Looming Budget Rebound: Strategically Sourcing for the Future

By Scott J. Cameron, IPMA-CP

Many state and local government human resources managers have been preoccupied with avoiding or managing layoffs over the last few years in light of the budget pressures of the Great Recession. There is now reason to believe that the source of this pain—lower tax revenues—may finally be turning around. The turnaround is not uniform, however.

Good News in State Capitals

Recent reports suggest that state government tax revenues are finally on the rise, while local government revenues are predicted to continue to fall in 2012. Why the difference? While there certainly are regional variations in these patterns, we are probably witnessing the disparate fiscal impacts of economic growth and the housing market. State governments tend to rely relatively heavily on sales and income taxes for their revenues, which closely follow changes in the level of economic activity. Heightened economic activity should therefore drive up state revenues pretty quickly. Confirming that, the Washington-based Center on Budget and Policy Priorities reports that at least 20 states have reported tax collections ahead of projections made during the budget formulation process last spring. My home state, Virginia, basked in a $545 million budget surplus in the last fiscal year, and neighboring Maryland and West Virginia enjoyed surpluses as well. This year should continue the upbeat trend, with hopefully even more states enjoying surplus conditions.

Continued Stress in City Halls and County Seats

Local governments, on the other hand, are still facing shortfalls, as they typically rely more on property taxes. Property taxes in turn are dependent on the real estate market, and local governments are therefore more dependent on a resurgence of the commercial real estate and housing markets for their revenues to rise. Resurgence is lagging in many parts of the country due in part to the continuing inventory of foreclosures.

Lenders are still eager to unload foreclosed properties, and they therefore are injecting an artificially large supply of housing and commercial properties into the market, independent of normal consumer- or business-driven activity. As a result, the real estate market in many areas may be slow to recover until the foreclosed properties are out of the system.

Many foreclosed properties have now been resold, and new foreclosures are dramatically down compared to the pace in January 2011. However, there still are enough foreclosed properties on the market to keep housing prices down. In February 2012, a legal settlement was reached between 49 states and the nation's five biggest lenders. It will unfreeze a lot of foreclosure activity that had been held in abeyance during the period of the litigation about lending practices. As a result, property values and assessments will only very slowly recover, restraining growth in local government revenues for quite some time to come. The bottom line is that toward the end of calendar year 2011, the National League of Cities projected that general city revenues would be down an average of 2.3 precent in 2011, with 2012 likely to bring further declines. Hopefully, by the time 2013 rolls around, the situation will be rosier for local governments. The remaining foreclosure bulge will have largely worked its way through the system, local tax revenues will begin to rise, and state governments, in far less tenuous financial situations themselves, will begin boosting aid to local governments.

Thinking Ahead

So what are state and local agency human resources directors to do as budgets begin to improve? How should they handle the possibility of budget increases that might allow for increasing the size of their agency or payroll? Take a strategic approach that applies the lessons learned of the last few years.

- **Don't prepare to fight the last war.**

Resist the temptation to rebuild the workforce of the past. Hopefully you took a strategic approach to downsizing over the last few years, working to retain those individuals who would have the greatest positive impact on your agency's future, while gently but quite deliberately helping out the door folks whose skill sets would be relatively less in demand.

Now is the time to build on the sound, if tough, decisions you have already made. Spend time with your agency head to make sure you understand the strategic direction of the agency over the next few years. You want to hire people with the right knowledge, skills, abilities and competencies to accomplish the future vision of your agency, not what your agency used to do. Think hard before hiring full-time permanent employees. Are there situations in which part-time or temporary employees would satisfy the mission need instead? If so, using those types of appointments will both get you more flexibility in staffing, and stretch your budget.

Consult with the agency chief information officer to ensure you understand what your organization's IT environment is likely to look like in the future. Technology is changing ever more rapidly, and offering amazing capabilities to those who know how to take advantage of them. You will therefore want to help hire people who can master and effectively leverage your evolving IT environment, as well as provide the desired programmatic expertise. But don't forget your top-notch talent that is already on board but may lack the cutting-edge technology skills. Carefully establish targeted training programs so that your old and very valuable hands can acquire skill with those emerging IT capabilities that will create real value for the agency mission.

Bear in mind that agency employees are not the only way to accomplish your mission. Have a heart-to-heart conversation with your budget and procurement directors and senior program managers so you can collectively plan for which functions would best be performed by contractors as opposed to employees.

- **Create partnerships with other governments leverage each other's resources and improve coordination.**

Sharing has become something of a necessity for many local governments during the recession. Indeed, in October 2011, the National Association of Counties reported that 49 percent of counties had negotiated contracts with city governments to perform a variety of services, most frequently law enforcement. Leveraging each other's resources should not just be a budget strategy. Instead, think of how sharing capabilities, infrastructure and people could create programmatic synergies as well as cost-savings. Specialized knowledge may be easily shared across neighboring jurisdictions, acquired by one but available to all.

Similarly, technology may be easily scalable to allow fuller use of capabilities. Sharing technology or simply arranging a collective purchase at a volume discount could save the cost-sharing partners substantial sums compared to the cost of each going it alone. For instance, why create and staff multiple data centers or Geographic Information System (GIS) offices, each operating dramatically below capacity, when one entity could, on a reimbursable basis, host a single regional data center or GIS capability to benefit all jurisdictions in the region?

Physical infrastructure like maintenance or repair yard capability, or even office space, may also be shared. Sharing facilities will reduce the average cost of service delivery by spreading fixed costs across more governmental customers. There may also be real advantages to citizen service from improved intergovernmental cooperation. There are very few governmental missions that are exclusively owned by one level of government. More often than not, there are federal, state and local government agencies with complementary roles in a particular mission area, whether it is law enforcement, healthcare or environmental protection. By having county, city and even federal government employees with similar missions physically located near one another, the citizen customer can enjoy one-stop shopping. The government employees also capture the benefits of easier information sharing and stronger professional relationships, both of which ultimately benefit the citizen.

- **Consider hiring a veteran.**

Be aware of the advantages of hiring veterans who will increasingly be returning to the civilian labor force after tours of duty in Iraq and Afghanistan. Even more veterans whose postings may have been outside the war zone will be affected by the upcoming general downsizing of the Department of Defense (DOD). DOD invests a great deal in training the military workforce, and most of the veterans are trained in technical skills unrelated to combat. You can find veterans who are IT experts, lawyers, doctors, personnel specialists, logistical experts, law enforcement officers, and who have training in dozens of other fields that may be of interest to your agency. These people typically come out of the service with a demonstrated commitment to public service, a proven ability to work under stress and in a rapidly changing environment, and a strong team orientation. Aren't those skills applicable to the normal work of your agency?

- **Seek out skilled labor from retirees.**

Many people left their private or public sector employers with early retirement packages during the Great Recession. Others may have retired at their normal age of eligibility, but thanks to modern healthcare practices, they are in far better shape mentally and physically than their counterparts from earlier generations. They soon discover that golf and bridge tournaments bore them much sooner than many might have predicted. Even being with the grandchildren loses some of its attraction after a few consecutive days of changing diapers or hearing Miley Cyrus music blaring from the granddaughter's iPod docking station.

In summary, there is reason to believe that non-federal government budgets, especially state government budgets, are finally about to experience some modest growth. You need to plan now to strategically position your agency to get the most value from any available extra funding. Be sure you are not simply trying to recreate the workforce of the past. Employees, contractors and volunteers may all make a contribution to solving your mission needs. And don't forget to look for ways for your agency to benefit from the many skills and demonstrated dedication of America's veterans.

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