Governors and State Finance: Whitman Administration

Transcript of Excerpts

Interview with Governor Christine Todd Whitman
August 20, 2012
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: What were the major issues during that [vs. Florio] campaign?

Governor Christine Todd Whitman: Oh, taxes. Taxes were the number one issue without question. I mean we put out blueprints, which—where the covers were literally takeoffs on architectural blueprints. And we had one on every single issue that you could talk about facing the state. But the issue that overrode everything was taxes. And that's when I came out with my 30 percent tax cut over three years and just ran hard on that. And then I talked about property taxes and auto insurance rates. But those—auto insurance and property taxes—were the big, big issues.

Marie DeNoia Aronsohn: And again as we discussed earlier, this was a time when all people in New Jersey were hurting.

Governor Whitman: Well, as I said, we lost 350,000 jobs. You could drive down any street in the state in any of the towns and see shuttered businesses—especially small and mid-size business. So it all fed into the unemployment issue. I mean that was an issue that we talked about obviously. But it was the overall economic malaise of the state and the fact that we were not in our normal position of leading the region out of a recession and having an unemployment rate that was lower than the national average. And so economics was the overwhelming issue.

Forum: Economic Policies of the Whitman Administration
October 28, 2013
Hosted by the Center on the American Governor

John Whitman: Well, I think looking at the second slide is really the way to start this conversation, because I don't think we realized how bad it was at the time. We realized it was bad, but we didn't realize how bad it was. If you look at the slide, over the four years of the Florio—well, actually, it doesn't quite fit the Florio administration, but it's close. There was a 7.8 percent drop in employment, if you take the static three million employees in New Jersey versus for the grand recession of 2008 and '09, there's only 7.4. So the recession—and I think Jim [Hughes] made this point—was the biggest for New Jersey, ever. Much bigger—well, not much bigger, but bigger than even the 2008/2009. So if you then correct it for inflation, and all the rest of it, this thing is absolutely huge. And really, I think, was a major factor in causing Florio to lose. Now, he exacerbated the problem, as we know, and handed us a bunch of things like the toilet paper tax, and things like that, which we were able to use. But basically, what it really did was give everybody in the State, a reason to change. And that's probably the most important factor. Remember that not only was Christie the first lady, but she was the first person to beat an incumbent governor. And that could only happen if you had an economic environment like this. Again, I don't think we realized it at the time. I mean, we knew things were bad and it was clear to everybody in the State that it was bad-- but I really just since looking at this chart, I've been trying to remember, and somebody else should maybe help me with this, did we realize how bad it was at the time? Does anybody remember?

Governor Whitman: Well, we knew it was bad enough to premise most of the campaign around doing something about it, tax cuts and changing the business environment. I'm not sure it would have made a difference to know how bad it was. Knowing it was bad enough to focus the major part of the campaign, we had those booklets for every issue under the sun, which nobody ever looked at, but we had them. We had blueprints for everything. But the main thing was the economy. And again this is looking at it from hindsight, it was much worse than we knew it was, but I'm not sure that would have changed anything that we were proposing.

Harriet Derman: Can I say something? I was in the legislature at that time and I think the legislature, the Republican-controlled legislature—an anomaly—was very focused on economic recovery. Many, many committees. Whatever they were related to, appropriations, energy, anything would have somehow have a meeting on economic recovery, and tried to get some legislation, whether it was recognizing S-corporations and LLCs, anything at all that could remotely help in bringing down unemployment rates. So I think the legislature at that time—this is '91/'92—was focused on that. It was out there.

John Whitman: I think Governor Florio actually exacerbated all of this. He did exactly the wrong thing from an economic point of view and those of us who think maybe the current Fed has done too much. He said, "Well, we're going to increase taxes on everything. We're going to cut spending. We're going to do all of these things." All of which made this worse. And I don't know whether you have any thoughts on this, and I'm not trying to have a political discussion, but it does seem to me that part of this, as Christie reminded me on the way down, New Jersey usually leads the region out of a recession. And in 1991 and 1992, we were behind New York coming out this time. And so what's the difference? Why would we normally lead people out of a recession, and be behind in this case? And you have to say that at least part of it would be public policy—that in fact, the things that the Florio administration was doing was actually hurting the economy as opposed to allowing it to recover the way it normally would.

James Hughes: I think I agree with you there. The increase in the State income tax rate from three-and-a-half to seven percent in the midst of a recession is exactly the wrong type of policy action. But there's also a parallel to 2002 to 2003 when we instituted the half-millionaire's tax, and you can see by the size of the blue bars, its partial impact on the economy. There were other factors in there. But both of those were signals, I think, to Corporate America that New Jersey was not friendly to business, for the most part. We're still bearing the burdens of those decisions.

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

Michael Aron: By September I think you were 20 points ahead.

Governor Florio: I don't think 20, but we were a good split margin.

Michael Aron: And then she came out with a tax cut. Right. And that turned the tide, did it not?

Governor Florio: What was interesting I guess people say, "Do you have any regrets?" I said the only thing I regret is the fact that I didn't take seriously the attractiveness of the tax proposal. I mean I just dismissed it as being so irresponsible that nobody would support this and I was reinforced by the editorials around the state. I mean the editorials, *The Star Ledger* editorial was aggressive saying this was insulting in certain terms of just the irresponsibility of this proposal. How are you going to pay for it? I forget what the percentage was, but a big tax—

Michael Aron: A 30 percent income tax cut.

Governor Florio: Yes, how the heck are you going to pay for this when we're already having budgetary problems? Tell us what you're going to cut and nobody said anything about that, so I just assumed that nobody would take this irresponsible proposal seriously because I didn't take it seriously and the newspapers didn't take it seriously. What I think what it ended up being is people who were in the marginal areas of not being sure one or the other, even if they didn't believe it said well at least she's talking about tax cuts, so that's something that's desirable. The election was determined by less than one percent of the vote, so it was a very close election and that was obviously the difference.

Michael Aron: It was just six weeks before election day that she came out with that plan and that turned the—

Governor Florio: Well it didn't turn it immediately. It started just over the period of time and again as all elections in New Jersey take place, people make up their mind in the last week. Now it's even more the last weekend. It might even be the last day nowadays. So towards the end, the polling that we were doing, we're seeing a noticeable decrease in our margin and towards the last couple of days it became neck and neck and then on election day it obviously was determined when people showed up.

Forum: The Second Two Years of the Florio Administration
December 1, 2015
Hosted by the Center on the American Governor

Michael Aron: As someone who literally wrote a book about <group laughter> that campaign, it's so clear to me in 20 years hindsight that the Whitman economic plan, it was revealed around September 20, I remember the day. I remember John Whitman and her brother hanging out, one or two other advisors. It was in a small room, some university maybe Kean University. She unveiled that plan six weeks before the election. She was about twenty points down at that point. The *New York Times* blasted her in an editorial as you pointed out the next day, but it's what New Jersey ultimately voted for by a slim margin.

Jon Shure: And I remember once talking—I was invited to go speak at Ray Bateman's political science class here at Rutgers. And he was telling me at lunch, he said, "You know, I was there when Larry Kudlow presented to her all of the different options of what levels you could cut the income tax. He said, "And I couldn't believe she took the whole thing." And then you can say that was really good politics. You know, you can say it was really good politics to repeal the sales tax. Somebody else could say look at the finances of New Jersey today, when we don't confront these things we pay.

Governor Florio: And my only partisan remark today will be that I was the last governor to fully fund the pension system.

<group laughter>

Chuck Haytaian: Let me ask you a question in regard to the election. I think we all know that Americans love second chances or to give second chances. And I also believe that Americans in New Jersey would have given Governor Florio that second chance if he had done certain things prior to the election, one possibly signing the sales tax reduction. Or signing the budget without vetoing it. Because then he could have said, "Listen we had problems, as was stated here, we had problems when we came in 1990. We had to do certain things that had to be accomplished in our budget. And we understood that. And then when the Republicans took over they said well, wait a minute we can do something different." And if Governor Florio had at that point and the administration had agreed I'll tell you right now the governor would have been reelected. Americans were ready—New Jerseyans would have given him that second chance. The very fact that it was as close as it was Jon, indicated to me that if he had done that it was very good politics for him to get reelected.

Jon Shure: Well, just one quick point. The haunting nature of a close election is that you could point to any number of things and say, "Well, if we had done this or did that." I would submit to this, and you're right, in a close election who's to say what makes a difference? But I would argue that the vast majority of people who voted in the 1993 election for governor did not know that Governor Florio vetoed the budget two years earlier and it had been overridden. I don't think that was anywhere on people's radar screens. So you could say if he had done it, so who would have known that he did it? It wasn't the people would go, "Oh, I didn't like him but then when he accepted that sales tax repeal I started to like him again." I mean because you have to make this point too, some people like you because you stick to your convictions. So that's why I go back to it can be the worst of both worlds to say okay you might dislike me because I raised the sales tax but don't you like me because-- I mean because I raised the income tax but don't you like me because I accepted the repeal of the sales tax? I think it gets too nuanced to be able to consider that a political victory.

Interview with Governor Christine Todd Whitman
May 22, 2013
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: You defeated an incumbent. That's almost unheard of. What was it like dealing with Governor Florio's team as you were transitioning?

Governor Whitman: Oh, it was fine. I mean he was perfectly friendly. I mean we weren't warm, fuzzy but perfectly friendly and they didn't try to make things difficult and it went forward pretty smoothly. He and I met only once at Drumthwacket to look at the house and the place and then maybe one other time so he and I didn't do a lot directly, but the staff-- I had never heard that there were any real problems in getting in the budget and getting budget numbers, that sort of thing. I mean we found some things there that we weren't told about but it wasn't because they were trying to hide things during the transition or make things difficult at all.

Marie DeNoia Aronsohn: Things like budget issues you mean--

Governor Whitman: Well, we found a bond issue that had somehow been left off the books for about a million dollars that had been accounted for—I don't know quite how—we weren't sure how it had been accounted but again it wasn't because they were trying to make it difficult. That's the way they budgeted; that was part of their budget. Or not.

Interview with Governor Christine Todd Whitman
May 22, 2013
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: Which brings us to your first inaugural address. You called for a five percent cut in the income tax and elimination of income taxes for those earning under seven thousand five hundred per year and a cut in the corporate tax to nine percent retroactively. This was a bold step, and as I remember there was some surprise on the dais—

Governor Whitman: Yes, there was a lot of surprise, and it happened the way it happened because—right after I was elected I was asked, "Well, what are you going to do?" and I said, "I'm going to cut taxes" and they said, "No, no, no. What are you really going to do?" and I said, "I'm going to cut taxes." And so then some of the press went to the legislature and I started hearing some things—some quotes from legislative leaders in my party who were saying, "Well, that was the election and now we've got to look at the budget" and I could sense a softening here so I didn't tell them. And it was the year that Bill Clinton had retroactively raised a tax—it was a big deal. So what I said is "If he can do it, if he can retroactively raise a tax, I can retroactively cut a tax and the bill's on your desk, oh, by the way," and I hadn't told them. They were all sitting behind me. I couldn't see their expressions but I'm told they were a little shocked in the legislature to hear this but there was nothing they could do because I had the whole audience and of course they were all cheering and this is what I'd said I'd do. And so that started the process of getting to the 30 percent tax cut in the three years—in less than three years actually.

Marie DeNoia Aronsohn: The fact that they were framing it as, "Perhaps we'll look at that…." Is that what convinced you to take such a bold step?

Governor Whitman: Yes. That's what convinced me to do it retroactively because I could sense that we would lose it otherwise. If I didn't do it when I had a stage where I could get the public really behind it, and kind of box them in so it was hard to get out of, it wasn't going to happen.

Marie DeNoia Aronsohn: There was no going back after that.

Governor Whitman: No, no.

Marie DeNoia Aronsohn: Their reaction immediately following?

Governor Whitman: What could they do? They sucked it up and said, "Okay. Well, yes, that's what she said she was going to do." I don't think they were very happy about it, and again it probably soured relations and made things a little more difficult than it should have been with the legislature even with the Republicans and I don't blame them. I can understand why they'd be a little affronted by it, but on the other hand they were getting squishy on me, I could sense that, and I wasn't going to let them go because that's what I said I was going to do and I was convinced that that was the best way to get the state back on its feet and get the economy going again.

Marie DeNoia Aronsohn: Did it make it more difficult for you because of that?

Governor Whitman: I think probably but I hadn't dealt with the legislature before so I didn't know what was difficult and what wasn't in the day-to-day dealings with the legislature.

Marie DeNoia Aronsohn: Certainly, if there's going to be such a bold tax cut they want to be getting some credit for that as well.

Governor Whitman: Well, they did afterwards. I mean that's why they had to say "yes." They weren't going to stand up there afterwards when it was obviously very popular. It's what had gotten me elected, and it also happened to be the right thing to do for the state so they jumped on board right afterwards but I don't think they were all that thrilled at having been blindsided.

Marie DeNoia Aronsohn: What was the reaction from the press if you recall?

Governor Whitman: I think surprise—real surprise and I think they tried to get some of the legislators to say that this was a silly thing to have done, but they didn't; they didn't bite on that. They were good about it—the Republicans were good about that. They stepped right up and I think the press was surprised. I do know that there were some subsequent op-eds that sort of said, "Well, her husband must be putting together these plans. It must be the man that's doing this" and so John never came to the State House after that.

<laughs>

Marie DeNoia Aronsohn: What was your reaction to that framing as if it had been Johnand not you?

Governor Whitman: Again, I wasn't going to change it. You just don't feed the beast so he didn't come to the State House. You just don't make it easy for them to write those stories if he's not around. We slept together every night so he could still give me all the good ideas but he wasn't visibly there in their face to pick me up for lunch and tell me all the good ideas.

Marie DeNoia Aronsohn: How did the public respond to you after that?

Governor Whitman: They loved it. I mean the public was very much—I think as much because it was unusual for an office holder or a politician to actually start to do what they said they were going to do. The reaction I got was "Wow. Maybe this is really going to happen" because I think a lot of them thought it's a good idea, I like it, I hope that happens but they didn't really believe that it would happen. They were very supportive.

Interview with Candace Straight
January 29, 2015
Interviewed by Nancy Becker

Candace Straight: …Cliff Sobel who was I think, Finance Chair of the campaign. He was very active in the first campaign and obviously Hazel Gluck was, with John Sheridan, co-chair of the campaign. They both called me and said is there anything I'd like to do? And I said, "Well, you know, I was on the Employees Retirement System Board for Governor Kean." They said, "Oh, great. We'll put you on the Pension Transition Team." So they put me on the Pension Transition team and then I think Hazel said, "Well, is there anything else that you really want to do? Any appointments? Do you want a job?" I said, "No. No. I don't want a job." But I said, "The Governor promised everybody-- the Governor-elect, I should say, promised everybody that she would reduce taxes by 30% so if there is anyway I can help on that just let me know." About 10 days passed and Hazel calls me up and said, "Well, you're going to be the co-chair of this with Andy Chapman." And I said, "Okay. I don't know Andy Chapman, but I'm looking forward to meeting him." He was assistant treasurer in Tom Kean's administration. I said to Hazel-- I remember this to this day-- I said to Hazel, "How did I get selected for this?" She said, "A bunch of names went up and your name came back down." So I said, "Okay."

Nancy Becker: So the next question I was going to ask about was Christie, during her first term, promised and enacted significant tax reductions and government reorganization. How were you involved in these deliberations and decisions?

Candace Straight: I really wasn't—We were just advisory—a taskforce before she took the oath of office. Art Maurice probably would argue—he was our staff person—and Andrew knew a lot about politics and I remember saying to the Governor that—the goal was to get a 5% reduction retroactive to January 1st. She would be announcing it at her state speech in February. And I remember saying to the Governor, "Well, if you want 5%, how much money is that as percent of the budget?" And she said, "$250 million out of a $15 billion budget," I believe. So I said, "We can do that." So we did. We studied it. We had a great team and we studied and looked for places to save money and we found places to save money and she announced that. I think that was a surprise, that she did the retroactive thing, but then I did not take an active role in the government after that because she appointed me to the Board of the New Jersey Sports and Exposition Authority.

Interview with Michael Torpey
April 24, 2014
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: A big part of Governor Whitman's administration was her tax cut policies. What was your role in that part of things?

Michael Torpey: Well, as my primary job as the Deputy Counsel to the Governor was—I was often the point person for the Governor in the legislature. Now, I should say it's very much a team approach so I wasn't by any means the only one, but I was hired because of my experience in the legislature. And there was very little experience on the staff with the legislature and Peter Verniero recognizing that, hired me for that purpose. And so my role was, not just on the tax cuts, but on any significant piece of legislation was to figure out a way to get it through. Now we, of course, had Republican majorities in both houses so that was helpful, but that's often a double-edged sword. And in this particular case these policies were popular. The Governor ran on them. She made it clear that this is what she wanted to do. And I think the little bit of the surprise that happened was that the Governor announced at her inaugural that she was going to accelerate the tax cuts.

Marie DeNoia Aronsohn: Make them retroactive, right?

Michael Torpey: Yes, make them retroactive. And so that was a bit of a surprise and I do know that the legislative leaders were not informed of that until just before the speech. And I can't say that I was involved in that decision, but I thought it was an interesting little twist right at the beginning of the administration.

Marie DeNoia Aronsohn: Did it make your work on the legislative side a little bit more difficult?

Michael Torpey: Well, the legislature likes to have—they're very focused on process—and so sometimes when things surprise them there's a tendency to pull back a little bit. But there was a lot of support for these tax cuts. The Governor ran on those tax cuts. Many of the legislators who had just been elected had endorsed those tax cuts, not all of them by any means, but many of them had. And so the tax cuts in and of themselves I don't think were particularly difficult, but they were part of an overall budget strategy that had as part of that a number of different pieces of legislation that were not as easy to get done. And so we had a very difficult, I shouldn't say difficult, a very intense first six months. And the difficulty is that you all start in this administration, this staff comes on board. Many people don't know each other. You all come into these new jobs, they're brand new. None of us ever held the positions that we were actually hired to do and you immediately begin governing. The first day when the Governor is inaugurated and you're on staff you are now empowered to do your job, whether you know how to do it or not. And this is very much akin to trying to build a car as you drive it down the road. And it's fascinating, but it's incredibly challenging.

Marie DeNoia Aronsohn: So apparently you were a part of meetings that involved Steve Forbes and Larry Kudlow. Tell us about that.

Michael Torpey: Yes, this goes back actually to during the campaign when I was on the legislative staff. The very long story short is that through a contact I was asked to meet with Larry Kudlow, who was advising the Governor on her tax cut policies. And a couple of my junior staff had been, with my approval, working with him to provide him data so that he could do a proper analysis. I ultimately met with Larry and then the Speaker at the time, Speaker Haytaian, who did not really know that this was going on. But I do know that he was very supportive of the Governor, and I did know that he was supportive of tax cuts. And so there was a meeting that was scheduled to occur at Pontefract, the Governor's home in Oldwick. And at that meeting would be Larry, and Steve Forbes, and Chuck Haytaian, and Donnie DiFrancesco the Senate President, where she was going to seek their support for these tax cuts. Just prior to that meeting I'd met with Larry and Speaker Haytaian at a little restaurant in Oldwick, and we kind of got our act together. Speaker Haytaian was very supportive of the tax cuts and we went to the meeting. The meeting didn't go quite as well as maybe the Governor would have hoped or in this case the candidate who would have hoped, there was a little bit of pushback.

I know that Senator DiFrancesco was a little concerned about this and thought that this would be a difficult political position to take. I should just flash forward and say Senator DiFrancesco was extremely helpful in getting this done ultimately, but at the time was a little skeptical. And again, my recollection is the meeting didn't go so well. Actually I think that you asked me before what the first time was I met the Governor. It was at her house at that meeting and it was a little uncomfortable. It did not stop the Governor.

Marie DeNoia Aronsohn: It's pretty high stakes, right?

Michael Torpey: As I came to understand that's just the way she is. And she had done her homework, she had made her decision. She was looking to gain the support of the two key legislative leaders and she was going to do it. She was not asking for permission to do this, she was informing them, and telling them also that she had good reasons to do it, and that Larry Kudlow and Steve Forbes had done an analysis and were there to provide that. But, ultimately, she went out and announced it and I know Speaker Haytaian was very supportive, as were many of the Assembly candidates. I was part of the campaign team of the Assembly at the time and there was a significant—a bit of a rift that happened in several of the campaigns where the Assembly candidates who generally supported the tax cuts separated from the Senate candidates, some of whom did not. And that proved to be a little bit difficult because many of these campaigns were run jointly, jointly financed, jointly managed, and so that was difficult. By the time we got to governing and got to the point of the Governor being inaugurated most of that had started to fall in line.

Marie DeNoia Aronsohn: What were some of the, I mean, politically it seems as if this would be a big win, I mean, tax cut. Were the concerns that it would just not be doable?

Michael Torpey: I think the biggest concern really was the one that formed the basis of the greatest criticism coming from Governor Florio and some others, and that is that when she removed these revenues, then what are you going to cut? So that was always the political debate. Well, if you want to cut taxes then what are you going to cut programmatically? And since most of Governor Florio's tax increases were passed in order to generate what were, in effect, state aid programs, the state school funding program, the QEA, and also to fund a homestead rebate program. If you're going to cut the tax revenues that supported those, then okay does that mean you're going to then cut state aid? And Governor Whitman's view was that tax cuts done properly would stimulate economic growth and that it was not a question of simply subtracting from the state aid programs in order to support tax cuts, but that they would in fact enhance economic activity. And I think she was proven correct. Now whether the tax cuts were the primary reason for that or whether there were other things going on in the economy, but the point is that ultimately the economic activity in the state grew fairly dramatically during her time in office. And we were able to support the tax cuts by growing out of our problem.

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

Marie DeNoia Aronsohn: That idea of not needing to interface, perhaps got a real—started out with a bang in a way, if I recall correctly, in her inaugural speech. She surprised everybody by saying she was going to begin with the tax cuts sooner than anyone expected. I'm sorry, I'm not giving you as specific as—

Judy Shaw: No, I know what you're referring to.

Marie DeNoia Aronsohn: You know what I'm referring to. I was watching the inaugural speech, and sort of looking at the reaction, and it was very interesting. You knew that that was coming, no doubt, and did she anticipate that there would be a little bit of a backlash to that announcement?

Judy Shaw: We did. Bill Clinton had come into office a year beforehand. And he had raised taxes retroactively. I forget what the tax was, but—and however he did it, when he came into office on January 17th or something, there was some tax that he put in place that went back beyond his term. One of the three tenets that Christie had was to cut taxes. She firmly, firmly believed in that. All of her advisors gave her a whole spectrum of options, and she just always believed in that part. She was convinced that would work to turn the economy around. So in drafting the speech, we were thinking, how can we make this real? And I don't know who's idea it was. I wish it had been mine, it wasn't mine. Someone said, why don't you sign an executive order right as part of the inaugural, and it created this Economic Study Commission or something, that's not the right name at all. I'm sorry, I don't have that on the tip of my tongue [Economic Master Plan Commission]. But—and she also said, and by executive order, there was this one tax that she could cut back, and she said, "And unlike the President, I will cut your taxes retroactively." And we knew that would get a big bang, but it did leave the legislature out. She had no—and she didn't want to consult with them. I mean, everybody is very close to the vest. They want to reserve to themselves, the right to make certain announcements. And in any government setting, information is power. So if you let anybody in on something, they've had that conversation with ten others by the time you ever get the chance to announce it. So we kept that very, very close, and that did send a good signal. One thing that we had forgotten is that you're not really the governor until you sign this paperwork, which you do after the fact, so in some ways, she wasn't the governor when she did that. She had taken the oath, she had been given the seal, but she had to sign the papers in the back room, so she resigned the executive order to make sure that was legit. But I thought it was great. I thought it really sent a message about how she was going to govern. I think her lead in was, why wait? We'll do it today, we'll do it now. And Peter Verneiro came up and had the executive order right out there, and she signed it, and he sat down, and she went on with the speech.

[break]

Clip from Inaugural Address:

Governor Whitman: To cut taxes in each of the next three fiscal years will require sustained economic growth.

Economic growth doesn’t just happen. We have to plan for it, encourage it and court it.

That is why I have directed my secretary of state to serve as an advocate for business. That is why the first executive order of my administration – which I will sign in front of you today — creates a New Jersey Economic Master Plan Commission. This commission will develop the long-term strategy we need to make New Jersey the economic powerhouse it deserves to be.

Done.

Clip from: First Inaugural Address of Governor Christine Todd Whitman
Delivered on January 19, 1994
Filmed by NJN

Governor Whitman: Four months ago, I said I would put $1.4 billion of your tax dollars back in your pocket by cutting taxes over the next three years, with the first cut coming in July.

The skeptics groaned.

But here we are.

And I say, why wait until the next fiscal year starts in July?

Between now and then, families have car payments and credit card bills that will come due. Senior citizens on fixed incomes will be struggling to make ends meet.

And businesses have payrolls to make. Their plans to create new jobs are sitting on shelves, waiting for a stronger economy.

Let’s not keep economic growth waiting another minute.

If President Clinton and his Congress can reach backward into time and raise your taxes retroactively, your governor and your Legislature can cut them retroactively.

That is why I will be asking my partners in the Legislature, Senate President Donald DiFrancesco and Assembly Speaker Chuck Haytaian, to enact a 5 percent income tax cut for every family in New Jersey effective Jan. 1, 1994 – 18 days ago.

Second, I am asking the Legislature to eliminate all income taxes on those earning less than $7,500, again retroactively to Jan. 1. Those who are struggling the hardest need a tax cut the most.

Third, I am asking the Legislature to cut the corporate business tax to 9 percent, again effective Jan. 1 this year.

We will be competitive. No more losing our employers to job raids by low- tax states .

New Jersey is open for business.

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October 28, 2013
Hosted by the Center on the American Governor

Peter Verniero: It was a new tone of office. And it was not just stylistic, it was not just because of the gender of the Chief Executive, it was because there was a sense very early on, and it really was born of the campaign that there would be fundamental changes in the way that we approached government and problems in governing. And as Pete [McDonough] said, publicly at least it began at Room G in the Ramada Inn, but it really carried over to the very first inaugural speech. Alright, this was an opportunity for the governor to really begin to keep her promises. And you know, the economic tax cut was—first and foremost it was a substantive economic policy, but it also was a promise to the electorate who had become fairly cynical, that there would be a governor, a politician, who makes a promise and keeps it. And keeping that promise became, in my view at least, almost as important as the substance behind the tax cut itself. Because the economy, as the Dean would tell us, is a very complex thing, and it's not just a matter of cutting taxes, or creating jobs, but it's also creating the mindset and the public confidence and the consumer confidence and the business confidence to communicate that New Jersey, indeed was open for business. So the Governor's first opportunity to do this was in her inaugural address. And now looking back at it, I didn't fully appreciate this at the time, when the speech was getting drafted and so forth, the inaugural address turned out to be one of the most substantive inaugural addresses that any governor up to that point had ever given. If you go back and read the first Whitman inaugural address, it almost reads like a budget address.

Nancy Becker: It's on the website.

Peter Verniero: It is very, very specific.

James DiEleuterio: Good speech writers.

Peter Verniero: And indeed Tom Kean was asked—and was quoted in the paper the very next day—that it was the most substantive speech he had ever heard a governor give at an inaugural. And I think that says something very strong and very powerful about the tone of this administration. It was going to be substantive, it was going to be serious, it was going to be tied back to economic policies and promises made, and this was a governor who was going to keep those promises. It also was a governor who had to—maneuver is not the right word, it's not the right word—but be effective with her legislative partners. And there also was the opportunity in the inaugural address. And she surprised just about everybody. And she announced that the first phase of her 30 percent tax cut, which at that stage had become quite famous, or infamous, if you listen to the editorials that surrounded them. Not only was she going to cut taxes, but she was going to do the first phase, five percent, retroactive. Now think about that for a moment. This woman is governor for about 15 minutes, and she proposes something that no one had ever proposed, and probably even thought could be done, which is cut an income tax—which had never been done in New Jersey up to that point, state income tax. And to do it retroactively. She said it and it was done; three months later in March, she signed the bill.

So that by the time we got to the first budget address, she was already on the second part, the ten percent which got coined the middle class tax cut. So she was already half-way at her 30 percent by the time of her first full budget year. We look back now, and we may say, "Oh, so what?" But ladies and gentleman, that was an extraordinary accomplishment, whether you're a male governor, female governor, that was an extraordinary accomplishment. And I think it really spoke to the fact, and I think John [Whitman] suggested this, the tax cut was not a slogan. The tax cut was a policy rationale that the governor thought could work, should work and needed to work, because we really didn't have a lot of choices at that time. And John, I'm just going to respectfully disagree, on one thing, I do think luck does play a part of it, but I also think substance and vision plays a large part as well. And as Mike Torpey said, the commitment to stay with it. We're all being very polite here when we say there was some grousing when the governor announced this tax cut. Ladies and gentlemen, we were ridiculed. She was ridiculed. I mean, the language in these editorials was—my lawyer hat—nothing short of slanderous. I mean, that's how biting the criticism was of these tax cuts.

Looking back in hindsight, perhaps, it suggests the early beginnings—forgive me, Mark [Magyar]—of the decline of influence of the print media. <laughter> Because if all we had to go on were those editorials in September and October, Jim Florio would have easily been a two-term governor. So the message of the inaugural was promises made, promises kept, accelerate the pace of what needs to be a full economic plan. And lead by example. And she did all of that.

Now the other point I just wanted to make is—we were talking about the tax cut, and that really did become a shorthand reference to the first term agenda. But it was really more than just cutting taxes, and it was more than just cutting the income tax. It was cutting a number of taxes, and it was also providing jobs, promoting jobs, and economic growth, and lessening regulations, and doing all the things you need to do so the CEO of Merck doesn't get in his helicopter at night and fly to another state. All of that was wrapped up as a short reference, a short-term reference to the tax cut. And the Governor began on inauguration day. She began the first 15 minutes of her term, and she really never stopped. And I know we're just talking about the first term here. But later on in this series, and Dean Hughes had suggested this, the economic data really did bear out the success of the Whitman years. Now it's very complex, as I said, so there's a lot to it, not just her policies. But certainly her policies helped, certainly her policies made things easier in terms of economic growth and so forth. And I think that record is a very laudable one. And it speaks for itself. The last point on that theme, one of the criticisms that we heard in September of '93, when the Governor announced this, and we heard it throughout our administration, was, "Would these tax cuts at the end of the day, in hindsight, would they be a net-plus, or a net-minus for the taxpayers? Would property taxes go up dollar for dollar for every dollar that went down in tax cuts?" We heard that constantly. And I don't know whether Jim is going to touch on this later, but I would commend for anyone's attention, the Manhattan Institute, Professor Goodspeed, a professor at Hunter College, has done a pretty extensive survey of this very question: did the Whitman tax cuts result in a net gain, or deficit, for the New Jersey taxpayer? And he looked at all the available data, school aid, and so forth. And his conclusion was pretty clear that the Whitman tax cuts and tax policies were a net benefit to the New Jersey taxpayer, and by a pretty decent margin. So for me and the Counsel's

Office, it was promises made, promises kept, and the inaugural speech was the first opportunity to show we were on the road to do that, and I think the Governor did that.

Forum: Economic Policies of the Whitman Administration
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James DiEleuterio: And I think another interesting dynamic to that [the creation of the budget] is the months that it took putting that all together and meeting with the governor's office and getting decisions on the overall policy of the budget. Then the Governor obviously would present it to the legislature and we'd have to basically go through the whole act again with the legislature to convince them that the policy decisions were correct.

Roland Machold: But the governor has great power. They have the one-line veto which is a tremendously powerful tool and that's again part of the gaming process. People put things in they know they're going to be vetoed.

James DiEleuterio: Well and the other part is that the governor gets to certify revenues.

Roland Machold: Yes that's true.

James DiEleuterio: So once the legislature gets the budget they can change things around but only within certain limitations.

Roland Machold: I know we were just about to make the budget thing and Klusney came and whispered in my ear and said "We've got two hundred million dollars more." What a curse. <laughs> Because of course that's just red meat for the legislature.

James DiEleuterio: Well I'd rather have that than—

Roland Machold: Than two hundred million dollars less, yes.

James DiEleuterio: We've also been through the let's go rob—

Roland Machold: This fund or that fund, yes.

James DiEleuterio: One day we found several bags of corporate tax returns. There was seventeen million dollars sitting in that bag.

Governor Whitman: Jim, do you remember, Mike, you might remember, which budget year did we bring the pensions onto the budget? Because they'd been counted off budget, the pension obligations, they'd never been considered part of the budget proper. Was it the first budget? The third?

James DiEleuterio: I think it was the third budget.

Governor Whitman: The third budget we did that.

James DiEleuterio: Yes and we're going to get into the Pension Bond Deal in quite a bit more detail but that was the other thing, we had this four and a quarter billion dollars in unfunded liabilities.

Governor Whitman: And then wasn't there some bond issue too that had just been kept off the books?

James DiEleuterio: Well there was over a billion.

Governor Whitman: It was a billion.

James DiEleuterio: There was over a billion dollars' worth of capital projects that hadn't been recorded.

Roland Machold: Well they were the bonds that hadn't been on the books—the ones of the agencies that were not supported by their own revenues. Those like the Sports Authority, I don't know if some of their bonds were supported but not all of them, by any means.

James DiEleuterio: Right.

Roland Machold: The county rules changed in '94, I believe it was, and there may have been a year of grace or something. It wasn't an instant thing but a lot of times the Democrats and others criticized us for increasing the debt supposedly from five point seven billion dollars all the way up to sixteen point seven billion dollars. But in point of fact it wasn't defined the same way because the five point seven did not include insurance. Remember we had that insurance fund that was set up and there was a big deficit.

Caren Franzini: ___________ issue were not on the books, and then we worked with taxation and O.M.B. to transfer because you're right, Roland, because of accounting rules to put all those bond issues that were off balance sheet onto the books. They were approved by the legislature though so these were all initiatives that were approved by legislative actions but just weren't on the books.

James DiEleuterio: And let's be clear, I don't mean to imply that anything underhanded was going on.

Caren Franzini: No, it was an accounting procedure.

Roland Machold: And they also brought the unfunded liabilities of the pension funds on in that package so that the amount of debt at the beginning of your term was really ten point four billion and it went to about sixteen and a half billion but it was a growth over eight years or seven years of something like seven percent a year.

James DiEleuterio: Well and not only that but—

Roland Machold: Which was much less than our growth of revenues.

James DiEleuterio: We had reauthorization on the T.T.F. [Transportation Trust Fund] and there were several bond issues that everybody agreed were necessary.

John Whitman: Whatever you say about it we didn't do a good job on P.R.

Caren Franzini: Explaining it.

John Whitman: I don't want to get ahead. Any of this—now it's not simple. It's not easy to explain to people…

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

Rick Sinding: Now we get to that key point that you've talked about at the very beginning, that up until this point, the budgets have been balanced, the pensions and health care benefits have been fully funded. But there has been such a backlash to the Florio Tax Package that the second half of his one term, he faces a veto-proof legislature of the opposite party. A lot of the initiatives of Florio are pushed back and Florio is defeated for re-election by a candidate who comes in saying, "I'm going to cut the income tax, I'm going to cut taxes, I'm going to reduce spending." Is that the beginning of the end for the efficacy of New Jersey's budget and tax policy?

Cliff Goldman: The next step is the beginning of the end. If we're in a democracy, if a governor gets elected on the basis of, "I'm going to cut taxes," that's what the people want. And if you cut taxes by cutting spending, finding economies in the government, even if I wouldn't agree with it, that's what she was elected to do. But if you cut taxes by violating the Constitution and creating problems later, that's a problem.

Rick Sinding: Explain how that was done.

Cliff Goldman: Okay. So I was then on, actually I was the Chairman of the Pension and Health Benefits Review Commission which was set up to review pension laws before they went to the legislature. We had no power, except we gave advice. And when [Christie Whitman] was elected, I resigned as chairman, I said, you're the governor, you pick your own chairman and she picked Mike Horn. So we had a 9 member group and her plan for changing the Pension System was talked about in the press and the question was, would it come before our commission, and the answer was yes. It came to us on a Friday, which was in those days, at least, a sign that they didn't want publicity. And Doug Forrester was on the commission—he was Kean's Pension Director. And there were four public members, four government workers and the chairman. And all four of us spoke out against it--Doug Forrester for over an hour and then me.

Rick Sinding: Can you summarize the plan?

Cliff Goldman: Yes. It did three things. First, it changed the employer's contribution formula. So the amount you'd have to put in went way down, stayed way down for 10 or 15 years and then it shot up. And the upward swing was basically, in the simplest terms, to repay what you didn't pay over the first 10 or 15 years, plus the earnings they would have had. So when you look at it—for example, the new Pension Commission has a chart and it shows what the pension obligations are going to be and they're going up, like a hockey stick. That was created in 1994 and it was shown in 1994—this is what's going to happen and that's why everyone on our Commission—not everyone, but why the four of us—were against it. The second thing, which was particularly galling to me, I was a consultant to the cities then, a financial consultant. Well, of course the cities are employers, too, and they had the same reduction in their pension contributions for the same period of time and then it shot up. And the State took their so-called savings by reducing their State aid. So they got nothing out of this reduction, except having to pay more in the future.

Rick Sinding: But less immediately?

Cliff Goldman: But they didn't get that less, because it was taken away from them. And the third thing—I don't know which is the worst. The third thing was when Kean made the health benefits an entitlement to retirees, he had to fund it the same as the pension. It became an obligation. And he did and so did Florio. So they had maybe $300 or $350 million in that fund for employee health benefits in retirement. So [Whitman] went back to pay-as-you-go health benefits and took that money to balance the budget and enable the tax to be cut. So she had, in order to cut the income tax, she took the money from the Health Benefits Fund, she took the money from the cities, and she lowered the State pension obligation for years, but in other words, borrowed money. The simplest way to say it.

Rick Sinding: Those Pension Contributions that were then reduced, that was both the State's contribution and the employees' contribution?

Cliff Goldman: No. Not the employees', just the State's.

Rick Sinding: Just the State's?

Cliff Goldman: Yes.

Dick Leone: It's Christie Whitman we're talking about here.

Rick Sinding: Yes.

Cliff Goldman: And this was all shown. You know, this wasn't some theoretical thing. They had charts and here's how it works and here's what the payment's going to be year by year and it's going to go way up. And that's where we are now. Now that's where we are. So this was a pretty bad thing to do and as a way of financing an income tax cut, it was a very bad way to go.

Rick Sinding: Where were the voices warning about what it was going to mean 10 or 15 years down the road?

Dick Leone: I think there were voices on the Op-Ed pages and elsewhere but nobody paid any attention to them.

Cliff Goldman: Written in Saturday's *Trenton Times*. My picture was in there. I became persona non grata because of that.

Dick Leone: Because of that stuff, when they had the NCAA at the Sports Authority for the last time. I was sitting in a good seat and Bob Mulcahey came over and said, "Do you mind if we hide you? The Governor's coming. We don't want her to know we gave you a good seat."

Cliff Goldman: We also realized you don't have much effect on political decision-making as an outsider. You can talk to a newspaper person but—and I tried on this and other things, which we'll talk about later—with very little effect.

Interview with Governor Christine Todd Whitman
May 22, 2013
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: When you became governor the state was facing a 1.2 billion dollar shortfall. To address this issue and to pay for the tax cuts you proposed in your inaugural address your first budget called for several controversial measures including a new way to fund state employee pensions, elimination of several departments and state employee layoffs. I don't remember how many.

Governor Whitman: It wasn't many. It wasn't very big. I can remember of being accused of having decimated the Department of Environmental Protection. I think it was about 15 in the layoff. The Department of Environmental Protection was bigger than California's at the time, which I thought maybe was a little excessive.

Marie DeNoia Aronsohn: Well—

Governor Whitman: Well, that's why the CWA was protesting.

Marie DeNoia Aronsohn: Of course.

Governor Whitman: That's why they were following me around wherever I went because of those proposals, but again we had to do something serious. This was not something that was just passing that you could fix quickly and easily. They were systemic problems with the state and the way the state had been doing business and we needed to address them, take them on and try to fix them, which is what we did. It was painful. Those first two years of budgets were just awful actually. I hated it because the first year's budget was actually less than Jim Florio's last budget and the year after that was flat so we weren't giving anybody anything, and if you count for inflation we were actually still cutting people and that made a lot of people upset.

I mean for instance the teachers—there was a thing that had been done for teachers and I can't remember. It had to do with Social Security and I don't know exactly what happened. When the federal government changed the way it did some things with Social Security, because of our tax structure here the teachers got nicked and so they were given an extra five percent or three percent to make up the difference. Well, then the feds changed and they were back being whole against our tax structure but nobody took away the three to five percent or whatever it was; I can't remember now; I think maybe it was five percent. So I said, "No. Okay. I'm sorry. Now you're whole, you're not at a disadvantage by being in the state of New Jersey, so guess what; this has got to go." It was not popular, which I can understand. I mean we don't overpay our teachers dramatically anyway so it was taking something from them, but from the perspective of equity and what was right that was put in place to make up for something that was unfair, what had made it unfair had gone away, and so it was time to recognize that in the tax structure.

Marie DeNoia Aronsohn: What you recounted with Social Security, that's a tough story to get out there. It's not simple.

Governor Whitman: No, it's not an easy, straightforward thing. It's complicated and whenever it's complicated it's very easy to push back to make it—she's taking things away from me, she's cutting my salary, and you want to say, "I'm really not. What I'm doing is rebalancing things to where they were supposed to be. You were always meant to be whole. No one meant—you were never meant to be at a disadvantage because you were teaching in the state of New Jersey. That now has been addressed, it was addressed at the federal level, so there's no need for this extra bit of money to come to you because now it's notdoing what it was intended to do."

Marie DeNoia Aronsohn: Was that one of the most vociferous oppositions?

Governor Whitman: Oh, it was very contentious and the teachers were very upset and it was difficult, and I learned about the strength of the teachers' union in the state of New Jersey. We would—I can't remember whether it was on that or one other thing that we did, whether it was when we were doing core curriculum standards, but at one point I didn't have the home addresses of all the teachers, I had the names of all the teachers and knew what schools they taught in, and so we addressed personal letters to them but we sent the letters in bulk to the school to be distributed there. We got them back in bulk and I don't know—from some schools, not from all of them. I don't know whether I couldn't have said something about tampering with the federal mail or not but—

Marie DeNoia Aronsohn: Was it difficult to get legislative support?

Governor Whitman: Those kind of things were harder but we did it within the budget.

Marie DeNoia Aronsohn: It wasn't an Executive Order. You did this all through the budget because they were big changes for that time.

Governor Whitman: Oh, they were very big.

Marie DeNoia Aronsohn: Governors hadn't tread on those areas at that point.

Governor Whitman: Yes.

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

James DiEleuterio: …when Governor Whitman first came in, there were some very serious fiscal issues facing the state, not the least of which was that every year, prior administrations had been balancing the budget with what we call nonrecurring revenue items. So, essentially, they were looking for pockets of money that might've accumulated in accounts around the budget—selling off various assets, that kind of thing. And one of the basic principles in running a fiscal operation—a fiscally sound operation—is that you like to have enough revenue recurring each year to meet your recurring expenses. So that was one difficulty that we faced. And by the time Governor Whitman left office—and I'll come back to the pension thing. But by the time Governor Whitman left office, we had stopped using one-shot items to balance the budget. Our credit ratings had been upgraded several times. We had enough recurring revenue. We actually had—when I left Treasury, there was a billion-dollar unrestricted surplus in the general fund. We had built South Woods State Prison. That was a billion-dollar expense item. So there were a number of things that had been accomplished, and, in fact, lowered taxes all along the way, not the least of which was that the state income tax was reduced by 30 percent, and thousands of folks had been taken off the roles.

So I think that there was a good fiscal record. Now, let's come back to the pension issue. During that period, there had been a four-and-a-quarter-billion-dollar unfunded liability in the state pension systems, mainly from—when the legislature would change pension laws so that additional benefits had been granted, typically what would happen would be that an employee, for example, that had 25 years of seniority, if the benefit had changed, would have 25 years' worth of credit for that benefit, that hadn't actually been funded in the pension system, because the benefit had just been enacted. So that's how unfunded liabilities accumulate in the pension system. Also, at the time, governments were not—let me back up a second. Private industry that had pension plans for their employees were not permitted, under federal law, to pay more money into their pension systems than their expected payouts. And basically, that's so that companies weren't hiding profits in their pension plans. Well, governmental pension plans were not faced with that same restriction, so we were essentially overfunding pension systems, because we had to put a regular contribution and what they call post-retirement medical. So, basically, we were funding the medical benefits of retirees after they retire. So what we wanted to do was to change the plan so that we were only funding what was necessary to fund each year.

And at the same time, when we looked at the pension investments, there were pension investments which generally were stocks and bonds, and those types of investment vehicles, some of which had been valued several years prior. And at the time, if you recall, the stock market had done—had been through a long bull run. So there was a lot of excess value in that portfolio that wasn't recognized. So we said, "Well, rather than use up all of that excess valuation, let's go back to the prior year, and value our assets as of the prior year." Well, the value at that point was large enough that we could basically pay down that four-and-a-quarter-billion-dollar liability, and get it to a point where, instead of four and a quarter billion, we sold bonds for 2.7 billion, at a much lower rate of interest; and that four and a quarter billion had been, by law, being paid over 60 years, at eight-and-three-quarters-percent interest. So we went out and sold bonds, and the total all-in cost was around seven and... I think it was 7.2. So it was at a lower rate of interest for 28 years, rather than 60 years. And that four and a quarter billion in unfunded liability was turned into 2.7 billion in long-term debt, but again, over 28 years rather than 60 years.

Kristoffer Shields: The four and a quarter billion was not reflected in the state budget?

James DiEleuterio: It was what they call a footnoted liability. So when the state presented its balance sheet, down at the bottom was a note. And actually, I'm glad you mentioned that, because that's another point that had to be dealt with. Down at the bottom was an asterisk that said, "Oh, by the way, the state owes four and a quarter billion in unfunded liabilities." The GASB—the Governmental Accounting Standards Board—at the time had promulgated regulations that said, over the course of time, state governments—well, all governments—need to start moving those unfunded liabilities up to the long-term debt line. And granted, we did it earlier than what was required under that GASB regulation—but we accomplished what GASB desired. Now, after Christie Whitman left office, there was a situation where, under the McGreevey administration, bonds were being issued, and the Securities and Exchange Commission got a little nervous about how the state was presenting its debt picture, and came in and took a look, and issued a report, and said, at the time Christie Whitman left office, the pension funds were 112-percent funded. So they were overfunded, and that's why the participants in the pension plan were told that they could take a pension holiday, so that those items could even out.

Kristoffer Shields: By "participants," you mean the state and local governments?

James DiEleuterio: State and local, because it's state, counties, municipalities, school boards...

John Weingart: And a "holiday"—that they wouldn't have to put anything in for that year.

James DiEleuterio: But, again, we repeatedly said to them, "Don't get used to having this money, because ultimately you're going to have to start making payments into the pension system again." And in fact, employees were also given a break. Not totally. I mean, they were—I think it went from five percent to three percent for most employees for a couple of years, and then went back to five percent. But what ultimately happened was the subsequent administrations, for a variety of reasons, decided that they weren't going to start making the regular contributions, and that's largely how the pension system got into trouble.

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

Cliff Goldman: The new thing that happened was in 1997. And by 1997, even at the lower level, they couldn't afford to balance the budget and make even the lower pension contribution. So they came up with a plan to borrow $2.8 billion and deposit the proceeds in the pension fund and cover the pension obligation for five years. Whatever the amount really should have been, this $2.8 billion under the statute would take care of it.

Rick Sinding: Where was that borrowed from?

Cliff Goldman: Borrowed from the bond market.

Rick Sinding: Okay. So it was a bond issue.

Cliff Goldman: It was a bond issue.

Dick Leone: Taxable bond issue.

Cliff Goldman: Taxable bond issue.

Rick Sinding: And voted on by the public?

Cliff Goldman: No. No. No. No.

Dick Leone: By this time people are in the real hands of the investment bankers who always have a way to get things.

Rick Sinding: I guess this gets back to your point about the Constitution.

Cliff Goldman: This one was challenged. You see the 1994 changes were more material. But as far as I know, they were never challenged in Court and probably should have been. This one was challenged.

Rick Sinding: Because they were, as you say, in effect a debt?

Cliff Goldman: Well, see I have a theory about the pension contribution that apparently no one else in the world has, including the court system. And it's the theory that all treasurers used forever. You have an obligation to produce a balanced budget. That means you must appropriate money for any obligations you incur in that year. Now if I hire you and I tell you I'm going to pay you this salary, these health benefits and this pension and these retirement health benefits, I have to put aside money to do that. That's covered by the Balanced Budget provision of the Constitution. That's the way we always looked at it. In all this litigation since 1997 on the pensions, which even goes to today's decision by the Supreme Court [Burgos v. State], I have not seen anyone refer to that Balanced Budget Requirement. And we'll go into it more later, but the 1997 Pension Bonds were plainly unconstitutional on their face. The Constitution plainly says you cannot borrow money to balance the budget. And these pension payments were an operating expense. They were not building a road. They were not building a flood control system. They were paying a salary, a benefit. They were an operating expense. You cannot borrow money for an operating expense. You cannot borrow money to balance a budget. So the Supreme Court ruled that the bonds had already been sold and therefore this question was moot.

Rick Sinding: Sidestepping the question on whether it was or was not.

Cliff Goldman: Sidestepping the question. And of course the question was material anyway. Even if the bonds were sold, then maybe you don't want to make them recall the bonds—that's what I would do—and then the question also is why wasn't there an injunction issued against the bond sale? And there was some talk that they let the bond sale go first. They could have ruled before the bond sale but they let the bond sale go in order to be able to make this ruling. And when we get further down the road here, I'll just mention one other because it's directly related. In 2004, Jim McGreevey proposed to balance the budget with a $2 billion dollar borrowing. We'll get into why he had to do this. And he had borrowed money twice before to balance the budget. But in this case, Leonard Lance sued and the

Supreme Court ruled against McGreevey and said what I just said: you cannot borrow money to balance the budget, but you can do it this one more time. You don't want to create any problems for anybody, which, I don't know. So that ruling could have been done in 1997. They could have said in 1997, well, you sold the bonds. You can't do this. It's unconstitutional. But you sold the bonds. We're going to let it go but you can't do it again.

Rick Sinding: But by your reasoning somebody could have sued in 1994.

Cliff Goldman: I think someone should have. And I think someone in '97 should have asked for an injunction against the bond sale. I don't know if they did or didn't….

Interview with John Farmer, Jr.
October 17, 2014
Interviewed by Nancy Becker

Nancy Becker: Were there any other controversial issues that you were involved in that sort of rose to the level of the ones we've already discussed?

John Farmer: Well, the one that I have probably the most regrets about is the pension bond issue that came up during her election year. And there's an expression when you're trying cases, "If you're explaining, you're losing." That idea was not a bad idea, but it was almost impossible to explain it. And subsequent administrations have, frankly, used it to explain the inactivity on the unfunded liability in the pension system today. Absolutely untrue. Not one penny of today's unfunded liability is from the Whitman years. The pension bond—I'm going to go in a little bit of detail with this, because it's—

Nancy Becker: Please do.

John Farmer: It's been such a hard one for the Governor because it's hurt her legacy as a fiscally responsible governor. So it wasn't as if that was new debt. It was an unfunded liability. It existed. It was a debt. We were paying it, and we were paying it at a rate of about eight percent—eight-point-something percent—interest per year on this unfunded liability. What the pension bonds allowed us to do was fully fund the pension system at a lower interest rate than we had been paying. Now, you could say what it did was it made it a real debt, and it could've changed. It could've changed only if the legislature had taken benefits away. That's not happening. I mean, that may happen now, but it was not going to happen back then. So it was not a crazy idea. It actually saved the state money, and they fully funded the pensions. The unfunded liability of today was created starting under Governor DiFrancesco, after she had left. When they changed the denominator with the pension, the retirement age was lowered, and then subsequent governors also added to the pot. There is an SEC investigation of the State of New Jersey that was published in 2009 that everybody should read, because what that investigation concluded was that the state, starting in 2002, basically misled the public and its bond offerings about the unfunded liability. And it became very convenient to say, "Oh, Christie Whitman did that with the pension bonds." Absolutely not true, but, again, hard to explain when people are hitting you with slogans not the facts. So, if you have the situation you have now and they're paying an unfunded liability—they haven't been paying an unfunded liability. It's been growing for over a decade, and various governors have avoided paying it, and they keep starting the clock at one, one, one. If you hadn't had this experience and someone came to you and said, "You could refinance this entire pension debt for two percent and you're paying seven," what would you do? Not such a crazy idea. Now it's impossible politically to do it, because it's been discredited politically. I guess my biggest regret about it: It wasn't necessary. It wasn't necessary. I mean…

Nancy Becker: And it was so difficult to explain that it wasn't explained clearly.

John Farmer: Yes. Brian Clymer and I went around the state explaining this to legislators. That's one of the reasons frankly it got passed. We really sat them down, and we sat down with the unions. They understood it. The NJEA supported it, I believe. But for anyone that wanted to demagogue it, it was so easy and it was not necessary. Basically it was the way that people said that the 30 percent tax cut didn't work. It didn't work, because she had to do this. Well, she didn't have to do it. It was an attractive fiscal idea. It got all kinds of awards. Other states did it, but it's being blamed for things that it really didn't cause. You could say as a matter of policy, "Was it a good idea to lock in that debt as opposed to just treating it as an unfunded liability?" Yes, bad idea, but they're not going to withdraw benefits. So as long as that's the case, it was not a crazy thing to do, but I regret the fact that we were not more effective in explaining it.

Forum: Economic Policies of the Whitman Administration
October 28, 2013
Hosted by the Center on the American Governor

Gov. Christine Todd Whitman: Now you have to go back to pensions.

Jane Kenny: Can we think of something else to not talk about?

James DiEleuterio: Well this is a proposal that defies explanation in a thirty second sound bite. And I think that was probably one of the biggest problems with it in that it addressed a whole series of financial issues in terms of the state's balance sheet and pensions and whatnot so it probably would be best if I backed up a little bit and talked about some of the things that happened with respect to pensions and pension contributions prior to the Pension Security Proposal and then work our way through in terms of what happened. But the state's balance sheet back in the beginning had what was known as a footnoted liability of four and a quarter billion dollars which basically appeared below the line. So you had assets and liabilities and then down at the bottom there was an "Oh, by the way, you guys owe the pension systems four and a quarter billion dollars," which strange as it sounds back in those days was a lot of money. Now we talk about four and a quarter billion as the amount of money that the feds spend in thirty seconds. But anyway, state law required that the systems, in essence, pretend that that money was already deposited into the pension funds. So they had to compute a payment towards that four and a quarter billion based on I believe it was eight and three-quarters percent over sixty years and that was the repayment schedule. So that was part of the contribution that the state put into the pension fund every year. The second part of that contribution was the states' self-funded post-retirement medical. So that went into the fund. The third piece of it was what was referred to as the "normal contribution". Now the normal contribution would typically be based on the number of potential retirees and the assets of the system and the actuarial retirement dates, how much would you need to deposit into the fund to pay people that retired. So that was the third piece. Now what pension funds didn't allow at the time, I don't know whether it was a drafting error in prior law or what happened, but the law actually required a normal contribution every year whether the funds were fully funded or not. Every private pension plan in the country can [choose to] not make a contribution to their system if there are surplus assets in the system. The state didn't enjoy that same privilege.

John Whitman: Nor the taxpayer.

James DiEleuterio: Right, exactly.

John Whitman: Simple.

James DiEleuterio: So that was again one of the problems that we noticed. Also at the time, because if you recall, back in those years there had been a huge run-up in the stock market. Right, and I always give Roland and his folks credit. They did a tremendous job at investing the pension fund assets. And outperformed the market I believe every single year.

Governor Whitman: Yes they did.

Roland Machold: When I retired, believe it or not, I had the best returns. Not I, obviously the markets give it, of any state pension fund even though we used no outside managers. We used nothing but civil servants for ten years.

Governor Whitman: That’s why we brought you back.

Roland Machold: <laughs>

James DiEleuterio: Well so again you had this situation where in essence tax payers were over contributing to the pension funds. And frankly looking back on it, I wonder if we had presented it that way whether it would have made any difference.

Governor Whitman: We did not present it well.

James DiEleuterio: No.

Peter McDonough: We did actually present it that way. And Brian used the phrase "intergenerational tax equity." It rolls off your tongue but the idea was should the current tax payers pay to over fund the system to give people in the future a break. And that was all premised on the idea that the market would keep going the way it was going. But we did try that argument.

Governor Whitman: We tried just about everything but unfortunately we tried it after we had basically announced what we were doing.

James DiEleuterio: Well that and the fact that I mean as much as I love Bob Littell his reaction of calling it "whacko" five minutes after it was presented also didn't help.

Governor Whitman: No.

Harriet Derman: But Jim, I thought that the Treasurer presented that there was a seven hundred and fifty million dollar hole in the budget and there was no other way to fill it but this proposal.

James DiEleuterio: I still argue that we did not need the pension security proposal to balance the budget.

Harriet Derman: Well I have to tell you I flat out disagree with you. That Brian Clymer said there was no other way to balance this '98 budget except by using the pension bond proposal.

James DiEleuterio: I don't know.

Governor Whitman: If you looked at the budget that was not the case and John Farmer had that discussion too, that we really didn't have to do it to balance the budget. We could have balanced the budget otherwise but it certainly helped. I mean no two ways about it.

James DiEleuterio: Yes.

Harriet Derman: Governor, Brian Clymer said—

Governor Whitman: I don't doubt you, I don't doubt you. I'm just saying that he's not—

Harriet Derman: That we would have to lay off a thousand state workers that we were missing seven hundred and fifty million dollars in revenue and when asked if there were other alternatives to fill that hole in the budget he said there were no other methods. I begged him for a one-shot.

Michael Torpey: Here's my recollection. You guys, if there was ever a time I thought my job was in danger working for the Governor, it was during this time as Chief Counsel on point with the Legislature trying to get this thing through. And my recollection is that in December, just prior to Christmas, Brian brought this to the table as a budget solution. Described as refinancing your home mortgage.

Peter McDonough: Exactly, shorter period of time, lower interest rate, shorter period of time.

Michael Torpey: And I think all of us were happy to hear something that would provide us with some budget relief at that point in time. So it all went away for Christmas holidays. At any rate we came back and we had, in fact, a bit of a challenge here. We had a hole that existed.

Governor Whitman: Oh yes, no we did, yes.

Michael Torpey: Now we went forward. We did propose it. We did get undermined as Jim just referred to by Senator Littell after providing him with a private briefing with the idea that it would be held confidential. It did not remain confidential for five minutes. And that put us back on our heels from a public relations standpoint, right out of the gate. We then did include it in the budget. As I remember the finances were improving, though, during the course of that spring pretty dramatically.

James DiEleuterio: That's true.

Michael Torpey: And we had gotten almost to the point where we could have closed the budget. We were within two hundred million dollars, a number in my head, and we think we're within two hundred million dollars, we can figure it out. But then the *Abbott* decision came down and that blew another hole in the budget.

Harriet Derman: Two fifty.

Michael Torpey: And so that number tipped it back in the other direction.

Harriet Derman: Two seventy, I'm sorry, two seventy.

Michael Torpey: And we were at the point, we were pretty much at the point, I want to say roughly this was April, May early May of being able to withdraw it and then the *Abbott* decision came and it just was too much for us to bite off in the next six weeks and so we went to the mat and frankly it caused more political damage than any single action taken.

Roland Machold: It was misinterpreted.

Michael Torpey: I agree, yes.

James DiEleuterio: I agree. Absolutely.

Roland Machold: They asked me to talk to the Democratic conference. They didn't want me to talk to them. They already had their public relations line, "She's borrowing money to balance the budget."

James DiEleuterio: Which they are still using. I heard a political commercial for Linda Greenstein on the way up here today and it was one inaccuracy after another.

Roland Machold: And I have to tell people that now first of all I said "How much money—where did the money go from the proceeds of the bond offering and the like?" And they said "They used it to balance the budget." I said "No, not a penny went into that."

James DiEleuterio: No, it was all deposited in cash.

Roland Machold: All went into the pension fund. And then they say "Yes, but then they invested in stocks and the stocks went way down." I said "No, we were selling stocks then, we didn't invest anything in stocks."

James DiEleuterio: As I'm sure Roland will recall better than most folks, within a day or two of actually producing the cash and depositing it into the pension funds is when we had a stock market crash.

Harriet Derman: Just before the election.

James DiEleuterio: In fact I can remember you calling me out of a meeting and saying "You have to have a press conference now."

Governor Whitman: We made a good move, whew, we just got it out.

James DiEleuterio: Yes the idea was, we had just deposited two point eight billion into the fund. And you had to explain to folks that you couldn't quite move two point eight billion that fast. The money was still sitting in cash. But let's talk a little bit about what the pension proposal actually did. One of the things that it did was to allow the state to use the value of excess assets in the pension funds, in the pension assets to reduce its normal contribution.

Roland Machold: And also the municipalities.

Governor Whitman: Yes, it gave them—

Betsy Pugh: That would be why you would say it filled a hole in the budget.

James DiEleuterio: Yes in essence we didn't have as big a pension—more of a contribution.

Betsy Pugh: Right, that's big.

Peter McDonough: You didn't want to overfund the pension.

James DiEleuterio: That's exactly right.

Betsy Pugh: That's right.

James DiEleuterio: That's exactly right. But in any event for the first time it allowed our pension funds to be on the same par as literally every other pension fund in the country. Now, typically, the government doesn't allow a private pension fund to hide the profits by depositing them into the pension fund and that's why they do that. But in essence it was something that allowed us to reduce the normal contribution. What we also then did was use some of those excess assets to go back to that four and a quarter billion dollars in unfunded liabilities, reduce that to two point seven five, sell bonds for the two point seven five, create the cash, and have a repayment schedule that said okay, instead of eight and three quarters over sixty years, we're going to finance that two point eight billion, well it ended up being seven sixty-four I think was the total all-in cost, which at that time was a wonderful rate. <laughs> But over twenty-nine years. So in essence it was refinancing a mortgage at a shorter repayment schedule and a lower interest rate. Now again, many of the member employers in the pension funds, the state, the locals, whatever, were permitted to reduce their normal contributions over the next few years. Clearly we said over and over again, at some point, you're going to have to start making these normal contributions again.

Governor Whitman: To pay back in.

Caren Franzini: They got into that habit.

James DiEleuterio: Right, now what—

Caren Franzini: [____________] zero.

Peter McDonough: It was a hundred and seven million dollars in reduced payments to counties and municipalities in the first year.

James DiEleuterio: Right.

Peter McDonough: And you're right, Caren, they got into the habit and in many ways the state also got into that habit. And it's this sort of notion that threw the pension bond act into other steps that the Whitman administration quit funding the pensions. I mean the cold reality is, I think, that our pension level was one hundred and twelve percent.

James DiEleuterio: At that time.

Governor Christine Whitman: In 2000 when I left.

James DiEleuterio: In fact after not making the normal contributions for several years if you recall there was an S.C.I. investigation.

Peter McDonough: Right.

James DiEleuterio: Not of us.

Peter McDonough: S.E.C.

James DiEleuterio: S.E.C., I'm sorry. Not of anything that we did but into the actions that were taken afterwards. That when Christie Whitman left office, the pension funds were still a hundred and five percent funded. Meaning, if everybody in the pension funds retired tomorrow, there was more than enough money to pay all the pensions.

Interview with Peter McDonough
January 24, 2013
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: …When you were in Treasury, were you there when the pension-bond issue materialized, was conceived. Did you have input in that?

Pete McDonough: Oh, I had a lot to do with that and I don't—I had actually—I worked in the Treasury with Brian Clymer, who's brilliant. I think the world of Brian. And that—I think that the pension-bond deal was largely misunderstood. What that deal did was it—New Jersey had an unfunded liability in its pension system at that time. It came from previous administrations. Unfunded liability. And I think that that totaled somewhere into the three to four billion dollar range, and we were—the assumed rate of return—boy, this is all rushing back here. The assumed rate of return in the pension system was in the eight percent range. And so we were paying the costs of that unfunded liability which, in addition to its principal, was eight percent per year. Well, the bond market had fallen to—at that time it was record or near-record lows and so what the state was doing was like refinancing a mortgage. We were taking an existing debt and paying it over a shorter period of time at a lower rate of interest. It was a smart deal. It was a terribly complicated deal. In fact, it's a deal that was awarded the "Deal of the Year" award by the Wall Street agencies that do ratings and do—it was "Bond Buyer" or it was somebody like that, you know, with a panel that includes all sorts of people. It was the "Deal of the Year". Having said that, it was impossible for people to get their hands around. And Brian, God bless him, changed his explanation of it on a daily basis. Not that he was trying to be cute, but that there were other ways to understand this and it would—I think if someone had very simply and straight-forwardly said "we have a—" I'll make a number up—"three and a half billion dollar unfunded liability that we're paying at eight percent over fifty years and, just like refinancing a mortgage, we're gonna take that debt and pay it off over ten years at four percent," it would have just been cleaner, simpler and better understood. It was frustrating to do, but, honestly, harder things to explain were pension and benefit reforms. We did some major benefit reform—health benefit reforms, pension benefit reforms—that were as complicated and as challenging. Then, at the end of the day, the pension bond—the pension security program, whatever, I forget what it was called—

Marie DeNoia Aronsohn: Yes.

Pete McDonough: —that passed and that was easy. And it was done. Numbers are really hard for the public and for legislators.

Marie DeNoia Aronsohn: I know. And communicating that, getting that through, as you said, getting that message through the media.

Pete McDonough: Well, it's so much easier to take a—I remember trying to sell some of the health benefits reforms, and I remember comparing what the state package was—how the state package compared to the private sector. And when you're talking, it's so much easier when you can display it graphically. And, you know, I did the budget proposals to the rating agencies on an annual basis. And I did it when I was at Treasury and also participated in it from the Governor's Office-level. And after a while you get good at numbers and you get good at displaying it, but the pension security proposal—gosh, I wish I could remember the exact name—it was hard to explain and it was—part of the political battle that we lost on that was that in some sense that this had to be done in order to pay for the income tax-cuts. Because at the end of the day, if you look back at the Whitman Administration income tax—I know income tax, I'm not sure about—and I believe taxes, generally,--tax revenues went up by far more than any cuts. I guess you didn't know that, looking at your face.

Marie DeNoia Aronsohn: I did not know that. I don't recall that. And my next question is basically there's been so much criticism of the Whitman Administration in the past couple of years about that pension-bond deal. Right? And listening to that, what is your reaction?

Pete McDonough: The criticism stems from the fact that the pension system is currently underfunded. When Christie Whitman left office the pension system was funded at a hundred and twelve percent. The last time the pension system was fully funded was when Christie Whitman was in office. The reason the pension system is underfunded right now has nothing to do with anything that was done in the Whitman Administration. So what's my reaction to it? I'm pretty annoyed by it. The pension system was fully funded in fiscal year 2001. Again: overfunded. And there's a theory of generational equity. No, Governor Whitman did not make contributions or contributions were reduced tremendously into the pension system in her last few years, because the system was overfunded. If the system is overfunded, it's not fair to current taxpayers to have to pay into a system that has too much money into it….

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

Marie DeNoia Aronsohn: As the situation with the state pension has worsened, and became such an issue in the last few years, her administration has been roundly criticized for her actions. What do you think about that? What's your thought?

Judy Shaw: My thought is that she was so visible in all that she did. She took ownership of all that she did, she didn't try to push it off on a cabinet officer or the legislature. She owned that decision, which, at the time, she thought was the right decision. It happens to be a decision that's been made by almost every governor before and after, and in other states. There's only so much money that's available, and if you look at some of the trust funds and pensions, they have enough money in them today, to pay out for the next X number of years. And so it's very tempting to take some money that would have gone into even further out years, to balance the budget now, and you think, I'm always going to be able to make it up. Well you're not always able to make it up, or you're rolling the dice that the market is going to be such, that the economy is going to be such that a rising tide is going to lift all the boats, and if it doesn't, some number of years out, you're short funded. Anyone who was working in state government at the time, wasn't going to lose a dime, even if they lived to be 110. There was enough money there for everybody in the system, and for those coming into the system. But there wasn't the money for all time going forward for everybody who was back here. So in essence, I say she did what many have done. It just was one thing they could accurately pin on her.

Clip containing interviews with: Hazel Gluck (11/11/13); Elizabeth Murray (7/10/13); and Harriet Derman (1/10/13
Interviewed by Marie DeNoia Aronsohn

Marie DeNoia Aronsohn: She had some real traction in the media.

Hazel Gluck: Yes, because she kept promises—kept her promises about taxes and a lot of other things, but I have to say that Jim McGreevey made mincemeat out of her when he ran [in 1997]. I mean he just made mincemeat out of her, and if you talk to the average person today—I was at a barbecue a couple of summers ago and we were talking—I don't know how we got into politics because I don't like to—"That Christie Whitman, she stole money from the pension fund. She did this. She did that." I said to him, "Time out. You're talking about a friend of mine." "You? I can't believe you're—she's your—" There are still people out there that think that she was not a good governor, that she didn't do many things, and not too long ago here at Eagleton there was a round table and she was here and one of the gentlemen who served as treasurer explained the whole pension fund thing and it was the first time I heard the explanation. That's what I mean about not being able to translate what they were doing into something that had to do with public relations. She still wears that around her neck, not that the rest of them paid it back. The only one paying it back is Chris Christie, not that the other governors paid it back but that she took it in the first place, and what I found out was that the pension fund was funded 105 percent even after they took what they took.

Marie DeNoia Aronsohn: That wasn't communicated is what you're saying—

Hazel Gluck: Oh, not at all.

Marie DeNoia Aronsohn: And the fact that it wasn't still seems to be—

Hazel Gluck: Yes, absolutely.

Marie DeNoia Aronsohn: —a contention against her.

Hazel Gluck: Absolutely.

[break]

Marie Aronsohn: Were you at the table for the pension fund issue, because that's one of the policies that seems to haunt Governor Whitman.

Elizabeth Murray: Yes, I was.

Marie Aronsohn: And what was your opinion of that?

Elizabeth Murray: As we discussed, I'm an English major. <laughs> So I remember feeling at the time that I didn't really have a good understanding of it but I felt like there were people at the table with a great deal of expertise who do understand these things, who thought it was a good idea, and it may still be a good idea. I think that we failed in explaining it properly and in hindsight, I wish that we had made sure that there were communications people at the table who had a really good understanding of the program who could-- and then we really spent time thinking about how we would communicate it. We communicated it as, it's like refinancing your house, and it really was nothing like that. Having now refinanced a house -- <laughs> and so, you know, it's-- in my opinion, it was a reasonable thing to say, let's essentially prepay our pension obligation. I'm sure that there's a reason for this, but the idea in my mind that we consider pensions fully funded when they are funded to the level that would assume that everybody who's in the pension fund retires today is not feasible for taxpayers, and so it was aiming at that issue. But I think we didn't communicate it well.

[break]

Marie DeNoia Aronsohn: Circling back to the pension bond issue, what do you think should have been done to dispel that criticism or maybe even should be done at this point?

Harriet Derman: Well, I think Governor Whitman has to probably get out there more and talk about it or write letters to the editor or get some of her friends. People knew how to do that when she was running for office. Get people to write letters and op-ed pieces, meet with the editorial boards, that kind of thing. But Governor Whitman doesn't seem to want to do that.

Forum: Economic Policies of the Whitman Administration
October 28, 2013
Hosted by the Center on the American Governor

James DiEleuterio: Let me just summarize what has taken me fifteen minutes to explain and again, you go back to the idea that this was a liability that was down below the line, of four and a quarter billion dollars, that the governmental accounting standards board said you've got to move up to long-term debt guys. Now granted, you didn't have to do it right away but—

Governor Whitman: We did it. We chose to do it right away.

James DiEleuterio: Right.

Hazel Gluck: Okay.

James DiEleuterio: So we eliminated a four and a quarter billion dollar below the line debt. And yes, we increased long term debt by two point eight billion, but instead of sixty years it was twenty-nine years at a lower rate of interest.

Hazel Gluck: But nobody knew that.

John Whitman: Too many things happening at the same time. You started out, Jimmy, saying it's too complex to say we've got a liability, we're going to fund it, and then we're going fund it cheap.

Hazel Gluck: No but you get a dope like me, maybe they can put it into dopey language.

Governor Whitman: Suffice it to say we just didn't do a good job.

James DiEleuterio: I was just going to say a couple more things. I'm sorry.

Michael Torpey: I don't mean to make this sound trite. If one of the purposes of this Center is to inform future governors and learn something, well the message from this is too complicated in an election year, period. I contend that if we did this the next year it would have been fine. We wouldn't be talking about it. It would have been a little controversial, we would have gotten through it. The problem was that in an election year because of its complexity and the ability for it to get picked apart, we tried every single explanation we're talking about here.

Governor Whitman: Oh every explanation, we tried.

Michael Torpey: But the problem was it was just a target-rich environment for our political opponents, and even for those who might not have been opponents but ones who were a little skittish about their own reelection prospects and I'm talking about certain Republican legislators. And the combination of things just made it deadly. It just made it deadly. Too complicated in an election year, a year later it wouldn't have been a problem.

Peter McDonough: You know there were three parts to the proposals and three bills that made up the proposal as I recall and in most of your opponents, our adversaries in the legislature including Jim McGreevey voted for two of the three parts, but not the ultimate funding mechanism. Which is kind of how we got to the situation we were in to begin with.

John Whitman: But remember, the reason for that was the stock market was particularly good at the time and you told me you didn't want to miss it because you were going to take the two point eight and put it into the market whereas if you'd waited for another year it turns out looking at your analysis if you'd waited another year or so it the market might have gone away.

James DiEleuterio: In fact when we marked-to-market we said we don't want to take all the value out so we're going to go to twelve months ago and that's what we're going to mark-to-market as.

Governor Whitman: Yep.

James DiEleuterio: Well frankly, John, other than you and Roland and a few other folks at this table, who the hell understood that?

Harriet Derman: I understood it.

James DiEleuterio: Yes, no I mean that to be argumentative.

Governor Whitman: No but the average person. No he's talking about the average person.

Carol Cronheim: Can I just say that I had to explain it as a speechwriter. I have a speech right here from April 11, 1997 and it's two short paragraphs and still it just seems like what? And we begged, we talked to everybody in Treasury and I think the three of us, by then it was four of us I guess, we pretty much we just kept saying "You can't do this. We can't explain this at all." All we were getting were blank stares. Nobody could get this. And I think if we're looking at a lesson too because it kills me because I feel like they have to criticize you on this because later elected officials feel they had to be bipartisan. So the ’00s were terrible so they have to take it down to the ’90s. And so this was the thing they hang their hat on and they always say it wasn't to balance our budget. Now they say it's to pay for your tax cuts. But I think the minute we took one dime for cost avoidance or "budget balancing" or anything like that was a policy mistake because then they were able to say "You balanced your budget with it and you mortgaged your house to pay for your groceries." And that stuck. People understand that. Don't mortgage your house to pay for your groceries. You couldn't beat that. We had no language. We tried. Pete tried because by then I think we were still in policy planning but it was impossible to talk about.

Interview with Governor Christine Todd Whitman
December 3, 2014
Interviewed by Nancy Becker

Nancy Becker: If you had the opportunity to redo anything, what would you have done differently?

Governor Whitman: Well, probably the major thing is the pension bond issue. I would have presented it in a different way. I wouldn’t have done it differently, because we had a certain timeframe where the market was doing really well. What we wanted to do was, as we described it, but too late, as to redoing a mortgage, taking advantage of lower rates, and that’s what we did. We took the bonds, the outstanding bonds we had, and we went back into the market and were able to get a much lower rate. I think we saved, over the life of the bond, the taxpayers some 61 billion dollars long term. But we didn’t present it well. By doing that, it also helped improve the pension, the amount of money we had in the pension. So we were able to give municipalities a holiday. And we said very clearly to them, look, we’re telling you, you don’t have to pay in now, because you shouldn’t have to. Today’s taxpayers shouldn’t have to overpay a system that wasn’t going to need it and wasn’t going to benefit them particularly. But it was only a holiday. It was going to end, and we were very careful about how we anticipated how much money we would be getting from our investments. We were very conservative on that, and unfortunately, some of those that came after changed the assumptions that we’d made and locked in much higher ones. Also they put added obligations onto the pension system. They increased the pension obligations by about 10 percent without allowing for that in the funding. But we just didn’t do a very good job at all. We sprang it. It was too fast. It looked like we needed it to balance the budget. We really didn’t. It helped, of course, but we didn’t need it. We were prepared to balance the budget without that. It was more a question of taking advantage of very high market rates in order to renegotiate those obligations, those pension obligations.

Interview with Peter McDonough
January 24, 2013
Interviewed by Marie DeNoia Aronsohn

Peter McDonough: Where the pension system took its turn downward—and I can point to a couple of things. One was in election year 2001. The legislature increased the benefit by nine percent. They recalculated what they thought the actuarial tables and some other things—and they increased the benefit by nine percent without any increased contributions to it. So now you've got a drain going on the system. Second thing that happened was—not in order. Another thing that happened was the McGreevey and the Corzine Administrations went into some very, very, very risky investments. All of a sudden what used to be a very conservative investment portfolio—because everybody was all lit up about venture capital and "Oh my goodness, we're dinosaurs." Orin Kramer and I don't know who else and the pension—I guess he was appointed by Governor Corzine—went into some really risky investments and some credit swaps that have all gone bad. And, finally, the market tanked. If—I'm gonna make a guess here that the underfunding of the pensions—if the pension system is eighty billion dollars in the hole—maybe it's sixty. I mean that number moves with the market. Maybe twenty percent of that is state contributions that haven't been made. The big chunk of it was the market tanking. So when the market comes roaring back and everything gets back to where it was and maybe then some, the pension system will be fully funded. I go to sleep at night saying it's really about the market, it's not about the principal that was paid in. Now the state needs to get right. The state should have never not funded the pension system when it slipped below a hundred percent. But there's no reason to pay into a system and take money out of taxpayers' pockets or take money away from other programs in order to overfund some other program.

Forum: Economic Policies of the Whitman Administration
October 28, 2013
Hosted by the Center on the American Governor

James DiEleuterio: I think what also became lost in the soup here is the fact that actions were taken after we were in power. The "and over 55" which was basically reducing the retirement computation from 60 to 55, cost billions of dollars.

Governor Whitman: Yes, I think that's something that first of all is obviously confusing, just by listening to the conversation here, and people's reactions to things. But also I'd agree there were some very significant changes made after we left that exacerbated—

Hazel Gluck: Absolutely.

Governor Whitman: Well there wasn't that problem because actually I can remember on that last budget when we were reconfiguring the numbers, on the last budget before I left. We were going back to the municipalities and starting to say "Gang, it looks like this is going to be the year." You're coming into this year or the next year. Starting to raise the flag that they were going to have to start paying in again. It was going to be back on the regular schedule because it looked like the budget, the economy was not doing so well.

James DiEleuterio: Frankly in the succeeding administration-

Governor Whitman: The market wasn't doing so well.

James DiEleuterio: When it came time to start making their normal contribution again they bonded.

Governor Whitman: They bonded it.

Harriet Derman: Governor DiFrancesco raised the contribution by nine percent.

Panel: Yes, nine percent.

Governor Whitman: The fifty five to fifty and didn't they also lock in? Because we did it on a rolling three year average from the market, or five year. And they—

Peter McDonough: It was five and they mark-to-market.

Governor Whitman: They mark-to-market, yes.

Harriet Derman: There's more to this story. There's more to this story. With the C.W.A. we actually had a side agreement with them giving them some bennies. We decreased their pension contribution by a half a percent. We promised no layoffs. We'd limit privatization. And we guaranteed benefits of state workers with five years on the job, even if future benefits were reduced. We actually had a side agreement with the C.W.A. The N.J.E.A., they were onboard right away. What was strange in this whole scenario and what caused us problems was the A.F.L.-C.I.O. Young Charlie, Charlie Marciante, I'm going to use my words carefully, for some reason he jumped on board against this. He used very aggressive language. Very negative language and it was always very mysterious why he was so opposed to what was good for his members. Why was he- I'll tell you afterwards why we think he was opposed to it. But he had his own motivation and he ginned up the legislators to oppose it, but we got it done. It wasn't easy but once it was out there it had to be done and we did get it done.

[break]

James DiEleuterio: I will tell you that given the same set of circumstances, I would recommend this again.

Roland Machold: And the S.E.C. also looked at it because they were concerned with what would be the arbitrage. That was always an issue and they gave it a pass. There was one issue that isn't mentioned here which is that Doug Forrester had set aside four hundred and forty million dollars for prefunding medical expenses, and what we did then was we looked around, we talked to our actuaries, and they said "Nobody does that in the private sector." So that money was taken back directly as far as I remember. I wasn't on the inside on that but I believe that small portion was taken back and put into the budget. Nobody ever talks about that. Just as well. <laughs>

Mark Maygar: Currently the unfunded liability on that, retiree health benefits is as twice as large as the pension liability. Yes.

Roland Machold: I have a little chart here, which I only have five copies of, but I don't know if there are five people who want it, but I should pass one down to Christie.

Nancy Becker: We should have one for the archives.

Roland Machold: Do you have this one?

Nancy Becker: No, but I'd like to have it.

Roland Machold: Yes but this is from *Fortune* magazine so it's not an in-house thing and when she retired, we had a surplus. When I retired we were beginning to have a surplus <laughs> but any rate. Here are a couple of them. I'll give one to Jimmy and whoever else wants one.

Judy Shaw: And in terms of the archives, also, when we talk about the Whitman administration it really was a seven year administration. There was a year that followed where a number of incidents—

Governor Whitman: Decisions were made.

Judy Shaw: —occurred, decisions were made that frankly had a negative impact on the record as it stood when Christie walked out the door and unfortunately when they talk about the Whitman administration they talk in terms of all eight years when in fact the last year—the word "shenanigans" was used before—there were a lot of shenanigans, again a political year that impacted her and didn't actually impact the person who had caused them which I think is most unfortunate. I just wanted to say that for the record as well.

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

John Weingart: Some people point to the salary increase in the McGreevey era.

James DiEleuterio: I don't know that it was the salary increase, as—

John Weingart: In the DiFrancesco year.

James DiEleuterio: Well, I don't—again, I don't know that it was the salary increase, because, again, don't forget employees pay their share.

John Weingart: Right.

James DiEleuterio: And yes, there's certainly an increase in the pension contribution from the employer side, based on salaries. But by the same token, there was—according to the figures that I have seen, during the McGreevey administration, if you take a look at all of the various government employers around the state, there was an increase of 10,000 employees during that period.

John Weingart: In state government?

James DiEleuterio: State and local.

John Weingart: In the pension systems.

James DiEleuterio: You know, so there were a number of factors that went into contributing to the problem that they currently have. But frankly, what it boils down to is, if they had started making the contributions when they should have, I think the picture would be a whole lot different now.

[break]

John Weingart: I'm asking an impossible question, but what would've happened if there'd been a second Florio term? Because accounting's one of the, maybe, dwindling number of professions that you don't think of as being a Democratic wing and a Republican wing. And so, presumably, a second Florio term would not have rolled back part of their tax increase that they'd put in place. But do you think, knowing the professionals in the state at that point, that the same kind of advice would've gone to the Florio administration?

James DiEleuterio: In terms of the pension?

John Weingart: Yes.

James DiEleuterio: That's an interesting question, and tough to answer, because obviously there were different perspectives. And if you compare the Florio administration to the Whitman administration, there were, in fact, different perspectives to it.

John Weingart: But everybody wanted the pension system to be intact for the future.

James DiEleuterio: Yes. And again, you know, the Florio administration didn't have some of the same difficulties, because GASB wasn't coming out with a new regulation that said, "You got to move these things up to the long-term debt line." There hadn't been as long of a run-up in the stock market at that point, so the value of the portfolio was not as large, so there wasn't as much of what they call excess assets. And again, that's another reason that this is so difficult to explain, is that you can't get through it without using terminology that three people on earth understand. So, now, I don't know—it's tough to answer whether or not they would've been given the same advice. And had they even been given the advice, it's tough to know whether they would've taken the advice.

Kristoffer Shields: As long as we're doing impossible counterfactuals, what difference would it have made if Governor Whitman had stayed to complete her second term? Did that year make a difference? You seem to be saying that it was a longer-term decision, that perhaps it wouldn't have made such a difference.

James DiEleuterio: Yes. I mean, certainly, most of the things that Governor Whitman focused on were, in fact, longer-term ideas, and turning the ship, which obviously takes time and distance. So I don't want to say it wouldn't have made any difference. Don't forget, in the meantime, when Governor Whitman left office, it wasn't too long after that that we had September 11th, and the state's economy really took a hit. So there were a number of outside factors that—I'm not sure how that would've influenced things. I mean, I can't say enough nice things about Governor Whitman, because she was always so good to *me*. But—and I agreed with just about all of her policy decisions. I mean, we used to laugh, because we would argue sometimes, you know? But I think the state—if you look at her overall record, I think the state was in much better shape, fiscally, when she left office than when she came into office.

Interview with Governor Christine Todd Whitman
December 3, 2014
Interviewed by Nancy Becker

Nancy Becker: So let's turn again to issues. We spent a great deal of time talking about issues in our last interview with you. But your policy objectives were significant and far reaching in economics, education, human services, the environment, and many, many other areas that I haven't named. You claim that your signature achievement was "Promises made. Promises kept." Please tell us from your perspective, what you consider your most significant accomplishment in the policy area.

Governor Whitman: Well, it's hard to pick out. There are so many that I think were important and have been important to the state. The promises made, promises kept was cutting the taxes, and it wasn't just cutting taxes to cut taxes. It was because it was going to stimulate the economy and it did. I mean, I have to say that probably from the perspective of what was the most important thing we did was to create an atmosphere where we'd lost 350,000 jobs in the previous three years to my becoming governor. By the time I left, businesses had created 450,000 jobs. So we were seeing people being put back to work, and we had shrunk the size of government. The government hadn't grown the way it had in the past, the size of state government. But we were more efficient and effective and the private sector was providing the jobs that really had the long-term impact, and that was good. Our economy was good. When we left, we had a surplus of over a billion dollars. We had done away with all the one shots. The pension funds were 108 and 112 percent funded. None of these had one shots. We'd eliminated all those. So we were in good shape fiscally which meant that municipalities were able to do better, because we did give them a holiday from paying into the pension funds, because the funds were over funded at that point. They used that money to keep their taxes low, their property taxes, which is what affects so many people. It's hard for people to understand that the state doesn't levy the property tax and doesn't collect it or spend it. That's the local responsibility, but, you know, it's easy to blame the state. So to the extent the state can pick up things that the locals would otherwise have to do, it helps everybody.