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## Riding Out the Storm

Professional engineers in the A/E industry and government brace for a tough financial market in 2009.

BY DANIELLE BOYKIN

As the economy struggles through a recession that is expected to get worse, Americans are facing great uncertainty. Woes on Wall Street, cash-strapped state and local governments, and continuously rising unemployment rates are only adding to the despair on Main Street and in the heart of U.S. cities. The picture appears bleak, but professional engineers are positioning themselves to weather this storm.

Mick Morrissey, managing principal of AEC management solutions firm Morrissey Goodale LLC, says that the industry was not blindsided by the current economic crisis. "The early warning signs of this recession were apparent during the regional residential land development meltdown starting in 2006. This recession started to bleed into our industry early in 2008," he says. "I think it's safe to say that there is virtually no part of the country left untouched by this recession. Most architecture and engineering firms are feeling it to some degree."

What are the firms that are feeling the tight squeeze of the economy doing to stay afloat? "They are drastically reducing their payroll and those reductions are anywhere from 10%–50% of their staff," says Morrissey. "Not only are they reducing their payroll for staff, the owners and principals are taking haircuts on their salaries and reducing their compensation. They are deferring any type of capital investments until next year or the year after."

Morrissey says that the next 36 months are going to be difficult for firms that are primarily in the private sector. Firms with strong positions in the federal markets and contracts with agencies such as the Department of Defense and the Department of Energy have the best chances of surviving the downturn. Firms that can provide the design and construction services for "shovel-ready" infrastructure projects will also do well by comparison.

The Howard R. Green Co. in Cedar Rapids, Iowa, began to see a slowdown in business early last year, but firm leaders remained hopeful that the business environment would improve. Ultimately, the multidisciplinary professional services firm decided this past summer to refocus its business strategies and reduce its 235-person staff by 3%. "We were waiting for things to get better, and we didn't want to lose good people," says Edward Barrett, the firm's human resources director. "Our approach was about retaining our peak performers and the people that are most critical to driving the business when it rebounds."

The firm did not take this process lightly. Staff who had their positions eliminated received a severance and benefits package to help bridge the gap. "There are things that you need to do as a class-A employer," says Barrett. "You have to provide for people, and if you're not doing that and just putting them out on the street, that will hurt firms in the long term. That will definitely affect your brand."

The Howard R. Green Co. will be cautious and conservative with business plans in 2009. "We had a very good second half of 2008, but looking into 2009, we are starting to see many of the opportunities that we were tracking being put on hold," says Barrett. "Some of the projects that we have in backlog and signed, the clients are shelving." Many of the shelved projects were in the public sector.

Despite the slowdown, the firm is continuing to hire for critical positions, although the numbers for hiring staff-level engineers is much lower than in previous years. "We recognized that there will always be economic cycles and the challenge is not necessarily about positioning yourself for the bottom, but positioning yourself for the inevitable economic upturn," says Barrett. "We are continuing to invest in our people and train them. We are continuing to do the things to be an employer of choice because we will need these people on the other side of this."

Professional engineers employed in state and local governments are also dealing with the tough realities of shrinking resources. In December, leadership within the National Governors Association and the National Conference of State Legislatures called on congressional leadership and the Bush administration for swift action to help balance the struggling economy. The association pointed out that 20 states have cut \$7.6 billion from 2009 fiscal year budgets, and 30 states identified budget shortfalls of more than \$30 billion.

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In Michigan, attention has been drawn to the plight of the American auto industry. But the executives of the "Big Three" car manufacturers aren't the only ones looking for a bailout. Michigan's Senate Fiscal Commission released a report in December showing that the revenue for fiscal year 2009–10 will be down by nearly 5%. Unless Congress approves an economic stimulus package, cuts to programs and services will be even deeper.

Diane Carlson, P.E., has seen hard times before, but the current economic situation is one of the worst that she has ever experienced in her 30 years working in Michigan government. State workers are expecting salary reductions and preparing for a round of layoffs. "We know it's a reality and we also see the industry sectors really struggling," says Carlson, the senior environmental engineer in the Department of Environmental Quality. "We watch it from our desks, and history does repeat itself. But what is going on now just seems so overwhelming."

Carlson says that state engineers have more job stability compared to other employees, but nonetheless they expect to feel the impact. They have had to make serious efficiencies in their programs and cut back on travel and technology training. "Engineers will feel the pain, both inside as well as outside of state government," she says. "Drastic budget measures, as well as teamwork and career flexibility will get us through this, hopefully."

In Walker, Michigan, times are incredibly tight says Scott Conners, P.E., who serves as the city engineer. "It's rare that government will ever downsize and cut jobs, but we have actually had to let good employees go in the area of public works and building inspection," he says. "We are being forced to do more with less each and every year."

Road projects in Walker have been scaled back dramatically, and there is a greater reliance on grant assistance for reconstruction and widening projects. The city is becoming very good at making the best of a bad situation, says Conners. "When these tough times finally pass, we should find a streamlined and more efficient public workforce taking on the task of maintaining our public roadways around the country."

In Maine, Governor John Baldacci presented a two-year state budget proposal in January filled with deep cuts, including more than 90 job eliminations. NSPE member Russell Martin, P.E., works for the Maine Department of Health and Human Services, one of the state agencies that will experience severe cuts. He is not worried about losing his position, but the economic downturn has greatly affected how he must manage his program.

As director of Maine's Subsurface Wastewater Program, Martin receives funding from plumbing permit fees. "Because of the economy, those permits are down because building is down, which means my revenue is way down," he says. "The only way that I can increase that would require legislative action to charge a higher permit fee. Everyone is doing their best trying to conserve resources."

Martin, who is considering retirement in the next few years, is concerned that the recession will decrease the state's value of licensed engineers. "There is a tendency overtime to devalue professional engineers, and when [PEs] leave, the positions are reclassified so that they do not require a licensed engineer," he says. "This has been a long-term trend in a lot of states. It's done for economic reasons, but also political reasons."

There are some firms that experienced difficult times prior to the start of the recession. The hard choices that they made have positioned them to withstand the current market turmoil. Nearly three years ago, Phil Ramlet, P.E., says that his Appleton, Wisconsin-based firm OMNNI Associates started to see a decline in private business involving commercial, industrial, and residential projects. The firm had to reorganize by changing its project mix from 50% private sector and 50% public sector to 75% public and 25% private. This reduction in private projects involved a reduction in staff from 80 people to 70 people. "When you have to make difficult decisions, the worst possible option to choose is waiting," says Ramlet, who has served as president of the architecture, engineering, and environmental firm for 18 years. "If you have to make tough decisions the time to do it is now."

Ramlet believes that complete openness about a company's financial situation and sharing business goals with employees is required to maintain their confidence and support through tough times. The decision to run a leaner firm is paying off for OMNNI Associates. "We've actually expanded our business, and it appears as if 2009 is going to be a good year," says Ramlet, who anticipates that business will be up 5%–10%, which should result in the need to hire more staff.

Ramlet advises firms to seek out new business opportunities and avoid cutting costs by eliminating marketing and sales efforts and personnel. "When times are bad, that's when you need to make an investment in marketing and sales more than any time in the past," he says. "You have to redouble your efforts and make sure you get your firm's name out there the best way you can."

Executives at Kirkham Michael, a multidisciplinary firm headquartered in Omaha, Nebraska, began to notice a slowdown in land development and state and local government projects in its Denver, Colorado Springs, and Phoenix offices. The firm set up a system to evaluate the viability of its business units.

"We set up key performance indicators and focused on measuring the return on total labor," says Kevin Larsen, a senior vice president and chief financial officer. "What that did for us was give us the ability to evaluate our business units on a financial basis, similar to evaluating a 401(k) plan." After trying to revive the unit and closely monitoring performance, the firm decided to close the two Colorado offices and eliminate a business unit in Phoenix, which reduced the firm's total national staff by 60 people.

Larsen believes that a leaner Kirkham Michael is fit to compete even in uncertain times and describes the firm as an "economy car in a high-price gas market." The company decided to take its resources and invest in environmental and GIS technology markets. "Although we were in a downtime and cut deep, we saved money and invested in our future," he says. "Now we are in a recession and while everybody else is just now starting to make adjustments, we are looking to grow. What will drive our growth is new business." Larsen pointed out that the firm increased its return-per-labor dollar by 12% last year.

Despite the need to make tough decisions, which may involve staff reductions and other haircuts to make the business operate more efficiently, firms must strive to remain an employer of choice. "In low tides, all boats go down and even if you're laying off people, you still want to be the employer of choice," says Larsen. "In a downtime, it's a great opportunity to pick up talent from firms that don't treat their people so well."

A new business environment is emerging and firms must be ready to take advantage of it. Strategic planning that is flexible and nontraditional is a must. "The worst thing that you can do as a principal is to be a short-term thinker and cut your way down to the bone," says Morrissey. "They need to be leveraging their existing connections and building new connections with potential clients."

Surviving in this environment will require innovative thinking. "Consistently the owners, particularly in the public sector, are telling firms to help find ways to finance projects and get these projects on the ground," says Morrissey. "Firm principals need to get out of the box and stop thinking like order-takers and really become business partners with their clients by sharing and embracing risks."

For those firms that want to stick with private clients, some overseas markets, such as the United Arab Emirates and China, are providing greater business potential and greater demand for U.S. expertise and professionals, says Morrissey. He also advises principals to become more familiar of a rising public/private funding model for industry and other nontraditional financing for projects.

The forecast for this year is not all doom and gloom. Morrissey anticipates a golden era of public works in the U.S. with President Barack Obama's proposed economic stimulus package. He projects that for firms with transportation and water and wastewater infrastructure expertise, the next 36-48 months will be decent times. "The most important thing that principals can do for their staff is to provide them with a viable firm that is profitable and that can weather the storm until the turnaround comes," he says.

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