

March 19, 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 some 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. See “Local Purchasing Preferences,” Institute for Local Self Reliance, <https://ilsr.org/rule/local-purchasing-preferences/>.

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.

Others cities and states have established certification programs as a way to create a database of companies that qualify for a preference. A 2014 survey by the National Association of State Purchasing Officials found that, of respondents, 19 states have a certification program for small businesses, and 32 have a certification for minority-owned businesses. Other States have “reciprocal laws” that require public contracting agencies, in determining the lowest 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.

As noted by the Institute for Local Self Reliance (“ILSR”) in its article:

1. 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.
2. Numerous economic impact studies have quantified this effect. One of them, a 2009 study [PDF] 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.
3. 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.

The research also indicates that these preferences can withstand legal challenges. As noted by the ILSR, local procurement policies have occasionally faced legal challenges, and courts have generally upheld them. ILSR says that 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.

At this stage, the point is that the City and County of Honolulu can, and I believe should, consider adopting preferences to help local businesses obtain contact awards, provided they are qualified and are not significantly more expensive than out-of-state bidders. It will need to be a balance, 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.

Recommendation:

Form a Permitted Interaction Group to (1) investigate if and to what extent the City and County of Honolulu presently offers any particular preferences in its bidding processes, (2) do a preliminary survey of the preferences offered by other cities to identify the options that may be available to the City and County of Honolulu, and (3) develop a recommendation to the Commission as to (a) the type and scope of preferences that the Committee would propose to encourage the selection of a greater number of local contractors in the bidding process, while continuing to meet the needs and requirements of the City and County of Honolulu, and (b) next steps to proceed, 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.