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Summary of the California state of the state address

Term-limited California Gov. Arnold Schwarzenegger (R) outlined a series of sweeping proposals in his final state of the state speech to the Democratic-controlled Legislature Jan. 6, including overhauls of the state's tax, budget and pension systems that he said would lift the Golden State out of fiscal calamity.

Schwarzenegger, noting that lawmakers last year were forced to close \$60 billion in deficits and face another \$20 billion gap over the next 18 months, reiterated his call for lawmakers to embrace key recommendations of a tax reform commission last September. The changes include lowering all personal income tax rates and eliminating the statewide sales and corporate income taxes in favor of a new business tax.

In California, 144,000 taxpayers pay almost 50 percent of all personal income taxes, Schwarzenegger said. "Think about it. Thirty-eight million Californians have to rely on 144,000 people for their schools, their fire protection, their health care, their public safety and many other services. That makes no sense."

Schwarzenegger pushed for improved budgeting practices, such as ensuring that one-time revenues are spent on one-time expenses, and compared the state's overwhelming pension obligations to being "run over by a locomotive." He urged lawmakers to reduce state pension contributions for new workers going forward while continuing to honor current obligations.

Stressing that "jobs, jobs, jobs" are his most immediate priority in the coming session, Schwarzenegger called for a \$500 million plan to create as many as 140,000 jobs by training workers while speeding up construction projects and expanding tax credits to foster the expanding green technology sector.

Schwarzenegger also proposed a constitutional amendment that would guarantee that California never again spend more on prisons than on higher education. The state now spends about 11 percent of its budget on corrections, compared to 7.5 percent on public colleges and universities. The idea would be paid for, in large part, by privatizing much of California's sprawling prison system, though prison unions immediately denounced the idea.

The governor demanded a greater share of federal funding for California even as he criticized the health-care legislation now being debated on Capitol Hill.

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