

May 13, 2024

To: Economic Revitalization Commission

From: Gregory Kim, Commissioner

Re: Preliminary consideration of incentives and preferences to support local businesses in the bidding process of the City and County of Honolulu

Overview:

When awarding government contracts and procurement opportunities, cities may implement specific preferences and policies to support local businesses. Some of these preferences include:

- 1. Local Preference Policies:** Cities may establish policies that give preference to local businesses when awarding contracts. This preference can be in the form of setting aside a certain percentage of contracts specifically for local businesses or providing a scoring advantage to local bidders in the evaluation process.
- 2. Discount for Local Businesses:** Some cities offer bid discounts or price preferences to local businesses bidding on government contracts. This means that when evaluating bids, the city may adjust the bid price submitted by a local business downward by a certain percentage, making it more competitive compared to non-local bids.
- 3. Local Hiring Requirements:** Cities may include requirements for contractors to hire a certain percentage of local residents or use local suppliers and subcontractors as part of the contract terms. This encourages the circulation of economic benefits within the local community and promotes job creation for local residents.
- 4. Preference for Local Products and Services:** Cities may prioritize the purchase of goods and services from local vendors whenever feasible. This preference for locally sourced products and services not only supports local businesses but also contributes to sustainability by reducing transportation emissions and supporting the local economy.
- 5. Vendor Registration and Certification Programs:** Cities may establish vendor registration and certification programs specifically for local businesses. These programs can streamline the procurement process for local businesses, making it easier for them to compete for government contracts and access procurement opportunities.
- 6. Subsidized Training and Capacity Building:** Some cities offer subsidized training programs and capacity-building initiatives to help local businesses improve their competitiveness and meet the requirements for government contracts. This can include workshops on bidding processes, contract management, and compliance with regulatory requirements.
- 7. Partnerships with Local Business Organizations:** Cities may collaborate with local business associations, chambers of commerce, and economic development agencies to identify and support local businesses in accessing government contracting opportunities. These partnerships can provide resources, networking opportunities, and assistance in navigating the procurement process.
- 8. Regular Communication and Outreach:** Cities may engage in proactive communication and outreach efforts to inform local businesses about upcoming contracting opportunities, procurement requirements, and how to participate in the bidding process. This ensures that

local businesses are aware of and have access to government contracts that align with their capabilities and expertise.

By implementing these specific preferences and policies, cities can effectively support local businesses in competing for government contracts and procurement opportunities, thereby stimulating economic development and fostering a vibrant local business ecosystem.

Discussion:

Based on initial research, it appears that many cities across the nation have instituted various incentives and preferences to support awards to their local business of contracts in the bidding process. Local governments have large budgets, and their procurement and contracting policies can be important mechanisms for supporting the local economy, and advancing other public aims. It appears that many cities, counties, and states give a preference to local businesses in their procurement decisions as a means of supporting and growing their local economies. As noted:

At least 45 states, plus the District of Columbia, have procurement policies designed to give a preference to businesses that meet certain characteristics, such as those that are owned by veterans, pay certain wages, use environmentally sustainable practices, or manufacture within the state. Of these, about half have adopted an explicit preference for businesses that are small and/or local. These policies vary considerably. Some apply only in narrow circumstances; others are broader. In addition, more than thirty states have policies aimed at steering purchasing to minority- and women-owned businesses. Looking beyond state governments, large numbers of counties, cities, and towns have procurement policies of their own.¹

Cities and States offer a variety of programs and incentives. There are broad incentives, and more narrow incentives, for example focusing on construction or other sectors. There are percentage preferences that allow a local company to win a bid even if it is not the lowest bidder, so long as it meets certain qualifications. The percentages vary, for example a local bidder can win if it is within as low as 5 percent, or as high as 15 percent, of the lowest bid.

Some cities and States have established certification programs as a way to create a database of companies that qualify for a preference. A 2016 survey by the National Association of State Purchasing Officials² found that, of respondents, 19 have in-state bidding preference laws that are mandatory, 4 have in-state preference laws are discretionary, 16 jurisdictions perform small business certification, and some States have “reciprocal laws” that require public contracting agencies, in determining the lowest

¹ “Procurement Can Be a Powerful Tool for Local Economies, but Takes More Than a Policy Change to Work,” Institute for Local Self Reliance, April 2015. <https://ilsr.org/articles/procurement-more-than-a-policy-change/>

² Survey of State Procurement Practices (2016), https://cdn.naspo.org/R&I%20Content%20Library/Survey%20of%20State%20Procurement%20Practices/FINAL_2016_Survey_10-4-16.pdf.

responsible bidder, to add a percent increase to each out-of-state bidder's bid price equal to the percent of preference given to local bidders in the bidder's home state.

Giving preference to local suppliers, even if it means spending a little more, can actually benefit a city's finances. When local governments spend their money with locally owned firms, those firms in turn rely on and generate local supply chains, creating an "economic multiplier" effect. Each additional dollar that circulates locally boosts local economic activity, employment, and, ultimately, tax revenue.

Numerous economic impact studies have quantified this effect. One of them, a 2009 study from California State University at Sacramento, found that the State of California generated approximately \$4.2 billion in additional economic activity and 26,000 new jobs between 2006 and 2007 by contracting with disabled veteran-owned businesses and local small businesses instead of larger companies.

Another study, from Civic Economics, looked at Arizona, and found that at a locally owned office supply company, 33.4 percent of revenue remained in the local economy, compared with just 11.6 percent at national company with a presence in the state. The study also looked at the potential impact of the City of Phoenix contracting with the local firm. It found that given a one-year, \$5 million contract for office supplies, with the local company, an additional \$1 million would stay in the area economy. With the national company, just \$580,000 of that \$5 million would recirculate locally.

Similarly, A study commissioned by Local First Arizona reported that a purchasing contract with an independent local supplier recirculates three times as much money in the local economy as the same contract with a national firm.³

Cleveland offers an example of a government successfully supporting local business. In 2014, Cleveland drove 39 percent of its total \$147 million in contracting to businesses that are either local and small, or local and minority- or female-owned. That's up significantly from just four years earlier, when the city awarded 29 percent of its contract dollars to certified firms.⁴ New York is also cited as having successfully implemented local preferences.⁵

Los Angeles is another example, at the county level. Los Angeles adopted its local preference rules in 2011, when political leaders noticed that many large cities had local vendors who were charging 5

³ "Favoring Local Businesses in Government Purchasing has Economic Benefits, Study Finds," February 5, 2008, Institute for Local Self Reliance. <https://ilsr.org/articles/favoring-local-businesses-government-purchasing-has-economic-benefits-study-finds/>

⁴ "Procurement Can Be a Powerful Tool for Local Economies, but Takes More Than a Policy Change to Work," Institute for Local Self Reliance, April 2015. <https://ilsr.org/articles/procurement-more-than-a-policy-change/>

⁵ As noted by ILSR:

When Bill de Blasio took office as New York City's mayor in 2014, his administration began to tackle a less-than-flashy issue: How to change who was winning city contracts.

De Blasio had swept the election with a campaign promise of reducing income inequality, and re-directing NYC's vast purchasing power was one of the wonky cornerstones of his plan to do it. So his administration started looking for ways to strengthen the city's Minority and Women-Owned Business Enterprise program, designed to help businesses owned by people of color and women bid on, and win, city contracts. It appointed committed staff, integrated the program into housing policies and Hurricane Sandy recovery projects, and launched new online tools for business owners.

percent more than their competition based in neighboring states. Given the cost of rent, utilities and insurance in L.A., that was no surprise. But the city determined that it needed to create a level playing field for its hometown vendors. The number of contracts signed in the city through the local preference ordinances has varied from year to year, but between 2012 and 2016, about \$272 million worth of bids for city government work utilized local preference provisions.⁶

These preferences can withstand legal challenges. Local procurement policies have occasionally faced legal challenges, and courts have generally upheld them. This is especially true when the local government can show how the statutes will advance a legitimate local or state interest, such as expanding the local economy.

Recommendation:

The City and County of Honolulu can, and I believe should, consider adopting preferences to help local businesses obtain contract awards, provided they are qualified and are not significantly more expensive than out-of-state bidders. This will promote local self reliance. It will need to strike a balance with the County's need for competitive bidding, as it would be counterproductive to institute a preference program that, in effect, discourages bidding by out-of-state bidders who are well qualified and can help achieve a reasonable price for the City and County. But studies show that this balance has been successfully managed in other States and Counties.

I would recommend that the Commission form a Permitted Interaction Group to take the following next steps to pursue this opportunity:

- (1) Investigate if and to what extent the City and County of Honolulu presently offers any particular preferences in its bidding processes.
- (2) Conduct a survey of the preferences offered by other cities and States to identify the options that may be available to the City and County of Honolulu.
- (3) Develop a recommendation to the Commission as to:
 - a. The type and scope of preferences that the County of Honolulu should adopt to encourage the selection of a greater number of qualified local contractors in the bidding process, with preferences given for being Honolulu based and/or other criteria, while continuing to meet the needs and requirements of the City and County of Honolulu,

The program became "a core part of the mayor's strategy on inequality," one of de Blasio's top aides said, and the administration identified it as a "top priority."

It worked. That year, New York City awarded \$690 million in contracts to businesses majority-owned by minorities or women, a 57 percent increase from the year before — though still only about 4 percent of the city's overall \$17.7 billion in spending. Since then, de Blasio's administration hasn't let up. It's commissioned an in-depth study of the program, sought changes to state laws that would strengthen it, and set a goal of increasing city awards to minority- and women-owned firms by \$16 billion over 10 years.

"Procurement Can Be a Powerful Tool for Local Economies, but Takes More Than a Policy Change to Work," Institute for Local Self Reliance, April 2015. <https://ilsr.org/articles/procurement-more-than-a-policy-change/>

⁶ "In Government Procurement, Buying Local Is Popular. But Is It Beneficial?," *Governing*, February 27, 2018. <https://www.governing.com/archive/gov-procurement-hometown-vendors-local-preference.html>

- b. The next steps to for the Commission and OER proceed with a preference program, including the allocation of necessary resources to engage consultants to assist in the process of developing proposed legislation and supporting business and legal analysis and backup materials.

After this work has been completed, the Commission can consider and approve next steps to implement a proposal for local and other preferences, and can appoint another Permitted Interaction Group or a Subcommittee, if it chooses, to continue the effort.