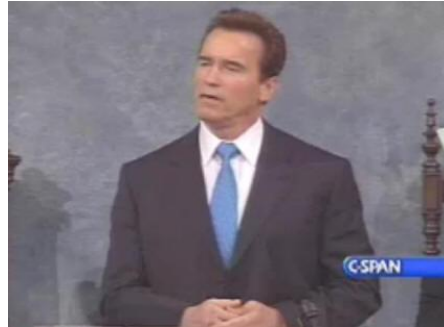




Arnold Schwarzenegger

*State of the State Address*



Delivered 3 January 2008

**AUTHENTICITY CERTIFIED:** Text version below transcribed directly from audio

Lieutenant Governor Garamendi, Speaker Núñez, Senate President Pro Tem Perata, Senate Republican Leader Ackerman, Assembly Republican Leader Villines, my fellow servants of the people, ladies and gentlemen:

When I was last here, little did we know that California would be engulfed by the largest firestorm in its history. It turned the night sky into an eerie, disturbing orange and the day sky black. It drove hundreds of thousands of our citizens from their homes.

And in response, the Army of the Inferno -- 140 aircraft, 1600 fire engines, 15,000 firefighters -- mobilized to battle the flames. Now it sounds like a scene from a movie but it was real -- and people died. People lost their homes. And peoples' lives changed.

That first Monday night during the height of the fires, I went to Qualcomm stadium in San Diego, which by now became an evacuation center. I wanted to see for myself if the people had enough food, water, and the necessities. I talked to the people there. They were worried, of course, but they were in good spirits. They felt that their government had responded.

Then I heard that there were people at Del Mar at the racetrack, so I went unannounced to see the situation for myself. And I found 300 frail, elderly people who had been forced from their nursing home by the fire. And it was there I met a volunteer named Paul Russo, a nurse practitioner who appeared to be running the place. Paul, who is also a naval reserve, had a military command of the situation. His clarity and control were impressive and I noticed that this gave people confidence. He knew that the nursing home residents -- sitting in wheelchairs and lying on mattresses on the floor -- had to be moved to facilities where they could get dialysis and medicine and other things that they needed.



Now Paul and a couple other volunteers were calling hospitals and ambulances doing to find places and means of transportation. And their commitment moved me. So I said to Daniel Zingale, one of my senior advisers, I said, "We are not leaving this place until we help and take care of these people." So I got on the phone, too. And together we found beds for emergency situations at a nearby military base. We found a school district that agreed to send special education buses.

Now I left, but Paul stayed up all night and had everyone moved by the next afternoon. What Paul and the volunteers did, and what the police and the firefighters did, and what the state and federal agencies did was this: They responded to the needs of the people. They led. They acted. They did not wait. And from the bottom to the top, everyone knew this was their moment. They resolved, without a word being said, that this would not be another .

Now President Bush and the entire federal government could not have been more supportive, and I want to thank the President and the Secretaries Chertoff and Kempthorne for their great help. The President said to me more than once, "If there's anything that you need, give me a call." In fact, I did call him back right away just to check it out -- and sure enough, he got on the phone. He was there for California.



Paul Russo was there for California. And so this evening, I want to recognize Paul, who represents a devotion to the greater good in a time of crisis. So, Paul would you please stand up so we can thank you for the great work that you have done.

Now in addition to the volunteers, the firefighters, police, and the state local and federal employees, let me tell you another group that deserves recognition -- the general public. People came together. It was unbelievable what I saw. They cooperated, they evacuated, they rescued, they contributed. They were exemplary citizens. And so, I would like to express my profound appreciation to the people of California.

Ladies and gentlemen, working together, people can accomplish remarkable things. In April, for instance, a fiery truck crash melted the Bay Area's 580 freeway interchange. Hundreds of thousands of Californians who depended on that interchange foresaw months of delays and stress. Yet it didn't take the normal 150 days to repair. Caltrans workers with contractors cleared the span in 10 days and then built a new bridge and opened it up in a record of 16 days later. Government can work. It can be efficient. It can lead.

Now even though we're not suffering a serious economic downturn, still, the risk of foreclosure threatens many Californians with the loss of their homes, and thus the *American Dream*.



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So we took actions and reached a voluntary agreement with major lenders to freeze interest rates for homeowners most at risk. This could help keep more than 100,000 Californians in their homes. Government can lead.

Now this last year, we took on other tough issues -- the very contentious issue of prison reform and rehabilitation, the world's first low carbon fuel standard, and the most comprehensive health care reform in the nation.

Now talking about health care reform, let me explain why health care reform is so important. Here in California, the health care system is collapsing under its weight, its costs, its gaping holes, and its injustices. Millions of people can't afford -- or can't get -- health care. Our emergency rooms are crowded or closed -- as a matter of fact 60 of them closed in the last ten years alone. Medi-Cal patients are being turned away at hospitals. Businesses and families are experiencing double-digit increases in health care costs. And medical bills are the number one reason that people file for personal bankruptcy.

Now all of this is weakening our economy and is contributing to our budget deficit.

But let me make this more personal and real -- through a true story about a 51-year-old, self-employed San Diego man named Todd. Todd had been on his wife's insurance plan, but after a divorce, he found a policy with a well-known company. Five months later, he started feeling tired, and soon [learned he] had lymphoma. But the insurance company then went back through all his records looking for a reason to cut him off. They pointed to a knee problem unrelated to cancer. And they noted that he now weighed less than he did when he applied for the insurance. Well, duh. Of course he did, because now he was sick with cancer. But they cut him off. One month after he got sick, the company cancelled his insurance. Todd died eight months later. We are taking action so that what happened to Todd will not happen to any other Californian.

Now, I understand the concern that we have now, a deficit, and that our plan is maybe too daring, too bold or expensive. But sometimes you have to be daring, because the need is so great. I mean you want to hear about daring? Think about FDR. FDR did not ignore the problems of The Depression because times were tough. No, he addressed those problems in big, visionary way -- ways because times were tough. He saw the problems and he acted on behalf of the people and the nation. For example, to give America jobs, he created the WPA, which built 650,000 miles of roads, 78,000 bridges, and 125,000 buildings. All of those things we are still enjoying today.

So we, too, must act boldly on behalf of the people and the state. So I want to thank the Assembly for its action on health care. Now when the -- (You can give me applause.) Now when the Senate finishes its deliberation, I am confident that the people of California in November will approve the most comprehensive health care reform in the nation. In any number of cases, we have tackled politically risky things that no one in the past wanted to touch. To me, this is progress. And now we must make progress on another problem that has been put off for many, many years -- and that's the budget.



Professor Schwarzenegger is going to explain now the economics of our budget problem. Our budget problem is not because California's economy is in trouble. In spite of weakness in housing, other areas of our economy continue to thrive. We remain a powerhouse of technology, of agriculture, advanced research, venture capital, international trade, and innovation. And we continue to have job growth.

So our revenues this coming year are not going to be lower than last year. They are not going down. No the situation is that we're simply going to hold steady with our revenues. The problem is that, while revenues are flat, automatic formulas are increasing spending by 7.3 percent. Now even a booming economy can't meet that kind of increase. So the system itself is the problem.

Also, for example, the rich in California by far pay most of the income taxes, but we only have so many rich people. The top 10 percent of our population -- those making more than \$119,000 a year -- pay nearly 80 percent of the taxes. So, our whole revenue system, its ups and its downs, is based on whether the rich have a good year. That is no basis on which to run a government. We need more stability.

And another thing. Some people say, "Arnold, you're part of the reason that why we have this deficit -- because you stopped the car tax increase." Well, yes. I did that. And you know something? I would do it again. Because it is not fair to punish people who can barely afford the gas to get to work, and on top of that then ask them to pay for a tax increase to cover Sacramento's overspending. I said it back during the *Recall* and I'll say it again, "We do not have a revenue problem; we have a spending problem."

We have to fix the system. I mean the first year I was here, I tried to fix the system. I tried to get the legislators to pass a constitutional amendment to limit spending, but it didn't pass. Then, in 2005, I tried to convince the voters to pass a constitutional amendment to control the budget, but that failed, too.

So for several years we took actions to balance the budget as long as the economy was booming. For several years, we kept the budget wolf from the door. But the wolf is back. It used to be that Sacramento plugged its deficits by just grabbing money anywhere it could -- pension funds, local government, bonds, gas taxes that were meant for transportation. But we tightened the noose by taking away those options. We passed Proposition 1A, Proposition 58 and Proposition 42. We now have no way out, except to face our budget demons.

Now to address next year's \$14 billion deficit, in two days I will be submitting a budget that is difficult. It does not raise taxes. It cuts the increase in spending. And it cuts that spending across the board.

As governor, I, of course, see firsthand that the consequences of cuts are not just dollars, but people. I recently brought leaders and advocates of various different communities into my office to tell them about what we faced financially. I had to look into their eyes and tell them. And, you know, talking about fiscal responsibility sounds so cold when you have a representative for AIDS patients, or poor children, or the elderly sitting across from you.



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It's one of the worst things about being governor. Yet fiscal responsibility, like compassion, is a virtue, because it allows the necessary programs in the first place.

Now what I find most troubling is the erratic ways that we treat those who need our help the most. One year up and the next year down. We cannot continue to put people through the binge and purge of our budget process. It is not fair. It is not reasonable. It's not in the best interests of anyone.

So I am again proposing a constitutional amendment so that our spending has some relationship with our revenues. It is modeled after the process used in Arkansas.<sup>1</sup> When revenues spike upwards, the amendment that I propose would not let us spend all of that money that rushes in when the economy is good. Instead, we would set some of that good year money aside for bad years.

Remember when revenues jumped 23 percent in 1999-2000, or when they jumped 14 percent in 2005-2006? Those were sugar highs. I remember how everyone here was so enthusiastic and so hopeful and so creative about how to spend that money. Everyone was saying, now is the time to do this, now is the time to do that. All good causes. If not now, when? Then the sugar is gone and we come down off our high. We spend it all one year and can't sustain it the next. We need to budget more evenly.

Also, the way things are now, when we see a budget problem developing during the year, we don't have any way to stop it. We just keep that spending accelerator down to the floor. Now what kind of sense does that make? We need some brakes. We need an alternative to crashing. I mean this is like a slow motion crash. You can see it happening, but you can't do anything about it. Like right now, we're spending 400 to 600 million dollars month more than we're taking in. And we can do nothing to stop it.

Now this amendment that I am proposing will do something. It will trigger lower funding levels if the deficit opens up during the year. So ladies and gentlemen, I have faith that with us working together like we have in the past, we can give California a budget system worthy of the people who rely on it. I'm absolutely convinced we can.

Which brings me to the next subject -- which is public education. It makes me proud as governor that a recent survey found that 23 out of the top 100 public schools in the nation were in California. And I would like to congratulate the teachers, the principals, the administrators and all who are responsible for these remarkable schools. Now there's other great news, too, like, for instance, the number of high school students taking advanced math and science courses has increased by 53 percent since 2003. And that, by the way, is terrific for our high-tech future. And we have other great education news.

But it's not all good news, as we know; like, for instance, our dropout rate is now between 15 and 30 percent. We don't even know exactly the number. Now this is not just a statistic, I remind you.



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These are children lost in a black hole of ignorance, poverty, and crime. And on top of that, our schools have 30 percent fewer teachers and half the number of counselors than other schools in the U.S. We've got to fix that. We've got to create 100,000 more teachers in the next ten years.

Now everyone knows that to dramatically change our education system we have to undertake reforms, and we have to fund those reforms. In light of the current budget situation of course, this is not the year to talk about money.

I do believe, however, that we still must undertake reforms right now in the schools that need our help most. Like, for instance, to varying degrees, 98 school districts in California are out of compliance with the *No Child Left Behind Act*. According to the Act, after five straight years of noncompliance by a district, the state is required to take action or lose federal funding. Now we have identified several of the districts that on a whole have persistently failed to educate children.

So I am announcing tonight that California will be the first state to use its powers given to us under the No Child Left Behind Act to turn these districts around. And we will be working with Superintendent of Public Instruction Jack O'Connell, and the teachers, the administrators, the parents and the elected officials to make these districts models of reform. No more waiting. We must act on behalf of the children.

Now likewise, on infrastructure, I will continue to push for action because we have a water system that was built decades ago for 18 million people. Today we have 37 million people. And in 20 years from now, we will have 50 million people. We got to get going. I mean already homes and businesses are facing mandatory cutbacks. Farms are unable to irrigate crops. Building permits are being denied. And yet raging flood waters run wasted into the sea, because they can't be captured. We must expand water storage. We must build new water delivery systems. We must fix the Delta and restore its ecosystem. And I will not give up. I will continue to push on this, because California needs water now. We need water 20, 30, and 50 years from now.

Now also over the next 20 years, we have 500 billion dollars worth of infrastructure needs to be met. Now as we head into this new century, we also need digital infrastructure to keep our economy growing.

So the question is how do we meet all those needs? There isn't enough money in the public sector -- we all know that. We need to expand partnerships where government and the private sector work together to meet the needs of the people. These partnerships can often deliver infrastructure faster, better, and cheaper. For instance, in British Columbia, public-private partnerships are common for building highways, bridges, rapid transit, water treatment, and so on. And everyone is happy. The political leaders are happy, business is happy, the public is happy, the economy is happy, the future is happy. So in the weeks ahead, I will be sending you legislation to make these partnerships more available to our state and to our local governments.



We will also continue to make California the world's environmental leader. We are leading on climate change, and low carbon fuels, energy efficiency -- and on clean, green technology. So when it comes to cleaning our air, preserving our ocean and protecting our environment, California will continue to be the foremost advocate for change. And if we have to sue the federal government to get out of our way, we will do so.

Now I will be submitting to you many legislative proposals -- on energy, on environment, on infrastructure, and on education. And I will also be submitting a proposal on behalf of our returning veterans. They deserve not only our gratitude and respect, but a more open, welcoming door to civil service and to education benefits.

Now let me close by saying that last year I talked about post-partisanship. Now a few cynics made fun of that idea. But that is how I tried to conduct my Administration over this past year. And this is how I intend to conduct business over this coming year.

So, Speaker Nunez, Senate Leader Perata, Senator Ackerman, and Assemblyman Villines, I cannot fix the budget alone. I can not build the roads and bridges alone. I can't improve education alone. You are my partners. All of you sitting here in this chamber are my partners. This coming year will test us in very hard ways.

I like something that Paul Russo said when he was asked why he didn't go home and get some sleep that night at Del Mar. He replied, "When you have a job to do, you get it done."

Well, ladies and gentlemen, we have a job to do for the people of California. Let's get it done.

Thank you, very much. Thank you.

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<sup>1</sup>Arkansas' **Revenue Stabilization Law**. Description and analysis: "Law passed in 1945 requiring the legislature to place the minimum level of funding for each state general fund program into a category A. This amounts to around 90 percent of estimated available **revenue**. Additional levels of support for state programs are placed in category B (another five to seven percent of estimated **revenue**) and still further amounts (the available balance) into category C. Category B funds are spent at the governor's discretion only if adequate **revenue** is available, and category C is expended only after B.

In its assessment of the program, the Bureau of Legislative Research points to the following benefits of the **law**, which was put into practice in 1945, saying that it:

- Removed the dedication from major broad-based taxes
- Provided a fund distribution from a pool to various operating funds
- Allowed the legislature to set their funding priorities every two years [the Arkansas General Assembly is biennial]
- Prevented deficit spending
- Reduced funding instability due to changing economic conditions
- Assured agencies of even cash flow.



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Some unintended consequences of the **law**:

- Permitted the approval or mandate of a program without providing funds to implement it, raising unrealistic expectations
- Allowed the Governor to manipulate financing and timing of legislative enacted initiatives
- Permitted agencies and the Governor to determine programmatic priorities within funds and disregard legislative intent
- Created uncertainty in the agency financial plan for the year."

Advocates of legislative branch independence and the ability of the legislature to balance the power of the executive in California or any other state should take a close look at those unintended consequences before adapting the Arkansas system to their own states." (Source: [http://ncsl.typepad.com/the\\_thicket/2008/01/arkalifornia.html](http://ncsl.typepad.com/the_thicket/2008/01/arkalifornia.html))[http://ncsl.typepad.com/the\\_thicket/2008/01/arkalifornia.html](http://ncsl.typepad.com/the_thicket/2008/01/arkalifornia.html))