

EXECUTIVE SUMMARY

Municipalities Challenged to Manage Budgets and Overtime

Sponsored by: Kronos Incorporated

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INTRODUCTION

Across many North American municipalities, tax bases have not fully recovered and expenditures continue to grow at a higher pace than revenues, leaving extremely tight operating budgets. In fact, new IDC research reveals many municipalities (cities with over 100,000 in population and counties with over 500,000 in population) on average are exceeding their operating budgets by nearly 8% or an average of \$150 million. Compounding these issues, municipal governments are faced with replacing an average of 3.6% of their total operating budgets or an average of \$72 million due to reductions in federal, state, or other external funding. To resolve these shortfalls, municipalities are turning to staff reduction and eliminating services and programs.

Because labor is the single largest controllable expense (comprises over 40% of an average municipality's budget), it is critical that the municipalities manage labor effectively to ensure they stay within their operating budgets. For municipalities to increase control, they should look for proactive ways to manage labor productivity and efficiency, including overtime. Yet, managers often lack the tools they need to properly control worker hours and overtime budgets.

To identify ways in which municipalities can effectively manage their budgets and control employee overtime, IDC conducted a survey of 100 North American municipalities including some of the largest cities and counties in the United States and Canada.

RESEARCH FINDINGS

Shortfalls in Operating Budget Pose Ongoing Challenges

Municipalities are using a number of strategies to compensate for reductions in external funding, from reducing staffing to raising taxes. As Figure 1 shows, the survey revealed:

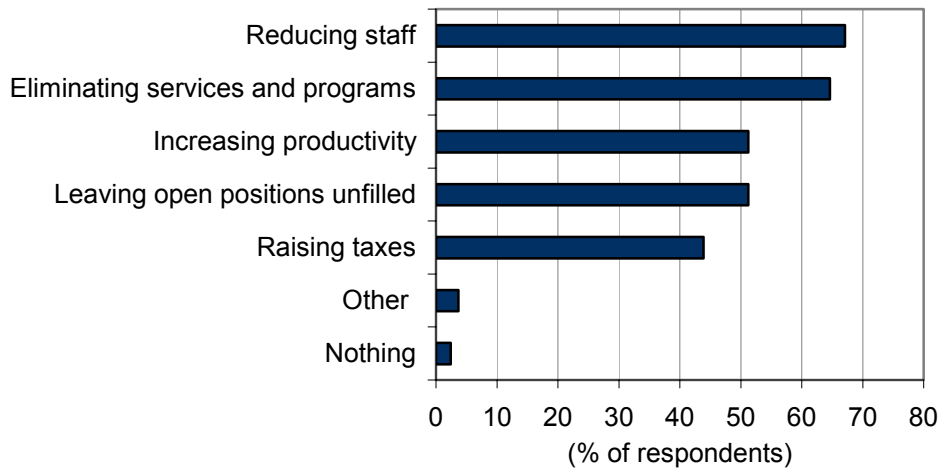
- 67% of the respondents are reducing staffing levels. Such actions can lead to a demoralized staff and deliver highly public economic consequences to a municipality. For example, a widespread layoff, especially of police and fire employees, could negatively impact the tax base of a community.

- ☒ 65% of the respondents are eliminating programs and services. This tactic can lead to increased community dissatisfaction and increased public scrutiny.
- ☒ 51% of the respondents are leaving open positions unfilled. While hiring freezes ensure that expenses do not increase, such actions can lead to overworked staffs.

FIGURE 1

Strategies for Addressing Budget Shortfalls

Q. *What is your municipality doing to compensate for reductions in federal, state, and/or other external funding? (Select all that apply.)*



Source: IDC, 2006

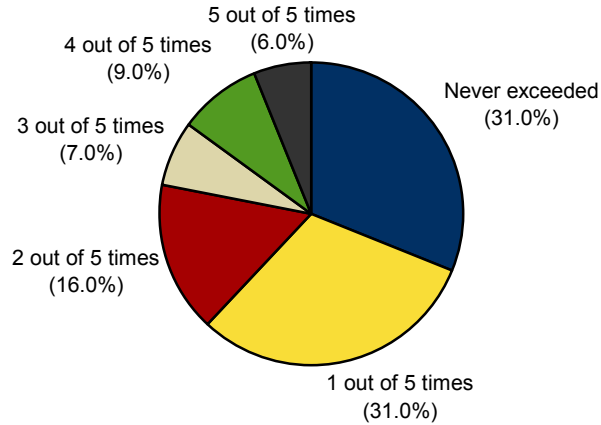
Interestingly, 51% of the respondents indicated increasing productivity as a way to compensate for reductions in external funding. IDC believes that by focusing on productivity improvements, municipalities can increase employee morale and reduce public scrutiny. One way to increase productivity is by establishing ways to better track how workers are spending their time and adjusting responsibilities and workloads accordingly.

Even Legal Mandates Don't Always Work

Nearly two-thirds of the participating municipalities reported having legal mandates for balanced budgets. Exceeding operating budget levels is a serious and ongoing problem for municipalities. Yet, as Figure 2 reveals, only 31% of the respondents have never exceeded their operating budgets in the past five years. This finding means that 69% of all the municipalities surveyed have exceeded their budgets at least once! In fact, nearly 10% of the cities surveyed have even exceeded their budgets every year for the past five years. Often these municipalities don't realize they have exceeded their operating budgets until weeks after the fact, or even at the end of a fiscal quarter.

FIGURE 2

Number of Times Municipalities Have Exceeded Their Operating Budgets in the Past Five Years



Source: IDC, 2006

The survey also revealed that approximately 90% of those municipalities that *are not* legally mandated to have balanced budgets exceeded their budgets at least once in the past five years. Of those that *are* mandated by law to have balanced budgets, nearly 70% exceeded their budgets anyway. Undoubtedly, the desire for controlling all types of spending is strong, yet tracking and enforcement of the spending are lacking.

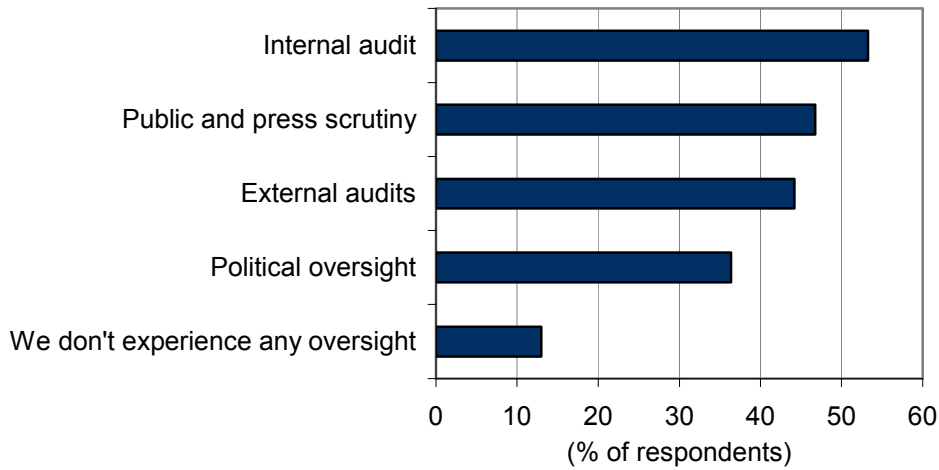
Exceeding Overtime Budgets Is a Major Contributor to Budget Deficits

Municipalities are struggling to manage their labor costs, the single largest contributor to a municipality's operating budget. In fact, over 80% of the respondents have exceeded their overtime budgets. The average for those who have exceeded is a staggering 20% beyond set overtime spending levels. This problem is not unique to smaller towns and counties. Approximately 25% of the participants in our survey were from cities of over 1 million residents, and they experienced the same difficulties in controlling labor spending and overtime costs.

Clearly, the procedures these local governments are using to control overtime are not working effectively. With increased citizen pressure for governments to reduce costs, account for all spending, and reduce redundancies, there is a growing need for local governments to better track and control labor spending. This theme is evident from the two main reasons mentioned for wanting to rein in overtime spending: concern over internal audits and the peril of press scrutiny (see Figure 3). Some of the participants were concerned about high-profile media coverage resulting from their municipalities' inability to stay within budgets.

FIGURE 3

Oversight Faced from Exceeding Overtime Budgets



n = 77

Source: IDC, 2006

Municipalities Adopting Best Practices from the Private Sector

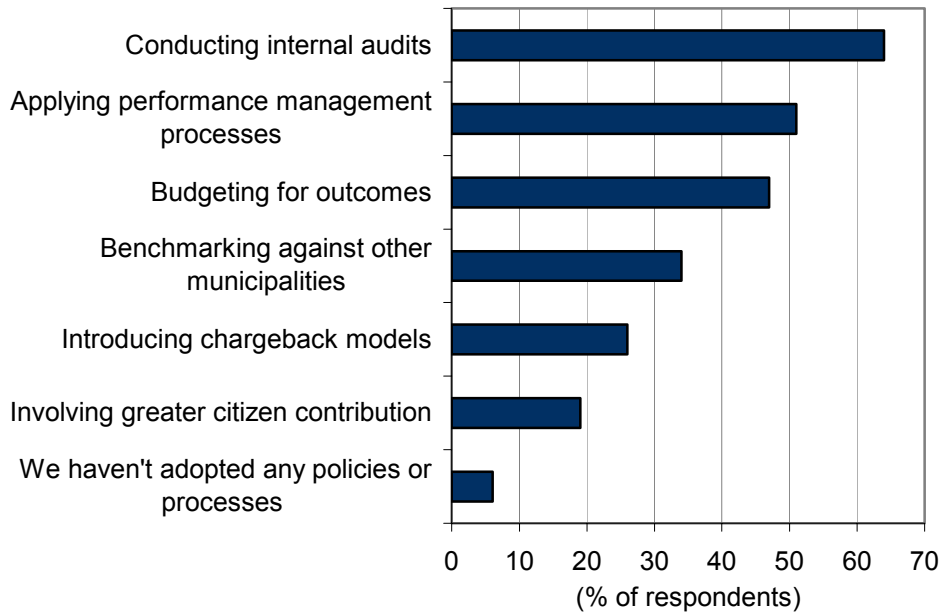
Municipalities across North America are adopting the best practices of the private sector, especially in the areas of management, finance, and operations. As Figure 4 reveals, respondents are utilizing several policies and procedures of the private sector to reduce budget shortfalls and increase efficiencies:

- ☒ 64% are conducting internal audits. Such practices help identify how and why municipalities are exceeding operating budgets.
- ☒ 51% are applying performance management processes. Such practices can help management plan ahead for maximum efficiency and in turn help make better workforce-related decisions.
- ☒ 47% are budgeting for outcomes. Such practices define the outcomes or results up front, along with indicators to measure progress.

FIGURE 4

Adoption of Policies and Processes to Run More Like a Business

Q. *What policies or processes has your municipality adopted to run more like a business?*
(Select all that apply.)



Source: IDC, 2006

Many of these policies and procedures can best be implemented through technology solutions that automate key business processes like time and attendance.

Automated Time and Attendance Solutions Can Increase Visibility to Budget and Overtime Issues

When asked why their municipalities exceeded their overtime budgets, 50% of respondents cited the inability to proactively manage overtime and lack of current visibility into overtime as two key reasons for this overtime shortfall. With 50% of the respondents still using paper time cards, this response is not surprising.

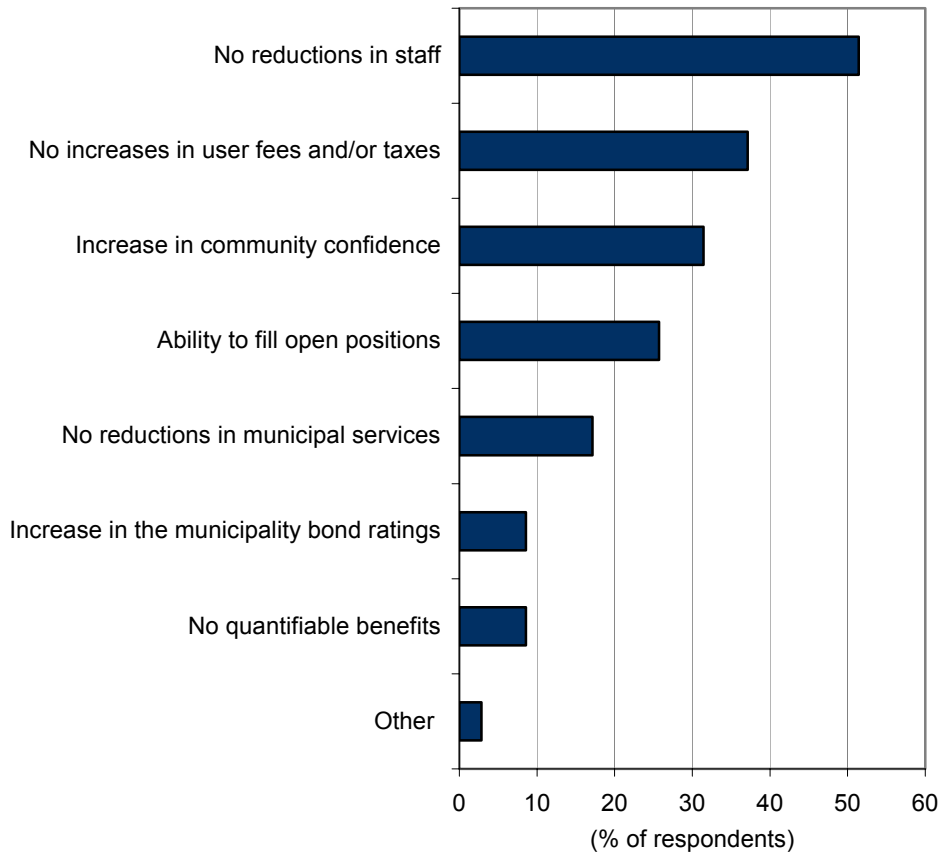
IDC also gauged the interest among those municipalities not currently using a third-party automated system solution if such a solution would contribute to their own efforts of managing budgets and controlling overtime. Nearly 45% of those respondents believe such a solution can help manage their budgets and control overtime, especially with the ability to view individual workers to see who has and has not reached overtime levels. As Figure 5 reveals, these respondents also understand the tangible benefits such a solution can deliver:

- 51% of the respondents stated that such a solution would help them be more productive and lessen their need to reduce staff.
- 37% of the municipalities stated that such a solution would allow for no increases in user fees and or taxes.
- 31% of the respondents stated that having a fully automated tool for workforce management would help improve community confidence that tax dollars are being targeted and spent appropriately.

FIGURE 5

Anticipated Benefits from Third-Party Automated Time and Attendance System

Q. *What benefits would your municipality receive from managing your budgets and controlling overtime with a third-party automated time and attendance solution? (Select all that apply.)*



n = 35

Source: IDC, 2006

Municipalities that are using an automated time and attendance solution are reaping numerous benefits. The survey revealed:

- ☒ 64% stated that the solution had increased their visibility into managing employees.
- ☒ 64% stated that the solution had greatly decreased payroll errors.
- ☒ 55% stated that the solution had enabled them to proactively manage overtime.

These responses indicate that proper visibility into labor costs and overtime budgets not only nips problems before they become too large but also allows municipalities to channel their spending in more proactive ways. These points are important at a time when governments are being asked to do more with less. Maintaining existing staffing levels allows local governments to meet the demands of their constituencies. Tracking how employees spend their time, and when they have exceeded their allotted overtime, helps balance productivity with cost controls.

RECOMMENDATIONS

Increasingly, local municipalities are under pressure to pinpoint and fix the major budgetary problems they are facing. Labor spending and runaway overtime spending are clearly major problems, and municipalities are looking for solutions.

Based on the research findings, IDC recommends that local municipalities:

1. Uncover the extent of overtime problems and other issues related to how and where employees spend their time. In many cases, this is best done by implementing automated solutions that track employees' hours and generate real-time reports that enable greater visibility, establish accountability, and facilitate control to manage budgets and overtime.
2. Determine how local government workforce can be leveraged and made more productive rather than resorting to staffing cuts or tax increases to address shortfalls. Do some employees consistently earn overtime pay while others fall short of required hours? Is labor spending tied directly to specific budget line items, and can these expenditures be tracked back? A detailed view of labor spending (and hours spent) can be a powerful management tool.

Once real standard staffing and overtime expenses are understood, more detailed labor costs can be forecast for future budgets. This strategy will help eliminate surprises and make government supervisors not only more accountable but also more reliable in the years ahead.

METHODOLOGY

In February and March 2006, IDC conducted a survey of 63 city and 37 county governments across North America. There were 93 respondents from the United States, and seven respondents were from Canada. Kronos Incorporated sponsored this research effort. Respondents, who were all financial executives, were screened and qualified based on decision-making and budget authority within their municipalities. These municipalities surveyed had an average population of 1.1 million, average operating budget of \$2.2 billion, and average employment of 10,962. The data was collected through a programmed questionnaire administered over the Web in the United States and Canada.

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