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## Governor Corzine's State Of The State Address As Prepared For Delivery

January 9, 2007

Happy New Year and thank you all for attending today's State of the State Address.

Mr. Senate President; Mr. Speaker; Chief Justice Zazzali; Justices of the Supreme Court; Members of the Legislature; Members of the Cabinet; Governors Florio, DiFrancesco, and Bennett; Honored guests and fellow New Jerseyans;

It is a pleasure to be with all of you.

Now – let me turn to my purpose today.

Let me start by saying, my first year as your governor has been the most remarkable experience of my professional life – humbling and invigorating.

I must say, I've learned some new things this past year. I've learned that rollaway cots aren't really comfortable, that the red knot is a bird, that Asian Long Horned Beetles are a real menace.

I've learned more about bear contraception than any person should ever know.

And – most importantly – I've learned that Jersey Girls don't pump gas.

It has been, as they say, a most interesting year.

Seriously, let me begin by expressing my appreciation to the Legislature for your partnership in the successes we've enjoyed in 2006.

I am certainly grateful for the encouragement and support that has come from both sides of the aisle.

With all due respect, I've noticed the barbs and bullets can come from both sides as well.

That said, I would be remiss if I didn't congratulate Senate President Codey and Speaker Roberts for their invaluable work this year.

The substantial areas of progress made in 2006 would not have been possible without them.

And it has been a pleasure to work with Minority Leaders Lance and DeCroce.

I want especially to thank Senator Bill Gormley who is retiring after 30 years of dedicated public service.

You have been a good friend and a worthy adversary, and you often make us laugh.

But above all else – Bill – you have been a tenacious advocate for your constituents and for the good of our state.

So, as some of you in the Legislature may have heard, I was considering putting my thoughts in

a letter rather than giving remarks.

I mean, my letter writing has been so effective. I figured I could save everyone a trip.

But Dick, like St. Paul on the road to Damascus, I saw the light and decided I'd best fulfill my constitutional responsibility in person.

Seriously, thank you all for being here to review the condition of our state and its future at such a crucial time.

As a starting point for my remarks, I was reflecting on the recent loss of President Ford – his important contributions to America and the lessons from his stewardship.

With the perspective of 30 years, President Ford is acknowledged as a special leader during a time of deep national turmoil – Vietnam, Watergate, and economic stagflation.

He was a leader unafraid to put the common good of the nation ahead of his personal ambition or benefit.

He understood well the wisdom expressed by Woodrow Wilson that a leader who spends too much time worrying about his reelection is probably not worth electing in the first place.

His selfless, common good philosophy will be essential to all of us as we face difficult decisions to bring closure to the threshold issues of property tax relief and reform, sustained in the context of ethical and fiscal discipline.

In those decisions, and with respect to each of our judgments, the common good must be our standard.

To that end, the common good is not that of our party, our county, our region, a particular profession or organization, or any other narrow definition.

The common good is not about a single issue or interest.

It is only about what is best for our nearly nine million citizens – for our children, parents, grandparents, neighbors, and friends.

Throughout the history of our great state, when our leaders have embraced the common good, our people have seen real progress and enjoyed significant benefits.

In 1947, regional and local leaders put aside deeply felt personal interests to forge the compromises that gave us our modern state Constitution.

Senator Lance's father, who is now 98 years old, was a leader in those efforts – doing what he felt was in the larger public interest – just as Leonard and so many of you do today.

In 1978, 1998, and again in 2004, governors and legislators overcame intense political challenges to preserve the Pinelands, the Highlands, and to create the Garden State Preservation Trust.

In 1976, 1982, and 1991, governors and legislators held their noses and took the political risk of enacting taxes so we could build and sustain the nation's best educational system.

And think of what the current generation, circa 2006-07, has already accomplished.

We are poised to build the world-class New Jersey Stem Cell Research Institute as well as biomedical research labs across our state.

Those investments will cement our position as the medical research capital of America and, in time, improve the lives of all humanity.

And let me add, we should build on these historic plans by asking the public in 2007 to approve stem cell research grants.

After years of failure and sometimes tragic results in our child welfare system, structural reform and new investments have put us on a track to protect thousands of at-risk children.

We licensed more foster homes, trained more caseworkers, and reduced turnover.... But, most importantly, adoptions of foster children increased by 124 percent above our plans.

Our structural deficit has been substantially reduced – we have made real progress building a budget that matches recurring revenues to expenditures.

More budget reforms are needed and we should work this year's budget process with an eye towards greater transparency, multi-year projections, updated aid formulas, and an end to midnight spending.

We replenished, grew, and most importantly reformed the Transportation Trust Fund.

Those efforts allowed us to invest significantly expanded resources in mass transit – and in highway safety, repair, and maintenance.

The historic civil union legislation struck a blow for equal justice under the law for every committed relationship.

At long last, we passed a clean needle law making good on fifteen years of work by courageous legislators and community leaders to slow the spread of HIV/AIDS

including some, like Wynona Lipman, who did not live to see the fruits of their struggles.

With equal determination, we should work to implement the thoughtful recommendations of the Death Penalty Study Commission.

We've also begun to see the benefits of New Jersey's new strategy for economic growth.

We reduced business taxes, began new venture funds and international marketing, and initiated a business-friendly outreach program seeking retention and acquisition of companies, jobs and revenues.

These efforts will carry a special focus on supporting women- and minority-owned businesses.

Our initiatives to increase transparency in government, strengthen disclosure requirements, and reform governance at the independent agencies have allowed us to continue neutralizing the toxic mix of money, politics, and policy.

Although on this topic, there is more to do.

I especially want to congratulate Senate President Codey for his proposed steps to strengthen legislative ethics and increase budget transparency.

On ethics reform, we should push even further with a ban on wheeling and pay-to-play at all levels of government.

From my perspective, it is clear that every time we have allowed long-term thinking and the common good to drive our decisions, we have improved the state of our state.

In contrast, when government has sought less – when it has pursued objectives based on narrow, stakeholder or regional interests; when it has allowed selfish economic or political motives to dominate decision-making; or when it has been too cautious to embrace political risk – our citizens and their future have suffered and progress has stalled.

I don't need to remind anyone of the sad history at UMDNJ, the School Construction Corporation, or, frankly, far too many situations of public abuse.

I need not remind each of us that New Jersey is the only state in the nation still grappling with a structural deficit after four and half years of national economic expansion.

Or that we have the fourth highest debt burden per capita in America.

By omission and commission, we have not always been faithful to long term thinking or the common good.

It is time for this to change.

In seeking change – from ethics reform to property tax relief – we labor under the weight of history – a history that impacts us heavily as I speak today to the state of our state.

While recognizing that we have a substantial “to do list” in many critical areas, we also should not lose sight of the strengths of New Jersey.

In many ways, the state of our state is strong – and it is far stronger than we often acknowledge.

We appropriately talk about our problems, but there is much to celebrate.

For instance, Coach Schiano and his classy, wood-chopping Rutgers football team.

Or Kerry Close, a bright young lady from Spring Lake, who won last year's National Spelling Bee.

From an economic perspective, our household income is the highest of any state.

We're an engine of the nation's economic life – located within four hours of 60 million consumers, the distribution hub of international commerce, host to the present and future promise of the gaming industry, the medicine chest to the world, and a powerhouse of medical research.

We have the highest high school graduation rates in the nation, and 10 percent of all high school students with perfect SAT scores in 2006 came from New Jersey.

We are the nation's most ethnically diverse state and a welcoming home to immigrants in both our thriving suburbs and vital urban centers.

We enjoy the beauty of the Delaware, clean beaches at the shore, and the excitement of Atlantic City.

We have a rich history – from the Crossroads of the Revolution to the Underground Railroad. From Thomas Edison to Paul Robeson and Althea Gibson. From Celia Cruz to Jon Bon Jovi and Bruce Springsteen.

We are home to two members of the United States Supreme Court, the Chairman of the Joint Chiefs of Staff, the Chairman of the Federal Reserve, leading entrepreneurs and venture capitalists, research scientists, and extraordinary working men and women in all walks of life.

We ought to be damn proud of this state – I know I am.

We are a great state with an even greater future.

Even our problems present opportunities.

Einstein, who lived and worked in New Jersey, said “In the middle of every difficulty lies opportunity.”

I agree.

In facing our most troublesome issues we find our greatest opportunities to improve the conditions of life.

I come before you sensitive to the many, many issues that confront our people in their daily lives.

Their challenges should be our agenda.

I know we must increase health care access and affordability for the 1.3 million uninsured citizens of New Jersey – and the millions more that are under-insured.

I know we must create stronger academic research capacity and make quality higher education available to more of our students at an affordable cost.

I know we need to protect our open space and create more urban parks, particularly in light of the need to ask the voters to renew the Garden State Preservation Trust.

I know we need to address the scourge of guns and gang violence with a comprehensive approach for prevention, enforcement, and prisoner re-entry.

I know our great urban communities from Newark to Camden, and Atlantic City to Paterson, demand investment and deserve the opportunity to realize the American promise.

So from affordable housing to economic development, to high quality pre school to full day kindergarten, to renewable and alternative energy, to chemical and port security,

I know there is no shortage of pressing issues for us to address, sooner rather than later.

And my friends, I promise you, we will get there.

But today – right now – there is one challenge we must meet.

This is an extraordinary moment when we can turn our citizens' greatest burden into the opportunity for a brighter future.

The time to act on property tax relief and reform is now.

Property taxes are the cork in the bottle that constrains New Jersey's resources and attention – and holds back the public's confidence in our future.

For today, I don't want to use this time to repeat what I have already said on property taxes – it is available at [www.nj.gov](http://www.nj.gov).

Today, I want to focus my comments on what's on the table – and implore all of us to finish our work.

Let me start by acknowledging the obvious – we did miss a self-imposed deadline.

But the annals of history are filled with great outcomes born of missed deadlines.

Our nation's constitutional convention in 1786 had to be reconvened the following summer because the delegates could not reach agreement.

I am not sure who had the harder job – us or them!

Notwithstanding the momentary setback, significant progress has been made, and we have no excuse for not finishing our work and reaching our objective.

People in the Legislature, especially on the special committees, worked their tails off over the past six months – and I congratulate them.

I don't want to play-down what lies ahead – there's a lot of tough sledding in front of us – but we are far closer to a historic, comprehensive agreement than is generally appreciated.

It took much give-and-take to get to this point, but the Senate President, the Speaker and I have a broad conceptual agreement on almost every important element of a plan.

We agree that we must significantly increase the amount of direct property tax relief on a progressive basis.

We agree that we should migrate from checks to credits.

We agree that we must cap the allowable increase in the property tax levy.

We agree that we must revise the school aid formula and increase the level of funding to reflect the needs of each New Jersey child.

We agree that we must reform health care and pension benefits for state employees and public officials.

We agree that we must stop the well-connected and self-serving from exploiting benefits intended for career employees.

We agree that regular and independent auditing of government spending is both an important fiscal and ethical discipline.

We agree that we must do more to incentivize the sharing of services and the voluntary consolidation of government and school units.

We agree that we must modernize the archaic civil service laws that impede efforts for governmental cooperation.

And that's just 10 things. I figured if I went through all 98 it would just confirm that I had actually studied every recommendation.

We may not yet be in total agreement on every detail of every issue, but the road we have traveled is much further than the stretch we have left.

And I am confident that if we share the burden, we will find the flexibility and courage to go the last mile.

I recognize how far we have come on issues and outcomes that were unthinkable just a few years ago – even a few months ago some of this stuff was taboo.

Some might have argued it was more likely for a meteor to hit a house in [Freehold] than for all of us to take on a sacred cow or touch a third rail.

Well, the meteor hit, and we are on the threshold.

I recognize the sheer dimension of legislation we are considering is overwhelming.

Every issue in this debate is substantively complex and politically risky.

That said, we all know that New Jersey homeowners bear a regressive \$6000 property tax burden that is increasing every year at nearly 7 percent.

We must act.

We must act now

The common good demands nothing less.

Neither I, nor any of us, expect every piece of legislation to be drafted according to our personal specifications.

If it were ever appropriate to use the phrase "the perfect should not be the enemy of the good," it is in this debate.

At the end of the day, we should judge the legislative package as a whole against a single criterion:

Does it serve the common good?

That's my yardstick.

And by common good – I mean our efforts must achieve the following:

- Organization and management reforms throughout government that will create more accountability, oversight, and efficiency;
- Pension and health reforms that will protect the integrity of the benefit system and prove financially viable over time;
- A school funding formula that improves the educational outcomes of all children regardless of their zip code;
- And, yes, significant and sustainable property tax relief for the vast majority of New Jersey homeowners.

Now, without reviewing every detail of the proposed package, let me convert the yardstick into specifics.

The centerpiece of the relief plan, and the one that matters most in the minds of our citizens, is a direct credit reducing their property tax bill.

Under this plan, 1.4 million homeowners making under \$100,000 – or 70 percent of all taxpaying households – will see their property tax bill reduced by 20 percent – for an average benefit of slightly over \$1,000.

An additional 300,000 homeowners – whose income is between \$100,000 and \$150,000 – will see their property tax bill reduced by 15 percent for an average benefit of slightly less than a \$1,000.

Finally, 200,000 homeowners – with incomes between \$150,000 and \$250,000 – will see their bill reduced by 10 percent for an average reduction of \$750.

All in all, 1.9 million of New Jersey's two million property taxpayers will receive significant property tax reduction.

It should be noted that the senior rebate as well as other property tax programs such as senior freeze will remain in place.

Let me note that I believe assistance for tenants should also be increased and my upcoming budget will reflect that priority.

That is the good news. Some might say the easy part.

The hard part is paying for it.

No one committed to the long-term well being of New Jersey should support a tax relief program without a viable and sustainable financing plan.

Enacting tax cuts without a way to pay for them is a recipe for disaster.

That would be the type of governance that helped create both New Jersey's structural budget problems as well as the federal government's deficit.

The public can have confidence that a sustainable financing plan is a prerequisite for my approval.

Our package cannot and will not be built on a one-time "election year miracle."

Financing the credit program, however, should not be as daunting as it seems.

If we are willing to subject ourselves to greater fiscal discipline and some political risk, a sustainable financing plan can be quickly produced.

The recently dedicated revenues from the sales tax and the redirected homestead rebates make up the overwhelming majority of the necessary funding.

The balance can come from the following:

1. Cost savings achieved through regular and independent auditing by a new, non-political state comptroller;
2. Consolidations and shared services;
3. Collective bargaining on pension and health benefits;
4. Asset monetization designed to reduce the state's credit card payments and provide the capacity to make capital investments in the future of our state.

But practically and more crucial than any of these important elements is the 4% cap on the increase in the property tax levy.

This cap, with limited exceptions and provisions for voter override, is the key to the sustainability of the credit relief.

The credits and caps work off each other. They are a tandem, like Lewis and Clarke, or Batman and Robin, breaking new ground and protecting the public.

Reducing the increase in the tax levy by nearly half – from 7 percent a year to a maximum 4 percent – is a tangible and significant outcome for taxpayers.

Combined with the \$1,000 reduction most taxpayers will receive and you have a result that people will feel on their bottom line.

The 4 percent cap will serve as the public's blind side protection to ensure that the relief we provide is not eaten up in a few short years.

The public understands this. That is why they overwhelmingly support a cap.

The public understands that the cap sustains the value of the credit by breaking the back of the almost 20 years of 6.5 percent to 7 percent average annual tax hikes.

Finally, the cap will require all governmental units to prioritize spending decisions and to



aggressively search for structural changes that will bring down long term costs, ensuring the sustainability of our efforts.

The cap is as essential to the package as the credits are to the public.

I can't emphasize this enough – the 4 percent cap is absolutely critical to what we are trying to achieve.

But the cap won't produce financing sustainability by itself – we need to take other steps.

As noted, we need a non-political and properly staffed state comptroller that provides consistent oversight and accountability of the finances of all units of government.

Instead of reading about the Attorney General or the US Attorney cleaning up some mess after the fact, let's actually prevent the mess in the first place.

Outside audits work in the private sector, and they will in New Jersey's public sector too.

Whether in the Governor's office, or independent agencies, or at the local level, regular and independent auditing of spending and contracts will check waste, fraud, and abuse before it settles into a comfort-zone in our institutions.

The comptroller will save us money.

It will improve performance.

And it will be another step to clean up corruption in our state.

Second, we need to think constructively about potential savings from "shared services" and consolidations.

I congratulate Speaker Roberts for his leadership on this topic.

Let's not forget that New Jersey has more governmental units per square mile than any other state.

We have 566 municipalities, 616 school districts, 486 local authorities, and 792 fire districts and companies.

For crying out loud, we have 23 school districts that don't operate a single school.

The facts speak for themselves; we should stop talking about this and do something.

People understand the power of economies of scale.

They shop at Sam's Club and COSTCO.

They see cost savings in their private lives, in the economy, and in governments across the country.

They see our organizational fragmentation and ask "why?"

Our job in Trenton is not to jam some edict down the throat of local communities – nor dictate who has to merge with whom.

No one has that intention.

What we can do is encourage the search for savings by creating independent commissions and offices to make recommendations as to which services and governmental units are best suited for

consolidation and the sharing of services.

Our responsibility is to provide the public with informed choices, to remove legal impediments and to offer financial incentives to defray the up-front costs for deferred paybacks.

Ultimately, the choice to merge or not merge – the choice to seek the benefits of economies of scale or to keep the status quo – must come through a democratic process that requires the public to pass judgment on whatever recommendations experts, planners, or politicians might advance.

So that's it for "credits and caps," the comptroller, and the consolidation elements of the plan, but that's only half the package.

Pension and health benefits issues, a new school funding formula and asset monetization are the final pieces of a comprehensive plan to provide the financing and sustainability of the proposed relief.

These three issues – like ethics – demand independent attention and would be high on our agenda even if our property tax system wasn't so painfully dysfunctional.

First, on pension and health care issues, our career employees, and the public, must recognize that current benefits are financially unsustainable.

Without a dramatic increase in taxes or a draconian reduction in services, state and local government cannot meet the benefit obligations on the books.

The massive unfunded liability in pension benefits reflects both a failure of government in years past to make required contributions and recent unfunded increases in the benefits themselves.

More threatening, health benefits for active and retired workers remain totally unfunded.

The system is a pay-as-you-go operation with costs rising nearly 10 percent a year – a problem unique neither to New Jersey nor state government.

The amount of the combined unfunded liabilities for pensions and retiree health care may well be in excess of \$60 billion – and growing.

The truth is state government and our employees will struggle with this problem for years as we work to gradually fill the holes created by past decisions.

As is known, my administration has already started good faith negotiations and discussions with state employees.

Many of the recommendations endorsed by the Legislature's special committee are informative to that dialogue.

Ultimately, some of the agreements from collective bargaining will need to be ratified by legislation.

Without going into specifics, let me say that tough and painful accommodations by all parties are necessary.

Collective bargaining agreements are by their nature a package.

We should recognize that for employees, pension and health care benefits are not independent of other economic issues like wages, workplace rules, holidays, etc.

A change in one factor impacts the outcome in others.

The state is committed to a good benefits package and a fair contract, but we need a real sharing

of the future burdens if we expect to both realize the promise and assure the long term structural integrity of our benefit plans.

The state and its taxpayers have already contributed \$1.2 billion to the pension fund this fiscal year – more than all the contributions in the past decade combined.

We are taking our responsibilities seriously.

And, we have shown our commitment to collective bargaining.

But structural changes need to be negotiated through good faith bargaining and discussions – and soon.

If good faith efforts fail, we will have to revisit these topics in other forums.

Outside of the collective bargaining process – padding, tacking, boosting, and dual office holding should be ended statutorily, whether we save one dollar or ten million dollars.

These reforms were no-brainers last July and they still are – even if they are only done prospectively.

And we must have stronger laws regarding the mandatory forfeiture of pensions for anyone convicted of abusing the public trust – whether they are elected officials or public employees.

We should acknowledge that professional service providers who are retained by contract are not public employees.

Our policies should reflect the distinction between those who merely perform a service for government and those who work for the government.

Like ethical transgressions, benefit abuses by the few poison the atmosphere and erode the credibility of government – and they must be ended.

Moving on, property tax bills in many communities are largely, and appropriately, driven by the requirements of educating our children.

As most New Jerseyans know, school funding over the last decade has primarily been dictated by State Supreme Court decisions as a result of our collective failure to adopt and fund an acceptable formula.

My administration and members of the Legislature are committed and focused on developing a new formula as soon as possible.

Our efforts on school funding are driven by five overarching goals:

First and foremost – we should determine school aid on the basis of what is needed for each child to achieve quality educational outcomes.

Second – we should distribute school aid more broadly across the state in order to help more of our communities finance the cost of education.

Third – we should recognize that our formula must account for economic and demographic differences.

Fourth – school spending must come with greater accountability.

Finally – the timing.

We all want a new formula as soon as possible, but structuring it right while meeting

Constitutional and educational muster is the first order priority.

Our proposal is still being refined and before a new formula is adopted, education experts, teachers and administrators, elected officials, parents, and the public will all have an opportunity to comment.

Whatever we do, we must keep and enhance the nation's best school system.

Let me end my comments on the financing plan by touching on the issue of asset monetization – truly another bottle, with a cork to be removed.

Of all the issues before the Administration, the Legislature, and the public, this one bears the greatest potential – if not the greatest complexity – in allowing us to achieve a multitude of policy goals.

The potential is that we literally restructure the state's finances by paying down billions of dollars of debt and, in turn, free up billions of dollars of cash flow for capital investment.

In the property tax context, if we pay off the state's credit card bills and reduce the size of our mortgage, we can restore our financial credibility, and use existing tax receipts to pay for services and tax relief rather than principle payments and interest charges.

The challenge is the risk that we receive too low a price for the assets, we set terms and conditions that do not sufficiently protect the state's or the public's interest or, worst of all, our reinvestment choices squander the proceeds.

Working together, I'm confident we can establish a framework for asset monetization that preserves the high standards of safety, service, and maintenance that the public expects.

If we can't, we should not proceed.

I believe we can implement a reasonable and predictable schedule to control the price of services over time.

If we can't, we should not proceed.

And I believe we can maintain an important role in the governance of potential assets to be monetized.

If we can't, we should not proceed.

Most importantly, if we do proceed, under no circumstances will asset monetization proceeds be used as a one-time budget fix to cover routine operating expenses.

Proceeds will only be used for debt relief and capital investment.

We have retained a financial advisor under the direction of Treasurer Abelow, and we are in the process of analyzing multiple options and scenarios.

At this point it is premature to say anything more – except that I expect a report in the months ahead and, when we have that report and its recommendations, we will be prepared to discuss and debate the issue in full.

So my friends, that's the package. And it's a comprehensive package.

It's sustainable.

It puts the common good first.

And it will work in year one, year two, and beyond.

It will work for the very reason it is so hard – because it shatters the status quo.

The responsibility to act and to deliver now falls to us – the elected representatives of the people.

Talk of property tax relief and reform has been around Trenton for 20 years.

At some point, there is an obligation to do more than just talk.

That time is now.

We, the elected representatives of the people, should not pass these decisions onto the next Legislature or governor – or the next generation.

The challenge is our responsibility.

If we stand down – if we are unable to bring closure to our efforts – we should ask for a constitutional convention this fall.

Regrettably, I don't see another choice.

The status quo may be comfortable, even beneficial, for some.

But the status quo is not working for the majority of the people in the state of New Jersey – not by a long shot.

New Jersey needs change.

We have the power and the opportunity to deliver that change.

We must act.

As I close with a plea for action, I am reminded of the cadet maxim from West Point that is spot-on for our work in the weeks ahead.

“Risk more than others think is safe. Care more than others think is wise. Dream more than others think is practical. Expect more than others think is possible.”

The ball is in our court. It's time to finish.

To the public I ask, hold us accountable.

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