INTERVIEW EXCERPT

Rick Sinding: So, to what extent is the governor of New Jersey and his or her fiscal policy a stepchild of the national economy?

Richard Keevey: I think states are principally driven by the national economy. Some people will always suggest that lots of things can be done by the governor to improve the economy of the state to make it expand. I think any actions by the governor are on margin and the majority of actions needed to impact the economy in the New Jersey economy will occur at the national level.

COMPLETE INTERVIEW TRANSCRIPT

Rick Sinding: Hello. I am Rick Sinding. It’s Thursday, May 21st, 2015, and we’re at the Eagleton Institute of Politics at Rutgers University for the Center on the American Governor. With us today to talk about budgetary issues in the state of New Jersey and in particular focusing on budget matters during the time of the administration of Governor Jim Florio is Rich Keevey who served in various budget positions for an extended time in state government and was the Director of the Office of Management and Budget during the Florio administration. Rich, welcome to Eagleton.

Richard Keevey: Thank you, Rick. Thanks for inviting me.

Rick Sinding: You have held senior positions in state government, in the federal government, in the private sector and in academia all dealing with budget and fiscal matters--

Richard Keevey: All related that way, yes.

Rick Sinding: But in reading your biography it seems to me that service as an artillery nuclear missile officer in the U.S. Army in Europe may have been preparation for the budget battles that you faced in New Jersey.

Richard Keevey: That’s right. I tell my children and anybody who wants to listen to me I was eye to eye with the Soviets for two years in the Nike battery.
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Rick Sinding: And how does that compare with the budget battles that you faced for many years in New Jersey?

Richard Keevey: Oh, it was a lot easier. <laughs> Tracking the Soviet aircraft was easier than tracking deficits.

Rick Sinding: Now you began your career in state government in the late 1960s during the administration of Governor Richard Hughes and continued in various capacities through the Hughes, Cahill, Byrne, Kean, Florio administrations and into the early stages of the Whitman administration.

Richard Keevey: Like about two days into the Whitman administration.

Rick Sinding: Okay. We’ll get to that a little bit later. For now can you describe to us in sort of general terms how have budget preparations and the budget process changed over those 20, 25 years?

Richard Keevey: I would say it has changed pretty significantly. I guess my real active time in the budget process was when I joined the Budget and Accounting Division back in 1977. Pretty much before that and during the first few years of that time frame it was pretty much executive driven. Whatever the governor wanted the governor got. The budget process was completely controlled—depending upon who the governor was—by the budget director and by the state treasurer. The legislature didn’t have too much oversight compared to what they now have and pretty much whatever was rolled out by the Division of Budget and Accounting, which was what OMB was called back then, pretty much became the Appropriation Act. And then over a period of time the Office of Fiscal Affairs was strengthened.

Rick Sinding: A legislative body.

Richard Keevey: Yes --a legislative body and they became lot more active in overseeing what the governor was doing. I can remember back, and I guess it was in the Byrne administration, when the first guy that I remember trying to take an active role was a gentleman by the name of Tom Bertone. He had the ‘gall’ to question what the governor’s budget was proclaiming in terms of revenue estimates and where the monies were being allocated -- and he did I think a pretty credible job of providing background papers to the legislators, providing them with an independent review of what the executive was saying. He did develop a few strange recommendations in terms of what the budget should be doing at times, but I think it was the first movement into what I would call more legislative challenge and oversight of what the executive was doing.

Rick Sinding: Do you think that’s been a positive influence?
Richard Keevey: I think it’s good to have that interaction. I think people who are listening to this interview might remember the name of Walt Wechsler who was sort of a legend in the history of budgeting. Walt was the budget director for the governor and then he would turn around and be some assistance to the legislators as they reviewed the governor’s budget -- which is sort of not the right thing to do in terms of oversight. But, today I think it’s evolved to the way most state governments operate and that is an independent fiscal office providing assistance to the legislators, particularly to the appropriations committee, reviewing the governor’s budget, and developing thoughtful background papers. I think the singular most important thing they do is to challenge the revenue estimate because the bottom-line of the budget is going to be determined by the revenue estimate. You can’t exceed the total resources available to the budget process.

Rick Sinding: New Jersey is by constitution required to have a balanced budget.

Richard Keevey: Correct, yes.

Rick Sinding: Are the relationships between the legislative and the executive arms dealing with the budget by definition contentious? They seem to have become particularly contentious in recent years. Have they always been?

Richard Keevey: Not to my recollection when we were involved. There was a lot of dialog with them – but not necessarily contentious. I can’t speak firsthand of what has happened in the last ten to twenty years that I have been out of the state government operations per se. But during my time frame we were always interacting with the chairman of the appropriations committee. We would go to dinner with him and the other members at times to discuss budget matters and they would be on a first-name basis with me. “Rich-- well, let’s hear from Rich, what does he have to say about this particular item,” and I can remember the House Chairman being [Rodney] Frelinghuysen for example and he was always very interactive with me.

Rick Sinding: And before that Larry Weiss.

Richard Keevey: Yes, Larry Weiss. So there was a lot of give and take and dialog, not necessarily contentious. We wouldn’t agree but it was pretty civil. During the time when I was, at first the deputy, and then the budget director in the Kean administration and Larry Weiss was the appropriations chairman of the Democratic Senate -- we wouldn’t be in agreement on all things but I never thought we were in an argumentative manner that was going to discredit either one of us.

Rick Sinding: But what about with the Office of Legislative Services people?
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Richard Keevey: It depended upon who was in charge as to whether it would be more collegial or not -- sometimes not. As time progressed as I remember towards the last four or five years of my career, we entered into more dialog so that we wouldn’t have these contentious revenue-estimate differences. We and they would review and discuss so that we’d be closer when the final estimates were determined – that was good.

Rick Sinding: What about partisan staff? Toward the end of the Kean administration and then certainly during the Florio administration, partisan staffs began to get built up. Did they start becoming involved in all of these activities--?

Richard Keevey: Well, that is correct. They were always behind the scenes and providing information to their party members -- and in fact many times they would be the surrogate – sometimes coming over to the treasurer’s office and the budget office to discuss policy. They would suggest, for example, as we finalized a budget - - here is what our team [R’s or D’s] would like to have included in the final draft. That would be an appropriate roll for the partisan staff because the Office of Legislative Services were nonpartisan so they wouldn’t be into this more political dialog of how the budget [Appropriation Act] should be ultimately formulated. So the partisan staff increased in importance during that period of time and I suspect today even more, but I don’t have any firsthand knowledge of the current situation.

Another point -- when we speak about budget process -- it might be worthwhile mentioning how the budget process was planned and developed in the executive branch – it was, for example, changed radically during the Kean administration from what had been historically the process. In the past we had what I would call a bottom-up request. It was changed to a Top Down approach. That was changed during the first couple years of Governor Kean’s administration as the result of recommendations made by the GMIP, Governor’s Management Improvement Program; you may remember that. In the past, budgets were always requested by the departments with little formal guidance from the executive except very broad guidance. Agencies generally requested unlimited amounts of funds for a lot of new programs without really knowing the revenue situation.

Rick Sinding: The phrase “zero-based” always seems to apply?

Richard Keevey: Well, yes, that was the term and a process that was used for a short period of time – prior to the Kean Administration. That’s true, and we can come back to that discussion if you wish later. But usually agencies asked for everything that they wanted and their requests would be transmitted to the Budget and Accounting Division, which was what OMB was called back then, and the budget office would review their requests and make changes. Frankly, there was very little dialogue with the agencies until the budget office was happy with what we thought the governor wanted. Not a good way to develop budgets.
Rick Sinding: Were there people within that office who were assigned specifically to each of the agencies?

Richard Keevey: That’s correct. The normal organization of the budget office of New Jersey -- and in the federal government and in most state budget offices -- is that we would have six or seven major groups. One group, for example, would be in charge of overseeing human services programs, one for transportation, one for Medicaid, one for labor and industry, one for corrections, etc. I always say -- when I teach classes -- those individuals in the budget office need to know as much about the programs as the individual program managers in the departments. So the person for example who was responsible for Medicaid would be expected to know exactly what was going on in the Medicaid program so that when the agencies request new funds OMB was able to intelligently review the request and react properly. Because the thing you want to avoid is a budget office that doesn’t understand the programmatic aspects. The Budget Office does not want to be viewed as simply a just a bunch of number crunchers.

Rick Sinding: This of course is what all the people at the agencies say about them.

Richard Keevey: Exactly, “You have no idea what we’re doing out here,” might be the observation by the departmental folks -- and I would always come back and say, “Well, I think we do,” -- and as the dialog moved on we came to some reconciliation between what the departmental folks thought that they needed and what could be allocated based on revenue limitations and priorities of the Governor.

Rick Sinding: And what happened after the first couple years?

Richard Keevey: Well, as the result of GMIP the Kean Administration changed the Division of Budget and accounting to the Office of Management and Budget in order to emphasize planning and management functions as well as budget development. A main provision was the top-down budget approach and the assignment of targets.

To over simplify it -- the process was divided into two phases – a planning phase and then a formal submission of the budget. In this planning phase, dollar targets were given to each agency and the agency would submit a Planning Document and explain how they could operate their agency with that level of funding. The dialogue might go something like this -- Your agency spending target is two percent more than last year so tell us [OMB] what you would do with this target amount and what the impact on programs would be? If you think you need more money submit to us [OMB] a series of discrete priority decision packages and we will review them separately over and above the planning document request.
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If the state was flush with money in a particular year, we would most likely approve the target and approve a certain number of decision packages that would enable the department to add more programs into their formal budget request. All of this, of course, subject to review by the governor.

Rick Sinding: Two questions that come from that: The first are those targets representative of the priorities of the governor and the administration?

Richard Keevey: Correct, yes.

Rick Sinding: And number two, when the requests came in saying, “We really need more than that two percent,” who reviewed it? The budget people or the policy people?

Richard Keevey: Good question -- principally the OMB folks. OMB would then develop several scenarios for the governor and over a series of meetings in December and January we would review the material with him as to what the agencies were requesting and explain which priority packages we thought should be approved and which priority packages were still open for discussion. These meetings would take place with the governor, his senior staff, including folks from the policy office.

OMB would first discuss the revenue situation with the governor -- including the level of risk with the estimate -- and advance our logic for the structure of the budget. Dialogue, discussion, more information and numerous changes would take place -- and, we would ultimately emerge with a final budget that the governor would be comfortable with. Obviously, different governors would have different approaches -- but this in summary of how it generally took place. When we had good revenue situations -- as we did in the middle years of the Kean Administration -- we had lots of discussion as to what additional items might be added to the budget. We had little of the luxury in the Florio Administration.

I have to digress a little bit. In the very beginning of the process, when the governor gives you priorities that he would like addressed -- such as education, Medicaid expansion, or the arts, etc. -- he or she doesn’t necessarily attach dollars with it and sometimes you really can’t figure out exactly what is meant in terms of specific program configuration or levels of spending. So you have to make some assumptions of where you think the governor’s going and translate his broad direction into the specifics based upon your insights and previous discussions with the governor. For example, Governor Kean said one year -- “this is the year of education -- I want to have a minimum teacher salary initiative; I want a more aggressive funding approach for the T&E Act, etc.” So, our [OMB] targets and discussions with the departments would be guided by those broad directions.
As departments came in with their planning documents and their priority packages -- as I mentioned earlier -- we would review and discuss with the agencies over a series of months their requests and what they consider their needs to be based on the governor’s guidance. As we finished each of our preliminary discussions with the cabinet Officers -- if you can remember back in those days we didn’t have e-mail -- we actually sent written memos to the governor and to the policy staff and indicate, “Here’s where we are, Governor. Here are the kinds of programs that we’re approving -- what is your view or reaction?” And sometimes the governor would send a note back and say, “Okay.” Other times he would send a note back and say, “What is this all about?” Many of these memos would form the bases of the final meetings and discussions that I just described.

Rick Sinding: This presumably was happening the fall before the July fiscal year that would take place because the governor would have to make his budget presentation sometime in the late winter, early spring.

Richard Keevey: Yes. Let’s back up a little bit on the process if you want. The governor usually submits a budget to the Legislature in February for the year beginning July 1st. So, if we’re talking about a 1990 budget he would submit the Budget in February 1989.

Rick Sinding: --‘89--

Richard Keevey: Yes, but we would be meeting with the agencies actually back in the summer, way before the fall time, trying to iron out if you will a planning document and then a final Budget Message that fit the governor’s priorities.

Rick Sinding: These of course were back in the days when the governor actually gave the budget message on schedule.

Richard Keevey: That’s right, yes, always. We can talk about that a little bit. We used to tell the Governors that we [OMB] needed his final decisions on the budget by a certain date so that we had time to get it printed -- in fact, about three weeks before his Budget Address to the Legislature. This used to drive Governor Kean nuts. He wanted to wait till the last minute -- but he could not if he wanted a printed document. Nowadays, of course, you have desktop printing and it just rolls off the day before a budget presentation -- governors like that approach. A little bit more on the review process. And remember --that is after we have had those numerous budget review sessions with the governor in December and January.

Rick Sinding: And this would be senior staff.

Richard Keevey: Yes -- senior staff. Now I digress a little bit -- but it is well worth noting, I think. The method of planning and developing the budget in the Kean
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Administration was different than in the Florio Administration—in terms of who the characters were. The GMIP process had recommended that the Office of Management and Budget should be located in the governor’s office not in the treasury department, which was the historical location of OMB’s predecessor—the Division of Budget and Accounting. In most states and in the federal government OMB reports directly to the Chief Executive (governor) and that’s the way Governor Kean wanted it.

But a legal opinion was issued that reinforced what the constitution said—that no agency can be in the governor’s office—every agency of the state has to be part of a department. So the new Office of Management and Budget was formed, but, it remained in the treasury department—but to meet the intent of the change, it was driven directly by folks in the governor’s office. More on that issue in a minute.

Rick Sinding: Is that one of these ‘in but not of kind of’?

Richard Keevey: Yes. And another interesting procedure in the Kean Administration compared to the Florio administration and other previous governorships: Two major players in the governor’s office were the dominant people [decision-makers] in the budget process. One was Gary Stein who was the director of policy and planning and one was Cary Edwards who was the chief Counsel to the Governor. Responsibilities were divided: during the planning and development process you OMB deal with Gary Stein as the principal person who’s going to interface with you and the governor. But, once the Governor’s budget had been submitted to the Legislature, then Cary Edwards takes over and you [OMB] deal with the legislature through Cary. Well, when Cary Edwards left, you may or may not remember—

Rick Sinding: To become attorney general--

Richard Keevey: Right ----to become attorney general. Then, Mike Cole became the chief counsel to the governor, and the chief counsel was the presenter of the budget when it was first released and in any initial discussions with the public and the press. Think about that. In today’s environment the chief counsel’s not involved— but he was then. Why? Because Governor Kean viewed the budget process to be a responsibility of the governor’s office.

I would spend endless hours briefing Mike so that he would be familiar in detail with the budget when he spoke to the press and interacted with the outside environment. That’s the way it went for most of the Kean Administration until the last 18 months, when it returned to the Treasurer taking the lead.

Rick Sinding: Why wouldn’t you make the presentation?
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Richard Keevey: I would to the Appropriation Committee(s) –but not in the initial role out of the budget to the Legislature and the public and to the press.

By tradition, the Director of the Division of Budget and Accounting and OMB, its successor, was a nonpartisan individual. The director was an appointee of the governor, but worked for the treasurer and, depending upon the governor would relate to the governor’s office first before they even went to the treasurer. There were years where I [OMB] would rarely speak to the state treasurer about budget issues in the Kean administration because their process was different-- the politics of the budget was going to be handled by the chief counsel or the Director of Policy and Planning. In the Florio administration the politics and the overall process would be handled completely by the state treasurer -and OMB would relate to the Treasurer.

And you, budget director, you’re the expert on the budget and all related information and the details of it -- but on the politics of the budget, the Treasurer or the Governor’s office staff (Kean Administration) is the lead. No other state works that way to my knowledge.

Rick Sinding: How did Mike Horn and Feather O’Connor feel about that when--

Richard Keevey: Well, actually only in the last eighteen months did Feather become involved in the budget process. There was a change in the counsel’s office. Mike Cole left and there was a more direct relationship from the governor’s office to the treasurer and with the budget director -- but through the treasurer's office -- very strange arrangement.

Rick Sinding: Yes, it is.

Richard Keevey: If you go to any other state, for example, the state of New York -- the director of the budget –as he is called -- is appointed by the governor -- as it is in New Jersey-- but works directly for the governor with no other intermediator. That is the best model it seems to me. The budget director should work directly for the governor as opposed to the convoluted way which I described. Having said that, it is an accepted practice in New Jersey and it works.

In appearing before appropriations committee(s), for example, everybody knew that the budget director was the technical and detailed expert and worked for the governor but was not as partisan as perhaps other people would assume as it was in almost every other state. So, it’s got some pluses and some minuses.

Rick Sinding: Were you called before the legislature to testify or was that all done by the front office or the Treasurer?
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Richard Keevey: No, no. I would testify. In the opening budget comments on the overall budget, just as it is today, the state treasurer would do it. I would always be there with the state treasurer. You may or may not remember in the Florio administration, that the treasurer [Doug Berman] assumed a more aggressive role than perhaps other treasurers. But, in subsequent budget hearings with the Appropriations Committee(s) when the departments’ heads would testify on their budgets, I would always be there with the Cabinet officer – not the Treasurer.

Rick Sinding: You referred to Doug Berman. As I remember he testified on behalf of all the cabinet Officers –right?

Richard Keevey: Yes. That was a policy call that I disagreed with and most of the cabinet Officers also did not like it also. And, the legislative Committees really disliked it. It only lasted one year before it returned to the ‘normal’ format of the cabinet Officers defending their own budget request.

Another point I think is worth mentioning particularly to people who are not necessarily familiar -- In New Jersey, again unlike any other state, the budget director was also the state comptroller. Again almost every other state has a separate comptroller.

Rick Sinding: And many of them elected. Right?

Richard Keevey: Correct. So what does that mean in New Jersey? Specifically, in addition to preparing and orchestrating the budget process the OMB director also maintains the core accounting system for the state, prepares the financial statements, operates the payroll system, performs the cash management for the state, and is involved in the capital planning process. Almost anything having to do with accounting and budget matters was performed in OMB. No state has the budget director [OMB] also being the comptroller.

Now you might remember under the Corzine administration, he created a new comptroller position. But, none of the powers or responsibilities that were assigned to the old comptroller was eliminated. In fact, the statute was changed to remove the comptroller’s name associated with the budget director but all the responsibility stayed there and the new comptroller did different things, mostly evaluation of programs, independent audit reviews of the state and local governments.

I digress a little bit. I actually was offered that job by Governor Corzine. But, in my view I didn’t think a new office was necessary especially as it was ultimately designed. I declined the appointment.

But, again very strange that the budget and the accounting functions would be in one office in the state. I actually think it’s not a bad configuration. When you’re
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making budgetary decisions you’re also thinking: well, how is that decision going to appear on the annual financial statements of the state? I maybe wandered a little bit off your topic—

Rick Sinding: No, not at all although I do want to get to the transition between the Kean administration and the Florio administration. We could talk a lot more about the specifics of how all of this budgetary functioning worked but I’m particularly interested in the following: During the 1989 gubernatorial campaign, Jim Florio famously said that he did not see any need to raise taxes and in fact he and people who were associated with his campaign maintain to this day that they were constantly being told by officials in the Kean administration that the new governor would inherit a balanced budget and there were no budgetary problems. Of course, within a day or two of being elected and having his first set of meetings with the Kean people an entirely different story emerged. How did all of that play from the perspective of the nonpartisan Office of Management and Budget?

Richard Keevey: I have to say that no one ever contacted me or anyone else in OMB from the Florio team.

Rick Sinding: From the campaign.

Richard Keevey: From the campaign, right, to ask what the status of the budget was. Now who else they may have been talking to I’m not sure, but I could have told them a few things about the status of the budget in the last Kean year.

I digress a little bit and we’ll come back to that question I am sure in a minute or two. The Kean years had started with budget problems. The economy was in total disarray when the governor submitted his first budget in March, 1982 -- for FY 1983. It was basically out of balance and ultimately, the governor had to raise the income tax and the sales tax.

Rick Sinding: And the corporate tax.

Richard Keevey: Actually no, not right away.

Rick Sinding: Oh, not right away. Okay--

Richard Keevey: In fact, the last time the corporation tax was increased was in the Byrne administration. Most people think of the income tax being the tax increased (and it was) in the Byrne administration, but the next to the last year in the Byrne administration the corporate tax had to be increased in order to keep the budget in balance. But, anyway by the middle of the Kean administration we had a booming economy and the governor was able to do a lot of good things with the revenue increase, But, in the last two years of the Kean Administration revenues started to decrease as the economy faltered in NJ and in the country.
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Rick Sinding: National recession.

Richard Keevey: Yes, National recession. So the last budget (FY 1990) of Governor Kean was submitted in July, 1989 – shortly before the election of Governor Florio in November, 1989. It was submitted with an increase of only 0.9 percent, and there were a fair number of what I would call one-time uses of revenue and other onetime actions to balance the budget.

Rick Sinding: You wouldn’t refer to them as gimmicks?

Richard Keevey: I wouldn’t refer to them as gimmicks but you can refer to them as gimmicks. Budget directors never refer to them as gimmicks!!

Rick Sinding: I understand.

Richard Keevey: Specifically, we accelerated the collection of the income tax; we used funds from the Rainy Day Fund; we utilized funds from the unemployment compensation trust fund; we implemented a surtax on corporations; we discontinued payments to counties and reduced municipal aid; and we utilized a one-time corporation windfall profit tax of $130 million, as the result of a federal court decision. So all that was built into the budget -- and even with those actions the budget was only increased by less than 1%. So, it was a very, very tight budget, and so everybody understood that when the budget was submitted.

So perhaps if the Florio team had looked at the budget or, for example, spoke with Democratic members of the Appropriation Committee they would have known it was a very tight budget. And I don’t know exactly what the Kean team told the Florio team -- that I don’t know -- but this I can tell you, that it was a very tight budget.

I would say by September it was clear to us in OMB that we were going to have a lot of trouble finishing that fiscal year in surplus. I can remember looking at one set of numbers and saying, “Well, this is not possible. We can’t be that far off in our revenue collections,” and then going to the state treasurer (because by then, in the last eighteen months of the Kean administration, we had switched back to the treasurer being the focal point of the budget) and suggesting we need to do something. I can remember both Feather and I going into the front office and chatting with the governor and his immediate staff and suggesting we needed to do something. I can’t swear on a stack of Bibles whether the treasurer said -- I think she did -- that we need to raise some taxes. The governor and the staff said, “Well, that’s not in the cards. Things won’t be as bad as you all are projecting.”
So, Florio wins in November, 1989 and assumes office in January, 1990. In the interim, a transition team is formed to obtain a better understanding of the current budget picture and plan for the submission of his first budget in March for FY 1991.

**Rick Sinding:** When did you first meet with anybody from the transition team?

**Richard Keevey:** That’s a good question. I would say it was probably late November, maybe early December, and the first person I remember meeting was Cliff Goldman. Dialing back a little bit, Cliff was state treasurer [under Governor Brendan Byrne] when I first came to the budget office. My career started in the Division of Local Government in the Department of Community Affairs. I had ultimately been promoted to the director of administration for the department and Cliff was instrumental in moving me over to the budget division, working for Ed Hofgesang -- he was another great man of the past that I worked for. So Cliff and I had a long time and positive relationship.

**Rick Sinding:** And if there’s anybody who understood...process it was certainly Cliff.

**Richard Keevey:** Yes -- Nate Skovronick was involved with the transition team. My first reaction was: “I can provide some data but I need to check with the Treasurer and front office first”-- because I still worked for the Kean administration. Ultimately that issue was resolved and we [OMB] described the problem and, to make a long story short, once the governor came into office in January we had to take extensive actions to make sure we were going to end the current year with a balanced budget.

And when I say a balanced budget – I mean it has to be based on a modified accrual basis of accounting -- not a cash basis of accounting. We had to do it immediately as we only had 5 months left in the fiscal year. We initiated extraordinary actions --totaling about $600 million. Now $600 million today doesn’t sound like a lot.

**Rick Sinding:** Well, yes it does.

**Richard Keevey:** But, in a $12 billion budget $600 million it is bigger than in a $35 million budget -- right? We requested the legislature to enact legislation to change payment dates for state aid. So, for example, instead of making a payment to a municipality in May we switched it to July. So what did that do? To the municipality it didn’t make any difference because they were on a calendar year but it allowed us to save about $200 million in our fiscal year. We took other actions, including, freezing all accounts not otherwise obligated, de-obligating all capital accounts, and freezing all personnel transactions.
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Sinding: But for all practical purposes that simply defers that $200 million liability.

Richard Keevey: No, it doesn’t. It just becomes a new requirement the next year—

Rick Sinding: You’re right.

Richard Keevey: And I can remember this interesting encounter. In the last two days of the Kean Administration -- a very senior person in the governor’s office told me to make sure I made the payments to the higher-education colleges for the salary program ($15 million) that was due.

I digress a little bit. Usually, when there are salary increases for employees in the colleges the money is budgeted in a central account and we do not allocate it immediately to the colleges and universities. From my point of view I was not going to release that money because I knew we had a big budget problem, and we needed to retain that money and use it to lapse to surplus.

I remember the senior person directing me: “Make sure you pay that money out” and I said, “I’m not paying that money out ... we are in a deficit situation.” The person continued, “the governor wants you to pay it out” and I said, “I don’t want to be disrespectful but if the governor calls me directly and tells me then I’ll do something but otherwise we need this money.” And as it turns out we ended that fiscal year with only a $1 million surplus.

So the governor [Florio] comes into office and we make all these adjustments in order to end the year with a slim surplus, but then that presents problems for next year because these one-time transactions cannot be repeated.

Rick Sinding: At the same time he has to deal with the deficit that currently exists.

Richard Keevey: That's correct. Yes. So we’re submitting a new budget for next year (FY 1991), and dealing with the current budget (FY 1990).

Rick Sinding: By the way, did Tom Kean ever call you personally to release the...

Richard Keevey: No.

Rick Sinding: Okay.

Richard Keevey: No. I didn’t release the money, much to that person's consternation. But I felt one of my responsibilities -- to both governors -- was to ensure we ended that year with a constitutionally balanced budget. We would not
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have had I released those funds. We have never had a budget that wasn't constitutionally balanced, based on Governmental Accounting Standards (GAAP.)

Rick Sinding: On paper.

Richard Keevey: Well, we can talk about that if you wish. No, in reality.

Rick Sinding: Doug Berman is now the State treasurer. Any observations?

Richard Keevey: Doug Berman is the treasurer and of course in contrast to how I described budget making in the Kean Administration all financial and budget actions were controlled and funneled to the Governor by Doug. So all my actions as the new budget director were to flow through Doug – which was fine.

I digress for a second. It wasn't for sure that I was going to be the budget director, right? So the new team comes in, and of course I have some supporters who say I should be re-appointed. Cliff Goldman, Nate S and others say: Rich is a good guy. He's nonpartisan, and very competent. So I interview with Governor Florio. And so he asks me a series of questions and I can still remember his final observation -- "Well, I guess I'll take a chance on you, Richard – I will be touch." When I told my wife that, she said well that's not very uplifting. And, I said well it will work out. And, it did

Rick Sinding: What was the tone of that conversation? Was it substantive in terms of the budget situation that he faced? Was it more general, philosophical, how do you view the office; or was it a combination?

Richard Keevey: It was probably a combination. Not too much on the current budget problem as I'm talking to him probably in December.

Rick Sinding: So he hasn't been inaugurated.

Richard Keevey: —Right. One thing I do remember specifically was his view that in the federal level he felt the Office of Management and Budget (OMB) stuck their nose into everything.

Rick Sinding: As a congressman he would certainly feel that way.

Richard Keevey: And in fact, in his view federal OMB was inappropriately telling agencies what to do. And he didn't want that kind of philosophy in NJ. I'm kind of interpolating what he was saying to me. And of course, you know, I forgot exactly what my response was. I was probably agreeing with him, suggesting that different governors have different arrangements as to how they want their budget office (OMB) to operate and there is no one way to do it. You may feel comfortable in dealing directly with me or you may feel comfortable in dealing with the state
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Treasurer. Different governors do different things. I did tell him my philosophy was to work cooperatively with departments, but that at times based on guidance from him it sometimes might require me to be adversarial. To make a long story short, I got a phone call a couple days later from the governor, he says well you're in; you're the new director. And I said fine.

Rick Sinding: What was your impression-- had you met him before?

Richard Keevey: No. I had no connection with the governor previously; I had no connection previously with Governor Kean either. I digress for a little bit just to bring back some history. I was not the budget director during the entire Kean administration. I was the deputy for all but the last 18 months, but I participated in all budget meetings and decisions. My boss had been Dick Standiford -- another long-time, professional employee and a great guy to work for and a real mentor to me. He retired shortly after his wife died. The history of the division of budget and accounting was that the Directors where long-term career professional employees - - they were not ‘political’ but ‘professional.’ I’m sorry -- I lost my train of thought.

Rick Sinding: What was your initial impression of Governor-Elect Florio?

Richard Keevey: I guess I didn't have a particular impression. The word was the governor's a big policy wonk; he was interested in substantive programmatic improvements, he had long experiences in Congress, etc. He was particularly interested in the environmental programs and transportation issues. He was known to be a policy-oriented person, a guy who wants to get things done. None of that necessarily came through in my interview.

Rick Sinding: Was this a one on one? Was there anybody else present?

Richard Keevey: Yes. No one else was in the — I can't even remember where it was, wherever the transition team was... on State street someplace. And during most of the Administration, I didn't have a lot of contact with the governor except in budget deliberation meetings similar to what I described in the Kean administration where the last part of the budget development is five or six meetings with the governor to discuss the different options available.

Rick Sinding: Did the Florio administration have that same top-down approach to the development of the budget that the Kean administration?

Richard Keevey: Yes, and that process is, as far as I know, still in place, the process being as I previously described -- we [OMB] are going to assign budget targets; have a planning document review first so that we understand how you're going to spend the money in a macro sense; and then we'll come back with our
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reactions to your plan and work out a budgetary agreement – after we discuss with the governor.

A major difference between the Kean and Florio Administrations was, as I alluded to before, the availability of so much money in fiscal years '84, 85, 86, 87 and thus the planning and review of priority packages led to a lot of new spending for key important areas, particularly education, environment and transportation infrastructure.

There was hardly any of that largesse available in the Florio administration. So without me trying to remember exactly what happened, we had the same top-down approach in both Administrations, but in the Florio Administration the budget targets were ‘whatever appropriation you received last year…’ and most likely you are not even going to get that level of funding because the revenue assumptions we made as part of the increase in the sales tax and the income tax program never materialized to the amount that we assumed -- and thus we had to do a lot of fancy footwork, gimmicks -- your word, Rick -- to plan, develop and execute the budget. So while the process was the same, it was much more constrained and we were in a constant situation of the revenue estimates not being realized because of the economy. There was a lot of cutback management in the Florio administration.

Rick Sinding: Well, the immediate concern, it seems to me, was that Governor Florio had to do what Treasurer Feather O'Connor asked Governor Kean to do.

Richard Keevey: That's right.

Rick Sinding: And so there was, in the front office, I believe, a group that put together a tax package.

Richard Keevey: That's correct.

Rick Sinding: That was needed, therefore, to cover the gap from the current budget year and to anticipate the mandatory spending that would be needed in the upcoming fiscal year -- plus the Abbott v. Burke Supreme Court decision regarding funding of public education. This all ended up being pulled together in one giant approach. How involved was the Office of Management and Budget in pulling together this strategy or this program?

Richard Keevey: I -- nor OMB -- was involved in the strategy as to what we were going to do first, but very much involved in the details of how it would be developed and executed. For example, I was not in the room when it was decided we were going to raise the sales tax and the income tax at the same time. I may have had my views about it, and I might have relayed them to Doug as to what I, as a professional, thought about doing it this way as contrasted to another way but in
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the inner sanctum discussions of what was going to occur I was not. But, I do remember being very much involved in developing the formulae for the school aid distribution because earlier in my career I had a lot of experience with school aid formulas and the T&E [Thorough and Efficient] law. So we conducted meeting after meeting on how to develop the formula to address what we thought would be the Supreme Court's ruling on the T&E laws.

Rick Sinding: Full disclosure: I was working on the second floor of the State House at that time on separate issues, but I can distinctly remember Tom Corcoran who was the policy and planning expert on education, and Henry Coleman, who shared an office with Tom and was sort of the economics guru, pouring over spreadsheets that were a mile long about what any given change to the T&E formula would mean to every school district in the state. And I'm sure those were the kinds of spreadsheets that you were poring over with Tom every time the formula was going to be changed.

Richard Keevey: What I remember is we would have these extensive series of meetings -- the principles being Tom Corcoran and of course Nate Scovronick was involved a lot because in Nate's career in the legislature he had a lot to do with the school aid formulae. So Nate was very familiar -- and Tom and Nate and I and Brenda Bacon, at times, and other folks from the department of education worked on the options

Rick Sinding: Carl Van Horn must also have been as well, I would think.

Richard Keevey: Carl was not, but I am a little foggy there. And of course in working with any formula, or any tax plan, you always need to determine who the winners and losers in a particular formula were, what municipalities and what school districts are going to receive money if you tweak the formula this way as contrasted to the current formulae. Same thing in developing tax options -- if you're going to increase taxes or change the tax rate, you need to know who is going to be impacted by it. So, you want to know those facts before final decisions are made.

I was involved a lot with the distribution and impact options related to the school formula and the income tax changes but I would say not in the macro decisions, which I would say was a mistake. In any other state the OMB director would be right there considering the policy options, but my advice and counsel was filtered through the State Treasurer (Doug) to the Governor.

Rick Sinding: Now would you be prepared to say 24, 25 years after the fact what your private advice to Doug Berman was?

Richard Keevey: I would say this. We absolutely, positively needed a tax increase for the budget that the governor was going to deliver in March, 1990.
Rick Sinding: For the 1991 fiscal year.

Richard Keevey: YES. We were still finishing out FY 1990 and preparing the Governor’s first budget – FY 1991.

Rick Sinding: That he inherited?

Richard Keevey: Yes, the one Governor Kean submitted for FY 1990 but that Governor Florio had to complete.

For FY 1991 we needed a big increase in revenue -- and what most people forget -- it would pay for no new programs. Think of the numbers this way. The budget that was ultimately approved was less than 1% over the previous year --as I remember. So you might way geez if you want all this money where is it all going? Ultimately we proposed a tax increase of $1.4 Billion with an increase in the sales tax rate and its expansion to new services. Well, as you may remember, we had to do $600 million of actions in order to close out the current budget. Plus, built into the FY 1990 budget were several one-time actions, such as the windfall profits tax, and the change in some payment dates. So we had to cover those actions. In addition there were some increases we absolutely had to make, for example, mandatory pension and retirement health benefit payments, increases for previously negotiated salary increases, and Medicaid. We also had to make major reductions to the popular Homestead Rebate program in order to bring the budget into balance.

I digress for a second. During that timeframe, particularly in the Kean and Florio administration, Medicaid was on an upward path. Governor Kean used to refer to it as the Pac Man of the budget. I mean, it was gobbling up large portions of revenue growth.

Rick Sinding: I thought he talked about corrections as the Pac man

Richard Keevey: No, he talked about Medicaid as being Pac Man. You are also correct that corrections during that time was also a growth industry.

Rick Sinding: Oh yes.

Richard Keevey: But Medicaid was the big cost driver. The increases were big numbers, $200 and $300 million each year on a budget that was only $12 or $13 billion. So we had to build that amount into next year's budget as well. So, the Governor ultimately proposed an increase in the sales tax about $1.4 billion specifically, increase the sales tax from six percent to seven percent, and extend the sales tax to certain other items that were not currently taxable.

Rick Sinding: Toilet paper being the one that attracted the most attention.
Richard Keevey: Yes, toilet paper being a lightning rod for the opposition. There was a big to-do about, you know, roll that item back because that's affecting everybody's life every day. How could you do that, Governor?

Rick Sinding: There were also some significant layoffs during that period.

Richard Keevey: Not too many. The big layoffs hit a little bit later -- in FY 1993, the third year of the Florio administration. But, we did make cutbacks in almost every department.

And then we had the issue of what are you going to do about the school financing issue. And, as you know, the final decision was to also increase the income tax immediately to address that pending issue. Governor Kean had raised the income tax in his first year from two and a half to three and a half because of the problems that confronted him in his first year. Governor Florio increased it more dramatically because it was assumed that the courts would ultimately address the school issue and require much additional spending. The governor also wanted to provide some additional property tax relief. I think the rate increase was up to seven and a half percent, if I remember properly, at the top margin.

Rick Sinding: There were also some significant changes in the T&E law in the way in which state aid was being distributed and also in terms of paying for teacher's pensions.

Richard Keevey: Well, very interesting that you should mention that because ultimately it didn't come out the way the Governor originally proposed. Governor Florio wanted to transfer the responsibility for pension costs and healthcare costs for retirees, and Social Security costs for current employees which was currently paid by the state government to the school districts. He thought it best that school districts knew exactly what the total costs were for those benefits. The State would give the school districts the money to pay for it in the proposed new formulae, but the costs would be in their budget. So, that would have been a radical change.

Rick Sinding: It would have changed the necessity of the state to make that annual contribution, which of course would become the major source of contention these days.

Richard Keevey: Yes, but the state intended to provide funds in the formula to pay for those costs. One might argue the Governor was ahead of his time -- to say school districts these are your real costs. It's your responsibility to budget for social security for your own employees, it's your responsibility to budget for their health benefits, and pension costs and we will give you the money -- but you put it in your budget. I was on a school board for nine years. I observe that the other eight members really didn't realize that all those costs were not in the school district
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budget, and that the state was paying for them. The same with the local citizens. I think the governor was on the right track there. It never made it into the school formula or into the final Appropriation Act.

Rick Sinding: It angered the NJEA as I remember.

Richard Keevey: I agree -- it angered everybody. I digress a little bit. If you may remember the recent proposal that Governor Christie's pension commission made as to how they would fix the pension problem involves pushing the health benefit costs and pension obligations back to the local governments and to the school districts. So we’re returning to a version of what Governor Florio had recommended, but in the pension commission proposal the employee would pay for the costs – the state would have funded it in the Florio proposal in the proposed new formulae.

I guess in hindsight one might ask -- what was the big rush to solve the T&E funding problem? Let's wait for the courts to force us it -- then maybe we'll raise the income tax. Of course the counterargument was that ultimately we will have to do it – so let’s do it now and get it over. Get all the bad medicine out, and we'll be in good shape in future years.

Rick Sinding: Well, and it would also be, you know, then we'll spend our political capital and we'll have an opportunity to bring it back up again.

Richard Keevey: That's correct. But, a bigger problem with the entire program -- the spending side and the tax increases -- was we never realized the revenue that we thought we were going to raise because the economy continued to lag and that's why in the subsequent years -- in fact, even in the budget that the governor submitted that included the income tax -- we had to utilize other one-time revenue sources to balance the budget. Actually, the income tax program, if you may recall, was not included until the Florio second budget submission in FY 1992. The sales tax increase was effective for FY 1991.

And in that particular year (FY 1992), in addition to the T&E funding, the governor recommended other initiatives. The budget assumed the cost of several local government programs. The cost of welfare, for example, was previously paid by the counties in conjunction with federal dollars. The state now assumed that cost. The cost for mental hospitals was funded by counties, depending upon where the mental hospital was located. Those costs were also assumed by the state. The overall goal there was to reduce property tax burden at the local level. The Governor also funded a circuit breaker program which was connected with the Homestead Rebate program. Under a circuit breaker concept the amount of property taxes a homeowner would pay would be limited to a percentage of one’s income.
Rick Sinding: That was actually originally a piece of Brendan Byrne’s original income tax proposal.

Richard Keevey: That’s correct for the Homestead rebate program was, but Governor Byrne never had a circuit breaker program concept. It [Circuit Breaker] had its roots in the SLERP report – a report that was issued during the Kean Administration.

Rick Sinding: The State and Local Expenditure and Revenue Policy Commission.

Richard Keevey: Right. And, we probably need a new one -- Very soon.

Rick Sinding: And the report was announced to be dead on arrival.

Richard Keevey: Dead on arrival. Interesting. We can come back to that issue if we want to talk a little bit more about the SLERP and other commissions.

Rick Sinding: In a previous interview with Henry Coleman we discussed that at great length.

Richard Keevey: In fact, in Governor Kean's next to the last state of the state Message – which most people do not remember -- he proposed a $325 million property tax relief program, which included assumption of some of those local costs that I told you Governor Florio ultimately did, and an increase in the Homestead Rebate program, and more money for schools. And where was he going to get the money to pay for it? He was going to repeal the Ford Bill. You may recall that Senator Ford was instrumental in passing legislation that allowed individuals to reduce their income tax liability by the amount of property tax they paid. When the income tax was originally passed in the state it was a gross income tax, very few deductions.

Rick Sinding: It still is, right?

Richard Keevey: Yes it is. Kean also proposed a tax on plastics, and an increase in the liquor tax to pay for his $325 million property tax relief program.

Rick Sinding: Also environmental?

Richard Keevey: Yes. But, the proposal went nowhere because most Republicans didn't want any part of eliminating the property tax deduction on the income tax, etc. But some of those ideas that were in Kean’s SLERP report that Henry referred to in your interview with him, and also the last initiative that Kean proposed was picked up by Governor Florio in his budget recommendations. They were funded by the increase in the income tax.
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I should also note that estimating the initial income tax was an interesting exercise. I can remember frequent meetings with Doug Berman. He would ask for detailed sensitivity analysis as to how much the income tax would generate if we had certain rates, certain tax brackets and certain economic conditions. For example, what would happen if the economy was going this way? What would happen if only a two percent growth or a three percent growth? What would the impact be on income tax collections? So we would do a lot of that modeling for him in OMB and basically we'd be coming back with answers that said: "wait a minute." We may not have enough bandwidth using this income tax rate and bracket. We may need, for example, to be increasing these rates a little bit more in the middle-income brackets to generate the kind of money we think we need if the economy continues to falter.

I'm not sure exactly who that information was being shared with but I know Doug was asking the right questions as to the impact different rate structures had on the level of income tax that we expect to collect? In any case Doug –and whoever he discussed this with -- arrived at whatever the decision was, but suffice to say the monies did not materialize. Obviously, a wrong scenario was chosen – we should have had higher rates or broader tax brackets – or a more modest spending program.

So what did we do when the revenue was not realized? Well, the first year we sold a part of Route 95 to the NJ turnpike for $400 million.

Rick Sinding: The piece from the Turnpike to the George Washington...

Richard Keevey: Is that what it was? Okay. The original issue was who do we sell the road to? We sold it to the Turnpike. Where did they get the money? Well they had bond capacity that they hadn't used. So in discussions among the Turnpike folks, the transportation commissioner, and the state treasurer, a very high policy decision was necessary. Was the governor going to call this or not? We certainly knew we needed at least $400 million. –so, he and we did it.

And then, in subsequent budget years we still needed additional funds to balance the budget -- so, we made adjustments to what's called the Public Utility Gross Receipts and Franchise taxes and changed the entire way in which it was levied and collected. The change generated for the state government about $1.3 billion over a three year period. So even with the income tax increase, even with sales tax increase we had to do these other transactions to get the budget balanced each year -- such as, selling a road, changing the utility tax and smaller items.

Rick Sinding: Just as an aside, I'm sure it's been brought to your attention before that the acronym for Gross Receipts and Franchise Tax is GRAFT.
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Richard Keevey: That's right. From the local government's point of view they used to receive all of this money. Then the state changed the law and we collected it, and the state gave some of the money to the local governments, but kept a portion of the funds for the state budget. The above change generated even more money for the state.

Rick Sinding: They weren't getting as much GRAFT as they had originally thought.

Richard Keevey: That's right. And it's quite a big number now. I'm not sure I agree completely with the local governments, but they have a point -- but anyway that’s a question for another day.

So the revenue pressure remained on the state budget. The next year, for example, we continued to have problems, as the economy continued to creep along. Mandated T&E education funding was now law, so we needed more school aid appropriations. Medicaid was still popping along, right? And, the revenues were not being realized -- so we did a few other things, including restructuring the pension system.

Rick Sinding: Explain that. How does one restructure the pension system?

Richard Keevey: Traditionally the value of the pension assets had been based upon book value. We switched it to market value which was, in everybody's mind, the right thing to do. Most finance people value assets at market value, not book value. So, for example, if you bought a bond at $5,000 and it's now at $5,200, you record it at the market value. So that had a positive impact on the total value of the pension funds’ assets. We also increased the interest rate assumption as to what we thought the investment portfolio would earn over a period of time. I forget the exact percentages. I think it was something like an increase from 7.8 percent to 8.8 percent. So what does that do? Well it assumes over a period of time that we are going to earn more money from investments than we otherwise would if we kept it at a lower rate. I don't want to get into all the details of pension machinations but suffice to say these changes were reviewed by the outside actuaries and were deemed reasonable.

Rick Sinding: How does that impact the immediate budget?

Richard Keevey: Therefore, instead of “X” amount of dollars being required to be appropriated -- a sum less was necessary. I don't remember the exact numbers, but the total savings over a two-year period of time was $700 million. Not a small number.

Rick Sinding: Because it reduces the amount that the state has to contribute to the pension to stay current?
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Richard Keevey: That's correct. In the normal process of developing estimates for the annual pension appropriation the actuary knows how much money employees are contributing based upon the current statute. He then makes an estimate of what the investment portfolio is going to be earning, and that difference, called the ARC is the amount of money that must be appropriated to keep the pension system funded at 100 percent. Well, if the state posits to the actuary that we now have a different model for investment earnings and we're going to raise the rate of return and we are going to change the asset value to market value then he determines that less money is needed to be appropriated.

Rick Sinding: Now, by this time, are we already into the third year of the Florio administration?

Richard Keevey: Yes.

Rick Sinding: Which would begin July 1, 1992

Richard Keevey: Correct.

Rick Sinding: So this is when the Republicans obtain a veto-proof majority of the legislature?


Rick Sinding: And they veto the governor’s budget?

Richard Keevey: Yes. Actually, we have two vetoes going on here: First, the Legislature reduces the sales tax by one percent, and sends that tax bill to the governor. The governor vetoes it, and they override it.

Rick Sinding: The governor had already submitted his budget with the seven percent included.

Richard Keevey: That's right.

Rick Sinding: Now what? Did he then submit a revised budget based on the six percent?

Richard Keevey: No, what happened was, they simply give him an Appropriation Bill with the sales tax removed and with numerous other budget reductions.

Rick Sinding: Right.

Richard Keevey: The governor vetoes the Appropriation Act (the Budget) and returns it back to the Legislature.
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Rick Sinding: And they override that.

Richard Keevey: Yes. And, the Legislature added many language directives to the Appropriation Act, specifically telling the governor how he was to make the reductions in personnel, etc. Governor Florio appealed these provisions to the Supreme Court because some of the language directed the governor how to do layoffs. If you remember there were extensive cuts because we lost a percentage on the sales tax and there was a big reduction in salary accounts. And the direction from the legislature was -- governor, you can't lay off any corrections guards, for example. And you will lay off only people above $55,000. The governor’s argument was you can't direct me how to run my executive branch. So the Supreme Court said you're right governor. The legislature can't tell you how to make those cuts. You have the power to make the cuts to adjust to the budget that they gave you. This was the year we had big layoffs.

Rick Sinding: And as I recall, those layoffs involved a tremendous amount of what's referred to as bumping?

Richard Keevey: Civil service is a mess.

Rick Sinding: The lowest person on the totem pole, or the last one hired is the one that goes out and then somebody else who has underlying status in that position drops down to that position and somebody else drops down to the previous-- and it becomes a real mess.

Richard Keevey: I think ultimately we lay off about 1,800 people. And on top of that action, there were sizeable reductions in the state workforce by attrition with limited backfilling of positions. And, there were two early retirement initiatives where incentives were offered for people to retire, because the governor's view, I think quite humanely, was let's get rid of these people without having to go to layoffs if we can avoid it. So I forget the years, but definitely in 1993. I also think we did it in 1992, but I'm not sure. But there were two distinct early retirements.

Furthermore, the general rule was for every three people that left the payroll –from whatever action – the agencies were able to replace only one depending upon demonstrated need. OMB was involved in this because every new hire had to be reviewed by OMB. Did that person really need to be hired in that agency? So, what a mess that was, right? You can imagine we were not the favorite agency of the departments. By the same token, the agencies understood that they had this large reduction. I had meeting after meeting with commissioners as to what their impact was going to be. Well, you must have more money up there, Rich, said the commissioners. I don't have any more money. And you don't have enough money in your salary count. You've got to get rid of these people.
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Rick Sinding: And once the legislature had passed its own budget and then overridden the governor's veto, your office would have had to determine what that meant in terms of what kind of revenue you were going to have.

Richard Keevey: Yes. Well the revenue was certified by the Governor with the sales tax reduction.

Rick Sinding: Oh, I see. Okay, you had already-- once they cut back the sales tax, then that meant it was X minus whatever?

Richard Keevey: They put a revenue number in the final budget. The governor didn't change the revenue estimate. He couldn't. On what basis would he increase the sales tax? Maybe he could have done something really bad and artificially increased the revenue estimate, which he could have done for the income tax or whatever, but he played it straight.

Rick Sinding: There was no change to the income tax at that point? And, the T&E law?

Richard Keevey: No change to the T&E law or the income tax. But it was not a pleasant time in state government. I digress a little bit. The role of the budget director, and we talked a little bit about this earlier, you are never the favorite person of the agencies, because they always view you and your OMB team to be a bunch of green shade people, negative, no, no, no.

Rick Sinding: Numbers crunchers.

Richard Keevey: Yes. What we were trying to do, and I believe my predecessors had the same philosophy, convince the cabinet officers that we understood their needs, so that when they told us they needed X amount for this or that, we understood what it was, and we weren't going to arbitrarily reduce the amount just because we were going for a magic bottom number. So you had to have that trust with the cabinet officers, and that they understood that you may be doing these nasty things, but you have a valid logic and reason for doing it – and it was fair. If they were convinced of that, they were more willing to participate. My experience has been we had, through the many administrations that I was involved in, really top flight cabinet officers.

Rick Sinding: Well, and the governor was making it clear that this had to be done.

Richard Keevey: No choice.

Rick Sinding: And these people do serve at the pleasure of the governor.
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Richard Keevey: Right, yes. And, I actually had a little closer relationship with the governor in the latter years than I did in the former years. Previously, I couldn’t go to the governor unless Doug was there, it loosened up a little bit.

Rick Sinding: Well, Doug is gone after the first two years. Right?

Richard Keevey: Right.

Rick Sinding: And Sam Crane is now the state treasurer, and you must have worked with him when he had worked in the legislature?

Richard Keevey: Sure. A much closer relationship with the Treasurer and with the governor, and with the chief of staff.

Rick Sinding: But by this time Jim Florio ‘has recognized that even though he is taking a chance with you…’

Richard Keevey: Yes. It worked out. So we go to the final year -- Fiscal ’94, and there remains several challenges, including how we handle all of the layoffs, the continued softening in revenues, albeit on the uptick, and some consternation with the legislature -- actually a lot of ill will, sort of, below the surface, anyway. I remember making several presentations on behalf of the Administration, indicating how the reductions in staff and the decrease in the sales tax would have a negative impact on government operations.

So, we introduce the 1994 budget, and it’s a relatively calm budget. We did several things to refinance the debt of the state. No chicanery or trickery that I remember. It was just good public policy to refinance interest rates.

Rick Sinding: Interest rates were coming down. Yes.

Richard Keevey: Right. So we saved a lot of money from refinancing and it facilitated a pretty calm process.

Rick Sinding: So the debt service is less?

Richard Keevey: Yes, the debt service was decreasing in the budget. Aside from that, the big issue that I remember was the change in the uncompensated care trust fund. You may remember the state used what was called the “Diagnostic Related Group Method,” to determine how to fund indigent care in the hospitals. In effect every medical bill included a 19.5 percent surcharge, so that other payers in the state who had insurance were paying for the indigent care of people who didn’t have any coverage. That process was ruled unconstitutional by the federal courts. The State had to come up with a new proposal. I would put this as one of the big accomplishments of the Florio administration in developing a new program. That
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was mostly handled by Brenda Bacon, with input from OMB in terms of where we were going to get the money to do this?

So we did something, which on looking back some people might say, “Oh, my God, you did what to get funding?” For the first three years, of the program $1.5 billion came from the Unemployment Compensation Trust Fund, a dedicated trust fund intended only for unemployment benefits. But we used available balances in that fund and got the necessary dollars – with Legislative support. Actually the use of the Unemployment Trust Fund for state operations was first begun in the Kean administration. It was one of the things we did to balance one of the Kean budgets. I still remember working with Mike Cole as to how we could do that and not infuriate the federal government.

Rick Sinding: Not to mention organized labor.

Richard Keevey: What we had to do was interdict the contributions before it got into the fund. Actually, we interdicted the money that the employee paid – not the employer’s contribution. In New Jersey, in addition to employers making a contribution, the employee contributes also. Anyway, so the new Healthcare Trust Fund was created in the Florio administration, because we had to, as the prior method was ruled unconstitutional. Today, we have a new funding source for indigent care -- and the new Obamacare program helps. I believe the money comes from the tobacco revenue – but I am not sure.

Rick Sinding: I doubt if there’s any of that left. But is this the reason why on peoples’ paychecks now in New Jersey it says, “SUI,” and there’s a slash, and then there’s another little thing there that I can’t remember. It says unemployment insurance. Maybe that’s disability.

Richard Keevey: No. I think that’s disability.

Rick Sinding: I’m not sure.

Richard Keevey: I don’t think so.

Rick Sinding: Okay.

Richard Keevey: In fact, now by constitutional amendment, the Unemployment Compensation Trust Fund, and similar trust funds, can no longer be used for budgetary actions that I just described.

The only other event of note in developing Florio’s last budget was an initiative by the Speaker of the House, Chuck Haytaian, to include a $150 million tax relief program. It would be funded by a proposed commuter tax, and cuts to previously approved programs. The appropriation was never used because when Florio signed
the bill he included a partial line item veto that essentially made null its use. In effect at the end of the year the monies were lapsed to the general fund and added to the surplus that the incoming Whitman Administrating inherited.

**Rick Sinding:** So, this was an effective line item veto?

**Richard Keevey:** Yes. And perhaps it is worth commenting about Line–item vetoes. It goes back to a Supreme Court case in New Jersey initiated by Governor Kean. Have you ever heard of the Supreme Court case - *Karcher V. Kean*?

**Rick Sinding:** Yes, but you should explain it to me.

**Richard Keevey:** It revolved—again—around a gross receipts and franchise tax issue. Governor Kean had included in his budget language a proposal on how to allocate gross receipts and franchise taxes. Don’t ask me to remember the details of it. But, the legislature crafted it a different way and gave it back to the governor, and the governor, to put it mildly, was furious. And I can still remember the event. I was the Deputy Director at the time, Dick Standiford was my boss. We were in the governor’s office, so the governor turns to Mike Cole, and he turns to Dick and me, and says, “You guys figure out how to change this.” So we figured out a crafty line item veto, where we took out part of a word, part of a sentence, some semicolons, wound up changing it a hundred percent back to what the Governor originally wanted. Karcher, who was the democratic Speaker of the House, was furious, and took the veto to the Supreme Court. And the Supreme Court ruled, 7-0 -- the governor can do anything he wants in a budgetary line item veto, except increase spending. And that ruling still stands today.

**Rick Sinding:** Absolutely. You simply take the word “not” out, and that becomes part of the budget language.

**Richard Keevey:** What reminded me of that event was the line item crafting in the ’94 budget, not as dramatic as I described *Karcher V. Kean*, but a significant example of the extent of gubernatorial powers that the New Jersey governor has. So I think that pretty much catches us up.

Oh, I was going to make another point, if we still got time.

**Rick Sinding:** Oh, yes, yes, please.

**Richard Keevey:** You know, the budget director [OMB Director] always was part of the cabinet as the position is appointed by the governor, not an “official cabinet officer”, but would always participate in Cabinet meetings. I would go occasionally when Dick was not able. Dick Standiford was the director. I guess I took over the latter months of the Kean administration. I digress a little. Dick’s wife had been very ill for a couple of years, and ultimately died of Leukemia, and he retired. He
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just wanted to get away from the whole situation, nothing to do with budget issues, just personal issues. So, now I am the OMB Director.

So I would attend to the cabinet meetings. But when the Florio administration came in, and Doug Berman became the Treasurer, he said, “I go to cabinet meetings -- you don’t go.” I said, “Okay.” What else could I do? It was very disappointing. So that sort of lowered the role of the position, although as events developed the agencies knew that they still had to deal with OMB, because the treasurer had a whole bunch of other things to do.

Another fond memory of Doug. I remember, of course, the infamous first year, of Doug convincing the governor that he would be the one who would testify at all the appropriation committee hearings. Usually, after the budget is submitted by the governor, during the months of March, April and May, each cabinet officer comes to the Legislature and their budget is reviewed by the Appropriations Committee (s).

And for the life of me, I can’t remember the details. But, I can remember ‘mildly’ arguing with Doug. I said, “This is a loser.” I mean, you are going to antagonize the appropriations committee. They want to hear from these guys – the cabinet Officers.” But there was this latent lack of trust, is the only thing I can say, as opposed to, you know, what I would call the Kean process. I will give them directions, but they testify.

So, of course, who was at the appropriation committee meetings, Doug and me? Who answered all the questions -- me, because Doug didn’t know the details of the programs. And, of course, half the time I wouldn’t know, so I had my staff behind me helping. The Committee members were not happy. Not a good way to engender good will. If I had been a more inclusive member of the inter-team I perhaps could have convinced the Governor that this was not a good idea. But, the Treasurer being the sole testifier to the appropriation Committee never happened again.

Rick Sinding: With the legislature, also not a very good way of engendering good will with your own cabinet.

Richard Keevey: Correct.

Rick Sinding: Making somebody like the then labor commissioner, Ray Bramucci, famously say that he felt like he was a mushroom.

Richard Keevey: Oh, is that what he said?

Rick Sinding: Yes.

Richard Keevey: And, of course, the human services commissioner, you know, was very, very, very high quality, Alan Gibbs, as I remember. He just went along.
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Rick Sinding: I believe that’s what all the cabinet members said.

Richard Keevey: What am I going to do? Doug was a very good strategist and became very knowledgeable of fiscal issues. I actually believe I had a pretty good rapport with Doug. I think we had a couple ‘shouting’ matches here and there, which is not uncommon.

Rick Sinding: I know very few people who didn’t have at least one shouting match with Doug.

Richard Keevey: Not uncommon. That doesn’t bother me. And in that situation, you know, the treasurer was the final decision maker.

Rick Sinding: Did you suggest to him at any time that he should have the cabinet go before?

Richard Keevey: Oh, yes.

Rick Sinding: You did?

Richard Keevey: Yes --as I mentioned previously. I said, “I just don’t think this is a good idea.” I can’t remember the dynamics. I’m sure I gave up in a hurry. Here I am, the new guy, with a governor that said, “I think I’ll take a chance on you,” with a state treasurer who I had no knowledge about -- so I might have acquiesced real quickly after giving him my view. As I mentioned above if I had been a member of the inner circle I think I could have convinced the Governor it was not a good idea.

Rick Sinding: You made reference to the fact that you were in a position of rather forcefully defending Florio administration activities, which may, in fact, have had something to do with your departure from state service.

Richard Keevey: I think so. In fact, I’m pretty sure it did.

Rick Sinding: Why don’t you describe.

Richard Keevey: But I don’t know for sure.

Rick Sinding: Why don’t you describe what happened.

Richard Keevey: So we’re at the end of the Florio administration. And I don’t know if the governor is going to be elected, or not. So I start checking around for other jobs. I knew several folks in the federal government both in the outgoing Bush I Administration, and the incoming Clinton administration. I went to the governor and said, “You know, I’m doing this job research,” just so he knew what I
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Richard Keevey said, “Oh, you don’t need to do that -- we’re going to win.” And I said, “Well, I just need to make sure, you know, just in case you loose and I’m left out here and the new governor doesn’t want me.”

So the governor loses. I attempt to determine from incoming Whitman team if they would retain me, because by tradition and practice, as I alluded to earlier, the budget director was always a long time, non-political career professional – as I was. I’m not registered in any political party to this day. And I asked Mike Cole, who had been Chief Counsel to Governor Kean, before leaving for private practice –and was a longtime friend – to help.

Rick Sinding: And Mike was involved in the transition for the Whitman administration, was he not?

Richard Keevey: No. Mike was not involved.

Rick Sinding: No?

Richard Keevey: He may have been behind the scenes, but to my knowledge, I’m sure he was asked for advice.

Rick Sinding: But Hazel Gluck and Judy Shaw, and others, whom you must have had some dealings with in the Kean administration.

Richard Keevey: Right. But Mike I knew very well and I asked “Mike, can you find out from these guys whether they are going to re-appoint me.” So the answer I got back was: “Rich, I got a strange answer. It was maybe, but no guarantees until we get there.” And then he says, “And I picked up a comment that they thought you were too supportive of the governor.” I was surprised, and I said to Mike, “That was my role.” I said, “I’d be supportive of Governor Whitman as well.” He said, “Well, I can’t tell you with any kind of certitude that you’re going to be retained.” And, advises Mike – I would be careful. So I had two kids in college at the time, another one coming up, so I pursued several jobs in the federal government. To make a long story short, I got this opportunity to be the chief financial officer of the U.S. Department of Defense, and decided to take it. It was a great job. I retired from state government after 26 years -- it was the best decision in my professional life.

Rick Sinding: Going back to your roots as an artillery officer.

Richard Keevey: That’s right, yes. This was very serendipity. In fact, I found myself over there in Germany in my years at DOD because our major finance center for Europe was in Germany, so I had to go, of course. That’s where I was stationed when I was in the military.
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Incidentally, I brought along this “Budget Transition Report” to this interview -- just for the heck of it. I presented this material to Governor Whitman’s Transition Team. Actually, I first checked with Governor Florio. I said, “I want to make a budget briefing to Governor Whitman’s team.” So I showed it to him -- a five year budget projection. “Well, said Governor Florio, it looks as if we have a budget problem in the out years.” I said, “Yes. I’m showing that we do.” I said, “But I’m showing that we will definitely finish this year, with at least a five to six hundred million dollar surplus –maybe more. Thus, no problem in finishing out the current year. No problems like you inherited.”

He said go ahead and do it. So I made two presentations to their team. Governor Whitman wasn’t there, albeit she said Hello. John Sheridan, and a bunch of other guys, gals, whose names I forget were the principals. And one guy, I forget his name -- he’s on TV frequently. He used to be a fiscal whiz in the Reagan administration. Anyway, I made this presentation, and they asked a lot of questions. Sheridan asked “Well, tell us how we can balance this budget in the future years.” I said, “You certainly can’t do it with the tax cuts that you’re proposing.” “No, no, we’re going to do that,” said John. I said, “Well, I don’t have any magic answer for you, but here’s all the details you need.”

To my knowledge, the Florio administration is the only Administration that presented a detailed current and future year projection for the incoming Administration. I participated in several transition teams for Governors McGreevey, Corzine, and Christie. I note that no outgoing administration provided such a game plan. I presented a five-year game plan, as to where we saw the problems for the next few years. I think they appreciated it. They just thought I should have the answers to the problems to allow the income tax cuts to be made. So, that no offer presented me the great opportunity to move to the federal government. So, the Whitman Administration brought on a new person, the first time in history it was not an internal professional career budget and fiscal expert, such as perhaps my deputy.

Rick Sinding: Who was that person?

Richard Keevey: I think the name was Brian Baxter.

Rick Sinding: Oh, yes, I remember. He had been the Business Administrator in Trenton.

Richard Keevey: Yes. I understand they moved the man out after six or seven months.

Rick Sinding: Yes, that’s right.
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Richard Keevey: Poor interaction with the Cabinet is the answer I received back from my old friends at OMB.

Rick Sinding: And your response to consternation with the cabinet must have been, “What else is new?”

Richard Keevey: No, but it wasn’t that kind of profile. It was the kind of consternation that I suggested you don’t want to get involved with. It is the “I know it all” kind of answers to the cabinet. They did not buy that approach.

That pretty much finishes my remembrance of Kean, Florio and state budgeting during that era. We talked a little bit about the beginning of the Kean administration. Governor Kean, of course, accomplished a heck of a lot of things, the transportation trust fund, environmental protection trust fund, science and technology programs, minimum teacher salaries --and a whole range of things, which we were able to do because of a booming economy, after the taxes were raised in the first year, to address the shortfall in the budget.

Rick Sinding: Well, and in fact, there are people who would argue that that was the same model that Florio was using, that Kean had raised all these taxes early on and then benefitted from it.

Richard Keevey: Right.

Rick Sinding: And the idea was that Florio would do the same. The specific difference that many of the political people that I’ve interviewed have said is that Tom Kean held his nose while he was signing these, like he got dragged kicking and screaming to do it, whereas Jim Florio looked as those he was eagerly anticipating doing it.

Richard Keevey: Yes. That may be true. But, of course, the real issue was the economy. You know, in the beginning of the Kean administration, just like the Florio administration, there was a very bad economy. And then the economy boomed in the middle of the Kean administration. We were a leading state, but then the economy started down in the last 18 months of the Kean Administration which Governor Florio inherited. The economy recovered several years after Florio left. I would say Governor Florio had bad timing.

Rick Sinding: Right. So to what extent is the governor of New Jersey and his or her fiscal policy a stepchild of the national economy?

Richard Keevey: Yes, yes. I think states are principally driven by the national economy. Some people will always suggest that lots of things can be done by the governor to improve the economy of the state to make it expand. I think any actions by the Governor are on the margin, and the majority of the actions needed
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To impact the economy in New Jersey will occur at the national level. For example, the federal budget has a $3.9 trillion dollar impact on the economy. So actions in the federal bureaucracy, and the federal budget and tax policy, can have an impact on the economy, as we’ve seen the last few years. Some would argue a good impact, some would argue not so good -- or not as good as it could be. So if the national economy is improving, hopefully the New Jersey economy is improving, but we’ve seen it is not improving as much as in other states.

We are mired in this very slow recovery in New Jersey, as contrasted to some states or other regions of the country. For example, right up the highway in New York City, they have a booming economy, but in New Jersey we do not. I don’t know what the real cause is. Some people would say its taxes. Other people would say, “No.” I think the tax reason is on the margin – after all somebody is buying those expensive homes. I just think we might have seen our high water days. Whether or not we’re going to be able to come back is questionable.

Rick Sinding: Well, from a state government perspective, one of the telling things of, I don’t know, I’d say probably the last 20 years has been that every year it appears as though we’re dealing with another structural budget deficit, and so tax policy ends up being how do you raise enough money to balance the budget, rather than how do you structure a budget in such a way that it reflects priorities of the administration or of the people. Would you agree with that?

Richard Keevey: I would agree a hundred percent with you. One of the processes we do we do not do well – is plan properly. I digress a little. I was part of a group called the “State Budget Crisis Task Force,” chaired by Paul Volcker and Richard Ravitch. The Task Force analyzed and reviewed states, because they had determined that not only does the federal government have deficit problems, but states have similar situations. So we looked at six states, California, Texas, Illinois, Virginia, and New York, New Jersey. I wrote the New Jersey review. And one of the things we determined with New Jersey, as well as other states, is that few states do future year planning.

When one looks at the budget of New Jersey, one sees only the next year. You don’t know the impact of current decisions on the next few years. If the state was forced to project the future years of the current revenue structure and the current expenditure pattern we would be better able to plan and to anticipate what actions need to be taken to avoid the use of gimmicks and bad budgetary policy decisions. But, New Jersey is not alone. Most states don’t do it. Some states do it. I happened to look the other day for another reason at the State of Maryland’s budget. The State of Maryland projects their revenue and spending and surplus / deficit for the next four years. You might argue with their assumptions, but you would at least know what the assumptions are and plan and adjust accordingly instead of reacting...
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at the last minute. And, I dare say that the public does not know what to expect in the next few years.

I participated with another group — a group of very senior previous state government people called, “Facing the Future.” We actually produced a four-year budget projection that showed we had big budget problems at the state and local levels in New Jersey. No surprise. If you keep approaching a budget as a one year exercise and don’t have a plan as to how you are going to address issues in the future – but you just react – you will have a continual budget crisis. But, if we did better planning one would know that something needs to be changed. We either have to reduce programs, or we must raise more taxes. We can’t grow our way out of the problem –even if our economy recovers. And most people would also say we just can’t raise taxes to get out of the problem. We need a comprehensive review of state and local spending and a review of our revenue and tax structure.

Rick Sinding: At every level of government that seems to be the conflict.

Richard Keevey: That’s correct. And did you know, for example, that seventy percent of all spending in New Jersey is at the local level? Only, thirty percent is at the state. Seventy percent is at the municipality, county and school district.

Rick Sinding: That would explain why property taxes are so high.

Richard Keevey: That’s right. But, in the state budget, all the income tax money, twelve billion dollars goes back to local governments, principally school districts. The income tax is not spent by the state government. It’s spent by local governments. But, we still have high property taxes. And there is also a lot of money that the state spends for other grants to local governments and non-profit groups.

I would emphasize again we need – it is important to repeat this -- a comprehensive review of our tax and spending, not unlike the SLERP Commission that Henry [Coleman] talked about with you in a previous interview. That particular project was directed under the Kean Administration, and his guideline to the commission was to be revenue neutral. If you raised some taxes at whatever level of government you had to reduce other taxes -- so in the aggregate there would be no overall revenue increase. This was an OK directive back in 1986, but today I don’t think that directive can work – we need additional revenue, but we also have to become more effective and efficient in our program delivery.

Rick Sinding: Because we’re so far behind.

Richard Keevey: Because we’re so far behind and out of balance between expenditures and recurring revenues. So we need to structure the system. We
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need to look at all levels of government and all spending items. We have, for example a rich Medicaid program. I happen to think it’s important that we do what we are doing in that program, but we need to have a better discussion and consensus as to what we wish to spend our resources on.

Rick Sinding: Does your fairly pessimistic wrap up, just a few minutes ago, about the future of the state, hold true if there were, as you suggested, have another SLERP Commission. If there were a major taxing and spending review that might align the two sides of the budget

Richard Keevey: I’m afraid I’m still in the pessimistic role. I don’t think it’s going to solve the economy problem, but it will address the year-to-year crisis, and will inform us in a systematic manner where we need to make tax adjustments and where we need to make spending adjustments, and achieve some consensus. You may be listening to this and say, “Oh, if we just do that, we’ve solved the whole problem.” I can tell you a lot of problems that we’re just not going to be able to address totally.

We’re never going to be able to raise enough money to do all the things that people want to have done. Just take a look at the current discussion on the pension system. Something has to give there. Maybe Governor Christie’s commission had a good idea, or maybe it was too lopsided. Maybe there’s some compromise idea, implementing parts of their recommendations together with some new revenues.

Maybe we need to make some changes in the way local governments are structured. Some people will look at consolidation and / or shared services and say, “Well, that’s not going to save a lot of money.” Perhaps. Maybe we need to change the whole environment of how we raise taxes and who we tax. Some people would say we’re raising money from the wrong people – others would say we have too much taxation. So what I am saying is we need to do it in a systematic way, to look at all the issues very carefully and critically. Is it going to relieve totally the pressure and solve the problem? I don’t think so, but at least it will lay out a critical path as to how we should approach the problem in the future, instead of this constant one year episode.

The legislature’s going to soon approve a budget for July 1st. It’s probably going to be uneventful, but we’ll have a problem next year, and the next year, because some costs are just inevitably going to increase, and unless somebody figures out a way to really make this economy engine improve in New Jersey, we are not going to have a lot of revenue growth to support our needs.

Rick Sinding: In retrospect, did Jim Florio get it right? Was the raising of the sales and income taxes, and the reforming of the T & E law the correct approach? Was that the direction appropriate?
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Richard Keevey: Oh, I think so, and, in fact, looking back, the tax structure isn’t much different than what Governor Florio proposed. Now, Governor Whitman reduced it for a period of time, but it was increased again. Right? So we’re actually at Florio-plus -- with some changes in between where Governor Whitman reduced it, but she had to do certain things to adjust for that reduction.

Rick Sinding: Much of which critics would argue have to do with the current pension debacle.

Richard Keevey: I think so, too. I don’t think we want to get into the dynamic there.

Rick Sinding: Leave that to the Christie Whitman archive.

Richard Keevey: But I do think the overall decisions of the Florio Administration were the right ones. Maybe it could have been done more incrementally, as you suggested by one of your questions. Maybe the Administration should not have jumped immediately to address the T&E law as they did -- or a more gradual approach might have been better. And maybe, for example, the governor should have just addressed the T&E, and not funded other new programs such as the circuit breaker Homestead rebate expansion and assuming the cost of local government programs, such as welfare. But, what really created four year of troubles in the Administration, of course, as I alluded to, were the initial budget problems he inherited -- and the terrible economy that continued for almost his entire four years. Poor timing is something that one cannot control.

Rick Sinding: Clearly not. What should I have asked you that I didn’t, or what final comments would you care to make?

Richard Keevey: I think maybe I covered the major points I want to make. But, it is important to repeat the message. First, to implement the recommendations contained in the State Budget Crisis Task Force report, especially the need to perform long range planning and avoid one-time budge gimmicks.

And second, initiating a comprehensive tax and spending commission to review where we are and what needs to be done to correct the situation at both the state and local levels of government – and to achieve a broad consensus as to how to proceed

I do want to say one positive thing about the New Jersey budget process. If one can put aside the pension issue for just a minute (almost all states have this problem to one degree or another) – and, I admit, that clearly is hard to do. But, New Jersey, despite all of its budget problems, actually does good budgetary accounting – unlike many states. For example, there are states that operate their
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budget and accounting systems strictly on a cash basis – a big problem identified by the State Budget Crisis Task Force. The State of Illinois is a perfect example. They roll over bills from year to year. They have, for example, nine hundred million dollars’ worth of Medicaid bills they haven’t paid that was due last year. Other states have similar practices but at lessor amounts. We do not do that -- we pay our bills on time and record disbursements and revenue properly.

The state’s accounting system is such, and the process is such, that we have a correct governmental accounting system by GAAP standards. So we issue financial statements that exactly tie in with our budget documents. So when we say we end up with a surplus of either one million, or two hundred million, it is a real two hundred million. We haven’t rolled bills over to the prior year. We pay them.

Rick Sinding: Sort of begging the question a little bit about the pension system, Rich.

Richard Keevey: Good observation – you are correct, of course -- and I think I made that point about viewing the underfunding of the pension system as a separate tissue – a problem that all state have. So, I agree with you, but, in terms of issuing proper Financial Statements that have always received a clean audit opinion by an outside audit entity – New Jersey does do it correctly and fully discloses the pension underfunding.

Rick Sinding: Well, if I could put an optimistic spin on your pessimism. Two things to come away with this – one is the structure of OMB in New Jersey is sound, and second at least it isn’t as bad as Illinois.

Richard Keevey: Touche. But, I also hope you take away some of the improvements that need to be done to address the long range problems of New Jersey.

Rick Sinding: Rich Keevey, thanks very much.