Governors and State Finance: Conclusion

Transcript of Excerpts

Interview with Cliff Goldman
February 6, 2007
Interviewed by Michael Aron

Michael Aron: What have been the major fiscal mistakes of state government since Byrne left office?

Clifford A. Goldman: Well, <laughs> this is another four hours—but I'll give you a quick run-through. Sometime after we left office, the state needed money, or they thought they needed money. We were still in a recession. They cut corporate taxes, they wanted to increase welfare payments, which was fine, and they needed money. They exaggerated how much they needed, but that's what you do. Governor Kean wanted a sales tax increase, the Democrats and the legislature wanted an income tax increase. There was a battle over it, and it was one of those things where they said "We don't give you a sales tax unless you also take an income tax. Like don't throw me in the <laughs> briar patch," except with politics. So Kean got both, and the recession ended. So he had a lot of money. That's a bigger problem in some ways than having too little money, because you can't say "no" to people, and you build in expenses that keep growing. By the end of his second term, he was out of money. And the state—Florio inherited a deficit in the current year that he became governor, which had never happened before.

Michael Aron: Kean didn't inherit a deficit from Byrne?

Clifford A. Goldman: No, we left 130 million dollar surplus. Which in those days was significant. I mean, the budget might've been 5 billion dollars. But in the following year they did have a problem. But depends how you looked at it whether they could've solved that problem simply or not with controlling spending. But anyway, I'm not criticizing what they did, but they wound up with a lot of money more than they needed. And then they were—it's very difficult to say "no" to somebody and show a huge surplus and not give money to healthcare or to hospitals or this or that or employees. And they gave medical benefits in retirement to all the teachers, and the cost of living on the pensions was made an entitlement. So a lot of spending was built in. And then they ended by spending off surplus in the following year was a huge problem, and that's what hit Florio when he came into office. And then when Florio imposed all the taxes, they weren't enough for the problem. And there was another recession. And then they repealed the sales tax that he increased and some of the spending, but not all, and they sort of exacerbated the problem that he already had. So that when he left office there was a problem for Whitman.

So when Whitman came in, instead of <laughs> dealing with that problem, she cut taxes. And she—in 1994, changed the whole pension system around so as to eliminate essentially all the pension contribution, brought it from a billion down to almost zero, by deferring the payments to the future and spending off the healthcare funding that had been accumulated to take care of the retiree's healthcare. And then introduced spending programs like the school construction thing. It's a valid thing, valuable thing, but an eight, twelve billion dollar bond issue requires a billion dollars a year of debt service. Someone has to pay that out of something. That wasn't provided in—I mean, there's a whole litany of things that—but basically left the state in very, very, very poor financial condition.

So that when McGreevey took over, he had a six billion dollar gap in his first budget, and a three billion dollar deficit in the year that he was taking over, which is impossible. I mean, Florio ended his first year in office with a 1 million dollar surplus in the state after having cut 590 million dollars of current year contracts. So he was left with a 590 million dollar problem in mid-year. And McGreevey had 3 billion. Plus the state hadn't put any money into the pension funds since 1994, except for the bond issue they put in. And that kept going until 2003, because the statute in '97 said you don't have to put in any money <laughs>. So they didn't put in any money like for 10 years. Now if they had put in a billion dollars a year for 10 years and it was earning money at the rates that you earned during the mid '90s, you wouldn't have these pension problems you have today. But I mean, this would've required hours—but it was a very sorry story here, it goes on for 20 years, of a situation which right now is I think very, very serious.

Michael Aron: Do you think the state's in worse physical shape than in your adult lifetime right now?

Clifford A. Goldman: Yes, right now.

Michael Aron: How do you feel about such current proposals as school district and municipal consolidation, new spending caps at the local level?

Clifford A. Goldman: Well, the consolidation issue I've commented on publicly in the past, and I assume that there are ways to make things more efficient than they are today. But I don't see this as a broad solution to these problems that we have at the local level. I was at a meeting when McGreevey was governor with some professors, and this was being discussed, and I said "Well, you know, take a bunch of towns, like let's say in Hudson County, some small towns, and Weehawken, West New York, Guttenberg and all—and add up those towns until they have the same population as Jersey City. And then let's find out whether those towns or Jersey City operates more efficiently. Do that kind of analysis and see <laughs> whether you would save money or whether it would cost you money." And that kind of analysis hasn't been done, but I don't think you're going to get towns to combine in any large-scale way.

And I think a lot of the savings you could force more easily by doing functions better. For example, school transportation was always an issue where people would day "Well, if we didn't have to skirt this town, if we could pick up, you know, where one town juts into another town, we could pick up kids from both towns, we could do it, we could save millions of dollars." And that's true, you don't have to merge the two school districts to accomplish that, you just set up a new system of bus transportation, which would allow you to do that. I think that's a diversion, but a popular one that's not going to go away. You know, Alan Karcher who wrote that book, and people focus on it, and Whitman had a property tax study commission, and that's what they came out with. But, you know, in Princeton we had four referenda—to merge into two Princetons, and they always failed [until 2011]. And I don't think necessarily you'd save money. Because if you have two towns, let's say with two different police forces, they would both be earning what the higher one is earning, not what the lower one is earning. So you'd save one Chief of Police but you'd have two Deputy Chiefs and then you'd have everyone making more money than they were before.

Michael Aron: What about spending caps?

Clifford A. Goldman: Well, we had spending caps in the Byrne program. They weren't caps on the levy, they were caps on the spending. And it was tied to inflation. And we found out—there was a problem with the bond market, first of all. Because they thought—you know, if you've got an artificial statutory impediment to someone paying their debt service, this was a problem. So we exempted that. And I don't know, I guess over the years, people feel it hasn't really worked. But I don't see how you could make it work much better. And the problem is what people spend money on is what people want, you know? And I do work for some cities now as a financial consultant, and, you know, the cities basically provide a police force and a fire department and public works and they pick up garbage and fix the sewers and I mean, they don't do a lot of frills, they don't have a lot of people not working.

Interview with Jim DiEuleterio
October 26, 2015
Interviewed by John Weingart and Kristoffer Shields

James DiEleuterio: I like to think that the legislature and the governor are going to have to take a step back on a lot of the programs that occur in the operating departments and at least, at some point, say, "Time out. This is nice to have, but we just can't afford to do it right now." Because when you think about it, New Jersey has over 1,700 units of government that can affect your property taxes, between the state, the counties, the municipalities, the school districts, the fire districts, the library districts, right on the down the line, you know? There's no room left out there to just say, "Okay, we'll do this, and we'll just increase taxes." You can't do it.

John Weingart: Do you think consolidating, decreasing units, would have a significant impact?

James DiEleuterio: I think that's one idea. I mean, there was some serious talk several years back about eliminating counties. Frankly, I'd prefer to see them go the opposite way, and eliminate some municipalities—not that these become panaceas, but there are probably a lot of counties in New Jersey that can handle law enforcement at the county level, and fire services. I think some of our counties have upwards of 60 or 70 municipalities in them. That's—I just don't know why you need 60 or 70 police chiefs and fire chiefs, you know? And I don't want to pick on law enforcement, but, I mean, there are probably any number of examples—positions within those governments. School superintendents is a perfect one. You know, I just—I don't know whether it's still the case, but at one time we had school districts in New Jersey that had no schools.

John Weingart: That's still the case.

James DiEleuterio: I mean, that's—it's insane. How can you justify that?

Interview with Richard Keevey
May 21, 2015
Interviewed by Rick Sinding

Rick Sinding: 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 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 Sate 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 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 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.

Interview with Judy Shaw
October 24, 2012
Interviewed by Marie DeNoia Aronsohn

Judy Shaw: There were lots of concerns about taxation. That's when that was first coming to play as a result of a Supreme Court decision for education and how to fund education. One of my favorite political stories is that the candidates were working so hard to learn the ins and outs of this very elaborate tax plan, because at the time we didn't have an income tax. So everybody had his, I wish could say or her, interpretation, but they were very schooled in it, and we were at some little meeting, and they were explaining what they would do that would be so much better than the Democratic plan, and they said, "Well, and now we'll take questions." A little guy gets up in the back of the room, and he said, "I just want to know if the leaf sucker is still going come to my street." So to the point of all politics being local, a tax plan or not a tax plan, he wanted to know in the fall if his leaves were going be picked up by the town. So that was a good reminder then, but taxation was the central part of those campaigns for that almost ten-year period.

Interview with Richard Leone and Cliff Goldman
June 9, 2015
Interviewed by Rick Sinding

Dick Leone: I think the beginning of the path to the solution of the problems means making people understand what the problem is and believe in those numbers and understand, therefore, that something has to be done. It's most likely that'll play out little pieces at a time. That's the way our system works. But even little pieces will not be done without extraordinary political leadership, which we don't always get. I think it'll be solved because it has to be. This is valuable real estate, the state of New Jersey. It's not going to go away. It's going to hurt though along the way. If I were a company deciding where to locate my next office, I'd look carefully at New Jersey's budget problems and what they might mean for my taxes in the future. I think the public, each individual, is going to begin to do that and piece by piece we might be able to put together something.

Rick Sinding: Do you see that happening without some crisis point having been reached?

Dick Leone: I think we will reach the crisis point. That's a given. The question is as we get closer to it, who's going to be trying to direct the public's—the public's really angry, first of all. They're going to say they paid taxes already, you want to tax us more? Public employees are going to be squeezed further and they have a right to be angry because they were basically jilted big time by the state by promises that were made to them and were not kept. If I were a public employee in New Jersey, one of the people who aren't covered by Social Security because I had my state pension, and I have a problem and I didn't have Social Security there as a safety net, I think I'd be pretty angry. But that anger might be channeled into something positive, and I hope it will be. I don't see how we get through many more years without facing up to it.