



Federal Reserve Bank of Chicago

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Current Fiscal Situation/ Background



Recent State Fiscal Situation

- **Slowing spending/revenue growth overall**
 - **Considerable declines from fiscal 2008**

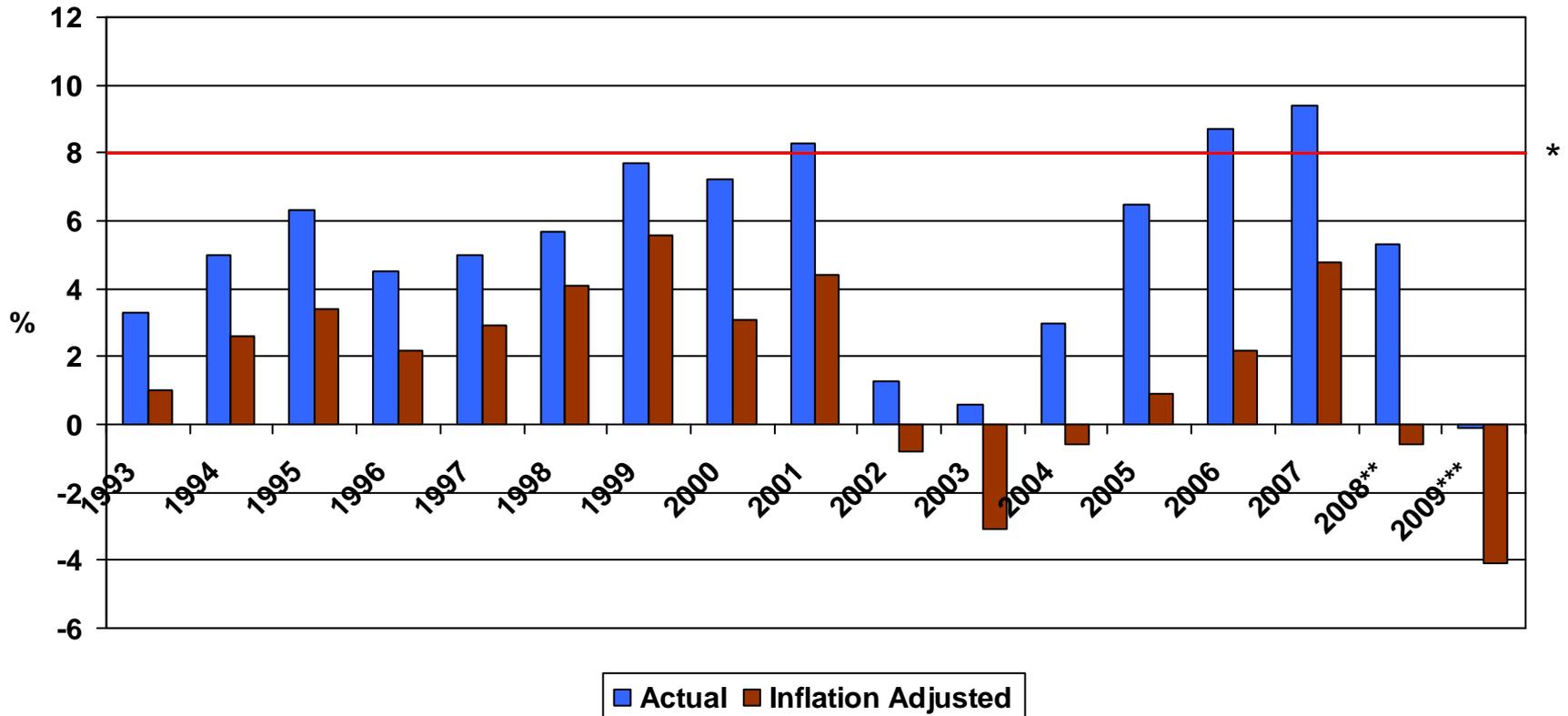
- **Many states experiencing *significant* shortfalls**
 - **\$230B+ for fiscal years 2009-2011**

- **Widespread budget cuts, layoffs/furloughs**

- **ARRA will help, but won't solve, shortfalls**

Negative Spending Growth Expected in Fiscal 2009

General Fund Expenditure Growth (%)



*31-year historical average rate of growth is 6.3 percent

**Fiscal 08 numbers are preliminary actual

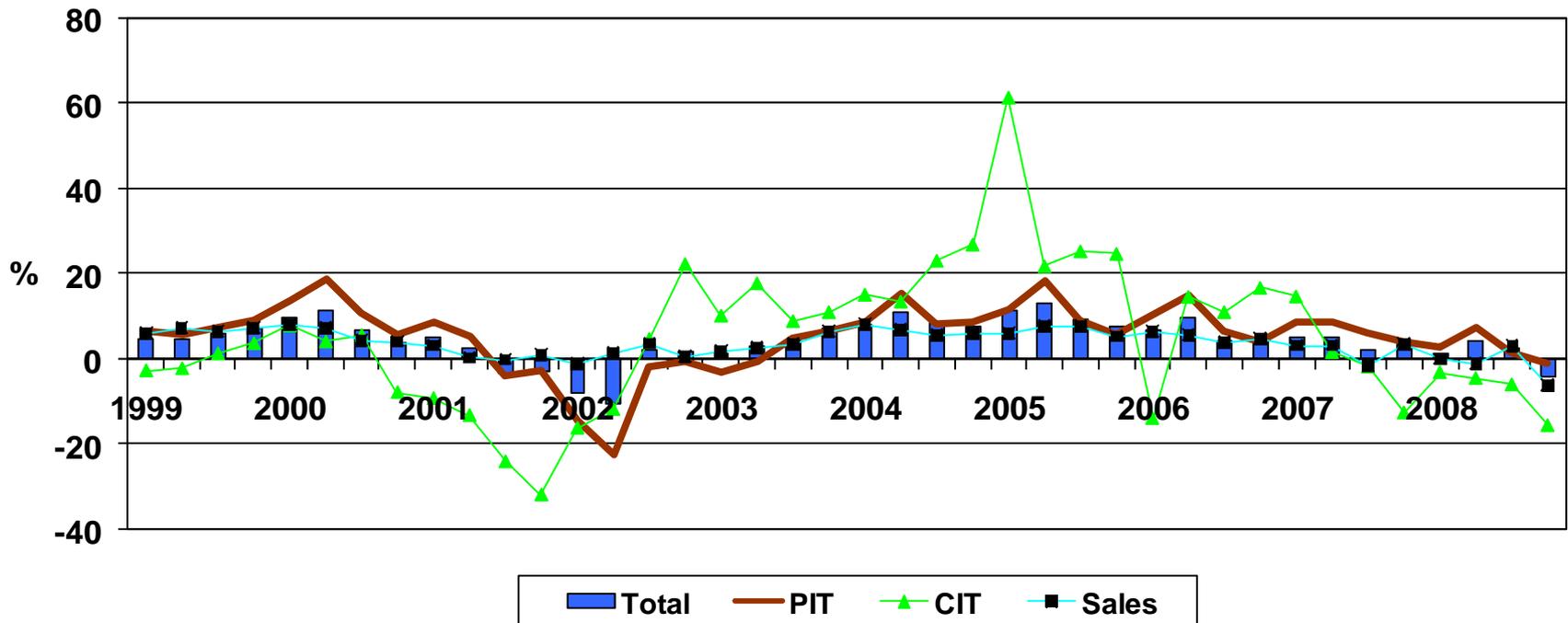
***Fiscal 09 numbers are appropriated

Source: NASBO Dec. 2008 Fiscal Survey of States



State Tax Revenue Decline

Year-Over-Year Real Change in Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau



Asset Sales



Asset Sales as a Budget Balancing Strategy

- **The sale or lease of capital assets is one tool states can use to create additional revenue**
- **For current shortfalls, states typically cut spending, use reserve funds, revenue transfers, raise tax and fees, and institute personnel actions**
- **Assets sales are a longer term solution for revenue shortfalls, along with strategies such as contracting out, securitization of funds, etc.**



Benefits

- **Raises large sums of up front funds**
 - **States can use funds to address spending priorities or long-term obligations such as pensions**

- **Helps ensure that assets receive the capital investments they require**

- **Possibility of cost savings and in a reduction in repair and construction time**

- **Can lead to creative new approaches and new expertise**



Risks

- **Private market may sour**
 - **Must be certain that firms are on solid financial footing**

- **Public sector loss of control**
 - **Limits public sector's ability to respond to changes in population's needs. For example, harder for government to increase size of road if population grows.**

- **Financial assumptions must be accurate**

- **Political pitfalls – many citizens are skeptical of asset sales and leases**



Recent Examples of Asset Sales

- **Projects such as Indiana Toll Road were met with initial skepticism, now greater acceptance**
- **Other projects such as PA Turnpike failed due to a lack of political consensus and some confusion regarding the use and amount of funds**
- **Smaller projects and new construction have been less controversial**
 - **Virginia's "Beltway" expansion and Florida's 10.5 mile stretch of I-595**

Keys to Consider

- **Statutory and political environment**
- **Public sector's structure**
 - **Ability to monitor and remain active in the project**
- **Structure of business plan/contract**
- **Revenue stream guaranteed and length of revenue**
- **Stakeholder support**
- **Selecting the correct firm or partner**

Source: National Council for Public-Private Partnerships



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