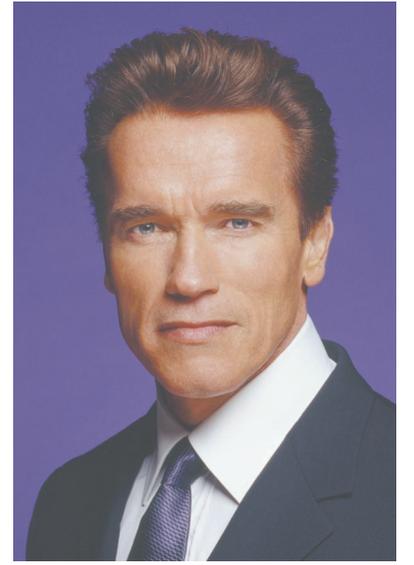


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GOVERNOR
ARNOLD SCHWARZENEGGER

January 9, 2004

To the Senate and Assembly of the Legislature of California:

In compliance with Article IV, Section 12 of the California Constitution, I hereby submit to you the 2004-05 Governor's Budget.

Never before has California been faced with a fiscal challenge of such an incredible magnitude. As the first phase of my outside audit of state government revealed, we must confront an inherited debt that is now estimated to be a staggering \$22 billion.

But at the same time, never has there been such an opportunity to fundamentally change the way business is done in Sacramento – and, an opportunity to implement reforms that will make California solvent and strong once again.

The budget I have put before you sets California on a clear path of recovery.

First, it calls for difficult but necessary steps to begin to bring the amount of money we spend in line with the amount of money the state takes in.

Second, it reflects fundamental reform proposals throughout state government – in K-12 education, in higher education, in health and human service programs, and more. These reform proposals make sense not only from a budgetary perspective, but from a policy perspective as well.

And third, it puts the state on a path to recovery without raising taxes, which would only serve to blunt the economic recovery we are now beginning to realize.

No one should underestimate the size of the task that is before us. The debt that this administration inherited did not occur in a single year. And given the size of the state's fiscal crisis, nearly every area of state government will be asked to shoulder some of the sacrifice that will be required.

But that is what the people who sent us here expect us to do – face our problems squarely and make the right decisions for the people.

We have already demonstrated to the people of California that we can put aside politics as usual. Late last year, we cast aside partisan differences and worked together to approve the California Recovery Plan for the March ballot – a bond of up to \$15 billion to refinance a portion of the inherited debt, coupled with new requirements for a balanced budget, a rainy-day budget reserve, and authority to control overspending – before it grows out of control.

It is this spirit of bipartisan cooperation that I hope will guide our debate over the state budget in the weeks and months ahead. By working together to address the state's fiscal crisis in a responsible manner, we can once again show the people of California that we are worthy of the trust they have placed in us.

Sincerely,


Arnold Schwarzenegger

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