

total, we can reduce spending by over \$550 million this year by lapsing these unspent balances - by not spending these funds and applying them now towards our multi-billion dollar budget gap.

For example, our state's special municipal aid program includes a balance of \$3.2 million, mostly for overhead costs. This spending is not appropriate, not necessary and will not be done.

The "InvestNJ" program has a large unspent balance and a failed record in actually creating new jobs. We can save taxpayers \$50 million by terminating this program now. Instead, I believe we should create, without significant public expense, a one stop shop to clear away obstacles and speed the path to job creation - the New Jersey partnership for action.

I will also take action to terminate or suspend programs to save another \$70 million this year.

Some projects we can afford to delay until the state has the resources to pay for them. This list would include capital improvements to state buildings, correctional facilities, and state parks.

It includes items like the main street program which has both current and long term funds which have not been spent yet and will not realistically be spent this year. These funds should be returned to the general fund to help balance the budget.

In total, deferral of these long term projects and items to a less rainy day in New Jersey can reduce spending by \$90 million in this fiscal year.

We can improve certain practices in the ways we use and collect revenues.

Two examples: we can accelerate our dispute resolution processes on taxation settlements and save \$20 million.

And we can appropriately ask the urban enterprise zones to repay the general fund for its subsidy of the required contribution of these zones to property tax relief in years past.

By far the biggest category of spending we will need to cut, however, is that for programs which actually have merit, and in most cases make sense, but which we simply cannot afford at this time. Like any family, and like forty two other states with constitutionally required balanced budgets, we must live within our means. New Jersey does not have a revenue problem-we already have higher taxes than any other state in the union. We have gone down the road of ever higher taxes to pay for Trenton's addiction to spending. What has it given us? 10.1 percent unemployment, a dormant economy and a failure of hope for growth in our future. Higher taxes is the road to ruin. We must, and we will, shrink our government.

That means making some tough choices. It means tightening our belts. It means making do with the resources we have. And it means charting the course to reform now so that our spending will be more effective in the future.

So today I am implementing over a billion dollars in reductions and reforms to programs that we simply cannot afford in the current economic environment and in our current fiscal state.

For example, the state cannot continue to subsidize New Jersey transit to the extent it does. So I am cutting that subsidy. New Jersey transit will have to improve the efficiency of its operations, revisit its rich union contracts, end the patronage hiring that has typified its past, and may also have to consider service reductions or fare increases. But the system needs to be made more efficient and effective.

The state cannot this year spend another \$100 million contributing to a pension system that is desperately in need of reform. I am encouraged by the bi-partisan bills filed in the Senate this week to begin pension and benefit reform. I commend President Sweeney and Senator Kean for leading the way to begin this long overdue set of reforms. I am sure our Assembly colleagues will follow suit with the same kind of bi-partisan effort.

These bills must just mark the beginning, not the end, of our conversation and actions on pension and benefit reform. Because make no mistake about it, pensions and benefits are the major driver of our spending increases at all levels of government-state, county, municipal and school board. Also, don't believe our citizens don't know it and demand, finally, from their government real action and meaningful reform. The special interests have already begun to scream their favorite word, which, coincidentally, is my nine year old son's favorite word when we are making him do something he knows is right but does not want to do-"unfair."

Let's tell our citizens the truth-today-right now-about what failing to do strong reforms costs them.

One state retiree, 49 years old, paid, over the course of his entire career, a total of \$124,000 towards his retirement pension and health benefits. What will we pay him? \$3.3 million in pension payments over his life and nearly \$500,000 for health care benefits -- a total of \$3.8m on a \$120,000 investment. Is that fair?

A retired teacher paid \$62,000 towards her pension and nothing, yes nothing, for full family medical, dental and vision coverage over her entire career. What will we pay her? \$1.4 million in pension benefits and another \$215,000 in health care benefit premiums over her lifetime. Is it "fair" for all of us and our children to have to pay for this excess?

The total unfunded pension and medical benefit costs are \$90 billion. We would have to pay \$7 billion per year to make them current. We don't have that money-you know it and I know it. What has been done to our citizens by offering a pension system we cannot afford and health benefits that are 41% more expensive than the average fortune 500 company's costs is the truly unfair part of this equation.

The only principled path in light of these mountainous challenges is this-take these reform bills, make them even

stronger and put them on my desk before I return here on March sixteenth for my budget address. And on this you have my pledge-unlike in the past, when you stood up and did what was right, this governor will not pull the rug out from underneath you-I will sign strong reform bills.

But until that reform is enacted, we cannot in good conscience fund a system that is out of control, bankrupting our state and its people, and making promises it cannot meet in the long term.

The biggest category of reductions will likely be the most controversial.

School aid is a large proportion of New Jersey's budget - especially of the amount which has not yet been spent in FY 2010. So we cannot put our budget in balance without putting some school aid in reserve.

We are not alone in this; other states have been required to do the same.

The previous administration severely underestimated our budget gap, and it proposed to reserve some \$230 million in school aid - yet it did not offer a legislative solution to achieve this number, and once again, left important business unfinished.

I am implementing a solution which insures that every school district has the resources to provide a thorough and efficient education to its students.

Our solution does not take one penny from an approved school instructional budget. Not one dime out of the classroom. Not one text book left unbought. Not one teacher laid off. Not one child's education compromised for one minute. Not one dollar of new property taxes will be needed. The union protectors of the status quo will claim otherwise- once again, they will be proven to be self-interested and wrong.

Many school districts in New Jersey have surpluses that were not a part of their fiscal year 2010 budgets. This is because they were either not anticipated - so called excess surpluses - or were placed in a reserve account - so called reserve surpluses.

I am reducing school aid in a way that ensures that no district will have aid withheld in an amount that is greater than its surpluses.

To some, an across the board reduction of a fixed percentage of school aid may seem more fair. But because some districts rely so heavily on state aid, this may affect their ability to provide the required thorough and efficient education to their students. And this approach would likely throw some districts into a deficit situation. We have not reduced school aid with an axe-we have done it with a scalpel and with great care.

The total amount of aid to be withheld is \$475 million. I know this solution will not be popular. More than 500 school districts will be affected, and more than 100 districts will lose all state aid for the remainder of the year.

But action is required. It is late in the fiscal year. The irresponsible budgeting of the past, coupled with failed tax policies which lie like a heavy, wet blanket suffocating tax revenues and job growth, have required these extraordinary steps. Despite this bold action, remember, we have not taken one dime from classroom instruction, not forced one penny of increase in our property taxes.

Let me repeat. Every dollar in every school budget approved in every school district across the state remains intact.

Suburban districts will sacrifice. Urban districts will sacrifice. Rural districts will sacrifice. Some, both inside and outside this chamber, will urge you to retreat to the corner and protect your own piece of turf. Our state is in crisis. Our people are hurting. Now is the time when we all must resist the traditional, selfish call to protect your own turf at the cost of our state. It is time to leave the corner, join the sacrifice, come to the center of the room and be part of the solution. I urge all of us to come to the center of the room voluntarily, to stand up to the special interests, to fix our broken state - together. For those who continue to defend the old ways of selfishly protecting turf, who stay in the corner defending parochial interests, please be on notice - people of good will who want a better, stronger New Jersey will band together to come into those corners and drag you to the center of the room to make our state the place we know it can be.

In total, I am cutting spending in 375 different state programs, from every corner of state government.

I doubt that many will be popular. I will use my executive authority to implement them now, because I must.

Taken as a package, they will achieve the required savings and eliminate our \$2 billion budget gap.

I am not happy, but I am not afraid to make these decisions, either. It is what the people sent me here to do.

I ask of you in the legislature to show the same frankness and commitment. For inaction is not an option. That was the path taken for far too long.

The cuts I have outlined may sound dramatic. And they are. Some sound painful. And they will be.

But let me give you some context. As of the first of this month, about half of the budget was already spent. The state at January 31 had about \$14 billion of unspent monies for the current fiscal year. Of that amount, \$8 billion cannot be touched - by contract, as in the case of state employees or maintenance of effort for federal stimulus money; by constitutional requirement; by the terms of our bonds; or by law.

So upon arrival, my administration had \$6 billion of balances to work with - \$6 billion of balances from which to find \$2 billion of savings. We had to cut 1/3 of our available funds with only 4 ½ months to go in the fiscal year.

We all were taught when we were young that it is not always easy to do the right thing.

We chose not to use gimmicks or band aids to hide the budget gap or defer it until next year, when it would be even worse. We refused to repeat the failures of the past.

We chose to confront the problem head on by reforming our spending habits, and laying the groundwork for reform so that we can repair a structural deficit that will be even larger - many times larger - in the next fiscal year, 2011.

So the cuts I am making today are not easy -- but they are necessary.

And make no mistake: our priorities are to reduce and reform New Jersey's habit of excessive government spending, to reduce taxes, to encourage job creation, to shrink our bloated government, and to fund our responsibilities on a pay-as-you-go basis and not leave them for future generations. In short, to make new jersey a home for growth instead of a fiscal basket case.

We have set out in a new direction - a direction dictated by the votes of the people of New Jersey - and I do not intend to turn back. I will not break faith with them or the mandate they have given me.

A great president, Ronald Reagan, once said that: "a leader, once convinced a particular course of action is the right one, must have the determination to stick with it and be undaunted when the going gets tough."

In just over a month, I will come before you to lay out my plan for fiscal year 2011 and beyond. The challenge next year will be even greater. The cuts likely will be even deeper. The reforms will, of necessity, be even more dramatic.

But let us not make that problem even worse.

Let us begin the process of reform today.

Let us listen to the will of the people and proceed in a new, more responsible direction.

Let us live within the means the people are already providing us and not take more of their hard-earned wages and savings from their pockets.

Let us have the *courage* to make change; the *fortitude* to see it through; and the *vision* not only to craft a more sound and sustainable budget, but to build a better state that can grow once again.

Thank you very much. God bless America and may God continue to bless the great state of New Jersey.

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