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Governor Jon S. Corzine Budget Address for FY 2007

March 21, 2006

Senate President Codey
Speaker Roberts
Minority Leaders Lance and DeCroce
Governors Byrne, Florio
Distinguished Guests
My Colleagues in the Cabinet
My fellow New Jerseyans
Good Afternoon.

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It is my honor and responsibility to stand before you today and offer my best ideas to meet our state's recurring structural budget crisis. My administration's work over the past two months has surely deepened my understanding of the challenge of fixing our broken fiscal policies.

I must say --- Governor Codey was on target when in November he jokingly said --- "my transition report can be summed up simply --- The state is pretty much broke." Today more than in November, I realize he was pretty much right.

Now more than ever, I appreciate how difficult our work over the next 3 ½ months will be, as together, we arrive at a responsible, negotiated budget.

Most certainly, I am committed to working with all of the legislature --- both democrats and republicans --- to produce a budget which respects the fundamental values of the people of our great state and the mandate of our Constitution.

I think the values of most New Jerseyans include the expectation that as individuals, and as a community, we must pay our own way in life. New Jerseyans believe that telling the truth is always better than hiding from it, even when it hurts. (And boy, does this hurt.)

And, most New Jerseyans understand that the character of a society can be measured by the support we give to our most vulnerable --- our children, the elderly and those left behind developmentally or from other afflictions of life's circumstances.

I am certain the American Dream of a better tomorrow for our children is alive and well in New Jersey. And those of us in Government must promote that promise, not undermine it.

We express our vision of that promise in real terms through our budgets.

Budgets are the numbers, words and choices that capture our values. My words and the proposal before you today will not be about elaborate arguments or fancy rhetoric.

My proposal will be about the hard choices and the numbers that will put our state on a pathway to financial stability and responsibility --- allowing --- ultimately --- for disciplined investments in our future, while fulfilling our responsibilities to provide a secure and sound quality of life for all New Jerseyans.

My proposal to you today is based on four fundamental principles ---

1. we must stop spending more than we take in
 2. we must stop borrowing and using gimmicks to pay today's bills
 3. we must rely much more heavily on cuts in spending and savings than new revenues to balance our books --- and
 4. we must be smart in finding ways to mitigate the impact of these cuts to protect the most vulnerable in our state.
- To be successful in the tough negotiating sessions ahead, shared costs and benefits must occur. Our end product must have both the appearance and the reality of being fair.

All of us have been warned that a day of reckoning was near with respect to our troubled state finances --- This is that day!

Our problem is simple, we have been spending more than we take in.

Our credit standing in the marketplace has gone from AAA to near the bottom of the class among the states.

Governor Codey made clear last year in his budget address that we had to start the process of cleaning up "the fiscal mess in Trenton", and with the help of the legislature, important first steps were taken in fiscal 2006. But we can all agree --- there is considerably more to be done.

The task ahead is daunting and not particularly attractive politically, for anyone. That said, the task must go forward -- no matter how tough the choices -- with a readiness to share the sacrifices.

To this point, let me provide some perspective --- if we continue current programs --- if we fully fund pensions as we should --- and if we increase property tax rebates as I promised, our spending growth in 2007 would exceed our revenues by a minimum of \$4.8 billion.

Let me be clear --- that \$4.8 billion reflects what our needs would be if we fully restored property tax rebates to 2005 levels and then grew them 10%.

After the last two months, I'll be the first to acknowledge that some things will have to wait. In this case, while I recommend that we increase existing rebates 10%, we will have to put off restoration of the rebate cuts made last year.

Deferring that restoration will bring the gap to \$4.3 billion --- which is still a big hole.

So it is with great reluctance that I am proposing we fund only 70% of the current pension obligation. That equates to almost \$1.5 billion in real spending on pensions. This is an increase of \$1.1 billion over last year --- and more cash to pension contributions from the general fund than in the last nine years added together.

This is a good faith effort to put us on a path toward restored integrity in our state retirement system --- a path which will accelerate the benefits of growing investment returns accrued through compound interest.

Make no mistake --- our unfunded pension obligation is a real bill, and it has been deferred far too long.

Both of these deferrals are tough --- but the cuts to come are even tougher. And I recommend all of them as essential in an overall package of painful choices.

Now, we come to how we meet the remaining billions in mandated, legislated and inflated expenditures from this year to next.

Unfortunately, the bulk of these reductions and constraints on growth have to fall in areas where the state controls spending --- areas as sensitive and important as K-12 and higher education, health care and municipal aid.

With no pleasure, I propose cuts and constrained growth in these and other programs of almost \$2 billion. To that end, we have eliminated 75 programs, we have cut funding below current levels for 130 more, and we have cut back the rate of growth of still another 30 programs.

Since the election, I've been working on finding a way to fix the mismatch between our revenues and our expenditures. I've met with the heads of each department, going through their budgets line by line. Our focus has been almost entirely on how to reduce their spending.

We've done a lot --- but it hasn't been enough to fill the hole.

Reluctantly, I am forced to seek net new tax revenues of about \$1.4 billion, primarily through a 1 cent increase in the general sales tax along with a modest extension of that tax into some services.

To summarize --- if we implement my proposals, at the end of the day, we'll end up with a budget totaling \$30.9 billion, an increase of \$3.5 billion over last year's proposed budget and about \$2.6 billion over the adjusted appropriation for fiscal 2006.

Some critics will attack the size of the budget as too big and they may be right, but the size of the budget is not the result of new initiatives on services or aid, it is simply a reflection of the true cost of current state services already being provided. It reflects already legislated, mandated, negotiated and inflated costs

And while this budget is balanced, we still have significant structural problems built in for future years. Consider --- if you, my legislative partners, agree to every painful choice proposed for fiscal 2007, the ongoing growth in expenditures already in place for fiscal 2008 will leave us with a minimum starting hole next year of \$1.5 billion before we make one new decision on spending.

Our problem is --- unless we change course, we're going to spend that \$1.5 billion. And we won't have anything new to show for it. Just as challenging, every time we use a gimmick or a trick to pay for this year's expenses, all we're doing is making next year's problem bigger.

In the \$30.9 billion budget model I have laid down, I have sharply reduced so-called one-shots and gimmicks. In the last four years, such one-shot sources have averaged \$2.8 billion per year. We've reduced that figure by over 80% to no more than \$500 million, down from \$1.8 billion in the current year's budget.

This addiction to short term solutions to long term problems has continuously compounded the deficit hole for succeeding years' budgets and eroded the state's credit rating as a result. These practices must end! And they

will!

Now, for the most part --- let me spare you the recitation of locked-in spending increases, revenue enhancements, the holes created by one-shots and the laundry list of spending cuts. The details of these issues are spelled out comprehensively in the Budget-in-Brief --- a copy of which is before you and will be available to the public.

But let me be clear, I expect the final budget to cut expenditures more than we raise taxes.

And I will not accept any solutions that rely on a greater amount of one time revenue raisers than I have laid down.

While there can be legitimate arguments on priorities within the proposed budget structure, I will fight for this model of serious cuts coupled with some new revenues.

New Jersey's state finances need to get back onto a sound long term footing, consistent with the values of our people and I am determined to deliver that end through our final budget. The continuous use of the state's charge card to pay current operating expenses and stuffing bills into our desk drawers covering up our crisis are over.

Recurring revenues must match recurring spending.

To those who thought my financial background would mean I had some magic bullet in my holster to balance the budget, I am sorry to disappoint you. My answer is as simple as old fashioned arithmetic. We can't keep spending more than we take in. The solution is simple --- STOP! We must and we can.

Just as this group of legislators has admirably addressed and supported critical reform at UMDNJ, in the Schools Construction Corporation, in the Transportation Trust Fund and in the organization of our homeland security efforts, together I am sure we will responsibly face our day of reckoning on our budgetary crisis.

I particularly want to thank Speaker Roberts and Senator Codey for their leadership on these and other vital issues. I appreciate the civil and positive dialogue my administration has had with the leadership of both parties as we prepared our budget. In this regard, let me particularly express my appreciation to Senators Bryant, Lance and Littel and Assemblymen Greenwald, DeCroke and Malone.

But now is the time for decisions --- there is no magic bullet. Our budget gap must be closed with hard choices.

School aid for most districts will be flat except for growth in pension contributions, a modest increase for Abbott pre-schools, support for special education in heavily impacted districts and state supported after school programs.

I appreciate that flat funding in an inflating environment is a real cut. Reality and necessity must be the mother of invention. Just as the state must find spending reductions, other units of government must as well.

We are also imposing the same flat funding principle with respect to municipal aid. And, we are proposing absolute cuts to higher education institutions offset with very modest increases in student aid. In combating double digit percentage growth in health care expenditures, we are holding charity care flat even though we are appropriately no longer tapping the unemployment insurance fund as a revenue source to fund this need.

Additionally, we intend to institute bulk purchases of pharmaceuticals as an important cost reduction measure. We also propose co-pays in several state administered health programs --- including in Medicaid. I think the public will understand the necessity of such steps.

While we will press for the savings that are noted, we will also push to expand FamilyCare --- as you, the legislature, did last year. (Let me congratulate Senator Vitale in particular for his leadership in this important effort.) If we are diligent --- we will bring 50,000 additional children onto the rolls of FamilyCare with a targeted spending increase of \$5 million. Getting our children out of the emergency room and into the doctor's office will both protect our children and reduce costs!

The last broad area targeted for cost savings is in the category of managerial efficiencies and taking on "waste, fraud and abuse." For instance, a substantial Medicaid fraud initiative targets \$50 million in savings.

Additionally, we anticipate eliminating over 1000 funded employee positions throughout state government primarily through attrition and a reduction in political appointees --- saving more than \$67 million. There are also substantial possibilities for improving efficiencies and achieving savings across departments and agencies --- particularly through the implementation of a statewide information technology plan, and better management of our real estate portfolio and lease arrangements.

As the Assembly Budget Committee rightly pointed out last month, we need to aggressively implement many of the recommendations of the state auditor. Those proposals are anticipated to save \$240 million over the next two years.

And of all areas of reform, the well documented abuses in the public retirement system demand immediate attention. Some initiatives, like requiring 1000 hours of work for pension eligibility in a given year, seem obvious - as does eliminating tacking and padding at the end of a public career. While many reforms must be negotiated at the bargaining table, I will work with the legislature on a downpayment on reform that will provide modest current year savings.

That said --- failure to address the obvious abuses of a system designed for career employees will undermine the credibility of government and those of us who are its representatives.

All this considered, let me make one observation clear --- anyone who says we can save \$3 - \$4 billion from eliminating waste, fraud and abuse is selling snake oil. Worse, they are hiding from the painful alternatives and choices that will truly address our failing financial circumstances.

Yes, there are savings --- but not in the billions.

Hard savings will come from proposed cuts of about \$2 billion in programs, restructurings and the elimination of political pork. My proposed cuts are real and the rough total needs to survive our negotiations.

I am confident, as we continuously review government activities, we will find additional savings. We must objectively examine every program, measure each activity's performance, demand more for less, and root out spending that merely serves political, not public, purposes. In fact, today I am announcing the formation of a Special Task Force to coordinate our efforts to reengineer state government. I have asked Richard Leone to chair that effort, which will include a senior group of cabinet officers and concerned citizens. The task force will report to me regularly on further cuts and efficiency measures designed to realize substantial additional savings and enhanced performance. And, they will look to apply best practices in efficiencies developed by both Democrat and Republican Governors around the country. As a last step designed to buttress control of spending, I renew my call for an elected, independent state comptroller. To that end, I will be working with the legislature in the year ahead to bring an independent check and balance to the state's fiscal affairs. Independent audits are good enough for private business and they should be good for the public's business as well. Many of the recent spectacular failures of state institutions could have been avoided by consistent outside oversight.

All of these measures will help control spending --- but as I said earlier, they will not be enough. As much as people may hate the spending cuts, most will hate the taxes more. (Governors --- I can hear the Bronx cheers already.) They are, however, forced upon us by the unforgiving arithmetic of our structural deficit. Tax increases are a last resort.

As we studied our financial circumstances, I concluded that the sales tax should be the primary tool for generating new revenue. That recommendation came after carefully considering the potential impact of raising our already high level of income taxes on the state's overall economic competitiveness.

The sales tax extensions and increase I have proposed will retain the exclusion on groceries and clothing. To put the new tax in perspective --- the added burden will cost the average New Jersey household with a family of four about \$5 a week --- or about \$260 a year. Additionally, we will lighten the burden on those least able to bear this new tax by ending state income taxes for more than 400,000 of our low-income taxpaying residents, with substantial relief for another 200,000.

This income tax cut will directly aid part time and low wage workers --- particularly seniors, students, teenagers and the working poor.

Our property tax rebates to low and moderate income seniors and working families, combined with the proposed income tax cut, goes a long way to maintaining our state's long standing commitment to a progressive tax structure.

One last consideration on taxes should be noted. While we are proposing a 2½ percent surcharge for three years on the corporate business tax, we are also letting expire a larger set of anti-growth taxes on businesses, including those on net operating losses. The net result will be stimulative to business and job growth --- an objective vital to all New Jerseyans.

Other proposed revenue enhancements are primarily an effort to capture greater federal government matches in health care. The most important of these initiatives relates to a hospital provider tax that will net the state over \$200 million in federal dollars while maintaining an overall neutral cost to our hospitals.

The second effort, already noted, expands FamilyCare to take advantage of Federal matching funds. The 65/35 split means that our \$5 million investment will leverage an additional \$9.3 million in federal funds to help insure 50,000 lower income families and children.

As I said in my Inaugural Address, the process of reestablishing our financial integrity will not be painless. We face tough choices. I would have preferred to have a public treasury flush with money to spend on good things for our state or further reduce the people's tax burden. But that is not the hand we've been dealt. And it is our task to do the best we can with today's stark realities. Our state, like every responsible family, must learn to live within its means.

Now, let me assure each citizen of New Jersey, each choice in the proposed budget was a difficult one that came after great care and consideration. But I trust that after honest deliberation --- the legislature, the public, and interested stakeholders will see this proposal contains the responsible fiscal discipline to get us back on a positive financial track --- a result beneficial to all New Jerseyans.

Let me also note --- this budget recognizes that we have moral imperatives that dictate we cannot turn our backs on the most vulnerable in our society.

To these imperatives --- I'm proposing modest, targeted increases of no more than \$50 million in programs that enhance and advance the values that make our society strong --- modest initiatives in special education, after school activities, affordable housing, the provision of health insurance for the uninsured, added tuition assistance grants, spending on food purchases for the poor and homeless and combating domestic and gang violence.

In addition to considering my budget plan, I am asking the legislature's cooperation as I begin restructuring a number of agencies in ways that should be at a minimum, cost-neutral, but designed to improve performance and outcomes.

First, I propose the creation of the Department of Children and Families in order to sharpen our focus and increase the effectiveness of our child welfare system.

When we cannot keep our children safe, we have failed in one of our most basic responsibilities as a people. This reorganization will allow for the singular focus by all elements of the Department on child safety.

It will also help position us for greater flexibility in dealing with well intended court mandates which sometimes actually limit our ability to protect children. We hope to begin the new fiscal year with the new structure in place. I ask for your support.

Second, we seek financial support for the Office of Homeland Security and Preparedness. In the post 9/11, post Katrina world, we must require and facilitate total cooperation and coordination across government with respect to homeland and hometown security. In return, the legislature and the public should expect that risk and threat will be the only metric used in allocating scarce federal and state dollars invested in Homeland Security.

Under the able leadership of Dick Cañas, this office will work with all levels of government and the private sector to ensure that vital information and resources get where they need to go to keep us safe.

And lastly, economic growth should be the engine to expand revenues, not taxes. To achieve strong growth, we need a favorable investment climate for business.

We must carefully make strategic investments to attract and retain business. Even in this tough budget climate, we must promote economic growth --- we must make investments that will help our state prosper. Moving the Business Employment Incentive Program, or BEIP, grants onto a pay as you go basis, for example, is appropriate. But there are also long term investments funded by long term borrowing that are both appropriate and necessary to support a growing economy --- investments in an economy that will support future taxpayers as well as today's.

Restoring guaranteed funding to the transportation trust fund was one such initiative. Funding stem cell research is another. If we are to be a leader in cutting-edge biotechnology and acquire the accompanying high-paying jobs, we will need to prime the pump. On this issue --- It's time to act.

There is much to consider in the days between now and June 30th. We have tough choices to make together. In fact, as soon as we close out the difficult debates of the budget season, we must move expeditiously to address the most pressing issue on the public's mind --- fundamental property tax reform.

While Property Tax Rebates arguably may be one of our most effective tools to ease the heavy tax burdens on New Jersey's homeowners and renters --- they are not enough. And even though nearly half of all state spending is passed through for property tax relief including school aid and municipal aid, property tax burdens continue to grow steeply.

That fact alone should motivate those of us in this chamber to consider overall property tax reform as the next major order of business in New Jersey. I assure you it will be my priority once the state budget has been brought into balance. I look forward to working with the legislature's leadership to set a timetable and process on this fundamental challenge.

When we leave this chamber-- When we put aside the political rhetoric-- When we look beyond the headlines-- We must ask ourselves --- are we doing the best in serving all the people of New Jersey --- not just today, but over the long run.

Today, we begin writing a new chapter in the dialogue between government and the people we serve. It is time to start a very frank discussion of what we want our state to be. I intend to do just that over the next few months.

We need an awfully good reason for cutting services that affect millions and adding to our people's taxes. We owe them more than just an honest, balanced budget --- they should be able to take that for granted.

We owe them a government that is a true steward, not only of their tax dollars, but also of their hopes and dreams.

This budget is only a starting point --- a foundation. But on it, we can build a New Jersey that is strong and rich with opportunity --- we can create a legacy that our children and grandchildren, in their own turn, will build on.

Of course the work we have to do together won't all be accomplished this year, or even over four years. But it is our common purpose, I think, to make the most of the time we have in government. Whatever our party affiliation, whatever our regional or local imperatives, whatever our personal predispositions on policy, let us find common ground on the big financial issues at stake.

New Jersey is one community, with one future.

If you don't like what I've proposed, then give me an alternative that is as far-reaching and as fair.

If you don't like the taxes, give me more cuts.

If you don't like the cuts, then you're out of luck --- because there are already more taxes than I want.

We've got a tough few months ahead of us. I am sure there will be a temptation to duck some of the hard questions we must face. But in our hearts, we know better.

And most of all, we recognize that one course is not open to us -- just doing more of the same.

So, let's get at it --- together.

Thank you, and God Bless New Jersey and America.

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