

STATE OF NEW JERSEY  
BUDGET ADDRESS

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"The Days of Spending like there's no Tomorrow, End Today"

Tuesday  
March 1, 2005

GOVERNOR RICHARD CODEY

Mr. Speaker ...

Majority Leaders Kenny and Roberts ...

Senate President Pro Tem Turner ...

Minority Leaders Lance and DeCroce ...

Reverend clergy ...

Governors Byrne, Florio, and Bennett ...

Distinguished guests ...

Fellow New Jerseyans ...

Thank you for the cooperation and commitment you have shown me in the past three months.

Together, we have made progress to increase the minimum wage ...

We have raised awareness of the daily struggles of individuals with mental illness.

We have brought new companies to New Jersey and convinced old friends to stay ... and to expand.

We are working together to create a Lieutenant Governor and an Inspector General ...

And we passed one of the toughest pay-to-play bans anywhere in America.

We have put aside partisan differences to work together ... and the results speak for themselves.

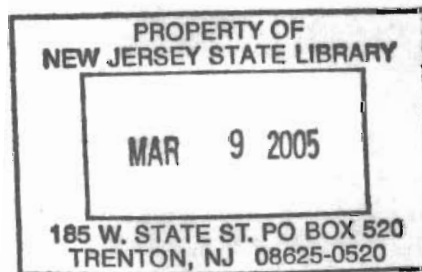
As we begin this debate, now more than ever, New Jersey needs us to work together, not as Democrats and Republicans, but as New Jerseyans.

In this budget address, there's good news and there's bad news.

The good news is, we're not bankrupt. The bad news is, we're close.

I have been a member of this Legislature for thirty years.

I have witnessed more budget debates than anyone should in a lifetime.



Budgets that were done in the best of times ...  
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... and budgets that were done in the worst of times ...

But whether the Treasury was full or empty ...

... too many budgets were driven by one concern ... the politics of survival.

There was always a Gubernatorial election or a Legislative election ... or some other reason that prevented an honest discussion of the State's fiscal problems.

Year after year, the State always managed to find one more gimmick ... one more back door pass to get us through the day...

As a coach, I know sometimes the back door pass works and sometimes it comes back to haunt you.

Finally ... the bill has come due.

Today ... the ghost of Christmas past has arrived at the Statehouse door.

The result of decades of passing the buck ... is a budget that cannot stand under its own weight ...  
... not today and definitely not tomorrow.

Unless the State owns up to the structural deficit in the budget, we will continually face a huge shortfall ...

Our credit rating will continue to worsen ...

Every year the State will be the dog that chases its own tail ...

... engaging in a futile attempt to close a perpetual budget gap.

Meanwhile investments in health care and education will be postponed ...

... because the State's resources are consumed in a spiral of increasing entitlements.

The budget nightmare isn't about Republicans or Democrats.

It's about New Jersey.

It isn't about political campaigns or heated rhetoric.

It's about our collective responsibility to the people that elect us.

We can't afford to squander the next four months debating who caused this problem.

Each party has accused the other of recklessness and irresponsibility ... of wasting taxpayer money and employing financial trickery ...

And I have made some of those partisan accusations myself.

But the rhetoric has not solved the problem ...

And the political games ... have only made it worse.

[http://www.state.nj.us/budget2005/text\\_only\\_version.html](http://www.state.nj.us/budget2005/text_only_version.html)

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Fiscal gimmicks and borrowing have been a bi-partisan budget addiction.

Both parties have borrowed recklessly and spent well beyond the State's means.

Both parties have placed political expediency over financial responsibility ...

Both have enhanced retirement benefits without thought to future costs.

And both parties have been unwilling to address the skyrocketing cost of health care ... whether it was for Medicaid, State workers, or retired teachers.

The time has come for elected officials to put aside our partisan knives and work together to fix the budget problem.  
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As budget solutions leaked out ...

... people would come up to me and say Governor, I wouldn't want to trade places with you!

At the coffee shop or the basketball court, people said "the Governors before you created this mess, and you just inherited it."

But the truth is we, and I include myself, have all been guilty of saying yes when we should have said no.

And frankly it doesn't matter whether I inherited this mess, created this mess, or had nothing to do with this mess ...

I said I wouldn't run from the responsibilities of this job ... and I won't.

At some point, someone has to stand up and tell the truth.

Today, I am going to call it like it is ... the only way I know how -- honestly and directly.

Our State is facing a fiscal crisis.

It is a crisis that has been building for the better part of the last twenty years.

It can't be solved in one year or even in the next few years.

But it can no longer be avoided.

We are no different than the families we represent.

We have living expenses and annual income.

We have long term obligations ... that come with monthly payments.

We make choices about our priorities ... and their costs ...

We are not the first family to live beyond our means ...

... and we won't be the last to have a day of reckoning.

During the late 1990's, the stock market was reaching all time highs.

The State Treasury was flush with record levels of income from Wall Street bonuses and stock market capital gains.

The government made a decision ...

... to increase spending to match the record levels of revenue pouring into the Treasury.

To enjoy immediate political benefits, new long-term obligations were freely given away.

Then ... the stock market fell ... and our economy suffered under the impact of the September 11th attacks.

Revenue crashed. In 2002, revenue was off by \$3 billion dollars.

But even though revenue dropped ... the State was committed to spending levels that could only be supported in the best of economic times.

While we waited for the economy to recover, we tried to replace the revenue.

We brought fairness to the corporate business tax, and we cashed in the tobacco settlement.

When the tobacco money was gone, we borrowed against future cigarette taxes and fines.

And that brings us to today ...

We confront a budget that is the direct result of years of spending levels that couldn't ... and cannot be sustained ...

There is no more tobacco money ... it all went up in smoke.

There is no more borrowing ... the Supreme Court put an end to that.

Today we are left with painful choices that no one wants to make.

My good friend, the minority leader from Hunterdon County, said last year we passed a credit card budget.

In many ways he was right, but it wasn't the whole picture.

The State is no different than the family that enjoys a great financial year ...

And then proceeds to buy that big house, a new boat, and adopts an expensive lifestyle.

But when that great year ends ... the mortgage payment is still due on the first of the month ... but the money to pay the bills is gone.

The family is reluctant to trade in their new way of life.

Maybe they hope that the good times will return. Maybe they hope they'll win the lottery -- we all do!

Month by month, they find a way to keep the charade alive.

First the credit cards are used ...

Then a home equity loan ...

... the plastic is maxed out and the banks will not extend any credit.

That is where New Jersey is today.

The Supreme Court cut up the credit cards ... but we still have to pay the bills.

It's a sobering task.

At least the family keeps the majority of what they earn.

75 cents of every dollar the State collects, is handed over to someone else.

Every year more than 20 billion dollars is given to towns and school districts, hospitals, and universities.

Now, it's awfully hard to cut your expenses when you give away the majority of your revenue.

In the past weeks, I have met with legislators from both parties.

I have laid out the problem in stark and honest terms.

I have asked for their help and their ideas ... I hope in the months ahead, I will receive both.

Today, I want to talk to the people of this great State.

I want them to understand exactly what the State is facing.

No rhetoric, no blame, there's been enough of that ... just facts and figures as best I can explain them.

In the last budget, New Jersey spent \$28.3 billion dollars.

But nearly \$3 billion dollars of that was one-time revenue ... revenue we had last year but do not have this year.

Just to fund last year's budget, we need more than \$3 billion dollars in new revenue.

And that's before we spend a dime on any new programs.

But just like a family or a business, the State has fixed costs that go up every year.

We aren't faced with funding just last year's budget ...

We must fund the annual increases in mandatory entitlement costs.

Some costs are health care ... some are salary ...

... some are retirement and some are court- ordered ... but none can be avoided.

Let me give you a sampling of some of the increases the State faces this year.

\$160 million dollars more in salary increases for State workers and college employees.

\$300 million dollars in additional Medicaid costs, most of it federal mandates ... bringing the total Medicaid budget to more than \$3 billion dollars.

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\$90 million dollars more in increased health care costs to support the free medical benefits for retired teachers and school employees ... bringing the total cost of this program to nearly \$700 million dollars.

\$120 million dollars more in health care costs for current State and college employees ... bringing the total cost of this program to over a billion dollars.

\$50 million dollars more in health care costs for retired State workers and college employees ... bringing this program's total cost to \$320 million dollars.

\$100 million dollars more in increased school construction debt service costs ...

... bringing New Jersey's total debt payments to nearly two billion dollars.

\$55 million dollars in additional court-ordered funding for the child welfare reform plan.

And these increases are not new.

These entitlements are the driving force behind the increase in State spending each and every year.

In the last four years...

... the total cost of health benefits for current State employees has risen by 50 percent.

... the total cost of health benefits for retired State and college employees has tripled.

... the total cost of free health benefits for retired teachers and other school personnel has doubled.

... the total cost of Medicaid has more than doubled and now consumes 10 percent of the budget.

And these items will continue to increase at double digit rates well into the future.

If we do not get a handle on these escalating costs ... we'll be having this same debate every year.

So today I am calling for a timeout to this madness of entitlement spending. \*\*\*

I will not sign any legislation that enhances retirement benefits or increases pension costs unless those benefits are paid for.

There has to be a better way, and I have asked one of my budget advisers, Phil Murphy, to lead a small working group to develop some ideas for us to consider.

Facing up to the impact of entitlements is one part of reforming the State's structural budget problem.

Controlling discretionary spending is another.

Last year's budget increased by 17 percent ...

This year's budget will decrease by more than 2 percent. \*\*\*

That's right ... this budget ... despite nearly a billion dollars in mandatory cost increases, is actually smaller than last

year's budget.

We didn't keep spending increases to the cost of inflation or increase spending just a little...

We cut spending by more than a billion dollars.

This is the largest spending cut in the history of our State.

This budget more than meets the challenge to reign in government spending.

It is the most fiscally conservative budget in recent history.

For the first time in years, there is zero borrowing to cover operating costs. \*

The use of one time revenues is cut by 70 percent.

Spending on State government operations is virtually frozen.

Out-of-state travel has been prohibited.

Funding for the office of the Governor ... cut by 10 percent.

Funding for the office of each Cabinet member ... cut by 10 percent.

Agencies have been directed to evaluate the effectiveness of every program.

Those programs that cannot demonstrate proven results will be eliminated or consolidated ...

The size of government will shrink ... and at least 500 jobs will be eliminated ... without resorting to layoffs.

An Inspector General has been hired to root out waste, fraud, and mis-management.

And ethics laws have been strengthened to increase accountability.

I have done all this because for too long ... government has spent too much and it is time to tighten our belts.

In order to eliminate the structural hole in the budget ...

I have reduced government.

I have strengthened oversight and accountability.

I have taken on the entitlement issue.

I have raised new revenues.

But regretfully, these actions alone cannot balance the budget ...

In the midst of this budget mess, New Jersey cannot afford the full rebate program ...

The truth is ... we weren't able to afford expanded rebates ... whether done by Democrats or by Republicans.

So I am proposing a suspension of the New Jersey Saver program for everyone except senior citizens.

It is simply impossible to maintain the full program ...

... maintain the services our citizens need ...

... and maintain the massive entitlement machine ...

... all without significant new revenues.

It simply cannot be done.

I find this action as unappealing as you do ... but we are faced with a series of unpleasant choices.

Would you rather tax 401(k)'s?

Increase the sales tax?

Increase the income tax?

Destroy government services?

Or create some new illegal borrowing scheme ...

The only free choices are the unrealistic sound bites offered by those who don't have the responsibility to govern.

Now, I recognize the political stakes involved in the budget ...

I wish the budget had collapsed in another year -- not the year I just happen to be Governor.

But now is when it occurred ... and there is actually something greater at stake than just politics.

We have to face up to some tough choices ...

... about what we can afford ... and what we should fund ...

... because we cannot do everything ...

We pretended we could have it all ... and still never raise taxes ... but that fairy tale has ended.

The sad truth is New Jersey can barely afford to maintain the services we provide.

State government is no longer discussing the expansion of services ... we are debating how to hold on to the most critical.

We are in a battle every year to preserve health care and prescription drugs for the most vulnerable in our society.

We wrestle every year to keep the prisons open ...

... State troopers patrolling ...

... and student aid available.

... we struggle to care for individuals with mental illness and developmental disabilities ...

I wish I could be here discussing a major investment in higher education or an expansion of health care ...

... because those are investments New Jersey needs to make ...

but I can't have those discussions ... not with this mess in front of us.

I said increasing the income or sales tax would be a last resort ... and it must be.

The knee jerk answer can't be to simply raise taxes.

No one may want to admit this ... but government has a cost ...

... all those services our citizens need have a cost ... and costs usually go up every year.

My Republican colleagues know this better than even the Democrats ...

In 1992 when the Republican party needed revenue ... they chose this same path I am proposing today ...

They basically eliminated the property tax rebate program for everyone but senior citizens.

They made a decision that eliminating rebates was a better choice than cutting government services for the most needy.

I am sure that their decision was as painful to them, as mine is to me.

Today marks the beginning of four months of what I am sure will be a lively debate.

Now, I have tried to outline the problem and shape the discussion.

I don't pretend to have a monopoly on ideas -- whether good ones or bad ones.

I welcome the ideas of others, not just from members of the Legislature, but from all who care about our State.

I have put forward a plan. I suspect the Legislature will make some changes.

And you have no idea how happy I am to welcome you to this debate.

I know this budget will be met with the typical political spin, but let me say this ...

If individuals on either side of the aisle want to criticize this budget ...

If people want to oppose the small revenue raisers ... or clamor for more cuts...

Then come forward with your specific ideas, not your generic criticisms.

If you want to do more spending, show me how you will pay for it.

If you want to talk about cuts, show me directly what you mean.

If you want to remove a revenue raiser, show me how you will replace it.

Don't sit in the aisles and say you oppose this idea or that idea.

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Don't stand at some distant podium and say the State should just cut more spending.

Don't mistake appealing sound bites for actual choices or ...

... mis-lead the public with false choices about easy options that do not exist.

If you want to be a leader, the public deserves to hear your ideas and weigh them against what I have proposed.

Treat our citizens like responsible adults and give them the facts.

Will you cut school aid?

Will you cut municipal aid?

Will you cut higher education or aid to hospitals?

Will you lay off State workers?

Close prisons ... take away student loans?

Increase co-payments for PAAD and Senior Gold?

Or will you take away health care for the most vulnerable in our society ... like they did in Arkansas and Mississippi?

But if you are serious, I promise I will listen.

This budget is honest and it is lean ... but it is not inhumane.

I have made painful cuts to reduce government spending ... but I am not going to balance the budget on the backs of the most vulnerable.

I am not going to make arbitrary cuts in worthwhile programs just to prove that it can be done.

Now is the time for leadership ...

not showmanship.

The politics of business- as-usual have gotten us into this mess ...

The policy of responsible governance can get us out.

So, let's have an honest and open discussion about putting the State we love on a fresh path.

A path of financial responsibility and spending restraint ...

Today marks a new beginning for New Jersey.

It is our chance to put aside the politics of the past ...

... and forge a different course.

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To the citizens of New Jersey, I make this pledge ...

The days of spending like there's no tomorrow ... end ... today.