



SPEECH

BUDGET ADDRESS - FEBRUARY FOURTH - TWO THOUSAND AND THREE

**Governor James E. McGreevey:
2003 Budget Address Text****A Call to Fiscal Responsibility**

Mr. President ...

Mr. Speaker ...

Members of the Legislature ...

Honored guests ...

Fellow New Jerseyans ...

Ladies and gentlemen. I would ask us all to stand in prayerful remembrance of those who lost their lives in the tragic event of this past Saturday.

The words of the poet Steven Spender are most appropriate.

"I think continually of those who are truly great ... born of the sun, they traveled a short while toward the sun, and left the vivid air signed with their honor."

Thank you.

We know why we are here today.

This is not a time for flowery rhetoric. It is a time for straight talk about tough choices.

... Time to confront the facts and to make difficult but necessary decisions.

When we met last year, New Jersey confronted a \$9 billion deficit, the largest budget deficit in our history.

I said we were going to balance the budget without raising the income tax or sales tax. And we did.

I said we were going to restore fiscal responsibility and live within our means. And we did.

We reduced the state workforce and kept spending below the rate of inflation.

We began to take responsibility for our fiscal actions and put an end to the mismanagement that characterized basic operations of government.

But despite those efforts, a perfect economic storm has battered our economy and created a \$5 billion deficit.

We do not face an ideological or partisan problem -- we face a simple math problem.

Let's get right to the facts.

Last year the state collected \$23.4 billion in revenue. This year, revenue is estimated to be less than \$22 billion.

We face an immediate revenue shortfall of over \$1.4 billion.

If we simply do nothing and let our fixed costs grow, state spending will increase to \$27 billion as a result of growth in federally mandated programs, debt payments and contractual obligations, such as pensions and health benefits.

Less revenue plus higher costs equals a \$5 billion deficit.

Let me repeat that -- the state of New Jersey starts out this budget year \$5 billion in the red.

By any definition, a \$5 billion deficit is a crisis, formed by the confluence of three forces that came together to create the fiscal equivalent of the perfect storm.

Unlike the movie, this perfect storm is not the product of a random collision of natural forces, but rather the collision of a national economic downturn, 10 years of fiscal irresponsibility, and a federal government that has turned its back on states all across the nation.

First, New Jersey has been battered by a weak national economy that has hit almost every state.

Across the nation, state after state confronts the worse financial conditions since World War II.

46 states face a combined budget deficit of \$75 billion.

And the national economic downturn has been exacerbated in New Jersey by the after-shocks of September 11th and the dramatic downturn in the stock market.

While we continue to have the highest per capita income in the country, in the last three years, tax revenue from capital gains has fallen 65% from \$1.17 billion to \$395 million.

When the national economy falters, every state suffers. But like New York and Connecticut, New Jersey has been hit even harder because of our economy's reliance on Wall Street and the financial markets.

Second, there was a calculated decision over the past 10 years to borrow and spend at unprecedented levels with a complete disregard for sound fiscal policy.

Our leaders gambled that the good economic times would continue forever and today we all are paying the price.

Tax cuts enacted during the last decade lowered state revenues by \$1.8 billion for this year alone and nearly \$15 billion since 1994.

But it's not the tax cuts themselves that were so irresponsible.

Even conservative supply side economists would say -- when you cut taxes you have to cut spending.

But government failed to cut spending and appeased every interest group at every turn.

In fact, from 1994 to 2001, spending in New Jersey rose by more than 50%.

Instead of cutting spending, the state borrowed \$2.8 billion to pay the pension fund.

If government had just borrowed money, that would have been bad enough.

But government didn't just borrow -- it back loaded the debt payments.

While these pension bond payments will cost taxpayers \$163 million this year, before long these payments will rise to half a billion a year.

Because they back-loaded the payments, it will cost taxpayers over \$10 billion to pay this debt back.

The investments we must now postpone ...

the aid we must now deny to worthy programs ...

and the soaring cost of debt service ... are all the inescapable consequences of those reckless fiscal policies ...

... policies that will burden this state's taxpayers for years, if not decades to come.

The third factor contributing to our budgetary crisis is that the federal government, once a responsible partner, has utterly failed to meet its financial responsibility to the states.

In the past weeks, we have heard the State of the Union speech and the administration's economic program, and yet in neither did we hear President Bush offer one dime of help for states all over the nation.

Let's start with the fact that New Jersey, so far, has been denied the same federal health care waivers worth hundreds of millions of dollars that other states have received.

If seniors in Wisconsin and Florida deserve federal assistance for essential health care, then seniors in New Jersey deserve it too.

For 28 years, states like Connecticut, New York, Pennsylvania, and New Jersey have done the right thing and protected our seniors with the finest prescription drug programs, saving the federal government tens of billions of dollars in Medicaid costs.

But this bi-partisan model for prescription drug benefits -- the landmark PAAD program -- is being used against us in our effort to obtain federal assistance to alleviate 220 million dollars in annual costs.

In a bizarre game of bureaucratic brinksmanship, the federal government has suggested we terminate our program and then apply for federal assistance to restart it.

We will not allow New Jersey seniors to be used as pawns in the cynical game where some states are rewarded for ignoring the needs of the elderly, and others like New Jersey are penalized for doing the right thing.

We have done right by our seniors. It is time for the federal government to do right by New Jersey.

Let me be blunt: the power over these waivers resides exclusively with the Bush Administration. And I am calling on every member of this legislature to join me in urging the President to treat New Jersey fairly.

Since September 11th, New Jersey has been on the front line in the battle against terrorism, paying the costs of protecting our ports, tunnels, and bridges and for emergency services like EMT, police and fire.

Local and state officials, in the most difficult of economic times, have worked diligently to meet the new homeland security responsibilities with new training, new resources, new communications systems, increased medical readiness and a higher level of vigilance.

We have acted first, and asked for assistance later.

But for all the talk about homeland security in Washington, hundreds of millions of dollars in assistance has been promised, but not delivered.

We have met our commitments. It is time for the federal government to live up to theirs.

Washington must realize that for a real national economic recovery to take hold it must begin in the states.

From health care to homeland security, the federal government must become a responsible fiscal partner.

We face this budget mired in a national economic downturn -- piled on top of a decade of fiscal irresponsibility -- and capped by a federal government in Washington that has turned its back on us.

That is the sad explanation for our \$5 billion perfect storm.

Many of the same economic forces that pummeled state government have hit families just as hard.

As I listen to people all across New Jersey, I have seen family after family cutting back on their budgets.

They are making painful choices. People are doing with less, postponing spending on things that only a year ago were necessities.

As usual, the hard working families of New Jersey are leading by example. We in government can do no less.

Each of us in this state -- freeholders, mayors, school boards and citizens alike -- has a responsibility to share in the sacrifices by doing more with less.

The budget I present today stays true to our core values, demands sacrifices from everyone, and refuses to spend money we do not have.

As hard as our decisions have been, there are things that we will not do.

We are not raising the corporate business tax.

We are not raising the sales tax.

And we are not raising the income tax.

As I said, New Jersey is not alone in facing a budget crunch. But even though we have cut this budget to its core, we have not cut education aid nor increased the sales tax on clothing like New York State.

We have not released prison inmates like Kentucky and Arkansas.

We are not closing schools one day a week as in Colorado, Louisiana, and New Mexico.

Nor are we eliminating state aid to counties and municipalities as Kansas and Massachusetts have proposed.

I empathize with those governors, and I will cut to the bone, but I refuse to cut the heart out of our mission to help and protect our citizens.

However, no one should doubt my commitment to restore fiscal responsibility and sanity to state spending. I will not watch this state teeter into bankruptcy.

This budget has not been easy and it has tested every value that I hold dear. It contains cuts that I abhor and eliminates programs that I support.

I have made cuts in every department and to every constituency group.

I have done my best to protect the most vulnerable in our society, but this budget will undoubtedly cause difficulties for many citizens.

But we have made the difficult choice of eliminating the NJ saver for households with incomes between \$100,000 and \$200,000 per year in order to fund \$200 million worth of education aid to our communities;

We have preserved property tax rebates for 1.6 million senior citizens and for 900,000 middle class families;

We save more than \$100 million by cutting aid to colleges and universities.

We save \$38 million by eliminating the Business Employment Incentive Program and \$15 million by eliminating Science and Technology grants.

We have eliminated health grants and programs totaling \$53 million;

And we have made unprecedented cuts in culture and the arts: eliminating entirely all Arts Council grants, the Cultural Trust, the Historical Commission, and the Historic Site Management Program;

We have eliminated the \$32 million in special block grant programs.

And we have found additional cuts totaling hundreds of millions in vital programs like Family Care, Medicaid, Work First, anti-smoking programs, inpatient hospital reimbursements, dental and chiropractic services among others;

These cuts were especially difficult to make and they will cause real and immediate pain for many people.

Let me be clear:

I didn't run for office to make these kinds of cuts and to cause people pain.

I take no pride in having to announce these measures. But I also have to be responsible and make sure that we put this state on sound financial footing.

NJ TRANSIT has reduced 150 management positions and cut \$55 million in administrative costs. As a result of this belt-tightening, there will not be a fare increase in 2003.

For the first time, a state budget will provide no operating subsidy to the Sports and Exposition Authority.

The operating budget of state government will be down 5%.

I will cut the Governor's Office budget by 10% and I have asked the Legislature to postpone consideration of one of my legislative priorities, the Public Advocate. This will save an additional \$2.5 million.

As important as this proposal is, we must do more with less and it will not be funded in this budget.

Working through the Attorney General and the Ratepayer Advocate, we will maintain our commitment to a strong pro-consumer agenda.

Last year I proposed to save money by merging the State's toll authorities and next week, we will keep that commitment when legislation is introduced to merge the New Jersey Turnpike and the New Jersey Highway Authorities.

We have cut an unprecedented \$1.3 billion in spending and saved an additional \$2.4 billion from slowing the growth of mandatory programs.

In total, we have eliminated over one hundred and nine programs of varying sizes saving nearly \$300 million. Over 300 groups will be affected by these cuts.

I made choices I did not like because I made decisions I refused to avoid. And frankly, we have done more than cut waste -- we have made cuts that cause real pain to real people.

I understand that some of these cuts will defer our ability to address long festering problems.

But we face this crisis in large part because of the lack of will to make hard choices even in good times.

So now, those of us in this chamber -- Democrats and Republicans, must do what those before us refused -- and with a far heavier price.

Just as those who receive state services are being asked to share this burden, so are the people who deliver those services.

State workers are hardworking, diligent employees who perform valuable services for our citizens. But we must have a leaner government.

So as we cut government and eliminate programs, there will be downsizing and attrition that will reduce the state payroll by 1,000 workers.

There will be those who say we have not cut enough.

But overall, state spending has increased slightly more than 1% from last year, even with a mandatory debt service payment of \$1.5 billion.

By comparison, in his State of the Union address, President Bush said the federal budget would grow by 4%, even with the largest deficits in history.

Let me be clear. Any increase in the overall spending level of this budget is due entirely to the legacy of debt and the failed fiscal promises of the previous administration.

This budget has already inflicted too much harm on the most vulnerable in our society.

I will not make further cuts to the safety net for women and children in order to make a political statement about the level of government spending. I will not engage in that type of politics.

To those who will fault this budget or say we should cut more, I repeat my invitation to sit down with Treasurer McCormac to tell us what else you would like to eliminate.

To those who want to spend more money, I say show me the money. Show me the money because I will not let this State spend money it does not have.

To those who choose to be critical rather than constructive -- do not play numbers games with this budget. There is too much hardship created by too few dollars.

Do not mislead and call an increase in paying off old debt more spending.

Do not deceive and call previously contracted increases more spending.

And most of all, do not avoid your responsibility to be part of the solution.

If you persist in arguing that spending has grown, then look no further than the votes many of you cast during the last administration.

Political posturing will not solve our problems. Straight talk and fiscal discipline will.

Even with all these cuts -- even with slashing the size, scope, and bureaucracy of government -- there is still a need for new revenue sources to meet obligations we cannot ignore.

These are not decisions I welcome but they are necessary.

We will generate \$1.3 billion from securitizing the remainder of the tobacco settlement.

We will increase the tax on tobacco by forty cents in order to raise \$80 million.

We will fund the obligation on homeland security that the federal government has walked away from with a surcharge on wireless companies.

We will generate \$140 million through a 7% hotel tax that will be shared among state, local, and

county governments. This will provide additional dollars to invest in our communities and keep property taxes down.

For those who reject what I have proposed in this budget or who want these remedies taken off the table, it is your responsibility to find alternatives of equal value to replace them.

But as much as we must cut, there is one place where we draw the line and say, despite the gravity of the situation, we must make additional major investments.

There is no more important investment than our children, their education, and their future.

We have made the tough choices and the hard cuts elsewhere so we can invest in New Jersey's public school children.

It has not been easy, but I am proud to say that this budget will increase local school aid to our communities by \$200 million.

That's \$200 million to make our schools better and keep property taxes under control.

\$100 million will be used to make debt payments for the construction of new schools and \$100 million will go to your communities to improve the quality of local education.

Our efforts to cut the red tape and build new schools will not only benefit local taxpayers and school districts, it will grow our economy and create over 14,000 good paying jobs this year alone.

This education investment I have outlined will be in addition to the \$8 billion already provided in local school aid.

Providing this increase was exceptionally difficult, and I want to be clear about the choices it will require.

The only way we can increase school aid is to eliminate the NJ Saver for those with incomes above \$100,000.

While 10 years ago Homestead Rebates were eliminated for families earning over \$40,000, this modification will ensure that the NJ Saver continues for families and seniors with the greatest need.

And to those who are losing rebates, you will know that the savings are not going to state government, but to invest in our children's education.

In this budget, we have made tough decisions about priorities.

We have cut government and eliminated scores of programs that I support in order to provide school aid.

It is time for municipal, county, and school board officials to demonstrate the same level of responsibility.

We cut the state workforce last year by 2,000 workers. Yet at the municipal and school level, over 5,000 new workers were added.

Local education employment in 2002 grew 50% faster than the national average.

Last year the property tax levy in New Jersey went up by 1.1 billion dollars as the direct result of increased spending by municipalities and school boards. This simply cannot continue.

If the state government can reduce its workforce and cut spending, then so can every other level of government.

If state government can forego raising taxes, then so can every county, municipality, and school board.

In my State of the State speech, I outlined educational initiatives such as improved teacher preparation and our continued effort to make New Jersey a national leader in early childhood literacy.

This budget reflects those priorities and contains funding for teacher mentoring and preparation, as well as funding to continue the successful reading coaches program.

I also want to be responsible to the students and families struggling to pay for college tuition. So despite the cuts in aid to state colleges and universities, funding for tuition assistance grants will be increased.

This will ensure that every student who received a grant last year, will receive one this year and there will be funding for this year's high school graduates.

In difficult economic times, we must fight to keep our commitments to our larger goals.

I have a vision of New Jersey as a national leader in medical research.

In last year's budget we provided \$20 million for cancer research.

This budget will continue our efforts by providing \$18 million for New Jersey's battle to fight cancer.

At a time when the President has recognized the gravity of the AIDS crisis in Africa, we must recognize that AIDS is reaching epidemic proportions in our own state, growing fastest among African American women.

As Corretta Scott King said, "AIDS is a global crisis ... a national crisis ... and a local crisis ..." and it is time for our State to act.

My budget calls for a two million dollar down payment into education and prevention programs that have been proven to save lives.

We have a fundamental obligation to protect those who cannot protect themselves.

The death of Faheem Williams and the abuse of his brothers was an inexcusable failure of family and government.

We have to be honest with each other. There are no quick and simple solutions. But there are immediate steps we must take.

DYFS is undergoing a structural overhaul to provide more accountability and a renewed focus on its core mission of child protection.

But as I demand accountability from workers, I have a responsibility to provide them with the

resources and tools to do their jobs.

DYFS will be one of the few areas of State government to receive an increase in funding.

DYFS now relies on one of the nation's oldest and most antiquated child tracking systems. Caseworkers resort to flash cards and post-it notes to recall the status of the 48,000 children they now serve.

My budget will invest \$5.6 million, so New Jersey can join the other 46 States that use the State Automated Child Welfare Information System, a state-of-the-art child tracking system.

In addition, I am proposing a \$14.3 million "Children First" initiative to hire additional DYFS caseworkers, supervisors, and case practice specialists.

In some DYFS offices, a case was sidelined simply when an adult refused to produce an at-risk child. Not any more.

Case practice specialists will ensure that DYFS does everything in its power, including going to court, to locate and meet with every child for whom there is an open allegation of abuse.

To assist in this effort, I propose to spend \$1.4 million to create a new unit in the Office of the Attorney General that will focus exclusively on DYFS and child safety.

These are lean economic times that have forced us to reduce spending and make agonizing decisions about our future.

But even in these most difficult of times, we must lay the groundwork that will support job growth and economic expansion.

This budget maintains our \$2.5 billion commitment to infrastructure spending. This spending supports over 100,000 jobs.

We must make it easier and more attractive for companies to do business in New Jersey.

Labor Commissioner Kroll has already moved to consolidate the workforce development and job training programs across State government into one efficient program. We must also do the same for business programs.

I will also initiate a statewide review of business regulations to see what can be eliminated or streamlined.

In my State of the State speech, I spoke about the pressing need to stop the mindless rampage of over-development that is destroying our communities, jeopardizing our water supplies, increasing traffic and congestion and driving up property taxes.

And I am committed to working with this Legislature to pass an anti-sprawl package that provides for regional planning, impact fees, and more power for municipalities to stop unwanted growth.

But I am equally committed to ensuring that development and economic expansion occur in the right way and in the right places.

We can restore the splendor of our older communities all across New Jersey. But we must make them a priority and focus the resources of State government on their revitalization.

I will ask you to enact legislation to bring all the redevelopment powers from the New Jersey Redevelopment Authority and the Housing and Mortgage Financing Agency into one combined agency.

And I will consolidate the brownfields redevelopment functions that are split among four agencies into the Economic Development Authority.

We must do more than talk about encouraging the right kind of growth, we must be prepared to act to make this growth a reality.

Individuals and government have spoken for years about redeveloping the Meadowlands.

But talk doesn't create jobs or generate more tax revenue to keep property taxes down.

In two weeks, the State will designate a development team for the Meadowlands project, to spend \$1 billion of private, not State money, on this project.

This project will create more than 20,000 full-time construction jobs, more than 20,000 permanent full-time jobs and generate more than two billion dollars in economic activity.

This is the type of economic growth and re-development that will work for our neighborhoods and work for our State.

Balancing this budget in the face of a \$5 billion deficit has been exceedingly painful. And the months ahead will not be easy.

There are those who will legitimately express concern about the program cuts and eliminations that have been made.

Others will say that we haven't cut enough and still others will criticize the methods for raising revenue.

People will be hurt by the cuts we have laid out.

In the past week, I have met with many groups and individuals who will feel the impact of these cuts most directly.

This is not a budget of excess -- it is a budget of bare essentials.

Yet despite all the obstacles we refused to raise the sales tax, the income tax or the corporate tax.

We cut waste -- we even cut worthy programs and we made hard choices.

We were always guided by our principles.

We will not spend money we do not have.

We will not balance the budget on the backs of hard working families.

We must preserve and enhance the values and quality of life embodied by New Jerseyans from the Delaware to the Shore and from High Point to Cape May.

And we must never forget that by working together we can create opportunity, build stronger communities, and take more responsibility for the future of our state.

Because we made those hard choices, because we stayed true to our values, we were able to do what few thought possible.

We increased state aid to education and we increased state aid to municipalities.

We invested in our children -- in their education, their health, and their safety.

To those who want to find fault with this budget, I offer a simple set of guidelines.

For every dollar you want to add, show me where you will cut. And for those who say cut more, tell us where and how much.

Every generation has faced its challenges. Ours is no different.

The generations that have come before us have not merely overcome challenge, they have prospered and left to their children a better place.

Working together, so, too, will we.

Thank you and let's get to work.

