STATE OF HAWAII

CONTRACT FOR PROFESSIONAL SERVICES

This Contract, executed on the respective dates indicated below, is effective as of February 14, 2017, between Department of Taxation
(Insert name of state department, agency, board or commission)
State of Hawaii ("STATE"), by its Director,
(Insert title of person signing for State)
(hereafter also referred to as the HEAD OF THE PURCHASING AGENCY or designee ("HOPA")), whose address is 830 Punchbowl Street, Honolulu, HI 96813 and PFM Group Consulting LLC ("CONTRACTOR"), a Corporation
(Insert corporation, partnership, joint venture, sole proprietorship, or other legal form of the Contractor)
under the laws of the State of Pennsylvania, whose business address and federal and state taxpayer identification numbers are as follows: 1735 Market Street, 43rd Floor, Philadelphia, PA 19103; Federal ID: 81-1642478; State ID: GE-170-961-9200-01

RECITALS

A. The STATE desires to retain and engage the CONTRACTOR to provide the services described in this Contract and its attachments, and the CONTRACTOR is agreeable to providing said services.

B. This Contract is for professional services as defined in section 103D-104, Hawaii Revised Statutes ("HRS").

C. Money is available to fund this Contract pursuant to:

(1) Act 222, SLH 2016
(Identify state sources)

or (2) ______
(Identify federal sources)

or both, in the following amounts: State $ 146,000
Federal $ ______

D. Pursuant to 103D-304, the STATE
(Legal authority to enter into this Contract)
is authorized to enter into this Contract.

NOW, THEREFORE, in consideration of the promises contained in this Contract, the STATE and the CONTRACTOR agree as follows:

1. Scope of Services. The CONTRACTOR shall, in a proper and satisfactory manner as determined by the STATE, provide all the services set forth in Attachment-S1, which is made a part of this Contract.

2. Term of Contract. This Contract starts on February 14, 2017 and ends on October 31, 2017 with 1 option(s) to extend
(Insert no. of options)
for six months each.
(Insert no. of mos. or yrs.)

3. Compensation. The CONTRACTOR shall be compensated for services rendered and costs incurred under this Contract for a total amount not to exceed One hundred forty-six thousand dollars and 00/100 DOLLARS

($ 146,000), including approved costs incurred and taxes, according to the Compensation and Payment Schedule set forth in Attachment-S2, which is made a part of this Contract.

4. Time of Performance. The services or goods required of the CONTRACTOR under this Contract shall be performed and completed in accordance with the Time of Perfomance set forth in Attachment-S3, which is made a part of this Contract.

5. Standards of Conduct Declaration. The Standards of Conduct Declaration by the CONTRACTOR is attached to and made a part of this Contract.

6. Other Terms and Conditions. The General Conditions and any Special Conditions are attached to and made a part of this Contract. In the event of a conflict between the General Conditions and the Special Conditions, the Special Conditions shall control.

7. Liquidated Damages. Liquidated damages shall be assessed in the amount of Not Applicable DOLLARS ($ NA) per day, in accordance with paragraph 9 of the General Conditions.

8. Notices. Any written notice required to be given by a party to this Contract shall be (a) delivered personally, or (b) sent by United States first class mail, postage prepaid. Notice to the STATE shall be sent to the HOPA'S address indicated in this Contract. Notice to the CONTRACTOR shall be sent to the CONTRACTOR'S address indicated in this Contract. A notice shall be deemed to have been received three (3) days after mailing or at the time of actual receipt, whichever is earlier. The CONTRACTOR is responsible for notifying the STATE in writing of any change of address.

IN VIEW OF THE ABOVE, the parties execute this Contract by their signatures, on the dates below, to be effective as of the date first above written.

STATE

[redacted]
(Signature)

Maria E. Zielinski
(Print Name)

Director
(Print Title)

FEB - 9 2017
(Date)

CONTRACTOR

CORPORATE SEAL
(If available)

PFM Group Consulting LLC
(Name of Contractor)

[redacted]
(Signature)

Michael Nadol
(Print Name)

Managing Director *
(Print Title)

2/2/17
(Date)

APPROVED AS TO FORM:

[redacted]

Deputy Attorney General
RANDALL S. NISHIYAMA

* Evidence of authority of the CONTRACTOR'S representative to sign this Contract for the CONTRACTOR must be attached

STATE OF HAWAII

CONTRACTOR'S ACKNOWLEDGMENT

STATE OF Pennsylvania)
) SS.
COUNTY OF Philadelphia)

On this 2nd day of January, 2017 before me appeared Michael Nadol ~~and~~ ______, to me known, to be the person(~~s~~) described in and, who, ~~being by me duly sworn~~, did say that he/~~she/they~~ is/~~are~~ President and Managing Director of PFM Group Consulting LLC, the CONTRACTOR named in the foregoing instrument, and that he/~~she/they~~ is/~~are~~ authorized to sign said instrument on behalf of the CONTRACTOR, and acknowledges that he/~~she/they~~ executed said instrument as the free act and deed of the CONTRACTOR.

[redacted]
(Signature)

Notary Stamp or Seal

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
JENNIFER L. HOWELL, Notary Public
City of Philadelphia, Phila. County
My Commission Expires May 8, 2017

Jennifer L Howell
(Print Name)

Notary Public, State of Pennsylvania
My commission expires: May 8, 2017

Doc. Date: ______ # Pages: ______
Notary Name: ______ ______ Circuit
Doc. Description: ______

Notary Signature Date

NOTARY CERTIFICATION

STATE OF HAWAII

CONTRACTOR'S STANDARDS OF CONDUCT DECLARATION

For the purposes of this declaration:

"Agency" means and includes the State, the legislature and its committees, all executive departments, boards, commissions, committees, bureaus, offices; and all independent commissions and other establishments of the state government but excluding the courts.

"Controlling interest" means an interest in a business or other undertaking which is sufficient in fact to control, whether the interest is greater or less than fifty per cent (50%).

"Employee" means any nominated, appointed, or elected officer or employee of the State, including members of boards, commissions, and committees, and employees under contract to the State or of the constitutional convention, but excluding legislators, delegates to the constitutional convention, justices, and judges. (Section 84-3, HRS).

On behalf of PFM Group Consulting LLC, CONTRACTOR, the undersigned does declare as follows:

1. CONTRACTOR ☐ is* ☑ is not a legislator or an employee or a business in which a legislator or an employee has a controlling interest. (Section 84-15(a), HRS).
2. CONTRACTOR has not been represented or assisted personally in the matter by an individual who has been an employee of the agency awarding this Contract within the preceding two years and who participated while so employed in the matter with which the Contract is directly concerned. (Section 84-15(b), HRS).
3. CONTRACTOR has not been assisted or represented by a legislator or employee for a fee or other compensation to obtain this Contract and will not be assisted or represented by a legislator or employee for a fee or other compensation in the performance of this Contract, if the legislator or employee had been involved in the development or award of the Contract. (Section 84-14 (d), HRS).
4. CONTRACTOR has not been represented on matters related to this Contract, for a fee or other consideration by an individual who, within the past twelve (12) months, has been an agency employee, or in the case of the Legislature, a legislator, and participated while an employee or legislator on matters related to this Contract. (Sections 84-18(b) and (c), HRS).

CONTRACTOR understands that the Contract to which this document is attached is voidable on behalf of the STATE if this Contract was entered into in violation of any provision of chapter 84, Hawaii Revised Statutes, commonly referred to as the Code of Ethics, including the provisions which are the source of the declarations above. Additionally, any fee, compensation, gift, or profit received by any person as a result of a violation of the Code of Ethics may be recovered by the STATE.

* Reminder to Agency: If the "is" block is checked and if the Contract involves goods or services of a value in excess of $10,000, the Contract must be awarded by competitive sealed bidding under section 103D-302, HRS, or a competitive sealed proposal under section 103D-303, HRS. Otherwise, the Agency may not award the Contract unless it posts a notice of its intent to award it and files a copy of the notice with the State Ethics Commission. (Section 84-15(a), HRS).

CONTRACTOR

By [redacted]
(Signature)

Print Name Michael Nadol

Print Title Managing Director

Name of Contractor PFM Group Consulting LLC

Date 2/2/17

Attachment - S1

STATE OF HAWAII

SCOPE OF SERVICES

The Contractor shall provide the following studies:

1. A study showing who bears the burden of Hawaii's taxes.

2. A study showing ways to reform Hawaii's taxes to make them less regressive.

3. A study on the best ways to generate more revenue through new and existing sources, and through improved compliance with Hawaii's tax laws.

See Exhibit A

Attachment – S2

STATE OF HAWAII

COMPENSATION AND PAYMENT SCHEDULE

As compensation for the work to be performed, the State agrees to pay the Contractor a sum of money not to exceed $146,000 (ONE HUNDRED FORTY-SIX THOUSAND and 00/100 DOLLARS) inclusive of all costs including travel, incidental expenses, federal, state, and local taxes. Payments shall be made by the State upon receipt of proper invoices from the Contractor showing the amount requisitioned and only after the State has determined that the Contractor has satisfactorily completed the work in accordance with this Contract. See also item 17 of the General Conditions.

The Contractor shall comply with a payment schedule of $20,000 per month for five (5) months with a final payment of $46,000 upon the delivery of the final report consisting of all three (3) studies as specified in Exhibit A. All invoices shall reference this Contract number assigned to this Contract to facilitate the payment process. The Contractor shall submit a monthly invoice including detail of services provided to the following address:

Department of Taxation
Administrative Services Office
830 Punchbowl Street room #217
Honolulu, HI 96813

The following items are required prior to commencing any performance under this Contract:

1. A tax clearance certificate from the Department of Taxation and the Internal Revenue Service, current within six months of issuance date.
2. A certificate of compliance from the Department of Labor and industrial Relations, current within six months of issuance date.
3. A certificate of good standing from the Department of Commerce and Consumer Affairs, current within six months of issuance date.

In lieu of the certificates above, the CONTRACTOR may make available proof of compliance via a current Certificate of Vendor Compliance obtained through Hawaii Compliance Express showing the statuses for Hawaii Department of Taxation, Internal Revenue Service, Hawaii Department of Commerce & Consumer Affairs and Hawaii Department of Labor & Industrial Relations as either compliant and/or exempt.

Final payment under this Contract require:

1. A tax clearance certificate from the Department of Taxation and the IRS, current within two months of issuance date; and a certification from the CONTRACTOR affirming that the CONTRACTOR has remained in compliance with all laws as required by section 3-122-112, HAR.

or

2. A current Certificate of Vendor Compliance obtained through Hawaii Compliance Express showing the statuses for Hawaii Department of Taxation, Internal Revenue Service, Hawaii Department of Commerce & Consumer Affairs and Hawaii Department of Labor & Industrial Relations as either compliant and/or exempt. See the General Conditions, item 17.

Attachment – S3

STATE OF HAWAII

TIME OF PERFORMANCE

The period of performance shall commence on the Effective Date of this Contract and end on October 31, 2017 unless terminated earlier as provided in this Contract. This Contract may be renewed at the State's sole option at an hourly rate as proposed in the Contractor's proposal, for a scope to be mutually agreed upon, for an additional period not to exceed six (6) months.

PROJECT MILESTONES

DATE:	DESCRIPTION:
3rd Week of February 2017	Contract signed/Interview Tax Review Commission members
3rd-4th Week of February 2017	Interview key stakeholders
1st Week of March 2017	Attend Tax Review Commission meeting in person to discuss project plan and strategy
1st Week of August 2017	Draft report due
1st Week of August 2017	Attend Tax Review Commission meeting in person to present draft report
1st Week of September 2017	Final report due

Attachment – S4

STATE OF HAWAII

CERTIFICATE OF EXEMPTION FROM CIVIL SERVICE

1. **By Heads of Departments Delegated by the Director of the Department of Human Resources Development ("DHRD").***

Pursuant to a delegation of the authority by the Director of DHRD, I certify that the services to be provided under this Contract, and the person(s) providing the services under this Contract are exempt [redacted] Hawaii Revised Statutes (HRS). FEB - 9 2017

(Signature) (Date)

Maria E. Zielinski

(Print Name)

Director

(Print Title)

* This part of the form may be used by all department heads and the heads of attached agencies to whom the Director of DHRD expressly has delegated authority to certify § 76-16, HRS, civil service exemptions. The specific paragraph(s) of § 76-16, HRS, upon which an exemption is based should be noted in the contract file. If an exemption is based on § 76-16(b)(15), the contract must meet the following conditions:

(1) It involves the delivery of completed work or product by or during a specific time;
(2) There is no employee-employer relationship; and
(3) The authorized funding for the service is from other than the "A" or personal services cost element.

NOTE: Not all attached agencies have received a delegation under § 76-16(b)(15). If in doubt, attached agencies should check with the Director of DHRD prior to certifying an exemption under § 76-16(b)(15). Authority to certify exemptions under §§76-16(b)(2), and 76-16(b)(12), HRS, has not been delegated; only the Director of DHRD may certify §§ 76-16(b)(2), and
76-16(b)(12) exemptions.

2. **By the Director of DHRD, State of Hawaii.**

I certify that the services to be provided under this Contract, and the person(s) providing the services under this Contract are exempt from the civil service, pursuant to §76-16, HRS.

(Signature) (Date)

(Print Name)

(Print Title, if designee of the Director of DHRD)

Attachment – S5

STATE OF HAWAII

SPECIAL CONDITIONS

CONFIDENTIALITY OF TAX INFORMATION

The Contractor and its subcontractors, employees, and agents shall be responsible for the security and confidentiality of any and all tax documents and information. The Contractor and its subcontractors, employees, and agents fully understand it is unlawful to make known information provided by the Department, including, but not limited to, information imparted by any tax return or record to be seen or examined by any unauthorized person or to make copies of tax information under either the Internal Revenue Code of 1986, as amended (26 U.S.C.), or Hawaii law. Any breach of this provision shall be cause for termination of this Contract and shall subject the Contractor, its employees, agents, and subcontractors to prosecution as provided by federal and state law.

Any taxpayer confidential information received from the Department will not be electronically transmitted via e-mail or facsimile (fax) between the Department and the Contractor and any outside specialists or other entities engaged by either party. The Contractor and its subcontractors, employees, and agents shall return all tax documents and information, if any, to the Department before final payment is made.

With my signature below, I acknowledge that I have read and understood the "Confidentiality of Tax Information" above.

[redacted] 2/2/17

Signature Date

Exhibit A

NOTICE TO PROVIDERS OF PROFESSIONAL SERVICES

The Tax Review Commission ("Commission") is charged under section 232 E-3 of the Hawaii Revised Statutes (HRS) with conducting a systematic review of Hawaii's tax structure, using such standards as equity and efficiency. In accordance with section 103D-304, HRS, the Hawaii Department of Taxation ("Department") is seeking qualified economists or accountants who have a working knowledge of Hawaii's tax structure and of Hawaii's economy to prepare studies on Hawaii's tax system. The budget for the studies is not anticipated to exceed $200,000.00. The following topics are being considered:

1. A study showing who bears the burden of Hawaii's taxes. The study would show the incidence of the taxes imposed by the State and by the counties by income class, and the portion of each tax that is exported to nonresidents. Similar studies have been done for past Tax Review Commissions. See "*Distribution of State and Local Tax Burden by Income Class*" in the report of the 1989 Tax Review Commission (available at http://files.hawaii.gov/tax/stats/trc/docs1989/TRC_Work_Papers_and_Consultant_Studies_1989.PDF, page 13) and "*Study on the Progressive or Regressive Nature of Hawaii's Taxes*" in the report of the 2005-2007 Tax Review Commission (available at http://files.hawaii.gov/tax/stats/trc/docs2007/Final_Report-Appendix_D.pdf).

2. A study showing ways to reform Hawaii's taxes to make them less regressive. Solutions might include reducing reliance on more regressive taxes in favor of taxes that are more progressive, or making the individual income tax more progressive. The reform can be designed to raise tax revenue, or to be revenue neutral.

3. A study on the best ways to generate more revenue through new and existing sources, and through improved compliance with Hawaii's tax laws. The study should consider, at least broadly, how much revenue will be needed to maintain the current level of government services (tax adequacy), including unfunded or underfunded liabilities for pension and health care benefits for retired state workers. The study can be combined with a study of tax adequacy, or it can take as the goal raising enough additional revenue to fund the annual required contribution (ARC) to the Employer-Union Benefits Trust Fund. (Funding the ARC will be required by Act 268, Session Laws of Hawaii 2013, starting July of 2018.) The study should include a qualitative assessment of the effects of the proposals on the overall economy and on its major sectors. Examples of studies of tax adequacy are the reports prepared for the Tax Review Commissions of 1989, 2005-2007, and 2011-2013. See "*Is Hawaii's Tax System Adequate?*" (available at http://files.hawaii.gov/tax/stats/trc/docs1989/TRC_Work_Papers_and_Consultant_Studies_1989.PDF, page 5), "*A Study on the Question 'Is Hawaii's Tax Structure Adequate?'*" (available at

http://files.hawaii.gov/tax/stats/trc/docs2007/Final_Report-Appendix_A.pdf), "*Will Hawaii's Tax Structure Prove Adequate in the Future?*" (available at http://files.hawaii.gov/tax/stats/trc/docs2012/sup_121019/tax_adequacy_study.pdf), and "*Report of the PFM Group*" (available at http://files.hawaii.gov/tax/stats/trc/docs2012/trc_rpt_2012_appendices_A-H.pdf).

Applicants are invited to submit bids on a single study, or on any combination of the studies. For example, a study on how to generate additional revenue could include an assessment of how the proposed tax changes would alter the overall tax burden faced by different income classes, or a study on how to reform the tax system could consider changes that improve equity and that also provide tax adequacy. If requested, the contractor shall make a presentation of the study to the Commission.

Contract Term

The initial term of the engagement will be from contract effective date through June 30, 2017. The contract award for the initial period will be on a fixed fee basis. The State shall have the sole option to renew the contract at the hourly rate, for a scope to be mutually agreed upon, for an additional period not to exceed six months.

Summary of Significant Dates:

Professional Services Solicitation posted	September 26, 2016
Due Date to Submit Questions*	October 3, 2016
State's Response to Questions*	October 10, 2016
Submissions Due Date	October 26, 2016
Anticipated Contract Date	December 2, 2016
Draft Report Due (1 loose & 20 bound copies)	July 17, 2017
Final Report Due (1 loose & 20 bound copies)	September 1, 2017

Firms and individuals interested in providing the professional services described above should submit the following information by October 26, 2016 at 9:00 am HST to:

Dexter Suzuki
Administrative Services Officer
Re: Tax Review Commission
Department of Taxation
830 Punchbowl Street #217
Honolulu, HI 96813

*All written questions must be submitted by October 3, 2016 at 4:30 p.m., via email at Tax.Rules.Office@hawaii.gov. Responses to such questions shall be provided via email from Tax.Rules.Office@hawaii.gov.

Sub-contracting will be permitted with prior written approval from the Department. The following should be submitted and should include applicable information for any sub-contractors that may be engaged.

1. **Letter of Interest** – Include the applicant's legal name, legal form (such as corporation, partnership, joint venture, limited liability company or sole proprietorship), state of incorporation (if applicable), business address, email address, telephone number, federal and state tax identification numbers, and proposed hourly rate.

2. **Statement of Qualifications** – Include the applicant's qualifications, expertise and experience. Include the same information for any sub-contractors that may be engaged.

3. **References** – Include three (3) references that the Department may freely contact for the applicant and for any sub-contractors that may be engaged.

4. **Detailed proposal** - Include the following:
    a. Area of study (one of the studies detailed above, or a combination of the studies)
    b. Report outline
    c. Study methodology
    d. Fixed fee for initial contract period
    e. Hourly fee for contract extension period, if any

5. **Certificate of Vendor Compliance from Hawaii Compliance Express** - Include a Certificate of Vendor Compliance(s) for the applicant and for any sub-contractor(s) that may be engaged. (For information on the certificate, please see https://vendors.ehawaii.gov/hce/splash/welcome.html).

Facsimile and electronic transmissions will not be accepted.

GENERAL INFORMATION

Professionals will be selected in accordance with section 103D-304, Hawaii Revised Statues and section 3-122-Subchapter 7, Hawaii Administrative Rules, as amended. The selection criteria employed shall include the following:

1. Experience and professional qualifications relevant to the proposed study.

2. Past performance on projects of similar scope for public agencies or private industry, including corrective actions and other responses to notices of deficiencies.

3. Capacity to accomplish the work in the required time.

4. Any other criteria as determined by the selection committee to be relevant or necessary, including a working knowledge of Hawaii's tax structure and of its economy.

Campaign contributions by State and County Contractors – Contractors are hereby notified of Section 11-205.5, HRS, which states that campaign contributions are prohibited from specified state or county government contractors during the term of the contract if the contractors are paid with funds appropriated by a legislative body. For more information, contact the Campaign Spending Commission at (808) 586-0285.

Proposal to the

State of Hawaii
Department of Taxation

Study of the Hawaii Tax System

October 26, 2016

PFM Group Consulting LLC

1735 Market Street
43rd Floor
Philadelphia, PA 19103

50 California Street
Suite 2300
San Francisco, CA 94111

www.pfm.com

PFM
The PFM Group
Financial & Investment Advisors

October 26, 2016

Dexter Suzuki
Administrative Services Officer
Department of Taxation
830 Punchbowl Street #217
Honolulu, HI 96813

RE: Tax Review Commission

Dear Mr. Suzuki:

PFM Group Consulting LLC (PFMGC) is pleased to submit the attached proposal to assist the State of Hawaii, Department of Taxation (Department) with studies related to reforming Hawaii's taxes to make them less regressive and/or the best ways to generate more revenue through new and existing sources and improved compliance with Hawaii's tax laws. Through our work with state and major local governments across the country - including the State of Hawaii - we are well-positioned to provide the full range of services required by this engagement.

Given our past work on similar studies (which will be detailed in case studies and discussion), PFMGC is excited about the opportunity to prepare both studies. We view these as complementary efforts that would benefit from a coordinated approach to their evaluation and analysis.

The PFM Group was founded in 1975 and is headquartered in Philadelphia, PA. In May 2009, Public Financial Management, Inc. (a Pennsylvania corporation) and PFM Asset Management, LLC (a Delaware Limited Liability Company) and related businesses, all of which were owned by their senior employees ("Managing Directors"), re-organized into a holding company structure. The new holding company was named PFM I, LLC (a Delaware limited liability company) and all of the above-named business entities became indirect wholly owned affiliates of PFM I, LLC.

In April 2016, our firm's corporate structure was reorganized so that municipal advisory services could be delineated clearly from other financial consulting services — all of which had been provided through Public Financial Management, Inc. ("PFM, Inc.") Given the regulation of municipal advisory activities, financial advisory services are now offered through PFM Financial Advisors LLC ("PFMFA"). PFM, Inc. and PFMFA are now referred to collectively as PFM. Other financial consulting services are offered through PFM Group Consulting LLC and PFM Solutions. These services, provided by PFM's Management and Budget Consulting practice, were provided to the State of Hawaii, Department of Taxation and the Tax Review Commission in 2013.

Due to the re-organization of the company, PFM Group Consulting LLC has applied for a Certificate of Vendor Compliance (File No. 163248 C6) and are awaiting the issuance of the certificate.

As a firm, PFMGC's mission is to assist state and local governments become the best managed organizations in the country. PFMGC's revenue studies, transformational, analytical and results-driven work with clients such as the States of Pennsylvania, New York and Tennessee and the cities of Aurora, CO; Baltimore, MD; Colorado Springs, CO; Pittsburgh, PA and St. Louis, MO, provide our team with the experience and expertise necessary to assist with analyzing and identifying tax alternatives for the State of Hawaii.

The Core Engagement Team will be led by PFMGC professionals who have broad state government experience both as government practitioners and in working with states across the country, complemented by a deep understanding of Hawaii's needs and opportunities. As a Managing Director, I will lead the engagement and ensure that the necessary resources are devoted to fully meet the needs of the State. Prior to joining PFMGC, I spent over 35 years in state government, including managing the revenue estimating process for the State of New York. The senior leadership team will also include Randall Bauer, a former State of Iowa budget director who has led numerous revenue-related studies for PFMGC. Both Randall and I were engaged in the same roles for our work with the Tax Review Commission in 2012. We are pleased to be joined on this proposal by Christopher Wheeler. Christopher was the lead model developer and analyst for PFM's work with the Tax Review Commission in 2012. As a result, he has considerable knowledge and expertise related to the State revenue and expenditure structure. In the years since, Chris entered the PhD program in economics at Rutgers University, where he is on track to receive his PhD in 2017. He has consulted with PFM on multiple projects while earning his doctorate, including developing a multi-year financial plan and revenue structure for the State of Washington Department of Agriculture.

Improving government performance is our mission as a firm. As you will read in the proposal, we have a proven track record of hundreds of successful client partnerships that have resulted in actionable and practical recommendations. Our deeply embedded principle of assisting effective governance, combined with our strong public sector experience and world-class quantitative tools will lead to a productive and capacity-building partnership with the State of Hawaii and the Tax Review Commission.

We appreciate this opportunity to present our team and qualifications. Thank you for your consideration, and please do not hesitate to contact me with questions or if further information is desired. We look forward to hearing from you.

Sincerely,

PFM Group Consulting, Inc.

John Cape, Managing Director
capej@pfm.com

Table of Contents

Firm Background

The PFM Group was founded in 1975 on the principle of providing sound independent and fiduciary financial advice to governmental and non-profit entities. The firm is comprised of affiliates that are indirect, wholly owned affiliates of the parent company known as PFM I, LLC.

PFM Group Consulting LLC (Formery part of Public Financial Management, Inc.)

In April 2016, the firm's corporate structure was reorganized so that municipal advisory services could be delineated clearly from other financial consulting services — all of which had been provided through Public Financial Management, Inc. ("PFM, Inc.") Given the regulation of municipal advisory activities, financial advisory services will now be offered through PFM Financial Advisors LLC ("PFMFA"). PFM, Inc. and PFMFA are now referred to collectively as PFM. Other financial consulting services are offered through PFM Group Consulting LLC and PFM Solutions.

- **PFM** engages in debt-portfolio optimization, capital planning, revenue forecasting and evaluation, resource allocation, debt policy development, and bond or loan transaction management, among other services.

- **PFM Asset Management LLC ("PFMAM")** provides liquidity analysis, identifies proper core investment fund levels, and helps clients with their objectives of earning greater returns on their operating and reserve funds. Additionally, PFMAM provides investment and retirement plan consulting services to pension funds, endowments, and similar funds. PFMAM's Structured Products Group assists clients with structuring and restructuring advance refunding escrow portfolios. PFMAM's Arbitrage & Tax Compliance Group provides arbitrage rebate, pre-issuance, post-issuance and Internal Revenue Service ("IRS") audit consulting services.

- **PFM Swap Advisors LLC ("PFMSA")** includes professionals dedicated to advising clients on obtaining interest rate swaps, caps, and collars in order to help manage exposure to interest rates; on the asset side, PFMSA assists in the structuring and procurement of forward delivery agreements, guaranteed investment contracts, and flexible repurchase agreements.

- **PFM Financial Services LLC ("PFMS")** is responsible for providing the Payment Solutions ("P-Card") program, a simple, easy-to-use purchasing card program designed to save clients time and money.

- **PFM Group Consulting LLC ("PFMGC")**. This affiliate provides a broad range of services, including: multiyear financial planning; consolidating and shared-services analysis; operational and program analysis; revenue structure optimization; economic development and incentives; workforce analysis; and pension and other postemployment benefits ("OPEB") review and strategies.

- **PFM Ventures LLC ("PFMV")** is our affiliate through which innovative programs are developed, such as Whitebirch — a flexible financial modeling platform designed to produce dynamic, multi-year financial projections to facilitate strategic planning.

The PFM Group is owned solely by its 84 Managing Directors, who set the firm's strategic direction. Today, the PFM Group comprises nearly 600 employees across 40 professional locations nationwide. The PFM Group is headquartered at 1735 Market Street, 43rd Floor, in Philadelphia, Pennsylvania 19103.

SELECT MBC STATE CLIENTS:

COLORADO
Colorado Department of Human Services

DELAWARE
Delaware Office of Management & Budget
Delaware Department of Administration

GEORGIA
Georgia Governor's Office

HAWAII
Hawaii Department of Taxation

ILLINOIS
Illinois Central Management Services
Illinois Governor's Office
Illinois Tollway Authority

KENTUCKY
Kentucky Governor's Office

MASSACHUSETTS
Massachusetts Economic Development

MINNESOTA
Minnesota Dept. of Management & Budget

NEBRASKA
Nebraska Dept. of Administrative Services
Nebraska Dept. of Labor

NEW JERSEY
New Jersey Department of Community Affairs
New Jersey Economic Development Authority

NEW MEXICO
New Mexico Children, Youth and Families Department

NEW YORK
New York Division of the Budget
New York Governor's Office

OHIO
Ohio Office of Budget & Management

OKLAHOMA
Oklahoma Office of Management and Enterprise Services

OREGON
Oregon Dept. of Administrative Services
Oregon Governor's Office
Oregon Office of the Chief Information Officer

PENNSYLVANIA
Pennsylvania Governor's Budget Office
Pennsylvania Convention Center Authority
Pennsylvania Department of Community and Economic Development
Pennsylvania Department of Education
Pennsylvania Department of Human Services
Pennsylvania Department of Revenue

TENNESSEE
Tennessee Office of State & Local Finance
Tennessee State Treasurer

VERMONT
Vermont State Auditor's Office

VIRGINIA
Virginia Office of Budget & Planning
Virginia Department of Behaloral Health and Developmental Services
Virginia Port Authority

WASHINGTON
Washington Department of Agriculture
Washington Department of Transportation
Washington Joint Transportation Committee

WISCONSIN
Wisconsin Department of Administration

PFMGC's Management and Budget Consulting Practice

PFMGC's Management and Budget Consulting (MBC) practice was initiated 20 years ago, and it now includes professionals located in offices around the country, including Philadelphia, Arlington, Boston, Chattanooga, Des Moines and San Francisco. MBC had its roots in turn-around efforts related to major local governments and was instrumental in some of the largest turnarounds in the country, turning sizeable operational deficits into surpluses in Philadelphia, Washington DC and Nassau County, New York.

In 2005, the MBC capacity and areas of expertise was expanded with the hire of two former state budget directors, John Cape and Randall Bauer, to lead its state practice. In the years since, state consulting has become an integral part of the practice and includes multiple senior team members with high level state government experience. Besides the many state clients (identified at left) and over 100 state projects, the MBC practice is also qualified on state master contracts for services similar to those within this proposal. Those qualified states include Delaware, Massachusetts, Minnesota, New Jersey, New York, Oregon, Pennsylvania, Utah and Washington.

PFMGC's MBC practice assists state and local governments by creating and implementing effective assessments, evaluations and strategies. PFMGC has been involved in some of the most significant government turnaround efforts in the country, turning sizable deficits into surpluses in cities, counties and states.

Over the years, PFMGC has conducted in-depth analysis of revenue systems and structures, revenue-estimating and revenue collections processes and tax incentives and other system modificaitons for a number of state and local governments, including the State of Hawaii.

Other state clients within these areas have included New York, Oklahoma, Pennsylvania and Washington. Local government clients in these areas have included the cities of Aurora, Colorado; Baltimore, Maryland; Cincinnati, Ohio; Colorado Springs, Colorado; New Orleans, Louisiana; Pittsburgh, Pennsylvania; Portsmouth, Virginia; and St. Louis, Missouri.

PFMGC lives up to its reputation for generating tangible results for complex government clients and these efforts have resulted in literally billions of dollars of improvements to their bottom line for state and local governments.

Far from producing studies that sit on bookshelves, PFMGC lives up to its reputation for turning analysis into results for complex government clients. The following case studies demonstrate that relevant experience for the State of Hawaii – including PFMGC work with the State and the City of Honolulu.

Examples of Similar Engagements

State of Hawaii Department of Taxation, Tax Review Commission
Systematic Study of the State Tax Structure

The Hawaii State Constitution requires that a Tax Review Commission, with members appointed by the Governor, be convened every five years. In 2012, PFMGC was retained by the Commission to conduct a systematic study of the State's tax structure, with particular emphasis on answering two key questions:

1. Will the current tax system provide sufficient revenues to meet near and long term future needs for the 21st Century?
2. Are there alternate tax structures that could improve Hawaii's ability to generate sufficient revenues?

To conduct the study, PFMGC obtained and analyzed state revenue and expenditure data and forecasts, conducted extensive interviews with stakeholders inside and outside of state government, benchmarked Hawaii with other states, and reviewed numerous prior reports, including studies from past Commissions. PFMGC also conducted best practices research and analysis related to tax structure and tax principles, which included a detailed review of existing taxes, tax expenditures and incentives.

To assist with its analysis, PFMGC developed a multi-year financial model using historic data and assumptions on revenue and expenditure performance going forward. PFMGC vetted its analysis with key stakeholders, including the Governor and legislative leaders and submitted a final report in September 2012.

The final report analyzed the State tax structure in terms of its relationship and impact on the Hawaii economy, its strengths and weaknesses in relationship to best practices principles of taxation and its performance related to changes in demographics, consumer choice and the business cycle.

Given that the multi-year model suggested a growing structural imbalance – mostly related to pension, retiree health care benefits and commitments to education and health care funding – the project team also analyzed multiple changes to Hawaii's tax structure and made over twenty recommendations for changes to erase the structural imbalance. Several of these recommendations and the financial analysis that accompanied them related to changes to existing tax expenditures. The project team also documented its model, trained state staff on its use and turned it over to the State at the end of the project. The PFMGC report was an element of the Tax Review Commission submission to the Governor and Legislature.

State of Oklahoma, Office of Management and Enterprise Services
Evaluation of State Incentives

In 2015, the State of Oklahoma created a statutory framework to review all of its economic incentive programs over a four-year period. PFMGC was hired by the State to provide subject matter expertise to an appointed Commission responsible for making recommendations on maintaining, revising or repealing each of the incentives.

To assist the Commission, PFMGC developed specific criteria related to program objectives and outcomes and analyzed financial, economic and other data. The project also conducted in-depth interviews with internal and external stakeholders and built financial models to document historic and project future revenue and expenditure impacts. The project team also used an IMPLAN input-output model to determine economic impacts. PFMGC also advised the Commission on evaluation criteria and regularly updated the Commission on its work. On November 1, 2016, the project team provided its in-depth evaluations of the

11 incentives under review for the current year. It is expected that the Commission will act on those evaluations and make recommendations to the Governor and General Assembly by December 15, 2016.

State of Washington Department of Agriculture, Fruit and Vegetable Inspection Program
Multi-Year Financial Plan and Fee Structure

The Washington Department of Agriculture is responsible for fruit and vegetable inspections for major State commodities, including Washington apples, cherries, pears and potatoes. In recent years, the Department experienced difficulties with gathering financial and other data related to its program activities. PFMGC was hired to assist the Department with its activity projections and setting appropriate fees related to those activities.

To assist the Department, the project team gathered financial and program activity data from multiple sources used by the Department and conducted in-depth interviews with Department subject matter experts. Based on the data, PFMGC constructed an Excel-based model that could gather, filter and apply the data to specific program activities. Based on the collected data, the project team also identified options and opportunities to revise the Department fee structure to improve its overall operation.

PFMGC also assisted the Department with process improvement efforts to consolidate its existing data and systems. Based on the model developed for the Department and other recommendations, the Department has extended the existing contract to continue to assist them with process improvement efforts.

Commonwealth of Pennsylvania, Department of Revenue
Revenue Process Improvement

During FY2012, Pennsylvania's revenue estimating and tax administration processes were not able to provide reliable revenue forecasts for several key taxes. As a result, a review was sought of those processes with the goal of improving overall performance.

In January 2012, the Department of Revenue (Department) retained PFMGC to research, analyze and assess current revenue estimates, estimating inputs and processes, provide input and advice on current and future estimating process changes and make best practices recommendations related to revenue structures and administration. To complete this analysis, the project team developed a project focused around three tasks:

- **Data Review and Background Research.** Through a series of three working sessions with the Department of Revenue Secretary and staff, the project team worked to understand and discuss the key characteristics of the Commonwealth tax and revenue structure, current forecasting methods, key trends for revenue performance and administration of the current system.

- **Benchmarking and Best Practice Research.** With input from the Department of Revenue, the project team identified key benchmark states to gather and analyze information and data related to their revenue estimating process, including responsible staff, use of outside forecasting services, use of internal or externally created revenue estimating models, current and future estimates and past and current performance. The team also reviewed best practice research and findings for state revenue estimating, state revenue structures and administration and analyzed their applicability for the Commonwealth.

- **Subject Matter Assessment and Assistance.** Throughout the project, the project team provided analysis and feedback on the Commonwealth's current revenue estimates as the Department continually refined their current and future fiscal year revenue estimates. After analyzing other state methods and working with national experts in developing and running state-specific revenue estimating models, the project team provided a set of detailed findings and recommendations.

The project team developed a total of 18 findings and recommendations that encompassed revenue forecasting techniques, tax administration and tax policy. PFMGC also provided the Department with an Excel file that included revenue collection and forecasting data for multiple benchmark states in a model that can be updated and used for forecasting and collection analysis in future years. The Department used the PFMGC recommendations and rationale in shaping its legislative package.

City of St. Louis, Missouri
Comprehensive Revenue Study

In March 2009, PFMGC was engaged by the Missouri Council for a Better Economy (MCBE), a 501(c)(3) organization, to conduct a comprehensive revenue study of the City of St. Louis, Missouri. Done with the full cooperation and support of the Mayor of St. Louis, PFMGC was hired to inform the City and its stakeholders of opportunities to strengthen and stabilize its long-term revenue base and improve overall economic performance.

PFMGC examined the City's current and potential revenue streams in four areas: tax structure and policy, non-tax revenue generation, tax and revenue collection, and economic development tax incentives. To develop findings and recommendations, the project used a variety of research methods. As a start, the project team conducted extensive interviews with City leadership and staff to gain insight on the City's revenue streams, collection practices, and identify areas of potential improvement. Additionally, the project team met with multiple elected officials, community groups, and business leaders to gain a broader understanding of St. Louis and the issues that impact its revenue streams.

To complement individual interviews, PFMGC conducted extensive data analysis. The project team gathered and analyzed internal reports and studies as well as widely-recognized best practices to compile options for City stakeholders to consider. PFMGC also conducted a comprehensive tax burden analysis estimating the average City and aggregate tax burden on a family of three in St. Louis and ten comparable jurisdictions.

The project team also built two models to assist with 'what if' analysis on revenue alternatives for the City. For a City budget model, PFMGC collected and analyzed extensive budget and financial data to build a detailed financial model that projected the City's long-term budget position and enabled City leaders to see the fiscal impact of possible changes to the City's revenue structure. Finally, the project team developed a customized land value tax model to assist with forecasting the impact of a shift to a land value tax on a typical City homeowner.

Based on these earlier efforts, PFMGC issued a final report containing recommendations to supplement City revenue streams and make the City's revenue structure more competitive. In addition, the project team provided a listing of best practices in areas of revenue policy and a database of over 200 revenue options specific to both St. Louis' departmental operations and fiscal condition. Ultimately, approximately $16 million of the reports recommendations were adopted by the City Council and Mayor in making changes to its revenue structure.

Following submittal of the report, PFMGC was hired to complete follow-up work exploring the possibility of greater resource sharing and cooperation between the City of St. Louis and St. Louis County.

City of Aurora, Colorado
Revenue and Expenditure Study

The City of Aurora is a large, rapidly-growing city of more than 300,000 citizens, with solid financial practices and credit ratings. However, like many similar governments, the 2001 national recession led to a significant financial challenge, particularly for revenues (which are largely dependent on sales and use taxes). While the City experienced some recovery in 2004 and 2005, there were differing opinions among City leaders as to how future population and commercial growth would impact City revenues and expenditures.

PFMGC was hired to examine Aurora's current and projected revenues and expenditures, determine whether the City's financial difficulties were short term or structural in nature, and make recommendations on methods to improve their current finances. The study was to have both a short term (the next five years) and a long term (next 20 years) outlook. The City also required that the study identify means to broaden their revenue structure and align revenues with services the City provides, both to its current citizens and to new housing and commercial developments.

The project team constructed a short term financial model with a baseline and alternate revenue and expenditure scenarios that indicated the City was facing a structural gap. PFMGC, with the assistance of a Colorado economics consulting group, developed a 20-year demographic outlook that identified the key trends that would shape revenue and expenditure trends for the City. The project team then prepared detailed discussions and revenue projections on approximately twenty revenue alternatives, as well as concise discussions of another forty options for further study. PFMGC also prepared funding recommendations focused on the City's identification of needed capital projects and provided an assessment of key budget cost drivers.

As a result of the study, the City has moved forward on several of the revenue-generating approaches and is actively considering others. Using the PFMGC model as its guide, the City has also updated and expanded its five-year revenue and expenditure models.

City of Colorado Springs, Colorado
Staff Support for the Sustainable Funding Committee

In 2008, the Colorado Springs City Council created and appointed a variety of citizens and representatives of stakeholder groups to a Sustainable Funding Committee. The Committee was charged with advising City Council on fiscal sustainability policies to support core services that proactively ensure the health, safety and welfare of our citizens; attract, develop, and retain a high performing municipal workforce; and fund internal infrastructure needs. PFMGC was selected by the City to advise and support the Committee in its efforts.

To assist the Committee and the City, the project team created a multi-year financial planning model that allowed the Committee and City to test long term fiscal implications of various revenue and expenditure decisions and strategies. PFMGC also benchmarked peer cities in the region and around the country and analyzed their revenue structures, levels of service and service delivery systems for comparison with Colorado Springs.

Because of the size and complexity of their work, the Committee formed three subcommittees, and the project team supported the Services and Revenue subcommittees. PFMGC conducted extensive interviews with City staff responsible for core services, analyzed program and financial data and wrote detailed reports on City services and revenue structures, which were used by the subcommittees – and ultimately the Committee as a whole – in making their recommendations to City Council.

The Committee's task became significantly more complicated, because the City was heavily impacted by the national economic slowdown experienced in 2008 and 2009. In the face of significant declines in revenue, the City was forced to make dramatic budget reductions. These budget changes impacted the levels of service provided by the City and required the Committee to re-do much of its work. Even as the economic and budget circumstances worsened, the Committee forged ahead, and PFMGC revised its analysis and recommendations on multiple occasions to reflect these changes.

Ultimately, the Committee submitted its final report in summer 2009. It made scores of recommendations to City Council with opportunities to improve overall City operations, change service delivery methods and its revenue structure. Many of these recommendations are being actively pursued by the City's elected officials and staff, including the recommendation to pursue a new model for delivering transit service in the region.

Pennsylvania Department of Community and Economic Development
Act 47 Recovery Plan Coordinator for the City of Pittsburgh

In August 2003, Pittsburgh laid off 446 full and part-time employees, including nearly 100 police officers. City recreation centers were shuttered, public swimming pools closed, and services from police mounted patrol to graffiti-removal eliminated. In the fall of 2003, the City's credit ratings were downgraded repeatedly, leaving Pittsburgh as the nation's only major city to hold speculative "junk bond" ratings. The City's independent financial audit even questioned Pittsburgh's ability to continue as a going concern.

In response, the Secretary of Pennsylvania's Department of Community and Economic Development (DCED) designated the City as "distressed" and placed it under state oversight in accord with the Municipalities Financial Recovery Act, Act 47. In January 2004 the Secretary appointed PFMGC and regional law firm Eckert, Seamans, Cherin & Mellott, LLC to be the City's Act 47 Coordinator and draft a multi-year Recovery Plan. The Act 47 team spent over 2,500 hours developing solutions for the City's financial crisis through a process that engaged elected and appointed leaders, officials of all nine labor unions, business and citizen groups and other community stakeholders.

The 2004 Plan was based on a multi-year budget model that projects the City's revenues and expenditures absent corrective action and how different initiatives impact the financial bottom line. The 234-page Plan included more than 200 specific recommendations to close annual deficits projected to grow from approximately $72 million in FY2005 to more than $115 million for FY2009 (against a revenue base of approximately $365 million). Passed by City Council and signed by the Mayor in June 2004, the Plan provided a comprehensive strategy to help Pittsburgh regain its financial health by:

- Restructuring City services, such as the Bureau of Fire and fleet maintenance.
- Improving cooperation with Allegheny County and other municipalities.
- Controlling workforce costs by moderating wage growth and fast-rising benefit expenditures.
- Strengthening financial management, including annual budget preparation and presentation.

PFMGC was particularly involved in developing the Plan's revenue recommendations. Because Act 47 does not provide the power to impose certain statutory tax changes, the team proposed a menu of tax options for consideration by the General Assembly. The Legislature and Governor accepted some items, rejected others, and accepted others with modification. PFMGC was particularly involved in projecting revenue and resolving structural issues involving the City's new payroll tax and the statewide revision of the occupational privilege tax.

By implementing the 2004 Plan and its own initiatives, the City regained its credit rating and turned persistent annual budget shortfalls into recurring positive operating results. The City reported a $46.5 million year-end General Fund balance to close FY2008, not including another $27.2 million set aside for pay-as-you-go capital funding and $45.4 million deposited in a restricted account for debt service.

In 2008 the Secretary of DCED directed PFMGC and Eckert Seamans to draft an Amended Recovery Plan to address the daunting legacy costs threatening the City's sustained recovery. The City had over $1 billion in liabilities related to its severely underfunded employee pensions, retired employee benefits and workers' compensation claims. As in 2004, the Act 47 team met with elected and appointed officials and community stakeholders to get their input, built a multi-year budget model and drafted an Amended Recovery Plan that does the following:

- Establishes a multi-faceted approach to the City's pension and other post-employment benefit (OPEB) crisis that includes increased local contributions, liability management, sound plan administration and building partnerships for statewide reform.
- Emphasizes the development of debt management policies and a more sophisticated capital budget to ensure future debt issuances are part of a fiscally sound capital improvement plan.
- Maintains the 2004 Plan's core principals of workforce cost containment, creative service restructuring and intergovernmental cooperation.
- Provides a strategy to broaden the City's revenue base.

In June 2009, City Council approved and the Mayor signed the Amended Recovery Plan. Along with Co-Coordinator Eckert Seamans, PFMGC continues to serve the Commonwealth as an overseer monitoring the City's immediate and long-term health, serve the City as a guide for implementing priority initiatives, and serve both governments as a liaison between the two.

City of Baltimore, Maryland
Mayor's Blue Ribbon Committee on Taxes and Fees

PFMGC was retained by the City of Baltimore to support the activities of the Blue Ribbon Committee on Taxes & Fees appointed by Mayor Sheila Dixon.

The Committee of twenty-six citizens was charged with analyzing the City's tax structure, with particular emphasis on seeking alternatives for reduction of the highest property tax rate in the region. The project team supported the Committee in part by analyzing commercial property tax assessment policies and evaluating alternative sources of revenue that could allow the City to reduce its property tax rate while maintaining projected General Fund income over a five-year period.

PFMGC facilitated the Committee's thirteen meetings and delivered presentations on the revenue structures of Baltimore, several Maryland counties, and comparable jurisdictions selected with the Committee's input. In addition, PFM developed a menu of options that could allow the City to reduce its property tax rate either through an increase in revenue from existing sources or through the creation of new sources of revenue. Each option was evaluated in terms of overall revenue potential, future revenue growth, volatility, legislation required for implementation, and the net effect on taxpayers. In addition, Committee members were polled on the feasibility and overall desirability of each option.

The Committee's final report identified sixteen such options to reduce the City's real property tax rate and outlined a scenario in which the rate could be reduced by as much as forty percent over several years - dramatically improving the disparity between the property tax rate of the City of Baltimore and those of adjacent Maryland counties. Upon completion of the project, the City hired PFMGC to conduct a fee study related to specific fees identified as not covering the cost of city services.

MBC Team

Our professionals are seasoned public sector management and budget specialists, recognized nationally for innovation and results. Together, they provide the State with the breadth and capacity expected from a leading national consulting firm, while at the same time delivering the focus and direct, senior-level involvement reflective of our commitment to improving government performance.

The project team is headed by John Cape and Randall Bauer, highly experienced public sector government managers committed to assuring that the PFMGC Team delivers the resources it needs to successfully complete this project. As demonstrated in the resumes that follow, we attest that all members of the team meet or exceed the experience required for this engagement and that the staff proposed will continue to be available

John Cape, Managing Director

John F. Cape is a national expert on state budgets and public policy, with over 30 years experience in the public sector.

Prior to joining PFMGC, Mr. Cape served as the Director of the Budget for New York State. As Director, he was New York's chief financial officer and the principal fiscal advisor to the Governor, heading the Division of the Budget, whose 350 staff members oversee a $113 billion operating budget and $50 billion debt portfolio.

Mr. Cape began his State career in 1973, working as Municipal Management Consultant and Federal program manager before joining the Division of the Budget in 1980. During the following 26 years, he had the opportunity to oversee funding for virtually every State program area. He headed the Division's Federal Relations office, working with organizations including the National Governors Association advocating for changes and enhancements to Federal programs including Medicaid, Welfare and Transportation. After being named Assistant Director in 1997, he went on to oversee the State's, economic and revenue forecasting, tax policy, capital planning and finance, and cash management. He also directed the State's debt policy, including management and issuance of all State-related debt, Federal securities disclosure, and rating agency relations. The author of major budget reform and debt reform statutes, in 2000 he was promoted to Deputy Director, overseeing statewide budget planning, development, negotiation and execution, advancing to First Deputy in 2002 and Director in 2004. He also served as Chairman of the State's Public Authority Control Board and a Director of the Local Government Assistance Corporation.

A nationally known speaker on state fiscal and policy issues, and a recognized advocate for fiscal integrity and transparency, Mr. Cape serves as a Senior Fellow of the Rockefeller Institute of Government, is a Fellow of the State Academy of Public Administrators, and has served on the Executive Board of the National Association of State Budget Officers. He is the 2006 recipient of the Center for Technology in Government's *Rudolph W. Giuliani Leadership Award*, and recipient of the American Society for Public Administration's *Charles Evans Hughes Award*.

Mr. Cape received his Bachelor of Arts degree from the State University of New York Empire State College and pursued graduate study at the Rockefeller College of Public Affairs.

Mr. Cape is based in Albany and New York City, New York, and co-leads PFMGC's Management and Budget practice for state governments in conjunction with former State of Iowa Budget Director, Randall Bauer.

Randall Bauer, Director

Randall Bauer leads the revenue analysis practice in PFMGC's Management and Budget group. His state project clients have included the States of Delaware, Georgia, Hawaii, Illinois, Minnesota, Nebraska, New

York, Ohio, Oklahoma, Oregon, Pennsylvania and Washington as well as the cities of Aurora, Baltimore, Cincinnati, Colorado Springs, St. Louis and Washington DC.

Mr. Bauer's areas of specialty include analyzing and developing revenue structures, economic incentives related to tax structures and long term financial and strategic planning. Among his recent projects, he assisted the State of Washington Department of Agriculture with analyzing and determining appropriate fee and revenue structures for its fruit and vegetable inspection program, is leading an evaluation of state economic incentives (primarily tax incentives) for the State of Oklahoma, and has assisted the State of Oregon with reorganizing its IT operations, including its methods for charging for services. Past projects have included managing the study of the Hawaii tax system for the 2012 Tax Review Commission and making recommendations for changes to the administrative and revenue estimating processes for the Pennsylvania Department of Revenue.

At the local level, Mr. Bauer has assisted the Cities of New Orleans, Pittsburgh and Portsmouth with their revenue estimating efforts. He has also managed studies of the revenue structure and proposed changes for the City of St. Louis, the long-term capacity of the revenue structure for the City of Aurora, Colorado; and the income tax collection process for the City of Cincinnati, Ohio. He has also served as a subject matter expert for the Mayor's Blue Ribbon Tax Commission in Baltimore, Maryland; and the Sustainable Funding Committee in Colorado Springs, Colorado. Finally, he has also led a study of the city economic development tax incentives for the City of St. Louis.

Prior to joining PFMGC, Mr. Bauer served for nearly seven years as Budget Director for the State of Iowa and was Governor Thomas Vilsack's chief adviser for the State's $12 billion budget as well as a senior adviser on tax and public finance issues. In that capacity, he was the Governor's appointee to the Legislature's Study of Property Tax Reform and also chaired the Governor's 2002 review of State tax policy. He also guided the Department of Management staff responsible for developing the Executive Branch revenue projections for the State's revenue estimating conference.

Prior to his work as State Budget Director, Mr. Bauer served for over ten years as a senior legislative analyst for the Iowa Senate with primary responsibilities on budget, tax, infrastructure and economic development issues.

Mr. Bauer earned a BA from Coe College, the Certified Public Manager designation from Drake University, and was a Fannie Mae Foundation Fellow at Harvard University's program for senior executives in state and local government. He has served on the Executive Board and as chair of the Finance Committee for the United States Chess Federation, as President of the Iowa Society of Certified Public Managers, and is a life member of the National Association of State Budget Officers, where he served on its Executive Committee.

Christopher Wheeler, Subject Matter Expert

Christopher Wheeler is a subject matter expert with significant expertise related to financial modeling and revenue and tax structure analysis. Prior to returning to Rutgers University to earn his PhD in economics, Christopher was a senior analyst in PFMGC's Management and Budget Consulting practice. Among his projects were operational and management reviews, multi-year financial plans, and revenue and fee studies for the States of Hawaii and New York and the cities of St. Louis, MO, Gainesville, FL, and Baltimore, MD.

Mr. Wheeler was the lead analyst for PFM's 2012 work with the Hawaii Tax Review Commission. He also assisted the State of New York with analysis of possible revenue from changes to its gaming operations. For the City of St. Louis, he developed a comprehensive tax burden analysis of the City of St. Louis and nine comparable cities and a financial model that displays impacts from alternative tax policy approaches. He has also analyzed and evaluated tax collection procedures in St. Louis and issued recommendations on the use of Payment in Lieu of Taxes agreements and Market Based Revenue Opportunities.

Mr. Wheeler earned his Bachelor of Arts degree in Political Science from Temple University, where he also received the Norman & Ruth Sun Economics Writing Award. He earned his Masters degree in Government Administration from the Fels Institute of Government at the University of Pennsylvania. He has now completed all of his course work related to his PhD from Rutgers University, which he is expected to earn in 2017. Mr. Wheeler is currently also engaged as a Research Economist for the State of New Jersey Department of Community Affairs.

Seth Williams, Senior Managing Consultant

Seth Williams is a Senior Managing Consultant in PFMGC's Management and Budget group. Since joining PFMGC's MBC practice, Mr. Williams has supported state and local government clients with on projects involving transformation/operational review, workforce and organizational structure analysis, and financial improvement initiatives. He has worked for a diverse set of clients – a sample that includes: the States of Hawaii, Pennsylvania and Virginia; Cuyahoga County, Ohio; City of Baltimore, Maryland; City/County of Philadelphia, Pennsylvania; New Castle County, Delaware; Ocean County, New Jersey; and Cherry Hill Fire Department, New Jersey. Additionally, Mr. Williams has presented on workforce management topics at the New Jersey Association of Counties (NJAC) and New Jersey GFOA annual conferences.

Prior to joining PFM, Mr. Williams worked for the Office of the New Jersey Governor as Cabinet Liaison and a Deputy Director of Management and Operations. He was the primary point of contact in the Governor's Office on operations, budget preparation, organizational management issues, and tactical activities for 12 cabinet departments and sub-cabinet agencies. In this role, his responsibilities also included administration of workforce planning/personnel management initiatives, serving as the principal staff member responsible for candidate recruitment, vetting, and selection for high-level, Gubernatorial-appointed positions, and acting as the lead staff member to the New Jersey Commission on Government Efficiency and Reform (NJ GEAR); a high-profile Commission appointed by the Governor.

Mr. Williams earned a Masters degree in Government Administration from the University of Pennsylvania, Fels Institute of Government, Philadelphia, PA and a Bachelor of Arts degree in Political Science from Muhlenberg College, Allentown, PA.

Deanna Yocco, Senior Analyst

Deanna Kimball Yocco is a Senior Analyst in PFMGC's Management and Budget Consulting practice and is based in the firm's Philadelphia office. She provides quantitative, analytical, and research support for governmental performance improvement.

Ms. Yoccohas been a member of the PFMGC team leading the National Resource Network, a core component of the White House Strong Cities, Strong Communities initiative to develop and deliver innovative solutions to American cities to help address their toughest economic challenges. Ms. Yocco has also worked on state performance improvement projects including serving as the lead analyst and model developer for a State of Illinois project related to determining its optimal fleet and methods to finance it.

Prior to joining PFMGC, Ms. Yocco was a Budget Analyst with the School of Arts and Sciences at the University of Pennsylvania,where she prepared analyses for school resource planning and collaborated with school leadership to achieve sustained economic viability and growth. Her project responsibilities included preparation of quarterly school-wide forecasts and profit/loss analyses, enrollment and revenue estimates, and the completion of annual five-year budget projections.

Previously, she served as a Budget and Management Analyst for the State of Ohio's Office of Budget and Management,where she analyzed and monitored financial matters affecting theState's Behavioral Health agencies, boards and commissions. Her project responsibilities included the consolidation of two cabinet-level departments into a single state agencyand the preparation of the Governor's Monthly Financial Report, detailing the State's economic forecast, revenues, and preliminary monthlydisbursements.

Ms. Yocco holds a Bachelor of Arts degree, cum laude from Xavier University and a Master of Public Administration degree and Graduate Certificate in Nonprofit Management from Northern Kentucky University.

References

The following outlines three reference contacts for projects of similar size and scope. Additional references can be provided upon request.

Government Name:	Pennsylvania Department of Community & Economic Development (DCED)
Project Name	Act 47 Recovery Plan Coordinator for the City of Pittsburgh
Contact Person:	Fred Redding, Deputy Secretary
Phone Number:	717-720-7387
E-mail:	freddig@state.pa.us
Address:	Commonwealth of Pennsylvania 400 North Building, 4th Floor Harrisburg, PA 17120

Government Name:	Washington Department of Agriculture
Project Name	Fruit and Vegetable Inspection Program
Contact Person:	Cameron Crump
Phone Number:	360-902-1833
E-mail:	ccrump@agr.wa.gov
Address:	1111 Washington Street, SE Olympia, WA 42560

Government Name:	State of Delaware Office of Management and Budget
Project Name	State/County Finance and Revenue Support
Contact Person:	Brian Maxwell, Director
Phone Number:	302-739-4206
E-mail:	Brain.Maxwell@state.de.us
Address:	Haslett Armory 122 Martin Luther Kind Jr Boulevard South Dover, DE 19901

Proposal Overview

As previously noted, PFMGC is proposing to conduct the three studies contemplated in the RFP:

1. A study showing who bears the burden of Hawaii's taxes.
2. A study showing ways to reform Hawaii's taxes to make them less regressive.
3. A study on the best ways to generate more revenue through new and existing sources, and through new and existing sources, and through improved compliance with Hawaii's tax laws.

These studies have significant overlap between the work and analysis for each of these study areas. This will both provide for certain economies of scale in data and information gathering and also insure that the analysis and recommendations will be compatible. For example, understanding who bears the burden of the existing tax structure is helpful for assessing impacts from changes to that structure. It is also likely, for example, that revenue generation from new and existing sources will have a material impact on the regressivity of the tax structure; combining (or at least coordinating) these studies will help to ensure the studies don't end up serving cross purposes.

As was noted throughout the 2012 study, Hawaii's unique nature as a State is recognized and will be factored into both the project plan and its analysis. This impacts both on the analysis of future needs (largely a discussion of expenditures) and the sufficiency and effectiveness of the current versus alternate tax structures.

While no two states are exactly alike, Hawaii is most unique, given the lack of a shared border with any other state or province. This impacts on revenue discussions – such as cross border competition when examining the efficacy of the general excise tax (GET) structure. At the same time, the importance of the state's tourism industry – and hence how the tax structure impacts it – must also be taken into consideration. Discussions of importing and exporting of the state tax burden are complicated by its impact on this key industry and must be carefully weighed in the analysis.

Likewise, a key consideration for a revenue structure is its capacity – particularly its ability to provide sufficient resources throughout the business cycle. Given that economic downturns – and other unforeseen events – can dramatically impact this industry, the analysis must be able to factor these challenges into its models and discussion.

As the project team knows from the work in 2012, Hawaii is also unique on the expenditure side of the state budget equation. Hawaii is one of a handful of states that assumes all or nearly all the costs of K-12 education – in most states, local school districts are required to fund a significant portion of school district costs, which is often well over half of the total cost. Among all the states, expenditures for K-12 education are the second largest expenditure category, at 19.2 percent in FY2015 (according to the National Association of State Budget Officers). For general fund spending, K-12 is the largest category for all states, at 35.3 percent. This commitment to state funding of education limits the State's choices during economic downturns, as many of the expenditures in this area are not readily scalable to fit with revenue declines. It is notable that the project team recently completed an expenditure study for a Governor-appointed Commission in Delaware, one of the other states that mostly funds education at the state level. As a result, the project team is very familiar with the ins and outs of that type of system.

In short, among the States, Hawaii is truly unique. In this case, the project team is already experienced in conducting this analysis. The project team brings extensive experience and expertise to similar types of studies, both in Hawaii and in other states.

a. Area of Study

As noted, PFM proposes to conduct all three requested studies. The following outline combines these three studies into one project.

b. Report Outline

PFMGC views each project as an opportunity to collaborate on the most effective and useful approach. As a consequence, the general PFMGC project plan approach would provide for an opportunity for a first round of interviews with key stakeholders, receipt and review of detailed state information and some basic modeling before developing a final report outline.

For discussion purposes, PFM provided a potential outline for the 2012 study; during the work with the Tax Review Commission and the Department of Taxation, that outline was refined to fit the specific needs of the State. The following outline is taken from the final report for the State of Hawaii in 2012):

I. Executive Summary

II. Introduction and Project Background
   a. Report background
   b. Methodology
   c. State background

III. Current Revenue Structure
   a. General characteristics
   b. Relationship of State and local revenue and expenditures
   c. Primary components and comparison to other states
   d. State taxes performance
   e. Strengths, weaknesses, opportunities and threats

IV. Structural Sustainability
   a. Long-term forecasting model
   b. Sustainability forecast
   c. Summary

V. Revenue Alternatives
   a. Tax Policy Principles
   b. Revenue strategies/approaches

VI. Observations and Recommendations

VII. Appendices
   a. Interview/discussion/presentation groups
   b. Suspended exemptions
   c. Growth rates and model outputs
   d. Tax burden model
   e. State individual income tax provisions

The following is an outline that combines the three requested studies for the current Tax Review Commission:

I. Executive Summary

II. Introduction and Project Background
   a. Report background

b. Methodology
c. State background

III. Current Revenue Structure
a. General characteristics
b. Current structure tax burden
c. Current structure measures of regressivity
d. Relationship of State and local revenue and expenditures
e. Primary components and comparison to other states
f. Components and comparison to other states' burden and regressivity
g. State taxes performance
h. Strengths, weaknesses, opportunities and threats

IV. Revenue Alternatives
a. Tax Policy Principles
b. Revenue alternatives and impacts on tax burden and regressivity
c. Revenue strategies/approaches
d. Strategies/approaches impact on tax burden and regressivity

V. Observations and Recommendations, including impacts on tax burden and regressivity
VI. Appendices
a. Interview/discussion/presentation groups
b. Suspended exemptions
c. Growth rates and model outputs
d. Tax burden model focused on regressivity
e. State individual income tax provisions

As with all PFMGC studies, the actual outline and content will be modified as needed to fit the client needs. PFMGC projects provide multiple opportunities for the project team to interact with the client to ensure that the outline and resulting analysis aligns with your needs.

c. Study Methodology

The project team views both potential studies as practical discussions of tax policy that factor in real world political, social and economic considerations. While our colleague, Christopher Wheeler, is a card carrying economist, he – along with the entire PFMGC senior team – also has a strong background in the actual mechanics and operation of state government. The study approach focuses on a real world analysis and discussion of the challenges – and opportunities – in this subject area confronting the State.

The following methodology/approach assumes that the State wishes to combine the projects. From our perspective, this has obvious advantages and few disadvantages. If the State determines that PFMGC should do only one of the two, the projects can be disaggregated, and the discussion will describe how they would diverge.

1. **Detailed Project Planning.** As previousy described, PFM tailors the project plan to the needs identified in project discussions with the client – and sometimes modified as interviews and data collection take place. This includes a detailed timeline and list of activities, as well as those responsible for them. In general, it also includes a project kick-off to allow the key project members for both PFM and the State to share plans and expectations.

2. **Financial Modeling.** PFMGC will create a revenue-focused model will be used for assessing options and opportunities related to tax and revenue alternatives for the State. This model will

be a key resource for subsequent steps in the project. Beyond just providing a snapshot forecast, the model enables ongoing updates – both to reflect changing circumstances outside of the State's direct control (e.g., demographic changes, volatility in tax and state revenues and federal funding), as well as the impact of budget changes if implemented. In addition to allowing for regular updates of budgetary progress and status, maintaining this model canl enable "what if" financial projections to better inform future policy decisions (e.g., changes in tax rates, changes to expenditure decisions).

For this project, PFM will also model and analyze tax burden. This was also done in the 2012 analysis, and for this project, it will focus on tax regressivity. PFM will use existing data related to tax incidence and its impact on differing income cohorts.

As the baseline model is being updated, PFMGC will conduct interviews with key stakeholders to gather and refine data and assumptions related to revenue and expenditure trends and performance.

3. **Benchmarking and Best Practices Research and Analysis.** At the same time, benchmark peer organizations will be identified and electronic and other surveys constructed and data gathered for further analysis. PFMGC will also conduct best practices research and analysis related to revenue and tax structures. Because this is a key subject area for our work with governments around the country, PFMGC maintains an extensive database of best practices, revenue structures, taxes and tax rates that it can rely upon to form the foundation for this analysis.

4. **High Level Findings.** Based on the data collected and with input from the State, PFMGC will analyze current and future trends and develop high level findings related to both areas. At this point, PFMGC would schedule and convene a mid-project update with the client to communicate the project activities and findings to date, elicit feedback and identify any additional areas for research, analysis or consideration. Based on that feedback, PFMGC would 'fill in any blanks' and move to developing a draft (or drafts) of the report(s).

5. **Draft Report.** In the final phase, the project team will provide draft written report(s). The project team will, as appropriate, provide presentations to the Tax Review Commission and other stakeholders. Based on feedback and other input, the project team will make any needed revisions or other modifications to the report. PFMGC will then submit a final report and provide any in scope training and documentation of models to turn over to the client. The project team will also be available for additional presentations or support for the Commission and the State.

   As with the 2012 project, PFMGC prides itself on full client satisfaction, and we provide a full project guarantee: we will not be finished with the project until the State is satisfied with the result. Period.

PFMGC also builds a variety of project management tools and techniques into its project approach and methodology. In our experience, regular communication is a key measure of project success. PFMGC generally provides regular progress reports (for example, through written weekly or bi-weekly summaries of activities, issues requiring resolution, and planned future activities and events), accompanied by regularly scheduled project conference calls.

PFMGC's project managers are seasoned professionals with broad government experience – they understand competing time demands and the need to balance regular communication and participation with the 'real-world' demands of busy government leaders. They will work with the project sponsor and project manager to strike the appropriate balance in project reporting and client communication.

Also important to successful project management, PFMGC is strongly committed to understanding and gaining buy-in from those who will carry our recommendations forward (or not) when our project engagement is complete. Internally, we also use a range of project management tools and techniques to keep our work moving forward on time and on budget. For every project, we designate both an Engagement Director and a Project Manager. The Project Manager coordinates development of project timelines, goals, team meetings, client checkpoints, and all interim and final deliverables, while the Engagement Director ensures quality control and client satisfaction. Both the Engagement Manager and Project Manager receive biweekly project reports detailing hours worked by all team members assigned to the project, and are authorized to commit resources toward meeting client goals. Between these senior leaders, and across all levels of our teams, our corporate culture promotes regular, open, and active communication and coordination.

d. Fixed Fee for Initial Contract Period

PFMGC is flexible on methods for billing for projects and, based on the client's preference, will structure a project for hourly rates, hourly rates with a cap, fixed fee per deliverables or fixed fee per project.

As noted above, we believe the best business case and approach for this project would be to combine the three studies into a single project. If that is the State's preference, PFMGC would conduct all three studies for a fixed fee of $146,000. This generally falls into the middle range of the fees that have been billed to clients for similar projects.

This revised estimate has been reached by eliminating the estimated hours associated with revising and maintaining the multi-year financial project model ($44,000) and more extensive stakeholder interviews and discussion ($10,000) while adding the cost of the tax burden analysis ($50,000).

e. Hourly Fee for Contract Extension Period (If Any)

PFMGC generally uses differing hourly rates based upon the experience and expertise of the individual. If the State would seek to use varying rates, we would propose (per hour):

- Managing Directors: $300
- Directors: $275
- Senior Managing Consultants $250
- Senior Analysts $225
- Analysts $200
- Research Assistants $100

Should the State desire a single rate, we would propose a blended rate of $250 per hour.

Summary

PFMGC has put together a highly experienced team with great expertise in the subject area – and in working with the State. PFMGC is committed to the full satisfaction of its clients, and the State of Hawaii is a valued PFMGC client. We look forward to continuing to serve you on this and other projects.

Ultimately, PFMGC brings to the State a winning combination of experience, expertise and independence. The choice of PFMGC brings the State:

- **Strong focus on Hawaii with a solid understanding of the State's dynamics.** The senior leadership team were all key members of the PFM project team that worked with the State and the 2012 Tax Review Commission. The engagement director, John Cape, brings more than three decades of experience with New York State government – including service as Director of the Budget – to bear on the management of the challenges posed by this engagement. The project manager, Randall Bauer, served as the State of Iowa's Budget Director during his 18 years in state government. Both of these highly-respected and accomplished individuals have led studies related to tax systems/structures in their own states and bring a wealth of knowledge and experience to this engagement.

- **Independence.** PFMGC is in the business of ideas, analysis and sound advice to federal, state and local governments – not software, services or products. We serve only governments, and our only business is advice. Our consulting is not a foot in the door for product sales or affiliated technology "solutions." Our only interest is that of our clients.

- **Integrity.** Professional integrity and public accountability have always been hallmarks of PFMGC's philosophy, not a by-product of the financial industry crisis.

- **Commitment to capacity-building.** PFMGC is a unique organization, led by former government managers who remain committed to improvement of government management. From this perspective, we also have a point of view about the role of consultants. It is our belief that external consultants are best utilized when specialized expertise is required for a finite period of time and that, in the end, consultant efforts should be designed to build the internal capacity of the existing public staff to carry on the value added by the external experts. Accordingly, our approach is designed to do the necessary analysis leave behind the models and knowledge for the government employees to continue or expand the effort on their own, going forward.

- **Hands-on involvement.** PFMGC is committed to direct, senior-level communication and contact with our clients at all stages of a project. While national in reach and experience, we are not the biggest management consultancy on the globe – and we do not want to be. We want to be the best – remaining a cohesive team that will do the work, interact closely with the State, and deliver. We will not provide cookie-cutter approaches pulled out of a file with the details filled in by the latest round of new hires. Our work will consistently represent our collective best effort by the most highly qualified members of our team.

Certificate of Vendor Compliance

GENERAL CONDITIONS

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GENERAL CONDITIONS

1. Coordination of Services by the STATE. The head of the purchasing agency ("HOPA") (which term includes the designee of the HOPA) shall coordinate the services to be provided by the CONTRACTOR in order to complete the performance required in the Contract. The CONTRACTOR shall maintain communications with HOPA at all stages of the CONTRACTOR'S work, and submit to HOPA for resolution any questions which may arise as to the performance of this Contract. "Purchasing agency" as used in these General Conditions means and includes any governmental body which is authorized under chapter 103D, HRS, or its implementing rules and procedures, or by way of delegation, to enter into contracts for the procurement of goods or services or both.

2. Relationship of Parties: Independent Contractor Status and Responsibilities, Including Tax Responsibilities.

   a. In the performance of services required under this Contract, the CONTRACTOR is an "independent contractor," with the authority and responsibility to control and direct the performance and details of the work and services required under this Contract; however, the STATE shall have a general right to inspect work in progress to determine whether, in the STATE'S opinion, the services are being performed by the CONTRACTOR in compliance with this Contract. Unless otherwise provided by special condition, it is understood that the STATE does not agree to use the CONTRACTOR exclusively, and that the CONTRACTOR is free to contract to provide services to other individuals or entities while under contract with the STATE.

   b. The CONTRACTOR and the CONTRACTOR'S employees and agents are not by reason of this Contract, agents or employees of the State for any purpose, and the CONTRACTOR and the CONTRACTOR'S employees and agents shall not be entitled to claim or receive from the State any vacation, sick leave, retirement, workers' compensation, unemployment insurance, or other benefits provided to state employees.

   c. The CONTRACTOR shall be responsible for the accuracy, completeness, and adequacy of the CONTRACTOR'S performance under this Contract. Furthermore, the CONTRACTOR intentionally, voluntarily, and knowingly assumes the sole and entire liability to the CONTRACTOR'S employees and agents, and to any individual not a party to this Contract, for all loss, damage, or injury caused by the CONTRACTOR, or the CONTRACTOR'S employees or agents in the course of their employment.

   d. The CONTRACTOR shall be responsible for payment of all applicable federal, state, and county taxes and fees which may become due and owing by the CONTRACTOR by reason of this Contract, including but not limited to (i) income taxes, (ii) employment related fees, assessments, and taxes, and (iii) general excise taxes. The CONTRACTOR also is responsible for obtaining all licenses, permits, and certificates that may be required in order to perform this Contract.

   e. The CONTRACTOR shall obtain a general excise tax license from the Department of Taxation, State of Hawaii, in accordance with section 237-9, HRS, and shall comply with all requirements thereof. The CONTRACTOR shall obtain a tax clearance certificate from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of the Treasury, showing that all delinquent taxes, if any, levied or accrued under state law and the Internal Revenue Code of 1986, as amended, against the CONTRACTOR have been paid and submit the same to the STATE prior to commencing any performance under this Contract. The CONTRACTOR shall also be solely responsible for meeting all requirements necessary to obtain the tax clearance certificate required for final payment under sections 103-53 and 103D-328, HRS, and paragraph 17 of these General Conditions.

   f. The CONTRACTOR is responsible for securing all employee-related insurance coverage for the CONTRACTOR and the CONTRACTOR'S employees and agents that is or may be required by law, and for payment of all premiums, costs, and other liabilities associated with securing the insurance coverage.

g. The CONTRACTOR shall obtain a certificate of compliance issued by the Department of Labor and Industrial Relations, State of Hawaii, in accordance with section 103D-310, HRS, and section 3-122-112, HAR, that is current within six months of the date of issuance.

h. The CONTRACTOR shall obtain a certificate of good standing issued by the Department of Commerce and Consumer Affairs, State of Hawaii, in accordance with section 103D-310, HRS, and section 3-122-112, HAR, that is current within six months of the date of issuance.

i. In lieu of the above certificates from the Department of Taxation, Labor and Industrial Relations, and Commerce and Consumer Affairs, the CONTRACTOR may submit proof of compliance through the State Procurement Office's designated certification process.

3. Personnel Requirements.

a. The CONTRACTOR shall secure, at the CONTRACTOR'S own expense, all personnel required to perform this Contract.

b. The CONTRACTOR shall ensure that the CONTRACTOR'S employees or agents are experienced and fully qualified to engage in the activities and perform the services required under this Contract, and that all applicable licensing and operating requirements imposed or required under federal, state, or county law, and all applicable accreditation and other standards of quality generally accepted in the field of the activities of such employees and agents are complied with and satisfied.

4. Nondiscrimination. No person performing work under this Contract, including any subcontractor, employee, or agent of the CONTRACTOR, shall engage in any discrimination that is prohibited by any applicable federal, state, or county law.

5. Conflicts of Interest. The CONTRACTOR represents that neither the CONTRACTOR, nor any employee or agent of the CONTRACTOR, presently has any interest, and promises that no such interest, direct or indirect, shall be acquired, that would or might conflict in any manner or degree with the CONTRACTOR'S performance under this Contract.

6. Subcontracts and Assignments. The CONTRACTOR shall not assign or subcontract any of the CONTRACTOR'S duties, obligations, or interests under this Contract and no such assignment or subcontract shall be effective unless (i) the CONTRACTOR obtains the prior written consent of the STATE, and (ii) the CONTRACTOR'S assignee or subcontractor submits to the STATE a tax clearance certificate from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of Treasury, showing that all delinquent taxes, if any, levied or accrued under state law and the Internal Revenue Code of 1986, as amended, against the CONTRACTOR'S assignee or subcontractor have been paid. Additionally, no assignment by the CONTRACTOR of the CONTRACTOR'S right to compensation under this Contract shall be effective unless and until the assignment is approved by the Comptroller of the State of Hawaii, as provided in section 40-58, HRS.

a. Recognition of a successor in interest. When in the best interest of the State, a successor in interest may be recognized in an assignment contract in which the STATE, the CONTRACTOR and the assignee or transferee (hereinafter referred to as the "Assignee") agree that:

(1) The Assignee assumes all of the CONTRACTOR'S obligations;

(2) The CONTRACTOR remains liable for all obligations under this Contract but waives all rights under this Contract as against the STATE; and

(3) The CONTRACTOR shall continue to furnish, and the Assignee shall also furnish, all required bonds.

b. Change of name. When the CONTRACTOR asks to change the name in which it holds this Contract with the STATE, the procurement officer of the purchasing agency (hereinafter referred to as the "Agency procurement officer") shall, upon receipt of a document acceptable or satisfactory to the

Agency procurement officer indicating such change of name (for example, an amendment to the CONTRACTOR'S articles of incorporation), enter into an amendment to this Contract with the CONTRACTOR to effect such a change of name. The amendment to this Contract changing the CONTRACTOR'S name shall specifically indicate that no other terms and conditions of this Contract are thereby changed.

c. Reports. All assignment contracts and amendments to this Contract effecting changes of the CONTRACTOR'S name or novations hereunder shall be reported to the chief procurement officer (CPO) as defined in section 103D-203(a), HRS, within thirty days of the date that the assignment contract or amendment becomes effective.

d. Actions affecting more than one purchasing agency. Notwithstanding the provisions of subparagraphs 6a through 6c herein, when the CONTRACTOR holds contracts with more than one purchasing agency of the State, the assignment contracts and the novation and change of name amendments herein authorized shall be processed only through the CPO's office.

7. Indemnification and Defense. The CONTRACTOR shall defend, indemnify, and hold harmless the State of Hawaii, the contracting agency, and their officers, employees, and agents from and against all liability, loss, damage, cost, and expense, including all attorneys' fees, and all claims, suits, and demands therefore, arising out of or resulting from the acts or omissions of the CONTRACTOR or the CONTRACTOR'S employees, officers, agents, or subcontractors under this Contract. The provisions of this paragraph shall remain in full force and effect notwithstanding the expiration or early termination of this Contract.

8. Cost of Litigation. In case the STATE shall, without any fault on its part, be made a party to any litigation commenced by or against the CONTRACTOR in connection with this Contract, the CONTRACTOR shall pay all costs and expenses incurred by or imposed on the STATE, including attorneys' fees.

9. Liquidated Damages. When the CONTRACTOR is given notice of delay or nonperformance as specified in paragraph 13 (Termination for Default) and fails to cure in the time specified, it is agreed the CONTRACTOR shall pay to the STATE the amount, if any, set forth in this Contract per calendar day from the date set for cure until either (i) the STATE reasonably obtains similar goods or services, or both, if the CONTRACTOR is terminated for default, or (ii) until the CONTRACTOR provides the goods or services, or both, if the CONTRACTOR is not terminated for default. To the extent that the CONTRACTOR'S delay or nonperformance is excused under paragraph 13d (Excuse for Nonperformance or Delay Performance), liquidated damages shall not be assessable against the CONTRACTOR. The CONTRACTOR remains liable for damages caused other than by delay.

10. STATE'S Right of Offset. The STATE may offset against any monies or other obligations the STATE owes to the CONTRACTOR under this Contract, any amounts owed to the State of Hawaii by the CONTRACTOR under this Contract or any other contracts, or pursuant to any law or other obligation owed to the State of Hawaii by the CONTRACTOR, including, without limitation, the payment of any taxes or levies of any kind or nature. The STATE will notify the CONTRACTOR in writing of any offset and the nature of such offset. For purposes of this paragraph, amounts owed to the State of Hawaii shall not include debts or obligations which have been liquidated, agreed to by the CONTRACTOR, and are covered by an installment payment or other settlement plan approved by the State of Hawaii, provided, however, that the CONTRACTOR shall be entitled to such exclusion only to the extent that the CONTRACTOR is current with, and not delinquent on, any payments or obligations owed to the State of Hawaii under such payment or other settlement plan.

11. Disputes. Disputes shall be resolved in accordance with section 103D-703, HRS, and chapter 3-126, Hawaii Administrative Rules ("HAR"), as the same may be amended from time to time.

12. Suspension of Contract. The STATE reserves the right at any time and for any reason to suspend this Contract for any reasonable period, upon written notice to the CONTRACTOR in accordance with the provisions herein.

a. Order to stop performance. The Agency procurement officer may, by written order to the CONTRACTOR, at any time, and without notice to any surety, require the CONTRACTOR to stop all or any part of the performance called for by this Contract. This order shall be for a specified period not exceeding sixty (60) days after the order is delivered to the CONTRACTOR, unless the parties agree to any further period. Any such order shall be identified specifically as a stop performance order issued pursuant to this section. Stop performance orders shall include, as appropriate: (1) A clear description of the work to be suspended; (2) Instructions as to the issuance of further orders by the CONTRACTOR for material or services; (3) Guidance as to action to be taken on subcontracts; and (4) Other instructions and suggestions to the CONTRACTOR for minimizing costs. Upon receipt of such an order, the CONTRACTOR shall forthwith comply with its terms and suspend all performance under this Contract at the time stated, provided, however, the CONTRACTOR shall take all reasonable steps to minimize the occurrence of costs allocable to the performance covered by the order during the period of performance stoppage. Before the stop performance order expires, or within any further period to which the parties shall have agreed, the Agency procurement officer shall either:

(1) Cancel the stop performance order; or

(2) Terminate the performance covered by such order as provided in the termination for default provision or the termination for convenience provision of this Contract.

b. Cancellation or expiration of the order. If a stop performance order issued under this section is cancelled at any time during the period specified in the order, or if the period of the order or any extension thereof expires, the CONTRACTOR shall have the right to resume performance. An appropriate adjustment shall be made in the delivery schedule or contract price, or both, and the Contract shall be modified in writing accordingly, if:

(1) The stop performance order results in an increase in the time required for, or in the CONTRACTOR'S cost properly allocable to, the performance of any part of this Contract; and

(2) The CONTRACTOR asserts a claim for such an adjustment within thirty (30) days after the end of the period of performance stoppage; provided that, if the Agency procurement officer decides that the facts justify such action, any such claim asserted may be received and acted upon at any time prior to final payment under this Contract.

c. Termination of stopped performance. If a stop performance order is not cancelled and the performance covered by such order is terminated for default or convenience, the reasonable costs resulting from the stop performance order shall be allowable by adjustment or otherwise.

d. Adjustment of price. Any adjustment in contract price made pursuant to this paragraph shall be determined in accordance with the price adjustment provision of this Contract.

13. Termination for Default.

a. Default. If the CONTRACTOR refuses or fails to perform any of the provisions of this Contract with such diligence as will ensure its completion within the time specified in this Contract, or any extension thereof, otherwise fails to timely satisfy the Contract provisions, or commits any other substantial breach of this Contract, the Agency procurement officer may notify the CONTRACTOR in writing of the delay or non-performance and if not cured in ten (10) days or any longer time specified in writing by the Agency procurement officer, such officer may terminate the CONTRACTOR'S right to proceed with the Contract or such part of the Contract as to which there has been delay or a failure to properly perform. In the event of termination in whole or in part, the Agency procurement officer may procure similar goods or services in a manner and upon the terms deemed appropriate by the Agency procurement officer. The CONTRACTOR shall continue performance of the Contract to the extent it is not terminated and shall be liable for excess costs incurred in procuring similar goods or services.

b. CONTRACTOR'S duties. Notwithstanding termination of the Contract and subject to any directions from the Agency procurement officer, the CONTRACTOR shall take timely, reasonable, and necessary action to protect and preserve property in the possession of the CONTRACTOR in which the STATE has an interest.

c. Compensation. Payment for completed goods and services delivered and accepted by the STATE shall be at the price set forth in the Contract. Payment for the protection and preservation of property shall be in an amount agreed upon by the CONTRACTOR and the Agency procurement officer. If the parties fail to agree, the Agency procurement officer shall set an amount subject to the CONTRACTOR'S rights under chapter 3-126, HAR. The STATE may withhold from amounts due the CONTRACTOR such sums as the Agency procurement officer deems to be necessary to protect the STATE against loss because of outstanding liens or claims and to reimburse the STATE for the excess costs expected to be incurred by the STATE in procuring similar goods and services.

d. Excuse for nonperformance or delayed performance. The CONTRACTOR shall not be in default by reason of any failure in performance of this Contract in accordance with its terms, including any failure by the CONTRACTOR to make progress in the prosecution of the performance hereunder which endangers such performance, if the CONTRACTOR has notified the Agency procurement officer within fifteen (15) days after the cause of the delay and the failure arises out of causes such as: acts of God; acts of a public enemy; acts of the State and any other governmental body in its sovereign or contractual capacity; fires; floods; epidemics; quarantine restrictions; strikes or other labor disputes; freight embargoes; or unusually severe weather. If the failure to perform is caused by the failure of a subcontractor to perform or to make progress, and if such failure arises out of causes similar to those set forth above, the CONTRACTOR shall not be deemed to be in default, unless the goods and services to be furnished by the subcontractor were reasonably obtainable from other sources in sufficient time to permit the CONTRACTOR to meet the requirements of the Contract. Upon request of the CONTRACTOR, the Agency procurement officer shall ascertain the facts and extent of such failure, and, if such officer determines that any failure to perform was occasioned by any one or more of the excusable causes, and that, but for the excusable cause, the CONTRACTOR'S progress and performance would have met the terms of the Contract, the delivery schedule shall be revised accordingly, subject to the rights of the STATE under this Contract. As used in this paragraph, the term "subcontractor" means subcontractor at any tier.

e. Erroneous termination for default. If, after notice of termination of the CONTRACTOR'S right to proceed under this paragraph, it is determined for any reason that the CONTRACTOR was not in default under this paragraph, or that the delay was excusable under the provisions of subparagraph 13d, "Excuse for nonperformance or delayed performance," the rights and obligations of the parties shall be the same as if the notice of termination had been issued pursuant to paragraph 14.

f. Additional rights and remedies. The rights and remedies provided in this paragraph are in addition to any other rights and remedies provided by law or under this Contract.

14. Termination for Convenience.

a. Termination. The Agency procurement officer may, when the interests of the STATE so require, terminate this Contract in whole or in part, for the convenience of the STATE. The Agency procurement officer shall give written notice of the termination to the CONTRACTOR specifying the part of the Contract terminated and when termination becomes effective.

b. CONTRACTOR'S obligations. The CONTRACTOR shall incur no further obligations in connection with the terminated performance and on the date(s) set in the notice of termination the CONTRACTOR will stop performance to the extent specified. The CONTRACTOR shall also terminate outstanding orders and subcontracts as they relate to the terminated performance. The CONTRACTOR shall settle the liabilities and claims arising out of the termination of subcontracts and orders connected with the terminated performance subject to the STATE'S approval. The Agency procurement officer may direct the CONTRACTOR to assign the CONTRACTOR'S right, title, and interest under terminated orders or subcontracts to the STATE. The CONTRACTOR must still complete the performance not terminated by the notice of termination and may incur obligations as necessary to do so.

c. Right to goods and work product. The Agency procurement officer may require the CONTRACTOR to transfer title and deliver to the STATE in the manner and to the extent directed by the Agency procurement officer:

(1) Any completed goods or work product; and

(2) The partially completed goods and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights (hereinafter called "manufacturing material") as the CONTRACTOR has specifically produced or specially acquired for the performance of the terminated part of this Contract.

The CONTRACTOR shall, upon direction of the Agency procurement officer, protect and preserve property in the possession of the CONTRACTOR in which the STATE has an interest. If the Agency procurement officer does not exercise this right, the CONTRACTOR shall use best efforts to sell such goods and manufacturing materials. Use of this paragraph in no way implies that the STATE has breached the Contract by exercise of the termination for convenience provision.

d. Compensation.

(1) The CONTRACTOR shall submit a termination claim specifying the amounts due because of the termination for convenience together with the cost or pricing data, submitted to the extent required by chapter 3-122, HAR, bearing on such claim. If the CONTRACTOR fails to file a termination claim within one year from the effective date of termination, the Agency procurement officer may pay the CONTRACTOR, if at all, an amount set in accordance with subparagraph 14d(3) below.

(2) The Agency procurement officer and the CONTRACTOR may agree to a settlement provided the CONTRACTOR has filed a termination claim supported by cost or pricing data submitted as required and that the settlement does not exceed the total Contract price plus settlement costs reduced by payments previously made by the STATE, the proceeds of any sales of goods and manufacturing materials under subparagraph 14c, and the Contract price of the performance not terminated.

(3) Absent complete agreement under subparagraph 14d(2) the Agency procurement officer shall pay the CONTRACTOR the following amounts, provided payments agreed to under subparagraph 14d(2) shall not duplicate payments under this subparagraph for the following:

(A) Contract prices for goods or services accepted under the Contract;

(B) Costs incurred in preparing to perform and performing the terminated portion of the performance plus a fair and reasonable profit on such portion of the performance, such profit shall not include anticipatory profit or consequential damages, less amounts paid or to be paid for accepted goods or services; provided, however, that if it appears that the CONTRACTOR would have sustained a loss if the entire Contract would have been completed, no profit shall be allowed or included and the amount of compensation shall be reduced to reflect the anticipated rate of loss;

(C) Costs of settling and paying claims arising out of the termination of subcontracts or orders pursuant to subparagraph 14b. These costs must not include costs paid in accordance with subparagraph 14d(3)(B);

(D) The reasonable settlement costs of the CONTRACTOR, including accounting, legal, clerical, and other expenses reasonably necessary for the preparation of settlement claims and supporting data with respect to the terminated portion of the Contract and for the termination of subcontracts thereunder, together with reasonable storage, transportation, and other costs incurred in connection with the protection or disposition of property allocable to the terminated portion of this Contract. The total sum to be paid the CONTRACTOR under this subparagraph shall not exceed the total Contract price plus the reasonable settlement costs of the CONTRACTOR reduced by the amount of payments otherwise made, the proceeds of any sales of supplies and manufacturing materials under subparagraph 14d(2), and the contract price of performance not terminated.

(4) Costs claimed, agreed to, or established under subparagraphs 14d(2) and 14d(3) shall be in accordance with Chapter 3-123 (Cost Principles) of the Procurement Rules.

15. Claims Based on the Agency Procurement Officer's Actions or Omissions.

a. Changes in scope. If any action or omission on the part of the Agency procurement officer (which term includes the designee of such officer for purposes of this paragraph 15) requiring performance changes within the scope of the Contract constitutes the basis for a claim by the CONTRACTOR for additional compensation, damages, or an extension of time for completion, the CONTRACTOR shall continue with performance of the Contract in compliance with the directions or orders of such officials, but by so doing, the CONTRACTOR shall not be deemed to have prejudiced any claim for additional compensation, damages, or an extension of time for completion; provided:

(1) Written notice required. The CONTRACTOR shall give written notice to the Agency procurement officer:

(A) Prior to the commencement of the performance involved, if at that time the CONTRACTOR knows of the occurrence of such action or omission;

(B) Within thirty (30) days after the CONTRACTOR knows of the occurrence of such action or omission, if the CONTRACTOR did not have such knowledge prior to the commencement of the performance; or

(C) Within such further time as may be allowed by the Agency procurement officer in writing.

(2) Notice content. This notice shall state that the CONTRACTOR regards the act or omission as a reason which may entitle the CONTRACTOR to additional compensation, damages, or an extension of time. The Agency procurement officer, upon receipt of such notice, may rescind such action, remedy such omission, or take such other steps as may be deemed advisable in the discretion of the Agency procurement officer;

(3) Basis must be explained. The notice required by subparagraph 15a(1) describes as clearly as practicable at the time the reasons why the CONTRACTOR believes that additional compensation, damages, or an extension of time may be remedies to which the CONTRACTOR is entitled; and

(4) Claim must be justified. The CONTRACTOR must maintain and, upon request, make available to the Agency procurement officer within a reasonable time, detailed records to the extent practicable, and other documentation and evidence satisfactory to the STATE, justifying the claimed additional costs or an extension of time in connection with such changes.

b. CONTRACTOR not excused. Nothing herein contained, however, shall excuse the CONTRACTOR from compliance with any rules or laws precluding any state officers and CONTRACTOR from acting in collusion or bad faith in issuing or performing change orders which are clearly not within the scope of the Contract.

c. Price adjustment. Any adjustment in the price made pursuant to this paragraph shall be determined in accordance with the price adjustment provision of this Contract.

16. Costs and Expenses. Any reimbursement due the CONTRACTOR for per diem and transportation expenses under this Contract shall be subject to chapter 3-123 (Cost Principles), HAR, and the following guidelines:

a. Reimbursement for air transportation shall be for actual cost or coach class air fare, whichever is less.

b. Reimbursement for ground transportation costs shall not exceed the actual cost of renting an intermediate-sized vehicle.

c. Unless prior written approval of the HOPA is obtained, reimbursement for subsistence allowance (i.e., hotel and meals, etc.) shall not exceed the applicable daily authorized rates for inter-island or out-of-state travel that are set forth in the current Governor's Executive Order authorizing adjustments in salaries and benefits for state officers and employees in the executive branch who are excluded from collective bargaining coverage.

17. Payment Procedures; Final Payment; Tax Clearance.

a. Original invoices required. All payments under this Contract shall be made only upon submission by the CONTRACTOR of original invoices specifying the amount due and certifying that services requested under the Contract have been performed by the CONTRACTOR according to the Contract.

b. Subject to available funds. Such payments are subject to availability of funds and allotment by the Director of Finance in accordance with chapter 37, HRS. Further, all payments shall be made in accordance with and subject to chapter 40, HRS.

c. Prompt payment.

(1) Any money, other than retainage, paid to the CONTRACTOR shall be disbursed to subcontractors within ten (10) days after receipt of the money in accordance with the terms of the subcontract; provided that the subcontractor has met all the terms and conditions of the subcontract and there are no bona fide disputes; and

(2) Upon final payment to the CONTRACTOR, full payment to the subcontractor, including retainage, shall be made within ten (10) days after receipt of the money; provided that there are no bona fide disputes over the subcontractor's performance under the subcontract.

d. Final payment. Final payment under this Contract shall be subject to sections 103-53 and 103D-328, HRS, which require a tax clearance from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of Treasury, showing that all delinquent taxes, if any, levied or accrued under state law and the Internal Revenue Code of 1986, as amended, against the CONTRACTOR have been paid. Further, in accordance with section 3-122-112, HAR, CONTRACTOR shall provide a certificate affirming that the CONTRACTOR has remained in compliance with all applicable laws as required by this section.

18. Federal Funds. If this Contract is payable in whole or in part from federal funds, CONTRACTOR agrees that, as to the portion of the compensation under this Contract to be payable from federal funds, the CONTRACTOR shall be paid only from such funds received from the federal government, and shall not be paid from any other funds. Failure of the STATE to receive anticipated federal funds shall not be considered a breach by the STATE or an excuse for nonperformance by the CONTRACTOR.

19. Modifications of Contract.

a. In writing. Any modification, alteration, amendment, change, or extension of any term, provision, or condition of this Contract permitted by this Contract shall be made by written amendment to this Contract, signed by the CONTRACTOR and the STATE, provided that change orders shall be made in accordance with paragraph 20 herein.

b. No oral modification. No oral modification, alteration, amendment, change, or extension of any term, provision, or condition of this Contract shall be permitted.

c. Agency procurement officer. By written order, at any time, and without notice to any surety, the Agency procurement officer may unilaterally order of the CONTRACTOR:

(A) Changes in the work within the scope of the Contract; and

(B) Changes in the time of performance of the Contract that do not alter the scope of the Contract work.

d. Adjustments of price or time for performance. If any modification increases or decreases the CONTRACTOR'S cost of, or the time required for, performance of any part of the work under this Contract, an adjustment shall be made and this Contract modified in writing accordingly. Any adjustment in contract price made pursuant to this clause shall be determined, where applicable, in accordance with the price adjustment clause of this Contract or as negotiated.

e. Claim barred after final payment. No claim by the CONTRACTOR for an adjustment hereunder shall be allowed if written modification of the Contract is not made prior to final payment under this Contract.

f. Claims not barred. In the absence of a written contract modification, nothing in this clause shall be deemed to restrict the CONTRACTOR'S right to pursue a claim under this Contract or for a breach of contract.

g. Head of the purchasing agency approval. If this is a professional services contract awarded pursuant to section 103D-303 or 103D-304, HRS, any modification, alteration, amendment, change, or extension of any term, provision, or condition of this Contract which increases the amount payable to the CONTRACTOR by at least $25,000.00 and ten per cent (10%) or more of the initial contract price, must receive the prior approval of the head of the purchasing agency.

h. Tax clearance. The STATE may, at its discretion, require the CONTRACTOR to submit to the STATE, prior to the STATE'S approval of any modification, alteration, amendment, change, or extension of any term, provision, or condition of this Contract, a tax clearance from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of Treasury, showing that all delinquent taxes, if any, levied or accrued under state law and the Internal Revenue Code of 1986, as amended, against the CONTRACTOR have been paid.

i. Sole source contracts. Amendments to sole source contracts that would change the original scope of the Contract may only be made with the approval of the CPO. Annual renewal of a sole source contract for services should not be submitted as an amendment.

20. Change Order. The Agency procurement officer may, by a written order signed only by the STATE, at any time, and without notice to any surety, and subject to all appropriate adjustments, make changes within the general scope of this Contract in any one or more of the following:

(1) Drawings, designs, or specifications, if the goods or services to be furnished are to be specially provided to the STATE in accordance therewith;

(2) Method of delivery; or

(3) Place of delivery.

a. Adjustments of price or time for performance. If any change order increases or decreases the CONTRACTOR'S cost of, or the time required for, performance of any part of the work under this Contract, whether or not changed by the order, an adjustment shall be made and the Contract modified in writing accordingly. Any adjustment in the Contract price made pursuant to this provision shall be determined in accordance with the price adjustment provision of this Contract. Failure of the parties to agree to an adjustment shall not excuse the CONTRACTOR from proceeding with the Contract as changed, provided that the Agency procurement officer promptly and duly makes the provisional adjustments in payment or time for performance as may be reasonable. By proceeding with the work, the CONTRACTOR shall not be deemed to have prejudiced any claim for additional compensation, or any extension of time for completion.

b. Time period for claim. Within ten (10) days after receipt of a written change order under subparagraph 20a, unless the period is extended by the Agency procurement officer in writing, the CONTRACTOR shall respond with a claim for an adjustment. The requirement for a timely written response by CONTRACTOR cannot be waived and shall be a condition precedent to the assertion of a claim.

c. Claim barred after final payment. No claim by the CONTRACTOR for an adjustment hereunder shall be allowed if a written response is not given prior to final payment under this Contract.

d. Other claims not barred. In the absence of a change order, nothing in this paragraph 20 shall be deemed to restrict the CONTRACTOR'S right to pursue a claim under the Contract or for breach of contract.

21. Price Adjustment.

a. Price adjustment. Any adjustment in the contract price pursuant to a provision in this Contract shall be made in one or more of the following ways:

(1) By agreement on a fixed price adjustment before commencement of the pertinent performance or as soon thereafter as practicable;

(2) By unit prices specified in the Contract or subsequently agreed upon;

(3) By the costs attributable to the event or situation covered by the provision, plus appropriate profit or fee, all as specified in the Contract or subsequently agreed upon;

(4) In such other manner as the parties may mutually agree; or

(5) In the absence of agreement between the parties, by a unilateral determination by the Agency procurement officer of the costs attributable to the event or situation covered by the provision, plus appropriate profit or fee, all as computed by the Agency procurement officer in accordance with generally accepted accounting principles and applicable sections of chapters 3-123 and 3-126, HAR.

b. Submission of cost or pricing data. The CONTRACTOR shall provide cost or pricing data for any price adjustments subject to the provisions of chapter 3-122, HAR.

22. Variation in Quantity for Definite Quantity Contracts. Upon the agreement of the STATE and the CONTRACTOR, the quantity of goods or services, or both, if a definite quantity is specified in this Contract, may be increased by a maximum of ten per cent (10%); provided the unit prices will remain the same except for any price adjustments otherwise applicable; and the Agency procurement officer makes a written determination that such an increase will either be more economical than awarding another contract or that it would not be practical to award another contract.

23. Changes in Cost-Reimbursement Contract. If this Contract is a cost-reimbursement contract, the following provisions shall apply:

a. The Agency procurement officer may at any time by written order, and without notice to the sureties, if any, make changes within the general scope of the Contract in any one or more of the following:

(1) Description of performance (Attachment 1);

(2) Time of performance (i.e., hours of the day, days of the week, etc.);

(3) Place of performance of services;

(4) Drawings, designs, or specifications when the supplies to be furnished are to be specially manufactured for the STATE in accordance with the drawings, designs, or specifications;

(5) Method of shipment or packing of supplies; or

(6) Place of delivery.

b. If any change causes an increase or decrease in the estimated cost of, or the time required for performance of, any part of the performance under this Contract, whether or not changed by the order, or otherwise affects any other terms and conditions of this Contract, the Agency procurement officer shall make an equitable adjustment in the (1) estimated cost, delivery or completion schedule, or both; (2) amount of any fixed fee; and (3) other affected terms and shall modify the Contract accordingly.

c. The CONTRACTOR must assert the CONTRACTOR'S rights to an adjustment under this provision within thirty (30) days from the day of receipt of the written order. However, if the Agency procurement officer decides that the facts justify it, the Agency procurement officer may receive and act upon a proposal submitted before final payment under the Contract.

d. Failure to agree to any adjustment shall be a dispute under paragraph 11 of this Contract. However, nothing in this provision shall excuse the CONTRACTOR from proceeding with the Contract as changed.

e. Notwithstanding the terms and conditions of subparagraphs 23a and 23b, the estimated cost of this Contract and, if this Contract is incrementally funded, the funds allotted for the performance of this Contract, shall not be increased or considered to be increased except by specific written modification of the Contract indicating the new contract estimated cost and, if this contract is incrementally funded, the new amount allotted to the contract.

24. Confidentiality of Material.

a. All material given to or made available to the CONTRACTOR by virtue of this Contract, which is identified as proprietary or confidential information, will be safeguarded by the CONTRACTOR and shall not be disclosed to any individual or organization without the prior written approval of the STATE.

b. All information, data, or other material provided by the CONTRACTOR to the STATE shall be subject to the Uniform Information Practices Act, chapter 92F, HRS.

25. Publicity. The CONTRACTOR shall not refer to the STATE, or any office, agency, or officer thereof, or any state employee, including the HOPA, the CPO, the Agency procurement officer, or to the services or goods, or both, provided under this Contract, in any of the CONTRACTOR'S brochures, advertisements, or other publicity of the CONTRACTOR. All media contacts with the CONTRACTOR about the subject matter of this Contract shall be referred to the Agency procurement officer.

26. Ownership Rights and Copyright. The STATE shall have complete ownership of all material, both finished and unfinished, which is developed, prepared, assembled, or conceived by the CONTRACTOR pursuant to this Contract, and all such material shall be considered "works made for hire." All such material shall be delivered to the STATE upon expiration or termination of this Contract. The STATE, in its sole discretion, shall have the exclusive right to copyright any product, concept, or material developed, prepared, assembled, or conceived by the CONTRACTOR pursuant to this Contract.

27. Liens and Warranties. Goods provided under this Contract shall be provided free of all liens and provided together with all applicable warranties, or with the warranties described in the Contract documents, whichever are greater.

28. Audit of Books and Records of the CONTRACTOR. The STATE may, at reasonable times and places, audit the books and records of the CONTRACTOR, prospective contractor, subcontractor, or prospective subcontractor which are related to:

a. The cost or pricing data, and

b. A state contract, including subcontracts, other than a firm fixed-price contract.

29. Cost or Pricing Data. Cost or pricing data must be submitted to the Agency procurement officer and timely certified as accurate for contracts over $100,000 unless the contract is for a multiple-term or as otherwise specified by the Agency procurement officer. Unless otherwise required by the Agency procurement officer, cost or pricing data submission is not required for contracts awarded pursuant to competitive sealed bid procedures.

If certified cost or pricing data are subsequently found to have been inaccurate, incomplete, or noncurrent as of the date stated in the certificate, the STATE is entitled to an adjustment of the contract price, including profit or fee, to exclude any significant sum by which the price, including profit or fee, was increased because of the defective data. It is presumed that overstated cost or pricing data increased the contract price in the amount of the defect plus related overhead and profit or fee. Therefore, unless there is a clear indication that the defective data was not used or relied upon, the price will be reduced in such amount.

30. Audit of Cost or Pricing Data. When cost or pricing principles are applicable, the STATE may require an audit of cost or pricing data.

31. Records Retention.

(1) Upon any termination of this Contract or as otherwise required by applicable law, CONTRACTOR shall, pursuant to chapter 487R, HRS, destroy all copies (paper or electronic form) of personal information received from the STATE.

(2) The CONTRACTOR and any subcontractors shall maintain the files, books, and records that relate to the Contract, including any personal information created or received by the CONTRACTOR on behalf of the STATE, and any cost or pricing data, for at least three (3) years after the date of final payment under the Contract. The personal information shall continue to be confidential and shall only be disclosed as permitted or required by law. After the three (3) year, or longer retention period as required by law has ended, the files, books, and records that contain personal information shall be destroyed pursuant to chapter 487R, HRS or returned to the STATE at the request of the STATE.

32. Antitrust Claims. The STATE and the CONTRACTOR recognize that in actual economic practice, overcharges resulting from antitrust violations are in fact usually borne by the purchaser. Therefore, the CONTRACTOR hereby assigns to STATE any and all claims for overcharges as to goods and materials purchased in connection with this Contract, except as to overcharges which result from violations commencing after the price is established under this Contract and which are not passed on to the STATE under an escalation clause.

33. Patented Articles. The CONTRACTOR shall defend, indemnify, and hold harmless the STATE, and its officers, employees, and agents from and against all liability, loss, damage, cost, and expense, including all attorneys fees, and all claims, suits, and demands arising out of or resulting from any claims, demands, or actions by the patent holder for infringement or other improper or unauthorized use of any patented article, patented process, or patented appliance in connection with this Contract. The CONTRACTOR shall be solely responsible for correcting or curing to the satisfaction of the STATE any such infringement or improper or unauthorized use, including, without limitation: (a) furnishing at no cost to the STATE a substitute article, process, or appliance acceptable to the STATE, (b) paying royalties or other required payments to the patent holder, (c) obtaining proper authorizations or releases from the patent holder, and (d) furnishing such security to or making such arrangements with the patent holder as may be necessary to correct or cure any such infringement or improper or unauthorized use.

34. Governing Law. The validity of this Contract and any of its terms or provisions, as well as the rights and duties of the parties to this Contract, shall be governed by the laws of the State of Hawaii. Any action at law or in equity to enforce or interpret the provisions of this Contract shall be brought in a state court of competent jurisdiction in Honolulu, Hawaii.

35. Compliance with Laws. The CONTRACTOR shall comply with all federal, state, and county laws, ordinances, codes, rules, and regulations, as the same may be amended from time to time, that in any way affect the CONTRACTOR'S performance of this Contract.

36. Conflict Between General Conditions and Procurement Rules. In the event of a conflict between the General Conditions and the procurement rules, the procurement rules in effect on the date this Contract became effective shall control and are hereby incorporated by reference.

37. Entire Contract. This Contract sets forth all of the agreements, conditions, understandings, promises, warranties, and representations between the STATE and the CONTRACTOR relative to this Contract. This Contract supersedes all prior agreements, conditions, understandings, promises, warranties, and representations, which shall have no further force or effect. There are no agreements, conditions, understandings, promises, warranties, or representations, oral or written, express or implied, between the STATE and the CONTRACTOR other than as set forth or as referred to herein.

38. Severability. In the event that any provision of this Contract is declared invalid or unenforceable by a court, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining terms of this Contract.

39. Waiver. The failure of the STATE to insist upon the strict compliance with any term, provision, or condition of this Contract shall not constitute or be deemed to constitute a waiver or relinquishment of the STATE'S right to enforce the same in accordance with this Contract. The fact that the STATE specifically refers to one provision of the procurement rules or one section of the Hawaii Revised Statutes, and does not include other provisions or statutory sections in this Contract shall not constitute a waiver or relinquishment of the STATE'S rights or the CONTRACTOR'S obligations under the procurement rules or statutes.

40. Pollution Control. If during the performance of this Contract, the CONTRACTOR encounters a "release" or a "threatened release" of a reportable quantity of a "hazardous substance," "pollutant," or "contaminant" as those terms are defined in section 128D-1, HRS, the CONTRACTOR shall immediately notify the STATE and all other appropriate state, county, or federal agencies as required by law. The Contractor shall take all necessary actions, including stopping work, to avoid causing, contributing to, or making worse a release of a hazardous substance, pollutant, or contaminant, and shall promptly obey any orders the Environmental Protection Agency or the state Department of Health issues in response to the release. In the event there is an ensuing cease-work period, and the STATE determines that this Contract requires an adjustment of the time for performance, the Contract shall be modified in writing accordingly.

41. Campaign Contributions. The CONTRACTOR is hereby notified of the applicability of 11-355, HRS, which states that campaign contributions are prohibited from specified state or county government contractors during the terms of their contracts if the contractors are paid with funds appropriated by a legislative body.

42. Confidentiality of Personal Information.

a. Definitions.

"Personal information" means an individual's first name or first initial and last name in combination with any one or more of the following data elements, when either name or data elements are not encrypted:

(1) Social security number;

(2) Driver's license number or Hawaii identification card number; or

(3) Account number, credit or debit card number, access code, or password that would permit access to an individual's financial information.

Personal information does not include publicly available information that is lawfully made available to the general public from federal, state, or local government records.

"Technological safeguards" means the technology and the policy and procedures for use of the technology to protect and control access to personal information.

b. Confidentiality of Material.

(1) All material given to or made available to the CONTRACTOR by the STATE by virtue of this Contract which is identified as personal information, shall be safeguarded by the CONTRACTOR and shall not be disclosed without the prior written approval of the STATE.

(2) CONTRACTOR agrees not to retain, use, or disclose personal information for any purpose other than as permitted or required by this Contract.

(3) CONTRACTOR agrees to implement appropriate "technological safeguards" that are acceptable to the STATE to reduce the risk of unauthorized access to personal information.

(4) CONTRACTOR shall report to the STATE in a prompt and complete manner any security breaches involving personal information.

(5) CONTRACTOR agrees to mitigate, to the extent practicable, any harmful effect that is known to CONTRACTOR because of a use or disclosure of personal information by CONTRACTOR in violation of the requirements of this paragraph.

(6) CONTRACTOR shall complete and retain a log of all disclosures made of personal information received from the STATE, or personal information created or received by CONTRACTOR on behalf of the STATE.

c. Security Awareness Training and Confidentiality Agreements.

(1) CONTRACTOR certifies that all of its employees who will have access to the personal information have completed training on security awareness topics relating to protecting personal information.

(2) CONTRACTOR certifies that confidentiality agreements have been signed by all of its employees who will have access to the personal information acknowledging that:

(A) The personal information collected, used, or maintained by the CONTRACTOR will be treated as confidential;

(B) Access to the personal information will be allowed only as necessary to perform the Contract; and

(C) Use of the personal information will be restricted to uses consistent with the services subject to this Contract.

d. Termination for Cause. In addition to any other remedies provided for by this Contract, if the STATE learns of a material breach by CONTRACTOR of this paragraph by CONTRACTOR, the STATE may at its sole discretion:

(1) Provide an opportunity for the CONTRACTOR to cure the breach or end the violation; or

(2) Immediately terminate this Contract.

In either instance, the CONTRACTOR and the STATE shall follow chapter 487N, HRS, with respect to notification of a security breach of personal information.

e. Records Retention.

(1) Upon any termination of this Contract or as otherwise required by applicable law, CONTRACTOR shall, pursuant to chapter 487R, HRS, destroy all copies (paper or electronic form) of personal information received from the STATE.

(2) The CONTRACTOR and any subcontractors shall maintain the files, books, and records that relate to the Contract, including any personal information created or received by the CONTRACTOR on behalf of the STATE, and any cost or pricing data, for at least three (3) years after the date of final payment under the Contract. The personal information shall continue to be confidential and shall only be disclosed as permitted or required by law. After the three (3) year, or longer retention period as required by law has ended, the files, books, and records that contain personal information shall be destroyed pursuant to chapter 487R, HRS or returned to the STATE at the request of the STATE.

STATE OF HAWAII
STATE PROCUREMENT OFFICE

CERTIFICATE OF VENDOR COMPLIANCE

This document presents the compliance status of the vendor identified below on the issue date with respect to certificates required from the Hawaii Department of Taxation (DOTAX), the Internal Revenue Service, the Hawaii Department of Labor and Industrial Relations (DLIR), and the Hawaii Department of Commerce and Consumer Affairs

Vendor Name: **PFM GROUP CONSULTING LLC**

Issue Date: **01/23/2017**

Status: **Compliant**

Hawaii Tax#:	
New Hawaii Tax#:	
FEIN/SSN#:	XX-XXX2478
UI#:	No record
DCCA FILE#:	163248

Status of Compliance for this Vendor on issue date:

Form	Department(s)	Status
A-6	Hawaii Department of Taxation	Compliant
	Internal Revenue Service	Compliant
COGS	Hawaii Department of Commerce & Consumer Affairs	Compliant
LIR27	Hawaii Department of Labor & Industrial Relations	Compliant

Status Legend:

Status	Description
Exempt	The entity is exempt from this requirement
Compliant	The entity is compliant with this requirement or the entity is in agreement with agency and actively working towards
Pending	The entity is compliant with DLIR requirement
Submitted	The entity has applied for the certificate but it is awaiting approval
Not Compliant	The entity is not in compliance with the requirement and should contact the issuing agency for more information