

Governor Chris Christie's budget address to the Legislature

March 16, 2010

I am required by statute to report to you today on my plan for the state's budget for fiscal year 2011.

I am required by our state's constitution to submit a plan in which revenues and expenditures are in balance.

And I am required by the duty I have to the people of this state -- and by the moral obligation we all have to the generations who will follow us -- to take bold action now to reverse the direction we have taken for many years.

This is my first full budget to be presented to this legislature. And, to be frank, it represents a completely new course:

- A new course that will stop our fiscal hemorrhaging;
- A new course that will fulfill our joint responsibility to leave this state better than we found it; and
- A new course that will make possible a brighter future of growth and opportunity.

My friends, this new course is long overdue.

Today, we are fulfilling the promise of a smaller government that lives within its means. Today, we begin doing what we promised we would do. The defenders of the status quo have already begun to yell and scream. They will try to demonize me. They will seek to divide us rather than unite us. But even they know in their hearts, if not yet in their minds -- it is time for a change. Never forget, some of those shouting the loudest are the architects of the disaster we are now suffering. Do we really want another decade of economic failure? No, this spring it is time to clear away the underbrush to make room for growth.

So, today, we stop sweeping problems under the rug. We will not hide our problems until another day. And we are certainly not increasing the tax burden we place upon our people.

Today, we are taking necessary and decisive action to reduce state spending and reform state government. The problems we have hidden for twenty years are evident for all to see. The day of reckoning has arrived.

Some are saying, by their choice of policies, that we should descend further into debt and deficit, and risk driving more people out of the state with "temporary" tax increases that always turn out to be permanent.

I say we must face up to our responsibility:

- Cut government spending and end public union excesses that we can no longer afford;
- Reform government to cost less and operate better;
- And restore some sense of balance to the obligations we take on -- so that in the future they are both sensible and sustainable.

In short, we can forge a new course. One that brings spending in line with revenues. One that attacks our problems directly so they are shrinking, not growing. And most importantly, one that lays the groundwork for a better tomorrow.

Today, I ask you to join me in setting out on this new course.

We did not dig the hole in which we find ourselves in a day or a year. The massive gap between our resources and our appetite has built up over twenty years. It has been dug by a lack of discipline and unwillingness to say no; made deeper by poor policy choices along the way and quick fixes to avoid tough decisions.

And now that hole is a grand canyon. The distance between New Jersey's projected revenues for next year and the state's spending obligations under current law, if nothing is changed, is \$10.7 billion. As a percentage of the prior fiscal year's \$29 billion budget, it is a massive deficit -- the largest deficit of any

state in America, and the largest in our own history -- by far. No fiscal crisis we have had in New Jersey's history compares to this one.

Therefore, our solutions must set a historic new course – directly away from the failed tax and spend policies of the past.

In recent years, we have allowed the problem to become bigger through a series of one-time gimmicks that have worsened our situation.

This year, for example, some state employees will be given an 11 percent salary increase, at a cost of \$300 million to the taxpayers, while many New Jerseyans are lucky to even have a job.

Incredible.

- \$700 million in one-time revenues came in from granting amnesty to tax cheats in another gimmick that was used to paper over problems. As usual, our government spent it all in one year, and built that much more spending into the budget for this coming year, with no way to pay for it now or in the future.

- So too were federal stimulus funds for education irresponsibly spent all in one year – -- and then simply added into the budget, with no way to pay for it this year.

The attitude has always been the same – continue to spend, continue to borrow, and drop the catastrophic sum of all of these poor choices into the lap of the next guy. Well, time has run out. The bill has come due.

Over fifteen years, \$4.7 billion was stolen by both parties from the trust fund set up for unemployment insurance benefits and spent for other purposes. The result, without action, is a crippling tax increase that will kill more jobs in a state that already has the worst unemployment in the region.

As you know, on that matter, I have proposed action to cut the punitive payroll tax increase on jobs, make benefits more reasonable, restore health to the trust fund, and prevent future raids. I ask you to pass it now.

Our unemployed fellow citizens need the bridge of compassion provided by unemployment benefits. Playing politics on what is a moderate and needed proposal to fix this system will only threaten to blow up that bridge and hurt families already in crisis. For those who stole the money in the first place, you now have the responsibility to help permanently fix the fund you bankrupted.

Over the course of two decades, time and again the State has borrowed to pay its every day bills. You wouldn't do that in your own home, and we shouldn't do that with your tax dollars.

The result is overwhelming. Outstanding direct debt has ballooned from \$3.9 billion in 1989 to \$33.9 billion last year. And total debt, including all obligations, has tripled from \$17 billion to over \$51 billion, just since 2002.

Our debt is equal to an obligation of \$4,100 for each and every man, woman, and child in this state – 130 percent higher than in 2002.

These gimmicks were used; this borrowing was done, for one simple reason: government spent too much money – not only at the state level, but also at the local level.

State spending grew 59 percent from 2001 to 2008, before the current recession forced us to make do with less.

That is bad enough, but as you know, more than half of what the State spends every year is sent to local governments, in the form of aid for municipal government and school districts. And local government has exercised even less control. Spending at the local government level has risen 69 percent since 2001.

Even now, in the depths of a great economic crisis, local governments and school boards can't hold back on the pressure that comes from the public sector unions. What is the proof? While New Jersey's private

sector lost 121,000 jobs just in 2009, New Jersey's local governments added 11,300 new municipal and school employees. 11,300 new government employees paid for by your taxes just this last year. 11,300 new employees added while you are struggling to keep your job and pay the bills. We must give the voters the tools to stop the madness and stop it this year.

My friends, the taxpayers have paid a steep price for this lack of discipline by their state and local leaders.

The litany is well-known to everyone in this room -- and if it is not, it should be.

The per-person cost of state and local taxes has tripled in the last two decades. That's right, on a per person basis; New Jerseyans today pay more than three times in state and local taxes than they did 20 years ago. The income growth of our citizens has not kept pace. Yet we continue to hear advocates, I am sure even after today's speech, asking for higher taxes again -- for going into your pocket one more time.

All while New Jersey residents are the most over-taxed in the country.

We have one of the highest top marginal income tax rates; the second highest sales tax rate; the sixth highest corporate tax rate; and the highest property taxes in the nation.

Add it all up, and the sad fact is that we are number one -- with more state and local taxes taken as a percentage of income than any other state in America.

That is one distinction I am prepared to give up.

Some will say that we should tax our citizens more to keep up with spending growth. They have said it before. They have done it before. They will say it again today. Get ready, it will sound like this:

"We need the money," they will say. "These are good programs"; "it's only fair"; "we'll only tax business, it won't hurt you one bit"; "let others pay more."

Understand one thing -- the actions they will propose will raise taxes on businesses -- large and small -- and kill a job market already on life support. If you are unemployed and support tax increases, be ready to stay unemployed. If you are working and support the job killing taxes that some will advocate today, you may be next to lose your job. These are the facts they will not tell you.

We have the worst unemployment in the region and the highest taxes in America, and that's no coincidence. Is the way to fix that problem to make our taxes even higher? This has been their prescription for the last ten years and the job market in New Jersey is near death.

You changed doctors in November for this very reason -- now it is time to change medicine, too. Off the temporary high that comes from higher taxes and greater spending. Back to the hard, difficult medicine of fiscal discipline, lower spending and less debt -- which in your heart you know will lead to the greater long term health of our state.

If government is left unchecked, with no changes in current law, spending by the state of New Jersey is projected to be \$38.4 billion in the coming fiscal year. This is outrageous. 20 years ago, when Governor Florio took office, spending was only \$12 billion. If we did nothing, spending will have increased 322 percent in 20 years -- over 16 percent a year, every year. That's right, state government spending would have gone up at 4 times the rate of inflation over the last 20 years. Today, we say, stop.

The latest estimates from our department of the treasury project revenues for the year of \$28.3 billion.

That's a difference of over 10 billion dollars. To make up that deficit with taxes would require New Jersey to more than double income taxes -- not just on the rich, not just on someone else, but on every single taxpayer in new jersey.

When some stand up to protest the cuts we make, ask them, would you rather double my income taxes to continue to pay for this government?

Ladies and gentlemen, I was not sent here to approve tax increases; I was sent here to veto them. And mark my words, if a tax increase is sent to my desk, I will veto it. It is time for the tax madness to end.

The point is, we have tried that route. And it has failed.

Previous administrations and legislatures have raised taxes 115 times in the last eight years alone.

Raising taxes again on the people of New Jersey, the highest taxed citizens in the country, would be insane.

In the past two years, with higher taxes, revenues have fallen, not risen.

One reason is that some people who could leave New Jersey have left the state. A recent study documented this trend. It found that from 2004 to 2008, New Jersey experienced a net outflow of wealth of \$70 billion.

Ladies and gentlemen, if you tax them, they will leave.

In the past two and one-half years, New Jersey's unemployment rate has more than doubled -- from 4.4% to 9.9% --. From below the national average to above the national average.

There is a cost to all this taxing and spending. It is costing us jobs.

That price is unacceptable. I want to put New Jersey back to work.

So today, as promised, I am proposing a new course -- an entirely different course.

My budget proposes to review state government from top to bottom, and bring it under control. My budget proposes that we reform the way New Jersey government operates; and that we demand reform from the local governments we fund as well.

My budget proposes that we end the days when New Jersey is a national leader in per person taxes, per person debt, and unemployment -- and that we instead turn New Jersey into a national leader in job creation, growth, and opportunity.

The time for change has arrived, and it is time to get to work.

I became your governor just eight weeks ago with a mandate from you to do what I said I would do when I asked for the job—to cut the size of our budget and impose discipline on a government out of control.

In those eight weeks I have cut \$13 billion in spending. That is \$1.6 billion per week; \$232 million a day; \$9 million an hour for every hour since I took the oath of office. This budget, full of tough and painful choices, is part of that effort and keeps faith with my pledge.

There are 2,112 line items in New Jersey's budget and we have reviewed every one of them.

For some we recommend a cut. For some, we ask that they stay intact. For still others, we propose reform. And for those that are not essential, we recommend elimination. Due to the elimination of those unnecessary programs, there will be as many as 1,300 layoffs, beginning January 1, 2011.

In total, the budget we submit today calls for the state to spend \$28.3 billion in fiscal year 2011.

It is a reduction of nearly 9% from the total amount the state spent last year. A 9% drop in one year in state spending -- now that is the change we deserve.

And it is a reduction of \$10.7 billion below the original budget projection for the year under current law.

It has been a difficult process to come up with spending cuts of this magnitude.

And it will not be easy to enact or implement them.

This plan requires sacrifice by all New Jerseyans. But it is a shared sacrifice. And while holding the line is difficult today, it is necessary for a better tomorrow.

The watchwords of this budget are shared sacrifice and fairness. Individuals contribute, businesses sacrifice, local governments tighten their belts, and we end our addiction to spending. Everyone comes to the center of the room – we jump off the cliff together to stave off certain fiscal death for the hope of economic salvation tomorrow.

\$2.9 billion of the budget gap was closed by reforming programs to make them better and more efficient than ever before.

Every single department of state government will be reduced:

Agriculture, down 24%;

Banking, down 12%;

Children and families, down 4%;

Community affairs, down 35%;

Corrections, down 7%;

Environmental protection, down 2%;

Education, down 8%;

Health and senior services, down 6%;

Human services, down 4%;

Labor, down 6%;

Law and public safety, down 7%;

Military affairs, down 2%;

The public advocate, down 25%.

State, transportation and treasury, down 11, 3, and 39%, respectively.

Every department of state government has been asked to tighten its belt. And we will demand local governments do the same. We cannot and should not make state government shrink only to let local government expand.

\$3 billion in savings results from recognizing that our pension system must be reformed before we can or should fund a broken, out of control system. The pension system has been so generous that it has created a flood of liabilities. From 2002 to 2008, pension payments to retirees grew 56%, triple the inflation rate. Our benefits are too rich, most public employees contribute too little, and the taxpayers have had enough -- enough of out of control pensions to public sector unions while they are losing their own jobs, enough of losing their homes, and then being told by the union bosses that they must pick up the tab for rich pensions at the same time.

The senate has unanimously approved a plan that is a good start and will have an immediate and material effect in beginning to reform this now unsustainable system. These bi-partisan reforms would limit participation in pension plans to full-time employees, bring a more rational approach to calculating benefits, ask both state and local employees to contribute to the cost of their health plans going forward, and cap large sick leave payments at the local level just as we do for state employees.

I congratulate Senate President Sweeney, Minority Leader Kean, and all members of the senate for moving this needed legislation forward unanimously. I had hoped the assembly would have done the same by now given the urgency of the crisis. I urge the assembly again today to act on these needed pension reforms. And I will sign these bills the moment they hit my desk.

But that is only the beginning. To fix our broken public union pension system, we must repeal the unwarranted 9% pension increase granted by republicans in 2001 but never paid for by either party. We must do it for current as well as future employees. We must make it among our most urgent work to be done.

In taking the broad and decisive action to bring this proposed budget into balance, it is important to recognize the things we did not do.

In a number of cases, we took action to protect important programs, or those that were vital for the state's most vulnerable populations.

This budget proposes to save property tax relief for fiscal year 2011 by finally reforming the gimmick of politicians sending out rebate checks right before an election. Worse yet, this program cost over \$10 million in interest every year because we borrowed the money we sent back to you in a check with the governor's name on it. That kind of deceitful politics ends with this budget. We will send you property tax relief, after a break to reform the system, as a direct credit on your property tax bill. No checks, no games, no politicians pushing themselves into your mailbox to get the credit – just direct property tax relief on your property tax bill. The first credits will appear in May 2011, in recognition of the shared sacrifice we all must make.

We took steps to preserve New Jersey's health-related safety net on several fronts: First, I propose to increase funding in FY 2011 for New Jersey's hospitals. During these difficult economic times, it is a priority to protect our hospitals and those they serve.

This budget stands up for our hospitals despite all our other fiscal challenges.

Second, we must continue to fund the enrollment of all eligible children – up to 350% of the federal poverty level – in Medicaid and New Jersey family care. The health of all our children is a priority we have protected.

Third, I propose to preserve access to needed medications for our senior citizens. These medications are lifesavers for our seniors. My budget maintains program eligibility for prescription drugs.

In other areas, too, we have tried to maintain the essential even in the context of the broader need to remove the excess.

The budget maintains funding to keep New Jersey's parks open so that struggling New Jersey families will have an affordable, in-state place to vacation this summer. Because in dire economic times we do not believe anyone should go hungry, we have preserved funding for New Jersey's food banks and expanded eligibility for food stamps to 185% of the poverty level.

Closing a nearly \$11 billion budget gap required us to look hard at the biggest category of spending in the budget – state aid to school districts.

Last year's state aid included over \$1 billion in one shot federal stimulus money that will not return this year. This type of irresponsible use of stimulus money was a typical election year gimmick used to fool school districts and our citizens. Today, we pay the price for putting off the hard choices; school districts will have \$819 million less than they had last year. These federal dollars are gone because the stewards of last year's budget decided to spend every nickel in one year rather than spreading these resources over a number of years as the program intended.

We have worked to ensure that no school district in New Jersey will face a reduction in aid that is greater than 5% of their school budget-- so school districts will face a budget cut that is 4% less than the cut in state spending as a whole. During a crisis worsened by the election year foolishness of our predecessors, we keep school aid cuts at less than state spending cuts.

And I am also proposing legislation to finally give school districts the power they have repeatedly asked for in collective bargaining and in setting employee benefits so that they can lower the costs of their budget without affecting learning in the classroom.

Now, let's speak candidly about the costs of our public school system. I am a product of New Jersey's public schools and proud of it. I honor the service of good, conscientious teachers who care deeply about training the leaders of tomorrow for our state.

The leaders of the union who represent these teachers, however, have used their political muscle to set up two classes of citizens in New Jersey: those who enjoy rich public benefits and those who pay for them. That has created a system that cannot be sustained – a system fueled by mandatory dues of more than \$700 a year taken out of every one of the nearly 200,000 teachers' paychecks.

Political muscle fueled by intimidation tactics, political bullying and smears of public officials who dare to disagree. This conduct has set up an unfair system. Is it fair to have any public employees getting 4-5% salary increases every year, even when inflation is zero %, paid for by citizens struggling to survive? It is fair to have New Jersey taxpayers foot the bill for 100% of the health insurance costs of teachers and their families from the day they are hired until the day they die? Is it fair that teachers have a better, richer health plan than even state workers and pay absolutely nothing for it?

I believe rank and file teachers know this is not fair and that we can no longer afford to burden our taxpayers with these costs and runaway taxes. The union bosses will tell you, as they always have each time their empire is threatened, that they are protecting our children. This tired song has grown old and inaccurate. Is the way our children learn affected by whether the union gets free family health insurance for life for its members? Does a child learn more if the union gets 5% taxpayer funded raises every year for its members? This is nonsensical and self-serving – and we all know it.

Just how arrogant has the union gotten? By refusing to accept merit pay and use it to reward their best members, the union may have cost New Jersey \$400 million in race to the top school aid from Washington. They did this in a year when they complain about budget cuts; in a year when we could truly use the money. Ask yourself, just who is putting their personal interests ahead of our children's?

My proposal is simple: school district employees should pay for a reasonable portion of their health care costs, just like every other New Jerseyan. If we do not end this dual system, state and local government will have to raise taxes endlessly to pay for it. Teachers are not the problem, they get it. Trenton special interests are the problem and we must stand up to them.

With respect to municipal aid, I am recommending a reduction in various forms of municipal aid of \$445 million, but it has been designed to minimize the effect on any one municipality. I am also ordering the department of community affairs to implement a new, disciplined, and significantly reduced program for the past recipients of special municipal aid and extraordinary aid.

No longer will we reward cities and towns who irresponsibly spend. The gravy train of this type of aid is ending. Only those who show they are cutting their budgets just as we are, and practicing transparency with the aid, will make the grade for temporary help. The message is simple: we are ending this aid, and soon, so get your act together now.

In the task of getting control of our finances and turning New Jersey around, we cannot do it alone. If we do not see spending control at the county, municipal and school board level, we will be leaving the job undone.

Today's pain will have been suffered in vain. So, local governments and school districts must be our partners in this shared sacrifice.

Their spending growth is out of control in large part for the same reasons that state spending has grown – employee costs, health care costs, retirement costs, and a failure to set priorities while establishing reasonable means of control.

So today I am introducing in this budget a series of proposals that constitute a toolkit to protect taxpayers from property tax increases. At the same time, my plan will give local governments and school districts the tools to cut costs so they too can reduce taxes for New Jerseyans.

At its heart is proposition 2 1/2 -- a constitutional amendment to cap the growth of property taxes at no more than 2 1/2% per year.

In 1980, the voters in Massachusetts adopted a similar proposition, and the results were striking. While in 1977 Massachusetts had the 3rd highest property tax burden, by 2005 it had dropped to 33rd place.

Some will say this will affect the quality of children's education. This is absolutely wrong. Massachusetts has accomplished this astonishing drop in property taxes while maintaining the #1 k-12 achievement in America.

We must take the same direction. I urge the legislature to approve this constitutional amendment and send it to the voters this November. The voters have waited too long for relief. There is no good reason to take this decision out of voters' hands. If it is right to vote for a constitutional amendment to fund pensions, as many in this chamber support, I contend we must allow voters to vote for controlling their own property taxes.

But the state should not ask cities and towns to meet a standard that we ourselves are not willing to live up to. Accordingly, I am also proposing that this constitutional amendment cap the growth of state spending at 2 ½ percent per year.

We must also have collective bargaining reform that respects these new caps. Arbitration must be preserved for public employees who cannot strike. But arbitrators cannot act in a vacuum. We must reform the system to allow for recognition of the spending caps and an award's impact on property taxes. Fundamental fairness to both sides requires an arbitration system – but one that is fair to all parties.

We must also have civil service reform. The heart of our proposal is that local government at every level should have the option of opting out of civil service. That tool alone will save an untold amount of taxpayer dollars and make management of our towns better and more professional.

This taxpayer's toolkit for property tax reform is one piece of a broader reform agenda that must accompany the spending decisions we are making in this budget. Both "r" words – reduction and reform -- must be covered as we try to control spending for the long term and attack this budget deficit.

Shortly after taking office, I signed executive order 15, under which we are reviewing the hundreds of authorities, boards and commissions that populate New Jersey state government. Our goal: to consolidate or eliminate those that should not exist and to end the excessive compensation and pension grabs made by those in this shadow government. We are asking for shared sacrifices to put our house in order – out of control authorities and commissions like the Passaic Valley Sewerage Commission must learn that their days of padding their own pockets at the expense of taxpayers are over.

Part of that cleaning up should be to analyze which functions can best be performed by state employees and which by outsiders. For example, the state does not need to be in the business of running parking garages. And it does not need its own television network – New Jersey network can and will succeed as an independent not-for-profit, and we should free it to pursue that path.

Last week, I established a privatization advisory board, to be chaired by former congressman and state legislator Dick Zimmer, to examine other opportunities for saving by contracting with competent outside firms.

In the past, we've been insufficiently attentive to running state government smarter, cheaper, and more effectively. I am sending to you today dozens of initiatives to do just that – from using electronic benefit transfer cards instead of paper for child care payments, to cracking down on Medicaid fraud, to the simple step of using direct deposit for state employee salaries.

These are only some of the steps I am including in the proposals I am sending to you today. It is not only our spending plan for next year; it is a blueprint for reform. Because the financial crisis in which we find ourselves, as difficult as it is to resolve today, gives us the chance to lay the foundation for a more solid future tomorrow.

We are not turning state government upside down just to solve the crisis this year. We're doing it to reduce the chance that there will be another crisis next year.

We are not cutting spending and trying to reform our habits for the sake of being punitive to those who must change. We're doing it for the sake of giving hope of what real change will bring -- a healthier, more affordable government, and ultimately a better life for the people of New Jersey.

Winston Churchill once said that "the pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty."

By that standard, I am an optimist.

I see this day, and this time, as an opportunity for New Jersey.

Even as we gather, the newspapers have reported that many of our fellow states are resorting to the techniques and tricks that have gotten New Jersey into so much trouble in the past.

In Illinois, they are raising income taxes and increasing borrowing to solve this problem. Sound familiar? Like New Jersey, they will see taxpayers leave, and revenues fall. We have been there already and feel the sting of that failed policy today.

In Maryland, they are borrowing to cover current obligations. And in doing so, they are piling one problem on top of another, reducing the creditworthiness of their state, and creating a crisis that will be larger in the future. Hey, we've done that already, too. Today we live with the choking debt service that this failed policy has wrought.

By taking direct, tough action, difficult as it may be, we can turn our crisis into an opportunity. In a competitive national and global economy, we can build a lead on those states. 37 of the 49 other states are electing governors this year. You know nothing tough is going to happen this year in those states.

But if we make the tough decisions now, we will be one year ahead of 80% of the states in the race to economic growth. If we fail to act, we will fall even further behind.

Surely the day of reckoning will come for these other states in the coming years. Their need to reform and restructure, like ours, is inevitable. And by going first, we can become first.

You see, my goal is for New Jersey to be the leader.

Today, we are first in tax burden. We are first in the number of college students who, once educated, leave our state. We are near the top in debt, and number one in getting the least back from Washington for every dollar we pay in taxes.

All this must change.

I said eight weeks ago that change has arrived. And today is a key day in implementing and pursuing that change.

The reforms we make today -- to streamline the operations of government; to halt the endless parade of new taxes; to lay the groundwork for growth -- can make possible a new kind of leadership.

Where New Jersey is number one in new business creation.

Where New Jersey is number one in job growth.

Where New Jersey is number one in educational achievement.

And where we lead once again in providing opportunity for our citizens and pride in what we can accomplish together.

There is no question: this has been an incredibly difficult period for our state and its people.

And the choices I am asking you to make now will not be easy.

But they are the first step on the path to a brighter future.

It has been said that "the important thing is this: to be able at any moment to sacrifice what we are for what we could become."

So while the task ahead of us may not be pleasant, it is essential.

We can accomplish something important here in New Jersey—Something big. It is nothing less than the turnaround of our state, and the creation of a brighter future for our children.

So I ask those of you in the legislature, and all of the citizens of our state, to join me in pitching in, in working together -- not only to share in the sacrifices we must make today, but in forging the path to a better tomorrow.

The journey starts today, and I know it will be worth the effort.

May God bless you, may God bless America, and may God continue to bless the great state of New Jersey.