State Fiscal Conditions: 2003 and Beyond

By Donald J. Boyd

The state fiscal boom of the late 1990s was driven by exceptional forces unlikely to be repeated in the years ahead. The bursting of this fiscal bubble has made the current budget crisis far worse than the relatively mild current economic weakness might suggest. Even after the economy recovers, state finances are likely to be tight for the next several years.

The state fiscal boom of the late 1990s turned into the current bust when manufacturing declined, stock markets fell and the economy slipped into a recession worsened by the attacks of September 11. The recession has been relatively shallow, although more persistent than most economists expected. After the recession, will state finances boom again?

The State Fiscal Boom of the 1990s[1]

The 1990s opened with a recession that was mild for the nation as a whole, but quite severe in some parts of the country — particularly the Northeast and California. States raised taxes by $36 billion in fiscal years 1990 through 1994, they drew down fund balances from 4.8 percent of expenditures in 1989 to 1.1 percent in 1991, and they cut spending significantly.[2]

An extraordinary boom in state finances followed this period of crisis. State tax revenue repeatedly came in substantially above projections and states adopted policies that seemed impossible to achieve in combination: cutting taxes year after year, increasing fund balances to nearly a 20-year high and increasing spending significantly — all while keeping budgets balanced or in surplus.

States Increased Spending Dramatically

State spending increases were substantial and widespread, as shown in Figure A, which plots each state's growth in spending from 1990 to 2000 against the level of spending at the start of the decade, in real per-capita terms. I make three observations:

First, states as a whole increased spending quite significantly – by 32 percent, after adjusting for inflation and population growth. Put differently, state government per person increased by more than a quarter.

Second, almost every state chose to increase spending, usually by a substantial amount — 38 states increased spending by 25 percent or more. The only state that did not increase real per-capita spending was Alaska, which is excluded from the graph to avoid obscuring the pattern in other states.[3] Several other states experienced fiscal difficulty during some part of the boom, but they still managed to increase state government spending for the decade as a whole.

Third, most low-spending states increased spending far more rapidly than high-spending states (the state markers in the figure slope downward and to the right). New Hampshire, which spent 26 percent less than the U.S. average in 1990, led the way, increasing real per-capita spending by 63 percent. By contrast, states that began the decade with high spending generally increased spending less rapidly than the U.S. average.

The 32 percent growth in real per-capita state government spending in the 1990s followed growth of 28 percent in the 1980s, and was part of a much longer trend of rising state and local government influence in the federal-state-local fiscal system.[4]

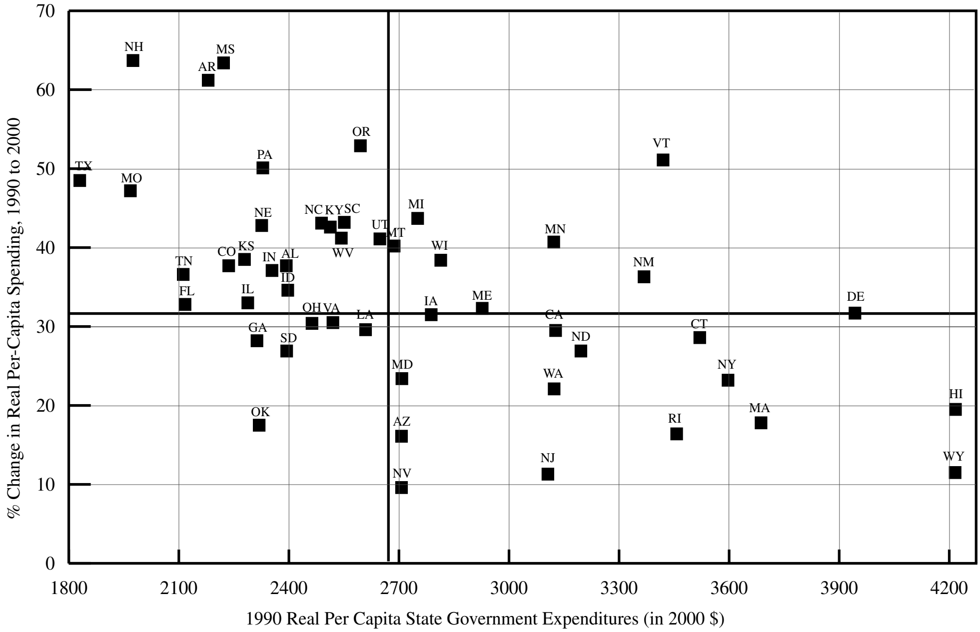
Medicaid and K-12 education spending took turns dominating state finances in the 1990s, as Table A shows. Spending on "medical vendor payments" (a Census Bureau measure that is close in concept to Medicaid) and on K-12 education together accounted for 32 percent of state government spending in 1990, and accounted for an even larger share of growth — 53 percent of real per-capita growth between 1990 and 2000. Higher education, the third largest area of state spending behind K-12 education and Medicaid, grew 23 percent in real per-capita terms.

In aggregate, all other spending increased by more than one-fifth, but with great variation. Judicial, health (mostly non Medicaid), and corrections spending grew rapidly — 54 percent, 46 percent and 42 percent respectively. General interest expense declined concomitantly with the fall in interest rates. Cash-assistance spending — small from a budget perspective but of great policy interest — fell a dramatic 34 percent in real per-capita terms due to widespread and steep caseload declines. Aside from these latter two categories, all major areas of state spending activity grew in real per-capita terms.

Despite Tax-Cutting, State Revenue Grew Even Faster Than Spending

The spending increases of the 1990s would be remarkable by themselves, but states also enacted tax cuts for every fiscal year from 1995 through 2001

Figure A: State Spending Increases in 1990s, Real Per Capita (Vertical and horizontal lines are U.S. averages)



Note: Alaska excluded as outlier
Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis

(seven straight years), cumulatively reducing revenue by more than $30 billion from what otherwise would have been collected.[5]

How could states cut taxes while increasing spending and still maintain balanced budgets? One of the fiscal wonders of the 1990s was that despite continued tax cutting, state tax revenue rose as a share of personal income throughout almost the entire period. Figure B shows the income tax, the sales tax, and excise taxes as a percentage of personal income for states taken as a whole.

State income taxes generally are progressive, claiming a larger share of income as income rises. Over time they tend to increase as a percentage of income due to economic and inflationary growth, unless states cut them. It is not surprising, therefore, that state income taxes were rising as a share of income during the early 1990s as states raised taxes at the end of the recession. What is surprising, though, is the extremely sharp rise in income taxes as a share of income in the late 1990s — at exactly the time that states were cutting income taxes. Why this happened is a subject of the next section, but it was a major factor behind the fiscal boom of the late 1990s.

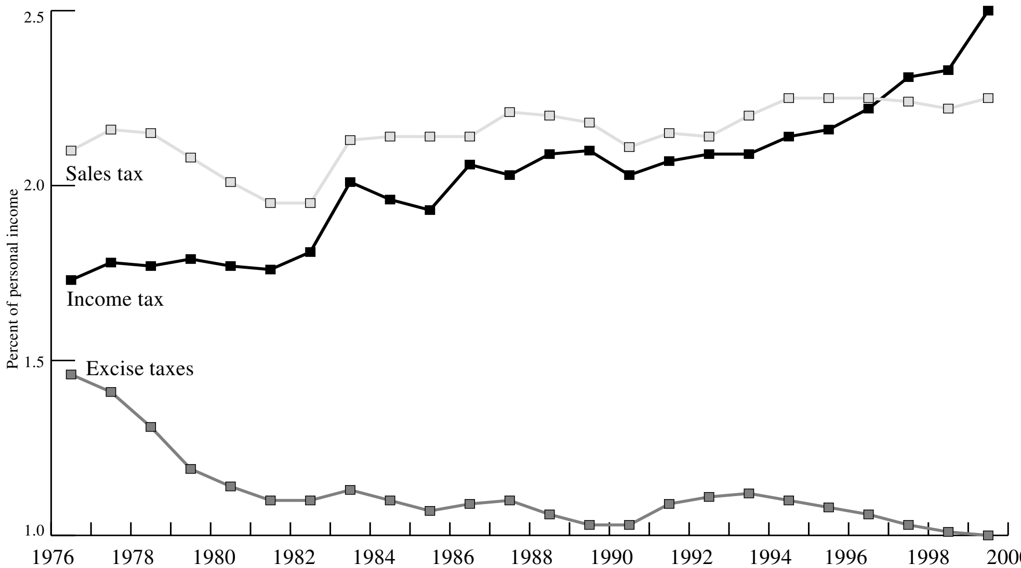
The sales tax also performed well in the 1990s, rising early in the decade as

Table A: Growth in State Government Spending in the 1990s
(Percent change in real per-capita expenditures)

	Percent change		
	1990-1995	*1995-2000*	*1990-2000*
Total general expenditure	20.5%	9.6%	32.1%
Elementary and secondary education	13.2	18.5	34.2
Medical vendor payments	77.6	5.9	88.1
Higher education	11.0	10.8	22.9
All other	14.0	7.0	22.0

Sources: Rockefeller Institute analysis of data from U.S. Census Bureau and U.S Bureau of Economic Analysis.
Notes:
(a) Includes spending from own-source and federal funds.
(b) Growth from 1990 to 2000 reflects compounding of 1990 to 1995, and 1995 to 2000 growth, and so exceeds the sum of growth rates in the two periods.

Figure B: Major State Taxes as Percentage of Personal Income



See footnotes for sources.

states raised sales taxes and as consumer spending rebounded after the recession. The sales tax held its own in the latter half of the decade, remaining relatively constant as a share of income. This is a little surprising, because the longer-term outlook for the sales tax is not good: people have been shifting increasing shares of consumption to services from goods, a trend many economists expect to continue. Many kinds of services are especially difficult to include in sales tax bases — administratively, legally and politically. In addition, unless the question of how to collect taxes on sales conducted via the Internet or mail order is resolved in a fiscally benign manner, states will find it increasingly difficult to collect taxes that are part of the tax base.

Excise and selective sales taxes, which often are based on the quantity sold of a good such as motor fuel or cigarettes, tend not to keep up with income growth, and thus fall as a percentage of income except when states raise rates. These taxes continued their long-term decline in the 1990s, save for an increase early in the decade when states were raising taxes in response to the recession.[6]

What Caused the Boom in State Finances?

The extraordinary boom in state finances in the second half of the 1990s resulted from many different forces working in states' favor at the same time.

Economy and Stock Markets Caused State Revenue to Soar

The national economy consistently grew faster than most economic forecasters expected, in large part because worker productivity grew rapidly. Productivity, which had grown at an annual average rate of 1.6 percent between 1991 and 1995, accelerated to an annual rate of 2.6 percent between 1995 and 2000.[7]

Not only was economic growth stronger than expected, but the nature of that growth was especially good for state finances. State income taxes benefited in many ways; taxable income consistently grew faster than broader measures of the economy such as gross domestic product or personal income. This was in large part the result of very rapid growth in capital gains, driven by strong economic growth, rising stock markets, widespread participation in the stock market, growing use of stock options as a means of compensating workers, and lower tax rates on capital gains.[8] Between 1994 and 2000, capital gains grew at an annual average rate of 27 percent, quadrupling in the span of six years.

State sales taxes also benefited. Despite several longer-term trends that are negative for sales tax revenue, positive trends in the 1990s masked this weakness. Immediately after 1992, the savings rate plummeted to levels outside the experience of the previous 43 years, falling steadily and rapidly to a low of just over 2 percent at the end of the decade. When the savings rate falls, spending as a percentage of income rises, and this is good for state sales taxes. The fall in the savings rate was enough to boost consumption by 8 percent by 2000, compared with what spending would have been if the savings rates of the 1980s had prevailed. Partly as a result, consumption included in a "typical" sales tax base grew faster than personal income in six out of the eight years from 1993 through 2000.[9]

Spending Pressures Were Benign

It was not just state revenue that benefited from the roaring 1990s. As noted, Medicaid, the second-largest state spending program, came to a standstill in mid-decade after growing dramatically at the start. Among other things, the slowdown reflected drops in Medicaid enrollment in 1996, 1997 and 1998 and the impact of managed care.[10] The slowdown provided a significant fiscal benefit to states, making it easier to finance rapid growth in education spending late in the decade.

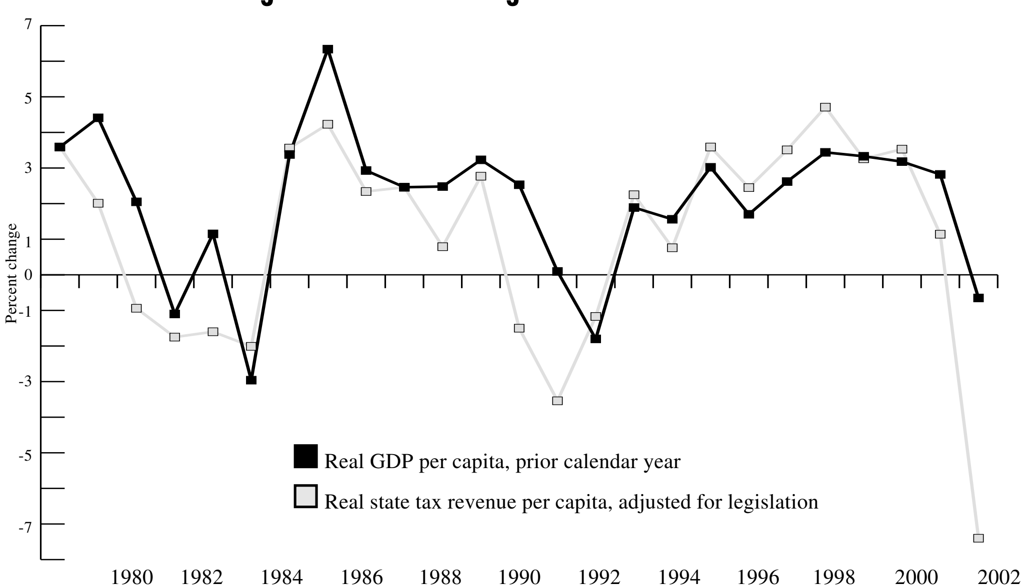
States received a welfare windfall when the federal government converted welfare funding from an entitlement to a block grant. Caseloads plummeted due to the strong economy and state policy changes, but state revenue from the federal government, which would have fallen with caseloads under the prior AFDC program, remained relatively fixed. To top it off, states began receiving funds under the $246 billion tobacco settlement. These forces taken together meant that the typical state ran unanticipated surpluses in the late 1990s and had the wherewithal to cut taxes, raise spending and increase reserve funds.

The Current Fiscal Crisis

The state fiscal boom has come to a crashing end with the recent reversal of most forces described above:

- Manufacturing employment began declining sharply in early 2001, partly in response to interest rate increases.
- Stock markets began to fall precipitously and nearly continuously beginning in March 2000. The broad stock market, as measured by the Wilshire 5000 index, fell by 11 percent in 2000, another 11 percent in 2001, and an additional 21 percent in 2002.
- The attacks of September 11, 2001 damaged an already weakened economy. The National Bureau of Economic Research, the official arbiter of recessions, subsequently concluded that national economic activity peaked in March 2001 and the economy then entered a recession.
- The long-term decline in the savings rate reversed,

Figure C: Percent Change in State Tax Revenue



Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census, *Significant Features of Fiscal Federalism*, 1984 (ACIR), *Fiscal Survey of the States* (NGA), Rockefeller Institute of Government.

rising from 2.3 percent in 2001 to 3.9 percent in 2002.

Although the economy has since experienced episodic growth, the NBER has not declared the recession over as of this writing. Data revisions have made clear that the recession has been deeper than originally thought, although it still does not appear terribly deep by historical standards.

The impact on state government finances has been devastating — far worse than economic data might suggest. Figure C graphs the percentage change in real state tax revenue per capita, adjusted for legislative changes, against the percentage change in real per-capita gross domestic product, for a period that covers the current recession plus the two prior recessions. Although the decline in GDP has been smaller than in either of the last two recessions, the 7.4 percent tax revenue decline in fiscal year 2002 has been far worse than 1991's 3.5 percent decline or 1983's 2 percent decline.

Much but by no means all of this appears to be related to a sharp decline in capital gains and related income. Many states initially budgeted on the assumption that capital gains declined by 10-15 percent in 2001 (most of the taxes on 2001 gains would be collected in fiscal year 2002), but the decline now appears far worse. According to recent data from the Investment Company Institute, mutual fund capital gain distributions declined by 80 percent in 2001.[11] The decline in overall capital gains probably was not as severe because only about half of capital gains are related to the stock market, with the other half coming from real estate and other assets that performed better than stocks.[12] In California, the Legislative Analyst's Office now estimates that capital gains and nonqualified stock option income of Californians declined by an astounding 62 percent, falling from $200 billion in 2000 to $77 billion in 2001.[13] Other states also have estimated large declines in income related to the stock market.

The sharp revenue decline and increased spending pressures opened widespread and large gaps in state budgets. In April 2002, 43 states reported budget gaps for FY 2002 that totaled $27 billion, rising to $36 billion by June 2002. Twelve states reported gaps exceeding 10 percent of their general fund budgets.[14] The few states that did not report budget gaps tended to rely heavily on severance taxes on oil and minerals for their tax revenue, and were not hit as hard by sharp declines in income and sales taxes as other states.

Gaps of this magnitude would be difficult for states to grapple with at any time, but these were especially troublesome because of their timing. Most states negotiate their budgets in the January to June period, in the final six months of the fiscal year (which ends on June 30 in 46 states). If a large budget gap opens in this period, it can wreak havoc on negotiations, and that is exactly what happened. The tax revenue falloff accelerated dramatically at the end of FY 2002, as governors and legislators were debating budgets for FY 2003. Real per-capita tax revenue declined by about 4 percent in the first quarter of the fiscal year, 6 percent in the second, and 8 percent in the third – and deteriorated even further in the final and most important quarter (April to June 2002), declining by 11 percent. This sharp falloff, so late in the fiscal year and so late in the budget process, strained political decision-making in the states, making it very difficult for elected officials to determine the magnitude of the problem, much less craft solutions. Other forces also made it difficult for states to close budget gaps, and to close them with recurring spending cuts or tax increases: many states would have elections in the fall of 2002, plus the newness of the crisis meant states had not yet exhausted relatively "easy" actions such as drawing down reserve funds and other one-time actions.

The result in many states was a patchwork of solutions. While states did take some extremely difficult actions in closing their budget gaps, many relied heavily on fund balances and rainy day funds, tobacco settlement funds, gimmicks to accelerate revenue or postpone spending, across the board cuts, and taxes on out-of-favor activities such as smoking. For example, states drew down reserves by 60 percent, from $44 billion at the end of FY 2001 to $17 billion at the end of 2002. At least 23 states tapped special funds, such as capital funds, highway funds and other funds ostensibly reserved for specific purposes; and at least 16 states used tobacco settlement money to support general operations.[15] In addition, 26 states are reported to have cut spending and at least 16 states raised taxes by 1 percent or more of tax revenue. Cigarette taxes were most popular in frequency and magnitude, accounting for just over 40 percent of the tax increases. A handful of states enacted large tax increases — Indiana, Kansas, New Jersey and Tennessee — but these were the exceptions rather than the rule.[16]

Many gap-closing actions were only temporary solutions or actually worsened the budget situation for future years. In addition, the economy, the stock market and tax collections continued to be weaker than forecasters expected. The result was that new gaps opened up in most states' budgets — totaling at least $17.5 billion for FY 2003. In addition, according to an analysis by the Center on Budget and Policy Priorities, as of January 2003, states were projecting budget gaps of $70 billion to $85 billion for FY 2004 — about 14.5 to 18 percent of state expenditures, more than twice the size of gaps in FY 1992.[17] The primary reason these gaps are so much larger than those in the last recession is, as discussed earlier, the bursting of the extraordinary fiscal bubble of the late 1990s that in large part was related to the stock market.

With gaps of this magnitude, and many of the easiest policy actions already taken, states are likely to make significant spending cuts in their 2004 budgets, and enact significant tax increases. In addition, they are likely to find and use additional gimmicks and one-shot revenue devices to push some of the difficult decisions into future years.

Can the Boom Resume?

Revenue Growth Will Be Slower Than Before

As the economy recovers, stock market-related income could grow rapidly from newly depressed lows, but it is important to keep this rapid growth in perspective: it will take many years of rapid growth from a newly lowered tax base before revenue attains its former peak. For example, California's Legislative Analyst's Office projected that stock market-related income will grow by 18 percent in each of the next two years. It would take an additional four years of growth at 20 percent annually — more than twice the growth in the broader economy — before capital gains and stock option income would exceed the 2000 peak.[18] Under these seemingly cheery assumptions, this element of California's revenue structure would re-attain its 2000 level in 2007. Fortunately for other states, the California situation is far worse than average — California's tax structure relies more on this type of income than other states, and its high-tech economy benefited more from growth in this income than other states. But the same issues will arise elsewhere to a lesser degree.

The assumption of rapid growth is not the only possible assumption. Capital gains could retrench further, returning to longer-run relationships between gains and the economy, and in fact that is the working assumption of the Congressional Budget Office's long-run projections. Under this scenario, capital gains and similar income might experience a spurt of growth after the recession ends, followed by sluggish growth for several years.

All is not gloom in the income tax. It probably will benefit from a near-term burst in growth from the now-lower base as the economy recovers; over the longer term taxable retirement income will continue to grow more rapidly than the economy as a whole; and of course progressive income tax structures mean that income tax elasticity generally will exceed one. Income tax revenue will grow faster than the economy as a whole, but probably not at rates approaching those of the late 1990s.

The sales tax held up quite nicely during the 1990s and, unlike the last recession, it has performed better than the income tax in the current recession. But the longer-term outlook for the sales tax remains unattractive for three reasons. First, it is hard to imagine that people will consume an ever-rising share of their income. If the savings rate simply stops falling and consumption stays at its current high level relative to income, states will lose the annual boost to consumption growth they benefited from throughout the 1990s. Second, people have been shifting consumption from heavily taxed goods to lightly taxed services and this shift is likely to continue. Third, the Internet tax moratorium makes it difficult for states to collect taxes on Internet-related transactions even when the tax is legally owed. All three issues suggest that the sales tax will be under considerable pressure throughout this decade.

Selective sales and excise taxes will continue to be a weak third leg of state revenue structures. States will raise rates in the current fiscal crisis, but after this short-term boost in tax revenue they will continue their long-term decline because they generally are imposed on bases that do not keep up with economic growth.

Finally, the federal government seems unlikely to assist the states. The federal budget benefited from many of the same forces as state budgets, and it is being buffeted now by the recession-induced undoing of those trends. The Congressional Budget Office lowered its 10-year forecast by $1.4 trillion in its August 2002 forecast, and the outlook worsened in its January 2003 forecast, with deficits now forecasted through federal fiscal year 2006. Even this appears optimistic: it relies on assumptions that discretionary spending will grow more slowly than recent experience and that tax cuts scheduled to expire will not be extended. Finally, the January 2003 projections predate the war in Iraq and do not reflect the budgetary costs of either the war or subsequent rebuilding.

While the federal government appears likely to enact an economic stimulus package, the president's proposal contains no significant aid for states, and in fact would reduce state revenue due to a proposed cut in taxes on dividends, which would flow through to most state income taxes. Serious alternatives to the president's package also are unlikely to provide fiscal assistance to the states.

Spending Pressures Have Picked Up

The three largest spending areas in the typical state budget are Medicaid, elementary and secondary education, and higher education. Each of these areas will present states with special challenges in the next five years.

Medicaid was tamed only temporarily. In FY 2001, Medicaid exceeded budgeted amounts in 37 states and required supplemental funding.[19] States now estimate that Medicaid grew an additional 13 percent in FY 2002. According to a survey of state Medicaid officials, the recent growth surge has been driven by increases in the costs of prescription drugs (now approximately 20 percent annually), increasing costs of long-term care, provider payment increases and enrollment increases.[20]

The Congressional Budget Office and other forecasters project that national Medicaid spending will grow about 9 percent annually for the remainder of this decade, driven by health technology improvements, demographic changes, and a general absence of incentives to hold down costs in the health care sector. Medicaid is likely to grow much faster than the typical state revenue structure.

States will also face pressures in elementary and secondary education. In the 1990s most states adopted policies that will raise the costs of K-12 education in ways that are hard to measure, but still real. Policies to reduce class sizes, support higher graduation standards, and accommodate higher standards for teachers all could be expensive. In addition, if states wish to continue the long-term trend toward greater state and less local financing of education, they will have to find additional funds for the task.

The baby-boom echo is exiting high school, and college enrollment rates of high school graduates are rising. According to the U.S. Department of Labor, 43 percent of net new jobs in the 10-year period ending in 2008 will be in occupations that commonly require at least some higher education, even though these jobs constituted only 29 percent of the existing employment base.[21] This suggests continuing upward pressure on college enrollments and state financing of higher education.

The upshot is that states face a major challenge in financing Medicaid spending, and appear unlikely to receive relief in the two other major areas, K-12 and higher education.

No Fiscal Boom Ahead

Most trends described above will contribute to fiscal tightness. But three trends will cause states the most difficulty: 1) Medicaid costs are growing far more quickly than the economy as a whole; 2) the income tax is unlikely to repeat its extremely rapid growth of the late 1990s; and 3) the sales tax is under pressure due to slowing growth in the tax base and legal, political and administrative difficulties collecting taxes that are actually owed. In addition, for the next two or three years states will struggle with the aftermath of the current severe budget crisis. They will push problems from fiscal year 2003 into fiscal year 2004 and beyond, and from fiscal year 2004 into fiscal year 2005 and beyond – effectively converting the crisis into several years of lesser but sustained fiscal difficulty.

While this is not a scenario for doom and gloom, it does suggest that state finances will be constrained quite tightly over the next several years, even if the economy recovers nicely from the recession.[22]

Notes

[1] Most of the analysis in this section is based on detailed government finance data obtained from the U.S. Bureau of the Census. With regard to this analysis, 1) when I refer to total spending or total revenue, I am referring to the Census concepts of "general expenditures" and "general revenue"; 2) in calculating expenditures per capita or revenue as a percentage of personal income, I follow the convention others often use and divide spending or revenue for a given fiscal year by population or personal income for the calendar year in which the fiscal year began; and 3) in calculating real expenditures per capita I use the state and local government chain-weighted price index prepared by the U.S. Bureau of Economic Analysis, for the calendar year in which a state fiscal year began. At the time this article was prepared, the latest state fiscal year for which Census Bureau finance data are available was 2000.

[2] National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States: November 2002* (Washington, D.C.: National Governors Association and National Association of State Budget Officers, 2002).

[3] Alaska's 1990 per-capita spending in 2000 dollars, at $10,191, was more than twice that of the second-highest state, Hawaii. Alaska's spending declined by 5.4 percent from 1990 to 2000.

[4] See Rudolph Penner, *A Brief History of State and Local Fiscal Policy*, Publication A-27 (Washington D.C.: Urban Institute, Dec. 1998), for a good discussion of these trends.

[5] National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States: November 2002*.

[6] Nicholas Johnson and Daniel Tenny of the Center on Budget and Policy Priorities have pointed out in *The Rising*

Regressivity of State Taxes (Washington D.C.: Center on Budget and Policy Priorities, Jan. 15, 2002) that states' policy changes have tended to make state taxes more regressive, in part because states have been relatively unafraid to raise excise tax rates in recessions (and even in good times) and because they have focused their tax-cutting on the income tax. Despite these policies, the net result of the strong economic forces at work may have been a more progressive state tax system, as states have become increasingly reliant on the income tax (and as the income tax has become more reliant on the incomes of high-income individuals), while states have become less reliant on excise taxes. More-detailed empirical analysis would be needed to disentangle the impacts of policy and economic changes on the distribution of state taxes.

[7] See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012* (Washington, D.C.: Congressional Budget Office, Jan. 2002), Chapter Two.

[8] See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012*, 50-51.

[9] I constructed a "typical" sales tax base from Table 2.4 of the U.S. Bureau of Economic Analysis' consumption accounts, treating as nontaxable the following items: food purchased for off-premises consumption, housing consumption, medical care, personal business services (e.g., legal services), education and research, religious and welfare services, certain purchased transportation, and selected other items. Statutory sales tax bases may not have grown as fast as "taxable" consumption due to growing difficulties in imposing and collecting sales tax.

[10] See Vernon K. Smith, March 6, 2002 Testimony For the Special Committee on Aging, United States Senate.

[11] United States Office of Management and Budget, *Fiscal Year 2003 Mid-Session Review*, (Washington, D.C.: United States Office of Management and Budget, July 15, 2002), 5.

[12] United States Congressional Budget Office, *Where Did the Revenues Go?* Revenue and Tax Policy Brief, (Washington, D.C.: United States Congressional Budget Office, August 13, 2002).

[13] California Legislative Analyst's Office, *2002-03 Budget Bill: Perspectives and Issues* (Sacramento, CA: Legislative Analyst's Office, February 2002).

[14] See "State Budget and Tax Actions 2002," *NCSL News*, National Conference of State Legislatures (August 28, 2002).

[15] NCSL August 28, 2002, and National Governors Association/National Association of State Budget Officers, *Fiscal Survey of the States*, November 2002.

[16] NCSL August 28, 2002, 8-10.

[17] Iris J. Lav and Nicholas Johnson, *State Budget Deficits for Fiscal Year 2003 are Huge and Growing*, (Washington, D.C.: Center on Budget and Policy Priorities, January 23, 2003).

[18] $77 billion plus 2 years of growth at 18 percent and 4 more years of 20 percent growth yields $222 billion, after compounding.

[19] See Vernon K. Smith and Eileen Ellis, *Medicaid Budgets Under Stress, Survey Findings for State Fiscal Years 2000, 2001, and 2002* (Washington, D.C.: Kaiser Commission on Medicaid and the Uninsured, Oct. 2001).

[20] Smith and Ellis, *Medicaid Budgets Under Stress.* See also, Katharine Levit *et al.*, "Inflation Spurs Health Spending in 2000," *Health Affairs* (Jan./Feb. 2002).

[21] Douglas Braddock, "Occupational employment projections to 2008," *Monthly Labor Review* (November 1999).

[22] One parting caution: In the early and mid-1990s several analysts predicted a constrained fiscal environment for states, right before finances boomed. No one foresaw the remarkable confluence of forces that would be so beneficial to states for so long. It could happen again. But of course unforeseen events need not be beneficial and it is best not to plan on that.

About the Author

Donald Boyd is the director of fiscal studies at the Rockefeller Institute of Government, the public policy research arm at the State University of New York. The fiscal studies program provides practical independent research about state and local government finances in the 50 states.