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2010 State of the State Address -- Wednesday, 01/06/2010
California Governor Arnold Schwarzenegger

Now, I want to begin with a true story from which we can draw a worthwhile lesson. As you might guess, the Schwarzenegger household is something of a menagerie -- an Austrian bodybuilder, a TV journalist, four children, a dog, a normal goldfish, a hamster and so forth -- and in recent years we added a miniature pony and a pot-bellied pig. Now, it's not unusual for me to look up from working on the budget or something and to find the pig and the pony standing right there in front of me and staring at me.

Now, the dog's food, which we keep in a canister with a screwed-on lid, sits on the top of the dog's kennel. And the pony has now learned how to knock the canister off the top of the kennel and then he and the pig wedge it into the corner. Now, there's this ridge on the lid of the canister and the pig with his snout pushes this ridge around and around until it loosens up and then they roll the canister around on the floor until the food spills all out. And then, of course, they go to town and they eat it.

Now, I have no idea how they ever figured all of this out, to tell you the truth. I mean, it's like humans figuring out how to create fire. But it is the greatest example of teamwork and I love it. It's about teamwork. So one lesson to draw from the pig and the pony story is what we can accomplish when we work together.

And last year we here in this room did some great, great work together. We had a pig and pony year. And I want to make sure now that before some reporters write that I compared the legislators with pigs and ponies, that that is not the message. The message is about working together, teamwork. Together, as a team -- as fractious and tentative and uncertain as it might have been -- together, we got California through the front end of the worst financial crisis since the Great Depression. Although not without pain, we closed a budget gap of \$60 billion plus.

Now, these decisions were very hard for both sides of the aisle. On the Republican side, we had leaders who sacrificed their careers or put them at risk. On the Democratic side, we had legislators who were threatened by their own interest groups. To those on both sides of the aisle who took these risks for the good of the state, you have my deepest admiration.

We did what we had to do. We made painful spending cuts. We passed temporary tax increases. We permanently eliminated COLAs for most state programs and we made major reforms in welfare and parole.

And there are two accomplishments in particular I want to recognize here today. Just last night the Assembly passed major educational reform, reform that once seemed impossible but now will become law as soon as it hits my desk.

For too many years, too many children were trapped in low-performing schools. The exit doors may as well have been chained. Now, for the first time, parents -- without the principal's permission -- have the right to free their children from these destructive schools. That is great freedom.

Also in the past, parents had no power to bring about change in their children's schools but that will now change too. Parents will now have the means to get rid of incompetent principals and take other necessary steps to improve their children's education.

And to increase accountability, we finally broke down that firewall so that teachers' performance can be linked to students' performance. So those are great, great accomplishments and congratulations to all of you for this great work.

Now, another major accomplishment: For decades this state was in a literal war over water, with old and deep divisions, Northern California versus Southern California, Democrats versus Republicans, farmers versus environmentalists, businesses versus labor and the list goes on and on.

But we here in this room made history with the most comprehensive water package in nearly half a century. We brought all the stakeholders together and by working together, we got it done.

And now we must work very hard so that we pass the \$11 billion in water bonds that will be on the ballot this November. And Democrats and Republicans will have to travel up and down the state to educate the people of California why those bonds are so important.

Because some people say "how can we afford these bonds in the current economic climate?" I say, how can we not?

It is the law that you cannot build a school or that you cannot build a factory or that you cannot build an office building or a housing development without identifying first a source of water. As a result, huge projects with thousands of jobs have been put on hold. Our economy cannot grow without water. Our population cannot live without water. It is our state's lifeblood.

Now is exactly the time to invest in it, so that when Californians turn on that faucet there is safe and reliable and clean water coming out that tap and not just five years from now but 30, 40 and 50 years from now. That is so important.

Now let's talk about the coming year. If I had to summarize in one word our focus for the coming year, it would be the word "priorities." We have to get them straight and we have to keep them straight.

The first priority for the coming year, obviously, is to get the economy and to get jobs back. Jobs, jobs, jobs.

The people and businesses of California are an engine of self-betterment and progress. As long as government keeps the engine oiled with prudent policies and, more importantly, does not pour sand in its gears, this state will persevere and prosper.

I will come to the main thing we can do to help the economy in a moment but there are four proposals to spur job growth that I will introduce.

First, you will receive a \$500 million jobs package that we estimate could train up to 140,000 workers and help create 100,000 jobs.

Second, you will receive a measure to streamline the permitting of construction jobs that already have a completed environmental report.

And third, to stimulate other construction jobs, you will receive a proposal for homebuyer tax credits of up to \$10,000 for the purchase of new or existing homes.

And fourth, since we want California to be the dynamo of green technology, I ask you to pass our proposal exempting the purchase of green-tech manufacturing equipment from the sales tax. That too means jobs. Those are jobs for the new economy.

Now, while we still have a long way to go, the worst is over for California's economy. And the real good thing is that we have the right economic mix going forward -- high-tech, green-tech, bio-tech, Hollywood-tech, farmer-tech and so on and so forth. Our economy is well-positioned to take advantage of the future.

So let me tell you the main thing that we here in this chamber can do to help the economy and to help create jobs. We can be a better partner to the economy because the state and government has a responsibility not to be an obstacle to success but to be a partner in prosperity. To strengthen the economy, which is the foundation of all jobs, we here in this chamber must reform California's budget system and we must reform our tax system. That would be a huge stimulus.

The basic problem is that our tax system does not reflect our economy. In 2009, California's economic growth declined only by 2.8 percent but our tax revenues were down more than eight times that much.

Our economy is diverse, whereas our tax system is not; 144,000 taxpayers pay almost 50 percent of all personal income taxes. Now, think about that -- 38 million Californians have to rely on 144,000 people for their schools, their fire protection, their health care, their public safety and so many other services. That makes absolutely no sense.

Now, here is what we need to accept. Our economy is 21st century and our tax system is 20th century. It is stuck in the wrong century.

The Tax Reform Commission did its work and came up with a plan for reform, great, great reform, that was praised by both Willie Brown and the Wall Street Journal. Now, how often does that happen?

The Commission proposed major, radical reforms. Now, some people right away said they are too bold and thus they would be too hard to enact. Now, what do they mean too bold? Bold is what we do in California.

And what do they mean too hard? If I had hesitated in my career every time I made a move because it was too hard, I would still be yodeling in Austria.

We must begin work on these tax reforms because we simply cannot wait for the rich to bounce back. State revenues are not expected to return to where they were until 2013 and 2014.

I sent you the Tax Reform Commission's plan, I sent you the plan in late September but it seems that it has somehow disappeared under this dome. Where is it? Maybe the pig and the pony have taken it. That's what it is. But you know something? I am looking forward to working with the legislature to get this done.

And budget reform is just as important. This is something that I have been talking about since I have become governor of this great state. The budget crisis is our Katrina and we knew it was coming. We have known it for years. And yet Sacramento would not reinforce its economic levees.

And in addition to taking action on the Tax Commission's plan, I ask you to also take action on the Best Practices Budget Accountability Act, which has been drafted by the reform group California Forward under the leadership of Bob Hertzberg, of course.

I especially support its proposal for the performance-based budgeting and applying one-time spikes in revenues to one-time uses, such as debt reduction, infrastructure and creating a rainy day fund.

The leaders of this body have said and they have said it many times, that the legislature should be given a chance to enact reforms before reforms go directly to the people. Well, here is that chance. I urge you to take it.

And as we struggle to overcome our differences, what I ask you to remember is that the current tax and budget system is cruel. I'll tell you why I say that. It is cruel because it is forcing us to make a Sophie's choice amongst our obligations. Which child do we cut? Is it the poor one or is it the sick one? Is it the uneducated one or is it the one with special needs? That is cruel.

We overcame the divisions on water. I know that we can also overcome our obstacles and divisions on tax reform, on the tax system and on the budget system. Let's do it.

Now, I will address our immediate budget situation more fully in a few days, when I present my budget but let me just give you an overview.

We face a \$19.9 billion deficit -- \$6.6 billion for the rest of this budget year and \$13.3 billion for the upcoming budget year.

Big picture, let me tell you what will be required here.

First, as bitter as the words are in my mouth, we face additional cuts. We know what that means. We know the pain it entails. I mean, what can we say at this point except the truth, that we have no choice?

But I am drawing this line. Because our future economic well-being is so dependent upon education, I will protect education funding in this budget. And we can no longer afford to cut higher education either.

The priorities have become out of whack over the years. I mean, think about it. 30 years ago 10 percent of the general fund went to higher education and three percent went to prisons. Today, almost 11 percent goes to prisons and only 7.5 percent goes to higher education.

Spending 45 percent more on prisons than universities is no way to proceed into the future. What does it say about our state? What does it say about any state that focuses more on prison uniforms than on caps and gowns? It simply is not healthy.

So I will submit to you a constitutional amendment so that never again do we spend a greater percentage of our money on prisons than on higher education.

And the way we get this done is to find more cost-effective ways to run our prison system and allows private prisons to compete with public prisons. Competition and choice are always good. I mean, California spends \$50,000 per prisoner. By comparison to the ten largest states, they spend \$32,000 only. They spend less and yet you do not see federal judges taking over their prison health care system. Why do we have to spend so much more than they do?

I mean, if California's prisons were privately run, it would save us billions of dollars a year. That's billions of dollars that could go back into higher education where it belongs and where it better serves our future.

Choosing universities over prisons is a historic and transforming realignment of California's priorities. If you have two states and one spends more on educating and the other one spends more on incarcerating, in which state's economy would you invest? So I ask you to make the right choices for California.

Now, another major item is this: Federal funds have to be part of our budget solution because the federal government is part of our budget problem. When President Clinton was in office, California got back 94 cents on the dollar from the federal government. Today we only get 78 cents back. But in the meantime, Texas gets 94 cents, Pennsylvania gets \$1.07, Alaska, with all its oil, gets back \$1.84 for every dollar. And guess what New Mexico gets? \$2.03. This should be much more fair and equitable. We are not looking for a federal bailout, just for federal fairness.

Californians carry also a special burden since we are a border state. The federal government alone controls immigration policy, it alone controls border security. While acknowledging its responsibility, the federal government is not even funding a 50-50 split of the costs of undocumented immigrants.

We no longer can ignore what is owed to us or what we are forced to spend on federal mandates. We are currently owed billions of dollars by the federal government for various different programs. We need to work with the feds so that we can fix the flawed formula that demands that the states spend money that we do not have.

And now Congress is about to pile billions more onto California with the new health care bill. Now, as you know, while I enthusiastically supported health care reform, it is not reform to push more costs onto states that are already struggling while other states are getting sweetheart deals. Health care reform, which started as noble and needed legislation, has become a trough of bribes, deals and loopholes. Yet you've heard of the bridge to nowhere. Well, this is health care to nowhere.

California's congressional delegation should either vote against this bill that is a disaster for California or get in there and fight for the same sweetheart deal that Senator Nelson of Nebraska got for the Cornhusker State. Because that senator got for the Cornhusker State the corn and we got the husk.

Now, another priority related to the budget is pension reform. The cost of state employees' pensions is up by 2,000 percent in the last ten years -- you heard me right, 2,000 percent -- while revenues have only increased by 24 percent. The pension fund will not have enough money to cover this amount, so the state -- that means, of course, the taxpayer -- has to come up with the rest of the money. Now, we are already putting in there every year more than \$3 billion towards pensions. That amount will go up to \$10 billion.

And this is money that is taken away from important government services. This is money that cannot go to our universities and our parks and other government functions.

Now, for the current employees these pensions cannot be changed, either legally or morally. We cannot break the promise that we already made. This is a done deal.

But we are about to get run over by a locomotive and we can see the lights coming at us. We can see the lights coming. I ask the legislature to join me in finding the equivalent of a water deal on pensions, so that we can meet the current promises and yet reduce the burden going forward.

These are serious issues that our state faces.

Now, every year, in spite of whatever challenges are before us, I stand up here and tell you how much I believe in California's future. I tell you how much I believe in the dream and how this is the greatest place in the world. And some people always say, "Ya, ya, ya, this is just Arnold being so optimistic."

But I am not alone in believing these things. I mean, Time Magazine recently did an article about California that sounded just like one of my speeches. I would like to read you a few sentences that Time Magazine wrote:

"(California) is still a dream state. In fact, the pioneering megastate...it's still the cutting edge of the American future -- economically, environmentally, demographically, culturally and maybe politically.

It is the greenest and the most diverse state, the most globalized...when the world is heading in all those directions.

It's also an unparalleled engine of innovation, the Mecca of high tech, biotech and now clean tech.

And in 2008, California's wipeout economy attracted more venture capital than the rest of the nation combined."

So now do you believe me? You see what I'm saying. This is the greatest place in the world. California has the means and the mind power to solve all of its problems. Sometimes we are just too close to the problems to see the positives and we just need to step back.

Now, a couple months ago, I was in Iraq visiting our men and women in uniform. This is the second time I'm been over there and it was a great experience. And of course we have so many of our Californians over there serving. I had breakfast with them, we chatted, we worked out. I pumped them up, took pictures with them.

And they told me all kinds of stories. They have seen experiences that you cannot even believe. Many have served tour after tour after tour and as a result, some have lost homes, spouses, limbs and even their lives. Too often our soldiers bring back the enemy with them in their heads. We are seeing and hearing all about a lot of posttraumatic stress syndrome. The suicide rate is disturbingly high. I mean, this country cannot continue to live in denial about those things. Those men and women need help.

California has more returning veterans than any other state, so our state, as well as the federal government, has a special responsibility. You will see that in our agenda. We have a fundamental obligation to anyone who has shed or risked blood for this country. That is a priority.

Their sacrifice is extraordinary and it never fails to inspire me. And if you look up to the Gallery, you will see some Californians wearing the uniform of our country that just came back from Iraq and Afghanistan. So to those men and women, those brave men and women, I say welcome home, welcome home.

No matter how big the problems are that this state is facing, no matter how harsh things may seem to us in the months ahead, those Californians in uniform will tell you that this is still the greatest place to come home to and the greatest place to pursue a better life. Just ask them how often they dreamt of being back here at home in the Golden State.

So, in closing, we in this chamber must fulfill our sacred trust to keep California the great place to come home to for our men and women in uniform and for generations of Californians yet to come.