Human Resource Management Lessons from Past Fiscal Crises

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The costs for human resources (also known as personnel or human capital) represent the largest single share of local government budgets. Therefore, to meet budget reduction needs, reducing human resources costs must be a part of the strategy. Local governments have several options available to cut human resources costs, including hiring freezes, pay freezes or reductions, reduced work hours with a corresponding loss of pay, lay-offs, use of volunteers, and incentives for early retirement. The availability and means of implementation of each of these approaches vary with the local government's context such as state law, local human resources policy, and collective bargaining contracts if they exist. Of course, all options also must comply with federal policies such as equal employment opportunity, nondiscrimination, and labor policy. The approaches are discussed in the order usually pursued by employers starting with the quickest to achieve savings with the least negative impact on employees.

Typically, local governments first institute hiring freezes to deal with budget reductions. Savings result from not filling vacant positions and the attrition as employees leave. Hiring freezes are popular because they are relatively easy to implement and no employees are forced to leave their jobs. In the short run, employee morale is maintained. Hiring freezes can be implemented for all positions or with specific exceptions. If some positions are excepted, it is important to explain the reasons for the exceptions based on achieving the organization's mission and maintaining services.

The downside of hiring freezes is that it is impossible to predict what positions will become vacant. Additionally, some units have high while others have low turnover resulting in an imbalance in staffing. If the organization loses employees critical to its mission, not replacing them can lead to problems in providing essential services. There also are many local government functions that require employees with specific licenses or certifications to perform duties. If such employees leave, the local government could be out of compliance with national and state regulations. Therefore, hiring freezes need to be instituted with careful consideration of what exceptions are necessary.

Pay freezes also help save money until the budget situation changes. Across-the-board pay freezes are easily implemented and generally are perceived as fair by employees. With pay freezes, employers face the possibility that their highly talented or specially skilled employees will be recruited by other employers necessitating a process for considering and making exceptions.

Some local governments use pay reductions to meet budget cuts. For pay reductions to work, they need to affect all employees to avoid morale problems. Another strategy for reducing payroll costs is to reduce the number of hours employees work with a corresponding smaller paycheck. Thus, some local governments reduce the work week to 35 hours thus saving five hours of direct pay per employee. Others use the four day work week saving associated costs such as on energy for maintaining lighting, heating, and air conditioning of buildings for one fewer day a week.

Lay-offs provide yet another strategy for saving money on human resources. As with hiring freezes, it is important for the local government to plan the lay-offs carefully to maintain the mission of the jurisdiction. To protect morale, it is important to explain the lay-off policy and the rationale for it. Often lay-offs follow or are combined with hiring freezes when hiring freezes alone do not achieve the desired savings. The City of Phoenix, for example, started with hiring freezes and then had to move to lay-offs when more cost cutting became necessary. As part of its strategy, the city evaluated the criticality of positions and eliminated some (both filled and vacant) as part of its cost cutting resulting in incumbents of those positions being eligible to move to other retained positions or bumping other employees.

Lay-offs may be spread across the organization or may be targeted. Requiring all parts of the organization to meet a quota for lay-offs may appear to be fair and may be more readily accepted by employees than targeted lay-offs. However, some units within the organization may provide more critical services than others and across-the-board lay-offs do not consider that fact. Similarly, seniority does not protect the best performers or those most needed to provide important services. Local government policy or labor contracts also often spell out bumping rights for employees meaning that an employee can take the position of someone with less seniority if he/she meets the qualifications for the position. Policy also may allow individuals to move to vacant positions if those positions are not frozen.

Lay-off strategies also must consider employee benefit costs. Some benefits must be continued for various periods of time after lay-off and employees may be eligible for unemployment compensation which leads to some cost for the employer.

Strategic employers sometimes use budget cuts to reinvent or reengineer their organizations. By focusing on how they can better accomplish their missions, they can reorganize or eliminate units and positions. Such an approach normally takes more time than most of the other strategies, but it can better position the organization to function effectively. Often, employers where collective bargaining exists also use budget cutting needs to put pressure on labor representatives in negotiating changes in contracts. Sometimes the changes relate directly to pay and benefits; often they relate to the criteria for lay-offs, bumping rights, or other personnel actions. Clearly, employee organizations have less public support for costly contract provisions during times of economic stress.

Many employers offer retirement incentives to employees as well as a means of reducing human resources costs. Those employees eligible for retirement usually are the most senior and typically among the higher paid. Local governments can offer incentives for retirement and save money in the long run. The short term benefit is that the employee is no longer on the payroll as retirement income comes from a separate fund that already has been paid into on the employee's behalf. New, lower paid employees can be hired in the retiree's place thus saving money. Of course, if the incentive involves a monetary inducement up front, the employer has to put money into the plan up front to save money later. Long term cost savings may accrue from redesigning the position or reorganizing the work and unit.

Local governments increasingly use contract employees for seasonal jobs or in areas where the need for employees is elastic. For example, when home building drops, fewer plan and building inspectors are needed. When the need for them rises, local governments can quickly hire contract employees. The local government is not committed to long term employees with the attendant benefit costs that often add as much as 35% beyond the direct salary or wage.

With whatever strategy is used to reduce human resources costs, the process must be developed with care based on criteria that support the local government's ability to achieve its mission. The employer must also clearly explain the decision, the process, and the rationale for the policy. Transparency is essential to maintaining positive morale among the employees. Finally,the policy and process must be free of discriminatory impact.