

Mr. Speaker, Mr. Senate President, members of the Legislature, ladies and gentlemen, I offer my congratulations to the new Legislature.

Today I come before you for my fourth State of the State address. I had hoped this would be the midpoint in my time as Governor. I feel a little bit the way Coach Dan Reeves would feel if he took the Giants into the locker room for a halftime talk, and then found out the game was over. He'd too undoubtedly would have had more plays he wanted to run, more things to get done.

But I stand before you today, filled with pride. Pride in what this administration has achieved, and prouder still because what we did, we did in hard times. We refused to let the flame of opportunity be snuffed out by a national recession. We kindled it, nurtured it, kept it glowing by putting our heads together and coming up with new ideas.

And we've got results we can talk about today with pride:

- The state government work force is smaller and more efficient -- smaller by nearly 10,000 people. And, we didn't just slam the brakes on a dangerous spending trend. We did a U-turn, and decreased the share of state revenue that goes to operate the bureaucracy while we increased the share that goes out to the people at the local level -- in the form of school aid and county and municipal assistance.

- We are turning welfare into a way up, not a way of life.

- Under this administration the state of New Jersey ended the embarrassment of defending a flawed and unfair way of paying for schools.

- We've instituted pioneering health care reforms to make sure everyone has access to quality, affordable care -- not just the lucky ones among us.

- You in the Legislature and I had our share of disagreements, but when it came to passing measures to keep New Jersey working we put jobs and security for our people ahead of party politics. That enabled us to help homebuyers, assist college students, expand the Transportation Trust Fund, turn the Economic Development Authority into a powerhouse for developing small business, launch the Camden Initiative and projects in other cities to create jobs and rebuild hope.

- We didn't just enjoy the Jersey Shore these past four summers. We acted in the off-seasons to protect and preserve it for the future. The summer of '93 will be remembered as the best in modern history. We found a stable funding source for Shore preservation projects. We ended the gridlock that was preventing adoption of sane, sensible rules to prevent runaway coastal development.

- And, in an action that is now being repeated in states and cities all across the nation, we said yes to public safety and no to the special interests, and fought to enact the nation's toughest ban on military assault weapons -- and kept it in place when the gun lobby came this close to repealing it.

If there was a political price to pay, it was worth it.

Tough laws, coupled with our determination to put more police on the beat in our neighborhoods, made it clear that the people of New Jersey are standing up to violence and protecting our most precious resource -- our families and our children.

After a decade of speculation we got back to the old ideal of investing for the long haul.

We invested in people, with a fair minimum wage -- the highest in the nation -- and pioneering efforts in job training.

We invested in our businesses, providing capital and technical know-how.

We invested in our future, by creating the New Jersey Corporation for Advanced Technology, and by making sure we're the first state wired with fiber optic cable. The information highway will be a reality, and milepost number one is right here in New Jersey.

I owe a great debt to all the people without whom these accomplishments could never have been realized. People who left peaceful lives behind to come into this administration and devote themselves to the sometimes thankless task of public service. I'm especially proud of the men and women of my cabinet, and I want to publicly thank them.

And I also want to thank the people in and out of government, who spoke out for change and took on the entrenched defenders of the status quo, not because there would be glory or monetary rewards, but because it was the right thing to do.

To the people who worked hard at my side; to those who sent me warm letters or greeted Lucinda and me on our travels, and to those whose names we will never know, but who believed in us -- thank you so much for that support.

And to Lucinda, no one could have asked for a better, more supportive partner through thick and thin. I guess I'm biased, but if you ask, me, this state never had a better First Lady than Lucinda Florio.

In a traditional State of the State message, this would be the part where I go over a list of things I want to accomplish this year. For reasons that are rather obvious to all of us, there is no "wish list." My wish is simply for Governor-elect Whitman to have the support and cooperation from all of us that she needs to carry this state forward. We had a spirited campaign with its share of differences, but this is the time for all of us to be together, and I wish her well.

I want to devote the rest of this address to a single topic: property taxes. New Jersey's over-reliance on property taxes is the single most important problem our state faces. That's why we devoted so much effort in the past four years to tackling property taxes. And it's why we can't stop now.

I talked about investments made in these past four years. But if we fail to continue on the path of property tax reform, we will stifle continued investment, and the growth that we need will not take place. And it will be our responsibility. It would be a sad irony if, as the national recession finally lifts, business and residential investment in New Jersey slow down because of backsliding on property taxes.

When President Eisenhower left office he spoke of the growing danger of the military-industrial complex. My message is closer to home, but please take it in the same spirit.

Property taxes are the single biggest barrier to improving the quality of life in New Jersey. They raise the cost of doing business, putting our state at a competitive disadvantage. They reduce the profit margins of businesses, especially small businesses. They discourage expansion. They raise the cost of housing, whether you own your own home or rent.

Ending this dependency will save money -- lots of it -- and doing so is entirely within our own grasp. Resolving this problem doesn't require help from Washington or anyplace else. It's right here, if we have the will to finish the job.

As I traveled all over New Jersey these past four years, I would often hear people say things like, "You know, when I used to make \$100 a week, I could save more than I can save today."

There are lots of reasons for that, and many of them aren't within the control of the State of New Jersey. But, one of the biggest reasons is property taxes.

Over the past couple of decades we've done a lot to counteract problems left over from the past. Cleaning up our air and water problems, to where we've become a national model. Paving the way with reforms in so many areas, such that the nation looks to New Jersey as an example. But property taxes are an example of something we've always done and still do a bit differently from most other places -- and the difference is NOT something to be proud of.

It has been written that New Jersey's tax structure is "highly unusual." That's a charitable way to put it. The truth is we consistently rank right near the top in the nation in property taxes, whether you measure them as a proportion of total tax revenue, or as a percentage of aggregate state income. Only three states rely more on property taxes, and none of them has a sales tax and one has no income tax.

In the 1980s, our over-reliance on property taxes increased. For a lot of people in New Jersey, property taxes doubled.

Eating away at our savings.

Threatening our homes.

Robbing hardworking, middle-class people of the freedom to dream and to plan a future for their families.

That's why this administration declared war on property taxes.

It was gratifying when the nonpartisan Public Affairs Research Institute said that our efforts in these four years "represent the most vigorous attack on the problem since the adoption of a state personal income tax."

We attacked property taxes in four ways.

One, we increased school aid from the state to relieve the burden on homeowners.

Two, the state took over the costs of welfare and other social services that used to be paid by municipalities and counties which, of course, took the money from homeowners through property taxes. And we've begun that same process with the costs of the court system.

Three, we placed caps on what local governments could spend, just like the caps we placed on state government.

And, four, we expanded direct relief to taxpayers by changing the Homestead Rebate system so that -- for a while, at least -- the people who needed help the most, got it.

Let's talk straight about taxes: When people or businesses sit down and look at the numbers, they easily conclude that the property tax is the most regressive, least fair, tax we have in New Jersey.

If people think this is a high-tax state, it's because of property taxes.

Not the income tax. Not business taxes.

The people of New Jersey are entitled to an honest debate over how to raise the money we need, and how much we need to raise -- not the empty rhetoric of false choices like, "Are you for or against taxes?" We need to continue the real discussion of how to most fairly spread the burden, rather than to pretend the burden -- or the discussion - can be avoided.

Property taxes in New Jersey affect so many parts of our lives -- from how big your mortgage payment is, to how long you sit in traffic on the way to work. Whether your children have a nice park to play in down the street, and whether the Jersey Shore remains a precious resource with clean, safe water.

Why is that so? Because we rely upon property taxes for too many things.

First off, property taxes have been the primary way we pay for schools. And what a mistake that was.

That led to such an uneven spread in the amount one community has available to spend on education, compared to its neighbors, that the State Supreme Court had to step in and declare the whole arrangement illegal and unconstitutional.

In effect, we were telling the children of New Jersey that the quality of education they would get depended on the accident of what town they happened to live in.

But there's more to the property tax problem than even just that.

I've often told the story about the time in 1989 when a man walked up to Lucinda and me at a picnic in Elizabeth. The man was crying.

Here was a man in his 60s, tears welling up in his eyes, as he told us he thought he would lose his home.

Not because of the mortgage. He'd paid that off.

It was his property taxes. They were more than he could afford.

So, at the same time we've been cheating our children by this over-reliance on property taxes, we've been robbing our homeowners. And it doesn't stop there.

The fellow in Elizabeth was worried about losing a home he'd lived in for years, but what about the young couples just starting out?

A young husband and wife both work, and still the American Dream of owning a home is out of reach, in many cases because of high property taxes.

We've taken some good steps to change that with mortgage assistance for middle-class families with our First Time Homebuyers Program. But I don't think it will mean that much if we don't finally end the over-reliance on property taxes. Because that expense, alone, is often the biggest obstacle to being able to afford a home, especially for young couples.

So, we see that property taxes play a crucial role in the quality of education for our youngsters, and in whether their parents can buy a home or their grandparents can afford to keep one.

If those were the only reasons to act, they'd be more than enough. But they're not.

This over-reliance on property taxes threatens our quality of life in other ways. It forces communities to compete with each other to try to attract more sources of property tax revenues.

This is known as the "ratable chase," where you try to attract more people and businesses so that each of them can pay more property taxes, and, it is thereby hoped, lower the bill for everyone.

This ratable chase makes about as much sense as it would to analyze our nation's drug problem and conclude the answer is that we need more drugs.

Towns go after businesses, office buildings, development of all kinds -- whatever they can get their hands on.

A serene suburb turns into a mini-metropolis.

Green spaces disappear, gobbled up because a building is a better ratable than a park.

Main Street becomes a virtual parking lot, where cars spend more time sitting than moving.

We go from growth to gridlock.

Worse yet, this bidding war doesn't solve any problems. It only makes things worse. You don't have to be an expert in government to know that. If you've ever watched a dog chase its tail you know exactly what I'm talking about.

When towns aren't competing with each other to see who can give a developer the best deal, towns are figuring out how to pay for the added strain on their police departments, on their schools, even their ability to deal with garbage.

That's right -- even the high cost of garbage disposal in New Jersey has its roots in our over-reliance on property taxes. I'm proud that we kept the promise to end the dumping of sludge in the Atlantic Ocean off New Jersey. But the fact of the matter is that we were poisoning our water and jeopardizing our tourism industry for an embarrassingly long time, because we weren't willing to face up to the costs of finding better and safer ways of such disposal.

And one reason for that, was that towns didn't want to ask residents already overburdened by property taxes to pay more. So we took the "cheap" way and dumped in the ocean.

One problem after another. Compounded and interconnected.

Because we as a state could not -- or would not -- break loose from the grip of an unfair, outdated way of raising money.

New Jersey is a state that, at its inception, borrowed from the European idea of taxation. In colonial days and in the early federal period, property was a good way to measure wealth and so it was a fair way to determine someone's tax burden. But over time, other states came to understand the inherent unfairness of a system so out of step with modern thinking about wealth and the ability to pay.

Today, when you ask a widow with a fixed income of \$15,000 a year to pay a third of that in property taxes, you're not taxing wealth. You're taxing credibility. Property taxes come down to a direct tax on peoples' homes. They claim an ever-growing share of household income. And, perhaps most offensively, they are totally contrary to our notion that whatever tax burden we ask people to bear, should be based on their relative economic well-being.

New Jersey's 18th Century property tax system is as unsuited to the waning days of the 20th Century as it would be if we still denied the right to vote to women and people of color.

If we bring this awful system with us into the 21st Century, I have no doubt that it would seriously endanger our ability to make sure New Jersey offers our children as good a life as it's given to us.

Let's look at two important facts that help explain where we are right now, and why:

One, New Jersey has the fewest square miles per municipality in the entire nation. In other words, we have more towns than other states do.

Two, after the Second World War, when there was a big push across the country to consolidate school districts, the number in our state grew.

It's time to stop living a fantasy where we think "small is automatically better" -- when, in fact, the price we pay is the duplication and inefficiency of maintaining 611 school districts and 567 totally independent municipalities, awash in administrative redundancy. The bottom line cries out for more cooperation, coordination, and, yes -- regionalization.

When home rule means people make decisions on matters close to them, that's great, and we never want to lose that. But when it means wasting money and overburdening people with property taxes because we cling to outmoded, expensive ways of thinking, and we refuse to tell the truth, then there has to be a better way. I believe we can preserve community involvement and also cut costs. And if we don't, shame on us.

I know that if you have three towns with three police chiefs and you advocate merging police forces you make one person happy and two very, very angry. I know that might not be the kind of arithmetic that wins elections. But I also know that people are fed up with the bills they've been paying, and they're ready for the truth.

I'm confident that leaders willing to explain this to people will get a fair hearing. It often takes time for people to work through it, but in the end they do.

When we started down the road we took in 1990, some observers -- not all of them impartial -- said the property tax relief we fought for wouldn't happen.

When they saw it happening, they said it wouldn't work.

When they saw it working they said property tax relief wouldn't last.

And it might not. The politics of the moment has already swept some of it aside, in reduced Homestead Rebates.

But, if we haven't totally solved the property tax problem, we've at least begun to address it -- and put in place some important measures to make it right.

During the past few years, one very important tool for fighting property taxes and promoting responsible development has been working its way to completion. The State Plan was begun in 1985 under Governor Kean, and finally approved in 1992.

It's the backbone of the effort I'm talking about today. My last contribution to that effort took place this morning, when I signed an Executive Order that will end the piecemeal implementation of our new State Plan. It requires all agencies of state government to immediately begin to coordinate their actions with each other and with the objectives of the Plan.

The plan requires investment in housing, transportation and other fields to be concentrated in areas of designated higher growth. In protected natural and agricultural areas, investment will be more limited. The logic is simple, and I think understood by most. If you put a wastewater treatment plant in the middle of nowhere, guess what happens: development, which you then have to pay to service.

A sustainable future for New Jersey requires that we strike a balance between preservation and development. Wise development, not the growth without vision that was an unfortunate hallmark of the 1980s, is our goal.

The State Plan is a vision for growth. More than a colorized land-use map for New Jersey, it is a vital, living document, a road map if you will, that will allow us to plan wisely, tax fairly, and measure the real cost of growth. "Emergency room" government was an approach that failed in the 1980s. The State Plan is a good example of the kind of "preventive care" approach that the 1990s demand. Anticipating and acting to avoid problems before they occur is what we seek -- an approach that looks to the next generation, not just the next election.

President Lyndon Johnson once said, "We have talked long enough...We have talked for a hundred years or more. It is now time to write the next chapter and to write it into the books of law." He was talking about civil rights, but the same could be said of the State Plan here in New Jersey.

More than a framework for responsible growth, the Plan is a tool for avoiding the mistakes that we now pay for with exorbitant property taxes. Indeed, by following the state plan and putting development in the right places, it's estimated that New Jersey taxpayers will save as much as \$1.3 billion in capital costs over the next 20 years, and up to \$400 million each year in operational costs.

Under my Executive Order, the agencies of state government will act with a unified voice and pursue policies that reflect the goals of the Plan when it comes to investing state resources. Within the next two years, under the Order, state agencies will also assist municipalities in designating the centers where most growth should occur, and assist our hard-pressed cities in developing Strategic Revitalization Plans.

To fight property taxes, to make sure development in New Jersey makes sense for people, we cannot retreat from where the State Plan points us.

As I near the close of this address, and this administration, I want to say that every day when I walk into my office, I can't help but glance at the portraits of the Governors who held office before me. When you see those faces, it reminds you that you are one in a long line of people who have served, and it affects the way you approach the job. It instills a sense of pride, and responsibility. It motivates you to do your best.

Standing in this chamber today takes me back to when I first arrived in Trenton about 25 years ago, first as a Legislative aide and then as a member of the Assembly. Bill Cahill was Governor then. We have become good friends. Like me, his string of annual messages ended at four, and like me, he bore the scars of a battle over taxes.

So I have a sense of how Governor Cahill must have felt when he stood on this very spot in January of 1974 and said, "Today we do not have a personal income tax, and in that fact some of our political colleagues take pride. But, my friends, we have not yet reduced the property tax in New Jersey..."

Bill, we're moving forward because of the work you did, and the steps taken by Brendan Byrne and Tom Kean. But progress comes in fits and starts; everything in its season.

I know, too, how Governor Cahill felt when he said: "Like most battles, the loss is greatest in the first assault and many of us suffered personally as a result of our effort." But, he went on and said, "We were right then and while many describe it as our worst defeat, I believe it was our finest moment."

I'm thinking today also of the words of another New Jersey Governor, Woodrow Wilson, who once said, "I would rather lose in a cause that will someday win, than win in a cause that will someday lose."

Short term expediency as a way of avoiding the long term public interest is, in the ultimate reckoning, a sure-thing losing cause.

In the still-early years of the 1990s, pundits speculate as to whether making difficult decisions means you won't get a second term in office. But when this decade is finished that won't be the story. When the story of the 90s is written it will turn out to be the story of men and women who confronted challenges, and rejected easy, patchwork solutions.

Some of them will win elections and some will lose.

But we will all move closer to the world we want for our children if we will but rise above the politics of the moment.

If we will but rise above the anger and the disruption that come inevitably in the wake of change.

And rise above the temptation to define community in a narrow and selfish way.

I believe we will do these things -- because we know that the need to do them is greater than any price there is to pay.

I've been honored to be your Governor. Thank you very much, and God bless you all.

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