Federal Reserve Bank of Chicago

May 12, 2009

Scott Pattison
Executive Director
National Association of State Budget Officers
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

*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

General Fund Expenditure Growth (%)

-6 -4 -2 0 2 4 6 8 10 12


% 0 2 4 6 8 10 12

* Actual  Inflation Adjusted
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
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