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2009 Budget Address

Speech GOVERNOR'S 2009 Budget AS DELIVERED

Good morning everyone. It's great to be with you today.

Reverend Clergy ...Reverend Isinta...Rabbi Cooper ...thank you for joining us today.

Senate President Codey ...Speaker Roberts ...Majority Leader Sweeney ...

Majority Leader Watson Coleman and Minority Leaders Kean and DeCroce ... former Chief Justice Zazzali...Chief Justice Rabner... It's good to see you...and Judge Carchman.

Former Governors Byrne, Bennett, and, of course, Governor Codey ...May be you would like to trade places with me just for a couple of hours today.

Thank you all for joining us.

Members of the legislature and fellow citizens.

Today I present a sober and responsible budget.

The time is long past for the State, its Governor, and its Legislature to end imprudent spending and borrowing that exceeds our means. This budget ... does just that.

As you know, over the past 6 weeks, I've held 13 town hall meetings in 13 counties regarding our State's fiscal challenges. It's been a great opportunity to listen as much as to talk.

I have heard firsthand the public's frustration and anger generated by too many years of overspending, borrowing, and false rhetoric.

And they're right. Whether they agree with my financial restructuring plan or not, the public is 100% right to be angry about the state of New Jersey's fiscal affairs.

Further, the public's concerns are elevated by their high cost of living and a gathering national economic recession.

Yes, the public understands the State has a fiscal crisis ... but they want us to understand they have one of their own.

It is with this perspective that I present a sobering budget for fiscal 2009 ...a budget, I believe, that represents a "turning point" in the fiscal management of our State.... a turning point away from the patterns of overspending and tortured borrowing.

A turning point toward spending restraint and spending cuts that genuinely address our financial emergency.

That said, this budget still labors under the weight of years of unfunded commitments, court mandates, bad decisions, and declining federal dollars.

Regrettably, taxpayers live in a world where commitments and failures of the past, crowd out the resources for services our people deserve today.

Frankly, New Jersey has a government its people cannot afford.

This budget declares the time of living beyond our means ... is over.

To limit and re-set our spending within our means requires many unpleasant choices -- choices about which activities and services are most critical.

It will inevitably mean reducing spending in areas that we all support.

I can tell you, I'm pained by the stress and anguish brought to our people's lives by the cuts proposed.

We are positioned between a rock and a hard place.

Some may try to wish away the hard choices, suggesting old habits should prevail.

Others may deny that tough choices are being made, seeking to exploit the well-earned cynicism the public holds towards Trenton.

Still others will seek scapegoats from the past, as if that will solve anything in the present, let alone in the future.

On reflection, I hope the representatives in this room know the difference between rhetoric and wishful thinking, as opposed to real choices and real answers.

I call on each of you, Republicans and Democrats alike, to recognize that today a turning point is at hand.

We must turn away from the era of spending and borrowing beyond our means ... once and for all.

In practical terms, failing to take on the tough choices will only force New Jersey into a deeper fiscal swamp ... and weigh down our taxpayers with more unbearable financial burdens.

For me, that outcome is unacceptable. For our public, it is unacceptable.

To that purpose, today's budget is honestly balanced, sensitive to core responsibilities, and smaller by \$500 million in year-over-year spending.

Let me repeat: this budget cuts spending \$500 million below the \$33.5 billion budget I signed last year.

In fact, this proposal asks for the second-largest spending cut of any budget in New Jersey history ...and only for the fourth time since 1951, the budget will be reduced compared to the budget signed in the previous year.

It also reduces the use of one time revenues by 90% and puts us on track to zero ...an outcome we will achieve next year.

This budget goes well beyond the commitment I made to freeze spending as the first element of my financial restructuring and debt reduction plan.

This is "cold turkey" therapy for our troubled spending addiction.

Keep in mind ...this budget contains no debt service relief resulting from any monetization proposal.

Keep in mind this, my budget takes the necessary and painful steps to reconcile years of mismatch between recurring expenditures and recurring revenues ... by cutting spending. That's the headline ... now let me put this budget and its spending cuts in context.

Consider ... cuts must be achieved in the face of \$8 billion in current health care costs that are compounding at a nearly double digit rate.

Consider ... we carry the weight of twenty years of growing, unfunded pension contributions and post retirement medical benefits for teachers and public employees.

Consider ... we pay more for a growing debt service burden than we invest in either higher education or we provide in direct property tax relief.

Consider ... all of our spending is aggravated by State and federal court mandates... and we must compensate for declining federal dollars for housing, environmental clean-ups, health care and public safety.

And consider ... this budget accommodates \$550 million in additional school aid that was approved on a bi-partisan basis for the historic new funding formula.

To achieve the cuts in this budget, we've changed the process.

We started earlier ... We set clear spending objectives for the departments ...

We sought the ideas and recommendations of independent groups.

Most particularly ...I want to thank the bi-partisan private sector members of the GEAR Commission.

These individuals have worked since the Fall scrubbing operational and financial practices with our departments. Many of their recommendations are included in the proposal.

I am grateful for the hundreds of suggestions, I really am, from the public and organizations like the State Chamber of Commerce that have engaged in the broader financial restructuring dialogue.

And I want to thank the bipartisan participants from the Legislature -- Senators Buono and O'Toole along with Assemblymen Greenwald and Malone for their counsel and review.

Although we may not always agree ... their partnership is truly appreciated.

And lastly ... let me emphasize two points ... they're important points.

For the second year running, my budget contains no new taxes of any kind ... while it increases property tax relief.

Now ... given these observations, let me review the overall numbers:

When we began our planning process, we were facing mandatory and inflationary spending increases of nearly \$2.2 billion beyond expenditures in the current fiscal year.

Our restructuring plan mandated flat funding ... that is, fiscal year 08's level of \$33.5 billion.

As I made the point, "flat funding" doesn't mean no cuts, "flat funding" meant cutting \$2.2 billion just to keep at last year's level.

However, in light of the ongoing economic downturn, revenues aren't even strong enough to support last year's expenditures.

As a result, we have cut another \$500 million in the budget.

The net result is a budget that spends just under \$33 billion -- an absolute reduction of \$500 million.

To achieve those spending cuts, we began by prioritizing and protecting the core responsibilities of government:

Educating our children;

Providing for public safety;

Caring for the most vulnerable;

And in New Jersey, sustaining property tax relief.

After these priorities, all spending was on the cutting table.

So ... how have we achieved our cuts?

We cut thousands of jobs.

We cut entire departments.

We cut programs ...

We cut aid, and we cut inflationary increases wherever we legally or humanely could.

In this budget ... government takes the spending hit ... not our hard-pressed taxpayers or the most vulnerable.

The cuts are detailed in the "Budget in Brief," but I'll give you an overview.

This budget significantly reduces the size ... and cost of government.

Spending is down in every department of the Executive Branch.

As best we can tell, this is the first time this has ever occurred.

In total, there are over \$350 million in savings directly attributable to a smaller State government.

Over the past two years, through attrition and an ongoing hiring freeze, we reduced the size of the State workforce by nearly 2,000 positions.

With this budget we will have eliminated a minimum of 5,000 total government jobs, including half of all political appointees.

We will eliminate these positions through targeted layoffs, program consolidations, continued attrition and an early retirement program.

To ensure these reductions are permanent, we will eliminate funding for specific positions, not just leave them vacant.

Now ... we know from past experience, early retirement actions have achieved short-term savings but at a long-term cost.

This has occurred mostly because most positions were backfilled, thereby doubling up retirement costs for the future.

To prevent that from happening, we will allow only 10 percent of the vacated positions to be backfilled ... and that will be written into law.

All of the employees who will be included in the early retirement program are currently eligible ... we are simply giving those who can, an incentive to do so.

Eliminating positions through early retirement will allow us to shrink the size of government without creating the chaos under the civil services rules that would accompany across-the-board layoffs.

The effect of these personnel reductions will create future savings as our departments are forced to re-prioritize their programs and activities.

They will not only have to do more with less ... they'll undoubtedly have to do less.

Digging deeper, we will further reduce the size of government by proposing the elimination of three Cabinet departments: the Personnel Department; the Agricultural Department; and the Commerce Commission.

The personnel and operational savings from these actions are not intended as one time sound bites.

They are permanent ... They will cut costs.

These actions will be monitored for savings by the State Comptroller and the GEAR Commission.

These proposed initiatives to cut government build on last year's historic, negotiated agreements with civilian state employees and teachers.

These agreements achieved breakthrough long-term savings and reversed years of benefit expansion authored by Governors and Legislators of both parties.

Consider, we raised the retirement age for new employees from 55 to 60.

We increased pension contributions.

We capped the defined benefit pension for new employees.

We mandated for the first time state employees share in the cost of their health care.

And ... we kept wage increases well inside the levy cap.

Now, we should work to apply these and additional reforms to all units of government and, we need to make certain the levy cap is considered by mediators and arbitrators in settlements imposed on local governments.

We should also revisit some of the unfinished business from last year's special session on property tax reform such as eliminating defined benefit pensions for part time workers.

The next broad area for savings involves painful reductions in base-budget aid and grant programs.

This includes some property tax rebates, municipal aid, higher education, hospital assistance and Medicaid.

Cuts in these areas will total almost \$1.4 billion.

These cuts are unavoidable as nearly 75 percent of all State spending is grant based or pass through aid.

In terms of property tax relief programs 90 percent, repeat, 90 percent of all homeowners who received a rebate last year... will again.

Those earning \$100,000 or less, 70 percent of all households, will receive exactly the same \$1,000-plus rebate they received last year.

Those earning between \$100,000 and \$150,000 will receive at least two-thirds of last year's rebate.

We will also expand the eligibility for the senior freeze to an income level of \$75,000 ... helping another 150,000-plus of senior households.

Unfortunately, residents earning more than \$150,000 will no longer be eligible for rebates.

In addition, renter rebates will be narrowed while increases in special assistance rental vouchers partially offset this cut.

With regard to local aid, hospitals, higher education and health care we sought to minimize, retarget and share the burdens of cuts as responsibly as possible.

For instance, while all categories of municipal aid will be reduced, communities with populations of less than 10,000 will receive less direct support.

However, these communities will receive priority consideration for \$32 million in grants to develop shared services or consolidation agreements.

With regard to hospitals, across the board reductions are proposed, although we focus charity care increasingly toward safety net hospitals.

We also create a stabilization fund as recommended by the Reinhardt Commission to assist hospitals in the most distress.

Higher education and health care -- particularly Medicaid will see the smallest reductions.

This is because we carry grave concerns about the level of potential tuition hikes and the need to maintain access to health care for our most vulnerable.

Finally, this budget is shaped and balanced by two additional steps.

The first is the elimination of all non-contracted inflationary growth for our various aid and grant programs.

This will save about \$800 million dollars.

Regrettably, many of the same institutions who will experience absolute cuts will lose inflationary increases.

Finally, we will reduce the use of accumulated surplus from the current fiscal year.

Remember the higher-than-expected surplus was created by our ongoing managerial efficiencies and revenue growth that exceeds projections.

Reducing the use of surplus will move us closer to the principle that current expenditures will be funded solely by current revenue.

As a point of comparison, in fiscal 08 we used \$1.6 billion of surplus to balance the budget in FY09 we will use only \$500 million.

Of the remaining Fiscal Year 08 surplus, \$300 million will go to pre-fund early retirement and unfunded pension liabilities.

And \$34 million will go to fund selected capital investments.

I expect this to be the last year we use any surplus to balance the budget.

So that's a quick overview of a very tough budget -- I don't like it I'm sure a lot of you don't, but again it is a necessity.

Again, the details are in the "Budget in Brief."

Let me be clear, cutting spending is only the first step we must take to restore our fiscal health and put us in a position to be a sustainable partner in the success of our people.

Current-year spending cuts makes balancing the budget next year and in the future easier, but it doesn't make it easy.

The financial restructuring I put forward had four elements because it will take more than spending cuts to cure the broken finances of our State.

First, we have to get state spending under control and today I think we're doing just that.

Second, future spending must match future recurring revenue.

Third, out-of-control borrowing must end.

And fourth, we must reduce our crushing debt load and fund infrastructure investments.

Now whether or not you agree with every element of my plan, there does appear to be agreement that these reforms are priorities ...

I understand that the toll proposal is not popular, boy do I understand.

I didn't expect it to be, but as I have repeatedly said I am open to alternatives that will reduce debt and fund transportation.

But what is not acceptable and what we must reject is allowing the State to muddle through, with more of the same short-sighted fiscal patterns that created the mess in the first place.

Those days are over.

Two years ago, I started an effort to put the State on a sound fiscal footing.

This budget is the latest and most forceful step in that direction.

It will not be the last.

Even with the difficult \$2.7 billion in cuts in this budget, we project next fiscal year's budget to have a significant structural shortfall ... approximately \$1.7 billion.

The borrowing and benefits committed to over the past twenty years don't go away.

They get more expensive every year.

In fact, debt service is one of the few things that actually goes up in my proposed budget.

And it will go up in every budget in the future unless we do something different.

Some will argue that our debt burden isn't a problem ... that we should just deal with it some other day.

But that's not an option. It's not a real option.

It's clear debt service payments crowd out important priorities every year.

We should be cutting debt service, not closing parks or raising co-pays.

Fixing our fiscal problems without addressing debt reduction is a fiction ... and if we try to do that, we are misleading the public.

With these thoughts in mind, I need comprehensive action by all of you to restore the state's long term fiscal health:

First ... approve a budget that stays within the strict spending limits I have proposed.

Second ... pass legislation to limit growth in spending to certifiable recurring revenue.

Third ... put on the ballot this fall the Lance-Lesniak constitutional amendment to limit state borrowing.

And fourth ... work with me to develop a plan to pay down debt and fund vital capital investments.

I must say ... it is not enough to just reject the toll proposal.

If you don't like that alternative, give me another viable approach to significantly reduce debt and fund important, vital transportation improvements.

Many of you have begun that process. I welcome it.

When I was given the honor of serving as New Jersey's Governor, I made a commitment to be accountable and to be honest ... not just in my actions, but in the way I approached problems.

Our state has spent too much money.

And we carry far too much debt.

These twin problems are a threat to the well-being of the people we serve.

My financial restructuring plan is part of a much larger undertaking.

I knew it would be challenging and at times unpleasant ... and it has fully lived up to my expectations.

But it has been worth the effort.

To see the impact of the debate ... the intense level of public discussion and involvement ... and the alternatives that have been offered ...

We are now closer to financial stability – some might say sanity.

Now in closing ...

We often hear New Jersey is too expensive a place to live.

We hear how our business climate has become uncompetitive and our residents are fleeing for greener ... or at least cheaper pastures.

At the heart of these concerns lies New Jersey's broken finances.

Today, we can't make the investments that we all know we should make in transportation, alternative energy, mental health facilities, schools, and medical research.

Just look at the missed opportunity in stem cell research.

That research would not only save lives ...it would have potentially driven an economic boon for the medicine chest state of the world...

Unfortunately --our finances are so broken, the public wouldn't support that investment.

This must change ... and this budget is a start.

It's certainly not a budget designed to please ... I can tell from the applause lines... but it is a prudent blueprint to meet difficult economic circumstances, correct past mistakes and it lays a foundation for a responsible future.

It doesn't spend more than we have.

It doesn't borrow to pay operating costs.

It doesn't raise taxes.

It does contain the largest increase in school aid ever;

It does preserve property tax relief for the middle class; and it does protect the most vulnerable in our society.

It meets the public's expectations that government live within its means.

Make no mistake -- this is a turning point ... not the end point.

By itself, these cuts won't solve the problem. They can't.

A long term answer requires deeper changes.

My friends ... in the next three months, let us come together let us come together in a bi-partisan demonstration of responsible governance and find the common ground to restore our state's fiscal viability.

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Office of the Governor
PO Box 001
Trenton, NJ 08625
609-292-6000

