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Removed "Laughter", "Applause" and "Ladies and Gentlemen"

2004 State of the State Address -- Tuesday, 01/06/2004

California Governor Arnold Schwarzenegger

Ok, I changed my mind. I want to go back to acting. No, no, just joking. That is not true at all.

People have said to me, "Arnold, isn't it a terrible burden being governor at a time of such crisis?"

And I tell them, no, not at all. I love working for the people of California. It is better than being a movie star. It gives me great joy and satisfaction. I am honored to do this work for the people.

The state of our state will soon be strong... because our people and our purpose are strong.

We have a new spirit, a new confidence. We have a new common cause in restoring California to greatness.

I saw greatness achieved only three days ago, when the rover "Spirit" landed on Mars. I want to congratulate the many talented scientists at NASA's Jet Propulsion Laboratory in Pasadena, California, who have demonstrated once again that we here in California are the launching pad for the extraordinary.

Now let us do the extraordinary.

Tonight I will talk to you about the progress that we've made, the problems we have yet to overcome, and the path we will follow to overcome them.

I have no doubt that, together, Californians are more than a match for the challenges which we face.

I feel good because I believe I have made progress in rebuilding the people's trust in their government.

The first thing I did as governor was to repeal the tripling of the car tax.

This massive tax increase was a desperate act of a government out of control.

That could not be allowed to stand.

Repealing that illegal tax increase was the right thing to do.

During the campaign I promised that cities and counties would not bear the cost of the repeal.

It would be irresponsible for the state to take that money away from the counties and the cities.

That is why I acted to keep the money flowing for firefighters and police.

They did not raise the car tax, and they should not bear the burden of its rollback.

Together, we in this chamber repealed SB 60, which endangered the very integrity of the California driver's license.

Rescinding that law was the right thing to do. And I thank you for your bipartisan support.

Together, we put measures on the March ballot that, if passed by the people, will save our state from a June bankruptcy.

June is the month when billions of dollars in past loans come due and the financial house of cards built over the last half decade is set to collapse.

When individuals overspend themselves into trouble, financial counselors often tell them to consolidate their credit card balances so they can work their way out of trouble - and also tear up their credit cards.

That is what our California Recovery Plan is all about.

We took the debt - that we inherited from the previous administration, the debt that threatens us with bankruptcy, and we rolled it into a 15 billion dollar recovery bond.

Then we tore up the credit card.

We passed a balanced budget amendment.

And we created a rainy day fund for future hard times and emergencies.

Never again will government be allowed to spend money it doesn't have.

Never again will the state be allowed to borrow money to pay for its operating expenses.

And you in this room have done that for the people of California.

No one here got everything he or she wanted because we compromised. This, too, was the right thing to do. And I want to thank you and congratulate you.

Now I ask you to join me in getting out the message that a "yes" vote on these measures on the March ballot is absolutely critical to our financial future.

The alternative is economic chaos.

In a bipartisan effort to help our citizens understand how important this bond is to California, I am proud to say that our State Controller, Steve Westly, a businessman and a financial leader, will be co-chairing with me the California Recovery Bond Committee. Thank you very much, Steve. Thank you.

With passage of these measures, we will have dodged the first bullet, the 2003-2004 budget deficit.

But the second bullet - the second financial crisis- has already left the barrel and is headed right at us.

I am talking about the 2004-2005 budget deficit - which is another staggering 15 billion dollars.

The 2004-2005 budget, which begins July 1st, is the one that we must now negotiate.

These huge budget deficits are aftershocks of past financial recklessness.

What happened is this.

Over the last five years, the state's income increased by 25 percent, but spending increased by 43 percent.

This was irresponsible.

The fact of the matter is that we do not have a tax crisis; we do not have a budget crisis; we have a spending crisis.

We cannot tax our way out of this problem. More taxes will destroy what we're trying to save - which is jobs and revenue.

Jobs bring revenue to the state, and revenue brings and allows us to do the right things for education, for the environment, for the disabled, the elderly and all those in need.

A tax increase would be the final nail in California's financial coffin.

The people of California did not elect me to destroy jobs and businesses by raising taxes.

I will not make matters worse.

We have no choice but to cut spending, which is what caused this crisis in the first place.

These are cuts that will challenge us all.

But we cannot give what we do not have.

If we continue spending and don't make cuts, California will be bankrupt.

And a bankrupt California cannot provide services to anyone.

Members of the Legislature, you will receive my proposals in the days ahead.

These are proposals that leadership requires, economics demands, and the public expects.

These cuts will not be easy but they will not be forever.

Let us move quickly to put the excesses of the past behind us and get on with the promise that beckons before us.

I would like to thank all of those in the labor community who are working with us to do just that.

And I would like to thank all of those in the education community who are working with us to allow us to save money while still increasing per pupil funding.

Everyone must play [a] part in this.

I respect the sovereignty of our Native American tribes, and I believe they also respect the economic situation that California faces. In the next couple of days, I will announce our negotiator who will work with the gaming tribes so that California receives its fair share of gaming revenues.

Every cloud has a silver lining. The good news is that the spending crisis forces us to bring badly needed reform to government.

Although the transition will be difficult, in the end we will have a leaner, more efficient and more responsive state government.

A necessary place to start is education.

We must make better use of the money that we spend on our schools.

My proposal gets more money into the classroom and thus increases per pupil funding.

First, we must give local schools the power to meet the specific needs of their own communities.

We can do this by consolidating two billion dollars of categorical programs and cutting the strings to Sacramento.

This will give schools the freedom to spend the money as they - not Sacramento - best see fit to serve the children.

Second, school districts are forced to spend an average of 10 to 40 percent more than necessary on non-classroom services.

We must give local schools the freedom to be more cost efficient.

One way to do this is to repeal SB 1419, the law that prevents schools from contracting out services such as busing and maintenance.

This will free up more money for textbooks and other vital classroom needs.

In the last two years, college fees have increased over 40 percent.

We must end the boom-and-bust cycle of widely fluctuating fees with a predictable, capped fee policy for college students and their parents.

And we must limit fee increases to no more than ten percent a year.

Like our kindergarten through 12th grade schools, our colleges and universities must also share the burden of the fiscal crisis, but we must work to expand the dream of college.

And we must not let the dream bypass our Central Valley.

That is why my budget will fund UC's tenth campus - UC Merced.

We cannot afford waste and fraud in any department or agency.

Every governor proposes moving boxes around to reorganize government.

I don't want to move boxes around; I want to blow them up.

The Executive Branch of this government is a mastodon frozen in time and about as responsive.

This is not the fault of our public servants but of the system.

We have multiple departments with overlapping responsibilities. I say consolidate them.

We have boards and commissions that serve no pressing public need. I say abolish them.

We have a state purchasing program that is archaic and expensive. I say modernize it.

I plan a total review of government - its performance, its practices, its cost.

Some of the recommended actions, I will make by executive order. Some will require legislation, and some will need constitutional change.

I want your ideas and the more radical the better.

And to California's state employees, I want to thank you for your hard work under trying circumstances.

I also want your ideas, because I want to give you freedom to do your jobs in creative ways.

Now, in addition to restoring our state's finances and responsiveness, we must restore the state's business climate.

Creating and retaining jobs - and the businesses that provide them - must be a priority of this Legislature.

Jobs provide a solid foundation for families.

Jobs add revenues to the state budget.

Jobs give stability to our society.

Jobs. Jobs. Jobs. The more jobs the better.

I am going to become California's Job Czar.

I'm going to travel the nation and the world to find those jobs.

I'm going to say, "Come to California. Come and do business here. Buy our fantastic products. Visit our special attractions, and hire our workers, who are the most productive in the world."

I am a salesman by nature. And now most of my energies will go into selling California. If I can sell tickets to my movies like Red Sonia or Last Action Hero, you know I can sell just about anything.

And California is the easiest sell I've ever had.

But we must fix the state's business climate. And we must start with workers' compensation reform.

Our workers' comp costs are the highest in the nation - nearly twice the national average.

California employers are bleeding red ink from the workers' comp system.

Our high costs are driving away jobs and businesses.

My proposal brings California's workers' comp standards and costs in line with the rest of the country.

To heal injured workers, it emphasizes the importance of health care and doctors rather than lawyers and judges.

It requires nationally recognized guidelines for permanent disability.

And it provides for innovative approaches.

I call on the legislators to deliver real workers' comp reform to my desk by March 1st. Modest reform is not enough.

If modest reform is all that lands on my desk, I am prepared to take my workers' comp solution directly to the people and I will put it on the ballot in November.

This year we also have the highest unemployment insurance costs in the nation. Our system is flat broke.

So that people could get their checks, last month I had to ask Washington for a billion dollar loan to bail us out.

Unemployment checks are an important part, an important safety net.

We must fix the system, and I need your help.

California's approach to energy is another barrier to jobs and economic growth.

We have a flawed regulatory structure.

Our businesses pay energy rates nearly twice as high as those in other western states.

In California, we have thirteen different state energy agencies.

Something is wrong when it is easier to create energy agencies than power plants.

California's energy crisis is not over.

If we do not act now, California will face energy shortages as early as 2006.

To prevent this, we must reform the wholesale power market to attract new energy investment.

We must reform the retail power market so large customers can get competitive prices.

And we must renegotiate those high-priced electricity contracts that locked us into energy prices at the market's peak.

Closely connected to energy is the environment.

And while we are promoting jobs and promoting California, I am also going to promote our commitment to the environment.

I am going to encourage the building of a hydrogen highway to take us to the environmental future.

I am going to encourage builders to build homes using partial solar power.

I am going to create a Green Bank to make loans to retrofit old, energy-inefficient buildings.

I intend to show the world that economic growth and the environment can coexist.

And if you want to see it, then come to California.

During the campaign, I said that I would make sure that California got its fair share of federal tax dollars.

The congressional delegations of other states work together to bring home federal dollars, but the divisions in California have been too deep to do that effectively.

In December, however, we held a historic meeting in Palm Springs.

At a bipartisan retreat, the California congressional delegation and I agreed to put party and district boundaries aside and to speak with one united voice in Washington.

We agreed to fight side-by-side to get more federal tax money for homeland security, for criminal aliens, water resources, highways and other needs.

Let me tell you another area where we must cooperate.

California's naval facilities, our air bases, our supply centers, our training commands have helped our nation produce the best trained and equipped military in the world.

I was in Baghdad last year. I met soldiers who call California home. I met soldiers who trained here and served here.

California has a proud history of military support.

The Pentagon will make the next round of base closures in 2005. This could mean thousands of lost jobs to California.

These bases are important to national defense, and they are important to our steady economic recovery.

As a state, we will fight to keep our bases open.

We Californians need to work together at all levels of government. In the days and weeks ahead we have decisions coming at us that are the most difficult any legislator or governor has faced in the history of our state.

We have decisions approaching that will inflame passions and potentially create division.

I want to tell you a story that relates to this.

During the terrible fires that burned California, I went to the funeral of Steven Rucker, the firefighter who died in the service of his fellow citizens.

He left behind a wonderful wife, two children and heartbroken parents.

After the service, I said to Steven's mother and father, "If there is anything I can do for you, please let me know."

His father looked at me for a few seconds... and grief in his eyes with tears coming down his eyes, he said, "Arnold, if you really want to do something in honor of my son, then go to Sacramento and stop the politicians from fighting. Stop them from fighting. They're hurting our people and destroying our state."

Let us remember those words in the days and weeks ahead.

Let us remember the greater good of California.

I remain a great believer in the future of this state.

I did not seek this job to cut... but to build.

I did not seek this job to preside over the decline of a dream but to renew it.

President Reagan said that empires were once defined by land mass, and subjugated peoples, and military might.

But America, he said, is "an empire of ideals."

California, I believe, is an empire of hope and aspirations.

Never in history have such big dreams come together in one place.

Never in history has such an array of talent and technology converged at one time.

Never in history has such a free and diverse community of people lived and worked under one political system.

This is a wonderful place - California - this empire of aspirations.

Great things can be done in California.

Let us help Californians do great things.

2005 State of the State Address -- Wednesday, 01/05/2005
California Governor Arnold Schwarzenegger

My friends, I look forward to working with you on the people's business. We have a lot to do, and I believe we can do it.

In these State of the State speeches, governors often begin by listing their accomplishments of the past year. I will do the same.

The year before I took office as governor, California had 300 days of sunshine. Last year, under my administration, we had 312 days of sunshine. That's what true leadership is all about.

In all seriousness, this last year we faced some dark days. The shadow of 22 billion dollars in inherited debt loomed over us. The great state of California, the sixth largest economy in the world, the symbol of the American dream, faced economic ruin.

The most important thing we did last year—we grabbed California by the collar just before it slipped into a financial black hole. We slowed the growth in spending, renegotiated contracts, secured more than a billion dollars in new federal financial support. We should feel good about what we accomplished together.

Yet the greatest rescuers of the state are not those of us in this room, but the people of California. They are the ones who passed Prop 57, which issued the bonds to prevent the state's collapse. They are the ones who passed Prop 58, which prevents the state from borrowing money to cover future deficits. I want to thank my fellow Californians for their confidence that together we can turn this government and its finances around.

The people saved the state from bankruptcy, but they were very clear about one thing. They said, "We will do this once to clean up the past, but do not let it happen again."

Last year we stopped the bleeding. This year we must heal the patient.

To continue California's recovery, this year we must do two things.

To solve the budget's continuing structural deficit, we must reform the way the government spends its money. And to restore the trust of the people, we must reform the way the government operates.

My friends, this is a time for choosing.

Will California have a government that encourages the dreams of the people?

Or will the decline of recent years accelerate and further destroy the people's faith in their government? We must not let that happen.

I get up every morning wanting to fix things here in Sacramento. I ask you today: Help me fix them.

Last year, we worked together to avert a crisis. This year we must address its causes.

Tomorrow, I will convene a special session to address the financial, educational and governmental reforms that civic responsibility demands.

In this special session, I ask you to work with me on four reforms.

The first relates to the financial situation that we face.

I'm going to tell you something that you know in your hearts to be true.

In every meeting I attend in Sacramento, there's an elephant in the room. In public, we often act like it's not there. But, in private, you come up to me—Republican and Democrat alike—and you tell me the same thing, “Arnold, if only we could change the budget system. But the politics are just too dangerous.”

The elephant in the room is a budget system that has removed our ability to make the best decisions for California. It has taken away the freedom and the responsibility of legislating. We can change that.

My colleagues, I say to you, political courage is not political suicide. Ignore the lobbyists. Ignore the politics. Trust the people.

Last year, we had \$78 billion in revenues coming in. The great news is that this year, we have \$83 billion coming in, over \$5 billion more than last year. Now that is terrific.

However, various budget formulas require us to spend over \$10 billion more.

Do the math. Our revenue increases by more than 5 billion but our spending increases by over 10 billion. We don't have a revenue problem. We have a spending problem.

In fact, the way the formulas now work, we will never catch up. No matter how well we do, the current system is programmed to spend even more.

It is on automatic pilot. It is accountable to no one. Where will it all stop? How will it stop unless we stop it?

The truth is that we cannot fix the budget deficit without first fixing the budget system. The Constitution requires that I submit a budget to you, which I will do in a few days.

Yes, it sounds good, and it would get us through the current year, but I do not like this budget at all. It does not solve our ongoing structural problem, because our deficit the following year will be even worse.

It does not restore the integrity of the budgetary process. It is a painful budget forced upon us by a broken system.

And we all know what's going to happen. The special interests will run TV ads calling me cruel and heartless. They will organize protests out in front of the Capitol. They will try to say I don't understand the consequences of these decisions.

Let me tell you something. I am well aware there are lives behind the numbers. But I have a responsibility for the fiscal health of this state and for the honesty of its finances.

A lot of people say, "Arnold, why don't you just raise taxes and be done with it?" Well, as I said earlier, we don't have a revenue problem. We have a spending problem. We could raise taxes by billions but that would only further drive up spending by billions of dollars.

California would never come out ahead. Our economy would suffer, jobs would be lost and the people would be punished. Unless we go to the root of the problem and reform the system, the budget will continue to be one big fight, year after year after year. I don't mind a fight, but if there is to be one, let it be over new, important things that move us beyond the past.

Therefore, in the special session, I will submit to you legislation that cuts expenditures across the board when they grow above revenues.

We must take back responsibility for the budget. We must have a new approach that overrides the formulas, overrides the special interests and overrides the forces that have turned some of you from legislators into clerks.

Now, related to this, is the second item we must tackle in our reform session.

Like the budget itself, our state pension system is another financial train on another track to disaster.

California's pension obligations have risen from \$160 million in 2000 to \$2.6 billion this year. Another government program out of control, threatening our state. Accordingly, we must do what business has been doing.

For new employees, we must move from a defined benefit to a defined contribution system. We need a public pension system that is fair to employees and to taxpayers.

Now, the third item relates to the education of our children.

California will spend \$50 billion on K through 14 education this year; that's \$2.9 billion more than last year. Nearly half the state's budget is dedicated to education.

What do we get for that money? We get many wonderful and dedicated teachers. We get many children who are doing terrific.

But \$50 billion, and we still have 30 percent of high school students not graduating. That is a human disaster.

\$50 billion and we still have hundreds of schools that are failing. That is an institutional disaster.

\$50 billion and the majority of our students cannot even perform at their grade level. That is an educational disaster.

So, where do we start? We start in the classroom. We start with those who hold our children's learning in their hands. We start with the teachers.

Let me say this to every California teacher who is opening the minds of our children and nurturing their lives: I want to reward you for your hard work. I want to reward you for the sacrifices you make. I want to reward you for the learning that you instill.

But I cannot do so under the current system. Help me change it.

We must financially reward good teachers and expel those who are not. The more we reward excellent teachers, the more our teachers will be excellent. The more we tolerate ineffective teachers, the more our teachers will be ineffective.

So, in the special session, I propose that teacher pay be tied to merit, not tenure. And I propose that teacher employment be tied to performance, not to just showing up.

And I want to say to every Californian who has a child: “Your child deserves a good teacher. An educational system that rewards and protects a bad teacher at the expense of a child is wrong. And I intend to change that system.”

My colleagues, this is going to be a big political fight. This is a battle of the special interests versus the children’s interests. Which will you choose?

I will also introduce measures to further charter schools, vocational education and fiscal transparency so people know how every educational dollar is spent at their local schools.

Fourth, we must make California’s elections democratic once again.

When I was studying to take my citizenship test, I learned about gerrymandering and how politicians changed the boundaries of a voting area to protect themselves. For a long time I thought that was something that happened way back in the 1800’s, but the practice is still alive and well today.

Here is a telling statistic: 153 of California’s congressional and legislative seats were up in the last election and not one changed parties.

What kind of democracy is that?

I will propose that an independent panel of retired judges—not politicians—determine California’s legislative and congressional districts.

They can draw fair, honest district lines that make politicians of both parties accountable to the people.

The current system is rigged to benefit the interests of those in office . . . not the interests of those who put them there. And we must reform it.

On top of the reforms to be addressed in the special session, we must also reform and reorganize the structure of government itself. We need a 21st Century government to match a 21st Century world.

Over the past year, we streamlined the state’s purchasing system, consolidating our huge buying power into one entity rather than splitting it among hundreds.

We cut the average wait time at the Department of Motor Vehicles from more than an hour to less than 20 minutes.

We eliminated delays of up to 13 months for the state licensing of nurses, barbers, contractors and many others.

Good management is crucial, but we need even bigger solutions.

A year ago, I told you that I wanted to blow up the boxes. Well, we have lit the fuse. The California Performance Review has done an outstanding job.

285 people have worked for 9 months looking at how to eliminate duplication and increase accountability in government. They received the views of 10,000 Californians. They held public hearings and produced a 2,000-page report.

Thanks to the Performance Review and the leadership of Secretary Rod Hickman, the Youth & Adult Correctional Agency - an agency with a \$6 billion budget and 54,000 employees - will be the first agency that we reorganize. Its need is the most urgent.

This is an agency in which there has been too much political influence, too much union control and too little management courage and accountability.

For many months, you could not pick up a newspaper without reading about a youth dying in prison, or codes of silence, or abuses of force. I want to put the corrupt people in our prisons on the same side of the bars.

Tomorrow, I will send to the Little Hoover Commission our plan to reorganize this agency. And I want to say this to the many honest and hard-working people who work in corrections: thank you for your perseverance, and thank you for your hard work. We will free you from the prison of waste and mismanagement in which you have been held.

California was once the national leader, a pioneer, in corrections integrity, innovation and efficiency. We can make it so once again.

More reorganizations of other agencies will follow in the months ahead.

I can also announce that we intend to wipe out nearly 100 unnecessary boards and commissions, abolishing over 1000 political appointments in the process.

No one paid by the state should make \$100,000 a year for only meeting twice a month.

I know the special interests will oppose all the reforms I have mentioned. Any time you try to remove one dollar from the budget, there are five special interests tugging on the other end. Anytime you try to make something more efficient, there are a half-dozen special interests trying to prevent it.

The result is that nothing changes in Sacramento. This place is in the grip of the special interests.

The people of California demand reform. That is what the recall election was all about. That is what the ballot process is about. And that is what this special session is about.

A special session will allow us to work together quickly, so that people can vote on our reforms in an election by early summer.

If we here in this chamber don't work together to reform the government, the people will rise up and reform it themselves. And I will join them. And I will fight with them.

With the reforms that I've outlined, we can build upon the progress we've made in just the last year.

Our credit rating is up. Our business climate is improving. We passed workers' compensation reform. We took action to curb frivolous and shakedown lawsuits. We killed other measures that would discourage businesses from creating jobs here.

A record number of Californians now have jobs. Our state outpaced the nation by creating nearly 150,000 jobs in the last year. Our unemployment rate is the lowest since September 11, 2001.

If a politician tries to take credit for job growth, don't believe it. I did not create this record number of jobs.

Businesses created them. Small businesses. Large businesses. Women-owned businesses. Minority-owned businesses.

We have such great entrepreneurial drive in this state. All we must do to enjoy its benefits is to let it loose and get out of the way.

And, over the next year, we can continue moving forward, with more employment, more businesses coming back, more revenues coming in.

And we have other good news. We signed agreements with Indian gaming tribes that should provide about a billion dollars for transportation this year. Not only will this improve California's highways, it will also create 16,000 new jobs.

When I first came to California, the roads fascinated me. Californians can't get from place to place on little fairy wings. This is a car-centered state. We need roads.

Like Governor Pat Brown before me, I intend to see that the government builds the roads that Californians need.

We need roads and we need affordable housing. The median price of a home in California is \$460,000. That is too much. A home of your own is part of the American Dream. I believe in such dreams, so I will propose legislation that eliminates regulatory and legal hurdles that delay construction and increase the costs of new housing.

I want a California where people spend less time sitting on the freeway and more time in the homes that they own.

I believe we can meet our transportation, our housing and our business needs and still improve the environment.

Last year we made progress on launching the Hydrogen Highway, encouraging green buildings, putting solar in more homes.

We took steps to safeguard California's ocean and coastline. And we also established the 25 million acre Sierra Nevada Conservancy, the largest in the nation.

I love riding my motorcycle along the Pacific Coast Highway - the freedom of the road and the smell of the sea. That is the California spirit.

Closely related to the environment is energy. California has long been the national leader in energy conservation. We must continue that leadership, but we cannot conserve our way out of our long-term energy crunch.

Yes, we need conservation. Yes, we need renewable energy. But California also needs power plants and transmission lines. We need more of them and we need them as soon as possible.

We're already increasing our reserves and encouraging long-term contracts.

And I am pleased to report that we're beginning to see investments that will put steel in the ground and power on the lines.

This is a modern society and a modern society must have abundant and affordable power.

Another thing every state needs is affordable health care for its citizens.

Millions of Californians lack coverage for the prescription drugs they need. Many of these people are the working poor who do not qualify for assistance.

Therefore, I am announcing a prescription drug discount card with minimal costs to the state. We will make prescription drugs available to nearly 5 million low-income Californians, at prices competitive with those from Canada.

We have so many good things in this state. Over the last year I have traveled the world to let people know about those good things.

Do you know why California is so easy to sell? Do you know why we attract the world's attention? Because California invents the future. It's known for its innovation, its creativity, its energy.

We are a forward-looking people, and we must have a forward-looking government.

Help me apply the natural innovation and imagination of our people - to government, to education, to transportation, to the improvement of our society.

That is the job of those of us who serve the people. I welcome and seek your ideas, but do not bring me small ideas; bring me big ideas to match our future. Bring me reforms to equal our problems.

What I propose will demand political sacrifice from all of us, but it is nothing compared to the sacrifice of thousands of Californians in uniform. Many have left their blood and their buddies in the sands of a foreign land.

When we ask them to risk their lives for democracy over there, how dare we not take the risk to reform our democracy here!

Our troops should come home to a government as noble as their sacrifice.

Ask yourselves, what do they want from us beside our political courage?

They want jobs so that they can support their families and afford health care and a home of their own. They want good schools where their children are safe. They want an environment that is clean. They want a society that cares for the sick and needy. They want honest and responsive government.

These things are not too much for the people to ask. These things are not too much for government to provide.

But these things will not happen without reform.

My fellow representatives, in closing, I make this appeal to you. Join me in regaining control of California's financial future. Join me in restoring the trust of the people. Join me in introducing a bold, new era of reform in California.

2006 State of the State Address -- Thursday, 01/05/2006
California Governor Arnold Schwarzenegger

Now what a difference a year makes - a year ago USC and I were #1 - what happened?

People recently have said to me, "Arnold, I bet you wish you were back in the movie business?"

I say, "No, not for a minute."

This is still the best job I've ever had. It's an honor to serve the people of California and a joy to serve the people of California and to stand here with you at the start of this new year.

I've thought a lot about the last year and the mistakes I made and the lessons I've learned. What I feel good about is that I led from my heart.

Now it's true that I was in too much of a hurry. I didn't hear the majority of Californians when they were telling me they didn't like the special election. I barreled ahead anyway when I should have listened.

I have absorbed my defeat and I have learned my lesson. And the people, who always have the last word, sent a clear message—cut the warfare, cool the rhetoric, find common ground and fix the problems together. So to my fellow Californians, I say—message received.

And I hope the members of the Legislature also got the message that people want us to work together. I have always felt that the people are my partners.

So I haven't for a moment doubted our fundamental agenda—to regain California's fiscal integrity, to return government to the people and to prepare our state for the extraordinary changes to come.

So, as we begin the new year, I stand before you here tonight happy, hopeful and wiser. And I'm confident that California has the innovative spirit to address the challenges we face here at home and as part of a dynamic global economy.

In fact, let me brag a little bit about what California has accomplished over the last two years.

Together, with the help of the Legislature and the people, we brought California back from the brink of bankruptcy. We balanced the budget without raising taxes, and record revenues are flowing into our treasury, and we are paying down our debt.

We reformed workers' comp and we now have more Californians working than ever in our history—with over 450,000 new jobs created.

We made unequalled investments in education—a record of 50 billion dollars this year.

And we made our schools healthier by becoming the only state in the union to ban sodas and junk food from our schools.

We set some of the most aggressive targets in the world in energy efficiency and reducing greenhouse gases.

And we enforced Prop 42 so that for the first time all the sales taxes on gasoline went for the roads, not for general spending.

All of which brings me to tonight.

Over the years, some remarkable governors and some remarkable men and women who have gathered in this chamber have addressed the needs of the people. Tonight my mind especially goes back to former governors Earl Warren, Goodwin Knight, Pat Brown, Ronald Reagan and to the legislators who have served those leaders.

In the face of massive change and huge challenges, they built the foundation of California's prosperity. They built the schools and the universities that became the envy of the world. They built the bridges and the aqueducts, the highways and the hospitals that made California the economic powerhouse it is today. And they did it, through wars and recession, year in and year out, for decade after decade.

The challenges that we face here today are similar but even more complex. They built California with steel, concrete, hard work and vision. We must do all of that and more.

We must not only expand the concrete highways that connect Los Angeles to San Francisco and Stockton—but the digital ones that connect Stockton to Shanghai, and to Sydney and to Seoul.

We must build a California eager to meet the challenges of the 21st Century without reluctance or fear.

Let me ask you, what California do you want in 20 or 30 years? What kind of highways will we drive on? What kind of schools will our children attend? What kind of jobs will we have? What kind of air will we breathe? And what kind of hospitals will care for our sick?

Now some would say, "How can we plan for 20 or 30 years when we can't even meet our needs today?" Well, the answer is that we will never catch up, unless we know where we're going.

A new California is coming whether you plan for it or not.

California's population is expected to increase by as much as 30 percent over the next 20 years. That is the equivalent of adding three new cities the size of Los Angeles. Yes, it's astonishing.

Our systems are at the breaking point now. We need more roads, more hospitals, more schools, more nurses, more teachers, more police, more fire, more water, more energy, more ports... more, more, more.

But, we cannot be overwhelmed by this reality. We cannot freeze in the face of this future. We cannot bury our head in the sand and say—if we don't build it, they won't come.

As my friend Senator McClintock likes to say, California stopped building three decades ago, and the people came anyway. And now the people sit in gridlock on our roads. They wait for hours in our emergency rooms. They drop their children off at overcrowded schools. But, again, I say to you, do not be overwhelmed.

Half a century ago, our predecessors faced exactly the same challenges, but they still planned for our future. And now, it is our turn. The need is urgent, but this is not just about keeping up; it is about growing with strength and confidence and moving ahead.

We are perched on the Pacific—looking across to a continent where there is tremendous economic growth. California is better placed to be a leader in the global future than any other state in the union. We have the outlook, the innovation, the technology, the people. We have the location.

In fact, almost half of everything made in Asia and sold in the U.S. comes through California comes through our ports. We are already the golden gateway to and from the emerging economies of Asia. Our ports are jammed to capacity. The cargo ships are lined up—waiting. Ports in Washington, Oregon, Texas and Mexico are vying for a chance to take business away from us. What will our reply be?

I was in China recently. Let me tell you, what a sight. Construction cranes fill the sky. Over a billion people work and save and study. Now, we all know that China has enormous problems—environmental, social, political—problems much larger than ours, but they are preparing for a global future. Do we not have the same

ability to think as dynamically and optimistically about our people's future? Of course, we do.

California is already on the leading edge of global economy and it's changing and growing by leaps and bounds. And yet we will let this advantage slip from our fingers, if we don't make the long-term investment in our ports, our roads, our schools, our information systems and all the other infrastructure required to compete in a world that thrives on innovation.

California is innovation. For more than a century California's ideas have been the gold standard for innovation and progress. To maintain that edge we must strategically invest in our future and in our children's future.

Think of California as a mutual fund—in particular, a growth fund. Why do we invest in a growth fund? Because we believe in the economic future. So I ask each of you... do you believe in California's economic future? Well then we must invest in it. If we do not invest in ourselves, how can we expect others to invest in us?

So today I propose a Strategic Growth Plan for California's Future. We in this chamber can lay the foundation for the next generation, just as our predecessors did 50 years ago.

In recent decades, California has invested piecemeal, crisis by crisis, traffic jam by traffic jam. There is a better way, a smarter way, a more fiscally responsible way to invest in our future.

We cannot spend more than we have; but at the same time we cannot afford costly delay in investing in critical infrastructure. The reality is that we face more than 500 billion dollars in infrastructure needs over the next 20 years.

With this first phase of our Strategic Growth Plan, we will take a ten-year chunk out of that need. This plan will leverage 70 billion dollars in bonding capacity over the next ten years to achieve a total investment of more than 200 billion dollars. And we can do it without raising taxes.

We can use our bonding capacity more wisely by planning and leveraging our tax dollars to attract other resources—like federal funding, more local funding and more private investment. For example, most of the dollars that we will invest in levee protection will be matched with 130 percent with federal dollars.

Yes, things will be tight, but funding our future is, is the fiscally responsible thing to do. Not to do so is to abandon the people. So I will propose that the Legislature adopt a debt ceiling that maintains our debt at a prudent level, regardless of the amount of our debt authorized.

Now let me give you an idea of where we would invest the money over the next ten years:

Transportation. Traffic does not have to keep getting worse. It can get better. If we add 1200 miles of new highway and HOV lanes into congested areas, and add 600 miles of mass transit, we can actually reduce traffic delays in the next ten years, even as our population grows and at the same time this investment in transportation will create 150,000 new jobs for our state. I say build it.

Air Quality. Congestion on our roads and in our ports pollutes our air. Pollution decreases our productivity and increases our health care costs. When one in six children in the Central Valley go to school with an inhaler, it is time to consider clean air as part of our critical infrastructure. We have the technology to clean our air. So I say build it.

K-12 Education. In the next ten years, a quarter of a million more students will be attending our schools. To meet this need, our plan over the next decade proposes construction of more than 2,000 small schools, 40,000 classrooms and modernizing another 140,000. I say build it.

Higher Education. California's system of colleges and universities is an enormous asset that fuels our innovation economy. In the next ten years, we must prepare for more than half a million new students. To meet the infrastructure needs of higher education, we need new classrooms, libraries and science labs in hundreds of new buildings on our campuses. I say build it.

Water and Flood Control. We have done little to expand our water supply in nearly 50 years. We must build more storage capacity, expand our delivery network and strengthen our levees. The Strategic Growth Plan increases our water supply to serve an additional 8.5 million people, supports our agricultural industry and doubles the amount of flood protection in the Sacramento area—better shielding us from a Katrina-type disaster here at home. I say build it.

Public Safety. Local jails and state prisons are so overcrowded that criminals are being let out or left on the street because we have no room to lock them up. Our proposal provides for two new prisons, a new crime lab, emergency response facilities and space for 83,000 new prisoners over the next ten years. We must keep the people safe. I say build it.

Courts. Our courts are as congested as our roads and our prisons are, but something even more basic to our democracy is at stake—justice. Justice delayed is justice denied. So our Strategic Plan includes 101 new courts, 56 renovations and 44 expansions, so that justice will not be denied at home. So I say build it.

Now, here's the catch. Our ability to pay for these investments is directly tied to the fiscal discipline of the past two years. This discipline must continue. The investments must go hand-in-hand with budget reform.

Although a strong economy has produced billions of dollars of unexpected revenues, we still face a structural deficit that will soon resurface. We cannot make the mistakes of the past. So this year must continue to be the year of reform. Because one thing I know: autopilot spending will fly us into the ground... not into the future.

Now, I realize that you did not like the proposal I place on the ballot to reduce spending when revenues are down. But the problem is still there, it didn't go away. Tell me how you would fix it. Bring me your innovative ideas. Work with me on a new proposal. Work with me on harnessing private sector investment. Work with me to invest in California's future growth and prosperity.

Now some may say that we can't plan for the long term, because the needs are simply too great and the amounts are too much. But we have no other choice than to prepare for our future. I believe that we can improve our schools, our roads, our environment, our health care and our future. If I didn't believe this, I wouldn't have become governor. And you wouldn't have become legislators.

Now, while planning ahead, we must also, of course, focus on making people's lives better this year. I believe we can find common ground on issues that can improve the lives of millions and million of Californians.

For example, when I ran for governor, I said that we could not afford an increase in the minimum wage unless the economy bounced back. Well, the economy has bounced back, so it is now time for those who often work the hardest and earn the least to benefit from California's growth. So let us increase the minimum wage by one dollar an hour, with half starting this year. So and I ask you to pass this measure immediately so that I can sign it without delay.

In education, the budget I will introduce next week will propose immediate repayment of the entire 1.67 billion dollars in Proposition 98 money. Now this, in addition to an automatic budget increase of 2.3 billion dollars, will be the largest increase in funding in education's history. Now I propose that we use part of this money so that children once again can have art, music and physical education in our schools.

Also this year, California's Proposition 49 after-school initiative kicks in, which will provide an additional 428 million dollars for after-school programs. This will make our state the only one in the nation to offer comprehensive after-school programs. Every elementary and middle school can have a program so that working parents will know that their children will be in a safe environment—

getting help with their homework, doing arts and physical activities. This will be good for both the children and the parents.

In higher education, we need to reduce the burden on families who send children to our state universities. I propose we should eliminate the increase in tuition scheduled to take effect this fall.

Health care. I ask myself, what's the quickest way that we can help the greatest number of people with the spiraling health care costs? I believe in the free market. I believe in free trade. I mean we buy food from overseas. We buy cars from overseas. Why not prescription drugs? So I call upon the federal government to permit the safe importation of prescription drugs. I say, let the free market work.

And in terms of helping families right now, we must always put public safety first. California should pass Jessica's Law to track sex offenders. Every parent's nightmare is that their children are vulnerable to predators on the Internet and in their neighborhoods. There should be no loopholes, no leeway, no leniency for those who harm our children.

If we work together, there is literally no problem we cannot solve—even the issues we have struggled with last year. Now I am already talking to the legislative leaders about how we can move forward with important budget reform, pension reform, redistricting reform and all kinds of other issues.

I want to close with a story about Senator Escutia.

One day I ran into her and she told me about her bill to get sodas and junk foods out of the schools. And I said, "I love that idea. It's great to fight obesity. Let's do it together." And we did. And we got it passed.

But the point is this. She told me she had been working on the bill for six years. It shouldn't have to take six years to address the health of our children. But the thing that really impressed me, was her perseverance, her stamina, her commitment, that is what was so unbelievable.

I ask you tonight to have that same perseverance, that same stamina, that same commitment, to help our children, to help our families, to help our communities and our state.

We must remember that this is the state that represents a dream. If you talk about the Illinois dream or the Delaware dream or the Kentucky dream, no one would know what you meant or what you're talking about. But our dream—the California dream—ah, that means something. People understand it.

It is the means to a better life, where anything is possible—no matter where you came from, no matter who you are. This is what people understand. This is what draws them here. This is why I came here.

So the state of our state is sound because our dream is sound. Let us commit to building California so that the dream can remain alive for this generation, for the next generation and for generations to come.

2006

2007 State of the State Address -- Tuesday, 01/09/2007
California Governor Arnold Schwarzenegger

I want to thank the legislature, as I did in my Inaugural address, for putting the people above politics last year—an election year. The federal government was paralyzed by gridlock and games. But you here in this chamber acted on infrastructure, the minimum wage, prescription drug costs and the reduction of greenhouse gases in our atmosphere. What this said to the people is that we are not waiting for politics. We are not waiting for our problems to get worse. We are not waiting for the federal government. We are not waiting—period. Because, the future does not wait.

I believe that together not only can we lead California into the future...we can show the nation and the world how to get there. We can do this because we have the economic strength, we have the population and the technological force of a nation-state. We are the modern equivalent of the ancient city states of Athens and Sparta. California has the ideas of Athens and the power of Sparta.

As you know, California, if a nation, would be the sixth largest economy in the world. But it goes so much beyond that. According to The Economist magazine, California is home to three of the top six universities in the world. California has more Nobel Laureates, more scientists, more engineers more researchers, more high-Tech companies than any other state. We are responsible for one of every four U.S. patents. We account for one of every five U.S. technology jobs. We attract almost half of all U.S. venture capital, which funds the ideas and industries of the future. California leads the nation in biotechnology. We lead the nation in nanotechnology. We lead the nation in medical technology. We lead the nation in information technology. And we will soon be recognized as the leader in clean technology.

Worldwide, clean-tech investments are up by 50 percent in the first nine months alone last year. California is spurring clean technology by the environmental standards we are setting. Our innovation, our science, our knowledge, our creativity is un-equalled on the face of the earth. The 21st century can be the Golden Century for our Golden State.

So I have asked myself, what must we do in this chamber to help fulfill this future? It starts very simply. We can start by all of us working together.

Usually when a governor gives his State of the State Address, he talks about his vision. This year I want to talk about "our" vision, because I think we all want the same thing for Californians.

Let me tell you about some of the ideas of our legislative leaders. Speaker Nunez has made research into alternative energy and transportation fuels a top priority this year. Speaker Nunez, I will work with you on that.

A top priority for Senate Leader Perata is to create a world-class water transit system in the Bay area that could maintain vital transportation links after an earthquake or other disaster. Senator Perata, I will work with you on that.

Republican leaders in both the Senate and the Assembly have made debt reduction and building water storage their top priorities this year. Senator Ackerman, Assembly Leader Villines, I will work with you.

Let me explain some of the other areas where we can come together this year. In November, the people approved the first phase of infrastructure bonds necessary to rebuild our state.

During a speech at the Pat Brown Institute, I heard Senator Perata say that the people of California expect to see construction cranes right away. They want to see action. Well Senator Perata, I absolutely agree with you on that. We, the elected leaders, must authorize the cranes, the bulldozers, the cement trucks to begin their work without delay.

This is a test for those of us in this chamber in another way. Will the process turn into a porkfest as it did in Washington with all the earmarks and the backroom deals? Or, when we have allocated the spending, will the people say, "They spent our money wisely?" Yet this is more than just about the people's money. It is about the people's trust. Let us not disappoint them.

We must also be good stewards, because we must go back to the people for permission to build more and to finish the job. The building has just begun. One year ago I unveiled the 200 billion dollar plan that prepared California for the next ten years. We are a big state and we have big needs. And we have made a big down payment. But the job is not finished.

Some areas, such as prisons or water storage were not included. And we still have more roads to build, more schools to construct, and more universities to equip to keep up with the future. As I said last year, California's population is expected to increase by as much as 30 percent over the next 20 years. This is the equivalent of adding three new cities the size of Los Angeles'. We have to prepare for that growth.

So this year we must invest in five infrastructure areas in particular—public safety, water supply, transportation, education and disaster preparedness.

Now let me give you a couple of examples why we must act. Public safety is the first priority of government. Our prisons are in crisis. We have inherited a problem that was put off year after year after year. Last year I called a special session to address the crisis. That session was not successful, so I declared a state of emergency. It is still an emergency. Our prison system is a powder keg. It poses

a danger to the prisoners, a danger to the officers... and a danger to the well-being of the public if—as the federal courts have threatened—we are forced to release prisoners because of overcrowding. We have thousands of prisoners housed in gymnasiums, TV rooms, dining rooms, hallways, anywhere there is space. You all know 172,000 prisoners in facilities designed to hold about 100,000. That is a danger and that is a disgrace.

Here are the court-ordered choices we face: We build more prisons or we release criminals. We build more prisons or the court takes the money from education and health care and builds the prisons itself. Now I am not in favor of releasing criminals. Nor am I in favor of taking money from classrooms and emergency rooms to build cells. Where do you stand? We must act. And we must act this year. Which is why on December 21st, I stood with Senator Gloria Romero and Senator George Runner and Assemblyman Greg Aghazarian to introduce comprehensive prison reform. We need a justice system that is fair, that is tough and that offers hope for those who can still turn their lives around.

Now let me give you another infrastructure example. The number of high technology companies that we have in California is related to how many brilliant scientists we have in our universities...which in turn relates to how many smart undergraduates we have... which is related to the number of high school students who graduate... and it goes down through the grades. That small child with the sticky hands starting the first day in kindergarten is the foundation of California's economic power and leadership.

We must invest in education. But it is not just how much money we spend but it is how we spend it. I have seen the need with my own eyes as I've toured schools across the state. I went to a school with bed sheets on the windows rather than blinds. I went to a school that was so overcrowded that they used the gyms locker-room for teaching space.

The education bond that passed in November builds 10,000 new classrooms and renovates 38,000 more, but that gets us only through the next two years. We need to build for the future.

This year I ask you to invest in 15,000 more classrooms and renovate 40,000 more. Yet we must build not only structures, but accountability and transparency into our education system. As a step towards the day when parents will have real choice in our public education system where to send their children, we should provide parents with relevant, accessible information, not bury it in bureaucracy. If you can get information about a car online, why can you not get information about your local school online? What percentage of money goes into the classroom? Does the school offer after-school programs, music, art, physical education? What is the graduation rate? The drop-out rate? You cannot easily get this information today.

So how can a school or a school district be held accountable? So, I want to work with the legislature to make this information readily available and user-friendly for the parents so that they can make intelligent choices about their child's school.

We must also continue to reinvigorate career tech education, I love career tech, love it, and we must support quality charter schools and find innovative solutions to the teacher shortage. I will not discuss all of our infrastructure proposals this evening, but I want to say one final thing about this topic. Building California and rebuilding California is not a burden. It is not a chore. It is a privilege. It is a privilege to be able to help this state reach its full potential. It is a privilege to be able to help the future generations fulfill their promise. And when they look back, they will see you in this room, and they will be grateful for what you have done.

Now, in addition to addressing our infrastructure last year, the legislature joined with me in passing the historic global warming measure that caps greenhouse gas emissions.

We hear so much about climate change. One area where we definitely need the climate to change is the national government's attitude about global warming. It would not act so California did. California has taken the leadership in moving the entire country beyond debate and denial... to action. As California goes, so goes the rest of the nation.

So, I ask you to appropriate the funds to implement this global warming legislation, so that we can become part of the world market that is already trading credits for the reduction of greenhouse gases.

I also ask you to work with me on another environmental first. I propose that California be the first in the world to develop a low carbon fuel standard that leads us away from fossil fuels. And let us use the freedom and the flexibility of the market to accomplish it. Let us blaze the way, for the U.S. and for China and for the rest of the world. Our cars have been running on dirty fuel for too long. Our country has been dependent on foreign oil for too long.

So, I ask you to set to motion the means to free ourselves from oil and from OPEC.

I ask you to encourage the free market to overthrow the old order.

California has the muscle to bring about such change. I say use it.

Now lets talk about health care. When I first came here in 1968, one of the first things I did was to ask people where can I get health insurance because I knew that, as an athlete, injuries can happen, as I could find out very recently. Here is the ironic thing about health care today. California's medical care, its medical

knowledge, its medical technology is as strong and vibrant as a bodybuilder. Yet our health care system itself is a sick old man.

You know the reasons – it's rising costs and lack of coverage—nearly 6.5 million Californians have no insurance at all. Recently I visited California Hospital Medical Center in downtown Los Angeles and they are doing a terrific job, fantastic. Last year, the uninsured people who came to the emergency room left behind 60 million dollars in unpaid bills. This is just in one hospital. Multiply that by the number of hospitals in California, and the amount runs into the billions of dollars. Guess who's paying for all this? You and me and all of us who are lucky enough to have coverage. That's who pays.

The people with insurance pay a hidden tax through higher deductibles, higher costs, higher premiums, higher copays.

This year we must take action on health care. Yesterday I announced my proposal. I know you also have your proposals and I love that. I have always said you can never have too many ideas. So I welcome all those ideas, regardless of origin, are still on the table. I do believe, however, that the ultimate answer will come from the principle of shared responsibility – shared responsibility by the government, by employers, by health plans, by doctors, by hospitals and by the individual.

In the past, health care reform was always dead on arrival. But this year I can feel something different in the air. I can feel the energy, the momentum, the desire for action. People really want to get this taken care of. You can feel that the time is right. As a matter of fact, both leaders have said to me, "We will get this done." My Republican friends have said "We will get this done." We will get this done. California is going to lead the nation in breaking new ground to meet the health care needs of its people.

Now, tomorrow, I will outline my budget, which is balanced and which fully funds education. Now, when I first became governor, we had an operating deficit of \$16.5 billion. Our state was almost in bankruptcy. I said that through discipline and through new revenues that flow from economic growth, we would reduce the deficit over time. Last year, we got it down to \$4 billion. Tomorrow, I will propose a budget that will dramatically reduce this deficit even further.

Now here is the great thing. We have made this great progress without raising taxes. We have reduced the deficit, not by burdening the people and our businesses, but by encouraging economic growth. This year California has the highest revenues in its history, the highest revenues in its history and the lowest unemployment rate in 30 years. The state of our state is strong.

We still have very difficult choices to make on the budget and other things, and I am eager to work with you on these choices. I am not asking you not to be

Republicans or not to be Democrats or to give up your principles. I am asking you to be Californians and to work out a solution that is the best possible answer to the challenges that we face. As long as we recognize some progress toward our individual visions—whether it's Republican or Democrat—this should allow us the freedom to reach a budget agreement and to move forward together.

And one last item. And I don't want to be a pest about this. I again this year raise the issue of political reform. California politics is a centrifuge that forces voters and policies and parties away from the center. The centrifuge is powered by the way our legislative and congressional districts are drawn. Now we all know what they're talking about here. They are drawn to eliminate party competition. They work against the mainstream, which is where most Californians are. Currently, ours is not a system of the people, by the people and for the people. It is a system of the parties, by the parties and for the parties.

In the past three election cycles, only 4 out of California's 459 congressional and legislative seats changed hands. There was more turnover in the Hapsburg monarchy than in the California legislature.

I ask you to work with me to create an independent commission to fix a political system that has become petrified by self-interest. California certainly is not alone in this. No state legislature in U.S. history has put a redistricting reform on the ballot. California though can be the first, we can be the leader.

You will not benefit politically from this. I will not benefit politically from this. But the people will benefit from this. I ask you to work with me to do the right thing for the people.

Let me close with this thought. We accomplished historic things last year. Let us make this year historic as well. I know that what I have proposed is an ambitious agenda. I heard that last year and I heard the year before that and the year before that. Yes, it's an ambitious agenda, but we must be ambitious to get California to the future. We are addressing needs that have been ignored for decades. This is important work. It is hard, it's heavy work. Yes, I know. What we are doing relates directly to the kind of state this will be in ten or twenty years. But is this not what government should be doing?

For too long California has just stared at this mountain of the future. We couldn't climb it because our current problems blocked the path. We couldn't climb it because it was politically too steep. We couldn't climb it because we couldn't agree on the route that would take us there. But last year, we made the decision, we took a deep breath and we began our ascent. Working together we can scale that mountain. We can stand on top of it. And one day we will look down from it and say to ourselves, look how far we have come, look where we are, look what we have accomplished for the people. Let us continue the climb we began last year.

2008 State of the State Address -- Tuesday, 01/08/2008
California Governor Arnold Schwarzenegger

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, 1,600 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 people's lives changed.

Now, 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 went 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, 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. Paul and a couple of volunteers were calling hospitals and ambulances to find places and means of transportation.

Now, their commitment moved me, so I said to Daniel Zingale, one of my senior advisors, I said, "We're not leaving this place until we help them take care of these people." So I got on the phone too, and together we found beds for emergency situations at the 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 Katrina.

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." And 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.

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.

Even though we are 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. So we took action, 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.

This last year we took on other tough issues, like 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 to you 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 10 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 No. 1 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 divorce he found a policy with a well-known company. Five months later, he started feeling tired, and soon had lymphoma.

Now, the insurance company then went back through all of his records looking for a reason to cut him off. They pointed to a knee problem, unrelated to cancer, and they noted that now he 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 canceled his insurance. Todd died eight months later. We are taking action so 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, or 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 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. You can give me applause. Now, when the Senate finishes its deliberation, I'm 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're not going down. No, the situation is that we are 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 dollars 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 are part of the reason 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 --

Because it is not fair to punish people who can barely afford the gas to get to work, and on top of that then to 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. 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 that 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 that 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.

To address next year's 14 billion dollar deficit, 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.

Now, as Governor, I of course see firsthand that the consequences of cuts are not just dollars.

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 face financially. I had to look in their eyes and tell them.

I mean, 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.

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 variety of 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 interest of anyone.

So I, again, am proposing a constitutional amendment so that our spending has some relationship with our revenues. It is modeled after the process used in Arkansas. When revenues spike upwards, the amendment that I propose will 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% in 1999–2000, or when they jumped 14% 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 in 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 are spending 400 to 600 million dollars a month more than we are taking in, and we can do nothing to stop it.

This amendment that I am proposing would do something. It would trigger lower funding levels if deficit opens up during the year.

So I have faith that by 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 am 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 those 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 drop out rate is now between 15 or 30%. We don't even know exactly the number. Now, this is not just a statistic, may I remind you. These are children lost in the black hole of ignorance, poverty and crime. And on top of that, our schools have 30% fewer teachers and half the number of counselors as 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 education children. So I'm announcing today that California will be the first state to use its powers given to us under this 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.

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've got to get going. I mean, already homes and businesses are facing mandatory cut backs, 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 the 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 worth of infrastructure that 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. Can't do all of it. 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 of 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, and a few cynics made fun of me that year. But that is how I've tried to conduct my administration over this past year, and this is how I intend to conduct business over this coming year.

So Speaker Núñez, Senate Leader Perata, Senator Ackerman, Assemblyman Villines: I cannot fix the budget alone; I cannot build the roads and the 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 at night at Del Mar. He replied: When you have a job to do, you get it done.

2009 State of the State Address -- Thursday, 01/15/2009
California Governor Arnold Schwarzenegger

Now, we meet in times of great hope for our nation, although we hear the drumbeat of news about bailouts, bankruptcies and Ponzi schemes, the nation with great anticipation is also awaiting the inauguration of a new president. Our nation should be proud of President-elect Obama's election and what it says to the world about American openness and renewal.

You know, President Reagan used to tell about a letter that he got from a man who said that you can go and live in Turkey but you can't become a Turk. You can go and live in Japan but you can't become Japanese. And he went through various different countries like that but the man said anyone from any corner of the world can come to America and become an American.

I know that we know that any American child now also, no matter what corner of the world his father or mother comes from, can even become president of the United States. What a wonderful national story for us. This nation rightfully feels the hope of change.

Californians, of course, desire change here in their own state as well. Yet they have doubts, if that is possible, because for months in the face of a crisis we have been unable to reach agreement on the largest budget deficit in our history. We are in our third special session and we have declared a fiscal emergency and every day that goes by makes the budget problem that much harder to solve.

As a result of all of this, California, the eighth largest economy in the world, faces insolvency within weeks. The legislature is currently in the midst of serious and good faith negotiations to solve this crisis, negotiations that are being conducted in the knowledge that we have no alternative but to find agreement.

The importance of the negotiations' success goes far beyond the economic and human impact. People are asking if California is governable. They wonder about the need of a Constitutional convention. They don't understand how we could have let political dysfunction paralyze our state for so long. In recent years they have seen more gridlock in Sacramento than on our roads, if that is possible.

I will not give the traditional state of the state address here today because the reality is that our state is incapacitated until we solve the budget crisis. The truth is that California is in a state of emergency.

Addressing this emergency is the first and most important and greatest thing that we must do for the people of California. The \$42 billion deficit is a rock upon our chest and we cannot breathe until we get it off. It doesn't make any sense for me to talk here today and stand in front of you and talk about education or infrastructure or water or health care reform and all of those things, when we have this huge budget deficit. I will talk about my vision for all of those things and much more as soon as we get the budget done. So no, I did not come here to

deliver the normal list of accomplishments and proposals. I came just simply to encourage this body to continue the hard work that you are doing behind closed doors. I know we're going to get it done.

There is a context, of course and a history to the negotiations that are underway. It is not that California is ungovernable; it is that for too long we have been split by ideology. Conan's sword could not have cleaved our political system in two as cleanly as our own political parties have done. Over time ours has become a system where rigid ideology has been rewarded and pragmatic compromise has been punished. And where has this led us? I think you would agree that in recent years California's legislature has been engaged sometimes in civil war. Meanwhile, the needs of the people became secondary. Our citizens do not believe that we in government are in touch with their needs.

Now, these needs are not unreasonable, may I remind you. At the end of the day most people do not require a great deal from their government. They expect just simply the fundamentals. They want to live in safety, they want good education for their children, they want jobs, they want to breathe clean air, they want water when they turn on the faucet, they want electricity when they turn on the switch and they want those things delivered efficiently and economically. One of the reasonable expectations that the public has of government is that it will produce a sound and balanced budget. That is what the legislative leaders are struggling to do right now. There is no course left for us but this; to work together, to sacrifice together and to think of the common good and not our individual good.

Now, of course no one wants to take money from our gang fighting programs or from Medi Cal or from education. Of course not. No one wants to pay more taxes or fees. But each of us has to give up something, because our country is in an economic crisis and our state simply doesn't have the money.

In December we even had to suspend funding that affects 2,000 plus infrastructure projects that were already underway. So now the bulldozers are silent. The nail guns are still. The cement trucks are parked. This disruption has stopped work on levees and housing and schools and roads, on everything. It has thrown thousands and thousands of people out of work at a time when our unemployment rate is rising and when people really need the jobs. How could we have let something like this happen?

I know that everyone in this room wants to hear again the sound of construction. No one wants unemployment checks replacing paychecks. So I'm encouraged that meaningful negotiations are underway. And as difficult as the budget will be, good things can come out of it. Because in spite of the budget crisis, when we have worked together in the past, we have passed measures, extraordinary measures that move the state and even the country forward.

When a budget agreement is reached, when some of the raw emotions have passed, I will send the legislators the package of legislative goals and proposals that the Governor traditionally sends. These proposals are sitting on my desk right now.

And let me tell you, I have big plans for this state. They include action on the economy, on water, the environment, education and healthcare reform, government efficiency and reform, job creation and the list goes on and on.

But our first order of business is to solve the budget crisis. And talking about budget, I have a great idea going forward. As you know, for the last 20 years of budgeting only four budgets have been on time. So if you don't mind, let me just make a little suggestion. We should make a commitment that the legislators and the Governor too, lose per diem expenses and our paychecks for every day that the budget goes past the constitutional deadline which is June 15th. I mean, you have to admit this is a brilliant idea and look at the happy faces I see now. I love that.

I mean, if you call a taxi and the taxi doesn't show up, you don't have to pay the driver. So if the people's work doesn't get done, I think the people's representatives shouldn't get paid either. That is common sense in the real world.

And, of course, I will send you some other reforms as well. I thought that this line would get a great applause in this hall but I understand why not.

Let me close by saying something about the fires of 2008. At one point I got a phone call that we had 875 wildfires burning all at the same time. I said to myself, how could we deal with this? The next morning I got another phone call: Governor, there are now 2014 fires burning all at the same time, the largest number on record. Imagine, 2000 plus fires. What a huge challenge. But every one of those fires was put out. And you know why? Because we have the best trained and the most selfless and the toughest firefighters in the nation. Let's give them a big hand.

Thirteen of whom lost their lives. They gave their lives for this state. Think about that. They gave their lives for this state.

The courageous example of those firefighters should not be lost in us. In our own way we too must show courage in serving the public.

Let this be the year of political courage. Let us be courageous for the people. Let us be courageous for the common good of California. Let us resolve the budget crisis so that we can get on with the people's work.

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.