

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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October 8, 2008

To: Procurement Policy Board

Thru: Aaron Fujioka, Administrator
State Procurement Office

From: Theodore E. Liu, Chair --
Small Business Utilization Council

Re: Justification for Recommended Set-Asides and Subcontracting

9 OCT '08 PM 3:06 SPO-

Pursuant to the Procurement Policy Board's request from the Small Business Utilization Council, I have outlined below specific information that addresses how the Council members arrived at choosing custom computer programming services and alternative/renewable energy industry sectors as targeted areas for set-asides and/or subcontracting.

Custom computer programming is one of a number of industries in the technology sector that has been identified by the state as having significant potential to help diversify the economy and increase the average wage level. As documented in the recent report *Innovation and Technology in Hawaii: An Economic and Workforce Profile*, prepared by the Hawaii Science and Technology Institute, this industry has outperformed both the overall Hawaii and U.S. economies between 2002 and 2007. It has also outperformed growth in the same industry at the national level. Because it primarily produces intellectual property, rather than a physical product, it is able to be relatively cost-competitive with other areas of the nation and in the global market for such services.

Custom computer programming lends itself to preference/set aside programs for two reasons. First, it is well captured within the North American Industrial Classifications System (NAICS) code 541511.¹ This simplifies identification of companies providing such services for procurement purposes. Second, the service is more likely to be a procurement staple of state and local governments than many other emerging technology industries such as research and development and biotech. The attached tables and charts show the size and growth of custom computer programming from 2002 to 2007.

¹ NAICS is a system for organizing firms into industries that share similar production characteristics. It replaces the previous system referred to as the Standard Industrial Classification (SIC) system.

The Clean Energy Initiative, designed to decrease Hawaii's dependence on imported fossil fuel, is a major initiative for the State of Hawaii and U.S. Department of Energy (USDOE). On January 31, 2008, Governor Lingle signed a Memorandum of Understanding (MOU) with the USDOE for the Hawaii-DOE Clean Energy Initiative. The goal is to decrease energy demand and accelerate use of renewable, indigenous energy resources in Hawaii in residential, commercial building, industrial, utility, and transportation end-use sectors, so that renewable energy resources will be sufficient to meet 70% of Hawaii's energy demand by 2030.

The Hawaii-DOE MOU notes that "the islands of Hawaii have abundant natural resources, including wind, sunshine, and geothermal sources for electricity generation, and land for energy crops that can be refined into biofuels to address transportation needs. Economic and culturally sensitive use of natural resources can provide energy supply security and price stability for the people of Hawaii as well as significant environmental benefits and economic growth opportunities. Successfully developing Hawaii's energy economy will make the State a global model for achieving a sustainable, clean, flexible, and economically vibrant energy future." Thus, alternative/renewable energy is seen as a vital ingredient for the security and competitiveness of Hawaii's economy as well as environmentally important.

The Hawaii Science and Technology Institute report has attempted to identify the size and growth of alternative/renewable in Hawaii's economy. As shown in Table 5, the report identified nine industries and government sectors with significant activity in alternative/renewable energy. These industries accounted for nearly 3,600 jobs in 2007, up 50% or almost 1,200 jobs from 2002.

The task of identifying where in the economy the alternate/renewable energy firms are is more challenging than for computer programming above. Alternative/renewable energy does not fall into a unique NAICS code for classification purposes. Many companies participating in this activity are classified by their core specialties such as heating, cooling and electrical work, engineering, etc. A sample of 50 companies known to be energy-related was found by DBEDT to be classified in a wide range of NAICS codes as shown in Table 6. This sample was identified from a list of about 140 alternate/sustainable energy firms and organizations contained in several directories of such entities.

Thank you for your consideration.

Table 1
Jobs, Growth and Average Earnings for Custom Computer Programming in Hawaii

Custom computer programming services (NAICS 541511)	
Basic Information	
2002 Industry Jobs	1,039
2007 Industry Jobs	1,337
Total Change	298
Total % Change	28.68%
2007 Average Earnings/Worker	\$87,987

Figure 1
Growth in Custom Computer Programming jobs in Hawaii (Regional) and the U.S.

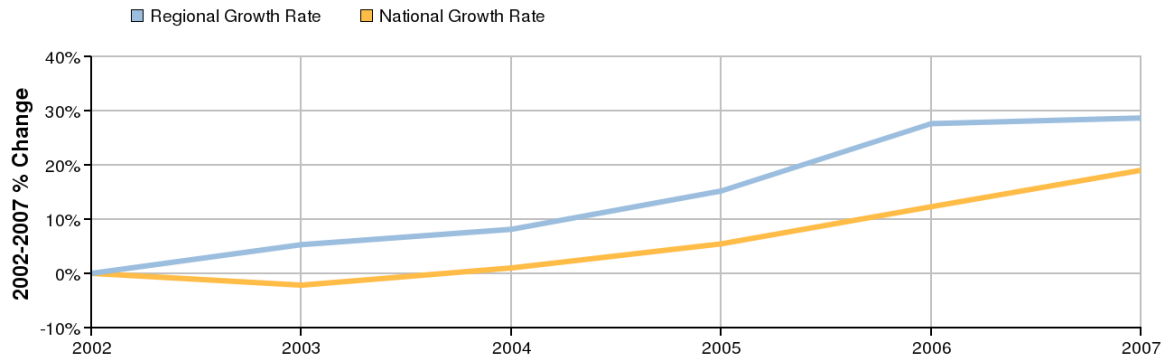


Table 3
Comparison of Jobs, Establishments and Average Earnings, Hawaii and U.S.
2002 - 2007

Description	2002 Jobs	2007 Jobs	Change	% Change	Earnings Per Worker	2007 Establishments
Hawaii (Regional) Total	1,039	1,337	298	29%	\$87,987	284
National Total	501,935	597,284	95,349	19%	\$94,597	77,181

Source: EMSI Covered Employment - Fall 2008 Pre-Release (BETA)

Table 4
Major Occupations in Custom Computer Programming, 2002-2007

SOC Code	Name	2002 Jobs	2007 Jobs	Change	% Change
15-1021	Computer programmers	137	159	22	16%
15-1041	Computer support specialists	57	70	13	23%
15-1051	Computer systems analysts	51	69	18	35%
15-1031	Computer software engineers, applications	50	72	22	44%
15-1099	Computer specialists, all other	45	57	12	27%
11-1021	General and operations managers	43	52	9	21%
41-3099	Sales representatives, services, all other	40	53	13	33%

Source: EMSI Covered Employment - Fall 2008 Pre-Release (BETA)

SOC: Standard Occupational Code

Table 5
Estimates of Industries Providing Significant Alternate/Renewable Energy Services

RENEWABLE ENERGY					
NAICS Code	Description	2002 Jobs	2007 Jobs	Earnings per Worker, Hawaii	2007 Establishments
221111	Hydroelectric power generation	7	18	--	--
221119	Other electric power generation	147	28	--	--
541360	Geophysical surveying and mapping services	33	47	\$56,002	5
541611	Administrative Mgt consulting services	848	1,571	\$49,531	140
541690	Other technical consulting services	433	637	\$35,573	62
541712	Research & dev in Physical, Engrg (not astronomy)	850	1,208	\$84,194	85
611312	Colleges, universities (RCUH)-Energy	6	4	\$62,942	1
611312	Colleges, universities (UH)-Energy	30	35	\$62,942	-
920212	State conservation programs (Natural Resources)	39	39	\$65,510	2
RENEWABLE ENERGY		2,393	3,587	\$58,498	295

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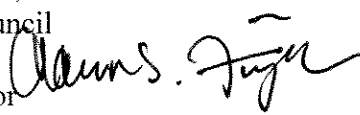
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SPO 09-038

August 26, 2008

To: The Honorable Theodore E. Liu, Chair
Small Business Utilization Council

From: Aaron S. Fujioka, Administrator 

Subject: HAR Chapter 3-124, Small Business Preference Rules
Targeted Areas of Sectors for Set-Asides and /or Subcontracting

On August 21, 2008 the Procurement Policy Board (PPB) addressed the recommendation of the Small Business Utilization Council (SBUC) for the above targeted areas of sectors for set-asides and/or subcontracting. On behalf of the PPB, I am requesting the SBUC to clarify and justify the SBUC's recommendation for Customer Computer Programming/Software Development and Alternative/Renewal Energy as targeted areas for set-asides and/or subcontracting.

Should you have any questions, Mr. Russ Saito is available to elaborate on this request.