

## **David Rousseau Interview** (June 22, 2016)

*Edited by: Kristoffer Shields*

**Rick Sinding:** Hello. I'm Rick Sinding. It's Wednesday, the 22<sup>nd</sup> of June 2016 and we're at the Eagleton Institute of Politics on the campus of Rutgers University. With us today for the Center on the American Governor is David Rousseau whose career spanned nearly 30 years in state government, dealing primarily with budget and fiscal issues both at the executive and legislative branches. His experience includes time as a budget and fiscal analyst for the state senate, the special advisor to the state senate president, and then over on the executive side as deputy treasurer in the McGreevey Administration and as state treasurer in the Corzine administration. David, welcome to Eagleton.

**David Rousseau:** Thank you. Thank you for inviting me.

**Rick Sinding:** You began your career in state government in 1982 with the election law enforcement commission. Tell us a little bit about how that came about.

**David Rousseau:** Yeah, I'm one of those people that started as a "lowly intern" and then left as state treasurer.

**Rick Sinding:** But that's over 30 years.

**David Rousseau:** That's over 30 years, yes. But I was finishing up my education at Temple University. I was looking to do an internship at that point in time. I was looking in Philadelphia. I was also looking in Trenton and I had sent a resume to the election law enforcement commission (ELEC) and they were about to do a report on the 1981 gubernatorial public financing of the primaries and the general election. I had written a paper on public financing at the federal level and they saw that on my resume and they brought me in. I helped on the research for that report and that led to a few positions at ELEC and I stayed at ELEC for five or—I guess five years until January of 1987 and then I moved on to the state senate.

**Rick Sinding:** And that was an interesting period when the whole idea of public financing of gubernatorial elections had just taken hold. And the idea of legislative elections—they didn't get state money but they were required to file where the money was coming from and how much they were spending and so forth. A very early harbinger of the election laws that came into being at all the levels and then got struck down by—basically got struck down by the Supreme Court.

**David Rousseau:** And at that point in time, on the legislative side and any side—legislative, local office, county office, or whatever—at that point there weren't even any contribution limits yet because the only contribution limits were in the gubernatorial, traded off against the acceptance of public financing. It wasn't until the early '90s when contribution limits were placed on legislative candidates and candidates all the way up and down the ballot and in the county committees.

**Rick Sinding:** And in those days, as I recall for the 1981 election and again in '85, both the Republican candidate, Tom Kean, and the Democratic candidates, Jim Florio in '81 and Peter Shapiro in '85 accepted public financing, didn't they?

**David Rousseau:** Yes. Yes, they did and then in '89 both Jim Florio and Jim Courter also did.

**Rick Sinding:** When did accepting public financing go out of vogue?

**David Rousseau:** I'm trying to think historically. It may not have been until Jon Corzine and Doug Forrester, because I'm thinking '93 Whitman-Florio—I think they both did.

**Rick Sinding:** Yeah, I think so.

**David Rousseau:** In 1997, Whitman-McGreevey—I'm almost positive they both did. In 2001, McGreevey-Schundler—I'm not sure if Schundler did or didn't, but McGreevey I think did. And then so 2005, it could have been.

**Rick Sinding:** Corzine and Forrester.

**David Rousseau:** But in primaries most of the candidates have, you know, have taken it as well. Corzine didn't but he didn't have—really had a token primary if I remember correctly.

**Rick Sinding:** All right. So 1986-87, somewhere around there, you make the shift from ELEC over to the state senate. How did that come about?

**David Rousseau:** It was time for a change at ELEC and it was time to do something different. And I had, you know—a number of people I had known had moved on to different places. One of them had moved on to the senate. I was interested in looking more at policy related areas. I had interviewed actually in the Senate Democratic Office a few years prior to that and didn't get a job, mainly because I was told I hadn't paid my political dues by working on campaigns and things like that. But working at ELEC, it was a catch-22. I couldn't work on campaigns. But so I again reached out. And I guess in 1986 I reached out and I started the interview process with then Senate President John Russo and the executive director at that time, Kathy Crotty. And that process took a number of

months to finalize but in January of '87—well, in late '86, you know, they offered me a position. And John Russo, then the senate president, had changed the dynamics of how partisan offices were staffed and how the senate operated. He really tried to make it more professionalized so it wasn't, you know, just people who had paid their dues politically. That was part of it. You had to be a Democrat to work there but—

**Rick Sinding:** Well, to work on the partisan side?

**David Rousseau:** To work in the partisan offices but, you know, he and Kathy really developed—also looked at the professional side of it and looked at what you could bring to the office professionally from a policy side and the work. And if you looked at what happened in that late '80s period—'87, '88, '89. If anybody ever takes a look at the staff that Kathy and Jon Russo hired and looks at the staff picture. The staff picture was taken like sometime in '88 or '89 and you have two people who went on to become state treasurer, me and Sam Crane. You have two people who became chief of staffs, Jamie Fox and Tom Shea. You had people who have become well-known lobbyists in healthcare, other issues. You have people who have become national political consultants and regional political consultants. It was a staff that probably, in my humble opinion, is second to none on any group of people that's ever been together as a professional staff.

**Rick Sinding:** Well, it's interesting because that time period seems to be a time when not only the Democratic partisan staff but also the Republican partisan staff and the nonpartisan office of legislative services all increased and/or improved their standing and began to make a major difference in terms of the development of policy.

**David Rousseau:** Yes, I agree with that. I think what it was—you have to remember at that point in time the senate Democrats were in the majority. The assembly was under Republican control and you had—

**Rick Sinding:** And a Republican governor.

**David Rousseau:** And a Republican governor. So that senate Democratic staff was really the only—yes, you had the assembly Democratic staff there as a minority side—but that group of people was the group of people that was really developing Democratic policy for the senators who were the majority, who actually had more of a say in how the state was going to move forward in that second Kean administration. But you're right. I definitely saw that when I came in and how over that period of time the professionalism and the growth in the staffs and that—it's needed to try to go toe-to-toe with an executive branch and even then you're still not going toe-to-toe.

**Rick Sinding:** When you began your expertise clearly was in campaign financing, which you'd been involved in for the past four or five years. But your position, did it morph into budget and fiscal affairs or were you hired specifically for budget and fiscal affairs?

**David Rousseau:** I was hired—the staff needed to grow and there was more workload. It was decided that one person couldn't handle the budget side. Sam Crane who later became treasurer was then the budget director for the Senate Dems. And the decision was made to bring somebody in. I think that when they looked at my record, my background, it wasn't just my background in campaign finance, it was more of my ability to analyze, think, do math, things like that. So I came on board to work with Sam specifically on the budget and that was really I think the turning point—the beginning of a career that then stretches another 20 some years on the budget. A lot of times new people on staff come in, and this is no offense to some of the other committees. They'll come in and they work for a starter committee, you know, something like law and public safety or state government. They don't get the opportunity to come right in and start working on the budget. I was lucky enough to come in January of '87, right at the beginning of the year. Tom Kean delivered his budget address—that was when it was still in January—three or four weeks later. So I hit the ground running in that first six months. I just really sat back and observed as much as I could, but in that six month period I learned so much about the workings of state government, dealing with the budget and then it just grew. But I was hired specifically to do that. Now, being someone who had campaign finance background, I also did some work on campaign finance issues during that period of time and later became one of the key people when we were working on campaign finance reform. But I was brought in really to help Sam and to have a second person deal with the budget issues.

**Rick Sinding:** So you arrived as the fiscal '88, and then fiscal '89 budgets were being presented by Tom Kean at a time when the state was—I don't want to say awash in money, but I mean certainly in comparison there was plenty of money available at that point and I don't recall there being any tremendously contentious issues that arose between the Republican governor and the Democratic senate over budgetary issues.

**David Rousseau:** No. I think those—so it would be fiscal '88, fiscal '89—I think were pretty straightforward. I don't think there were major issues there. It just really came down to the horse trading at the end about, you know, what legislators were going to get what, special programs in the budget, and the governor being able to keep his priorities. The first time where you start to see a shift is in fiscal '90.

**Rick Sinding:** That's for sure.

**David Rousseau:** Tom Kean's last budget—he proposes it in early '89, and then through the spring the revenues don't meet projections and we first have to scramble to actually rebalance a budget. Actually fiscal '90, which is June of '89, I don't think we passed a budget technically until sometime on July 1<sup>st</sup> as we were negotiating with Tom Kean. And it was a three-way negotiation because we were negotiating not only with the governor's office, but you also had to get the assembly Republicans to agree. It was also an election year for the gubernatorial election and it was an election year for the assembly. It wasn't an election year for the senate.

**Rick Sinding:** And the assembly Speaker was running for governor at the time, Chuck Hardwick.

**David Rousseau:** He was running for governor at the time in the primary, yes. And the assembly Democrats saw it as an opportunity to basically—they weren't going to give any votes. This was going to be a budget that was basically passed with Republican votes in the assembly, mostly Democratic votes in the senate with some Republicans ultimately, since Kean agreed to most of it, going on. But I still remember late at night, I believe it was Senate President Jon Russo, on the assembly floor lobbying his two Republican assemblymen—because he was in a split district at that point in time—lobbying his two Republican assemblymen to provide the votes to get the budget passed. And I think it passed at five or six o'clock in the morning on July 1<sup>st</sup> and then the governor signed it right away.

**Rick Sinding:** It may have been the first time that happened but it certainly wasn't the last.

**David Rousseau:** Right. And then what happens after that is as that budget moves forward through the year, it starts to have problems, which then lead into the transition period between Jim Florio and Tom Kean and some of the problems that Jim Florio faced when he first came in about not only having to propose a budget for the next year, but also to have to do some triage to the current budget. And I think in my career that was the first time that there was that type of triage that had to be done to the budget that had been adopted. It became something of a normal occurrence after that, especially in the last decade even more so, but that period of time—the 1989 Kean last term and 1990 fiscal year budget—is I think where the things start to turn. You also have the first time the unemployment insurance fund was, you know—people forget that—that was the first time the unemployment insurance fund was ever tapped to help balance the budget. I think it was later ruled unconstitutional in how we did it so future administrations figured out a different way to do it, but that budget did include that.

**Rick Sinding:** Jim Florio famously said in the 1989 campaign that he saw no need for raising taxes or raising the income tax or doing any such thing. And Governor

Florio to this day maintains that the Kean Administration had told him throughout the fall that the budget would be balanced, that there were no hidden problems. And yet reporters and pundits at the time were saying quite frankly that the first thing that Florio was going to have to do was to raise taxes. So what was the feeling among the Democratic legislative staff at the time? Did you see the handwriting on the wall? Did you see a disconnect between what Florio was saying in the campaign and what he was likely to face when he came into office?

**David Rousseau:** I think there's always a different perspective from what's going on in a campaign, from what's going on in the staff offices, and what reality is and what may occur. Yes, I think people realized that there were some deeper fiscal issues—how costs were rising and our revenues were leveling off and the specter of potentially having a court decision on schools. It's interesting when Tom Kean does his—I personally believe he's one of the greatest governors we ever had, but his closing state of the state speech when he talks about the need for us to do something on education, on the education formula. And he had had eight years to do that and really didn't. Just, you know, battled in court and as he's walking out the door, "Hey, you've got to do something about school funding and property taxes." So I think that people knew that you had this underlying issue of costs starting to rise at a faster rate than our revenues were.

**Rick Sinding:** And a recession beginning, a national recession.

**David Rousseau:** And a recession beginning. You had the specter of a school funding issue. You had the issue of rising property taxes in New Jersey starting to get more steam than it had before and that was partially because of what was going on with school aid. So you had the recognition that maybe the old homestead rebate that was established when the income tax was created in 1976 or '77, whenever that was, probably wasn't enough anymore for middle class families. So you needed to start looking at that. So you had the convergence of all those issues and I think people started, you know—Sam Crane may have said—started to look at these issues but what goes on in a campaign is different. It sort of mirrors what happened in 2001 when there was what I call a cone of silence or something on how bad the state's fiscal situation was during the McGreevey-Schundler race and people knew it was bad but just nobody talked about it. And then then later it became very well known, a couple days after the election, but we'll talk more about that when we get there.

**Rick Sinding:** We will. In the meantime in early 1990 as Jim Florio becomes governor, one could make the case he took the bull by the horns. He did two things. Well, he did a number of things. He did auto insurance reform, assault weapons ban, a few other fairly substantial initiatives. But the big one, the one that really came back to haunt him, I would say, was a significant increase in the state income tax, extending the sales tax to items that previously had not been taxed

and anticipating the Supreme Court decision on school funding, coming up with a completely new formula through the Quality Education Act for how public schools were going to be funded. One of the key factors there was that the state was going to assume a greater responsibility and bring property taxes down. And I think the Florio Administration felt—certainly Doug Berman, who was the treasurer at the time, felt—that the balance over a period of time and the reduction in property tax to go with the increase at the top of income taxes would prove to be popular and it didn't. Why do you think that was a misjudgment? Or, let's begin with: what was the legislator reaction? How did you, working with the Democrats in the state senate, have to deal with this very, very large package of bills, fiscal and budgetary bills that the Florio Administration put to the senate? How did you deal with that? How did you deal with individual senators whose districts may have been affected both positively and negatively by these changes?

**David Rousseau:** I think that in any administration the first year, sometimes the governor is given the benefit of the doubt and I think that he had won a pretty significant victory. He had brought the assembly in with him, which, you know, looking back on it, may have been a bad thing to have total control. If he had to negotiate something with the Republican assembly maybe it would have been more—there would have been tax increases, but they may have been more moderate. But I mean in that period of time he ultimately does a \$2.8 billion increase in taxes to, like I said, just fund what we were normally doing in government; the assumption of some local costs to help bring down property taxes; and anticipating a Supreme Court decision. I think people at that point in time were concerned about the magnitude but they saw the overall package and say, "Okay. Maybe this isn't that bad." The problem was whether or not it was sold effectively. I think the income tax increase at that point in time maybe impacted 10 to 15 percent of the population. But if you went out and asked 10 people on the street, nine of them were probably going to say it was going to increase their taxes when actually eight of them it wasn't, because of all the other noise going on, on the sales tax and other things. But, you know, it was difficult. It ended up passing. I think one of the things that didn't help, again, was the selling of this. The legislators and the legislative staff thought there would be more of an effort to sell this before and after. Should we have brought the state to crisis first before we did that? Maybe. Look, hindsight is always 20/20. People say hindsight is always 20/20. Hindsight is better than 20/20 because you know what actually happened. It's better. So you can always second guess, you know, how it played out. And one of the things that didn't help in that whole process was you had a united Republican party—Chuck Hatyaian and Bob Franks, folks like that—who had done a really good job and they saw this as an opportunity. They saw the legislative elections coming up in two years where both houses were going to be up. And they started working grassroots to have people ready. They stayed on message. I think one of things—and no offense to the people that did it—I think one of the things that hurt

Democrats in that process was when the taxes passed both houses and there were a certain number of staff people from the Florio Administration and the Chamber that were applauding. I'm not sure you should be applauding the increase of \$2.8 billion in taxes.

I do remember as the senate was discussing these taxes in caucus. I remember a senator who was running for re-election—no, he had just replaced—I'll use his name. It was John Girgenti, Senator John Girgenti, had just replaced the senator who—the mayor of Paterson who was also a senator and who died, Frank Graves. So he had just moved up. So he was going to have to run in 1990. At the time, he didn't have an opponent.

**Rick Sinding:** '91.

**David Rousseau:** No, he was going to have to run in a special election.

**Rick Sinding:** Oh, a special election.

**David Rousseau:** This is when we're voting on the taxes. This is the year we're voting on the taxes. There were a few people who actually ran in 1990. So he raised the issue in caucus but the key thing to this is he was running unopposed at that time, I think. Maybe someone later comes in. But he says, "Look, I'm running for election this year, maybe I shouldn't vote for this." And I think somebody in the caucus—and it may have been Jon Russo or John Lynch— said, "Well, John, you're running unopposed. If you have concerns about these taxes maybe we should all have concerns about the political impact of it." Now, again, thinking forward, that was a very sage comment. And the problem that I think occurred was that we went out and did a package that said, "Yeah, we're going to raise taxes by \$2.8 billion and in return, you're going to get all these good things that happen." Well, if you're going to do a package that raises \$2.8 billion you better be darn sure that it actually raises \$2.8 billion. And as we discussed earlier, we were actually in the midst of the recession then. It didn't raise anything near that. So the next year, Jim Florio has to come and propose another budget that wasn't—you know, you'd hope that after raising a lot of money, in the next year you'd be able to do great, great things and give everything to everybody. And we couldn't. We were again faced with significant issues. I think the signs were there in 1990 when Ed Salmon was running in the 1<sup>st</sup> District for senate. Again, he was a replacement senator and he was running for the first time on the ballot and was soundly defeated. We all know what happened to Bill Bradley. By trying to not address state issues, a little known Somerset County freeholder named Christie Whitman almost took down—

**Rick Sinding:** Almost beat him.

**David Rousseau:** —somebody [Bradley] who in 1990 was probably a higher profile presidential candidate for 1992 than Bill Clinton was at that point in time. And she almost took him down because of the underlying anger that was out there. And that coincided with a change that really—that \$2.8 billion tax increase had long-lasting effects. It had long-lasting effects in the Democratic Party's thoughts about taxes, had long-lasting effects on people—1991 comes and not only did we lose senators and lose the majority—we go to irrelevant. Republicans get veto-proof majorities.

**Rick Sinding:** Did anybody that you recall anticipate that? I mean history seems to suggest that there were two factors that played major roles in the anger, that this was to some extent a harbinger of the tea party. A new radio station comes on the air, 101.5 New Jersey. An unknown postal worker calls in and starts a movement with his first phone call, called "Hands Across New Jersey," which just takes—I mean, I have to give full disclosure. I was working in the second floor of the State House at the time and there was a huge rally, most of it aimed against Florio's increase in sales taxes for items such as toilet paper. We had enough rolls of toilet paper thrown through the second floor window of the State House to last us for a year because people were just up in arms about this and being fed by a real grassroots movement. The other element that I think came into play that people began to realize much later was the extent to which the National Rifle Association had been mobilized by the Assault Weapons Ban to very, very quietly but very effectively put money behind the Hands Across New Jersey movement and Republican candidates to run against the Democrats.

**David Rousseau:** Yes, I've had that conversation with many people over the years. I think that John Lynch, who was the senate president at the time, thinks that if not for the Republican establishment and the NRA, Hands Across New Jersey may have collapsed on its—it needed that support from them and then that anger was built up. The NRA never really attacked Jim Florio on guns. They helped attack him on taxes. Yeah, you had 101.5 starting where anybody could call in and say anything. I mean think back. The things that have been said over the last 30 years on that station that, you know, that were totally false but people hear it and think, "Oh, my God. That's the truth." The Trentonian also at that point in time became more of a—I'll say this—became more of a rag. I mean they had the Page 6 girls. They had—they were focusing on expenses, you know, "Lunches for legislators." Things like that. You had that convergence of that. And you're right. It is actually a forerunner of what later became—a decade later almost, or even longer than that—becomes the Tea Party. Like I said, 1991 becomes the first year where I actually became budget director. Sam Crane had left. Sam had left in 1990, first to become deputy chief of staff and then in 1991 was the treasurer. And that was not an easy budget. That was the really—I believe Jim Florio was also a very good governor, but

Jim Florio was the first one who really ever used what we now call a major non-recurring revenue. So in other words, or a budget gimmick or something like that.

**Rick Sinding:** Selling piece of interstate—

**David Rousseau:** Selling a mile of the turnpike—no, of the road that the state owned that's past Exit 18—back to the state for \$400 million. You think now about what has happened ever since then. I mean, almost every budget since then has been relying on some—I mean that budget also, so. But to his credit—this is something that people totally forget about that budget—Jim Florio realized and his administration started to realize that the cost of employee benefits was starting to—because at that point in time, healthcare costs were increasing by double digits every year and so you had not only the cost of your active employees but your retirees as well. And he was one of the first—he actually proposed in that fiscal, so it would be 1991, the fiscal '92 budget—he actually proposed that state employees start paying for a piece of their healthcare. The senate was more inclined to go along with it because I think we had some people like the then Senate President John Lynch and others who thought that, "Yeah, this is something that maybe the employee should do." It's not the days when state employees were very low paid and the benefits were needed to bring it up. Hey, state employees and teachers and everybody were getting fairly well paid then.

**Rick Sinding:** And the state workforce had increased substantially during the Kean Administration.

**David Rousseau:** Yes. But the assembly was not willing to go along with it in that budget. I mean, the friction that happened in that—only people who were inside realized how bad it was, the friction between the two houses.

**Rick Sinding:** And this was at the time when they were still both in Democratic hands?

**David Rousseau:** Yes. This is the spring of '91 so we're about to run for election but the tension during that budget process was like I said. The senate was more inclined to do some of the healthcare cost things. The assembly wasn't.

**Rick Sinding:** Now, was this in your—

**David Rousseau:** The relationship between the two houses—the leaders of the two houses—was not good. The relationship between the houses was not good. There was a point in time when I think the final negotiations on the budget took place with us in one room and the assembly leadership in another room, and Sam Crane, Rich Keevey who was the OMB budget director, and maybe somebody else went back and forth between the two rooms to finally work out a deal. The senate

went as far that year to pay—to go into committee. And really, I think, more or less to get the process moving because it was stalemate. We weren't going anywhere. The assembly had put a bill out that the senate wasn't willing to accept. They had put something on the table. So the senate Democrats decided we would put a bill out of committee that would have actually not sold the road. We basically said, "We're going to up the ante. We're going to not sell the road. We're going to make \$400 million in cuts to state government. We're not going to make them specifically. We're going to tell the treasurer and the OMB director, 'Hey, once this budget is done, you have \$400 million in savings you have to find throughout the budget.'" That brought everybody together. It served its purpose but it was very tough to get.

**Rick Sinding:** It's real brinkmanship going on here.

**David Rousseau:** Yes. But it was actually—I remember that committee meeting where we did it. We got all the Democratic members to agree to it because we said, "Look, this isn't going to actually happen." You know, "We're 99 percent sure this isn't going to happen." And we actually even got a couple of, one or two, Republicans too. But that bill, that was in the days when the committee did things differently. They would vote to have the chairman introduce a bill. Now, the bill is introduced first and then it's voted on in committee.

**Rick Sinding:** Wasn't there a joint appropriations committee?

**David Rousseau:** That went away. That went away in '86 basically when the two houses—when one house became—

**Rick Sinding:** But even when the Democrats had control, it was still separate appropriations committees?

**David Rousseau:** When we came back, we still kept separate appropriations committees. I think later in the process we started doing some things together for public hearings but initially it was two separate committees. But that bill, there are no copies of that bill available. I mean, a few people may still have that bill but the members had the bill in front of them. It was then collected from every one of them as we were leaving and the bill was never introduced. Again, it was brinkmanship. But it got a point across that, "Hey, maybe selling this road isn't a good idea."

**Rick Sinding:** Do you think that the antagonism that existed at that point between the two houses was fed by the recognition of Florio's unpopularity and a belief by assembly Democrats that they needed to distance themselves from the governor?

**David Rousseau:** I'm not sure. I think there was that from both. There's always tension between the senate and the assembly. It's always there, but that year it

was just more. I think there were other things going on, personality issues between some of the players involved. It was tough being a staff person.

**Rick Sinding:** I bet.

**David Rousseau:** You do want to be collegial with your fellow staff in the other house. It was tough, but, you know, we got it done. Again, we got that budget done early in the morning and then everybody moved on to the '91 election, which, you know.

**Rick Sinding:** Let's talk a little bit about the second two years of the Florio Administration and, as you say, being rendered irrelevant. The Democrats lost not only the majority in both the senate and assembly but the Republicans gained veto-proof majorities. And the very first budget that Florio presents, the legislature vetoes or I'm sorry. The legislature comes up with its own budget. Florio vetoes it. The legislature overrides the veto. What is your role at this point?

**David Rousseau:** I actually want to go back. I want to go back to the lame duck session of 1991 and talk about a couple of things that might have changed the dynamics of the relationship between Jim Florio and the Republican legislature. After the election, a group of us sat down with then—he was still senator president for three more months—then Senate President Lynch and a few other people.

**Rick Sinding:** Who was going to become the minority leader.

**David Rousseau:** Right.

**Rick Sinding:** He had been re-elected.

**David Rousseau:** Yeah, he had been re-elected.

**Rick Sinding:** A few Democrats had been re-elected.

**David Rousseau:** He was just barely re-elected because of the NJEA. The NJEA was not happy with him because of his support for earlier things.

**Rick Sinding:** Quality Education Act.

**David Rousseau:** Quality Education Act and he also had taken on the NJEA on some issues. Remember, after that election the Democratic legislation was almost purely an urban legislature. And, in fact, even one of the urban areas we lost seats in—Trenton. But one of the things that came up in the lame duck session started off as an off-handed comment, which then grew into something. I think a couple days after the election, realizing that it was the taxes that probably—and the anger over taxes. I think also people understood there was the anger over guns, too, that was

there. But the public issue was taxes and I think somebody made a comment—I still don't remember who it was—in a meeting with John Lynch and Kathy Crotty and others, that, "Well, maybe we should just repeal the whole damn tax package." And it just laid there. Nobody said anything. And then a couple of days later, Lynch and the staff started talking about, "Well, maybe this isn't a bad idea." It then cleans the slate. Jim Florio has to come in and work with the Republicans and either you're going to decimate state government or there's going to be a realization from the Republicans that some level of tax increases are needed. And the senate actually—again, the senate, we actually repealed. People forget. We repealed the entire Florio tax package and it was tough votes for people to do because they understood it. But they understood the problem was that the ultimately—

**Rick Sinding:** Well, you're throwing the challenge to the new Republican majority basically.

**David Rousseau:** Yes. Let them be responsible. And let the governor negotiate from a stronger position. You know, I think for awhile it had some legs in the assembly.

**Rick Sinding:** How did the governor's office feel about it?

**David Rousseau:** Well, I think there were some that saw the light of it and then at the end, no offense to the people that were there, I think they panicked and they also, along with the incoming Speaker Chuck Haytaian, realized what this meant and he put pressure on the Democrats in the assembly not to go forward and it didn't. But it'd be interesting to see if it had happened what dynamics would have changed. But again it came from an off-handed comment that nobody took seriously to finally saying, "Hey, wait a minute. Maybe this isn't that bad."

**Rick Sinding:** It's really interesting. You're the first person of the—I don't know, two dozen or so—interviews that we've done who have brought this issue up.

**David Rousseau:** That lame duck session became very interesting. There were certain things that Jim Florio needed to get done while he still had a Democratic legislature. One other thing is a major—and I define this as the first piece of transactional policy that we did where in order to do one thing, you had to do another. The sports authority was floundering at that point in time. They didn't have—horse racing wasn't raising the money it used to so it didn't have enough money to pay its debts. So we knew the state would have to pick up the tab on that eventually. So the state was going to do that. Well, Bill Gormley in South Jersey, he wanted the Atlantic City Convention Center, so that was now packaged. Well, John Lynch and people in New Brunswick wanted the Rutgers Stadium—so as I said, you had these three things that became intertwined. And the view was that, "We got

that through. We got that through in lame duck.” It was, you know, it was actually one of the first major pieces of stuff that I actually worked on, too.

**Rick Sinding:** Did they come under the aegis of the Sports Authority or did Sports Authority use bonding to help fund those?

**David Rousseau:** We basically changed the statute for the Sports Authority to say that now you can do a convention center in Atlantic City. You can do the improvements to the Rutgers Stadium. And we got it done. We got it done in lame duck. There were a number of Republicans who weren’t happy with it. Incoming Chairman of the Assembly Corporations Committee Rodney Frelinghuysen said, “As soon as we get into office, we’re going to undo this.” Well, again. This is probably something nobody has told you. What people didn’t realize is that the senate—that the incoming senate president, Don DiFrancesco, and the incoming Speaker were okay with it. So one of the last things that John Lynch and Joe Doria (John Lynch was senate president and Joe Doria Speaker) did was there was a lease that needed to be signed. And at that point in time, the senate president and the Speaker were the ones who signed all leases. There was a lease signed for the Sports Authority to do all these—a very complex, legal document that was signed at, I think at probably at 11:45, so 15 minutes before they were no longer in power and my understanding is a couple of weeks later when Rodney Frelinghuysen found out what happened he went ballistic.

**Rick Sinding:** So he ran for congress and he’s been in congress for 20 years <laughs>.

**David Rousseau:** But what he doesn’t know and may not know until now if he ever watches this, well, we wouldn’t have done that without the sign-off of the senate—

**Rick Sinding:** The incoming Republican leadership.

**David Rousseau:** The incoming senate leadership. But you go back to what happened—as a staffer, the role changes. And as a member it changes. Because that two years we’re totally irrelevant. We still have—I think there was still some allegiance to support the governor. There were also some people who were still upset with the governor because, you know, you’re one of the reasons why we’re sitting here in the minority. And this view, again, that maybe he didn’t do enough or do what was he said he was going to do to help sell the taxes. So that two year period was an interesting dynamic.

**Rick Sinding:** We’ve had a couple of roundtable discussions here at Eagleton dealing with the Florio Administration. I think one of the lesser-known elements of that administration is that both Governor Florio and former Speaker Chuck Haytaian

and former Senate President Don DiFrancesco point to a number of accomplishments during that two-year period that were quietly done between the unpopular Democratic governor and the veto-proof Republican majority, the primary one apparently being a major overhaul of the welfare system in New Jersey. Were you involved in that?

**David Rousseau:** I think there was some part of welfare reform done there, but the major welfare reform happens later with Whitman, I think. But there was some economic development stuff that was done during that period of time. So, yes, we were always involved in those things, and the governor's office would work with us and that's one of the advantages of at least having a governor's office, and an administration—you at least have a staff of people. Our staff shrunk significantly when we went from the majority to the minority. So, now we needed to rely more on them for information. But yes, there were some positives that came out of that two-year period because at least there's recognition, unlike we've seen in Washington over the last group of years, that hey, we still have to do the people's business. If it ends up that it helps the governor a little bit—when it comes time for him to run for re-election, we're still going to beat the crap out of him and everything like that—but we still have to do the people's business.

**Rick Sinding:** I think one of the feelings that came out of the most recent roundtable that included Chuck Haytaian and others from the opposite party who were at Jim Florio's—constant public conflict between them—that there was a recognition by everybody around that table that as acrimonious as it was during that period, that it's nothing compared to the acrimony in politics today.

**David Rousseau:** Yes, without a doubt.

**Rick Sinding:** There were still friendships across the aisle and more things could get done.

**David Rousseau:** Yes, the collegiality, no doubt about it.

**Rick Sinding:** All right, so, out goes Florio in the 1993 election. He is defeated by 25,000 votes. Christie Whitman comes in; you're still in the minority. What happens now? How do things change in terms of your dealing with the Whitman administration as opposed to the Florio administration?

**David Rousseau:** I think that we now—both the Senate Democratic office and the Assembly Democratic office—become the loyal opposition to what is going on in a Republican administration and a Republican legislature and try to develop the points to attack the policies that she's bringing and how we believe they're detrimental to the state, especially the first four years. For the first four years, you're also trying to build a record to hopefully not have her re-elected. As you said, and people

forget, Jim Florio's popularity at that time was very, very low due to tax increases, guns, all the other things you told me. It wasn't all warm and—no offense, Jim—he wasn't a warm and fuzzy person, all those things, and as you just said, he still only lost by 25,000 votes.

**Rick Sinding:** And Whitman, four years later, only won by a very small—

**David Rousseau:** Right. Christie Whitman wins two elections by less than 50,000 votes. I mean, in 1993, 13,000 people change their vote and Jim Florio is a second-term governor and who knows how the direction of this state changes because some of the policies that Whitman puts into place never become—which may or may not have impacts later on—but you'd have had a second term governor. It's one of the things I've said in talks that I've done to students or other groups, that one of the things that we haven't had in this state since Tom Kean is a second-term governor who really wasn't looking to do something else and I believe that Jim Florio as a second-term governor probably wouldn't have been looking at future elected office. Would he have gone to Washington in a Clinton administration for a cabinet position? Maybe something like that, but what you do as governor isn't going to impact you there. No offense to, again, Christie Whitman. A second-term Republican governor in this state could have done some things, especially on employee benefits and things like that, but she also had her eyes on Washington. Jim McGreevey never got the second term, Jon Corzine never got the second term and we all know that the second term with this administration has been—and again, we need that; it would be great to see us with that second term. But, going back to your question: we become the loyal opposition. We really started to raise the issues about what we think will be big issues, not only to help us gain back seats in the legislature—we knew it was going to take awhile to gain back the majorities—but also to counteract what Christie Whitman was doing. Why cutting taxes as large as she did was going to have an impact on property taxes and I think in that period of time, we really started to play up the property tax impact and trying to say "We really need to do more about property taxes," where—I'm not sure what the numbers were then, but now, where middle-class families are paying eight, ten, twelve percent of their income in property taxes. It was probably still around those percentages back then. It was about how she started really ramping up the debt levels because of how she shifted the Transportation Trust Fund.

**Rick Sinding:** Let's get into that because I think that—if there's one theme that has remained constant from the beginning or maybe the second or third year of the Whitman administration all the way through the current administration, it has been pension benefits, healthcare benefits, Transportation Trust Fund. Everything seems to always get to crisis proportion before it's even acted upon, and even after it's acted upon, there seems to be a recognition that we're still in crisis. Is that overstating the case?

**David Rousseau:** No, I mean, look. There are gaps in years there where we have some good economic times and things aren't as bad—again, going back and correcting history a little bit, people don't realize that actually Jim Florio was the first governor who made changes to the pension system in order to have savings in a budget. They were minor changes. They were changes on how we calculated our state's contribution. But he made a change that saved him money for the general fund. Christie Whitman did the same thing early on to help pay for her 10 percent tax cut. We then go into the Transportation Trust Fund, and instead of bringing new money into the fund—it's her first term, she's not going to raise the gas tax—we extend the level of the debt and we keep on going on and on from there. Look, there have been opportunities, especially on the Transportation Trust Fund, and that's timely because it's something that we're dealing with right now. There have been missed opportunities on the Trust Fund from both parties since 1997. I mean, right after Christie Whitman was re-elected, there was an opening to raise the gas tax.

**Rick Sinding:** Now the second lowest in the country or third lowest in the country.

**David Rousseau:** Yes, there was an opportunity there and she was even—now remember, this is her second term now, so she's not facing the voters again in New Jersey and there was an opportunity there and then that fell apart. It fell apart. The Democrats had agreed that we would provide some votes but the Republicans were going to have to provide the majority of the votes. She went out and made a speech in New York or something talking about her tax-cutting record and how she was a friend to the tax-payers and it just turned the Democratic leadership off. They said "Forget it, we're walking away from this deal," which then meant we had to do other things. I think when we did renew the Trust Fund that time, we came up with ways to just take more money from the general fund to do it, which places other pressure on the state budget. We didn't do without. There was an opportunity with Jim McGreevey in 2003 or '04 where I think again we came close to the—

**Rick Sinding:** McGreevey, as I recall, publicly came out in favor of raising the gas tax.

**David Rousseau:** And I think we came close to having an agreement with the Republicans to provide some votes because again we didn't want to do it with just Democratic votes and at the last minute the Republicans that time decided—in '97 it was the Democrats who decided "No, we're not going to go along with this," in whatever year it was there, it was the Republicans. And pensions. Pensions have been, like I said—Jim Florio first, then Christie Whitman—making some changes and then the infamous pension bond deal of '97.

**Rick Sinding:** Well, let's talk a little about that because I think a lot of people talk about that as being sort of the beginning of the crisis in terms of the pension system. What exactly happened? What did the Whitman administration do?

**David Rousseau:** Someone in the Whitman administration got the idea that if we had a fully funded pension system that we wouldn't have to make any contributions and that money could then be used for other things, be it healthcare expansions, property tax relief, school funding, whatever it was going to be. It could be used for anything, but the way the law was written, the only way you could not make contributions to the pension fund was if you had a fully funded pension system. So, I'm guessing somebody got the idea from—some Wall Street bankers brought an idea and said, "Okay, well if you float 2.8—" That number again, 2.8. In my career, that number 2.8 pops up a number of times—

**Rick Sinding:** Billion.

**David Rousseau:** Yes, 2.8 billion. If you float 2.8 billion dollars of bonds, the system would be fully funded and you won't have to—and they argued, "Well, we can get an interest rate on these bonds at somewhere around seven percent and the assumed interest rate that we're calculating for the internal machinations of the pension system was eight and three quarters."

**Rick Sinding:** So it'll pay for itself.

**David Rousseau:** It'll pay for itself. The problem was that they weren't related. One was a hard debt. Once you borrow a bond and once you go out and issue bonds to people, that's a hard debt that you have to pay. The other piece was amorphous; you could change the interest rate, you could do different things. But, they convinced enough legislators. They got a favorable court ruling. They convinced the NJEA to support it. I think the NJEA realized that, wait a minute, if we put roughly three billion dollars into the system and this grows, we're going to have a very healthy pension. Not only are we going to have a 100 percent funded pension system, we might have an overfunded pension system, which we can then use to potentially enhance benefits. So, that was the theory behind it and as you said, they got the legislature to do it and so then what happened is over the next couple years, the state didn't have to make pension payments. So, instead of making whatever the number was—four, five, six hundred million dollars a year in pension payments—that money was freed up for other things. But everybody knew at some point in time—we didn't know when, but whenever we would do an analysis we knew at some point in time, the lines would cross and the system would become underfunded. Was that line 10 years out? Was that line 12 years out? Was that line six years out? Nobody knew because you didn't know what was going to happen.

**Rick Sinding:** Because the obligations from the pension fund were going to increase over that period.

**David Rousseau:** And what you also didn't know was what was going to happen to the value of the assets. In other words, what was going to happen on the stock market and more importantly—what ended up happening—what was going to happen on benefit enhancements. What happened was that because we did have an overfunded pension system by the year 2000, basically, because that three billion dollars grew significantly, the unions, mainly the NJEA first and then the CWA, came onboard and we have—I remember at that point in time, I'm not sure if Whitman had left yet and Senator DiFrancesco was just Senate President or if he'd become governor yet—I think he was still a legislator at that point. They pushed this idea about, "Hey, well, wait. We have this extra money in the pension system, let's raise everybody's benefit." Let's change—it used to be a person's pension was calculated by their number of years over 60, the number of years of service over 60. Let's change it to the number of years over 55. In the scheme of what was going in the nation, that wasn't that far removed from what the national averages were.

**Rick Sinding:** I should point out that that's the number of years of service over 55 times your average top three years of salary.

**David Rousseau:** Top three, right. Or one year if you're a veteran, things like that, yes. So, they sold this as no cost to the fund; it was just going to use excess assets. But what it meant was that that line, that magical line, it moved it closer to now. And look, part of that I thought was sound policy. I thought that moving it to 55 had some sound policy. What was wrong with that proposal was the fact that people had already been retired. We went and gave them a nine percent—because that's what the value of it was, it was about nine percent, that change from 60 to 55. They could've been retired for 20 years and been receiving cost of living increases every year—we gave them a nine percent increase, and I still believe that that was because of the impact of the NJEA, which actually is a union that actually cares about its retirees.

**Rick Sinding:** I should point out for those people who are either watching this or reading the transcript that teacher pensions in New Jersey are funded by the state and by the teachers themselves and that the Communications Workers, the CWA, is the union that represents the majority of state workers. So, it's the state employees and all teachers, all public school teachers in the state whose pensions we're talking about.

**David Rousseau:** Well, actually, all local employees also got this nine percent—

**Rick Sinding:** Police, fire, local municipal employees—

**David Rousseau:** That had some sound policy, but going back and giving retroactive was crazy, because then it meant—a sound policy would have been okay, I was an active employee at that point in time, maybe I had 18 years in the system. A sound policy would have been okay my first 18 years are 18 over 60 and every future year would have been—

**Rick Sinding:** 18 over 55.

**David Rousseau:** Right, right, or however many years I worked. And the cost of that proposal would have been minimal where it probably would have been maybe a billion dollars. I'm not saying minimal, but yeah, in the scheme of the system.

**Rick Sinding:** Eh, a billion here, a billion there. [laughter]

**David Rousseau:** The cost of the other proposal was about four billion dollars and people didn't blink at it because the system was overfunded by about that much money.

**Rick Sinding:** Was it for votes? Was the motivation for votes? Or support of the NJEA?

**David Rousseau:** I think it was a combination of everything. The New Jersey Education Association is a very strong advocate for its members and they really wanted, not only the active piece, but they wanted that retiree piece and they were very convincing to Senate President DiFrancesco, who, in all truth at that point in time, was thinking about running for governor.

**Rick Sinding:** This was after Christie Whitman left to become the administrator of the EPA? And under the old system before we elected a lieutenant governor, the Senate President rose to the position of acting governor or governor when a sitting governor left.

**David Rousseau:** So, was he motivated by that? Probably. Was he motivated by helping some Republicans that were in Democratic leaning, strong labor districts like the 14th District of Senator [Peter] Inverso in helping protect them? Possibly. The problem becomes that as that policy was actually being developed and as it was being voted on, the stock market had already started to slide. The four billion dollars in extra assets were, if you looked back—and again, these are all arcane parts of the pension law—where the valuation was back a year earlier. So, that's where the four billion dollars of excess money was. If you looked at where the system was at that point in time, there probably wasn't four billion dollars because, again, the market had started to come down a little bit so the assets weren't there. So, you go and do this and then the next year you recognize the real assets and all of a sudden now, that line is getting much closer to reality. So, Jim [McGreevey]

comes in and all those years of holidays, now all of a sudden you've got to ramp up and go from zero to some four or five hundred million dollar number.

**Rick Sinding:** Jim McGreevey?

**David Rousseau:** Jim McGreevey. Jim McGreevey.

**Rick Sinding:** I thought for a minute that I was completely off there, okay.

**David Rousseau:** So, yes. Your point about does that—that definitely, that pension bond issue and how it then impacts the future need to go from zero to 60, going that fast in a car on pension costs is part of the foundation of what happens during the McGreevey, Codey, Corzine era coupled with the last budget that the Republicans did before—you know, the Donny DiFrancesco budget. Whitman proposed it, I think Donnie implemented it. That budget that you talk about—earlier we talked about how in 1989 everybody knew that there were dark fiscal clouds coming. When that budget was adopted, everybody knew that there were hurricane-force clouds coming, because the Office of Legislative Services at that point in time—remember, this is pre-September 11th. This is in May and June of 2001.

**Rick Sinding:** During the gubernatorial campaign where Jim McGreevey gets elected.

**David Rousseau:** Primaries done, we're about to do—Jim McGreevey is the nominee on our side, Bret Schundler's the nominee on their side, but the Republicans are doing that final budget and the Office of Legislative Services is telling them, based on current economic situation, we're thinking you're—publicly they're saying a billion to a billion and a half dollars short on revenue, privately saying that number could be as high as two billion dollars. Unprecedented, the State Treasurer—then the Acting State Treasurer—Pete Lawrence, doesn't come before the committees to provide an update on revenues. And that quirk where the Senate President is also the governor. But everybody knew that that storm was going to—but again, if you go back and read even the Democrats in the legislature at that time, I was still at that point in time, in June of 2001 I'm still a legislative staff person. Now, if you go back and look at the record on it, we didn't make that big of a deal about it because, again, I think the thought was you didn't want the specter of a major economic crisis overhanging a gubernatorial election. It was more, again, a cone of silence was better than anything.

**Rick Sinding:** Lesson not learned from 1989.

**David Rousseau:** Yes, but what clearly happened then is that we all knew.

**Rick Sinding:** Was the shortfall that you're talking about on current expense or was it because of what was going to be owed to make the pension front hold?

**David Rousseau:** No, that was basically on the revenue side. Basically the revenues were going to be—because of the drop in the stock market and other economic factors going on, especially the income tax and things—because our income tax is very, very progressive, very built on high income earners, even back then before the increases that Jim McGreevey did later on. It was all on the revenue side. History will show that people will try to go back and blame the September 11 attacks for our revenue shortfall when it was, like I said, known in May. It was already there. In fact, we may have actually gained a little bit of revenue when people started working more in New Jersey than New York after September 11. So, the combination of that shortfall that's built into that budget that Jim McGreevey is going to inherit—I think most of us, if you would talk to people in the summer of 2001, even on the Republican side, I think everybody realized that Jim McGreevey was probably likely to be the next governor. So, that shortfall that he was going to have to deal with in his current budget, which had an impact on future budgets because your revenue base is going to be lower, coupled with what was going on with pensions, was going to cause a major disruption. We actually started—I know we made an attempt, again John Lynch was the Minority Leader still at that point in time, he made an attempt to recognize what was going on. We actually made entrees into the governor's office to say, "Look, if you guys want, we will help. If you guys want to propose some cuts, we'll help you get the votes. Because if you can bring this structural imbalance closer, it helps my guy when he becomes governor, hopefully when we get back into the majority." It was rejected mainly by—I think Republicans realized this was their last chance to—how to use the word—"feed at the trough" because if you lose that, sorry friends—

**Rick Sinding:** How about "stick it to the incoming governor?"

**David Rousseau:** No, it was their last chance really to get—and if you ever look at that budget, that budget had one of the world's largest—affectionately known as Christmas trees, with pet projects all over the state, mainly in Republican districts. But, what that led to is that in that summer, we quietly put together a group of people: myself, I believe Sam was involved, Tony Coscia was involved, Rich Keevey, former OMB director, and I think one or two other people.

**Rick Sinding:** Had he already retired at that point?

**David Rousseau:** Yes, Rich had retired then. Rich retired in the '90s and went to Washington for awhile.

**Rick Sinding:** That's right, with the Pentagon.

**David Rousseau:** Yes, went to the Pentagon for awhile. We quietly put a group of people together that started looking at, "Okay, what will Jim McGreevey face once he's elected?"

**Rick Sinding:** So in November...

**David Rousseau:** And we met once or twice a month early on, then started weekly. We weren't meeting in Trenton so people didn't see this group of people together. We would meet in Tony's law office up here in New Brunswick and started working on, okay, how bad is the situation? And people were amazed, as I think sometime within a week of Jim winning—not of taking office, of winning—within a week of the election, we had a press conference that basically laid out how bad the situation was. I think there were reporters who knew that it was bad, but nobody ever was able to get anybody to go on the—they would have relied on somebody like me to come to say—

**Rick Sinding:** And you weren't allowed to go on the record at that time.

**David Rousseau:** And at that point in time we weren't ready to do it, but we talked about how bad the situation was and it was bad. He was going to inherit a budget that had a couple billion dollar deficit. Not only was he going to have to deal with looking at a budget that he was going to have to propose for the fiscal year that was going to begin, the fiscal year 2003 budget. We also had to do major triage to 2002 and as it got worse and worse, as we saw more and more of what was going on, things that we had had in our pocket to help fix 2003 had to be pulled into 2002. That then continues the stumbling with some of the policies we had to do during McGreevey's administration. Even I have to look back on and think, "Why did we do that or why did we do it this way?" I like to say in speeches I've made sometimes that in that period from '87 to 2010, I saw and was involved in the good, the bad and the ugly of safe fiscal policy. There's a lot of good there too.

**Rick Sinding:** Now, you made the transition, was it immediately upon McGreevey's inauguration?

**David Rousseau:** My private conversations with Jim when he was a senator and running for governor and his staff and John Lynch was that when Jim won, I was going to have some role in a new administration to basically come in and honcho the budget. I had no interest at that point in my career—I felt I didn't have the experience yet [to be treasurer]. I was still what, forty years old I guess, forty-one. I didn't think I was ready to be treasurer. I made it clear from the beginning that I didn't even want to be considered for treasurer and there were other more qualified people that they were looking at, but I knew then that I was going to become—I'm not sure I would have invested all of that time in the summer and fall <laughs> if I

knew I wasn't coming in, working on it. But, I knew I was going to come in and I was going to be one of the key people on honchoing the budget. First of all, developing the different options for the governor and then working with my former colleagues on the legislative side to try to get it.

**Rick Sinding:** So, you become deputy state treasurer?

**David Rousseau:** Deputy state treasurer under John McCormac.

**Rick Sinding:** Under John McCormac, and how many deputies? Is there one deputy or are there two?

**David Rousseau:** There's actually one statutory deputy but most treasury offices have had two. They have the statutory deputy—actually, I wasn't the statutory deputy—and then another. Basically, my focus was almost entirely on the budget and fiscal issues. The other deputy dealt with the other myriad of things that the treasurer's office does.

**Rick Sinding:** And it should be pointed out that a whole bunch of state agencies, when they were created by the legislature, if they couldn't figure out where to put them, they put them in Treasury.

**David Rousseau:** Right.

**Rick Sinding:** And so, there are a whole bunch of unrelated programs that end up under the auspices.

**David Rousseau:** But right, the Treasury also has things like what we used to call the mall of state government where you can get a building, you can get pencils, you can get contracts, whatever you need to get, you can get.

**Rick Sinding:** The purchase and property side.

**David Rousseau:** Unless it had some budget impact on it, the rest I didn't want to—

**Rick Sinding:** So, you're basically the lead state treasury person on the budget.

**David Rousseau:** One of the lead, yes. Working with the governor's office and working with the other cabinets because when McGreevey came in, there weren't many people that he brought in originally that had Trenton experience.

**Rick Sinding:** Including John McCormac.

**David Rousseau:** Including John McCormac, who was CFO of Woodbridge at the time and now mayor of Woodbridge and I think the key thing there was we had a

good relationship and he allowed me the freedom to go and propose. And look, my job working with the departments, working with the Office of Management and Budget, my own ideas—whether they were harebrained or good ideas—was to look at these things and say “Okay, let’s start looking at how do we balance this need where our spending needs are up here and our revenue are here. How do we bring those two things in line?”

**Rick Sinding:** And what did you do?

**David Rousseau:** We just started looking at everything. I think one of the things that you find out is as soon as you get to the executive branch, is how many more resources there are there and how much more information there is there than there is in the legislative branch.

**Rick Sinding:** I thought you were going to say the opposite: that once you got to the executive branch you suddenly realized how little you could actually accomplish.

**David Rousseau:** No, I said how much more information there was and we started to find that out in transition as we started getting access to the OMB staff, the department staff and you rely on their expertise. You rely on the expertise of the departments. Sometimes departments are forthcoming with ideas, sometimes they’re not. After I left as treasurer, I went to a headhunter because I was looking at what I wanted to do the rest of my life. I was only fifty years old at the time so I still had another career ahead of me and I tried to explain exactly this about what I really did for eight years and I said, “Well, I tried to take a cylinder that’s this big, which was our revenue—it’s smaller—and our spending, which is a square, which is much bigger than the cylinder and tried to reshape and reform both of them so they fit together.” My job was to come up with options. It was ultimately the governor’s decision on what got proposed, and then nothing gets finished unless there are 41 assembly people and 21—my job was to develop these different ideas. We’d look at tax changes. I always wanted to look at the policy side. When I talked to students in groups, I’d talk about how there are policy concerns, moral concerns and political concerns. You would hope those go in a certain order and sometimes they don’t. You can’t take politics out of any decision being made by a governor or by a legislature. It’s going to creep in. Okay, how does this impact my future election in two years if I’m an assemblyman? Four years if I’m a governor or senator? And you try to look at different fairness issues. One of the things—we really saw that the corporate tax was crashing and the corporations were paying nowhere near what they paid before and we did a major corporate tax reform.

**Rick Sinding:** I was going to ask you if you could describe the major half dozen or so pieces of how you got that cylinder in that square.

**David Rousseau:** I think the first couple of years—and really, you have to look at a couple year period—corporate tax reform was one of the major pieces. Making cuts were things that we had to do, just deciding “Wait, we can’t afford to do this anymore.” In that lame duck session, right before Jim took office while we were working on these other things and getting ready to take over, the outgoing governor, DiFrancesco, actually was helpful in a number of things. There were a couple of things that they did in the lame duck session. There were things that we knew we wanted to do, and I think they felt some responsibility for what they were leaving us and so they worked with us on doing some things. I still remember there was one thing we would’ve liked them to do for us and they never did. Christie Whitman had created FamilyCare. Great program which was providing healthcare for low income families, but at the point she created it, I don’t think she really factored in how fast this program was going to grow and so you had this program that exploded at the same time the economy was tanking. We would have loved before Governor DiFrancesco left office, we would have loved—and we tried, but we were never successful—we would have loved for him to shut the program down, basically say no new entries into the program. Because it would have been something—it’s not a very popular thing to do. He didn’t.

**Rick Sinding:** So, did you end up doing it?

**David Rousseau:** Not only did we deal with that sometime at the end of—my years get mixed up sometimes—but sometime in that first or second year, we actually took 100,000 people off of FamilyCare. Now, that’s a hard moral decision, but one of the things it does is when you start having discussions with other cabinet members and legislators and you remind them that wait a minute, we just—the attorney general is talking about the need for more state police cars and you’re spending half an hour arguing over whether they should buy 50 cars or 20 cars and someone in the room—I actually said it at one point in time—said “Wait a minute. Last week we just took healthcare away from 100,000 people. Why are we even discussing police cars when we’re making that decision?” And actually I remember that conversation—it may have been David Samson. May have been David at the time—

**Rick Sinding:** I was going to say, I assume that David Samson was the attorney general.

**David Rousseau:** —who basically said “You know what, let’s move on.” Same thing: we had to do things that year like reduce some business grants, and again, it’s the same thing when you start putting these things in—and start comparing them. I think my job as deputy for both McGreevey, Codey, my roles with Corzine, was that in the treasurer’s office and in the governor’s office, your role is to look at the entire spectrum. The rest of the cabinet is looking with blinders on at their own world, and you have to get them away from that and say “Wait a minute. Yes, you

might be getting cut more than somebody else, but look at what the Department of Human Services has to do, the things that they have to provide," and things like that." So there's always the other big things that—I think that the most controversial thing that came out of those early McGreevey budgets were—I'm going to go back to what I was talking about: the moral policy and political things. I think it was that first budget; we cut the 100,000 people from FamilyCare, we cut arts grants entirely and then we also cut business incentive grants. I still remember getting a call from a legislator—I'm not going to use the name on this one. He was a dear friend of mine. He calls me after that first budget and the first things out of his mouth was reacting to why were we cutting arts and BEP? BEP was the Business Employment Plan, a business incentive tax plan. And I may have used some colorful words and basically said "We just cut 100,000 thousand people from FamilyCare and you're calling me about this?" Like I said, I had a good enough relationship where I thought I could say it. And he said "Okay, I'll talk to you later." I later find out, he calls me back and says "Oh, by the way, one of the lobbyists from the business committee was in the room when you said that." <laughs>

**Rick Sinding:** Oh my God. <laughs>

**David Rousseau:** But I think that one of the most controversial things that came out of the early McGreevey administration—we talked about the issue before on pensions a little bit—was debt. How we relied more on debt for transportation, how Christie Whitman before she left did the school construction program.

**Rick Sinding:** Right, I'd forgotten about that.

**David Rousseau:** Which again, was a very sound policy that had some flaws. The sound policy was, hey, the court had ordered that we had to pay for these Abbott district schools at 100 percent. Did we have to pay for Taj Mahals at 100 percent? Were there flaws in how it was implemented was another thing. But what people don't realize that also is part of that is we took suburban schools that were getting maybe less than five percent in the past for their capital programs. We didn't raise them to something like 20 percent, which they would have been ecstatic over. As we were moving this bill—I'm going back to 1999 here, briefly, because I think it's another one of these things where things happened that have a longer-term effect. School districts who were getting five and were now going to 20 would have been ecstatic, but the wisdom of the legislature was: "Oh no, let's not go to 20, let's go to 40!" So, now all of a sudden you took a program that probably could have been a five or six billion dollar program and it turned into a nine billion dollar program.

**Rick Sinding:** And as I recall, there were a couple of Taj Mahals.

**David Rousseau:** Yes.

**Rick Sinding:** And a couple of major problems with the environmental cleanup of certain—

**David Rousseau:** Right. The McGreevey administration had to administer—Whitman started it, the McGreevey administration had to— and yes, there were clearly some mistakes made. You had issues in Newark where the mayor was selling the piece of land to the school board, instead of for a dollar or something—which you would think that inter governmentally maybe he would do—at an exorbitant price to help balance his own budget because he knew that the state was paying for it. And those things happen. But as I said, I think one of the more controversial things early in the McGreevey administration—and it set the trend for some other things that we had to do—because again, we’re going back again. We’re focused on trying to deal with pension increases, revenues are laying out. Yes, we did corporate tax increases, cigarette tax increases, things like that, but the key thing was again—a lot of these things start on Wall Street. It had just started nationwide. It started in a couple of states and New Jersey was one of the second or third states—in the late '90s there was a settlement reached with the tobacco industry with the federal government and all of the states. So basically, all the states and the federal government had sued the tobacco industry and said wait a minute, you’re costing our state budgets billions of dollars—or hundreds of millions of dollars in the case of probably New Jersey—in healthcare related costs either through our Medicaid program, our employees’ healthcare, wherever it is, because of smoking. Ultimately the tobacco industry settled and set up a trust fund, set up a settlement. They said “Okay,” however the formula was, “state 'X'; New Jersey you’re going to get between 250 and 300 million dollars a year forever, as long as the cigarette industry is still in business.” Again, some Wall Street brain thinks, “Wait a minute. Who knows if these people are really going to be there 20 years from now. Let’s shift the risk from the tax payers—because the tax payer’s risk is that they go away—to bond holders.” So, let’s go out and sell this settlement, just like you see ads all the time where if you win a settlement, you win the lottery or something, you can go out and maybe for 80 cents on the dollar or whatever it is—

**Rick Sinding:** Get your money right away.

**David Rousseau:** You can get your money right away and hopefully you don’t squander it. So, it was a complex deal, but we went out and got close to three billion dollars for roughly 40 years’ worth of the thing. I think a lot of us were hoping that that three billion dollars would last more than two years but it—just the way that the economy kept on going, programs, decisions we weren’t willing to make or whatever—we ended up burning that money out in two years. Again, thinking back, hindsight, shifting the risk from the state tax payers to bond holders was the right thing to do, but what we should have done in an ideal world—and budgeting is not an ideal world in this state under either party. What we should

have done is we should have taken that three billion dollars, put it into an account, and every year only draw down what we were supposed to get from the tobacco industry. So, if we were only supposed to get 250, we only draw down 250. You could have done things plus or minus 20 percent and then make it up. We didn't. We burned it in two years. So then we get to Jim McGreevey's third year, 2004, I guess. Jim is wounded. Clearly Jim is wounded by that point in time because of the taxes—everything that's going on and also the—

**Rick Sinding:** Well, his personal life.

**David Rousseau:** And the personal life stuff was going on and I think we realized that if he didn't make a turn with that budget, with his third budget, that he was probably going to face primary opposition the next year. So, our direction as deputy treasurer and the treasurer's direction comes from what the governor says he wants to do and what the governor's staff say they want to do. And we wanted to do a budget that tried to maintain services and didn't have any dramatic cuts. And we came up with a way to basically bond for operating costs—basically issue bonds off of cigarette tax revenue or motor vehicle revenues that were basically funding the way. The reason we needed to do it is because in the two years prior to that, we had burned all the tobacco money, so, we had a billion and a half dollars to build in that went away. So, that was the key of that budget. That budget also was when, finally, Jim did agree late in that budget process to increase the income tax. Because remember, with all the taxes we raised early on, we'd never really touched the income tax. We did a lot of good things. I mean, he raised the rebate levels and things like that, other things, but we didn't raise the income tax yet. So, that third year in new negotiations with the legislature—

**Rick Sinding:** —raised the top end.

**David Rousseau:** Right. Raised the top rate for people above five hundred thousand at that point in time. The joke was everybody called it a millionaire's tax, but—

**Rick Sinding:** —it was a half a million.

**David Rousseau:** It was half a million dollars. Again—it sets trends—we build a budget on those things, on that deficit spending, which went to court. Center Alliance takes it to court, and in another one of the great decisions of the Supreme Court—

**Rick Sinding:** This is the New Jersey Supreme Court.

**David Rousseau:** The New Jersey Supreme Court. They say, "This is illegal. Don't do it again." So, they basically let us use the money—because they thought that it

would create chaos. Now, again, what happened in that time period, though, is that either right around the decision or either prior or right after this decision, Jim McGreevey resigns in August of 2004. So, everything that we had done to try to protect him goes out because of—and that was clearly not because of any of his policy issues, but that was the personal side. But, we jokingly say to the Court, "Why didn't you stop us?"

**Rick Sinding:** <laughs>

**David Rousseau:** We would rather have had to deal with it then than you saying, "Oh, no," and then Dick Codey comes in and has to deal with it.

**Rick Sinding:** Now, your resume says that you were deputy state treasurer for those two years of the McGreevey administration and then you were a special assistant.

**David Rousseau:** No, I was deputy through all three McGreevey and Codey—I stay on when Dick becomes—

**Rick Sinding:** I thought when you became a special advisor to the senate president that that was when Codey—

**David Rousseau:** No.

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

**David Rousseau:** It is later. I stayed on. John McCormac stayed on as treasurer. I stayed on as deputy treasurer. It's strange. When I was in the Senate, I didn't have a—Senator Codey was a minority leader towards the tail end, remember. He became minority leader in 1997 after the 1997 elections. He became minority leader. So, he was a minority leader at the end of the Whitman administration. He was minority leader. But the way they split the duties up, Bernie Kenny did all the budget stuff, Senator Kenny. So, I didn't deal with Senator Codey much. So, when he became governor, I had a relationship with him but not as—and things just flowed the same way. We had the same team, different team in the governor's office, but my role stayed the same, which is okay—give you ideas, and that first budget, that first and only budget that he ended up doing, came down to a decision between two things at the end. We had about a five or six hundred million dollar shortfall after we did everything, after we looked at everything in the mix, and it came down to do we raise the sales tax or do we cut rebates. I think at that point in time, we made a decision to cut rebates, to try to bring spending levels down. I think at that point in time Senator Codey had made the decision that he wasn't going to run for governor, because I think he saw the writing on the wall that Jon Corzine had worked to probably ensure the nomination, right? And also, he sort of

looked and said, "If I start bringing spending down, that helps the next administration." It was an interesting discussion with the assembly that year. Remember, now at that point that's another one of these weird situations where Senator Codey is the senate president—

**Rick Sinding:** —and the governor <laughs>.

**David Rousseau:** And the governor. So, in essence, he's in charge of two of the three players in the budget process. But we got through that budget. There was some consternation. We ended up not cutting rebates as much. Senator Codey actually, again, looking ahead, looking forward to the future and understanding what was going on with pensions and how it was becoming harder and harder for us to pay for them, commissioned a study, which now-gubernatorial candidate Phil Murphy chaired, and it came up with some recommendations. It became part of some of the discussions on pensions in the Corzine administration. So I stayed through Codey. Some things we did in the budget during that period of time caused consternation for people later on. Look, I'm trying to be as honest as I can, and historically, there were always things called Christmas trees in the budget, where there would be individual line items, a firehouse somewhere here, Boys and Girls Club here. One of the things that during the McGreevey administration—

**Rick Sinding:** At the Congress they're called earmarks.

**David Rousseau:** Yeah, earmarks. One of the things in the McGreevey administration that we did, because of the fiscal situation, was we turned around and said, "Wait a minute. If we're cutting a hundred—I'll go back to FamilyCare all the time. I'll say if we're cutting a hundred thousand people from FamilyCare, how the hell can we dare say we're going to give money to a firehouse?" So, we created these block grant programs, and I had concern from the beginning on what was going to happen there. We had block grants in human services, DCA, whatever, and then people would apply for the grants, and DCA would make the decision, or human services—

**Rick Sinding:** The Department of Community Affairs.

**David Rousseau:** Community Affairs, Department of Human Services, whoever, would make the decision. That process didn't work as well as the legislature wanted it to, and in a fateful decision, in I guess it was McGreevey's last budget, we brought all those grants into the treasurer's office, and treasury was going to administer them. I warned McCormac about it, that it was not a good idea, but I think he got something else somewhere else from people, and it later became—well William Bryant went to jail from it. Senator Joe Coniglio went to jail because of it. I spent hours and hours before grand juries on it. It was known as the MAC account where we had \$80 million that was basically—the legislature would develop a list

and say, "Here is what it is," and that's one of the things I'm—it took years off—it was not a fun process to be across the table from Chris Christie's staff at the U.S. Attorney's office—

**Rick Sinding:** I can well imagine.

**David Rousseau:** —and answer these questions.

**Rick Sinding:** I want to try to pull this all together over the period of time that you've been talking about, starting with the Florio administration, all the way up to McGreevey, Codey. You've described a whole series of actions that have taken place that had short-term benefit for the politicians and short-term fixes for the budget, but appeared to have gotten us into positions that have made it more and more difficult to balance the budget as years have gone by. Is that a fair assessment?

**David Rousseau:** I would add one more thing. They provide a short-term benefit to the people who needed those services and programs at that time in hoping that at some point in time the economy—I think there was always this thing, okay, the economy will grow faster and we'll be able to get—and, yeah, but it becomes a cycle that you then can't get yourself out of. Because who's going to be the one who's going to be the governor who then stands up and says, "Okay. I'm going to bite the bullet."

**Rick Sinding:** Well, Jim Florio would argue that he was that governor and the politics—

**David Rousseau:** And I'm going to go a step further and go to the next administration and talk about when Jon Corzine first came in, and he basically said, "No. I'm going to start making significant pension payments and start doing this. I'm going to raise taxes. I'm going to do some things to bring structural balance to the budget." Now, personally, just to get us in timeline, what happened with me is that Jon Corzine's elected governor. I'm still with Dick Codey. There was a period of time in that transition period where I didn't know what was going on. Truthfully, I was working a little bit with the transition team on issues and I had some people telling me that they were going to keep me on, some people telling me they weren't. So, I'm in a weird transition. I'm working on things. Well, if they don't keep me on, what am I going to do? I had one outside thing I was working on, and then ultimately it was decided—and later I found out more—they wanted to break ties with the past, with the McGreevey-Codey era, and they decided not to keep me on in my position as deputy treasurer. The outside thing I was working on fell through. So, Dick Codey and Kathy Crotty says, "Look, come..." Because now Senator Codey and I had developed a great relationship, with him being governor and me being the deputy, because I think we worked very well together.

**Rick Sinding:** So, you went back to the legislative staff.

**David Rousseau:** That's where I go back as a special advisor to the senate president, and the agreement was that I would stay at least six months to help them with that first budget, because now I had a wealth of knowledge, and I knew the questions to ask. I knew when a governor's office or treasurer's office says, "No, we don't have that;" they know if I'm sitting in the room next to Dick Codey, they can't say that.

<laughter>

**David Rousseau:** Because I'd say, "No, it's right there." Or I had brought all my files.

<laughter>

**David Rousseau:** The agreement was six months and then after that, if I found something, and what happened—

**Rick Sinding:** But what you found was state treasurer.

**David Rousseau:** Well, there was a stop in between there, but what I was saying is—I talk about that when Jon Corzine came in, that first budget he does do: He raises the sales tax, expands into a few more services, says I'm going to make at least over a billion dollar pension payment, which was somewhere in the 55 to 60 percent of what we should make, and he went from almost nothing to that and bit the bullet.

**Rick Sinding:** Well, there's your zero to sixty.

**David Rousseau:** Right, and he bit the bullet, and tried to say, "Okay. I'm going to tackle this. I'm going to use my fiscal acumen from Wall Street and my other thing and I'm going to try to tackle this," and I think the senate was more on board that year with what he was doing. The assembly—thinking back to 1991, were concerned about raising—especially raising the sales tax, because the sales tax is the broadest tax we have in this state and impacts everything you do. It was strange. Being told you're not going to stay on gives you some feelings of, hey, you don't feel good about that. But, like I said, I landed with Codey, but it was strange. I started developing a very good relationship with the person who took my place, who came in as treasurer, because I wasn't—I was deputy treasurer, but—Brad Abelow. He and I talked. He and I developed a good relationship. I knew some of the people within the governor's office. I still hadn't really met and talked with Jon Corzine that much at that point in time. But I developed a good relationship with [Brad]. And they put together a budget that really was a decent budget. It was—one of the things that I always tried to do when I was developing

budgets was not to just look at February when you present the budget, but look at where you want to be in June and set things up for the fact knowing that you're going to have to deal with the legislature on certain things so you need to keep things in your back pocket. I'm not sure if they had that hindsight. I think they tried to do more of a pure approach, saying "No, this is what we should do and we're going to stick to our guns." And so, during that spring—that's the spring when the assembly basically said—part of the assembly, mainly the South Jersey contingent—said, "No. We're not going to raise the sales tax." And that led to eventually the shutdown, and that's where my shift back to the executive branch takes place, because Senator Codey was really aligned with Jon Corzine on this issue.

I started working more and more with the treasurer's office. When I talk to students or other groups, I talk about—the separation of powers, forget it. There was a point in time when I was working for—half the day I'd be working down in the legislative staff building, and the other half of the day I'd be up in the treasurer's office involved in meetings, just like I had never left. I remember one day walking in. We were doing something and it felt like I hadn't left, but I still was working for Senator Codey. So I was part of that inner circle that actually tried to work out that final budget, and we finally got to an agreement. There were hiccups. I still remember a meeting at Drumthwacket where the assembly put a whole bunch of tax proposals on the table, alternatives to the sales tax. The governor wasn't interested in them. The senate president wasn't interested in them. We joked that they proposed them at sunset and they were dead by sunrise. Somehow that night they got leaked to people who would've been—well, there were a number of reporters hanging around. Somehow reporters knew the meeting was going on, and somehow some reporters got ahold of them, and by that morning—there was some tension that occurred out of that. The assembly really felt burned, and I think that caused more tension.

But eventually we came to an agreement that half of the sales tax was going to be used for the budget, and half of it was going to be used for future property tax initiatives. Ultimately we worked out that framework and what people don't realize is that once you work that framework out, there's still all the detail that has to be done on a budget. So, we go into a meeting, probably around five or six o'clock at night, trying to work out all the other details. "Okay, now we're going to do this, this, and this." Problem is we didn't have a pre-meeting. I wanted to have a pre-meeting where we got the governor, Senate President Codey, people like Kathy Crotty, and others into a room and say, "Okay. How are we going to handle this?" We didn't. We went into this meeting cold and halfway through the meeting—we're trying to still make cuts, to balance the budget—and I had a laptop. This is great. We used to have pencils and paper. Now I have a laptop in front of me with a spreadsheet where I'm actually—where somebody's saying, "Well, now..." The

entire first hour of discussion wasn't about cuts. It was about where people wanted to spend money, and all of a sudden I lean over to Brad Abelow, who's next to me, and I said, "Brad, we don't need a penny increase in the sales tax anymore. We need two cents because of all this," and then it brought it back to reality.

It took us almost 18 hours to negotiate this, and at one point in time we split, and I still remember this to this day. We're in the treasurer's conference room, and we're about 40 or 50 million dollars off, which isn't a lot of money from where we started, and Governor Corzine takes me to a side room and says, "Okay. If you were working for me right now, what would you do?" I say, "Governor, we could stay here for four or five, six more hours and we can drop 40 or 50 million dollars down to 20 or 30 million dollars, but you have to realize at some point in time, as the governor, you're the one—you have to assume some risk in the budget in the end." He said, "You have to decide. Is it worth four or five more hours of your life to find \$20 million more in savings, or is it better to just cut and learn?" He agreed with me, and we did it. We did something with the revenue. We had a six or seven hundred million dollar surplus, so, it was a viable risk. The problem was that we had shut down government. We had shut down government for seven days. State employees were staying home. State parks had been closed, and we then go out and present a budget that had a couple hundred million dollars in—we'll use the word earmarks, or all of a sudden there's extra money for Trenton. There's extra money for Newark. There's extra money for this, and the Republicans really did their job, did their job as the loyal opposition and highlighted that. So, basically, "You shut down government and then you're still doing this, this, this and this?" And by the time the vote was done that night, yes, we passed it. It passed both Houses. I forget what time it was. I leave. I leave the State House, and I'm still a senate staff person. I had already had discussions about coming back that were pretty clear discussions that I was going to come into the administration in July. It was just a matter of when. I go home. I go to sleep, and just rest and my phone rings. I ignore it. Then the house phone rings, and it was Brad Abelow, who was the treasurer at the time. Now remember, I still technically work for the Senate, the people who had sent the bill to the governor, the people who had put things in the bill that the Republicans had railed on. And so, Brad calls me and says, "The governor wants you to come in and work on the line item veto." I said, "Wait. You want me to come in and work on the line item veto of the things—"

**Rick Sinding:** <laughs> of the bills that your—

**David Rousseau:** "—that my employers have put in?" He says, "Yes." I said, "I have to call Senator Codey first." I don't know if I got Tim or if I got Cathy or—it was clear. They said, "No, go in." So, I spent that day—we're still working with them, and I still remember at one point in time where we came up with what he thought was a reasonable amount, that he and his policy people and some of his

press people thought was a reasonable amount to cut. Then we sent it to the senate president and the Speaker, and we got a reaction from them of, "Nah. We don't like it." And, again, I think Joe Roberts is one of the greatest minds I've seen in politics, but there was something that he objected to, and the governor's office was likely to agree with him, but he had said, "Okay. I want this funded, and why don't you cut this more." Well, the cut this more happened to be something in Essex County, so, I actually—because, again, I'm—

**Rick Sinding:** Which is Dick Codey's home county.

**David Rousseau:** Yes.

**Rick Sinding:** As opposed to—

**David Rousseau:** —the other one with something good happened to be something in Camden County.

**Rick Sinding:** <laughs>

**David Rousseau:** And I said, "For the last month, Dick Codey has been one of your strongest supporters on here. Now you're going to go and screw him at the last minute." I said, "I don't care if you go and give Joe Roberts this project, but don't you dare take it out of Dick Codey's money." And I said, "Look, if you want it, fine. Find another million dollars," whatever it was, "somewhere else." If it didn't work out, me going to work for them, I would've stayed to work for the Senate, but—

**Rick Sinding:** —but at this point, obviously, the governor is beginning to show some interest in you.

**David Rousseau:** Yes.

**Rick Sinding:** And when Brad Abelow leaves, you—

**David Rousseau:** Well, no I actually go even before then. I go as a—

**Rick Sinding:** Back as deputy?

**David Rousseau:** Well, you never go—you never go back to your old title.

**Rick Sinding:** I gotcha.

**David Rousseau:** So that's why I go back basically functioning in a very strange role. I report not only to Brad, but I directly reported to the—even though it was technically in the treasurer's office, I had direct access to the governor. I was considered part of the senior staff, and I had this title of senior advisor for fiscal

policy to the governor. But in reality I was acting as deputy treasurer. I did that for a couple—but the other thing that I like to talk about is that I think that was the best I've ever seen of state government, and then I'll get to a couple of other things just to close my career. After that shutdown, the agreement was that we were going to do a special session on property taxes, and that started in the fall of 2006—summer of 2006 it actually started. And it was basically an agreement with the senate president and the Speaker and the governor's office that we were going to focus on four or five different areas, on property taxes and employee benefits and some other areas, and basically it was made clear to members this was not a press release opportunity. Be serious. And some of the stuff that came out of that was good stuff, and I think some of the things that happened in those couple of years—the first two years of the Corzine administration and then the third year, where I become treasurer. By raising the taxes, getting pensions up to at least 50 percent in every one of those budgets, we laid a sound framework, and we were moving. I mean, I become treasurer in January of 2008, right after the school funding formula was approved in late 2007.

**Rick Sinding:** 2007, right.

**David Rousseau:** I become treasurer and that first budget that we do—it cut spending. Non-recurring revenues were down to about \$500 million, which was a small number in concern. We had some record levels of property tax relief out there in the rebate programs. We had a pension payment of over 50 percent. We had revenue estimates that were blessed by the Office of Legislative Services and blessed by Wall Street. This is June of 2008. So, we thought, "Wow! This is good. We're on track here," and in the fall of 2008—

**Rick Sinding:** Everything falls apart.

**David Rousseau:** Everything falls apart. With that budget that we adopted in the fall of 2008, by the time the fiscal year ended, the revenues were almost \$5 billion less than what we projected. So during that year we were doing triage every single day to keep—because people forget, people don't understand that the state, unlike the federal government, has a constitutionally balanced budget, and it doesn't mean constitutionally balanced budget only on the day you sign it. It has to stay constitutionally balanced throughout the year. So, if your revenues drop and they drop to below your surpluses, you have to find offsetting cuts. And that year, I mean, it was the capping of my career as treasurer, but I become treasurer at the point in time where I would've never—no one had seen the economic situation ever, unless you'd lived through the Depression. What we had to go through that year and then developing the 2009 budget—it was sheer hell, the choices that you had to make, and the decisions on what you were going to cut or what you weren't going to be able to fund. It was totally unprecedented. I had a great staff at OMB, but because of that constitutional requirement, unlike Washington, there were

things we had to do. They were saying, "Well, how are you going to...?" We said, "We'll do it."

We had a billion dollar pension payment. That was the first thing. I said, "Look, we would like to make this, but we're probably not going to be able to make it." And then when we come into that last year, where we at that point in time, clearly, because of the economy—again, Jon Corzine's facing this situation where, "Hey, my political future is on the line," and that budget, which is where he raised the income tax on people above a million because New York had raised it. One of things that people don't realize is the interaction of tax policy among the states. I think it was that year—the state of New Jersey was going to lose \$300 million because New York raised its tax rates, because what was going to happen is people who lived in North Jersey who worked in Manhattan were going to first pay New York before they got to pay us. We lose \$300 million in the midst of the recession that had nothing to do with us. So, we do that last budget, which included the so-called millionaire's tax increase, and then we also had the flat—we also had the benefit of the federal government. Obama had come into office already.

**Rick Sinding:** And you had the stimulus.

**David Rousseau:** We had the stimulus money. I think the intent of the stimulus money from the federal government was to go a few years. Due to political—I'll be honest—due to political considerations, we used almost all of it in one year.

**Rick Sinding:** Well, you had to balance that budget.

**David Rousseau:** To balance that budget. In one year we used almost all of it. We also thought, in the back of our minds—at that point in time we're all still thinking that yes, it's going to be a tough race, but we still thought that Jon was going to win and have that second term and have that 18 months, maybe, at the beginning of a second term where maybe we could really do some—with some Republicans. We knew there were some Republicans who were willing to do some things. And even do more, to have that second term governor that I mentioned before, and we—because we also thought that there might be a second stimulus package. Because in 2009 when the stimulus was done, there were only two governors running for election, and none of the U.S. Senate and Congress was running. In 2010, you have a whole lot more governors running, and a third of the Senate and all of the House running. We're thinking, "Okay. There will be a stimulus package." So, yes, we did it. And it made a bigger hole for [Gov. Chris] Christie when he came in.

Yes, we did make the millionaire's tax only a one-year tax. There was some debate among that for people, and I'm going to be open and honest on this. There were a number of people who had lived through 1991 and saw that Jim Florio raised \$2.8

billion in taxes and Christie Whitman got the benefit of it. Christie Whitman didn't repeal—the Republicans never repealed many of those taxes. They lived off of those taxes, so, in all honesty, there were people in the room when we were doing the millionaire's tax who said, "Why aren't we making this permanent?" There was a group of people who had lived through '91, I was one of them, that said, "No. We should make this a one—" First of all, policy wise, we don't know the impact of it. Let's make this a one-year tax. I think then there our conversation was, "When Jon is reelected, we can relook at it, maybe do it again, maybe do something less, do more, whatever," because the election would have been a referendum on that, and then in the back of their minds there were some of us that are saying, "Well, if he doesn't—God forbid if he doesn't win, hey, it's payback for what Tom Kean left Jim Florio, Donny DiFrancesco left Jim McGreevey. Are we proud to say that? No, but it's politics." Politics is part of this. By that point in time in my career, I'm thinking, okay—and I had had conversations with the governor that if he won, I wanted to stay at least one, if not two, more years as treasurer, because I really believed that we had an opportunity in the first 18 months of a second term, before people started focusing on the legislative elections that would've occurred and then started focusing on the gubernatorial, that we had an opportunity to do some things to restructure government, to do something on property taxes, to do some really good things in 18 months. I wanted that to be the capping of a career that started in '87, really, in the legislature on policy issues that I had dealt with. Of course, the voters decided that we didn't deserve that, and there are a couple of things that happened in the lame duck session that, since—I just want to get—it gives me the opportunity to get some of them off my chest.

Lame duck sessions are always very, very, very interesting, because you have the outgoing people trying to land themselves jobs, and people incoming. I was in a unique situation where as long as I was doing my job, which meant trying to keep the budget balanced, I had an ethics opinion that basically I couldn't talk to anybody who had anything to do with any funding, so, it was a very strange—I could have said, "Okay. I'm going to start talking to this, this, this person," which means I'm going to recuse myself from doing my job, and I made the decision that I was going to work right up until [January] 20th. We made the decision that we were going to recognize whatever shortfall was there at that point in time, and we were going to balance it. We weren't looking out into the future yet, because truthfully, if we had won re-election, we wouldn't have looked at the future until January or February anyway. But a couple of things happened during that lame duck session that are interesting. Three things happened during that session, lame duck period. Clearly, there was a decision by—in meetings with Jon Corzine and the incoming Democratic leadership, which was going to be Steve Sweeney, Sheila Oliver and others, that the first—that Christie was going to have a mess to deal with in his first budget, that everybody was in agreement that let him pass, let him own it. Give him a couple of votes, what you need to make sure government doesn't

shut down, but let him own everything and let him take the consequences. The consequences never came. I mean, he ended up making cuts that were much more dramatic than we had ever done on things like municipal aid, school aid, rebates, and the outcry just wasn't there. I mean, I don't know if people were afraid of him. I think part of it is—no offense to my friends in the press corps that I still have—the press corps in New Jersey politics and their papers is nothing like it was 10, 15 years ago, which let him get away with a lot of things. There wasn't that outcry. I remember we made a five or ten million dollar cut in municipal aid at one point, maybe in the fall of 2009, and the then executive director of the League of Municipalities said, "This is a knife to the throat of property taxpayers." Chris Christie cuts them by two or three hundred million dollars, and it's a whimper. I mean, I think what we all miscalculated was that everybody thought there would be this uproar, because there was always against us, and that he would be so wounded in that first year that he would never recover.

The other two things that—before we close—on that lame duck session is that sometimes the hypocrisy of government and candidates and—you had an election and Republicans for eight years blasting Democrats and blasting Jon Corzine for debt increases, and truth be told the only debt that Jon Corzine increased was school construction and Transportation Trust Fund. He didn't do— yes, Jim McGreevey did pension bond. I mean, Jim McGreevey did tobacco securitization. He did debt. But Jon—had a meeting during transition with very high level people in the Christie administration that were doing budget stuff. Early in the spring every year, we'd have to issue our bonds for the Transportation Trust Fund to keep it going, to fund the projects that are out there. So, Chris Christie was going to have to issue bonds probably in February or March. They came to me. A staff person I knew very well—and who knew me—said, "Keep your reaction calm," because he knew how I was going to react. He said, "We would like you to issue the debt for the trust fund before you leave," and I reacted, "Wait a minute. You spent the last—during the campaign," pardon my language, "kicking the shit out of us on debt, and now you want us to do this," and actually, I was just beside myself. I was even more beside myself a half an hour later when my press secretary comes in and says, as that was happening, the governor was holding another event blasting us on debt.

**Rick Sinding:** The incoming governor.

**David Rousseau:** The incoming governor. Now, I got a call a little later from the people who were in the room saying, "We didn't know that that was going on. That was off script, so, at least that part." But I just thought it was—and I actually convinced Corzine and others that we shouldn't do it, that the better thing for everybody, even for the state, was for Chris Christie to have to issue debt early in his administration.

**Rick Sinding:** Or make some decision about the fact that he—

**David Rousseau:** Right. And he was going to have to issue—he was not going to shut down—but to do that. It came very close to—and ultimately at the end something happened. I think I know. I'm not going to talk about what actually happened, but we folded <laughs>, and I did issue the debt.

**Rick Sinding:** Wow. Oh, my God <laughter>.

**David Rousseau:** There are just two more things that—the other two things that they could've changed. This one could have actually changed some of the early era of the Christie administration. We quietly made a proposal to two people in the Christie administration that we would be willing to work with them on actually extending—before we left, extending the millionaire's tax. It was going to expire at the—people always complain, and this is why people always blame Chris Christie for cutting taxes. No, he didn't cut taxes on millionaires. We made it only a one-year tax. When the legislature tried to renew it, he didn't do it. But we made an overture to them. And it would have made a significant difference in his first budget, because he would've had close to a billion dollars more in revenue, and so instead of having to make up the loss of the billion dollars in income tax revenue and a billion dollars in stimulus money, he would've had to only do one, and maybe he doesn't have to cut rebates as far. Maybe he doesn't have to cut school aid as much. He takes the issue off the table of protecting millionaires.

**Rick Sinding:** And he can blame his predecessor for it.

**David Rousseau:** We were willing to do a year, two years, whatever, but there would have to have been Republican votes to help do it. The staff who was involved in putting the budget together was intrigued. My understanding is that other people involved in his administration said no, and so.

**Rick Sinding:** Well, this has been a very, very comprehensive and chronological look at your career.

**David Rousseau:** There's one story I just want to finish with. It'll just take two minutes, and I think it puts all of this into perspective. One of the last public appearances I made as treasurer was here on the Douglass campus to a group of government accountants. It was the second week in December or so, and a couple of days before that, I'd had a—I think that one of the things I'm most—let me tell you, the good, bad and ugly I've seen, I don't think people understand some of the good we do—and it's been all governors, Democrats and Republicans—the good we do in this state, especially for the people who need it the most, the poor, the developmentally disabled, and people that are sitting at our group homes, all those—that group of people, that underlying part of society. I think that people

sometimes forget, unless you have a direct connection to it. Sometime in early December, the ARC wanted to come in and give the governor something thanking him. The governor wasn't available, so I took his place, and they came in, these two adorable little girls who had some type of developmental disability. I can't remember what it was. I still have the picture in my office, coming with this thing of balloons that they had made, just to thank us for everything we did. So, as I'm making those last remarks to the senate government employees, the government accountants, a couple of weeks later, I said, "The other day, everything was put into perspective." I said, "After years of listening to whiny mayors, whiny school board presidents, whiny college presidents, uncooperative fellow cabinet officers," I said, "It all came into perspective when those two little girls came in and gave me a hug, and I think that that's what I'd like to remember about my whole career in government."

**Rick Sinding:** I can't think of a better coda to this interview.

**David Rousseau:** Thank you.