

## **David Rosen interview** (August 18, 2015)

*David Rosen Excerpts:*

*I think the culture on fiscal responsibility in New Jersey is less robust than it is some other places. And I'm not quite sure why (p.11)*

*The policy community in Trenton is not enormous. So when they talk to each other it's a good thing (p.22)*

**Rick Sinding:** Hello, I'm Rick Sinding. It's Tuesday, August 18, 2015 here at the Eagleton Institute of Politics on the campus of Rutgers University. With us today, for the Center on the American Governor, is David Rosen, who has spent three decades with the Office of Legislative Services, the arm of the New Jersey Legislature that is non-partisan in nature. David has spent most of that time as a Budget Analyst, and the last several years as the Executive Director of the agency. He has worked through the administration of six governors, and a couple of acting governors, and will speak with us today about the relationship between the Office of Legislative Services and the Governor's Office. David, welcome to Eagleton.

**David Rosen:** Thanks for having me.

**Rick Sinding:** Or I should say, welcome back to Eagleton.

**David Rosen:** That's right.

**Rick Sinding:** I understand you've spent some of your undergraduate and graduate years here.

**David Rosen:** That's correct. Almost five decades ago, I was in this room as a student.

**Rick Sinding:** You actually began as a professor of Political Science here at Rutgers before you went to the Office of Legislative services.

**David Rosen:** That's right. I was here for about eight years as an academic, before I jumped into the real world.

**Rick Sinding:** How did that prepare you for working for the non-partisan Office of Legislative Services?

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**David Rosen:** Well, it certainly made me appreciate how benign the politics in Trenton were.

**Rick Sinding:** You'll notice the expression of surprise on my face.

**David Rosen:** Yes, I mean, compared to academic politics, real world politics is a piece of cake.

**Rick Sinding:** So Henry Kissinger was right - that academic politics are so nasty because the stakes are so low?

**David Rosen:** I think that's right. Shortly after I went down to Trenton, I was working initially in education. And I got asked by Senator [Walter "Moose"] Foran to come and mediate an issue that the Cook faculty were having with the University Administration. Senator Foran represented agricultural interests and was very concerned about this. He asked me to go down and figure out what it was and if the legislature needed to do anything. And it was really interesting, because I went to a meeting with, probably eight members of the faculty, who I had served with just two years prior. And within about 15 minutes of the first meeting, I knew where this had to end up. But it took them two months to get there. And I was struck by the enormous differences between the two institutions.

**Rick Sinding:** Doesn't it usually take two months to resolve those kinds of issues at the legislative level?

**David Rosen:** Not to know where to go. I mean, sometimes it's simply wills that are in conflict, and they're not going to get anywhere. But usually you can figure out where the issue has to go pretty quickly.

**Rick Sinding:** So you started out as an Education Policy Analyst?

**David Rosen:** Right, I was working initially in Education Policy. I staffed the Assembly Education Committee. And did that, I guess, for the first seven or eight years.

**Rick Sinding:** And when did you morph into budgeting, in particular?

**David Rosen:** It really happened through the QEA, the Quality Education Act. When Governor Florio was elected, there was a decision made to revamp the school formula. At that point, the current school formula was before the New Jersey Supreme Court. The assumption was the Court would find it unconstitutional, and order the government to do something about it. And the Florio Administration decided in their first months in office that they were going to be bold in a whole series of areas in terms of raising additional revenue for government spending, and raising additional revenue for a new School Aid Formula, but they needed a new

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School Aid Formula to do that. So they started working on a new School Aid Formula. And because of some distrust with the existing folks in the Department of Education, the effort to come up with a new Formula was done in the Treasury Department, rather than Department of Education.

**Rick Sinding:** Actually, in the first six months of the Florio Administration, just about everything was done in the Treasury Department.

**David Rosen:** That's right. You're absolutely right. And they borrowed a couple of people from Education, and a few outside people, and they started working on the School Aid Formula. And they realized that, as they were getting into the Spring, this was a formula that presumably would have to pass in June, that they would need to have something to give to the legislature, and not just an idea. And they needed to draft a bill, and they didn't have anybody in that small group who could draft a bill and who they could trust to be in on the secret. So [Joe Doria](#), who was the Speaker, was asked by—and I'm not sure if it was the Governor himself, or Nate Scovronick who was Deputy Treasurer, to get someone from Office of Legislative Services to work with this group in Treasury to prepare a bill, so when they made the final decisions, we could actually roll out a bill that the Legislature could consider. And for whatever reason, I was deputized to do that. And I spent several months, essentially in the Treasurer's Office, under a very strange and unique set of rules I don't think OLS has ever had for any other project, which was that I could not tell the requester, in this case Senator Doria, Assemblyman Doria, what I was working on. Or I couldn't tell him the substance of it. And I couldn't talk to any of my colleagues.

**Rick Sinding:** No, he knew what you were working on?

**David Rosen:** He knew I was working the School Aid Formula, but I couldn't tell him what was in it. What the ideas were. And I couldn't talk to any of my colleagues. So I would spend part of the day in meetings in Treasury, and then sort of slink back to my office and close the door, and write. And the people who I reported to, I don't think were happy particularly with the arrangement, but it's what the Speaker wanted. And so we had a bill that was ready to roll out. And they presented it, and then maybe a week or two after it came out, the Supreme Court issued their ruling, and what we had prepared didn't quite mesh with what they did. So we had to go back and make a series of changes in order to meet all the standards of the Supreme Court. But the impact of that on me was that I had demonstrated that I was able to deal with numbers. And an opening developed for the Budget Committee and I was asked to move over and do that, and then I became the Second Chief, and—

**Rick Sinding:** With a specialty in Education, or did you now expand to include all budgetary—

**David Rosen:** All budgetary matters. I became the Aide to the Senate Budget Committee.

**Rick Sinding:** I see.

**David Rosen:** And then I did that for a few years, and I became the Section Chief for Revenue, Budget, Finance, Tax. And then I became the Legislative, Budget and Finance Officer. So really since the first-- or second year of the Florio Administration- I've been working in the broad areas of budget and taxation.

**Rick Sinding:** I should point out that during that period of time, when you were working on this, I was actually working on the second floor of the State House, right down the hall from Tom Corcoran and [Henry Coleman](#), who every night it seemed to me, were dealing with reams of paperwork about what this particular change to the Formula would mean, versus what the particular change would mean. And looking at every single school district in the state and what the impact would be. I mean, that's a gargantuan task that you were—

**David Rosen:** Oh, it was a fascinating task. Because you were balancing the conceptual ideas. That is, how should the formula work? What are the values we want to promote? What are the good policy decisions? And then putting those policy decisions into the formula, and running it, and see who the winners and losers were. And when the losers were certain districts, we knew that that wouldn't fly. So you had to tweak the policy to try to move the money around in ways that'd be more politically palatable.

**Rick Sinding:** Now there's a—I wouldn't call it a disconnect—but there's a very fine line here between your work as a non-partisan staffer with the Office of Legislative Services, and actually helping an administration, which is a partisan administration, develop a plan. How do you tow that fine line without becoming perceived as being a partisan? We'll get to the point you were perceived as being partisan somewhat later in your career, but for now, how did you toe that line?

**David Rosen:** That's true. In part, I was really brought over as a technician, as a wordsmith, who could take what these folks had decided upon and convert into language that would be appropriate for statute. And the reality was sitting around the table with six or seven smart folks trying to figure stuff out, I became part of that process, as well, and that became acceptable because I was doing it for the Speaker, ultimately. But the tricky part about being at OLS, being a non-partisan staffer, is that I have to bring that same ability and skill to other people's perspectives. And I did that, in fact, with QEA where I drafted the bill, and then I helped the opponents of the bill develop alternative arguments, amendments to change it.

**Rick Sinding:** And when you say help, was it because individual members, Republican members of the legislature would come to you and say, "What's the answer to this problem for this district?"

**David Rosen:** Well, it wasn't principally Republicans. It was principally Democratic members, who were saying, "I don't like the way this works in my district, what can we do to change it?"

**Rick Sinding:** But at this point, the numbers are out there, so—

**David Rosen:** Right, but I mean, the confidential knowledge about how the policy was crafted.

**Rick Sinding:** Right.

**David Rosen:** But clearly what I learned in that process made me better able to help craft alternative responses for people who wanted them. If they wanted to drive money to districts in the southern part of the state, I mean, I knew how to do that. Because I had been through the process, and I knew how the formula worked.

**Rick Sinding:** But you also knew that that would end up angering those from the other parts of the State where that money would be coming from.

**David Rosen:** Sure, and I mean, the fun part of being a non-partisan staff person is that on issues like this, you get to talk to everybody. And what everybody wants to do, and then sometimes they sit down and negotiate. And you sort of know everybody's position going in. And then that's, that's a real fun part of the job, frankly.

**Rick Sinding:** Those first couple of years of the Florio Administration, the Governor was heavily criticized for having one individual, Doug Berman, his State Treasurer, speak on behalf of all of the different agencies of state government, and essentially take control of the entire budgetary process. How did that play with the Office of Legislative Services? Was there resentment? Was there concern that this was not the right way to go? How did that work?

**David Rosen:** Well let me say first I wasn't doing budget that year.

**Rick Sinding:** You weren't doing budget at that point. Right, yes.

**David Rosen:** Because that year I was doing—yes, but I was by the next year. And I was certainly aware of the role that Doug Berman was playing. And it was extraordinary. And people said, "This doesn't make any sense." But there was a real logic to it. That in point of fact, the budgets get made in the Governor's Office, and the Office of Management and Budget/Treasury. And the departments make a case

to them, and then they have to toe the line anyway. And I think the position that the Florio Administration was taking, particularly in the first year, in which the budget was put together almost the day they arrived, was there really wasn't time to bring the cabinet members along, and let them know what all the decisions were. So it was in some ways more honest for Doug Berman to describe what they were doing to Human Services, or to Education or Transportation than for the newly arrived Commissioners to do that. I mean, no Administration has done that since, and it was not well-received, and generally Doug Berman was not terribly well-received. Maybe if it was a different Treasurer, it might have worked somewhat better. But I understand why they thought that might make sense, even though it was extraordinary.

**Rick Sinding:** What you've just described, the administration or the Governor's Office, or a Treasury, creating and crafting the budget, I guess the technical or the favorite expression is that the Governor proposes, and the Legislature disposes, in terms of the preparation of a budget and then the legislature decides whether to approve that budget or how to tweak it and whatnot. New Jersey's unique, however, in the sense that even after the Legislature has acted on the budget, the final word really still comes back to the Governor in terms of the line-item veto, which he possesses or she possesses, that to my knowledge no other Governor—certainly the President would love to have it—no other—but executives of virtually all of the States do not have that power. That once the Legislature has passed the budget, that is the budget. Whereas, in New Jersey, you've got this opportunity for the Governor to come back at it. Does that radically alter the way in which the Legislature behaves in dealing with the Governor's budget? Recognizing that there are certain limitations to what they can do?

**David Rosen:** Sure. The Governor of New Jersey is extraordinarily powerful under the constitutional structure. And probably in no area more so than the budget. The Governor begins the process by making a budget proposal. And that budget proposal, just by itself is enormously powerful. When the Governor presents his Budget Message in February, within a few days, he tells school districts how much money they should expect to receive and to build into the budgets that they're generating in March and April. The legislature hasn't said a word yet. But those are the numbers that school districts are using, and the Legislature is in a position where they really can't take that money away. They could throw some more money into school districts, but they really couldn't move it around. They couldn't say, "We don't like the choice you made. We think more money should go to suburban districts," or whatever. They really—their hands are tied on that.

The second way in which the Governor has extraordinary power is simply the knowledge. I mean, OLS works really hard to ferret out the secrets in the budget, and where the money is hidden. But the executive has enormously more resources

in that area, and they don't answer all of our questions, and they don't always answer them in an entirely forthcoming way. And so Legislature has limited information, although part of our job as OLS is to give them as much information as we can. The Governor has the constitutional responsibility for certifying revenues. Which means when he signs the budget, he also says, "This is how much money we expect, and the budget, the Appropriations Bill, cannot spend more than that." So he puts a ceiling on what can be spent. And then he has the line item veto. So no matter what the negotiations are, and the legislature gets things added, the Governor can take them away. And so, the power is all in the hands of the Governor—notwithstanding the fact that the constitution says that the Legislature has the sole authority to appropriate money. The Governor can't spend without the Legislature. But it's hard for a Legislature made up of 120 people, or 21 and 41, the majorities in the two Houses, to wield cohesive power in the budget area. So Governors usually win.

**Rick Sinding:** One of the pieces that you mentioned here was that the Governor, or the Governor's Office has the authority to certify how much revenue is anticipated in the coming year. This is an area in which Governor's Offices, Treasury on one side, and the Office of Legislative Services has had considerable disagreement over the years. I have to point out that recently you were referred to by the current governor as the "Dr. Kevorkian" of numbers. He was obviously not pleased with the number that you came up with of how much you anticipated the revenue would be. Does this date all the way back to the very beginning of Legislative Services? Has there always been this contentiousness, or difference of opinion, between the Governor's Office, and the Office of Legislative Services about how much revenue there would be?

**David Rosen:** The Governor has the power to certify revenues. That's his authority. The Office of Legislative Services simply provides at the direction of the budget committees our take on what that revenue picture might be. Our numbers are advisory. I mean, his or hers, are the ones that count. There have been years in which there have been differences that were significant.

**Rick Sinding:** Have they ever been as significant as they are today?

**David Rosen:** Yes. I think the biggest difference was probably the year that [Don] DiFrancesco was the Acting Governor. In part of the budget hearing process, in mid-May, once the April revenues have come in from the income tax and the corporation business tax, we really know what the year looked like, but the Treasury and OLS come in and offer revised figures. Sometimes significantly different than what we had said earlier in the year, sometimes not. And in that year, we were saying a difference of-- by the end, because they had added some more money in June, of about two billion dollars, which was very significant. It was so significant that Pete Lawrence, who was then the Acting Treasurer, didn't come

in and testify. It was the only time in history that he refused to come in. Said the picture was still unclear. And they wouldn't come in and offer alternative numbers.

**Rick Sinding:** This was for the current year budget, or for the—

**David Rosen:** No, it was a combination, it was going to be—most of it was in the out year, if you follow me. And you're right, that following years was a disaster. In fact, as is often the case when we predict something dire, it came out worse than that, because things tend to swing in ways—in greater magnitude than you expect.

**Rick Sinding:** This would have been 2001? Probably? 2000/2001?

**David Rosen:** Yes, right. It would have been the election year. So it would have been the summer of 2001, the '01/'02 budget. Yes, it was the one DiFrancesco budget that we had. So there have been differences in different years. Different Governors have dealt with that differently. Or different Treasurers. Because usually the Governors don't comment on our revenue forecast.

**Rick Sinding:** Again, the current Governor being the exception, right?

**David Rosen:** Being one of the exceptions. Often with Treasury what we would say is, "Okay, no. Well, OLS says it's going to be more or less than we say. And we respect their honesty, and revenue forecasting is hard; we'll wait and see. And if they're right, we'll adjust." Which is a perfectly reasonable sort of response and one that would have served this Governor better I think. But there have been times, particularly when there seems to be a political context. I mean, we really don't have an agenda. We don't produce numbers to suit Legislators of either party. We work for both parties. We have no reason to favor one party over the other.

The one other time a Governor commented on revenues, that I recall, specifically, was Christie Whitman. And it was the year she was trying to get her Pension Bond deal through. And I mean, part of the argument for the Pension Bond deal was that we couldn't afford to make the pension payment, and it's—borrowing to retire the debt was a better way to go. And Bob Littell, who was the Chairman of the Budget Committee.

**Rick Sinding:** A fellow Republican.

**David Rosen:** A fellow Republican, was adamantly opposed to the Pension Bond Deal, which he branded as "wacko." And it happened that our revenue forecast that year was higher than the Administration's, which would have made it easier to say "no."

**Rick Sinding:** To make the pension deal.

**David Rosen:** To make the pension deal and then not do the Pension Bonds. It would have been an easier thing to do. And Whitman dismissed our numbers saying, "Oh, we're just doing what Bob Littell asked them to do." And I worked very closely—I was staffing the Budget Committee then, and I worked with Bob very, very closely, but we weren't tallying the numbers for him, it just worked out that way. But I assume sitting in the Governor's office, her conclusion was not a ridiculous conclusion, particularly if she didn't understand OLS. And most Governors don't understand.

**Rick Sinding:** Well, most Governors who haven't come through the Legislative process. I mean, Tom Kean understood OLS very well, didn't he?

**David Rosen:** Yes. Although it was interesting. During the flap over some of Christie's comments, was a newspaper story that quoted Tom Kean saying, "Oh, yes, all the Governors hate OLS."

**Rick Sinding:** <laughs> Even those who helped create it.

**David Rosen:** Right, right. I guess that's to some degree true.

**Rick Sinding:** Let's talk a little bit about Whitman and the Pension Bond Deal, because I've done some previous interviews with Cliff Goldman, and the late Dick Leone, former State Treasurers, who have laid the blame for the current pension system problems on Christie Whitman's policies with regard to paying for pensions in the mid-1990s. Would you—looking at the pension, the State Pension System today, from the vantage point of working on budgets for the last 20/25 years, would you also say that that was the origin of today's problems?

**David Rosen:** I would say it was one of the legs of the stool, and there may be more than three legs to the stool. Certainly we borrowed that money, which, taking that in isolation, it's either a good or a bad deal. I mean, it was an arbitrage play. We were borrowing money at one rate, and hoping it would earn more than that in the investments.

**Rick Sinding:** And if it had, those investments would have paid back the bonds over their—

**David Rosen:** Well, the idea was if you could borrow ten dollars at two percent, and it was going to earn eight percent, then that's a good deal. And you'd be paying the debt service and the money you would have been appropriating to the pension system, which you didn't have to appropriate, because you would put this money in and it was earning the rate of return. Now, I think the analysis has been done. Subsequently, is that it didn't play out. It didn't work out. I mean, that we would have been better off not doing it simply from a financial point of view.

But the bigger problem was that by putting the 2.8 billion dollars into the pension system, we made the pension seem over-funded which allowed the State not to make payments. Part of the deal to get the unions onboard was to reduce the employee contributions for a couple of years. So we had less money going in, than we would have normally, if we hadn't done the Pension Bond Deal. And it was particularly unfortunate, because this was the year—a period that the stock market was doing very well. Whitman was blessed by the same surge that Bill Clinton was blessed by in Washington that eliminated the Federal deficit. And it was—that was a time we could have put a lot of money into the pension system. And we didn't.

Then, the worst part of that, came the year that DiFrancesco was Governor. The Republicans who had come in—the Republicans were trying to hold on to their majority, trying to get the public employee unions to back them. And agreed to the nine percent pension boost. So that was the year—and the argument was that the pension system was overfunded. Now, the stock market had already done a very deep correction. But the way pension funds get counted actuarially, that hadn't gone into the calculation yet. So if you looked at the actuaries' calculations, the pension system was very healthy. If you looked at the actual value of the pension assets, it didn't look nearly so healthy. But in any event, they passed—and I guess the same year of that terrible budget, the summer of 2001, they did a nine percent pension boost for everybody in the pension system. And all retirees. But no money was being put away for those people at this higher rate. And people who had been in the system for twenty years were now getting enriched on each of those twenty years that they had put in service with no money put into the system. That had a very severely adverse effect on the pension system. Then moving into the McGreevy and Corzine years, there were efforts to put money into the pension system in various years and various amounts.

**Rick Sinding:** But never fully funding it, as I recall.

**David Rosen:** I think there might have been one Corzine year in which the budget had full funding through pensions. But it didn't happen, because I mentioned that in April/May, we find out how we really did in the fiscal year. And at that point in the fiscal year, there are only two months left. And almost all the expenditures are out the door. So if revenues don't match expectations in the Spring, you've got to scramble around to balance the budget. Because we have to have a balanced budget, we can't have a deficit. The pension payment gets made in the end of June. So the pension payment was always the safety valve. So in years in which revenues didn't come in the way they were expected, you could just not make the full pension payment, or not make the half pension payment, or the third pension payment, whichever was in the budget. You simply wouldn't put that money in. And there were no short-term consequences. And the same thing was true in drafting the budget. That is, if you didn't put in the full pension payment, nothing bad

happened in the short run. If you didn't fund school aid, teachers got laid off. If you didn't fund Medicaid, services weren't provided. If you didn't pay the prison guards, you had real problems. If you didn't put money in the pension system, nothing happened in the short run. And those short runs snowball.

**Rick Sinding:** And continue to this day, kicking a can down the road.

**David Rosen:** Yes.

**Rick Sinding:** Can you generalize about ways in which states approach budgets, taxes, pensions, and how that's changed over time? Not just in New Jersey, and not just based on who the governor is or the party that's in control, but more fundamentally about whether assumptions and approaches about the budget have changed over time?

**David Rosen:** I'm not sure I know of a national trend. I think there are ebbs and flows and states are very different. I mean, the last number of years I've been more involved with my counterparts in other states, and I'm struck by how much more fiscally responsible some other states are. There are other states that simply don't do all of the things that we do that have gotten us in trouble.

**Rick Sinding:** Can you give us some examples?

**David Rosen:** Yes, almost every one. I mean, New York State, for instance. They pay their pension money. They do other irresponsible things, they play games, they—for years, they never got budgets done on time. But they've kept their pension system sound. That was a value that they had. And we didn't seem to and New Jersey is one of the worst pension situations in the country at this point. And it's not only because our economy has lagged the last few years. I mean, we're still a wealthy state.

**Rick Sinding:** But you've described now three or four different characteristics that went into how we got to where we are.

**David Rosen:** Yes. I don't have a good answer yet. But I think the culture on fiscal responsibility in New Jersey is less robust than it is some other places. And I'm not quite sure why.

**Rick Sinding:** I was going to say, is it statutory?

**David Rosen:** There may be some that have a constitutional requirement but not all of them do. There's simply a matter of fiscal restraint. The other thing where it shows up enormously is in the budget surpluses that states have. In the last few years... the projected surplus for the whole fiscal year is less than one percent of the budget. That hardly leaves you any room for a slight dip in revenues or some

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extraordinary expenses that can come up in any fiscal year. I mean other states have much larger reserves and keep those monies in reserves. When we've had periods of money coming in, we've spent it. I recall during those boom years, the stock market boom years under Whitman, we'd be sitting there in April and we'd have hundreds and millions of dollars in unanticipated revenue coming in, and I remember getting a call from somebody in the administration saying, "We've got to come up with a way to figure out how to spend this money."

**Rick Sinding:** Did you suggest that maybe it would be better to let it carry over as a rainy day fund?

**David Rosen:** I don't remember if I did or not. I certainly should have. But I'm not sure I was as wise then as I am now.

**Rick Sinding:** <laughs> You would say that today.

**David Rosen:** Yes. Yes, I would. Yes, and I've said it publicly to the budget committees when I testify. I certainly would say it privately.

**Rick Sinding:** How much interaction have you had personally with governors? Have you dealt directly with governors or more likely with Treasurers or with Treasury personnel?

**David Rosen:** Almost no contact with governors. I mean a handful of times in all that period I've served. A lot with Treasurers, people on the governor's staff, governor's counsel. By and large governors ought not be dealing with legislative staff. When they're dealing with the legislature they ought to be dealing with legislative leaders, and usually I'm not invited to those meetings, although I have been on occasion. So my contacts have almost all been indirect.

**Rick Sinding:** Was it Sam Alito [first director of OLS] who said that the less people know who you are and what you're doing the better?

**David Rosen:** That was certainly Sam's—Sam Alito was the director of OLS when I was hired. He was really the founding executive director. I only served for a couple of months under Sam before he retired, but that was certainly the ethos. At that point, we had a lot of Ph.D.s on the staff. It was a time when graduate programs were producing more Ph.D.s than universities were hiring, and we had a whole range of really interesting people who had Ph.D.s in various exotic subjects on our staff, and we never used "Dr." or "Ph.D." in our signature or anything because Sam's view was it would communicate a sense of superiority to legislators, and we didn't want to do that, which was ironic that I ended up being referred to as Dr. Rosen sort of in public because I never did that. I mean I never used it.

**Rick Sinding:** Actually, Bob Littell was the one who used it, didn't he?

**David Rosen:** That's right. It goes back to Bob. That was when Whitman was arguing with Littell about the revenues she was citing Dick Kaluzny, who was Treasury's revenue forecaster, a good friend of mine, as Dr. Kaluzny. And Bob knew that I had a Ph.D., which was in political science. It wasn't in economics or revenue forecasting.

**Rick Sinding:** And you weren't an M.D., right?

**David Rosen:** No, that's right. So he's already referring to me as Dr. Rosen before the committee. And for years I said, "No, don't..." I kept telling people not to use it, but finally I gave up.

**Rick Sinding:** Now you mentioned that the chief revenue forecaster in Treasury was a good friend of yours. I assume that over the years the relationship between the permanent professional staff and the Treasury Department and of OLS is a respectful—you can respectfully disagree but there is mutual respect there. Is that right?

**David Rosen:** Yes, I mean it varies from time to time and from administration to administration. But it was more than respectfully disagreeing. I mean there have been periods in which I would be on the phone every day with either a Treasurer or people in Treasury discussing how the revenues looked. There are very few people in Trenton who do that kind of work, and it made an awful lot of sense for those of us who did to talk to each other and say, "What are you seeing? How do you interpret that?" It's totally separate from what we did publically. One of the things that [Dave Rousseau](#) did—and I don't remember if it was when he was deputy Treasurer or when he was Treasurer—is he made the point that it really wasn't helpful when there was a public disagreement. Say they were proposing a tax increase and Treasury said it was going to raise 800 million and we said it was going to raise 600 million, and then the public debate became about who was right. And so what he would try to do is have us sit down beforehand and see if we could agree and then go forward and say, "This is the number, and Treasury and all of us agree on that."

**Rick Sinding:** Or you could agree that it was somewhere between 600 million and 800 million.

**David Rosen:** Yes, or very often we could come to an agreement on a number, and then the debate was whether or not it was a good policy, not whether it was 600 or 800. So there have been periods when there's been a high degree of cooperation, and not just on the revenue forecasting area. There have been periods of time in which executive branch really engaged with us in considering policy options. As long as we were working for a legislator we could spend hours and days meeting with people in the executive branch trying to sort out a policy. I remember

going back to the Whitman Administration the School Construction Program where it was the Assembly—probably the Senate, but I remember the Assembly people more—Republican leadership and the governor’s office trying to come up with a plan, and I and one of my colleagues—this is when I was still doing education—we spent hours and hours and days and days in meetings with people in the executive branch and the partisan staff trying to craft policy, and that was perfectly appropriate for us to do because we were doing it for them. Now, if the Democrats then wanted to slam it we would help them do that as well. So I mean there were lots of areas in which there was a high degree of cooperation between the OLS and the executive branch.

**Rick Sinding:** Does OLS mirror Treasury in the sense that there are individuals who are assigned as you were with education? I know there are people in Treasury who are specifically assigned to corrections or specifically assigned to transportation or specifically assigned to environment. Is OLS structured the same way?

**David Rosen:** The way the central staff of OLS, which is what most people think of as OLS, is set up in 10 subject area teams: Education, human services, state government, transportation, authorities, revenue, appropriations, finance—

**Rick Sinding:** So this would be by legislative committee.

**David Rosen:** Well, it doesn’t always match committees, but there’s an overlap. And then within each of those teams we have attorneys, researchers and fiscal people who work in those areas that—at one point OLS had three totally separate silos: A legal silo, a fiscal silo and a research silo, and then when Albert Porrioni took over and restructured OLS we created these teams that included people with these different skills but the same subject area.

**Rick Sinding:** So I assume that there is intense negotiation that takes place between the fiscal officers from Treasury who are assigned let’s say to the transportation department and a deputy attorney general who works with the transportation department and a policy person, and their counterparts in OLS working towards specific programs within transportation—I mean does it get down to that level of precision?

**David Rosen:** It depends. As a general rule, no. I mean as a general rule, particularly on the budget it’s an executive branch process in which the departments meet with OMB, the governor’s office. The governor comes out with his proposal in February and that’s the administration’s proposal. And the Treasurer is the principle defender of that. When they get called before the budget committees the commissioners are supposed to defend that. And the negotiation on the budget that goes forward is between the legislature, legislative leadership and Treasury or the governor’s office depending which term. OLS has an analytical role.

When the budget message comes out we analyze the budget proposal for each department and we try to identify issues and concerns that the legislature might care about in a nonpartisan way describe what's in it, how it differs from the budget from the prior year and raise information that might be of interest to legislators on either side of the aisle. And in doing that our staff talked to OMB, sometimes talked to the departments, depends on the administration. I mean some administrations have really locked down their departments and not let them talk to us. The current [Christie] administration is—

**Rick Sinding:** I was going to say that.

**David Rosen:** Yes, but it's not the only one. I mean there have been other instances in which they said—and sort of like the Doug Berman argument. They wanted all the information to come from one place. It used to be a time the budget would actually show budget requests that came from departments, so the budget proposal the governor puts out has different columns, and there's the requested amount, the recommended amount for the budget. They used to be different. There used to be a time when the department would ask for "X"—

**Rick Sinding:** Well, they were always different, as I recall.

**David Rosen:** Not anymore. They haven't been in at least a decade.

**Rick Sinding:** Really?

**David Rosen:** Yes.

**Rick Sinding:** That's how long it's been since I've looked at budgets.

**David Rosen:** Yes, yes, except for higher ed because the institutions are separate.

**Rick Sinding:** I see.

**David Rosen:** So their numbers differ from what's recommended, but otherwise the numbers are exactly the same. So whatever it is that the governor ultimately through the Treasurer and OMB says the department of transportation is going to get that's in fact what they requested, and we never see a separate request from them.

**Rick Sinding:** So would it be fair to say that New Jersey has moved from bottom-up budgeting to top-down budgeting?

**David Rosen:** Yes, yes. I mean there's some bottom-up in the process. The departments still get to say, "This is what we'd like to do," but that gets—

**Rick Sinding:** But by the time it actually gets to the budget document they will kind of settled on an amount.

**David Rosen:** Yes.

**Rick Sinding:** You mentioned much earlier Walter Foran as an example of a legislator who had a particular interest in agriculture. I remember years and years ago doing an article back in my journalistic days about the New Jersey legislature and how it had changed over time, and a number of legislators at that time, and this is going back probably 25 or 30 years, were saying in the old days there used to be legislators who were real specialists in particular fields; Walter Foran in agriculture, somebody else in transportation, somebody else in education—

**David Rosen:** Matty Feldman in education at the same time, yes.

**Rick Sinding:** Matty Feldman in education, and that that had changed, that legislators now were generalists. They didn't have the institutional memory. There were no key legislators that you would say, "This is the go-to person for this particular field." Is that still the case, or are there now legislators who are—I could think of John Wisniewski in transportation, for example. There are a handful of legislators who are identified with particular issues, but is that more the exception than the rule?

**David Rosen:** I think it is. And, again, it's different from other states. In talking to people in other states, there are committees and committee chairs who really matter. I think part of the explanation probably is the increased power of the leaders, that I think much more the decision making now is concentrated in the Speaker or the senate president and perhaps a few people around them.

**Rick Sinding:** In the days that I'm talking about when those articles appeared they had rotating leadership. And of course that's changed. Now the leaders are leaders for a much longer period of time and have more power.

**David Rosen:** Right. I'm not an expert on campaign finance stuff, but they also have built up large leadership PACs, which make a lot of difference in the election. And so as a result I think the decision making gets made by a relatively small number of people in either house and they are by necessity then generalists because they can't be experts in everything.

**Rick Sinding:** Going back to the Whitman/DiFrancesco budgets, for us to get a better sense of how the policy, the pension policy or policies developed, whom should we talk to? Who were the people in Treasury, in the legislature, in the governor's office who were key in making those decisions so that we could—as we

look into this more deeply how do we get to the bottom of where and how those decisions were made?

**David Rosen:** That's a good question. A fascinating person to talk to would be Jim Archibald who was deputy Treasurer in the Whitman Administration. I don't know in the governor's office because in that administration I had very little contact with the governor's office. Certainly Brian Clymer, who was the Treasurer was a major player in that. Really what drove the Whitman Administration agenda was her decision during her campaign to propose the income tax cuts, which really is what dominated the early years of her administration.

**Rick Sinding:** And did that dominate the budgetary process?

**David Rosen:** Sure, sure, because we were giving up money every year and, again, she was really lucky because the stock market went crazy and we got lots of money from capital gains and it allowed us to be able to afford the tax cuts that she put through. Otherwise I don't know how we would've done it, and it left little room to do much else. I mean that's where the money went. And then once the tax cuts were phased in that's when we were saying, "Okay, what do we do with this money that keeps coming in?" And we did some property tax relief programs that we then later couldn't fund because that money wasn't there because it was really a bubble.

**Rick Sinding:** What could be done about the transportation trust fund?

**David Rosen:** Well, clearly we need revenue. Since this won't be released until after I retire—

<laughter>

**David Rosen:** —the obvious solution is to raise the gasoline tax, which is—New Jersey has one of the lowest gasoline taxes. We have a desperate need for the infrastructure. It seems like a pretty easy call. Obviously there are political reasons why it hasn't happened.

**Rick Sinding:** Is there any alternative to that? Can you think of any ideas as an alternative?

**David Rosen:** Well, you need a big chunk of money. You can cut spending elsewhere, put less money into the pension system. You need a stable, long-term source and a gasoline tax could fund another five, ten years of infrastructure, and it's a user tax. There are problems with a gasoline tax. I mean principally cars are using less and less gasoline—

**Rick Sinding:** Right.

**David Rosen:** —so as a long long-term solution there are some problems with that, and states are looking at other ways of taxing transportation rather than gasoline consumption to pay for their infrastructure. It's a national problem.

**Rick Sinding:** What are the other ways?

**David Rosen:** Mileage.

**Rick Sinding:** Oh, I see.

**David Rosen:** Now, there are issues of driving out of state. There are systems that have been proposed using GPS. Technologically it's possible to keep track of how many miles you drive in New Jersey but there are privacy issues with that—

**Rick Sinding:** Yes, indeed.

**David Rosen:** But there are different things that are being looked at. It's a problem in other states that use the gasoline tax, but we're at a point now where we don't have an alternative. We need to come up with the money quickly, and that would certainly work for a while.

**Rick Sinding:** There's been talk about the possibility of the lame duck session of the legislature [in November/December 2015], of some kind of a revenue-neutral way of raising the gasoline tax to fund the transportation trust fund, eliminating the estate tax or doing some other things. The governor, for example, as long as he's running for president can continue to say he didn't raise taxes. Do you see that as a live possibility?

**David Rosen:** Well, if it's really revenue neutral then it's effectively no different than just cutting spending. If you were going to wipe out the \$700 million estate and transfer inheritance tax revenue and raise \$700 million in the gasoline tax, which really wouldn't be enough, but if that's what you were going to do, then you'd have to find \$700 million of budget cuts to cover the money that you're not getting from those existing taxes. So it's effectively no different than just paying the transportation cost out of the budget.

**Rick Sinding:** Out of the general fund, yes.

**David Rosen:** Yes. If it's a large gasoline tax and a small estate tax issue and they can spin that as revenue neutral. It's sort of a face saving thing that's different, but it wouldn't meet the Grover Norquist test—

<laughter>

**David Rosen:** —of revenue neutrality.

**Rick Sinding:** Yes, I understand. Putting on your rose-colored glasses for a minute and thinking on the basis of your three decades of experience working with budgets in New Jersey, seeing how chief executives have functioned, how the legislature has functioned, if you could craft the perfect budget for New Jersey what would it look like? How would it differ from the current budgets?

**David Rosen:** Hmm. That's hard because my life has forced me to think about budgets incrementally, changing from this year to the next. I know where I'd spend more money. That part's easy. I'd spend more money—

**Rick Sinding:** I'm going to guess you're going to say education.

**David Rosen:** Higher education.

**Rick Sinding:** Oh.

**David Rosen:** We spend plenty in education. We spend too much in education if you look at New Jersey compared to any other state. I'm not sure we spend it all so well—

**Rick Sinding:** How you would allocate it might be different?

**David Rosen:** Yes. I don't think there's an issue of underfunding education. We have underfunded higher education, and I think that's one of the reasons we're having the economic problems we're having now, that over the last 20 years we've essentially been disinvesting in public higher education. Rutgers now gets 13 percent of its operating budget from the State. It's hardly a state university. And that number used to be over 50 percent.

So I think other states—and that's been a general pattern across the country. I mean public higher ed has not been funded as well because, again, in tough times higher ed is a place you could cut because they could always raise tuition. They have another place to get money. The prisons didn't. So if you were going to cut someplace higher ed was the place that went. But you do that repeatedly and you end up with an underfunded higher ed system.

But I think in states that have put money into higher ed you've seen higher ed provide a core for entrepreneurship and economic development, and we haven't seen that so much here. I think that was a mistake we made over the last 20 years. Putting more money in higher ed for the next few years is not going to reap immediate results, but I think it ought to be going down the road. That would be the principle area I'd want to add money to besides funding pensions.

The other question is how do you pay for it, and there are no good answers there. In terms of existing revenue sources, the two places where New Jersey is

*“undertaxed”*—and I’ll put that in quotes or italics—is the gasoline tax and the income tax on low and moderate incomes. New Jersey has the most progressive income tax structure in the country, and there’s lots of attention paid to the fact that our high-end tax on wealthy people is one of the highest in the country. And that’s true, and the argument is if you pass a millionaire’s tax you drive people out of the state and that’s a debate we’ve had for years.

The other part of that equation is for low and even moderate income people New Jersey’s income tax rates are very low, and it’s largely because of Christie Whitman. When she was elected to cut income tax rates by 30 percent—and I’m not going to remember exactly what the existing rates were then—but there were just a few rates—and she came in and she cut in a couple of steps the 30 percent from the income tax rate at the low and the middle part of the tax structure. They discovered when they got done they couldn’t do it at the high end because that’s where the money is. So I think they only cut the top rates by like 10 percent and subsequently they’ve gone up but produced a really low tax rate for low and moderate income. People make a big deal that Pennsylvania’s income tax is only three percent and it’s a flat three percent, not graduated at all. Well, up to about \$150,000 of income you’ll pay more income tax in Pennsylvania than in New Jersey. Most people don’t know that. But no politician is going to propose an income tax increase on low and moderate income people. Politically it wouldn’t wash, but that’s a place where it exists.

**Rick Sinding:** But what’s interesting nationally is that Republicans have been talking for some time now about the fact that 40-something percent of Americans don’t pay any income tax because essentially it’s graduated in the same way that New Jersey’s is and that it would be fairer to tax people at the lower end—

**David Rosen:** Right, but I’ve never seen anybody seriously propose that. It’s a good rhetorical point. The other thing that that misses is those people are paying payroll taxes; Social Security, Medicaid, and they’re actually paying a higher percentage of their income in taxes than high income people are. I mean there are different ways to sort that one out, but no politician in New Jersey is going to say, “Let’s raise \$500 million by taxing the middle class more.” That’s not a winning strategy, although from a policy perspective it would make sense.

**Rick Sinding:** I asked you the question, all things being equal and forgetting about politics, forget about what’s politically possible—

**David Rosen:** Yes, that would make sense in terms of tax policy.

**Rick Sinding:** Yes, very interesting. That’s the first time I’ve ever heard that particular answer. Final question or maybe it will lead to a bunch of other questions. From your perspective as a former political science professor does testimony and

research from academia play any role at all in the development of policy or is it more often naïve or not especially timely?

**David Rosen:** I remember when I was staffing the education committee back early in my career, and in those days the legislature had to approve a lot of the things that the universities did, which they didn't have to do after the department of higher education was abolished and they got more autonomy. And professors would come in and testify on this new program they wanted or this new something that they wanted and it would always be a disaster. The ability of academics to talk to legislators was nil. And I haven't seen over the years much of a change in that, although I have to say I've mentioned that I've been involved in some national stuff in the last few years and there are in a number of states with serious efforts to look at evidence-based policymaking. And shockingly, Mississippi is in the forefront of this. They've adopted a whole process of evaluating programs to see what evidence there is for them, and in their budget proposal, in their budget they identify which programs are evidence-based. They have a board that makes a determination that the evidence supports this. Now, it's on the margins and it's not affecting most of their budget, but there are a number of states. Washington State has been doing this as well.

**Rick Sinding:** And this evidence is gathered by academics?

**David Rosen:** Yes, yes, or sometimes some nonprofit organizations. Pew has been involved in doing this and sponsoring some of that research, but a lot of the work is actually done by academics. But it's research that asks the question, what works? What interventions by government make a difference? And if academics ask those questions and provide answers that are straightforward if they can—and they can't always—that might make a difference. But I haven't seen any evidence of that in any policies that we've worked on.

**Rick Sinding:** What should I have asked you that I didn't?

**David Rosen:** Well, let's see. No, I mean I think you covered it. Different administrations have had different degrees of engagement with the legislature. The Christie Administration has been extraordinarily different in one way, and that is other than a few proposals in which the governor is deeply interested, the administration essentially ignores everything else the legislature is doing and waits until bills make it to the governor's desk and then they pay attention to them. Legislative liaisons for departments aren't allowed to do their job. Several of them have complained to me that there's literally nothing they're allowed to do because they're not allowed to answer questions. They're not allowed to comment on pending bills. They're not even allowed as other administrations often did to send suggestions. "You're doing this bill. You ought to be aware that if you're doing it this way it really won't work. You might want to do it that way. We're not committing

the administration to supporting it, but from a technical perspective you might want to consider structuring it a different way, or here's data that—" And this administration simply doesn't do that.

Power is very tightly held in the governor's office. I would think it would be very frustrating to be a cabinet member in this administration because that power is so concentrated. But there's almost no engagement on policy except for a very limited range of things that the governor has been interested in - markedly different than the other administrations. There have been differences in other administrations, but this is like a whole different end of the spectrum.

**Rick Sinding:** Is there any one administration that you've worked with that you would consider to be the opposite of that in terms of openness and working with administrative legislative liaisons and so forth more than the norm?

**David Rosen:** The Whitman Administration was good in that way, at least in the areas that I was working with them. In tax policy and economic development, we used to talk all the time about stuff that was in committee and have interesting theoretical arguments as well as practical ones about how to do the bills. McGreevey and Corzine were really good, too—there were people who were interested in policy.

The policy community in Trenton is not enormous. So when they talk to each other it's a good thing.

***The End***