

Public Contracting in the Time of Coronavirus

Lessons Learned From 2008 Great Recession

By Nicole Smith, President of NS Research Solutions

The coronavirus epidemic has brought public life to a halt in most of the United States. It's easy to see echoes of the 2008 Great Recession in today's climate of quarantines and business closings as state and local governments face significant losses of revenue and an increased demand for services. However, many governments in 2020 are spending less (adjusting for inflation) and employing fewer people than they were when the Great Recession began 13 years ago, which will complicate their ability to respond to the epidemic.

Cooperative purchasing contracts can expedite the ability of governments to source critical supplier solutions. In addition, cooperative purchasing contracts are competitively awarded, allowing state and local governments to maintain established best practices in public procurement and providing confidence that the suppliers have been properly vetted. This will prove invaluable in the aftermath of the emergency, when public spending is often scrutinized and second-guessed.

The Continued Impact of the Great Recession

State and local government spending cuts were draconian during the Great Recession and spending levels have not yet fully recovered today. For example, despite overall population increases, almost half of U.S. states (23) spent less (adjusted for inflation) in FY 2018 than they did in 2008.¹

State and local governments aren't just spending less on goods and services – government workforces were also decimated during the Great Recession. While federal stimulus from the 2008 American Recovery and Reinvestment Act (ARRA) bolstered state's budget gaps by 24% between 2008-2012, over 610,000 state and local government jobs were eliminated in the same period. Many of those job losses were never recovered -- in 2018, state governments employed 4.7% fewer people (more than 132,000 jobs) than they did in 2008.²

Government revenues have taken a hit in the dozen years since the Great Recession began. It took five years from the start of the Great Recession for state tax revenues to recover – it wasn't until FY 2013 that aggregate state tax collections rose again to FY 2008 levels. As of 2018, nine states still hadn't recovered to collecting as much (adjusted for inflation) as they had been prior to the 2007-2009 economic downturn. In addition, between FY 2008 and FY 2012, state governments collected almost \$500 billion less in revenue than they would have if revenues had stayed at 2007 levels.

It's not just state governments feeling the pinch of reduced revenues either. Adjusting for inflation, total state aid to localities at the end of FY 2016 was still almost 1% lower than pre-Great Recession

¹ CAMPBELL, ANDREA LOUISE, and MICHAEL W. SANCES. "State Fiscal Policy during the Great Recession: Budgetary Impacts and Policy Responses." *The Annals of the American Academy of Political and Social Science*, vol. 650, 2013, pp. 256. JSTOR, www.jstor.org/stable/24541685. Accessed 14 Mar. 2020.

² CAMPBELL, ANDREA LOUISE, and MICHAEL W. SANCES. "State Fiscal Policy during the Great Recession: Budgetary Impacts and Policy Responses." *The Annals of the American Academy of Political and Social Science*, vol. 650, 2013, pp. 256. JSTOR, www.jstor.org/stable/24541685. Accessed 14 Mar. 2020.

levels. In addition, over half of states (26) paid local governments less aid in FY 2016 than in FY 2008, while 12 states are providing more than 10% less local aid (adjusting for inflation). This is important because state aid is the second-largest source of revenue for local governments, after their own tax revenues.³

What Suppliers Can Do

So, what does this mean? The pressure on state and local governments right now is intense. Revenues are guaranteed to dip drastically as sales and income tax collections crater. Budgets and staffs that were slashed in the Great Recession still haven't recovered, leaving very little for government leaders to carve out of existing expenditures or personnel. The need for additional government services (e.g. Medicaid, unemployment insurance, etc.) is already increasing rapidly. Suppliers must be able to address state and local governments' priorities as they respond to the coronavirus epidemic in these circumstances. Those priorities include:

1. **Cost Savings** – Can suppliers provide a cost-effective solution to solve a problem that state and local governments are facing? Can suppliers offer discounts to existing government customers if the need for those goods or services increases? If the government is an existing customer – can suppliers provide alternative contract options such as cooperative purchasing solutions that offer potentially better pricing or other terms?
2. **Need for Increased Efficiencies** – State and local governments are being asked to do more things faster and with fewer staff. Can suppliers provide a solution that will help governments provide essential services with fewer staff? Are there more efficient ways for the government to use suppliers' solutions? Can suppliers help governments reduce their consumption or use of a good or service?
3. **Increased Demand for Services** – State and local governments overwhelmingly finance education, social services, and infrastructure in the United States. With the nation facing potentially 9-10% unemployment, the need for these services is going to increase dramatically. While there may be some relief offered by federal stimulus, the bulk of the burden of providing this assistance is going to fall to state and local governments. Can suppliers' solutions make this mission easier for the departments tasked with administering and delivering this increase in services?
4. **Emergency Procurements** – Every state and most local governments have developed an emergency plan prior to the coronavirus epidemic, and many have already activated their Emergency Operations Centers (EOCs). Those plans include policies and procedures designed to allow procurement staff to quickly source solutions to meet government and constituent needs. Most government procurement agencies have pre-established contracts for common needs during emergency situations (e.g. debris removal, tent rental, food and water). In addition, during times of national emergency, most states have the statutory authority to use U.S. General Services Administration (GSA) contracts.

GSA and other cooperative purchasing contracts can be invaluable as a source of emergency procurement for state and local governments. In addition, state and local governments can

³ “‘Lost Decade’ Casts a Post-Recession Shadow on State Finances”. June 4, 2019. The Pew Charitable Trusts. <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/06/lost-decade-casts-a-post-recession-shadow-on-state-finances>

implement cooperative contracts quickly, with the confidence that they were competitively awarded and will therefore withstand the scrutiny of public contracting that inevitably follows the resolution of an emergency.

Federal stimulus aid is undoubtedly coming, but how much, for whom, how it will be administered, and what regulations/guidance will govern the spending of that aid have yet to be determined as of the writing of this column. For now, it is mostly state and local governments that are responding to the epidemic on behalf of their constituents. Suppliers with cooperative contracts are uniquely positioned to provide quick solutions to governments that are just beginning to feel the effects of the coronavirus epidemic.

*Nicole Smith was Issues Coordinator at the National Association of State Procurement Officials (NASPO) in 2008 during the implementation of the American Recovery and Reinvestment Act (ARRA). Under her guidance, NASPO helped the U.S. Office of Management and Budget (OMB) and Government Accountability Office (GAO) develop the requirements and guidelines for state and local governments when using funds distributed by the ARRA. In addition to drafting written and delivered Congressional testimony, she developed an online ARRA resource for state CPOs and assisted many state procurement offices in the development of their own online resources. **NS Research Solutions** offers a variety of public procurement research services to businesses wishing to build or improve their government contracting practices and strategies. Reach Nicole Smith at nicole@nsresearchsolutions.com*