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Bulletin

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MTF

2005 Budget: Managing the Fiscal Recovery—Too Soon to Celebrate

While the strong revenue performance of recent months—year-to-date tax collections for fiscal 2004 exceeded estimates by $495 million through May—is welcome news, the state's budgetary difficulties are far from over. Even with the improving revenue picture, 2005 revenues will barely be sufficient to support ongoing spending in state programs.

Table 1
Proposed Fiscal 2005 Budgets
($, Millions)

	Adjusted Total*	Change from 2004 Amount	Change from 2004 Percent
Governor	$24,515	1,355	5.9
House	24,689	1,529	6.6
Senate	24,820	1,660	7.2

* The totals shown here include proposed "off-budget" expenditures and adjustments for purposes of comparison, which are detailed in Table 2.

Although there is much to be commended in the legislative versions of the 2005 budget—including a major reform of the state transportation agencies and additional fiscal relief for hospitals in the Senate plan—the aftershocks of the fiscal crisis continue to dominate the state's financial outlook.

Both the House and Senate budgets depend on approximately $700 million of reserves and other one-time revenues to support their proposed levels of spending in 2005—the fourth year of the crisis—compared to $500 million in the Governor's House 1 budget proposal. These amounts are up from about $450 million of one-time measures in 2004.

With the greater than expected 2004 revenues, it is likely that 2005 tax collections will exceed the forecast on which the legislative budgets are based by hundreds of millions of dollars. The first priority clearly is for any extra tax revenues to be used to reduce the over-reliance on reserves in 2005.

The three versions of the 2005 budget propose spending increases ranging from 5.9 to 7.2 percent over 2004 (see Table 1). However, most of the growth is concentrated in just three largely obligatory areas of spending—roughly $600 million for Medicaid and other health care, $530 million for pensions, and over $200 million for debt service. A significant portion of the remaining increases support programs that are subject to court mandates. For the rest of state government, 2005 spending, although up slightly from 2004, will not keep pace with inflation, remaining roughly $900 million, or 10 percent, below fiscal 2001, before the fiscal crisis began (see Figure 1).

The Commonwealth faces an even greater challenge in financing other looming obligations. While the legislative budgets—in particular, the Senate's—provide much needed, albeit temporary relief to the state's financially fragile hospitals, Medicaid reimbursements to health care providers still fall hundreds of millions of dollars short of the costs of delivering services. Hospitals face a huge gap as well—$300 million and growing—between the costs they incur in providing free care to the uninsured and the payments they receive from the state's uncompensated care pool.

Key Fiscal Considerations for State Leaders

- It is premature to consider major tax cuts, but the state should keep its statutory commitment to reduce taxes gradually as revenues improve.
- The fiscal 2005 budget's heavy reliance on one-time resources needs to be reduced—to no more than $300 million—given the improving revenue outlook.
- Rebuilding the state's seriously depleted reserves should be a major priority.
- The expected $500 million or more of excess tax revenues in 2004 provides the opportunity to:
  - -- Take the first step in a multi-year plan to address the underfunding of the state's health care system by devoting $150 million to support hospitals.
  - -- Use remaining excess to bolster the rainy day fund.

In addition, the Supreme Judicial Court is now reviewing the recommendations of the single justice considering the *Hancock* school finance suit, who found that the state's system for funding local education remains unconstitutional, despite the more than doubling of annual state aid to schools since the education reforms of 1993. The proposed remedies—if embraced in full by the court—will likely require another very large increase in spending for schools.

Moreover, both the House and Senate budgets take the first steps toward expanding early childhood education to all Massachusetts children. This ambitious initiative—already endorsed by the Governor and legislative leaders—is likely to cost more than $1 billion annually when fully implemented. On top of all these obligations, the Commonwealth continues to faces critical capital needs—including a huge backlog of deferred maintenance and repair projects—that far exceed what the state can afford.

Even before considering how to address these daunting fiscal challenges, the state's finances will remain tight over the next several years, notwithstanding the improving economy. While the rate of increase in Medicaid costs appears to be abating somewhat, escalating health care spending will continue to consume between one-third and one-half of tax revenue growth. The combination of required spending on obligations such as debt service, commitments to restore some spending over time such as lottery aid to cities and towns, and the need to replace one-time revenues is sure to absorb any remaining fiscal flexibility.

This outlook has several important implications for the state's leaders:

- It is premature to consider major tax cuts and is likely to remain so for at least the next two years. At the same time, the state should keep the statutory commitment it made in 2002—when taxes had to be raised—to reduce taxes at a measured pace as revenues pick up. The first step in that schedule, an increase in the personal exemption, is likely to be triggered on January 1, 2005.

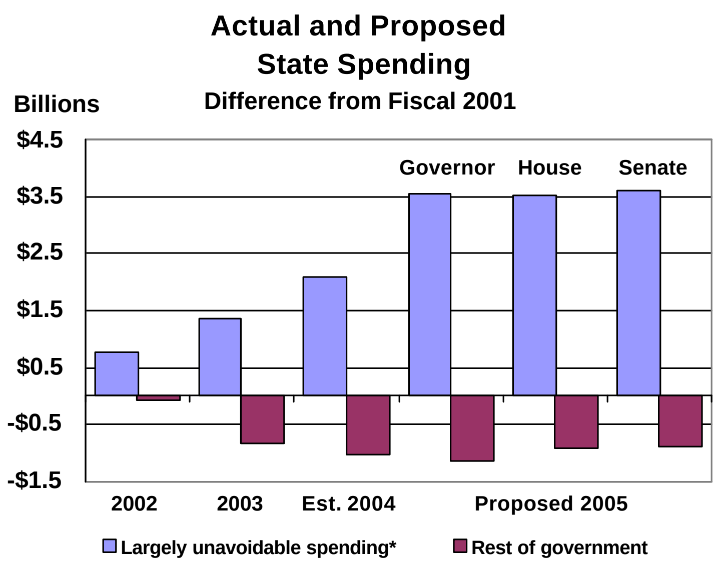
- Eliminating the state's reliance on one-time resources should be a top priority. Before budget deliberations began, the Foundation urged that the use of reserves and other one-time revenues be limited to no more than $500 million in 2005—approximately $200 *less* than proposed in the House and Senate budgets. Since then, it has become clear that the 2005 consensus tax forecast is too low—by at least $300 million and perhaps as much as $600 million. Because of that improvement in the revenue outlook, we now believe the 2005 reliance on reserves should be no more than $300 million, an amount that would make it possible to largely, or even completely, eliminate the state's dependence on one-time resources in 2006.

- The Commonwealth needs to begin to rebuild its stabilization reserves. All of the proposed 2005 budgets take a modest step in that direction by setting aside one-half percent of expected tax revenues for just that purpose, as required by current law. However, it must be recognized that a larger annual contribution—at least one percent of taxes and preferably more—will be needed in order to prepare for the next major downturn in the economy.

- While talk of a 2004 "surplus" ignores the heavy use of one-time resources, the state will collect roughly $500 million of tax revenues in excess of the 2004 forecast. This windfall presents an unexpected opportunity to address in part the severe shortfall in the Commonwealth's reimbursements to hospitals and other providers, a problem that threatens the financial underpinnings of the state's health care system as a whole. The Foundation believes that up to $150 million of the excess revenues should go to this purpose, as the first step in a multi-year strategy to resolve this issue. We would urge that any remaining excess not be spent, but instead be deposited in the state's depleted rainy day reserves.

- Given these demands on the state's resources—as well as the urgent need to restore some of the recent deep spending cuts—the state's leaders must develop an overall strategy for managing the additional revenues that will be generated as the economy improves. Without such a strategy, the state runs the risk of either failing to address important

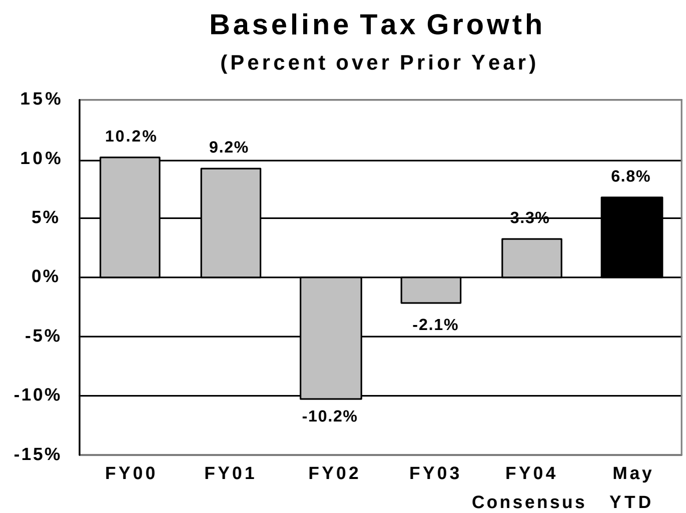
Figure 1



* Includes Medicaid and other health care commitments, pensions, debt service, education aid, school building assistance, and Dept. of Mental Retardation.

needs or over-committing its scarce resources, either by cutting taxes too aggressively or taking on unaffordable new obligations. Either outcome would have serious consequences for the state's finances and economic future.

Figure 2



At the same time, there is much to be commended in the House and Senate budgets now being reviewed by the conference committee. The Senate budget, for example, provides a critical infusion of dollars into the chronically underfunded free care pool, and advances a much-needed overhaul of the state's transportation agencies. It also includes several provisions to help eliminate pension abuses. Both budgets accommodate significant reforms of the school building assistance program that are expected to be adopted in separate legislation. The administration deserves considerable credit for maintaining the momentum for these reforms.

Despite the sometimes harsh rhetoric surrounding the budget deliberations, there has been a high degree of cooperation among the participants in the 2005 budget process. State leaders' agreement on 2005 tax revenues and pension funding, and the early accord between the House and the Senate on local aid, removed several of the largest and potentially most divisive issues from the debate. At the current pace, we are almost certain to have an on-time budget for the second year in a row, in sharp contrast to the extraordinary delays in several previous years.

Unfortunately, there are several problematic aspects of the legislative budgets, including an unnecessary new tax on insurers, harmful new mandates in health care, restrictions on doing business with companies that contract for services outside the country, and a backward step on construction reform, which are discussed on page 9.

Revenues

The proposed 2005 budgets rely on tax revenues of $15.8 billion, reflecting a consensus agreement among the administration, House and Senate that assumes 2004 receipts of $15.2 billion and 3.75 percent growth in baseline revenues (before tax law changes) in 2005.

When the revenue agreement was reached in January, the Foundation believed that the consensus forecast understated 2005 tax receipts by $300 million or more. Given the strong revenue performance in the ensuing months, we now believe that 2005 tax collections are likely to exceed the budgetary forecast by $500-600 million. Since January, revenues have outpaced the Department of Revenue's monthly projections by a wide margin. Through May, receipts are $495 million above the year-to-date benchmark, with baseline growth of 6.8 percent over 2003 (see Figure 2). Although revenues for May were slightly below expectations—primarily due to a decline in estimated payments by corporations—baseline growth for the month was a healthy 4.2 percent. In a further confirmation of the improving outlook, after accounting for tax law changes withholding from wages was up 4.6 percent in May, and sales tax collections rose a strong 5.8 percent. Since DOR has already completed processing refunds that it had expected to issue in June, collections in the final month of fiscal 2004 could well exceed the benchmark, with fiscal 2004 revenues ending the year more than $500 million above the forecast.

Despite this positive performance, both the House and Senate budgets count on $60-90 million of additional taxes on business that were proposed in House 1, which come on top of the more than $300 million of new business taxes proposed by the Governor and adopted in 2003. The Senate budget takes the further ill-advised step of imposing a new $10.5 million tax on health insurers to support immunization and other programs in the Department of Health.

Both the House and Senate budgets—as well as the amended versions of the Governor's 2004 tax package that is in the final stages of legislative approval—include language that attempts to avoid the potential $250 million revenue impact of a recent decision of the Supreme Judicial Court. That decision declared unconstitutional the mid-year effective date of the capital gains tax increase adopted in 2002, but did not resolve the question of exactly when—January 1, 2002 or January 1, 2003—the increase should go

Table 2
Total State Spending
Fiscal 2004-2005
($, Millions)

		Proposed 2005		
	Est. 2004	Governor	House	Senate
Spending from line items	$21,772	22,979	22,477	22,467
"Off-budget" authorizations				
Pensions	687	1,217	1,217	1,217
Health care	590	484	459	599
RMV fees for capital	72	47	47	47
Retained tuition	31	31	31	31
All other	32	32	62	62
Total "off-budget"	1,388	1,811	1,816	1,956
Total spending	23,160	24,790	24,292	24,423
Adjustments for comparison:				
School building assistance	–	–	396	396
Turnpike merger initiative	–	-275	–	–
Total adjusted spending	$23,160	$24,515	$24,688	$24,820

Note: The adjustment for House and Senate school building assistance does not include $150 million of additional 2005 support proposed to be financed with one-time 2004 resources. "Off-budget" authorizations exclude one cent of regular and motor vehicle sales taxes (an estimated $684 million in 2004 and 2005) dedicated to the MBTA.

into effect. The earlier date would impose $100 million of additional taxes on gains realized before May 1 of 2002; the later date would necessitate refunds of approximately $250 million.

Table 3
State Spending Growth
($, Millions)

	Estimated 2004	Proposed 2005 House	Proposed 2005 Senate
Health care	$856	$557	$641
Pensions	-103	530	530
Debt service	81	209	209
Chapter 70 education aid	-151	78	78
DMR	28	55	66
Higher education	-120	32	39
Direct care salaries	0	25	25
Other local aid	-130	25	12
All other	77	19	59
Total	$538	$1,529	$1,660

The "revenue neutral" alternative in the House and Senate budgets moves the effective date of the tax hike back to Jan 1, 2002; at the same time it directs the commissioner of revenue not to increase the 2002 liability of taxpayers who otherwise would have to pay additional taxes because of the new date. While the tax package (in legislation being considered separately from the budget) sets the same effective date for the increase, it achieves "revenue neutrality" in a different way—by authorizing a refundable credit for the taxpayers that will owe added taxes. There are serious questions whether either of these approaches will pass muster with the court. Fortunately, the state has sufficient reserves to pay the resulting liability if refunds to taxpayers are eventually required.

Spending

In an apples-to-apples comparison, the 2005 spending levels proposed in the legislative budgets differ by only 0.5 percent, or slightly more than $100 million. After adjusting for "off-budget" authorizations, proposed spending in the Senate budget totals $24.82 billion. This total includes $22.47 billion of line item appropriations and $2.4 billion of spending authorized in outside sections of the budget or other provisions of law[1] (see Table 2). Proposed spending in the House budget is $24.69 billion, including $24.48 billion of line item appropriations, practically identical to the Senate total. The Governor proposed $24.5 billion of 2005 spending, a slightly lower total that excludes the Governor's proposal to take over the Massachusetts Turnpike.

Looking beyond the totals, the growth in 2005 spending proposed by both the House and Senate (and to a large degree, the Governor) is strikingly similar, with essentially identical increases in three of the largest programs—pensions, debt service and Chapter 70 and other local aid (see Table 3). In the massive health care program, the spending difference of only $84 million, or one percent, is almost entirely due to the higher level of assistance to financially struggling hospitals proposed by the Senate. This

[1] The $2.4 billion total includes $396 million of spending for school building assistance—assumed in both the House and Senate budgets—that under pending legislation would be financed by a dedicated share of sales tax revenue.

Table 4
Fiscal 2004 Balance
($, Millions)

Revenue	
Consensus tax revenues	$15,230
Assumed taxes in excess of forecast	550
All other	7,820
Total	23,600
Spending	22,985
Revenue minus spending	615
One-time revenues	-451
Balances carried into fiscal 2005	-349
Adjusted revenue minus spending	-185

Note: Off-budget expenditures (and supporting revenues) are included in this analysis; the spending total is adjusted for approximately $350 million of identified reversions (unspent agency appropriations) and an assumed $150 million of unanticipated end-of-year reversions in excess of final deficiency appropriations.

similarity of priorities is reflected throughout the two budgets.

Even more striking is the contrast with the current fiscal year. In 2004, unavoidable increases in health care costs have dominated the state's finances—with major cuts in local aid, higher education and other important programs in order to offset the impact of rising health care costs. For 2005, one of the greatest areas of growth is employee pensions—an increase of $530 million, or 77 percent, that is intended to remedy the combined impact of chronic underfunding and the steep decline in the market value of assets in recent years. While upward pressure on Medicaid and other health care costs remains a major problem, the fiscal 2005 increase in these programs is not as great as expected, due to the not yet fully understood combined effects of previous cuts, declining caseloads, and an improving economy. In almost every other area of government, both the House and Senate budgets maintain or slightly increase spending. However, it should be noted that the proposed increases are in general quite small—insufficient to offset inflation—and far less than the amounts that would be needed to make up for the deep cuts of the previous three years.

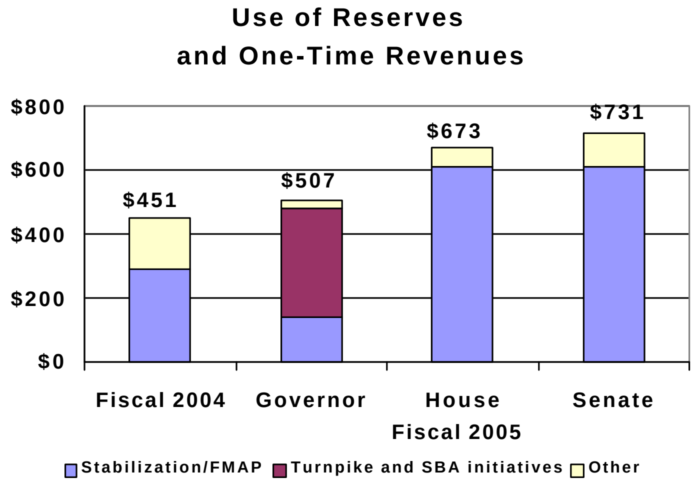
Balance and Reserves

Based on the Foundation's updated analysis, revenues and other financing sources for the 2004 budget will exceed estimated expenditures by $615 million (see Table 4). However, this "surplus" is more apparent than real, because it ignores $450 million of one-time revenues and another $350 million that will be carried forward for spending in 2005. Thus, even assuming that final taxes will be $550 million above the official tax forecast, ongoing 2004 revenues will fall short of spending by an estimated $185 million. The 2004 one-timers include a previously authorized withdrawal from the stabilization fund of more than $100 million, roughly $200 million of federal fiscal relief that will be used to support 2004 operations, and $150 of other measures. The amounts carrying forward into 2005 include $270 million of one-time federal fiscal relief authorized in the legislative budgets, as well as 0.5 percent of tax revenues that by statute must carry forward into the following fiscal year.

Though slightly improved, the outlook for structural budgetary balance is negative for 2005 as well. Although it is clear that tax revenues will top the forecast on which the 2005 budget is based, the use of reserves in both the House and Senate budgets exceeds the likely additional receipts (see Figure 3). Even assuming $600 million of added 2005 tax revenues—a figure that many would regard as overly optimistic—spending would still outpace ongoing revenues by $73 million under the House budget and $131 million under the Senate budget.

Were it not for the extraordinary infusion of more than $500 million of federal fiscal relief and some $300 million of business tax increases in the guise of "loophole" closing, the state's rainy day reserves would have been largely depleted in 2004 and wiped out in 2005.

Figure 3



Note: FMAP refers to one-time revenues from federal fiscal relief legislation. The fiscal 2004 amounts shown here do not include $270 of FMAP revenues, which both the House and Senate budgets authorize to be carried forward for expenditure in 2005; nor do they include approximately $100 million transferred from reserves to the newly created economic stabilization trust.

The administration, House and Senate are all to be commended for accommodating a modest contribution to the stabilization fund in their 2005 budget proposals, as provided for under current law. However, it must be recognized that the amount required to be contributed annually under that statute—1/2 percent of total tax revenues—will not build up the fund rapidly enough to deal with the likely revenue impacts of the state's next major economic downturn. For that reason, MTF supports Speaker Finneran's proposal to amend the Massachusetts Constitution to require an annual contribution to reserves of one percent of tax revenues.

Reforms

The Legislature, particularly the Senate, should be commended for making major progress on a reform agenda that began in last year's budget process. Substantive proposals to restructure the state's transportation agencies, finance unfunded obligations for school building assistance, overhaul outmoded public construction laws and tighten controls on pensions would address critical policy issues facing the Commonwealth and provide long-term benefits for taxpayers. The Governor also deserves credit for initiating the debate on these issues with his own proposals. At the same time, the positive steps are marred by provisions that reverse previous progress on construction procurement at the higher education building authorities and on state budget management.

Transportation Restructuring Both the full Senate and the House chair of the Joint Transportation Committee have put forth plans to strengthen the Commonwealth's ability to finance, build and maintain its transportation assets and to integrate the state's array of fractured transportation agencies and authorities. Senate Transportation Committee Chair Steven Baddour and House Chair Joseph Wagner deserve particular credit for developing comprehensive and thoughtful proposals. With an effective transportation system

Budgetary Proposals That Should Be Rejected

Despite largely positive efforts, the Senate and House budgets include several particularly ill-advised proposals that deserve to hit the cutting room floor in conference.

Establishing Drug Price Controls

Language in the Senate budget (floor amendment 597) would radically alter the way prescription drugs are purchased in the Commonwealth, including *de facto* controls on prices via centralized procurement on behalf of the roughly one million Massachusetts residents covered by state-supported pharmacy benefit plans.

- Under the guise of "fair pricing," these provisions would also require unprecedented disclosures of pharmaceutical companies' financial information, and would also change prior authorization requirements.
- Other Senate provisions (floor amendments 552 and 701) would direct state agencies like the Group Insurance Commission to buy drugs from Canada if the federal government approves importation and would actively encourage state residents to import drugs from Canada.
- Language passed by the House (section 292) and the Senate (floor amendment 595) attempts to create a less sweeping bulk purchasing program, but could open the door to Medicaid—which benefits from a federally mandated "best price" for drugs—becoming a price setter for the program's pooled purchases.

Not only are the savings advanced by proponents almost certainly illusory, but the amendments also seriously undercut the Commonwealth's interest in encouraging thriving biotech and pharmaceutical industries in Massachusetts.

Mandating Nurse Staffing Levels

The Senate also proposes to require minimum nurse-patient ratios, on a pilot basis, in ten acute care hospitals, rather than study the issue as the House proposes in its budget. Quite apart from the wisdom of legislatively prescribing the "proper" staffing ratios for any private entity, such a program is inherently unworkable since it attempts to impose an unaffordable cost structure on hospitals unlucky enough to be selected as participants.

Taxing Health Plans for DPH Programs

The Senate budget also imposes a new $10.5 million tax on health insurers to support programs of the Department of Public Health. Not only would this set a bad precedent of taxing health plans or other private entities for general public health programs, but it would also add to the escalating costs of health care for individuals and employers.

Restricting Outsourcing of Jobs

An amendment adopted on the Senate floor seeks to restrict the "outsourcing" of state contracts to firms that employ overseas workers. While the intent of the amendment appears to be to address a specific situation in a single department, it could well have unintended broader negative consequences.

Limiting Construction Flexibility

The House budget unwisely proposes to take away the higher education building authorities' ability to use alternative procurement methods for university construction projects built with non-governmental funds; this provision is also included in otherwise positive construction reform legislation (see the discussion of public construction in the Reform section).

critical to Massachusetts' economic competitiveness, the Legislature should bolster the state's capacity for addressing its enormous transportation needs by enacting one or a combination of these plans.

Both proposals seek to expand on the administration's proposal to merge the Turnpike Authority with the Highway Department while retaining the authorities as independent entities. In doing so, they offer somewhat different but positive approaches to the central challenge identified in the Foundation's recently released report, *The Road to Reform: Restructuring the Commonwealth's Transportation Agencies*—striking the right balance between the greater coordination and economies of scale that come with consolidation on the one hand, and the focused operational and revenue-generating capacities provided by the independent authorities on the other.

The two proposals have more features in common than differences. Both charge the Secretary of Transportation with identifying ways to share resources across agencies, generate savings for the Highway Department by shifting responsibility for certain interstate highways to the Turnpike Authority, and create a commission of outside experts to recommend strategies for financing the state's most critical—but unfunded—transportation needs. Both plans also go much farther than a House budget provision creating a coordination council that is too large and unwieldy and lacks the authority to ensure meaningful changes.

The two proposals each charge the Secretary with developing and implementing a much-needed comprehensive statewide transportation plan but take different approaches to the Secretary's role in coordinating the capital investments of the Commonwealth and the authorities. Under the House Transportation Committee proposal, the administration would be empowered to develop an integrated plan—including the capital programs of the authorities—that would be approved by a council chaired by the Secretary. The Senate seeks to increase the executive branch's authority over all of the agencies and makes the Secretary chair of a restructured Turnpike Authority board in addition to the MBTA board already chaired by the Secretary.[2] The Transportation Committee restructures the Turnpike board without adding the Secretary and removes the Secretary from the board of the MBTA, with the intent of enhancing the independence of the authorities by emulating the model of the third major authority, MassPort.

School Building Assistance The Legislature, in conjunction with the Treasurer, has crafted a comprehensive proposal to finance the state's huge and growing obligation to help cities and towns cover the costs of school construction. The plan, contained in separate legislation, would dedicate one cent of the sales tax, $1 billion in state bonds and $150 million in reserves to fund the program, allowing the state to initiate payments by 2007 for all of the 420 projects currently awaiting reimbursements, while endowing a fund to finance future needs. The sales tax would be phased in over seven years, from $396 million in 2005 – the amount the state currently spends on the program – to the full penny – currently about $650 million – in 2011. While the proposal represents an enormous commitment of state funds, the dedicated revenue source would place an upper limit on the state's obligation while providing a reasonable level of funding to meet current and future needs for school

[2] A provision also making the Secretary chair of the MassPort board was dropped from the proposal on the Senate floor.

construction. The Legislature's plan requires reducing the state's generous reimbursement rates—now an average of 70 percent—by ten percent for projects not already on the waiting list. The ability to finance projects not yet on the list is a significant advantage over the plan put forth by the administration, which nonetheless deserves credit for bringing the issue to the forefront with a serious proposal. The Foundation's chief concern with the Legislature's plan is the unnecessary creation of a new independent authority to administer the program.

Public Construction The Legislature's reform agenda also includes a major overhaul of the antiquated state laws governing public construction. The proposal enables state agencies to increase accountability for quality by prequalifying contractors and subcontractors before they bid on projects, and to employ alternative procurement methods—design-build and construction-manager-at-risk—that save time and money. The proposal, developed by a commission that included every interest group in the construction business, represents the most important reforms of public construction in three decades.

Unfortunately, the bill takes a step backward in one important area, by removing the authority of the UMass Building Authority and the State College Building Authority to use alternative procurement methods for construction projects built with non-governmental funds. This provision is also included in the House budget. As the Foundation underscored in its recent report, *The University of Massachusetts: Removing Barriers to Educational Excellence at the State's Public Research University*, limiting flexibility comes at a high cost in terms of dollars and long delays.

Pension Reforms The Senate budget takes important steps to curb some of the opportunities for abuse that taint the state's pension system, including adopting the Governor's proposals to eliminate a loophole that allowed certain retirees to collect a double benefit and to end the practice of granting a full year of service to elected officials for as little as one day of work. Unfortunately, the House has not adopted comparable provisions. While the amounts at stake are not large as a share of pension outlays, these reforms are important as matters of equity and public accountability.

Budget Changes Reversing the positive steps of the last several years to increase flexibility in the routine management of agency finances, both budgets impose new restrictions on procuring information technology, contracting for revenue maximization projects, and releasing appropriations for expenditure. In a particularly problematic change, the House budget would also require the prior approval of the ways and means committees to reallocate monies within a line item. After drastically reducing the number of legislatively mandated "minor" accounting funds last year, the House proposes to add three—and the Senate an additional six—such funds to the books of the Commonwealth in 2005.

BUDGET SUMMARY

($ Millions)[1]	Actual 2003	2004 Estimated	2005 Governor[4]	2005 House	2005 Senate	Senate minus House Amount	Senate minus House Percent
Investment in Children	**$6,139.3**	**$5,829.6**	**$5,817.5**	**$5,970.2**	**$5,964.5**	**($5.7)**	**-0.1**
Education Local Aid	4,022.0	3,794.7	3,734.9	3,886.2	3,867.3	(18.9)	-0.5
Higher Education	982.3	862.6	893.6	894.1	901.9	7.8	0.9
Services to Children	646.0	681.9	701.8	699.6	703.9	4.3	0.6
Youth Services	122.8	126.0	130.7	129.5	131.2	1.7	1.3
Child Care Services	366.1	364.4	356.6	360.8	360.2	(0.6)	-0.2
Criminal Justice and Law Enforcement	**$1,714.0**	**$1,766.1**	**$1,757.1**	**$1,773.9**	**$1,793.2**	**$19.2**	**1,1**
Corrections	808.8	833.6	818.4	831.7	844.1	12.4	1.5
Judiciary	566.5	596.5	585.6	609.1	602.9	(6.2)	-1.0
Police	230.7	225.3	240.3	223.6	233.7	10.1	4.5
DAs	75.8	77.1	76.8	76.1	79.0	2.9	3.8
Attorney General	32.2	33.5	36.1	33.5	33.4	(0.1)	-0.2
Local Government	**$1,295.7**	**$1,241.8**	**$1,244.5**	**$1,253.2**	**$1,259.6**	**$6.4**	**0.5**
Assistance to the Poor	**$6,926.9**	**$7,564.9**	**$8,246.4**	**$8,171.9**	**$8,174.5**	**$2.6**	**0.0**
Medicaid	5,847.9	6,492.6	7,153.4	7,058.6	7,043.9	(14.7)	-0.2
Cash Assistance	688.8	690.0	699.6	705.0	716.2	11.2	1.6
Housing Assistance	109.9	94.7	96.6	102.9	100.8	(2.1)	-2.0
Elderly	280.3	287.6	296.9	305.4	313.6	8.2	2.7
Assistance to the Sick and Disabled	**$2,007.0**	**$1,975.6**	**$1,969.9**	**$2,033.5**	**$2,052.9**	**$19.4**	**1.0**
Mental Retardation	986.4	1,014.3	1,044.3	1,069.5	1,080.6	11.2	1.0
Mental Health	597.3	592.8	587.7	587.1	590.2	3.1	0.5
Public Health	423.3	368.5	337.9	376.9	382.1	5.1	1.4
Transportation	**$222.1**	**$221.4**	**$217.1**	**$187.3**	**$181.0**	**($6.3)**	**-3.3**
Regional Transit	42.4	53.2	47.8	48.8	47.8	(1.0)	-2.0
MDHighways	115.4	101.8	104.7	73.9	68.9	(5.0)	-6.8
Registry	64.3	66.4	64.6	64.6	64.3	(0.3)	-0.4
Economic Development	**$315.5**	**$322.0**	**$308.5**	**$289.2**	**$288.7**	**($0.5)**	**-0.2**
Business and Labor	127.3	122.2	112.9	121.9	126.3	4.4	3.6
Environment	188.2	199.8	195.6	167.3	162.4	(4.9)	-2.9
Central Costs	**$3,017.4**	**$3,047.8**	**$3,863.8**	**$3,807.0**	**$3,807.1**	**$0.1**	**0.0**
Employee Benefits[2]	1,567.0	1,516.0	2,091.5	2,066.5	2,066.6	0.1	0.0
Debt Service	1,450.4	1,531.8	1,772.3	1,740.5	1,740.5	0.0	0.0
Other	**$984.1**	**$1,190.6**	**$1,090.2**	**$1,202.7**	**$1,298.1**	**$95.4**	**7.9**
General Government	618.1	659.3	644.6	637.4	636.5	(0.9)	-0.1
Residual	365.9	531.3	445.6	565.3	661.5	96.3	17.0
Total Budget	**$22,622.0**	**$23,159.7**	**$24,514.9**	**$24,688.9**	**$24,819.5**	**$130.6**	**0.5**
Adjusted for MBTA[3]	$23,306.3	$23,844.0	$25,199.2	$25,373.2	$25,503.8		

1. Amounts are adjusted to include certain off-budget authorizations, primarily for health care and pensions.
2. Does not include workers' compensation and unemployment insurance which are budgeted in agency accounts.
3. In 2001, expenditures (and supporting sales tax revenues) for operating and debt service assistance to the MBTA were moved off-budget.
4. Excludes Governor's Turnpike initiative that would bring $274.9 million of expenditures on-budget, financed 100 percent by Turnpike revenues. House and Senate amounts include $396.5 million of expenditures for school building assistance proposed to be financed from dedicated sales tax revenues.