# SB 2114

# EDT

**Date:** 02/01/2010

**Committee:** Senate Economic Development and Technology

**Department:** Education

**Person Testifying:** Kathryn Matayoshi, Interim Superintendent of Education

**Title of Bill:** SB 2114 RELATING TO CAPITAL INVESTMENTS.

**Purpose of Bill:** Defines agency-wide technology and computer system projects as capital investments to allow them to be financed with bond funds and depreciated as capital investments.

**Department's Position:** The Department of Education strongly supports Senate Bill 2114. The Department needs to upgrade, improve, or replace its technology and computer systems infrastructure to become more efficient and productive. However, the cost of large-scale new technology or computer systems to replace existing, aging, or obsolete technology or computer systems is prohibitive when trying to pay for the project within a biennium operating budget over a phased implementation. A large-scale project designed to have a useful life of multiple years should be able to be funded and depreciated as a capital investment over a longer period of time.

For example, the Department of Accounting and General Services (DAGS) uses FAMIS, which is approximately 20 years old, and most likely contributed to the $44 million recording error of the State's general fund revenues at the end of fiscal year 2008-09. The Department of Education is currently utilizing FMS, which is also approximately 20 years old, and both are based on antiquated technologies. These systems' replacement would result in improved efficiencies, greater accountability and transparency in the use of public funds, and improved reporting for decision makers and stakeholders at all levels.

The development and implementation of large information systems is costly but essential to provide efficient and accurate program execution. Allowing the cost of such systems to be classified as capital investment costs is realistic and recognizes their long-term importance to state agencies. The Department has been pro-active in planning for replacement of its financial management systems, and now has a request for proposal (RFP) ready to proceed. However, the main road block to proceeding is a source of funding.

It is important to note that this concept is supported in the January 2010 report of the Task Force on Reinventing Government, which states on page 12, "We do strongly recommend, however, that investments in technology should be considered as capital improvements by the executive and legislative branches. The corporate sector regularly capitalizes such purchases, and government would do well to do the same."

The Department respectfully requests that this committee approve Senate Bill 2114.

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WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT
AND TECHNOLOGY
ON
SENATE BILL NO. 2114

February 1, 2010

RELATING TO CAPITAL INVESTMENTS

Senate Bill No. 2114 amends Section 37-62, Hawaii Revised Statutes, to allow agency-wide technology and computer system projects with an estimated useful life of more than seven years to be considered as capital investment costs. The projects may include agency and contracted labor costs for installation, monitoring, and replacement of the technologies and computer systems.

We oppose this bill. The amendments to Section 37-62 would allow the replacement of agency-wide technology and computer system projects, which are currently considered operating costs, to be funded with general obligation bond funds (or other means of financing). From a policy perspective, general obligation bond funded capital improvement projects should have an estimated useful life which mirrors the term of the bond, which is generally 20 years. Further, we believe that it would not be prudent to use bond funds to pay for labor related costs.