptions as the PPB wants. She explained that there are three methods of authorizing procurement exemptions: approval through the Legislature, PPB, or individually through CPOs. CPOs authorize exemptions through SPO Form 007. Exhibit A is the PPB's list of exemptions. Ms. Allen says that other states call exemptions "special procurement," which helps with the cultural understanding that there are still clear ethical and contractual guidelines to abide by

Mr. Seki repeated Mr. Garval's suggestion, that the rule change use verbiage from HRS §103D-101. Ms. Kam said that the PPB can do that. Ms. Pfahl said that the SPO will redraft the proposed rule change to reflect language options that convey the same idea.

This HAR revision issue to address ethical and contractual obligations of procurement exemptions was being presented to the PPB for the first time. The PPB took no action on exemption language.

VI. Legislative Initiatives

The SPO has submitted first drafts of proposed statutory changes to be considered as part of the 2015 legislative administrative package. Because the SPO is administratively attached to DAGS, the first draft of any possible legislative initiative was due on September 16, 2014. Final drafts with revisions are due November 4, 2014. The PPB was provided proposed legislation language and justification explanations that will be attached to DAGS legislative package for consideration in the Governor's legislative package.

A. Professional Services (HRS §103D-304)

- Title: A BILL FOR AN ACT RELATING TO PROCUREMENT OF PROFESSIONAL SERVICES
- Purpose: To specifically authorize the Procurement Policy Board to promulgate administrative rules to provide an effective procurement process for situations where a review committee receives less than three qualified persons' submittals to provide professional services under specific selection criteria.
- Means: Amend HRS §103D-304
- A procurement circular on the procurement of Professional Services has been posted. The final drafts after the AG comments will be circulated to the PPB for review.
- The PPB did not take a vote.

B. Past Performance – Response to HCR 176 (HRS §103D-104 and 103D-310)

- Title: A BILL FOR AN ACT RELATING TO RESPONSIBILITY UNDER THE STATE PROCUREMENT CODE
- Purpose: To increase accountability and transparency in state procurement by clarifying the due diligence requirement for contractor responsibility determination to be made prior to awarding any government contract under Chapter 103D, Hawaii Revised Statutes. Establishes a past performance definition. Requires recent and relevant past performance to be considered in all contractor responsibility determinations of capability, integrity, and reliability to perform contract requirements in good faith.
- Means: Amend HRS §§ 103D-104 and 103D-310

- The PPB did not take a vote.

C. Source Selection (HRS § 103D-104 and HRS §103D-313)

- Title: A BILL FOR AN ACT RELATING TO COMMUNICATIONS DURING PROCUREMENT
- Purpose: To provide a method for clarification communications between a purchasing agency and an offeror, to increase effectiveness and efficiency in the state procurement process during competitive sealed proposals by increasing the potentially acceptable list of responsible offers.
- Means: Amend HRS §§ 103D-104 and 103D-313
- Recommended Changes: Ms. Kam expressed similar concern with the need for clarification communication as previously discussed in SPO's recommended changes to HAR §3-122. Ms. Pfahl welcomed comments and explained that the SPO is still awaiting revision recommendations from the attorney general through the legislative coordinator process, and will work with Ms. Kam to make any changes
- The PPB did not take a vote.

VIII. Health and Human Services Report

Corinne Higa of the SPO reported that the SPO has held three meetings with representatives from various state departments and one meeting with providers. The initial meeting with both groups was to familiarize them with the Action Team's purpose and goals, and to develop and implement best procurement practices. The SPO asked both government and provider groups to talk about their challenges, which were compiled in a chart that was distributed to the PPB. The issues pertained to both 103F and crossed over to 103D.

Additional meetings with governmental officials were scheduled to provide time for addressing governmental challenges. The group also looked at acquisition life cycles and how payment processes differed between departments. A Health and Human Services meeting with providers has been scheduled for October 14, 2014. The SPO will continue its focus group meetings and will open up communication.

Mr. Garval asked for clarification on the meeting schedule, because the initial schedule included more provider meetings than a joint meeting. Ms. Allen explained that representatives from the state and representatives from health and human services engage very different, and the initial meeting schedule had to be modified for the SPO to accurately address the issues being raised. The SPO does not believe that a joint meeting with the two groups would be the best use of resources at this time, as there is more individual group work to be done before bringing both groups together. Mr. Garval said that while he is not

surprised, he voiced his concern of the providers' perception that this is setting up a barrier to collaboration between government and providers. He suggested that the SPO communicate with HANO and PHOCUS, which represent many of the non-profits in health and human services. Ms. Allen assured Mr. Garval that revising the SPO meeting schedule will be discussed in more detail during the upcoming provider meeting.

Mr. Garval then asked about the Community Council, which has been inactive. Ms. Allen said that the SPO has to determine how to dissolve the Council.

IX. New Business

Mr. Seki requested the SPO to make recommendations to the PPB that will loosen the current constraints on qualifications of board positions because it can be difficult to fill PPB positions. Ms. Allen asked the PPB members if there are any specific areas that may be too constraining to inform the SPO, and the SPO will present recommendations at the next PPB meeting. Chair King said he was fine with an investigation into this matter.

Mr. Seki asked Ms. Pfahl to check with Mr. Kerry Yoneshige, DAGS Administrative Officer, since he coordinates such issues for DAGS.

X. Next Meeting

The next PPB meeting will be scheduled for sometime in October. SPO staff will poll the members.

XI. Announcements

Small Business Initiative – Act 50 (SLH 2005)

At the request of community members, the SPO has begun looking into the small business set-aside mandated by Act 50 (Session Laws 2005), which charges the PPB with implementing administrative rules. The SPO is learning who the small business advocates are and is researching the past rules in the effort of making them fundamentally sound in the future. There are no current administrative rules to give effect to the law. There were previous interim rules promulgated by the PPB, which were reportedly difficult to implement and costly. They are researching small business set-aside and preference programs across the nation, have started speaking to stakeholders in Hawaii and are preparing to engage in a comprehensive process to make formal recommendations for new administrative rules for PPB consideration.

Chair King commented that his procurement office in Maui did not have a good experience in working with the small business rules previously adopted by the PPB, and it cost Maui County a lot of money without having the desired effect on local small business. Ms. Lindsey is researching what works across the country and what didn't work last time, investigating how the PPB can develop rules that get small business in a competitive pool for state procurement.

Ms. Pfahl added that the SPO is working on assembling a small business procurement advisory group pursuant to HRS §103D-213 and welcomes the PPB to refer people to Ms. Lindsey to participate in the advisory group.

XII. Announcements

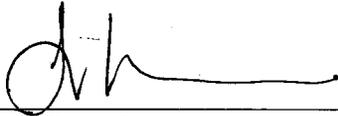
Mr. Seki announced that the Department of Accounting and General Services selected staff from the State Procurement Office as awardees for the Team and Employee of the Year. The HIePRO Team, led by Mara Smith, Bonnie Kahakui and Stacey Kauleinamoku, was named Team of the Year, and Ronnie Correa was named Employee of the Year. The awards were presented by Comptroller Dean Seki, and Governor's Chief of Staff Bruce Coppa, during a ceremony on Wednesday, September 10, 2014, in the State Capitol Auditorium.

Mr. Seki also presented Ms. Allen, Administrator of the SPO, with the Comptroller's Perpetual Trophy for the DAGS Team of the Year, for SPO's HIePRO Team, and the Comptroller's Perpetual Trophy for the DAGS Employee of the Year, for SPO's Ronnie Correa. These employees will be at the Governor's Awards Ceremony on October 3, 2014, to compete for the state awards.

XIII. Adjournment

The meeting was adjourned at 3:36 pm.

Respectfully submitted,



Dean Seki, Secretary
Procurement Policy Board

Attachment: September 29, 2014, PPB Agenda

PROCUREMENT POLICY BOARD

Regular Meeting

Monday, September 29, 2014, 1:30 p.m.

Locations:

Kalanimoku Building ♦ 1151 Punchbowl Street, Conference Room 410 ♦ Honolulu, Hawaii 96813
County of Maui Building ♦ 200 South High Street, Room 616 ♦ Wailuku, Hawaii 96793

A G E N D A

I.	Call to Order, Public Notice, Quorum
II.	Approval of <u>Minutes</u> – Meeting of August 4, 2014
III.	Procurement Policy Board Operations A. Vacancies and Status of PPB Nominating Committee B. Election of Officers Pursuant to HRS §103D-201E C. Procurement Policy Board Resources and Support
IV.	Administrative Rules Overview A. Overview of interim and permanent rulemaking procedures B. Electronic HAR upgrade initiative
V.	SPO Recommending HAR changes: A. Inventory Services – <u>amending HAR §3-130</u> B. Professional Services – <u>repealing HAR §3-122-66</u> C. Past Performance - <u>amending HAR §3-122</u> D. Communication During Source Selection – <u>amending HAR §3-122</u> E. “Etc.” - <u>amending HAR §3-120-4 and Exhibit A</u> F. Exemption Language - <u>amending HAR §§ 3-120-4, Exhibit A, and HAR §3-122-14</u>
VI.	HAR Decision-Making
VII.	Legislative Initiatives A. Professional Services (<u>HRS §103D-304</u>) B. Past Performance – Response to HCR 176 (<u>HRS §103D-104 and 103D-310</u>) C. Source Selection (<u>HRS § 103D-104 and HRS §103D-313</u>)
VIII.	Health and Human Services Report
IX.	New Business
X.	Next Meeting
XI.	Announcements A. Small Business Initiative – Act 50 (SLH 2005)
XII.	Adjournment

Please allow 2.5 hours for the meeting, which will include a 5-minute break.

Agenda and available agenda items may be viewed at www//spo.hawaii.gov/procurement-policy-board/ (click on *Meeting Agenda and Minutes*).

Individuals requiring special assistance or services may call (808) 587-4700 by 1:00 p.m., Friday, September 26, 2014, to discuss accommodations.