SPECIAL FEATURE! The Convergence of Local Government SaaS Spending and Budgetary Constraints: Actionable Strategies for the Road Ahead

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In the current fiscal climate, local governments are grappling with a pressing challenge: managing escalating Software as a Service (SaaS) expenditures against a backdrop of tightening budgets. Two pivotal trends are shaping this landscape: a dramatic and forecasted uptick in SaaS spending, coupled with local governments bracing for tighter budgets due to economic downturns, unfunded mandates, and rising labor costs. California's projected $68 billion shortfall is a stark example, underscoring the urgency for all local governments to act decisively.

SaaS growth is surging beyond the 20% enterprise increase predicted by Gartner for 2023, with Productiv's data indicating even greater expansion. This surge is partly due to local agencies transitioning major business applications—such as Enterprise Resource Planning (ERP), Permitting, and Case Management—to the cloud, which inherently shifts a significant portion of IT spending to SaaS. Although adopting a "cloud-first" strategy amplifies SaaS expenditure, it's not the sole contributor to the growing financial burden.

The original promise of SaaS included cost reductions through minimizing on-premise data center and staffing expenses. However, the industry's evolution into a subscription-based model has occasionally resulted in higher overall ownership costs. Despite this, many GovTech SaaS offerings assert their value by driving continuous innovation, bolstered support, enhanced functionality and security, and other attributes. Nevertheless, when the dust settles, some SaaS solutions incur greater costs than their on-premise predecessors.

This trend has fundamentally altered how organizations approach their IT budgets. The bygone era of one-time capital expenses with modest annual support costs has given way to perpetual operating expenses, encapsulating software, licensing, hardware, and support costs into a single recurring SaaS fee. For example, an organization might be committed to a $1 million annual fee, which curtails financial agility and constrains the ability to defer or shift investments in times of fiscal strain.

The phenomenon of Cloud Sprawl compounds the issue. The marketplace is inundated with innovative GovTech solutions designed to tackle specific government business process challenges, with annual costs ranging from $5,000 to $50,000+. These solutions, while bolstering productivity and citizen services, accrue expenses quickly when adopted at scale.

An increase in the IT spend per employee is a telling metric of this trend. Not only is the average annual IT-spend per employee on the rise, but so is the IT spend as a ratio of total organizational revenue—both metrics indicating an upward trajectory. Even a seemingly modest $20,000/year SaaS solution can inflate a small workgroup's IT spend per employee by as much as 25%, a manageable increase in isolation but a significant one when replicated across an organization over and over.

The individual SaaS productivity tools market has seen a meteoric rise in recent years. With applications such as Monday, Canva, Adobe, Mailchimp, and Smartsheets available for $15 to $200 per user per month, their widespread adoption has led to exponential growth in costs. This ubiquity has propelled the emergence of a new industry dedicated to managing SaaS subscriptions. The staggering revelation from Productiv that the average enterprise experiences 58% of their SaaS licenses unused underscores the urgency for better SaaS management.

With economists predicting a recession potentially in 2024, the debate now centers on its expected severity. Government executives and fiscal officers are preemptively strategizing for the anticipated revenue reductions and the domino effect on budgets, including rising labor demands for inflation adjustments and escalating benefit costs.

In conclusion, the unrelenting rise of SaaS is catapulting local government IT spending toward an imminent fiscal precipice. Enhanced oversight and judicious management of SaaS portfolios are not just advisable but imperative.

Six Strategies for Effective SaaS Management:

1. Centralize SaaS Management: Consolidate tracking and management of all SaaS subscriptions and expenditures.

2. Conduct Thorough Audits: Regularly evaluate SaaS utilization and ROI to ensure alignment with local government needs.

3. Negotiate Proactively: Secure discounts and favorable terms through collective bargaining.

4. Develop Robust Policies: Enforce policies governing SaaS procurement and usage in alignment with local governmental goals.

5. Invest in Training: Equip employees with the necessary skills to leverage SaaS tools effectively.

6. Embrace FinOps: Implement financial operations principles to manage cloud and SaaS expenditures efficiently.

For GovTech SaaS entrepreneurs, survival hinges on embedding solutions into the core operational framework of agencies. In tough times, investments will prioritize indispensable systems integral to business operations, such as ERP and security, over ancillary SaaS offerings that while innovative and beneficial, may sit off in the margins.

The critical takeaway for local governments is to focus IT spending on core business systems and strategic goal objectives, ensuring that SaaS expenditures are not only justifiable but also vital in supporting and enhancing essential public services.

The views and opinions expressed in this feature article are those of the author and do not necessarily reflect the views or positions of the Rural County Representatives of California or its affilaites.

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