Governor Jon S Corzine Budget Address for FY 2008

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More Information

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Senate President Codey...

Speaker Roberts...

Majority Leaders Coleman and Kenny...

Minority Leaders Lance and DeCroce...

Chief Justice Zazzali...

Former Governors...

* Brendan Byrne...

* Jim Florio...

* John Bennett...

* and -- someone
I forgot to mention in my State of the State -- Former Governor Kris Kolluri.

Members of the Cabinet...

Distinguished Guests...

My fellow New Jerseyans...

Good morning.

Thank you, President Codey and Speaker Roberts for allowing me to deliver my address five days early.

After last year, we can probably use the extra time.

Dick, I was thinking ... given my success with the sound system at the State of the State ...

I figured I might
as well try the teleprompter.

I mean, how much worse could it get?

For some of you, this will be the last budget speech you have to sit through...

I promise you ... I'll make it long enough to reassure you that your decision to retire was the right one.

But in all seriousness, I want to start today with
a simple thank you to all the members of the legislature -- and to the retiring members in particular.

The last 15 months have had their moments.

We have dealt with a lot.

I think we all know ... there's more to do -- a lot more.

And I'll talk about that in a moment.

But let's get to the budget …

As you know, a budget is more than just a set of numbers.

It touches on every aspect of every life in our state.

It's inevitable that when we talk about the budget ...
we talk about the challenges people face…

But amidst all the fiscal terms -- unfunded liabilities, structural deficits, and monetization -- let's not lose sight of WHY budgets matter.

They matter because they impact peoples' lives … today, tomorrow, and far into the future.

That said ... the proposal I will present next week is a very good budget for the people of New Jersey.

It confirms the Legislature's and my commitment to meaningful property tax relief.

It does this in the context of the fiscal principles we established and fought for last year.

It's financially disciplined and restrained.

It's responsibly balanced with honest numbers.

We don't rely on any strategies that mortgage our future.

It's the first budget in six years with no new taxes or tax increases.

In fact, the only tax change proposed is a tax cut -- a progressive cut for almost 300,000 working families.

This budget provides the largest increase in direct property tax relief in New Jersey history …

And the first real increase in school and municipal aid in a number of years.

Finally, this budget preserves the safety net for the most vulnerable in our society -- our seniors, the poor, the mentally ill, and the physically disabled.

After last year, some, might label this budget boring.

I suspect that nowadays in Trenton … boring's not such a bad thing.

So, let me quickly review the numbers…

First and foremost, this is a property tax relief budget.

The credit program is fully funded.

1.9 million of
2 million property taxpayers will receive an average of $1,000 in relief -- $750 of which is new money.

Half a million tenants will see their $75 checks increased to as high as $350.

Year over year, there's $580 million more… in aid to education.

For the first time in many years, aid to every single school district will be increased.

New aid will be dedicated toward educational priorities that focus on the individual needs of children.

In particular, non-Abbott communities with high concentrations of children living in poverty will receive more funding.

And there are new incentives for full day kindergarten and expanded
pre-school.

Our focus on individual children
is conceptually consistent with the new funding formula being developed for the
FY '09 budget.

Finally ... for the first time in three years, there will be an across-the-board 2% increase in municipal aid.

Over 80% -- or more than $1.8 billion -- of all new spending in this budget reflects our mutual efforts to provide more property tax relief … and more aid to schools and local governments.

The overwhelming majority of the remaining new spending is driven by the cumulative impact of obligations created over the last 15 years.

Specifically, the budget contains $730 million more than last year to meet healthcare costs for state workers and retirees…

… contractual salary increases…

… court ordered Abbott and child welfare funding…

… and Medicaid increases, federal mandates, or offsets to federal cutbacks.

Reflecting fiscal realities…

This budget regrettably has few new initiatives -- although the painful spending cuts we saw last year are limited.

I must say, it’s frustrating to have so few financial resources to invest in our future.

I didn’t run for public office to be a number cruncher… or to play scrooge.

Like so many of you, I sought to serve because I care passionately about making New Jersey a better place for our families and communities.

So recognizing the constraints…

I’ve made an allowance of roughly $100 million for new initiatives that will have both short- and long-term paybacks.

There is $9 million for the new comptroller’s office to root out waste ... prevent fraud ... and reduce spending.

There is -- $20 million for a consolidation fund to provide meaningful incentives for schools and local governments to share services and reduce costs --
an idea promoted by Speaker Roberts.

There is $10 million for stem cell research grants -- and $5 million for autism.

And finally, as part of a broader anti-poverty initiative ... we are seeking
$64 million to raise the threshold to $40,000 for Earned Income Tax Credits.

Today, New Jersey cuts off EITC eligibility at $20,000.

This change will mean almost 300,000 working families will receive a double tax cut -- one from New Jersey … and the other from Washington.

Considering our tough budget last year, I’m very pleased we could fund these modest, but important, initiatives.

Still … I’m almost embarrassed to highlight them because they are a fraction of what we really should be done.

So let me summarize the spending.

In short ... almost 50 cents of every dollar in this $33 billion budget goes to property tax relief.

That’s a total of $16.6 billion.

Overall spending is up 7.2 percent from last year --
or $2.2 billion.

However, setting aside the growth in property tax relief *and* the increases in school and municipal aid…

… spending is up a mere 2 percent, year over year.
(Let me repeat …less than 2%.)

Now, let me break down and explain how we pay for this … net $2.2 billion… in new spending.

First, $665 million
is a non-recurring use of the dedicated FY ’07 half penny.

We’ve benefited from two years of value in this budget -- which I accept will be an issue in FY ’09.

Second, $670 million is a result of stronger FY ’07 revenues -- coupled with spending restraints and efficiencies that built up surplus.

This came from a lot of hard work.

400 -- or one-half -- of all political appointees were eliminated…

…Head count was reduced by 1,300 across government
-- even aswe added staff for Homeland Security, Children and Families, and the Public Advocate…

…Technology improvements paid dividends…

…New furniture and office space purchases were suspended…

…Travel and promotions were -- and still are -- frozen…

…1,200 state cars were auctioned…

…And energy conservation achieved savings.

All these actions … have lowered the cost of doing business, and will be pursued vigorously in the '08 cycle.

Third, an additional $150 million was saved through better management of state debt,
minor spending reductions, and initiatives like improved debt collection.

Finally, our '08 budget includes almost $750 million projected revenue growth as a result of strong economic expansion.

Growing our revenue base is part of our long-term strategy to stabilize the state's finances.

It's also fundamental to our economic objectives.

It's why we are giving so much focus to creating a better business climate.

Although we're far from taking a victory lap, we have had some great wins.

Campbell's Soup…

Bayer Pharmaceutical…

Unilever…

Citigroup…

and Verizon are all making significant New Jersey expansions --with good, high-paying jobs.

And there are others in the pipeline.

So that's the budget outline -- most of it expected --
$33 billion spent, $33 billion raised.

Those are the facts...

... so let's talk about the future…

The real news of this budget … isn't what's in it …

… but rather what's not … and what will NEVER be in future budgets …

…unless, together,
we do something to further restructure the state's finances.

Spending for individuals with mental illness and developmental disabilities is up … but only a fraction of what is truly
needed to provide proper care and housing.

Just consider the tragedies at Ancora in the last six months.

Autism rates among children in New Jersey appear to be the highest in the nation … but we've only touched the surface of the necessary response.

Hospitals are treating more and more of the uninsured… but we haven't been able to increase charity care funding.

In fact, the only items that are fully funded are mandatory costs over which we have little discretion.

The constant focus on short term priorities without consideration of long-term costs has led to financial decisions that hang over the state today, tomorrow, and far into the future.

We must break with the patterns of the past.

To do that, we need to build greater public confidence in the actions of government -- especially when it comes to transparency and accountability of the purse strings.

We have tough choices coming …

And the public needs to trust that we are working for them …

… not ourselves …

… not our friends…

… not for anyone else.

We have to openly debate and defend our priorities, choices, and decisions.

And to be more precise, we have to put an end to the midnight spending sprees.

I applaud President Codey for the steps he has proposed to bring greater openness to the budgetary process.

To reinforce those efforts…

I am sending a letter today to the legislative leadership of both parties, outlining further steps to build public accountability -- including in the executive branch.

Specifically, the legislature's proposed budget should be available for public review seven days prior to final passage.

In addition, the executive branch needs three days after passage to allow for a thorough review.

And, finally, treasury will prepare a "Budget in Brief" that summarizes the enacted budget just as it does for the Governor's proposal -- so the public can see how we've appropriated their money.

The Codey package of reforms plus my recommendations should be implemented this cycle.

Together, let's open up the process.

Now…

If … our **only** objective was to meet **the** constitutional obligation to balance revenues and expenditures…

Our job would be hard … but not impossible.

What is becoming impossible …

… is to balance the budget consistent with the letter ***and*** the spirit of the constitution…

… meeting mandated and committed costs *while still* making necessary investments for our future.

Let's examine history to see why…
Right or wrong, in the '90s, the state issued bonds to fill an unfunded pension liability -- and then took a 10-year holiday from making contributions.

Right or wrong, in this decade, the state borrowed against the tobacco settlements to balance its operating budget.

Right or wrong, in both decades, the state provided employee benefit enhancements and undertook borrowing -- for important things like school construction -- without any means to finance the carrying costs **or** pay back our borrowed obligation.

As a result of these kinds of decisions…

The unfunded liability of today's pension system is nearly $25 billion -- and our unfunded healthcare liability approaches an incredible
$80 billion.

If that weren't bad enough …

We remain one of only six states with a structural deficit --after four and a half years of national economic expansion.

And … our debt burden, per capita, is the third highest in the nation.

As serious as these financial challenges are…

The problem goes beyond how money was raised, spent, or promised.

We are paying huge sums of money every year to meet court orders on Abbott and child welfare… because responsibilities to the most vulnerable were long neglected.

Not only have children suffered unnecessarily …

Our failure to invest appropriately has cost more in the long-run than to have done it right in the first place.

Unfortunately, I fear we are perilously close to additional court-ordered mandates.

Yes…

We've started to wean ourselves off the gimmicks and borrowings that were used to meet the letter of our constitutional obligations.

We've stopped the annual raid on the unemployment insurance fund.

And we ended inappropriate bonding.

Because of spending controls, the half penny, and fewer uses of one-shots, the structural deficit has been reduced -- for the moment.

But like Freddy Krueger --- it'll be back.

Next year, we estimate we begin the budget season $2.5 billion in the hole -- give or take a few dollars.

This year, we're in the eye of the hurricane.

But no one should let the calm of the '08 budget… lull them into a false sense of security.

Just look at the mandatory cost increases we face.

In the next five years, total debt service will increase from $2.7 billion to $3.4 billion, assuming expected borrowing for school construction, open space, and stem cell research.

Healthcare costs for state workers and retirees are projected to double -- from $1.4 billion to $2.8 billion in five years.

Post-retirement medical costs for teachers are expected to more than double -- from $750 million this year to $1.8 billion in just five years.

Fortunately, people are living longer ... that's a good thing.

But it means pension liabilities are increasing faster.

It also means that in five years, our required pension contribution will be $3.3 billion instead of $1.3 billion today.

Let's get real -- there is no way to close the structural deficit with the avalanche of growing fixed costs that hang over the state.

It's just not going to happen unless we change.

So we have choices to make … tough choices.

We can continue struggling every year -- scraping by with duct tape and baling wire, and pulling together no frill, investment-free budgets.

Or we can change course.

Keep in mind…

- We have one of the best performing public school systems in America.

- We have one of the most educated, best trained workforces.

- We have an expansive transportation and mass transit network.

- We have the highest median income in the nation.

I could go on…

But some future Governor isn't going to be able to make those statements, if we choose a path of just "getting by."

If we want universal pre-K and kindergarten … where are the resources?

If we want to build new schools and expand higher education facilities… where are the resources?

If we want to build mass transit in South Jersey … where are the resources?

If we want to revitalize brownfields, purchase open space, and ensure compensation for highlands farmers… where are the resources?

Again … I could go on.

How can we do any of these when future revenues are already spoken for?

We all have a vision for a brighter New Jersey … but today we can't afford the investments to make our vision a reality.

To a large degree, this year's budget was decided well before I became governor.

We need to make choices that will change old paradigms so that future budgets are not tied up in knots.

One choice is to stand pat -- just chip away at the structural deficit, and resign ourselves to a more limited future.

A second choice is to raise taxes -- and there are a lot of unattractive options on this path that could well erode New Jersey's competitiveness and make our state less affordable.

- We could raise the top income tax rate even higher.

- We could push more middle class families into higher tax brackets.

- We could expand the sales tax to professional services.

- We could increase the gas tax.

Need I go on?

If tax increases are the way, we can probably find an option or a series of options that can generate the revenue to make some, but not all of the investments we need … that's what we have done in the past.

But I ask, what is the net effect?

A third choice is to lay off thousands of state workers and dramatically cut services where no legal mandates exist.

This means people who work in areas where the state has some "discretion" -- healthcare personnel, prison guards, environmental officers, motor vehicle workers, and state police among others.

Consider … every thousand workers laid off potentially saves $50 million per year.

So to fund $500 million, we would need to lay off ten thousand workers.

You get the math.

Or … we can search for other ways to raise the revenue needed to restructure the state's long-term finances.

Some would suggest VLT's or Keno -- and we're looking at them --- but no one suggests these activities would solve the problem by themselves.

So … we pretty much know the impact of more tax hikes or massive layoffs -- and we can all handicap the likelihood of either happening.

The one option that is new and that we are now studying is asset monetization.

It's something that has been implemented in other states and successfully around the globe.

I think it's fair to say that most governmental entities across the country are examining its feasibility and appropriateness.

The economic potential from restructuring the state's interest in our asset portfolio is too significant to ignore…

… whether that asset is the Turnpike, the lottery, naming rights, air rights, or whatever.

Potentially, asset monetization could reset the state's finances by dramatically reducing our debt burden, and consequently reducing debt service.

Monetization could free up as much as a billion dollars or more in every year's budget -- long into the future.

Just look at what debt service is doing to the state budget today…

It consumes every dollar brought in from corporate taxes.

We spend twice as much to pay investors as we do to support student aid… charity care… prescription drugs… and parks -- combined.

The debt service payments made every year could more than fund the universal health care initiative that I'm working on with Senator Vitale.

I know others are interested as well.

Asset monetization gives us the potential to reduce our crushing debt burden -- and meet New Jersey's long-term capital needs in a way no other alternative provides.

Now let me be clear…

Borrowing to meet operating expenses is a terrible idea.

And transferring an interest in a state asset to fund operating expenses is worse.

And it is not under consideration.

What we have done under the guidance of Treasurer Abelow and Commissioner Kolluri is undertake a thorough and intellectually rigorous analysis of public-private partnership structures **or** *public ownership* options.

Make no mistake -- with any proposal… we would insist on protective conditions.

If we can't ensure that the high standards of operations and maintenance will continue …
we won't proceed.

If we can't ensure public safety will be maintained …
we won't proceed.

If we can't ensure the state will maintain oversight in the governance of the asset …
we won't proceed.

If we can't ensure that price increases will be predictable and reasonable … we won't proceed.

Today, we're not ready with recommendations.

(I hope you can understand we've been a little busy…)

When we are ready, we'll be back.

We intend to give asset monetization, and all its derivatives, the same level of serious focus we've given to property tax relief and reform.

To take this option off the table is to accept some combination of hand-to-mouth budgets without capital or social investments.

Whatever choices we make, I think it's time for a new paradigm for the state's fiscal future.

So…That's the budget for 2008 and a perspective on our financial future.

But before I close, let me touch on some unfinished business.

Yesterday, the state reached a tentative agreement with our public employees.

The agreement reached is the result of the collective bargaining process
-- one I deeply respect.

These were not easy negotiations -- not by any stretch.

But the outcome was a sea-change in public employee bargaining.

I suspect that both sides found the outcome less than ideal.

But bargaining requires give-and-take -- and this agreement represents compromise on both sides.

It creates a defined contribution pension plan for new state, municipal, and educational employees with earnings above $97,000.

We'll be the first State in the Northeast to make this change.

It also increases the retirement age for new employees to 60.

Both of these changes only apply to new hires because current employees have non-forfeitable rights that were obligated by statute… and confirmed by case law.

The agreement calls for progressive healthcare contributions by state employees.

It includes plan-design changes that **should both** benefit employees and cost the state less.

Our public employees will make additional pension contributions.

And the state will contribute at least $1 billion to the pension fund for the next three years.

The agreement contains wage increases of 3% in each of years one and two of the contract -- and 3.5% in years three and four.

It also includes workplace and grievance rule changes … changes to pension governance …
and a more precise definition of "essential employees."

While the agreement will produce savings this year, the real benefits will be felt over the next two or three decades -- long after all of us are gone -- and will result in hundreds of millions of dollars of savings.

Over the long run, this agreement will protect the stability and solvency of the benefit structure for taxpayers and public employees alike.

I want to acknowledge the goodwill and hard work of all our public employees -- and thank those at the bargaining table who chose to make it happen.

Our career employees serve our people well -- and I commend them.

I also want to thank Senator Scutari, Assemblywoman Pou, and other members of the pension and health benefit committee who worked for months to frame the issues that led to this agreement.

Now…

We all have to work together to turn these agreements into law, by revisiting the still pending proposals from the special session.

The same reforms that emerged from collective bargaining need to be applied to elected and appointed officials in a consistent and coherent manner.

It has always been my view that career employees were not the source of benefit abuses that have so infuriated the public.

Applying these negotiated reforms across the board to all public officials and employees will eliminate most --
if not all -- of the most egregious abuses of the system.

Now that we have established a pension and benefit reform package, we have two additional topics to address.

Each has been long debated and is well understood by the public.

Dual office holding is an obstacle to achieving the common good we all desire.

I cannot tell you how strongly I feel about ending it … now.

To that end…

I am pleased to announce that Speaker Roberts and President Codey have made a personal commitment that a ban on dual office holding will be passed and sent to my desk before it's time to sign this budget.

This is a reform that is long overdue -- as are bans on
pay-to-play and wheeling.

If we're truly serious about restoring the public's trust in government…
…about restoring their trust in us…
…it's time to act on these reforms…
… sooner rather than later.

So let me close --

The budget I present to you is in far better shape than it has been in years.

There are no new taxes and no old gimmicks.

There is more direct property tax relief than ever.

Schools and local governments are finally receiving overdue aid.

But when we look to the long-term, the situation is filled with challenges.

Now is the time to change the paradigm.

Now is when we should decide to build the capacity
to invest in New Jersey's future.

We demonstrated on property taxes we can take on tough tasks and make progress.

We must demonstrate on ethics that we can end the toxic mix of money and politics.

The public has entrusted all of us to choose and chart a way forward.

A hero of my youth…
Dag (haam-mer-SHOLD) said it best:

"Only he…
…who keeps his eye fixed on the far horizon…
…will find the right road."

Let's stay focused on that far horizon…

And let's find a path to a tomorrow that's worthy of a state as great as ours.