

Governors and State Finance: Florio Administration
Transcript of Excerpts

Interview with David Applebaum
June 2, 2014
Interviewed by Rick Sinding

Rick Sinding: ...Do you think that Jim Florio made a tactical mistake by saying during the campaign that he wouldn't raise taxes and then being held accountable for that when he became elected or was saying that there was no need to raise taxes, something that had to be said in order to get elected?

David Applebaum: I don't think the latter. I think—in the case of saying no need for new taxes, I think the campaign and the Congressman at the time truly believed it. It was one of those situations where you don't have access to all of the information. As good as the access might be or at least you think it is and as good as the information is that you think you have, you are not dealing necessarily with legislative services staff and your own state treasury staff when you're running for office.

Rick Sinding: But journalists who didn't have that kind of access were certainly making that observation at the time. Why was it widely known among them but not among people who were involved in Jim Florio's campaign?

David Applebaum: No. I understand what you're asking. I think part of it is it's not so much that you have to say it; it's one of those things where you really are going based on what the information is that you've got and we had no particular reason to believe otherwise. And certainly when you're running there's a tendency to want to say things that you don't necessarily—that you can't live up to so it'd be easy to say—it's easy to say absolutely ironclad not. What he said was, "I don't see the need"—or "I see no need to raise new taxes" and it's one of those things where I'll take a look at the situation that exists. Folks can interpret that any way they choose but I think—until you see information otherwise I think you go on with the best of intentions and the expectation that once you gain the opportunity to see the information and you gain the opportunity to look at state government you may be able to and hopefully can start making some cuts strategically where it will not necessarily result in you having to raise taxes.

Rick Sinding: A lot has been written about the fact that in order to get elected people need to say certain things and by saying those things it makes it very difficult for them to govern once they've been elected and it seems that that's something that continues to this very day.

David Applebaum: No—probably. Look. If he said, “I see no need to raise new taxes” and he didn’t have to raise new taxes, that’s a great thing. Unfortunately, you don’t get to choose when you govern and in this case he came in and he said what he said during the course of the campaign and the circumstances clearly dictated otherwise, and you do not-- I think the magnitude of the problem was really not known at that point in time notwithstanding the brilliance of—

Rick Sinding: Of--

David Applebaum: --of the media.

Rick Sinding: --journalists.

David Applebaum: That’s right.

Interview with Sam Crane
December 22, 2014
Interviewed by Rick Sinding

Rick Sinding: Do you think that Congressman Florio, candidate Florio made a mistake in suggesting at the time that he had a very large lead in the polls, that he didn't see any need to tinker with the income tax during the course of the campaign?

Sam Crane: I never judge campaigns because I've found that many times, the rhetoric in the campaign gets amended and changed a bit. You know, it's—Brendan Byrne's famous line... was, "You misunderstood me, I said I would never raid Texas."

<laughter>

And I think that is a notion of revising your campaign statement at a later date. And I think candidate—Governor, Tom Kean was the supply side Reagan Republican, by January he was a moderate Rockefeller Republican of the New Jersey color. Jim Florio, a Democrat scared to death that he's going to get strapped as a Democrat with taxes, realizes he's got a huge fiscal problem as Governor-Elect and Governor, reality settles in and that's usually what happens to these guys.

Rick Sinding: Were you aware of any back channel conversations or any conversations of any sort that were taking place between the incoming Florio team and the outgoing Kean team about trying to resolve some of the fiscal issues that were facing the state before Governor Kean left?

Sam Crane: Yes.

Rick Sinding: Can you tell us anything about the texts of those conversations?

Sam Crane: I will just say that I was brought into transition because I was the head budget guy for the Democrats in the legislature and I knew Jim. I was in the transition, in the distinct minority of the approach to fiscal issues and I believed that whatever Governor Kean was willing to do, we should let him do and whatever actions he was going to take, which I would later learn from as Treasurer and then in transition when the Whitman Administration came in is that with the right relationship with the outgoing Governor, enormous things can happen during gubernatorial transitions.

Transitions are treated except by a few of us who appreciate-- transitions are the most important time of the first four years of a gubernatorial term. And they tend to be treated as a chance to fill Cabinet spots and get people jobs and it is the last freedom time you have. And you have a lot of maneuver room. And I am a great believer and was then and to this day that they pay far too little attention to transitions... Usually they bring in a bunch of campaign people who are exhausted and whatever. And what you need is a group of people who are going to then work with the incoming Governor to do what they have to do. You only need two Cabinet Officers the day you get sworn in, Attorney General and Treasurer, one to say, "No, you can't do that because it's against the law," and the other one to withhold the money and then you control the entire state government. So this rush to appoint people while not thinking about how you want to be Governor and be, do Governor and I think a lot-- this isn't a criticism of Jim Florio, I've watched this time and time again. You've got to get your feet under and boy it's the last time you get your feet under before the white hot light turns on you have to act as the elected official.

Rick Sinding: Because they're dealing with the crisis of the day rather than the bigger picture issues.

Sam Crane: Right. And he had a real crisis coming in, I mean, it was not trumped up, it was not made up, it was real and it was huge.

Interview with Richard Keevey

May 21, 2015

Interviewed by Rick Sinding

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.

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 Sindig: 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 Sindig: 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 billion 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.

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....

Interview with Dick Leone and Cliff Goldman

June 9, 2015

Interviewed by Rick Sinding

Rick Sinding: We'll get to that four years later, but let's talk about that transition because I can distinctly remember during that campaign, candidate Florio saying he didn't see a need to raise taxes upon taking office if he was elected, and the entire press corps saying that's absurd. We all know that there is a looming budget deficit in the existing budget, much less in the one that you're going to have.

Cliff Goldman: They didn't know that... Let me say something on this. This was the first time in my history in New Jersey that lying became acceptable. And when this issue arose and transition people started to explain what the situation was, that there was a \$600 million deficit in this current year, and a billion four in the upcoming budget.

Rick Sinding: Explaining to the governor-elect or explaining to the public?

Cliff Goldman: To the governor-elect. And we were low, as it turned out. The numbers were worse. But there was a group in North Jersey, which had just been created, called Polyconomics by some Wall Street Journal former editor, and they put out a report which was either a totally incompetent report or a lie saying it wasn't 1.4 billion or it wasn't 600 million. It was all made up. And it had a terrific impact. It was on the front page of the Star Ledger and nobody contested it. And a year or so later, the senate created a commission to look at this question. This question was so in the dark. What was the situation really? And it was headed by a banker named Robert Kossick from North Jersey. I think he was a Republican. It was bipartisan, business-oriented group. I was the only former government person on it. And I let them talk and talk and they were producing a report based on this study that was a lie, at which point I said you'll be embarrassed. You really ought to get some of the career government finance people to come and explain where we are, otherwise you haven't done your job right. And then they did and Rich Keevey...

Rick Sinding: I was just going to say, the Rich Keevey's of the world.

Cliff Goldman: ...came in with facts and figures and they wrote a report corroborating what Florio had said. So that's why I say it wasn't clear-cut that people understood it to be this big a problem.

[break]

John Weingart: Some people contend and we've had different points of views, diametrically opposed, as to whether Kean considered raising a tax in the transition period or acknowledging that there was a deficit to sort of make the path easier for Florio as he came in.

Rick Sinding: Well, it was specifically alleged that Governor Kean's people were approached during the transition and asked, would he please raise the sales tax, approve the increase of the sales tax.

Cliff Goldman: I was sent to see Kean, not for that, but to ask him not to make contracts and not to spend money. Not to raise the tax but recognize we have this terrible problem, let's not make it worse in these two months. And we were fairly good friends. I'd dealt with him. And he said, "Oh you're so melodramatic. There's no problem." And I said, "Well thanks for your courtesies over the years and I left."

Dick Leone: In answer to your question, there was, in fact, an attempt to get Kean to take some of the heat by moving on the stuff early, getting it out there. Again I think in the context of people not realizing how big the problem was going to turn out to be and plus what the tax brackets would be, but Tom wasn't going to do that. Another person who helped in that score was Bill Cahill, who because he had been defeated in the Primary wanted to see nothing more in the world happen than to have the guy who defeated him—Brendan Byrne—be defeated. He had provided us with any kind of assistance we wanted. In talking about the tax problem, it got almost too big to talk about.

Cliff Goldman: I think the underlying thing is that he did not want to concede that there was any problem at all.

Dick Leone: It would reflect on their management of the budget and taxes.

Interview with Governor James Florio

September 26, 2012

Interviewed by Michael Aron

Michael Aron: Do you recall any contact between your people and the outgoing Kean administration people?

Governor Florio: Yes.

Michael Aron: And whether there were any bumps in the road there

Governor Florio: No. They were fairly good. The transition went relatively smoothly. I met with the governor, Governor Kean, one or two occasions there, but the handoff was smooth.

Michael Aron: Did you two governors talk about the condition of the State's finances during a meeting like that?

Governor Florio: We did, and that was a little bit contentious, because unbeknownst to us the representations that were being made that there was a three hundred million dollar surplus in the current year's budget anticipated turned out not to be there; turned out to be a six hundred million dollar shortfall, which obviously is somewhat substantial, and then we had almost a two billion dollar anticipated shortfall for the upcoming year. So coming into office in January, we had to narrow the six hundred billion dollar shortfall that was there, and anticipate how we were going to submit a budget in March, or so, to deal with the two billion dollar shortfall.

Michael Aron: And in those days, the size of the state budget was probably ten or twelve billion?

Governor Florio: I think it was, like, twelve, thirteen.

[break]

Michael Aron: What was the first thing you tackled as governor?

Governor Florio: First thing I?

Michael Aron: Tackled as governor.

Governor Florio: Oh, you mean, in the transition period?

Michael Aron: No. Now we've got you inaugurated. Now you're governor.

Governor Florio: Okay, got me inaugurated, Yes. Well, actually, the budget was the thing we had to deal with, had to figure out some way of reconciling that. One of the things that was kind of an interesting aside was at one of the meetings we had with Governor Kean at Drumthwacket on this whole issue of the budget, when his people acknowledged the fact there was a shortfall, there was a suggestion they made that his administration, before they go out of office, should increase the sales tax by a small amount of money so as to bridge that gap. That was suggested and rejected, so that didn't happen, but it was something that might have been a little bit more—would have made things a little easier if we could have closed that gap before we came into office, and had to close a gap of somewhere of, like, two point four billion dollars, between the old budget and the new budget.

Forum: The Second Two Years of the Florio Administration

December 1, 2015

Hosted by the Center on the American Governor

Jon Shure: ... Suppose in planning for the 1989 campaign the Florio team had said "Well, there's no bigger problem facing the state than our finances. We're really in trouble. There's not much money left. We're all facing a big shortfall. Let's have a campaign where we debate how to handle New Jersey's finances." Could have had that campaign. Wouldn't have won it. Our opponent wanted us to have that campaign. He kept saying "I'm going to cut taxes, Jim Florio's going to raise them." We said "No new taxes. It's not about taxes. It's about the environment, this and that."

So what's fascinating about campaigns is that they're not usually two people with divergent views on the same issue to lay before the voter. Sometimes they are, but often they're two people with divergent views of what the issues are and trying to convince voters "This issue and solution is the issue and solution, not this one." So one person's running on the environment, one's running on taxes. The environmental issue pervades. It would be great if campaigns could be the other way, and the other thing that makes it easier in a campaign than when you're governing is TV ads. In a campaign your narrative is the millions of dollars of 30-second spots that you put on, and I remember thinking when Governor Florio was in office "God, I wish we had millions of dollars to put up TV ads explaining why this is a good idea. We might win that debate," which is why, to go back to what we're saying about the budget, you get back to this position of "Our time will come in 1993, when we get to put up ads and they get to put up ads, and we'll engage, and one person will win and one person will lose." And to me, granted, history is written by the victors, the governor who raised taxes by more than any governor in the history of New Jersey faced an opponent who promised the biggest tax cut of any candidate for governor in the history of New Jersey, and the election was decided by one percent, so the public was really pretty split on that, and when there got to be a debate over that issue it was kind of engaging.

Rick Sinding: Well, Jon, let me raise a point about whether it would or would not have been appropriate to fight the 1989 election over taxes. As someone who wrote as a reporter at the time that the two sure things that were going to happen was that the next governor of New Jersey was going to be a former congressman named Jim and the other thing was that one of the first things he was going to do was to raise taxes, it was absolutely clear to everyone in the media that that was going to happen. And one of the things that has disturbed me all these years, starting with that-- well, no, starting with elections even before that, was this notion that you couldn't say what you really thought was going to happen during a campaign, and so what you ended up doing was saying things-- it's happened to Brendan Byrne. "I see no need for income taxes in the foreseeable future." That dogged him for three years. If he hadn't said that during the course of the campaign and if it hadn't been as difficult for him to do that-- I mean, I think that one of the problems

with modern campaigning is you end up boxing yourself into positions that you can't sustain once you're elected.

Interview with Governor James Florio

September 26, 2012

Interviewed by Michael Aron

Michael Aron: And it was in that [first] budget, which I guess you presented to the legislature in March of that year, that you proposed closing the two billion dollar shortfall that you had been left with two tax hikes, I believe, the sales and the income tax. Correct?

Governor Florio: Right.

Michael Aron: A lot, I mean, that became the pivot point for your career, at least from looking at it from the outside, fair to say?

Governor Florio: Yes, that's true. That's true.

Michael Aron: In a lot of the examination of how it all came about, the *Abbott vs Burke* Supreme Court decision that you were all anticipating plays a central role.

Governor Florio: Absolutely.

Michael Aron: And the Assembly speaker, Joe Doria, who is now teaching a course here at Eagleton. His name is prominently displayed right outside this door, is said to have said, "Well, look, Governor, if we're gonna hike taxes, let's do it all now, not in an election year. Let's not do it in phases, one this year, one next year." Tell us the story of how we got these simultaneous hikes in the sales tax and income tax proposal for you.

Governor Florio: Yes. Well, you put your finger on it. After eight years of mulling it over, the Supreme Court finally, a couple of months into my administration, came down with their decision on *Abbott vs Burke*, saying that, in fact, the Constitution, the system in New Jersey of financing education at the local property tax level is unconstitutional, providing no thorough and efficient education to those people, those children in school districts that don't have property tax wealth. Therefore, there had to be a system whereby the state would make up the differences between the capability of the different towns to provide an education opportunity, and said we had to go fund it. The advice that I got from different areas is on the one hand, Congressman Doria, or rather Assemblyman Doria, suggested, others as well, suggested we do it in one fell swoop. Others, particularly on the Senate side, Senator [John] Lynch was one of the people that said, "Well, no, no, no. This might be too much at one bite. Let's do it down the road." And there were others who advised that I should really not do anything and let the court ultimately make a determination as to what the sanction was going to be. You may recall under Governor Byrne, when that issue was

coming up, the court actually ordered the students to close, schools to close. I was not prepared to do that. I was not prepared to really delay too terribly much, not only because of the political considerations that Assemblyman Doria talked about, but also, more importantly, the consideration of saying we're going to go another year allowing this system to impact upon these children in these hard pressed districts. That would be inappropriate. You're wasting a whole year full of children, so let's do it now so we can get the money to the school districts, and even up the opportunity for a quality education. And that's what we did.

Michael Aron: So I guess you wanted to hike the sales tax from five cents to six, I believe.

Governor Florio: I think so.

Michael Aron: And then there was another billion dollar hike in the income tax, the different rates.

Governor Florio: I think the whole thing came to about two point four.

Michael Aron: Okay. Two point eight is the number that jumps out in every.

Governor Florio: Maybe it will be.

Interview with Richard Keevey

May 21, 2015

Interviewed by Rick Sinding

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 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: 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 say 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 like Pac-Man [video game]

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.

Interview with Sam Crane
December 22, 2014
Interviewed by Rick Sinding

Rick Sinding: All right, now Doug Berman who had been the campaign manager and became the State Treasurer...

Sam Crane: Correct.

Rick Sinding: Berman is credited or blamed depending upon how you look at it with having made the essential determination, the political determination that Jim Florio should spend his political capital at the very outset of his administration. That if he was going to have to raise taxes and if he was going to have to respond to the school funding issue, that he should do it, and do it forcefully, get it out of the way, take all of the negative and then build up that capital again over the course of the next three and a half years in order to get reelected. And so a major tax package came out of the administration. You were in the legislature and had to shepherd that through the legislature. That must have been interesting. Did you agree with that strategy and how did legislators react to it?

Sam Crane: Well, I think I had to separate myself from my staff position, working for the Democrats and what my personal view was.

Rick Sinding: Let's talk about both.

Sam Crane: So let me start with the personal view. I didn't disagree with Doug Berman on having to face up and fix it early; I think that was wise approach. I think the problem that some of us had was the rush to get it done. And I cut my teeth on the first year as an active player in state government, as I mentioned before, the Kean first year where he had a budget crisis. We passed a budget on June 30th that frankly wasn't worth the paper it was

written on. We knew it was going to fall apart by October or November; we needed a mechanism to keep the debate going. And my personal belief was that in order to raise taxes, cut spending, do whatever you needed to get through this, change the school aid formula, whatever the solution was, you had to give both the politicians and the public space and time.

I'm afraid I come from the Rahm Emmanuel school of politics that no crisis should go unused. And in this particular case, you had to take the crisis in my view and deepen it, that is, you had to do real difficult things. And I often thought that Governor Florio coming in was in a unique position to do that because he hadn't sat in the chair as a legislature, he wasn't a creature of the state government. So therefore, he could come in and go, "Oh my God, look what I found."

Rick Sinding: Well that's basically what he did.

Sam Crane: Right, but he also proposed a solution. And sometimes-- I'm a great believer in there's nothing like an occasional fiscal crisis with what I call budget blood running down the street on West State Street in front of the Capitol, with all the constituencies and all the politicians and everybody starting to say, "Oh my God, the sky is falling, we're going to need a solution." And I think that's what happened in the Kean administration. People forget that the real Kean budget in my view was adopted on New Year's Eve day at the end of his first year. That's when we passed the income tax and remember he held his nose and signed it but he also held his nose and signed it on New Year's Eve. Politically worked for Tom Kean wonderfully but that's when we settled it. But there was now almost 12 months of political and public debate about what to do about the state spending and taxes. And I think it helped educate everybody that we don't like it but we understand you got to do it. In the case of I think with Florio, he had a lot of the right solutions, he had a lot of the right plans and reforms, some reforms I think that today's legislators wish they had adopted with him because he was way ahead of his time on some of them. But the thing was, it was how it was done as opposed to what was done. I think it hurt him that way.

Rick Sinding: Yet the legislature went along and did those things fairly quickly.

Sam Crane: It wasn't that easy on the inside.

Rick Sinding: No, I'm sure it wasn't. John Lynch was the Senate President at the time.

Sam Crane: Correct.

Rick Sinding: You were working for him.

Sam Crane: Yep.

Rick Sinding: And we've interviewed him as part of this series.

Sam Crane: Brilliant guy.

Rick Sinding: And he's talked about the need to stand for something and the need to do it. And he felt, although there were cases where he really had to, he didn't use the expression strong arm, but I'll use it, really work hard to convince some of the members of his delegation, his body that they needed to go along with this for a variety of reasons but eventually it had to be done.

Sam Crane: Yes.

Rick Sinding: And did you feel the same way as a staffer?

Sam Crane: As a staffer I worked for the Senate President, when I first went to work for the Speaker, the guy who hired me, Bob Smartt, took me into the Speaker's office and said, "There's the Speaker's chair, no matter who sits in it, that's who we're loyal to," and that happened to be Christopher Jackman at the time. So when John and the leadership made a decision that we were going to go we did. But they made it after really, I think, almost stopping it in the Senate. It came very close to being stopped in the Senate. And John Lynch was a brilliant legislative leader. He was a brilliant policy guy. He really understood state policy and how to work it and the combination of politics and policy. And we came close to putting a budget in that had no tax increases in it. I did a draft budget through the night one night where I cut the budget into balance with no taxes. It was an interesting enterprise.

Rick Sinding: I'll bet it was. Do you remember the highlights of it?

Sam Crane: All I can remember is about four or five o'clock in the morning some friends of mine in the Office of Legislative Services, stayed through the night to draft the bill. A great organization. And they were friends. I remain friends with a lot of them. At one point we got so close and all they would chant is go, go, go and I had to come up with some other way to cut this or make this line up. We never did it and we ended up passing the tax package. The rest is history.

Interview with John Lynch
October 25, 2013
Interviewed by Rick Sinding

John Lynch: Politics of the issues and the timing was critical to us. And we had a lot of people who had been around for a long time, some of them in our caucus that would never vote for significant tax increases, et cetera that we knew we were going to have difficulty dealing with. So the timing was going to be very important. And we ran into a problem early on because it was clear that the administration wanted to solve their so called budget shortfall with the sales tax increase. And that they were going to do to fund what was

coming down the road from the Supreme Court. Everyone knew what was going to happen. It was just a question of to what degree they wanted to accelerate, accentuate the income tax. And the Senate almost to a person wanted to take care of the budget, do the sales tax, do whatever cuts were necessary to the auto insurance which was long overdue with what was happening in the residual market. And then wait for the Supreme Court decision and go kicking and screaming to fund it. As opposed to doing this in a heartbeat almost reacting waiting for the Supreme Court decision and moving very quickly and talking about it in terms of quality education, et cetera. The problem was that—and there may be some disagreement with this but to a person or a caucus those that are living would say this is what happened. The Assembly leadership, in a lot of their caucus, they had just taken control. We had been in the majority for quite a while. They believed that the Senate would never pass the income tax. And that they wanted to do everything first, the Assembly, of course, has to initiate.

Rick Sindling: Technically.

John Lynch: Technically. I mean the constitution calls for it. So it does technically initiate there. But the fact is they wanted to be able to control it so we had to pass the income tax before they were cast adrift. And that became a point of real concern because our people felt, and so did I, that you needed political timing here. You needed to choreograph this in a way that made sense to the public. You needed to get the public involved in why this was all necessary. And, in fact, that you would have some real semblance of property tax relief, because if you're from New Jersey you know that property taxes is always high on the agenda primarily because of our redundancy in government about the schools and municipalities. So we had that ongoing battle. And we, of course, lost.

[break]

Rick Sindling: Now getting back on the tax issue. Why was the assembly so interested in pushing this first before the senate? What were the political dynamics there?

John Lynch: I like Joe Doria. I like Joe a lot.

Rick Sindling: Joe was the Speaker of the assembly at the time.

John Lynch: Joe was the Speaker. He was the new Speaker. I think they had been in the minority for a while, and it stunted their vision of the political side of this. And they just didn't believe that we would pass the income tax and that they would be left holding the bag. They wanted the school dollars. They wanted school reformation. They wanted income tax passed. They said, and correctly so, that the sales tax is regressive and so forth, but they were willing to pass it. But the question was, "Okay, if you're willing to pass it as part of the budget fix I'll allow what happened with Tom Kean in 1982—if you're willing to pass it, then we have to do it in a way that is saleable, that we can let the public understand

why- why we're doing all this." And we needed that Supreme Court decision to sink in and fester in order to react to it because let's face it. Legislatures universally are reactive.

Rick Sinding: Right. That would be the argument for not pushing ahead quickly on the tax part of it but waiting for the Supreme Court decision.

John Lynch: You could do the sales tax and do the budget. We weren't looking at doing the Supreme Court decision in June. We were looking at subsequently, where you didn't have to go through what happened decades before with sort of a shutdown in the legislature, but make it clear that people don't want to vote for tax increases but at the same time sell that what you're working on is how they're going to get relief on the other side of the ledger. And as you know, New Jersey has the worst in the land. I mean, I saw the stats last year. The top 25 counties in the country there's 18 from New Jersey in terms of highest property taxes.

Rick Sinding: So the judgment, then, would've been you can sell doing a short-term budget fix by raising the sales tax and doing a few other things to cut that deficit. But then the whole issue of completely revamping the tax structure in order to deal with the Supreme Court decision about funding the schools ought to be treated separately because that needs a completely different role?

John Lynch: It's a whole different animal. And don't tax toilet paper.

Interview with Joe Doria
October 6, 2014
Interviewed by Rick Sinding

Rick Sinding: Simultaneous with this initiative comes education reform and with it tax changes that were necessary just to cover the budget deficit that was looming for the coming fiscal year. Walk us through the process that the legislature went through in grappling with first the budget deficit and then also the education reform package.

Joe Doria: Well, I think what happened here, and again hindsight being 20/20, is rather than wait for the actual decision on *Abbott v Burke* a determination was made by the governor's office and by some of us in the legislature that we should begin to deal with the consequences and the costs of *Abbott v Burke*.

Rick Sinding: Because you knew what the decision was going to be.

Joe Doria: We basically knew that the court was going to decide that there needed to be increased funding for the urban districts which became the Abbott districts as a result of the ruling so yes, there was a realization that we needed to deal with that. And so we began to deal with it before the actual decision came down, which in the end as I say, looking back,

we probably should have waited and created some type of a crisis. Rather we decided that we would be proactive and being proactive I think we politically hurt ourselves.

Rick Sindig: Do you think that most citizens recognized that sort of nuanced difference between anticipating a decision that later came down anyway versus waiting a month or two and then saying, "The court's forcing us to do it"?

Joe Doria: I think that no, initially they would not have realized the nuances but eventually they did because obviously the impact of the QEA, the Quality Education Act, and the taxes that were passed to deal with the budget deficit and to fund the QEA became major issues amongst the electorate. So I think in the end they did realize what was going on but it worked to our detriment.

Rick Sindig: One of the arguments that has been made over the years is that Governor Florio's predecessor, Tom Kean, was very successful in getting a number of taxes passed by being dragged kicking and screaming by the legislature to enact them whereas Governor Florio's position was to be proactive and go to the legislature and submit these proposals. Do you think that the relative popularity of the two governors was reflective of that difference and that Florio would have been smarter to have waited for the legislature to take the lead on some of these issues?

Joe Doria: I think that Governor Tom Kean was a very intelligent and very competent governor as was Governor Florio. Governor Florio was extremely knowledgeable in the area of policy. I think Tom Kean was very, very intelligent in allowing the situation to fester for a while and then to create a situation where we came in in one day on the eve of New Year's Eve after an election and passed an increase in almost every tax in the state on a bipartisan basis. Obviously in the situation with Governor Florio, we moved proactively ahead, but the bigger difference in my opinion is that after we passed the Kean tax package the economy boomed and the economy moved forward and did very well whereas after the passage of the Florio tax package the economy did not boom. In fact we went into a little bit of a recession, not the result of those taxes in either case but a result of the national economy.

And so in Governor Kean's situation, the revenue increased significantly and we had more than enough money for the period of time after the '85 election and through 1985. Governor Kean won with the largest majority ever as a result of the improving economy and all the money that the state had to spend whereas Governor Florio was not as lucky. The national economy went into a recession and thus even with the increase in taxes we weren't able to necessarily do all that we should have been able to do with the new money. So I think that obviously the impact of the national economy on state politics and state decision making had a lot to do with the perceptions of both governors, both governors very competent, both governors very able and very knowledgeable, but again now you need to have virtù and fortuna. As Machiavelli would say, you need to have the skills and the abilities but you also need to have the luck and sometimes the luck's with you and sometimes it isn't and in Florio's case it wasn't.

Interview with Len Lieberman

June 7, 2014

Interviewed by Rick Sinding

Leonard Lieberman: ...I think they just made a huge mistake. I think they should have waited until the Supreme Court opinion came down, which would have been a little later in the first year, and it probably would have.

Rick Sinding: Before proposing the tax?

Leonard Lieberman: Yes. 'Because they didn't think the Supreme Court opinion would have mandated it.

Rick Sinding: And, in fact, it did.

Leonard Lieberman: Yes. By then he had hung himself out there.

Rick Sinding: Do you think that's a nuance? Most people don't remember that the Florio tax plan predated by a few weeks this Supreme Court decision, as opposed to it being a reaction to the Supreme Court decision. Do you really think that that's a nuance that would have made a difference?

Leonard Lieberman: Yes.

Rick Sinding: You do.

Leonard Lieberman: I do, because I remember under Brendan [Byrne], by then [Richard] Hughes was Chief Justice. The Court came out with an opinion that I think in effect said you can't open the schools unless you...

Rick Sinding: Well, they did, in fact, close the schools.

Leonard Lieberman: Yes.

Rick Sinding: Required the schools to be closed.

Leonard Lieberman: That's right, right.

Rick Sinding: Of course it was July first, so none of the schools were open anyway.

Leonard Lieberman: No. So the precedent of that—one could have forecast it if something like that would highly likely come again. So I don't know. I mean, it's one of these questions one would never know the answer to. I've come close to pushing Jim on it, then I decided if

I'm right, there's no point in rubbing his nose in it. And in the interval, he got the Profiles in Courage thing for doing that thing.

Rick Sinding: Mostly for the assault weapon—as much for the assault weapons ban, I think.

Leonard Lieberman: You're probably right.

Rick Sinding: As the tax.

Leonard Lieberman: You're probably right. The assault weapons thing was nowhere near as—a lot of states had it.

Rick Sinding: And it was overwhelmingly politically popular in New Jersey.

Leonard Lieberman: Yes.

Rick Sinding: In fact it was one of the only elements of the early activities that wasn't subsequently overturned by the Republican legislature.

Leonard Lieberman: Right. Well, look, this is all your fault. You were sitting there in the powerful place, and you must have had something to do with sequencing the—I mean, if you didn't.

Rick Sinding: How I wish. Yes. This is a question that has been put to Jim Florio on any number of occasions, and obviously it was a series of difficult choices.

Interview with Steven Perskie
March 28, 2013
Interviewed by Rick Sinding

Rick Sinding: One of the early issues in regard to the Quality Education Act was that instead of waiting for the *Abbott v. Burke* decision to come down the Florio team in anticipation of it coming down came out with the Quality Education Act. Again this is all 20/20 hindsight. One of Tom Kean's great successes was getting taxes increased by being dragged kicking and screaming to sign the legislation to increase the taxes rather than being out in front proposing them. Might Jim Florio have done better to have waited for the court to make its pronouncement on *Abbott v Burke* and then over a period of time gotten the legislature to push him to do the things that ended up being done?

Steven Perskie: Every time I hear a complaint about an activist court, and you hear that a lot from a certain political quadrant, I am reminded of the summer of 1976 when the New Jersey Supreme Court closed the schools and forced the legislature to act, and the New Jersey Supreme Court did so because for the previous three years the New Jersey legislature

had not acted in response to a prior order. And I remember thinking at the time and saying at the time to those who criticized the New Jersey Supreme Court for being activist, all they did was to step into a vacuum that the legislature had created, that the public interest required action, the legislature had not acted so the court did.

Now in answer to your question, we didn't by the way anticipate by a lot. We knew the decision was coming; everybody did. We didn't know the exact parameters and the exact requirements, we had to wait for those, but the main thrust of what the court was going to do was common knowledge on the street as well as in policy circles. So we started with that to exercise the leadership that we believed the people of New Jersey had asked Jim Florio to exercise.

Would the whole political dynamic have been different if he had sat back and been passive and let the legislature work the process? Perhaps, but perhaps not. The experience that we had all seen in the 1970s was that the political process might not have allowed the legislature to actively engage and address and resolve the issues. Somebody has to lead. In New Jersey our philosophy was, and mine still is, that's the governor. If the governor doesn't lead, nobody will, and I respectfully disagree with your description about Tom Kean whom I thought was a very good governor, and he and I have had this conversation on a number of occasions. If you want to make a lot of money, engage anybody you know in a wager to identify which governor of New Jersey is the only governor of New Jersey to have signed increases in the income tax, the sales tax and the corporate business tax and you will win that bet every time because they will give you Byrne; they will give you Florio; they will give you Corzine. They will give you any Democrat but they will not give you the truth, which is Tom Kean, and when I mentioned that to Tom the last time I saw him he said, "Yes," and he says, "if you'd have sent me the gasoline tax I'd have signed that too."

The fact is he [Kean] wasn't dragged kicking and screaming. All of these things were done in the first four months of his administration. I was the majority leader at the time and on another occasion if you want I'll tell you how that happened, but what he did masterfully, much, much better than Florio ever did, was to create exactly the mantra that you have just described. Now he had a benefit that Florio did not. As it happened, Florio was not at fault; Kean is not to be credited; it is what it is. In 1982, after Kean asked the legislature for and got all of those tax increases, the next four or five years in the early and mid '80s were a time of economic upswing and expansion so he never at any time for the rest of his eight years in office had to come back to the legislature for anything else....

Interview with Dick Leone and Cliff Goldman

June 9, 2015

Interviewed by Rick Sinding

Rick Sindling: Now let's talk about the Florio years. You were both on the Transition team, you saw the handwriting on the wall. Were the two of you intimately involved in recommending to Jim Florio what he should do as Governor? Were you in favor? I mean, Byrne, as you say, had gone ahead and bitten it right off.

Dick Leone: Maybe I would have given him different advice.

Rick Sindling: Well let's hear from each of you, what your advice was.

Dick Leone: People are always affected by the experience they have. And the experience I had with Byrne was, come to this finally and when you have to give up all of your other alternatives and educate the public along the way that there is no other choice. Not-- don't jump into it because I never believe you when you say, you didn't know it was coming. I don't think the Florio people or any of us understood how bad it was going to be.

Rick Sindling: The reaction, you mean.

Dick Leone: Yes. It was so tempting to take the strategy of getting the tax out of the way and then have the rest of your four years to work on other things.

Rick Sindling: Which in fact was the tactic.

Dick Leone: They needed the tax out of the way.

Cliff Goldman: I was on the Tax Finance Committee of the transition with some of his people who were very good people, by the way. And our recommendation was, you have a huge deficit in the current budget and the only way you can deal with that is a Sales Tax, because an income tax, you wouldn't collect it in this fiscal year. So as quickly as possible, get some sales tax. The legislature--I wasn't involved in these discussions, so I don't know-- but I think they came up with the idea, well the Supreme Court is going to rule on the school finance thing in June and they're going to undoubtedly require us to come up with more money. If we raise the sales tax now and then the income tax later, it'll be worse. Let's go for both of them now. I thought that was a terrible mistake, politically. But that's what they did. And by the way Florio, I think his people were genius to get out of the situation because they ended the first two years with a \$1 million surplus and that is amazing that they could deal with this problem and as we talked about when we did the Florio interview, they funded the pension system and so did Kean, and so did Byrne, and so did Cahill and Hughes and Meyner, etc.

Interview with Gov. James Florio
September 26, 2012
Interviewed by Michael Aron

Michael Aron: That unleashed a firestorm of opposition. Did it not?

Governor Florio: Everyone wasn't as wildly enthusiastic as they could be. Yes, that's true.

Michael Aron: It created a tax revolt in the state, something we hadn't seen before.

Governor Florio: I'm not sure it created it as much as—a tax revolt was created, as opposed to whether it was that that did it. I mean, I would say looking at things nowadays those numbers are relatively modest, compared to things that we're doing nowadays. But, yes, it did. It mobilized it, and, of course, it leads into talking about 101.5, the radio station, and the various groups that started to be formed very much comparable to the Tea Party, what we have right now.

Michael Aron: Hands Across New Jersey.

Governor Florio: Hands Across New Jersey.

[break]

Michael Aron: ...I think your sales tax proposal also proposed extending the sales tax to paper products and a few other things.

Governor Florio: That's a whole story, as well. I mean, my initial thought was that we should expand the sales tax onto a number of products that are not covered, and that's good policy, because there were a number of things that weren't covered. And if I recall correctly, one of the things that I had suggested was cable TV, which was a growing industry, doing very well. I said, "Well, maybe we should have a sales tax for services out of cable." A number of the legislators, who I subsequently found out represented cable television, said, "No, no, no. We shouldn't be doing that. Let's do it on paper products." So I acquiesced and we did it on paper products. As you know, the paper product that was focused upon was toilet paper, which has a certain attractiveness saying, you know, "Why tax this?" And that became a symbol of the tax.

Michael Aron: I think 101.5 and Hands Across New Jersey got thousands and thousands of people out in front of the State House on a Sunday waving toilet paper.

Governor Florio: Yes. It was a very wonderful PR mechanism. So, I mean, it was very creative, very startling to a lot of people.

Michael Aron: It was good theater.

Governor Florio: Much, wonderful theater. I mean, and we had theater in a lot of different areas. One of the interesting things you may recall, Jerome Hines was an opera singer, and one of the things that I don't get particular credit for, I don't think, is that in addition to revenue increases, we had reductions in services, reductions in programs. So this budget

gap was so huge you couldn't do it all on revenues. You had to make reductions, as well. So we had to make reductions in farm products, farm revenues. So we had the farmers out with tractors lamenting reductions we had in those programs. We had the arts people out aggressively. One day we had Jerome Hines out in front of the State House with a crowd of people supportive of the arts with a coffin, and it was labeled, "New Jersey Arts," and he was singing "The Impossible Dream" there with it. It was very good theater. And, again, it was an interesting example of where the problem was so severe that you couldn't do it just on revenues. You had to do it with reductions. People don't recall the reduction protests as much as they recall the revenue protests.

Interview with John Lynch
October 25, 2013
Interviewed by Rick Sinding

Rick Sinding: Now, the assembly wanted to get this done quickly.

John Lynch: I don't think they cared as much quickly. The administration wanted it quickly. Doug Berman wanted it quickly. Doug Berman is the one who wound up in the cross hairs of a lot of the legislature as a result of how he choreographed this and the commitments that he made that weren't fulfilled.

Rick Sinding: What...

John Lynch: Marketing the program, spending a lot of money through the state committee, explaining to the public why this was necessary, what it was going to do and so that there wasn't this monumental reaction.

Rick Sinding: Do you think that there was less effort to explain it publicly than you had been lead to believe there would be?

John Lynch: Absolutely. I mean you have any number of staff people that were involved on a day to day basis that commitments were strong. And it never happened. So that left him-- that made it difficult for a lot of our members going down the road who felt they were hung out to dry.

Rick Sinding: Why do you think it never happened?

John Lynch: I don't know the answer to that. I never got the answer to that. You know, before too long Doug wasn't around anymore.

Rick Sinding: What would that have entailed? What kind of roll out did you see happening?

John Lynch: Radio, TV, state wide programs, spending money to explain the parts, why this was necessary, what the Supreme Court was doing here. What it was going to do to their property taxes, et cetera, et cetera, and how they are going to fix some of the problems with the schools and the—inherently the issues involving what makes New Jersey's property tax so preeminent in this country. And it's gotten worse rather than better.

Rick Sinding: There was clearly a determination made by Doug Berman and by the governor that they would rather spend their political capital up front and then recoup it over the next three-and-a-half years rather than doing this slower roll out as you had described it. But I'm interested in your—

John Lynch: That's where the problem came in because while we didn't agree with that, they committed and you've got a new governor, he's a popular governor. He's got the ball. They committed that they were going to sell this program to the public. They didn't have to sell it to us. Some parts—

Rick Sinding: I was going to say there were some members of your caucus that—

John Lynch: There were some refinements and we had to do a lot of arm twisting to get the votes because a lot of people thought they were walking the plank and indeed, they were right. So that part wasn't easy. But in the bigger picture while it wasn't easy we felt that we would be able to produce the votes. It was more important to us, you know, good policy and good politics is a good fit. And if you don't have the two working together, you're going to abort your policy anyhow eventually. So that's where the problem arose with Berman. And Berman was clearly the head of the pack when it came to interacting with the legislature making commitments, selling the program, and how they were going to make it bought into by the public, how they were going to sell it to the public.

Interview with Rick Wright

May 15, 2014

Interviewed by Rick Sinding

Rick Sinding: This is all happening at a time when—for most people thinking back on the Florio administration and thinking of Treasury, what comes to mind is income tax increase, sales tax increase, backlash, recession, dreadful times for Treasury, for the Governor. And yet you're now painting a picture of a whole series of activities that are taking place within the Treasury Department that most people don't relate with the Florio administration.

Rick Wright: It used to drive me nuts. We would show up at construction sites that we had created out of a lot of effort. And when we'd finally get going, we'd bring Governor Florio and then he'd be booed by the people who were actually on the job. And the two who took the brunt of those bad times—the reason for those bad times was the state of the economy

and the state of New Jersey's budget at the time we came in. And it was what we inherited. And the people who took the brunt of it were Doug and Nate because that's what they were doing.

In the meantime, I was off trying to jumpstart stuff that was going to help us later on. But those two were on the firing line for the headlines in that period of time.

Forum: The Second Two Years of the Florio Administration

December 1, 2015

Hosted by the Center on the American Governor

Michael Aron: I've covered every governor since Byrne, and we've heard the term "under siege" a couple times from Jon and maybe others, and I've never seen a governor under siege as much as I saw Jim Florio under siege in late 1990 and '91, and in jogging my memory in preparation for this session I recalled that in around March or February right after he had been inaugurated *The New York Times Sunday Magazine* featured a photograph of Jim Florio with a tagline something like "The new Democrat" or "The new kind of Democrat."

Governor Jim Florio: It was, "Read my lips: new taxes."

Jon Shure: That's right.

Michael Aron: "Read my lips: new taxes."

Jon Shure: Yes.

Michael Aron: Ahh.

Jon Shure: That's not controlling the narrative. <laughter>

Michael Aron: He was being hailed in late winter of that year as a model for where the Democratic Party nationally was headed, and within two or three months of that thousands of people were throwing rolls of toilet paper at his office window at the statehouse. That was quite a turnaround, and for about the next year or two the press was trying to figure out how it all happened, how those two tax hikes happened simultaneously, and Joe Doria's name figured into that narrative. I don't remember exactly how. Maybe you can refresh our memories here, but the administration was anticipating a Supreme Court ruling that was going to require more school funding, and I guess Joe Doria—and I guess John Lynch was the Senate president at the time?

Joe Doria: John Lynch was the Senate president, yes.

Michael Aron: And the governor and legislative leaders put their heads together and discussed whether to raise one tax one year and another tax the next year, and obviously the decision that prevailed was to raise them both simultaneously early on, and everybody would forget about it by 1993, which didn't happen. I also remember this guy John Budzash, who...

Joe Doria: Mm-hmm, Hands Across New Jersey.

Michael Aron: Hands Across New Jersey, who kind of captivated us in the media. He was such a flamethrower. He was very colorful, and he led that charge for about a year, year and a half and then totally disappeared. I don't know...

Joe Doria: Well, he turned. He actually turned. He turned, and he ended up spending a lot of time with me.

Michael Aron: What do you mean spending time with you?

Joe Doria: Well, he had a major split with some of the founders of Hands Across New Jersey, and he eventually decided that they had been used and felt very upset over what took place, and he came and spoke to us a number of times—spoke to me about the fact that the group had been used for political purposes that it was not intended, that it was supposed to be a community—no, a citizens program but that different groups, the NRA specifically, had used them by providing money as the seed money to get them going and that they became political rather than maintaining themselves just as a citizens organization, and they were used politically against the Democratic Party and against Jim Florio. So he turned totally. By 1992, the end of '92, '93 he was on the opposite end and was fighting with the people that created the organization with him.

Governor Jim Florio: Can I share a Budzash story with you?

Michael Aron: Sure.

Governor Jim Florio: After this all hit the fan I invited the leaders of the group to come to the statehouse, and about four or five, led by Budzash, came there, and we had a conversation. Brenda [Bacon] brought out cookies, and it was a nice conversation, but I said to them "How many people in this group make more than \$75,000?" They all laughed. Nobody does. I said "Well, you're not going to pay any income tax increase at all." I said "How many people got a Homestead Rebate?" They all raised their hand. "How many people had your JUA assessments on your automobile insurance rebated to you for \$300?" They all raised their hand. I said "What the hell are you doing here? <laughter> This was for you." And Budzash at that point said "Well, I'm going to be a millionaire someday, and I don't like taxes."

Michael Aron: I just want to say two more things before I pass the microphone on. One was I said that for the next year the press tried to figure out how these two taxes happened

simultaneously. The other focus of the press was this question of whether the tax hikes were properly "sold" to the public. It became conventional wisdom after the spring and after the budget was signed and the taxes hiked that the Florio administration had not properly "sold" the rationale behind hiking both taxes, and I thought at the time and I still think today if Jon Shure couldn't sell them, I don't know who could've sold them.

Jon Shure: Well, it's not the easiest product in the world, but I think this was part of the discussion too. You can get into the theatre of it, you can let crises emerge, you can lay people off, you can finally say "Well, we tried everything. We have to raise taxes." And I think what others of you have said—I think part of it, though, was look at the Byrne and Kean models, which was kind of like "The sooner you do it, the more time you have to recover from it." I don't mean to say people forget about it, but people will see some benefits from it. The Homestead Rebates certainly worked in Brendan Byrne's favor. So I think that was part of it, but I remember it was kind of a fetish on the part of the press to analyze this, and that too was kind of—it was all the horse race, not like "Well, let's see how the state might benefit or not benefit from these policies" and more like "Well, how did he sell it?"

And I remember one time the governor signed the income tax increase in public. I think we did the sales tax increase with no fanfare, and people started to write "In the dead of night he signed a sales tax increase," and so then we said "Let's have a public ceremony, and let's tell the story here that we are raising the income tax in order to-- because this is what the Constitution says-- reduce property taxes." So the governor smiled and said "This is to reduce property taxes," and then people said "Not only did he sign an income tax bill, he smiled when he did it." So sometimes it's a little hard to get out in front of that.

[break]

Jon Shure: ...On July 1st, 1990, I went to the statehouse. It was a Sunday, but I decided I wanted to go. I wanted to look out the window from the second floor and watch this rally, and I watched it, and I said "This is not nice." And I remember coming in Monday morning...

Michael Aron: It was huge.

Jon Shure: Monday morning I was saying to people-- I said "Let me tell you what happened," and some people were saying "When the summer's over and weather cools off this'll be gone." I said "I'm really not sure," because it was egged on.

And you want to feel sorry for me, let me give you this one. So I decide to go on with John and Ken one afternoon [on 101.5], right? I'm sitting at my desk in the statehouse, and I'm not bad at this, and I'm going tooth and nail. We're going at it real good, and I was really proud of myself. So I came home that evening. My wife was in tears. I said "Didn't you hear me on the radio? Wasn't I great?" And she said "Did you hear what they said after you hung up when they called you a liar?" And so that was part of it. If you called into that station

saying "I want to support Governor Florio's taxes," click, they hung up on you. They had a marketing strategy, and they were doing it, and what's interesting about that is just how much that has-- I'm not saying that's what journalism has become, but that is now part of the media. And on the one hand there's actually a piece of it that I like. In the old days before objectivity was invented, which was really a marketing tactic as well on the part of mass newspapers, you knew this paper was a Democratic paper, this was a Republican paper, whatever, and you went with it, and to some extent we're getting back to that. You watch Fox News if your viewpoint is this, you watch MSNBC if it's this, but in the earlier days of it there was more of a pretense of "We're just telling it like it is," and so I think it altered the media landscape....

Interview with Gov. James Florio

September 26, 2012

Interviewed by Michael Aron

Michael Aron: In terms of education, we talked about *Abbott v. Burke* and the court order to spend more in the special needs districts. There were fights subsequently in your administration, during your administration over the Quality Education Act. Can you enlighten us as to what that was all about? Senator Lynch was very much involved in that, I recall.

Governor Florio: Well I mean Senator Lynch was very much involved particularly in the allocation of monies; that he wanted to take some money out of the Quality Education Act proposal we had because he wanted to make sure that the money would go for property tax relief directly. We made the argument that in fact quality education was in fact property tax relief because in fact if the court was ordering you to increase monies for education, if you don't do it at the state level, you have to do it at the local level. That means property tax increases. Well we said a more equitable way of doing it was to raise money at the state level and distribute it back to the communities in accordance with the formula.

The difficulty of course in that whole issue at that time was the Supreme Court was very candid in saying for the years before me and even during my years they really don't know what a thorough and efficient education is in terms of any specificity and therefore they do know that quality education's achieved in the high affluence school districts and therefore that's a factor of money. Since they didn't know specifics as to what constitutes it, they're going to use money as a surrogate for quality education. Therefore the school districts that don't have the money should have the money supplemented by state money. Since that time of course the educational people have learned a lot more and the courts have learned a lot more so now they can dictate and specify what they should be doing in terms of preschool education, class sizes, quality of buildings. They can be more specific in ordering what should be done as opposed to just the bare assertion of money being the answer.

Michael Aron: Was the Quality Education Act the consequence of their order for equalized school funding?

Governor Florio: The answer's yes.

Michael Aron: Okay.

Governor Florio: That was our response to them trying to even up the thing. Subsequently after I left office the Supreme Court came and said in a subsequent decision that the Quality Education Act made a dramatic improvement, but was not good enough. There had to be more money provided to it, but by that time they had made the determination that it was either more money or more specific outcomes by virtue of preschool programs, quality education in classrooms, classroom improvements, school improvements and so on. So it gave more latitude to not necessarily have to raise money per se if you could figure out some other cost-effective way of achieving the specifics that lead to better outcomes.

Michael Aron: The chief justice of the Supreme Court when you were governor was Robert Wilentz who had been appointed by Brendan Byrne I guess—

Governor Florio: That's right.

Michael Aron: ...and then reappointed by Governor Kean and you told me recently in connection with another story I was working on that you did not get to appoint anyone to the Supreme Court.

Governor Florio: That's right.

Michael Aron: Were you comfortable with the court?

Governor Florio: Yes. Matter of fact I was enthusiastic about the court. Obviously I thought they took a little too much time. It should've been done on Governor Kean's watch. Let him deal with the problem, but it's interesting, as I read through the transcripts from the attorney general's office out of Governor Kean's administration it almost became embarrassing to read their positions that everything is okay. They contested on the Supreme Court case that there was a need for changing the system and I even made reference to this in the campaign. That was an indefensible position. The quality of education in some of the particular urban areas was nowhere up to snuff and nobody could in good faith argue that it was adequate and therefore it shouldn't be changed. So I was prepared and actually said in the campaign that I was going to be dealing with this problem; that I thought we had to change the educational system. I didn't anticipate it would come down so quickly, but I was not surprised when it came down the way it did.

Interview with John Lynch
October 25, 2013
Interviewed by Rick Sinding

John Lynch: Well, the problem was how much money are you going to spend on the schools...

Rick Sinding: And the apportionment between rural and urban, suburban.

John Lynch: ...and how are you going to fix this deep dark hole including the betterment of the schools, per se, the money being spent wisely and we can get into that later on. But the fact is that we had real concerns about that. We were just pouring money into something here. A lot of people had this concern. We're just pouring money into something at the end of the day we're not going to have a product because you always have this disparity with the Abbott Districts. And you're chasing your tail because the more money you put in, the suburban richer districts keep growing and growing and growing. So the Abbotts are always chasing after the richer suburban districts. And there was no way to solve that short of having some kind of a flexible cap that you had for the Abbott's and you had a tougher cap for the more affluent districts. And that's the \$64 question. When you look at the Supreme Court decision and how it plays out in practice because the real world is you'll never—the Abbotts will never catch the suburban districts short of having some kind of caps that will help produce the result.

Rick Sinding: My recollection is that the legislature and the Senate, in particular, did prevail upon the Florio administration to make some adjustments in the formula.

John Lynch: Later QEA2. We passed QEA1 and then we had a commission from Bell Atlantic, of course, I had Bell Atlantic, and was a chairman and we had a really decent commission and they went through the schools, in part. There were a lot of things they wanted to do, thought we could do to create more efficiencies to get rid of the smaller districts because they didn't have a breadth of curriculum and etc. And there was a great disparity between the bigger districts, particularly in the consolidated districts, seven or eight big ones who were producing good results. And the smaller districts who just didn't have the resources to start with. And as a consequence they didn't have the breadth of curriculum and manpower et cetera. So they did a lot of good work. But, in reality, what they came up with was in order to meet the Supreme Court decision and create some effectiveness you had to have an flexible cap so one for the Abbotts and one for the suburban districts and have it be a real cap, not an illusory cap that we've had so many of.

Rick Sinding: And that's what QEA2 did?

John Lynch: That's what QEA2 did and it took money and push it back against the camps to the municipalities so that in—ironically in 1991 if you look at the tax records across for the state, the only year property taxes were flat and we couldn't sell it. But that happened

because we really pushed about 900 million against the cap. Without the cap it doesn't happen. And as you know, subsequent to the passage of the income tax in QEA1 the NJEA contracts across the state were averaging thirty percent for three years. Not that the teachers weren't underpaid. They were. But the NJEA represents everybody.

Rick Sinding: And that reminds me of another element of the whole QEA, Quality Education Act, that was very controversial and that, in fact, cost the administration the support of the NJEA which had to do with the funding of teacher pensions.

John Lynch: Yes.

Rick Sinding: That that cost was now to be borne by the local district rather than by the state. And that the teachers rebelled against this and withheld their support...

John Lynch: The union.

Rick Sinding: The NJEA.

John Lynch: There's a difference.

Rick Sinding: Okay. The teacher's union withheld their support.

John Lynch: They wanted everything. They wanted all of the money and they wanted everything their way. You know, that's understandable. They're a union. But that wasn't necessarily the best policy for the taxpayers or the state of New Jersey in how we move forward. But I think the more critical issue is how do you solve the *Abbott v Burke* formula problem.

Interview with Joe Doria
October 6, 2014
Interviewed by Rick Sinding

Rick Sinding: The Quality Education Act was a fairly radical departure from the status quo at the time in terms of a fair amount of redistribution of educational expenditures. It also included a very controversial provision to have local school boards rather than the state take over the responsibility for teacher pensions.

Joe Doria: No. It wasn't taking over the responsibility.

Rick Sinding: Okay. I'm sorry.

Joe Doria: The state would still be paying the pensions but the money that the state provided for the pensions would be included and shown as aid to the individual district. So the district wasn't going to be paying for the pensions; rather the districts were still going to

be receiving the money for the cost of the pensions from the state, but the amount of money that each district would not have to pay for the pensions of their certificated employees would show as aid to the district. So what was happening is for the first time a real number was going to be shown for what the district was receiving from the state that included the cost of pensions and social security, which had never been shown. Every district in the state receives money whether they're the richest district or the poorest district in the fact that the pensions are being paid for by the state of New Jersey. Now, contributions haven't been made in many years now but the state has the responsibility for making those contributions, different than let's say the local municipality, which has to pay the state on a yearly basis for the cost of the contributions for each of their employees who are in the state pension. So what happened is the calculation was the issue. It wasn't that the districts were going to be asked to pay; it was that you would know what they were receiving.

Rick Sindig: If it was simply a matter of knowing what they were receiving as opposed to placing any more responsibility on the local districts, why was the NJEA so adamantly opposed to this?

Joe Doria: They were opposed very strongly because they believed once the actual amount of money that was being spent on pensions at a local level and being paid for by the state was included in the state aid package, that this would then open the opportunity for negotiations on the pension—that now this became part of the state aid money that a district was receiving, so the discussion could now take place over pensions and the cost of pensions and what pensions provided and they did not want to open that discussion. They did not want anybody to realize that, because up until that time and even to the present most people don't realize that the state of New Jersey pays the cost of the pension for all certificated employees, so it was really the creation of the visibility of the pensions as part of the aid received by a school district that became the big issue

Rick Sindig: So it was a slippery slope argument.

Joe Doria: It was a slippery slope argument. Their concern was that this just opens the opportunity to negotiate pensions and they did not want to negotiate pensions and they didn't want anybody to realize that places like Millburn and Summit actually received significant amounts of money from the state whereas the Florio administration and the legislators believed, "Hey, we're spending this money. Everybody should know when they complain that all the urban districts are getting so much money that everybody's getting some money and actually some of that money is significant."

Rick Sindig: A significant amount, yeah.

Joe Doria: So that was that argument and that was the crux of the issue with the NJEA. Otherwise they loved the QEA. They will tell you to this day that everything else in the QEA was really much better than has ever existed, but the problem was that within the internal

politics of the NJEA—and Betty Kramer was the president at the time and she was a Republican, not that that had much to do with it—they were concerned about how it would impact on the negotiation process. And their members didn't understand the differentiation that was taking place and that created the great controversy, and once you stirred the members up over the QEA there was nothing else that could be done.

Interview with Richard Keevey

May 21, 2015

Interviewed by Rick Sinding

Richard Keevey: 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.

[break]

Richard Keevey: 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?

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.

Interview with Sam Crane
December 22, 2014
Interviewed by Rick Sinding

Rick Sinding: The 1991 midterm election results in the unprecedented election of a veto-proof Republican legislature.

Sam Crane: Correct.

Rick Sinding: And you become state treasurer.

Sam Crane: Yes.

Rick Sinding: So let's talk about these two years.

Sam Crane: Okay.

Rick Sinding: You have to come up with a budget, a Florio administration budget that you know is going to be rejected out of hand the minute that you present it to this particular legislature. Walk us through the first couple of months of trying to piece together what would have been the fiscal year '93, I guess, budget the one that would have to be passed by June 30 of '92 by what is now a Republican dominated legislature.

Sam Crane: Well, it was an interesting process because as a member of the executive branch and not the legislative branch we get to propose, they dispose. But one of the things I had going for me is the new chair of the Senate Appropriations Committee was Senator Littell who had been on the Joint Appropriations Committee the entire time I worked for the legislature. And even though I didn't serve him, I worked for the Democratic staff, the members of that committee got to know each other. And they might have disagreements but they also work things out on a minor level. A bunch of ministerial stuff kind of was agreed to.

Rick Sinding: I should point out that Senator Littell was a little further right than most of the members of the Republican party of New Jersey, most of the senators of the Republican party of New Jersey.

Sam Crane: Verbally, yes, but at the end of the day he knew that the government had to be run. So the chairman of the assembly committee is now-Congressman Frelinghuysen, also a member of the joint appropriation committee of long standing and who I got to know through that process. So the one benefit that the only thing I had going for me as treasurer

was that I knew—I had a relationship with these two men and their staffs because remember their staffs followed them to the joint appropriations. So we all knew each other. And that's the time when the *Star-Ledger* used to write a story every day that we'd go to dinner after hearing days and they would complain about the money being spent on us eating. But what happened is everybody got to know each other. And so on a lot of levels you didn't start with hi my name is Sam Crane and who the hell are you, you started with hi Senator, how are you? Or hi, Assemblyman or Mr. Chairman. And their staff and I knew each other. They represented their point of view, as they should. But we started off with some kind of a personal relationship which, I think, made it easier. They were going to repeal the sales tax because Chuck Haytaian was determined to do it.

Rick Sinding: Chuck Haytaian was the new Assembly speaker.

Sam Crane: Assembly speaker and somebody who I grew to respect because as much as I thought he was wrong and as much as we may have had some colorful conversations about state fiscal matters, when Chuck gave his word he would do something, he'd do it. And it was a great experience because I could-- and if I gave my word to him I never broke it because I realized that that was the bond that allowed a lot of other things to happen while we were fighting over the sales tax because you had the rest of the government. And so that year we had the sales tax fight and it was what it was. We ended up cushioning the cuts. We didn't do as badly. The budget passed pretty much on time. There was a lot of back and forth. The next one was much more difficult than that one.

Rick Sinding: This was to—the sales tax had been increased from six to seven percent in the Florio first two years. And had also been applied to a number of items that it hadn't previously been applied to. So now the movement in the legislature is to repeal that to bring it back to six percent and to remove it from the items that it had been placed on.

Sam Crane: On some of them.

Rick Sinding: On some of them, toilet paper being the obvious one.

Sam Crane: What is interesting is that the story can be written today that of the famous \$2.8 billion taxes they repealed less than 800 of them.

Rick Sinding: Eight hundred million.

Sam Crane: Eight hundred million. The rest of it stayed in place because they couldn't do it because of the recession they needed the money. In order to do the sales tax cut they couldn't do undo the rest of it. And so that—it gets turned on its head in the rewriting of history that they repealed the Florio tax plan. They did not. They repealed one part of it.

Rick Sinding: Actually, the income tax part of it didn't get repealed until Whitman was elected.

Sam Crane: That's correct. And only a portion of it.

Rick Sinding: But my recollection is that Governor Florio vetoed the budget. Was that the following year, or...

Sam Crane: No, the first year. We vetoed the budget. They overrode us. And part of that was the governor couldn't say I unnecessarily raise this tax. This was a political decision. I think it was probably the right one at the time and we said we needed it. We said we needed it and frankly we still did because we then started to bleed the government. I got a call a year-and-a-half after I was out of office by the head of the transition team for treasury who called to thank me for thinning down the department of treasury. He never thought that the treasury department or any department in state government would be smaller when we left. We had reduced, fundamentally reduced the size of state government which made the public employee unions mad at Jim too. I mean so he had it coming from all sides at that point. But he was managing in a fiscally responsible way. And we ended up with a fairly fiscally responsible budget. The next year was harder because it was an election year and that all of the politics was out because it was a gubernatorial year and that's when it was really rugged.

Rick Sinding: Really? I didn't recall that the following fiscal year was more difficult. Maybe that was because there wasn't the cut back on the sales tax anymore. This was now...

Sam Crane: We reduced the size of—we were laying people off. And it was tough. It's tough to lay people off and it's tough to lay off people in the state government with bumping and civil service and union rules is the most difficult part of it.

Interview with Richard Keevey

May 21, 2015

Interviewed by Rick Sinding

Richard Keevey: Now we get into where you're going, Fiscal 1993, and the Republicans have taken over 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.

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.

Forum: The Second Two Years of the Florio Administration

December 1, 2015

Hosted by the Center on the American Governor

Joe Doria: So that—there was a major change as it related to the makeup of the legislature. The Republicans had a significant majority, a veto proof majority at that point. And the process was one of what was going to happen now that the makeup of the legislature was significantly different. The Senate was also at this point and place and time changing over also. Don DiFrancesco became the Senate President. And we had a legislature now that was all Republican in high numbers after the '91 election. So the first question, I think, really is what was the position, where was the Republican majority moving? And Chuck Haytaian obviously worked with the majority leader and his staff with Don on the issue. So what was the first thing that you saw Chuck at that point that had to be done?

Chuck Haytaian: Well, thank you, Joe. And, Governor, it's good to be here. The first part of my agenda was to reduce taxes and that was to reduce the sales tax although everyone was telling me you can't do that. I remember we went to a *Home-News* editorial board and Bob Franks, the late Bob Franks, was with me and the editors asked me, "Well what's your first item on the agenda?" I said to reduce the sales tax by one percent. Bob Franks almost fell off his chair because he did not expect that, nor did I tell him I was going to propose that. It was the first time I came out with that as an issue that we would run on in preparation to hopefully take control. And I had talked to Steve Kalafer, a lot of you folks know Steve. He's a very influential businessman. And Steve had discussions with me and had indicated that it should be reduced to five percent rather than six percent. And I said, Steve, you can't do that. That's \$2.8 billion or thereabouts and we just couldn't do that. So we settled on the one percent. And we settled in the Assembly on the one percent and it became a difficult proposition initially in the Senate and I wish Don [Senate President DiFrancesco] was here so that I don't say anything out of order but since he's not here I can.

<group laughter>

So we proceeded along with the help of the majority leader and Don Sico to make Assembly bill one, AR 1, our sales tax reduction. And we passed it. It was the first thing on our agenda. There were many other items that we were looking at some of which were taxes that were put into effect in '91—'90 and '91 that a lot of our constituents and constituencies

around the state wanted reduced or eliminated. And that was the second major item to look at - all of the taxes that had been instituted and that really fell on Don Sico and his staff which was our staff did a great job because we did produce when we got in a budget that Governor Florio's team had indicated would be about \$16 billion. And we were able to reduce that with the sales tax reduction to \$14.9 billion. And then we could talk about the veto of that budget and whatnot as we go on.

Joe Doria: Okay. Maybe some reaction back from the administration as it related to the passing of the sale tax reduction that took place in May of 1992 -- actually it passed on April 2 both houses of the legislature. At that point in place and time Sam, you were the treasurer, what was your reaction and the feedback?

Sam Crane: Chuck Haytaian and I screamed and cursed at each other in his office one day about this issue and have remained friends ever since. They were elected to reduce taxes. And Chuck, I think, is being a wee bit modest that he just came up with the idea of Assembly bill number one. He was going to reduce the sales tax no matter what. I think the administration thought for both the short term and the long term that this was a problem given the outline that we heard earlier. But I think there's also an important part of the conversation that got lost in that while there was this war over the sales tax then Assemblyman [Rodney] Frelinghuysen and then Senator [Robert] Littell and members of Don's staff and the Senate staff were in the treasurer's office working on the underlying budget issues. So that in some ways and I think this is part of what the governor's outlined, it teaches you maybe something that's different from today or different in our politics is that we were going to go to war over the sales tax at some point. But underneath that, there was this quiet working and you remember those sessions where we had them. They sit around the treasurer's conference table and we shared everything with them. They saw it all. We decided that if you wanted to be a partner you're going to have to not only get the glory of-- you're going to have to bear the burden of the decisions.

John Weingart: Did this start after they were sworn in?

Sam Crane: Yes. And I have to give now and perhaps soon to be Chairman of the House Appropriations Committee and a good friend of mine, Rod Frelinghuysen, a lot of credit because he went to school during that session. And I felt as if both in those rooms and private conversations I had with him we were working out some underlying stuff that kept the government going, that made some changes, that achieved some of the objectives that the governor wanted, while the sales tax formed the headlines. And I think that is too little noticed. And perhaps something that may not, if the position was switched or today, be something that would have happened. And I think that was somewhat a measure of we were going to have our political fight, but we weren't going to tear up the house while we did it. And I think that was a difference here. And to this day I have a lot of respect for Rod Frelinghuysen because he took on the burden. He carried water for you, Mr. Speaker, on the sales tax. But other than that he was a pretty good egg.

<group laughter>

Governor Florio: I can share an insight. This was an experience that I learned something from that I had a number of commitments from Democrats to override the veto... They all went south. One, in particular, the day before the vote pledged to me that he would support my position. The next day, the pledge disappeared. So I learned something out of it.

<group laughter>

Joe Doria: Not a surprise. That was part of the learning process that all of us went through as it relates to sometimes people changing their votes at the last minute.

Chuck Haytaian: But Joe, we didn't need the Democratic votes. We knew that right from the get go. I mean we had 58 votes. What we needed was 54 so there was no reason to negotiate with anyone, quite frankly, on the Assembly side. The Senate side, as I indicated, was a little bit of a problem and that background, some of you may not know. Don DiFrancesco did not want to reduce the sales tax. In fact, his comment to me was, "Well, now wait a minute, Chuck, you made that pledge. And so did John Dorsey, but John Dorsey is not the Senate president. I am." I said well, Don, what the hell difference does that make? We ran on it. We got overwhelming majorities in both houses, veto-proof majorities, and you're telling me now you don't want to reduce the sales tax. And fortunately with Don's help and Jack's help and we got together in Don's office and he wanted a few things to be taken care of which I agreed to and that's how it passed the Senate because I had to worry if we had gotten a veto. And we'll go into talking to the Governor at Drumthwacket about that. But we needed all of Don's votes in the Senate to override a veto.

Rick Sindig: What were his objections?

Chuck Haytaian: Who, Don's? He thought the budget could not work with that sales tax reduction. That was his way of looking at it. He, quite frankly, was wrong because as it turned out we got better revenues even with that sales tax reduction. Now, you may say no but the budget was passed.

Richard Keevey: No.

<group laughter>

Chuck Haytaian: It was overridden but it worked. Now, I remember Ray Lesniak getting up on the Senate floor saying, "What Chuck Haytaian did is going to kill children in the street." That never happened.

Interview with Gov. James Florio
September 26, 2012
Interviewed by Michael Aron

Michael Aron: And when you look back on the term now, roughly 20 years later, what do you think your legacy is?

Governor Florio: I don't know about legacy. I mean the things issue-specific, good things on guns, good things on the environment. I happen to think in some respects my apprehensions about the income tax cut have been reinforced. I mean if you think about it, the income tax cut was not paid for by reductions. It was paid for by failure to pay into the pension system, which is the primary problem we have now 20 years later. The accumulated deficit for the pension, whatever it is, \$58 billion, is something that's a serious problem. So my apprehensions were correct and I think people who look at it now would appreciate that, but the fact of the matter is you can't change things, so it's just a matter of how things play out.