NEW JERSEY DEPARTMENT OF TRANSPORTATION

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NEWS

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Bus Subsidy Program
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RELEASE AT WILL

TRENTON, January 10 -- Transportation Commissioner Louis J. Gambaccini today called the State's 10-year-old bus subsidy program "a disaster that does not and cannot deliver quality bus service, despite requiring ever-increasing State funding. The taxpayers are picking up the tab, the State owns most of the buses, but we are virtually powerless, under the existing law, to ensure an efficient product."

The Commissioner made his comments as he released a 50-page report critical of the overall $50 million a year subsidy program which supports 80% of all bus service in New Jersey.

"This report details the conflicts, obstacles, fiscal tangle and the inherently weak position of the State in demanding a rational, efficient bus transit network for New Jersey from the private carriers who participate in the voluntary program," said the Commissioner.

"The law authorizing the subsidy program in 1969 was an emergency measure in response to a crisis, and was intended to be temporary. It was a stop-gap measure, and it shows! If we don't make a dramatic change in the way publicly-financed bus service is provided in New Jersey, the future will hold little hope for controlling costs, improving service and increasing ridership."

The Commissioner also released a comparison of the performance of Transport of New Jersey (TNJ), the largest and most heavily subsidized

- more -

carrier in the program, with the large publicly-owned bus systems around the country. The comparison shows that TNJ's overall operations are comparable to that of large public bus systems, although it lags far behind some in growth or maintenance of ridership. Cost escalation of bus operations does not seem to be related to the type of ownership -- public or private.

The Commissioner noted that within the next few weeks the Department will make specific recommendations for creation of a public corporation to provide public transportation. The recommendation will offer a mechanism for the State to acquire bus companies, when it is deemed to be in the public interest. It is not intended that all bus carriers be acquired. In fact, every effort would be made to continue in private operation those carriers who have excellent records of service to the public and whose service is compatible with State goals.

In his State of the State message earlier this week, the Governor said:

> "We must begin to bring the subsidy program under control by replacing it with one in which the State, acting directly or indirectly through an independent corporation, controls not only the assets it already owns, but the management of those assets as well. I intend to submit legislation for your consideration."
>
> "If the State is to bear the responsibility for bus service quality, it must have the power to control service quality!"

The following are some highlights of information in the subsidy report:

* In the 1970's, mass transit, the most energy and cost efficient means of travel, has evolved into an essential public service because of the need to meet public goals of energy conservation,

environmental protection, urban redevelopment and sound land use planning. The temporary 1969 "bail out" approach to maintaining bus service no longer has any merit.

* Bus ridership in New Jersey has fallen 41% since 1970, while bus ridership across the country has increased. Loss of passengers has put an estimated 300,000 more cars on New Jersey highways and local roads and has increased gasoline consumption.

* The subsidy has grown from a $500,000 program for 8 carriers in 1969 to a $50 million program for 22 carriers in 1978.

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* The State owns 1,637 of the approximately 3,300 buses operating, and will own a larger percentage after the planned purchase of at least 1,000 buses under the Transpac program, funded by the Port Authority of New York and New Jersey and the federal Urban Mass Transportation Administration.

* There are over 200 private bus companies operating in New Jersey -- 22 carriers receive State operating assistance, 129 carriers use State-owned buses, and the State must regulate and coordinate the fares, routes and schedules of all 200.

* The costs of operating New Jersey's subsidized private system has always been at least as high and have been increasing as fast or faster than the costs of publicly owned systems.

* The interests of the State and public in keeping fares low and coordinating and rationalizing service conflicts at almost all times with the private economic interests of carriers.

* Bus companies usually enter the subsidy program in poor financial shape, with previous debts and with poorly maintained equipment. This results in State expenditures for special maintenance and repairs to put equipment in reasonable shape, and in interminable disputes between carriers and the State over what expenses can be paid through the subsidy. When an audit determines that a carrier has expended funds on items not allowable under the assistance contract, repayments are deducted from future subsidy contracts. Carriers usually respond by deferring maintenance of equipment and reducing the quality of service provided.

* The State pays subsidized carriers the difference between revenues and allowable costs, and controls the rates and schedules, but in reality has very little control over operational policies of carriers. The program provides the State with no effective sanctions. Disputes between the State and carriers, frequently result in threats by carriers, some of which have been carried out, to leave the program, cut service, and raise fares to support their operation. This creates a constant "crisis" atmosphere in the program and an instability in service which tends to discourage increased ridership.

* The State does not have sufficient control to insure the proper use and maintenance of State-owned buses leased to the 129 carriers. There have been many instances, for example, of non-subsidized carriers turning off air-conditioning in State-owned buses in summer months to reduce their own costs. Many carriers vary greatly in the quality of maintenance provided to State-owned buses.

* The current system provides no opportunity for economies in overhead expenses because each subsidized carrier separately performs management, accounting, purchasing, payroll and other general administrative functions, with varying degrees of effectiveness and efficiency. It also hampers efficiencies which would be possible with centralized bus maintenance facilities and revenue collection. The State pays for these duplicative functions.

Copies of the subsidy report and the TNJ comparisons are attached.

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NEW JERSEY MOTOR BUS CONTRACT ASSISTANCE: A REVIEW AND ANALYSIS OF THE CURRENT PROGRAM

NEW JERSEY DEPARTMENT OF TRANSPORTATION

January 9, 1979

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I. EXECUTIVE SUMMARY

This report describes the deficiencies of the program under which the New Jersey State Department of Transportation presently contracts for motor bus service. Under the direction of the Commissioner, a Task Force of the DOT has examined the existing program and has concluded that the existing contract assistance program fails to meet the goals which the Governor, Legislature and the public can reasonably insist should be met, particularly in light of the substantial investment of public funds in bus transportation and society's changing goals for public transportation. The following is a summary of the Task Force's findings:

1. Emergency Basis of Original Program

In 1969, in response to the imminent cessation of certain services, the Legislature passed P.L. 1969, c.134. The State authorized the Commuter Operating Agency (Agency) of the Department of Transportation to contract with any motor bus carrier for service which was in imminent danger of termination and to insure the continuation of essential service. The Agency was also empowered to contract for commuter or intercity bus service which would not otherwise be provided.

This emergency legislation was not designed to be a permanent solution but rather to be a one-year temporary measure serving until such time as a more permanent master plan for bus transportation was developed. No such plan has ever been developed and the Agency has faced successive crises in recent years.

2. Failure to Respond to Changing Goals

The current contract assistance program fails to take account of the changing role played by public transportation in the 1970's and its prospective role in the 1980's and beyond. While at one time public transportation was both inexpensive and profitable, today it is costly and increasingly unprofitable.

Concurrent with the vast alterations in the economics of public transportation has been a changing view of its societal role. It is no longer merely viewed as a means of moving large numbers of people. Public transportation is now recognized as a vital public service essential to the achievement of several important goals: energy conservation, environmental protection, urban redevelopment and sound land use planning. These goals have become intricately and inexorably linked to the traditional goals associated with the provision of public transportation services. The 1969 "bail-out" approach no longer has any merit in 1979 as the permanent basis for supporting 80 percent of the State's bus service.

3. Effects on Ridership, Highway Congestion, Energy Usage and Costs

The negative impact on the public of the current system is most apparent in terms of ridership, highway congestion, energy usage and costs.

- Ridership

  Bus ridership in New Jersey has fallen 41 percent since 1970, while bus ridership across the country was growing slightly. In 1978, 127 million fewer rides were taken on New Jersey buses than were taken in 1970.

- Highway Congestion and Energy Usage

  The loss of bus passengers has placed increasing numbers of cars on New Jersey's highways and local streets, which are already the nation's most crowded, and has also resulted in increased gasoline consumption.

- Costs

  In 1969, the Agency contracted with eight carriers for a total of $531,383. In FY 1978, the program included 24 carriers which contracted for approximately $49 million in assistance. These increasing subsidies have been accompanied by a decreasing percentage of total operating costs being paid out of the farebox.

4. An Unresolved Financial Morass

A combination of declining ridership, increased costs and declining profit levels have led carriers to the brink of bankruptcy. Many carriers are reluctant to apply for assistance until they have no other choice. Those that do, enter the program in debt and in poor financial condition. Carriers are free to leave the program when they perceive such action to be in their best interests. Such decisions result in increased fares and decreased services to the public. Several of the components of the financial morass are as follows:

- Pre-existing Debts

  Certain carriers have incurred many debts prior to entering the financial assistance program. Upon audit, it has been discovered that carriers have improperly used subsidy funds to pay these debts and the carrier is ordered to repay the amount from its current subsidy. Attempts to obtain repayment often jeopardize the continuity or quality of service.

- Unauthorized Expenditures

  On numerous occasions audits have determined that the carrier has expended state funds for an item not authorized by the contract. These unauthorized costs are deducted from future financial assistance payments. However, the repayment of money owed to the Agency may result in cash flow problems to the carrier with a consequent deteriorating effect on service.

- No Payment for Depreciation and Return on Investment

  The carriers have maintained that such actions discourage new capital investment. Under rules for receiving federal capital

funds, it is far preferable to the State to purchase publicly owned assets with 80 percent federal assistance than to pay carriers 100 percent toward investments which would be owned by the carrier. New Jersey's taxpayers and transit users thus pay only 20 percent of the costs for publicly owned facilities rather than 100 percent of the costs for privately owned assets.

- Uncertainty over Service Levels to be Supported

  There is year-by-year uncertainty on the part of the Department, the public, and the carriers as to the amount of service to be supported and the level of fares.

5. Problems Arising from the Existence of a Multiplicity of Carriers

The existence of a myriad of private carriers has resulted in the following significant problems:

- Inability to Effectively Monitor Operations and Maintenance

  The State does not have the staff and resources to monitor the service quality of the 22 subsidized carriers and 100 companies which lease buses from the State.

- Negative Impact on Federal Funding

  The existence of large numbers of carriers results in numerous problems for the Agency in developing quickly acceptable applications for federal funding.

- Accounting and Revenue Collection Problems

  Twenty-two carriers must maintain, and the State must fund, individual revenue collection and accounting systems. Consequently, economies of scale and improved revenue collection methods cannot be implemented.

- Inability to Implement Innovative Practices

  Advanced techniques for scheduling have increased service and cut costs for many operators across the country. Few operators in the State, by themselves, could support or utilize such advanced techniques.

6. Inability to Enforce Operational Policies

The Agency is currently investing large amounts of money to provide bus service, and has insufficient control over how that service is provided. However, where the quality of such service is poor, the Agency is held accountable by the riding public.

Agency-carrier conflicts over operational and/or financial problems often result in threats of discontinuance. Such threats not only create short-term "crises" with which the Agency must deal, but also create an aura of instability which has deleterious effects on ridership. The fact that

the service will cease without voluntary compliance by the carrier with any State policy gives the carrier significant leverage over the public, and therefore over the State and local governments.

The Agency is unable to enforce the following policies with carriers:

- Improvement of Management Capability
- Implementation of Operating Standards
- Assurance of Operator Training and Safety
- Development of a Systematic Response to Complaints

7. Inherent Conflicting Interests

The existing program is burdened by the inherent conflicting interests between public and private goals, between the subsidized and unsubsidized carriers, and between the individual private carriers whether subsidized or unsubsidized. The major problem is that the interests of the Agency and the public in keeping fares low and in coordinating and rationalizing service conflict at almost all times with the private economic interests of the carriers. While other public transportation agencies gain popularity by holding down fares, New Jersey faces potential law suits when such decisions are made in the public interest.

II. INTRODUCTION

A. PUBLIC TRANSPORTATION: A CHANGING CONTEXT

The role of public transportation has undergone a profound change since its inception early in this century as a means of moving large numbers of people. In the early period, two major characteristics of public transportation were identifiable. It offered a relatively inexpensive means of moving people, and it provided reasonable opportunities for economic profit to transit entrepreneurs. Today, public transportation is neither inexpensive nor profitable.

As late as 1970, the average fare per passenger on a New Jersey bus was approximately 38¢. By 1978, the average fare had risen to an expensive 70¢, despite large annual infusions of state and federal aid. Until 1970, a majority of the routes now operated by Transport of New Jersey were profitable. By 1978, the State of New Jersey was contracting with Transport for $33.7 million to cover the difference between expenses and revenues. The nationwide figures are equally staggering. Although the entire U. S. transit industry reported a net profit in 1960, by 1977 the nationwide shortfall of fare revenues compared to expenses was over $1.9 billion. Thus, it is now recognized throughout the nation that a constant commitment of public resources is required in order to maintain public transit operations.

In May 1969, in response to the threatened loss of public transportation services in certain urban centers and the deepening financial difficulties of many bus companies, the New Jersey Department of Transportation submitted a report to then Governor Richard J. Hughes entitled "Buses - Crisis and Response".

The Department made the following findings in this report:

- "Statistics alone do not indicate the full extent of public transportation problems within the State. How does one quantify ancient and dirty equipment, long waiting times, the lack of new service to rapidly expanding areas within the State and the lack of service coordination which inhibits the ability to transfer easily from one system to another or even to go from one area of the State to another?"

- "Because of the immediate problem confronting a number of private bus companies, a short-range subsidy program should be considered to ensure the preservation of essential service on these lines for the next year."

- "Experience in the rail program - where we have dealt with only three rail companies - have proven that a long term subsidy arrangement which leaves managerial control in the hands of private companies could be highly expensive and inefficient if applied to the bus area."

- "Many of the private bus companies operating in New Jersey could, within the foreseeable future, be seeking public assistance to preserve essential bus service."

- "Subsidy arrangements with individual companies, operating in most instances with deteriorated equipment and capital plant, would be a very expensive method of providing service for any extended period of time."

- "Beyond the immediate subsidy program, consideration should also be given to public acquisition of the Public Service (now TNJ) and Inter-City (now Maplewood Equipment) bus companies."

Based on these and other findings,the Department recommended two actions:

- A short-term emergency subsidy program should be created to preserve essential bus services which were in imminent danger of abandonment.

- A definitive study should be made of the feasibility of public acquisition, through a negotiated purchase, of the Public Service and Inter-City bus companies and of the various alternative proposals to meet the bus crisis in New Jersey.

In response to these recommendations, the Legislature passed P.L. 1969, c.134.[1] Pursuant to this statute, the Commuter Operating Agency (Agency) was authorized to contract with any motor bus carrier operating bus or rail transit services which were in imminent danger of terminating such services and to insure the continuation of that portion of such services which were deemed essential by the Agency. Payment by the Agency could not exceed the actual costs to the carrier for providing such services and did not include any return on investment.

This emergency statute was not designed as a permanent solution to New Jersey's bus problems, but as a temporary measure serving only until the completion of the "definitive study of the feasibility of public acquisition" and the development of a master plan for bus transportation. No such master plan has ever been developed. The definitive study of the feasibility of public acquisition was not completed until October 1976.[2] The study recommended that the State acquire the assets of the subsidized bus carriers. No action was taken before or after 1976.

The "interim" program continues to be in effect. This "bail-out" approach may have had some merit in 1969 when it was used to prevent the imminent cessation of the few services which then required assistance. It clearly has no merit in 1979 as the permanent basis for supporting 80 percent of the State's bus services at an annual cost of over $50 million.

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[1] N.J.S.A. 27:1A-28.7 et seq.

[2] Organization and Finance of Public Transportation in New Jersey prepared for NJDOT by System Design Concepts, Inc. and Simpson and Curtin (Division of Booz, Allen & Hamilton, Inc.)

B. IMPACTS OF THE "INTERIM" PROGRAM - 1969 to 1979

The so-called "interim" program developed in 1969 has now been in effect for ten years. The effects of the emergency program to provide operating assistance are readily apparent when we examine its impact upon ridership, highway congestion, energy usage and costs. This program has had negative impacts on the public in each of these areas.

For the users of public transportation, New Jersey's program has preserved some services but has not led to a satisfactory quality of service. While most other urban areas took effective action during the 1970's to preserve services and to increase public transportation usage, New Jersey bus ridership has declined dramatically. This has also had adverse impacts on New Jersey's residents due to the resultant increases in highway congestion and energy consumption.

- Ridership

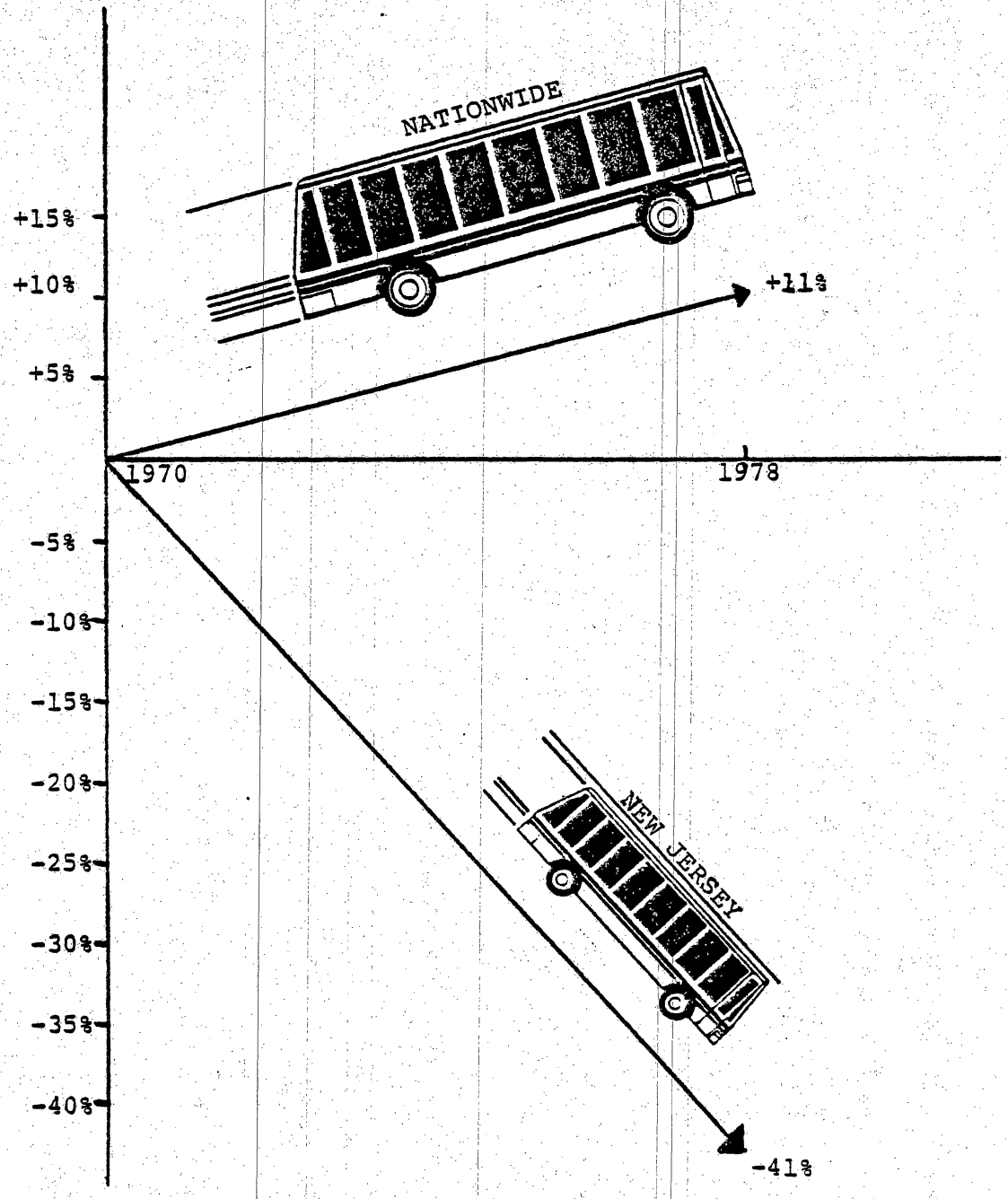
Figure I shows that ridership on buses in New Jersey has fallen by an incredible 41 percent since 1970, while bus ridership across the country was growing by 11 percent. New Jersey buses now carry about 400,000 fewer passengers each day than they did in 1970, which adds up to a loss of over 127,000,000 passenger trips on buses each year. Almost all of these losses occurred prior to 1974, when the carriers cut back on services and raised fares before they applied for the voluntary subsidy program. State assistance has since stabilized the ridership of the subsidized carriers, but little has been done to recapture lost ridership.

A great deal of this ridership loss occurred in New Jersey's inner city areas, where people could not afford higher fares, and where service cutbacks have continued to be the most severe. The 1969 report had warned that such cutbacks in urban services would harm New Jersey's cities.

FIGURE I

BUS PASSENGER TRENDS

1970 to 1978



-- Highway Congestion

New Jersey's highways and local roads are the nation's most crowded. Part of the reason for this relates to the tremendous loss of passengers since the interim program went into effect. A reasonable estimate would be that 300,000 more cars per day are now on New Jersey's roads due to the 41 percent loss of bus passengers. New Jersey's highway capacity is stretched to the limit, and can't absorb further losses of transit passengers. In addition, there is not enough money available to provide for adequate highway maintenance, even at existing traffic levels.

-- Energy Conservation

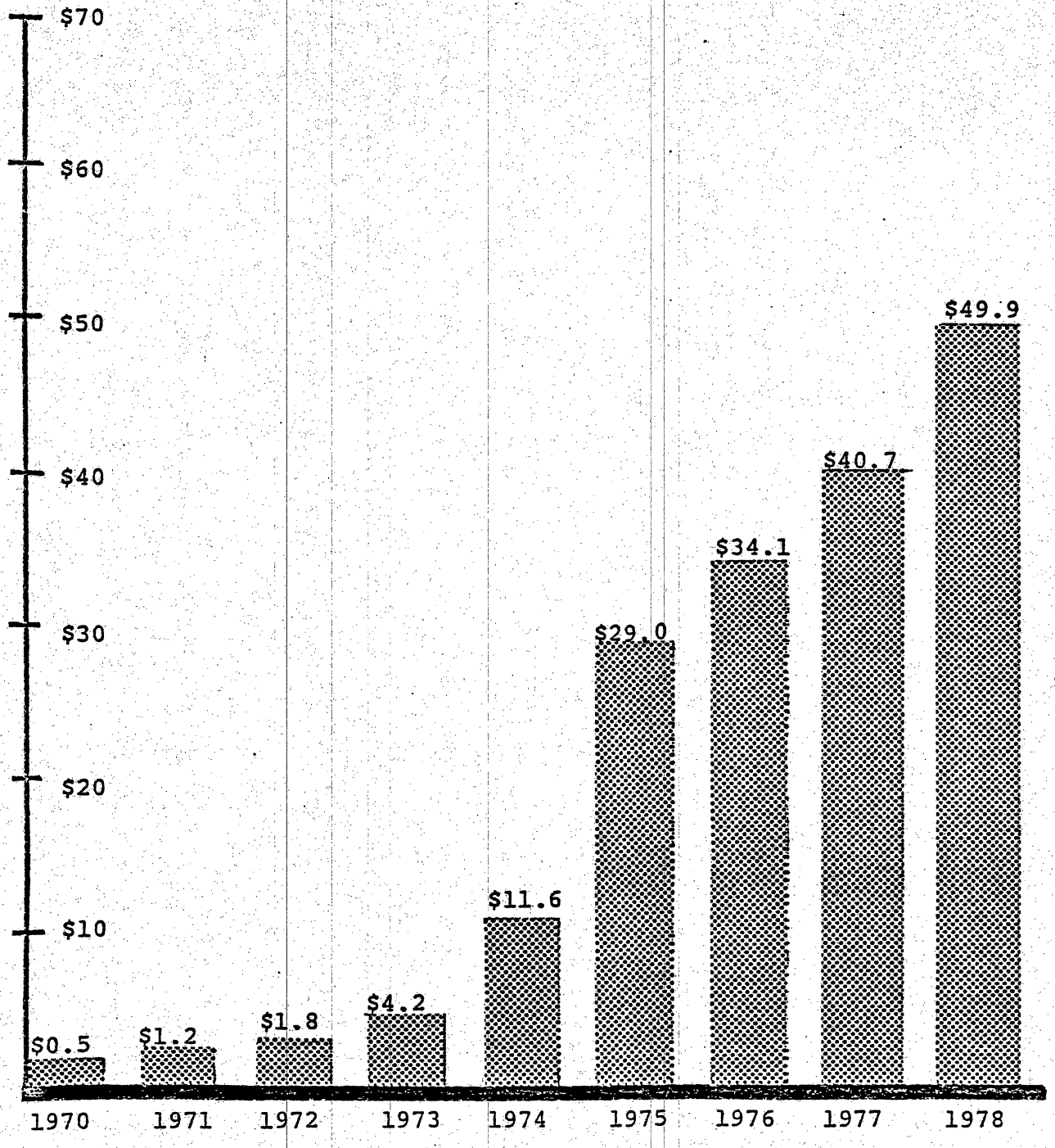
Bus transportation is three to four times as energy efficient as auto transportation. The loss of bus passengers has meant much more petroleum energy consumed in New Jersey, all of it imported to New Jersey from either foreign countries or from other states. By contrast, funds spent on bus transportation would have remained in New Jersey's economy.

-- Costs to the State

Yearly increases in the costs to the State of the bus assistance program are shown in Figure 2. The bus contract assistance program began in the 1970 Fiscal Year (July 1, 1969 to June 30, 1970) and consisted of eight (8) motor bus carriers which contracted for a total of $531,383. The program has grown to include 24 carriers which contracted for approximately $49,192,234 in the 1978 Fiscal Year. The increased public financial assistance has held down fare increases and held back disastrous cuts in service.

The increasing subsidy program has been accompanied by a decreasing percentage of total operating costs being paid out of the fare box. However, New Jersey increased bus fares by modest amounts in 1975 and again in 1978 in order to assure a reasonable balance between fares and subsidies.

FIGURE 2
GROWTH OF STATE BUS
ASSISTANCE PROGRAM



-- Costs per Passenger

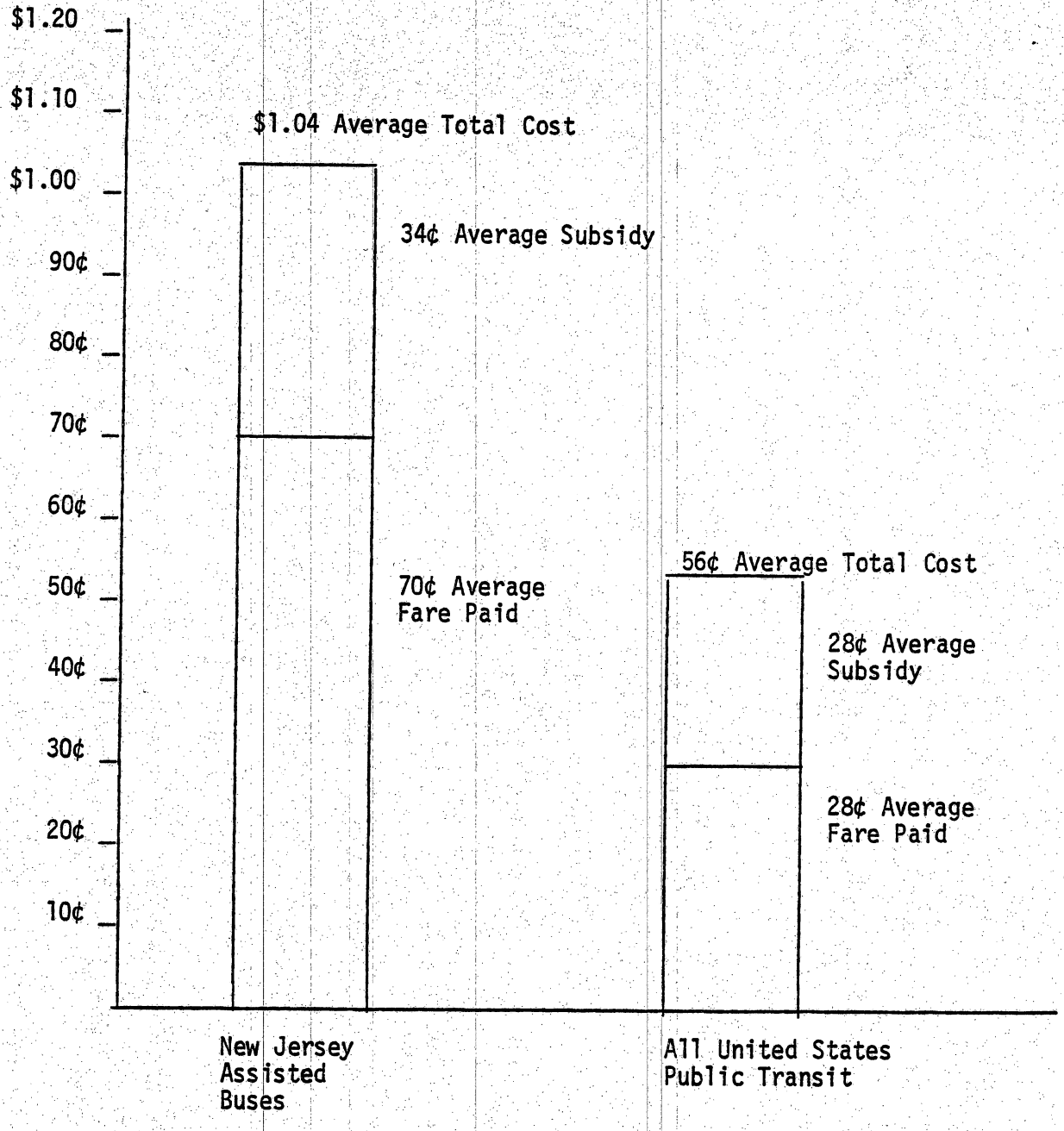
New Jersey's program of subsidizing private carriers has not resulted in low subsidy costs when measured on a per passenger basis. In 1978, New Jersey's financially assisted carriers will be subsidized an average of 34¢ per passenger, while the national average for transit passengers is 28¢, as shown in Figure 3.

The costs of operating New Jersey's subsidized private system have always been at least as high and have been increasing as fast, or faster, than the increases in the costs of publicly owned systems. This is because no form of ownership and operation can control the basic economic factors influencing the cost of serving a bus passenger. Fuel, vehicles, and wages for transit employees have all increased transit operating costs. Such cost increases can be expected to continue to keep pace with the general rate of inflation.

Figure 3 shows the total costs, fares, and subsidies per passenger for all passengers boarding subsidized buses in New Jersey, and for all passengers using public transportation in the United States. The total costs are not strictly comparable, and reflect the fact that New Jersey carriers cut out intra-state services before applying for State assistance. New Jersey's fares and subsidies tend to be higher because this huge loss of passengers traveling short distances on intra-state services has resulted in New Jersey's bus system being oriented towards long distance trips which cost more to serve. The lack of transfers also tends to discourage use of buses in New Jersey. Therefore, New Jersey's operating costs are spread among fewer passengers than is the case for the nation as a whole.

FIGURE 3

NEW JERSEY'S BUSES
NOW SERVE MOSTLY
LONG DISTANCE TRIPS



-- Where are the Passengers Now?

What has happened to New Jersey's bus passengers as a result of the interim program of assistance to private carriers, which now has been continued for almost ten years? As described earlier, over 40 percent of them no longer use bus transportation. They expressed their complete disapproval of New Jersey's bus transportation system in the most emphatic way possible -- by never using it again.

Figure 4 illustrates the proportion of passengers carried by assisted and non-assisted buses today. More than three quarters of the remaining passengers ride subsidized buses today. Less than 25 percent of New Jersey's bus passengers still ride buses which do not receive operating assistance. This remaining non-assisted vestige of what the bus industry was like prior to the "interim" program carries one-eighth as many bus passengers as were carried without operating assistance in 1970. Of course, some of these companies that do not receive operating assistance do receive capital assistance. State-owned buses are provided for free to many of these carriers.

C. PUBLIC TRANSPORTATION: NEW OPPORTUNITIES AND NEW CHALLENGES

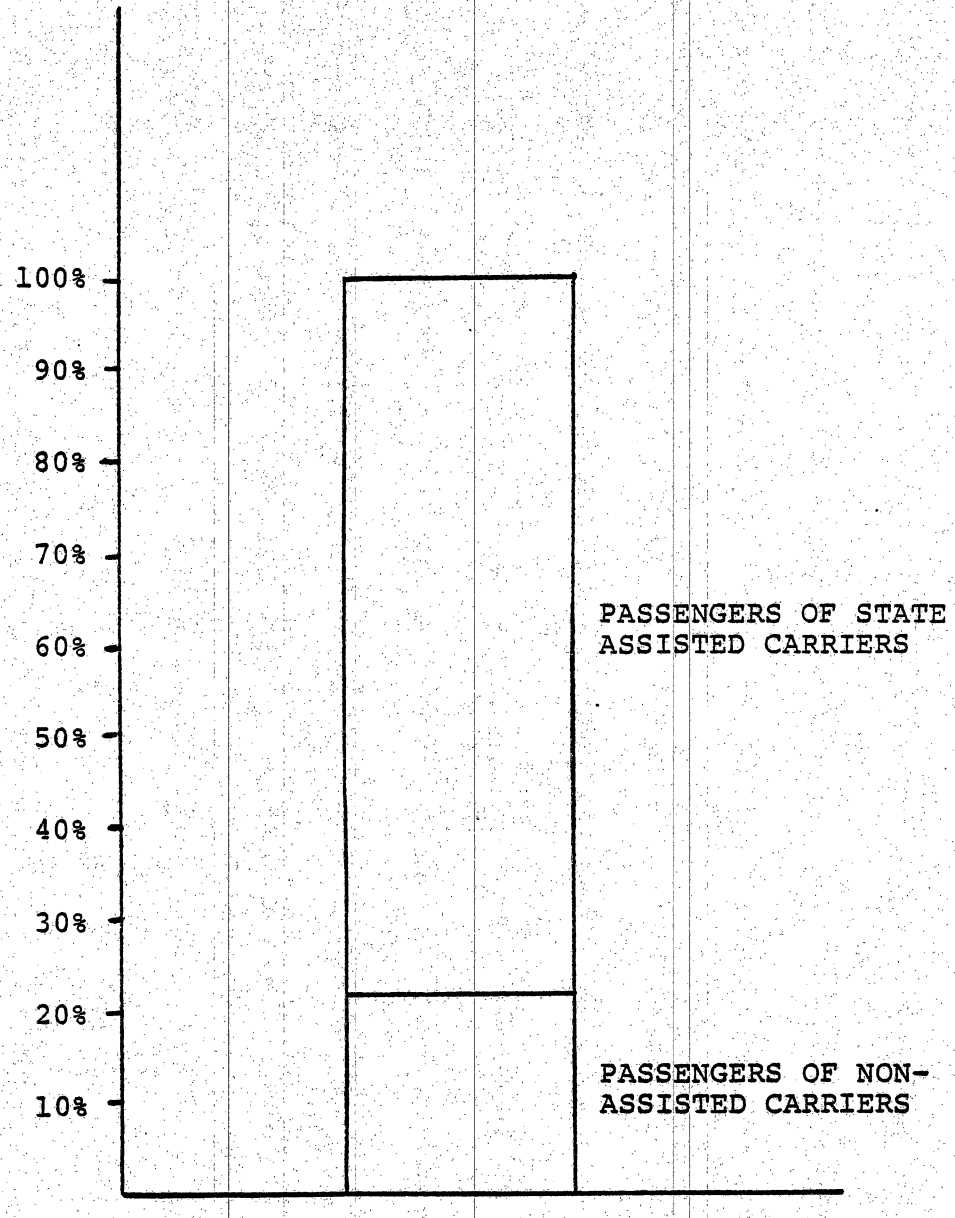
Concurrent with the vast alterations in the economics of public transportation has been a changing view of the societal role it fulfills. It is no longer merely a means of moving large numbers of people. Public transportation is now recognized as a vital public service, essential to the achievement of several critically related social goals.

Surely the main purpose of public transportation remains the movement of commuters, shoppers and others to their destinations. However, during the past decade, increasing concern with the consequences of complete reliance on the auto for the environment, for energy consumption, and for land use planning has added a new dimension to the "public" element of public transportation.

FIGURE 4

PERCENTAGE OF BUS PASSENGERS

CARRIED BY ASSISTED CARRIERS



The New Jersey Department of Energy, for example, is very concerned about the large share of energy consumed by transportation (30 percent) and about the even larger share of petroleum usage attributable to transportation (40 percent). Given this dependence on petroleum, the Department of Energy supports a strategy based upon the diversion of automobile trips to mass transit. It has therefore urged that "a basic public transportation network and level of service. . .be established and maintained."[3]

Further, the Clean Air Act Amendments of 1977 and subsequent federal guidelines vastly strengthen the requirements for integration of transportation and air quality planning. Jurisdictions which are unable to attain specific carbon monoxide and oxidant standards by 1982 must, by January 1979, evidence a commitment to "establish, expand or improve public transportation measures to meet basic transportation needs as expeditiously as practicable, and. . . use (insofar as necessary) available grants and funds" for such purposes.[4]

Finally, the important relationships between transportation, land use planning and urban development raise new issues which public policy makers cannot responsibly avoid. The significant interplay between those factors has only recently received serious attention in New Jersey and nationwide. New Jersey's central cities are in dire need of revitalization and redevelopment. An increased emphasis on public transportation can help create

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[3]New Jersey Department of Energy, Energy and the New Jersey Transportation System: Preliminary Policy Statement Prepared as Part of the Energy Master Plan, May 1978, p. 19.

[4]U.S. Environmental Protection Agency and U.S. Department of Transportation, "Transportation - Air Quality Planning Guidelines," June 1978, p. 11.

efficient and sensible land use patterns. Strengthened public transportation could play a key role in New Jersey's forward looking strategy of urban revitalization.

Thus, societal goals involving environmental protection, efficient land use, urban redevelopment and energy conservation have become intricately and inexorably linked to the traditional goals associated with the provision of public transportation services. It is no longer a responsible public policy to continue to operate bus transportation under an emergency and temporary program which was never designed to meet these important challenges.

D. A BRIEF DESCRIPTION OF THE CURRENT MOTOR BUS CONTRACT ASSISTANCE PROGRAM

1. Legal Context

Historically, in order for a motor bus carrier to provide services to the public, it must have had a "certificate of public convenience and necessity". These certificates are commonly called "operating rights" or "operating authority" and are now issued by the Interstate Commerce Commission (ICC) for interstate services and by the New Jersey Board of Public Utilities (BPU) for intrastate services. In a regulated industry, the certificates are used by the regulatory agencies to control competition and to safeguard the interest of the public and the carriers. In New Jersey, this regulatory scheme has resulted in a very complicated system with hundreds of carriers holding all different types of operating authority.

In 1969, the Legislature passed P.L. 1969, c.134[1] in response to the imminent cessation of subway service on the Newark City Subway and of feeder bus services to the Lindenwold High Speed Line. Pursuant to this statute, the Commuter Operating Agency of the New Jersey Department of Transportation (Agency) is authorized to contract with any motor bus carrier operating bus or rail transit services which are in imminent danger of terminating such services and to insure the continuation of that portion of such services which are deemed essential by the Agency. Payment by the Agency under a contract cannot exceed the actual cost to the carrier for providing such services and does not include any return

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[1] N.J.S.A. 27:1A-28.7 et seq.

on investment.

In addition to N.J.S.A. 27:1A-28.7 et seq., the Agency is authorized pursuant to N.J.S.A. 27:1A-19 to contract with motor bus carriers for passenger services which the Agency determines are necessary to provide or encourage adequate commuter or intercity bus service which would not otherwise be provided or made available without State assistance. Thus, the Agency is empowered to authorize certain additional intrastate bus services pursuant to contract, even if a carrier does not hold a certificate issued by the BPU. Payment by the Agency pursuant to this section is based on the actual cost of such service plus a six percent return on investment. The Agency generally contracts pursuant to this section only where other public agencies such as the Port Authority of New York and New Jersey and the New Jersey Department of Environmental Protection have agreed to fully fund certain special purpose bus services.

2. Administrative Context

The Agency's contract assistance program is administered by the Division of Commuter Services. The Division is headed by a Director who is charged with the duty of assisting the Assistant Commissioner for Public Transportation in the conduct of the work of the Agency. The Division currently has a staff of 150 persons, 42 of whom perform clerical duties. The Division is assisted in its duties by the Offices of the Director of Planning and Research, Director of Engineering and Operations, and Director of Administration in accordance with the Department's functional organization.

Historically, the Division handled the Agency contracts for rail passenger service and capital improvements with the various rail carriers in the State. It was not until the Agency contracted with Transport of

New Jersey for its entire operation in February 1974 that the Division's involvement in bus operations took on a significant role. The focus of the Division's contact with the bus carriers is the Bureau of Bus Operations which is organized and manned in accordance with Exhibit B. The 18 staff members of the bureau are responsible for monitoring the routes, services, facilities and equipment of the 22 subsidized carriers throughout the State.

The Department also owns 1637 buses, purchased with federal funds, which it leases rent free to 129 carriers throughout the State. The buses acquired with federal grants were distributed among carriers in order to reduce the average age of the bus fleet in the State. The leases require the carrier to use the buses in regular route passenger service and to maintain them in accordance with prescribed maintenance schedules and procedures. The Bureau of Bus Operations also has the responsibility for administering the 129 bus leases while six (6) inspectors in the Department's Bureau of Equipment monitor the maintenance of such buses.

III. IMPACTS OF THE CURRENT SYSTEM

The emergency statute enacted in 1969 was not designed as a permanent solution to New Jersey's bus problems, but as a temporary measure serving only until a master plan for bus transportation was developed the following year. No such plan was ever developed and the Agency has continued to operate pursuant to yearly extensions of the statute and without any clear, long-term mission or goals concerning the provision of motor bus regular route service. Because of this, the Agency has faced one bus crisis after another in recent years, so that the highest priority has been placed on merely preserving existing transit service and transit companies, rather than improving transit service in accordance with specific long term goals and objectives.

The following basic questions have thus remained unanswered:

-- How much public transportation should be provided?

-- Who should own and operate the transit services?

-- Who should pay for it?

-- How should the money be raised?

The effects of the current arrangement are readily apparent:

-- A cycle of declining ridership and increased costs, resulting in an unresolved financial morass in which carriers remain on the brink of bankruptcy.

-- Severe administrative problems resulting from the complexity of contracting with more than 20 private carriers.

-- Inability to enforce State or local government policy decisions.

-- Inherent conflicting interests between public and private goals and between the goals of subsidized and unsubsidized carriers.

A. AN UNRESOLVED FINANCIAL MORASS

1. Fiscal Procedures

Each spring, prior to the start of a new fiscal year, the Division of Commuter Services distributes applications for contract assistance to all bus carriers currently under contract and to any other carriers who have requested an application. Based on these applications, the carriers and the Division staff negotiate a contract for the fiscal year in an amount, a so-called "cap", above which the carrier will not be reimbursed. The cap provides the State's basic mechanism for maintaining fiscal control and assuring that program costs fall within the available funding level.

The contract includes provisions governing the monthly payment to the carrier, routes, fares, schedules, and facilities and equipment to be used in providing the service. The payments to the carrier, ridership, and costs are monitored by the use of quarterly reports. As noted earlier, the majority of these contracts are entered into pursuant to N.J.S.A. 27:1A-28.7 et seq. The carriers receive no return on their investment and depreciation is not recognized as an allowable expense.

At the conclusion of the fiscal year, a detailed audit is conducted of the carrier by the staff of the Division of Accounting and Auditing to insure that all the State's funds were spent in accordance with the contract. If it is determined that a carrier owes a repayment to the State because of an expenditure not authorized by the contract, the carrier has the right to appeal the decision of the auditors to the Director of the Division of Commuter Services for a final decision.

2. Voluntary Nature of Program

Under the current program, a carrier must voluntarily apply to the Agency for financial assistance and the Agency cannot force any carrier in

the State to accept financial assistance. Because a carrier's routes, fares, and schedules will be subject to Agency supervision, and the carrier's books will be audited and limitations placed on such crucial items as officer salaries, pension plans and expense accounts, many of the carriers have been reluctant to apply for financial assistance until they have no other choice. This, coupled with the statutory requirement that a carrier be in imminent danger of terminating service before it may qualify for financial assistance, has resulted in almost all of the carriers entering the program in debt and in poor financial condition.

Carriers are free to permit their contracts to expire and leave the program when they perceive such action to be in their best interests. Such decisions generally result in increased fares, decreased services to the public and overall uncertainty as to the scope and cost of services to be supported by the Agency.

3. Pre-existing Debts

Certain carriers, in an attempt to improve their operations or maintain them without Agency assistance, have incurred many debts prior to entering the financial assistance program. Of course, the State does not reimburse carriers for costs which are not related to their service contracts. Thus, the carrier, when faced with the necessity of paying such obligations, for which it is not being reimbursed, has three choices:

(1) fail to make payments on the debt principal and risk a lawsuit, foreclosure, or bankruptcy;

(2) use the owner's own personal funds to pay such principal; or

(3) use subsidy funds to make such payments.

Faced with the above choices, the carrier will generally use subsidy funds to make such payments. Upon audit, such unauthorized payments are

discovered and the carrier is ordered to repay such amount from its current subsidy. In order to continue to pay its debts and refund the overpayments, a carrier has two alternatives:

a) since the carrier has less money to fund its current operations because the money he owes the Agency is being reduced for past and unauthorized payments for pre-existing debts, he can cut back on expenditures in other areas of the business, such as bus maintenance and tire replacement. Obviously, such actions result in a poorer quality of service to the public; or

b) drop out of the current program and increase fares and decrease service in order to become profitable and/or pay off the debts and the overpayments owed the Agency.

The impact upon certain carriers of having to repay such unauthorized payments is set forth in the examples that follow:

a. Company A

Upon entering the operating assistance program, Company A had nearly a million dollars in debts which had been incurred prior to its entry, much of which resulted from the purchase of competing franchises for which the principals of the company were personally responsible if the company defaulted. After conducting audits, the State became aware that Company A had used state assistance to pay principal on these previous debts. The Agency notified Company A that the payment of principal on notes used for the purchase of franchises was not an allowable expense under the operating assistance program. The State then began to make significant deductions from Company A's Fiscal Years 1977 and 1978 operating assistance payments which resulted in further deterioration of the carrier's already low quality service. Presently, Company A still owes the Agency over $250,000. Consequently this company will drop out of the program

and attempt to become profitable in order to pay off its debts, including the amount it owes to the agency. This course of action will result in reduced service and higher fares.

b. Company B

Company B has a long history of reliable service to the public. It has an outstanding loan of approximately $1 million, the proceeds of which were used to purchase a number of new buses during a previous period when it was profitable. The assistance program prohibits the use of funds for payment of principal on a loan used for the purchase of equipment. In view of the carrier's relatively small operating loss and the ineligibility of the loan repayment for State funding, the company has ceased contracting with the Agency, raised its fares 20 percent, and has become marginally profitable. In addition, the carrier continues to attempt to abandon or transfer its two unprofitable intrastate routes in a proceeding before the BPU and has petitioned the ICC for permission to transfer one of its unprofitable interstate routes.

c. Company C

Company C entered the operating assistance program in 1975 after having experienced losses in excess of $400,000 prior to its entry. Although prior debts are not an allowable expense under the assistance program, the carrier used funds received from the Commuter Operating Agency during succeeding fiscal periods (Fiscal Years 1976 and 1977) to pay for these earlier debts since it had no other source of funds. This has resulted in the determination that Company C owes the Agency significant reimbursement for Fiscal Years 1976 and 1977, when these funds were being used to repay these prior losses. After appropriate deductions from current payments, Company C was left with insufficient funds for proper operation.

As a result of this and other problems, Company C significantly reduced maintenance of its vehicles. Engines were not overhauled, air conditioners were not maintained, and cosmetic repairs were eliminated. Further, Company C operated on unsafe tires, and at one point was almost closed down by the BPU due to its unsafe operating fleet. This situation has also resulted in a large increase in customer complaints about unsafe and unsatisfactory bus transportation. As a result of this situation, the Agency instituted a fleet improvement program which is estimated to cost approximately $360,000 by 1980.

4. Unauthorized Expenditures

The amount of a carrier's contract with the Agency and the monthly payments are essentially based on projections, estimates and reports by the carrier. In some cases, the audit conducted by the Division of Accounting and Auditing determines that the carrier has expended state funds for an item not authorized by the financial assistance contract. In most cases, these unauthorized expenditures are deducted from future financial assistance payments in accordance with a reasonable repayment schedule. However, in a few cases, the deduction to repay the money owed the Agency results in severe cash flow problems to the carrier.

It should be noted that the Agency corrects such problems in a timely fashion, after audits of the carriers expenditures. The audits performed by the Division of Accounting and Auditing reveal those expenditures which are not considered legitimate and reasonable business expenses and are therefore not allowable expenses under the financial assistance program. Examples include the following, all of which were disallowed:

Company D

This carrier purchased an archery set for the daughter of the owner, and fertilizer and seed for the owner's house.

Company E

This carrier, when it was under contract with the Agency, attempted to claim the following expenditures as allowable expenses:

(1) the cost of a color television set for one of the principals in the company;

(2) very high executive salaries for principals in the company who performed no work; and

(3) the expense of vacations for the principals and their families.

Companies F and G

These carriers have in the past paid unauthorized executive salaries.

Company H

This carrier has in the past attempted to claim many expenses as part of its expense account without any documentation.

As noted earlier, in most cases, any prior unauthorized expenditure is deducted from future financial assistance payments in accordance with a reasonable repayment schedule. However, there are a few cases which present greater difficulties. For example, Company I and Company J have gone out of business or declared bankruptcy owing the State a large amount of money and making collection doubtful. The danger of this happening again exists with other carriers which have few assets and which may be forced to go out of business while still owing the Agency money from prior years.

5. Underpayments -- Effect of Contract Caps

Under the current program, the Agency contracts with each carrier to provide certain services for the current fiscal year up to a certain amount. If a carrier spends more than the cap, the carrier is not reimbursed for such costs by the Agency. If a carrier spends less on legitimate expenditures than is allowed in the cap, it is, of course, not permitted to keep the difference. Thus, during the negotiation process,

it is in the interest of the carriers to estimate costs very accurately, or to overestimate their costs or underestimate their revenue in order to ensure that they do not incur any costs above the contract cap. If a carrier does not ensure that his contract cap is high enough, the carrier's financial condition is seriously worsened.

6. Depreciation, Return on Investment and the Attitude of Management

As previously noted, the Agency does not recognize depreciation as an allowable expense in the contract assistance program, and is prohibited by N.J.S.A. 27:1A-28.7 from paying any return on investment. This policy is based on two critical considerations. First, the Agency operates under perpetual fiscal constraints imposed by the annual appropriations process. Second, assuming carriers received depreciation payments and were required to re-invest such payments in equipment or facilities, it would be questionable public policy to pay for a carrier's private re-investment with State operating assistance dollars. This is especially true because almost all new investment in the bus industry is being made with 80 percent federal funding from the Urban Mass Transportation Administration (UMTA).

The carriers have maintained that such a system discourages new capital investment and efficient operations due to the lack of incentives for management. Because of the lack of such incentives and the fact that the Agency will reimburse them for all losses up to the cap in their contract, many of the present owners of subsidized bus carriers allege they have no incentive to run their companies efficiently.

For services contracted pursuant to N.J.S.A. 27:1A-19, the Agency must pay a six percent return on investment. Because of the poor financial condition of the bus industry in general and the lack of private investments in new equipment and facilities, there is no guarantee that this

return on investment will provide a sufficient incentive in most cases to motivate a carrier to provide essential bus services.

7. Treatment of Affiliates

Several of the carriers receiving financial assistance have separate corporations through which they engage in profitable regular route, charter, and/or school bus operations, some of which operate out of the same facilities as those subsidized. This has led in the past to carrier expenses being improperly charged to the financially assisted carriers. While the Agency has taken action to prevent such abuses in the future, it is difficult to prevent a carrier from benefiting, at least indirectly, from its affiliate carrier receiving financial assistance.

In addition, if an assisted carrier operates its regular routes, charter, special and school bus services out of one corporate entity, the profits from its profitable charter, special and school bus services are used to reduce the amount of financial assistance it receives. However, if by chance an assisted carrier operates its charter, special and school bus services out of a separate corporate entity, such profits are not used to reduce the amount paid to that carrier for its regular route operations. Thus, these carriers are treated differently based solely on the existence of separate corporations.

Recently, Company K, formerly a subsidized carrier, attempted to separate its profitable tour operations from its unprofitable regular route operations by transferring its charter operating rights to Company L, an affiliate corporation. After the Agency intervened in opposition to the transfer, Company K's petition to separate its operations was denied by the ICC on the grounds that:

(1) Company L was not financially fit and able to properly perform the charter and tour operations; and

(2) Company K would no longer be able to maintain the solvency of its regular route operations if the transfer were approved.

8. Dependence on Annual Appropriation

Each year the Division of Commuter Services prepares a budget request to fund the motor bus contract assistance program. That request is reviewed by the Department of Transportation and incorporated as part of the Department budget request. This request is in turn reviewed by the Treasury Department and the Legislature, and it is not until late in the fiscal year that the Division knows how much money will be available to fund the program for the next fiscal year. Thus the program is dependent on yearly appropriations and therefore subject to change as the result of the State's yearly fiscal problems.

B. PROBLEMS ARISING FROM THE EXISTENCE OF NUMEROUS PRIVATE CARRIERS

The Division of Commuter Services must deal with many private carriers. This results in the following problems:

1. Administrative Complexity

Separate contract negotiations, the preparation and processing of contracts and leases, and the processing of payments pursuant to such contracts result in an enormous amount of staff time being spent merely attempting to administer the program. In addition, the Division of Accounting and Auditing must spend hundreds of man hours in auditing the books of 22 separate carriers, and then the Division of Commuter Services must spend additional time in processing the appeals from the determinations of the auditors. There is no single point source for information. Under the present system, gathering the necessary financial information requires

teams of auditors traveling to carriers located throughout the State. Each case is a totally new auditing experience, burdened with the redundancies and delay inherent in such a system.

2. Inability to Insure Rationalized Service

Because of the numerous carriers operating in the State, the route system is very complicated and has never been thoroughly overhauled. Because each carrier controls its own operations and wishes to protect its "operating rights", the carriers have generally posed obstacles to rationalizing the present system to make it more efficient and to meet the demand for new and different services.

3. Duplicative Administrative Functions

Under the current program, all the carriers in the State must perform duplicative overhead functions of management and support, including executive management, accounts, purchases, payrolls and other general administration. These functions are currently performed at varying degrees of effectiveness. Clearly, there would not be a need to pay as many people executive officer level salaries if there were a more integrated and rational system. Also, there are significant opportunities, under a better arrangement, for more productivity in utilizing the middle level support personnel to improve vastly the efficiency of these functions.

Implementation of more productive support functions is impossible under a system which includes so many operators.

4. Inability to Monitor Operations and Maintenance

Proper service supervision is unachievable because the following conditions and/or programs do not exist in the context of the current system:

-- Central dispatching headquarters responsible for overcoming delays by modifying service and/or coordinating activities in the field.

-- Radio-controlled or automatic vehicle monitoring of service on the street.

-- Centralized control over the collection of data and categorization of statistics on delays.

In order to meet these conditions, each carrier would need to have its own radio dispatching headquarters, supervisory personnel, etc. The costs required to make such improvements would be expensive and still would not provide the type of coordination between services necessary for proper transportation operation.

Because the majority of the carriers are not in the assistance program and the Division has no other contact with them, proper administration of the bus lease program is impossible under the present circumstances. There are only 13 inspectors responsible for monitoring contract and lease compliance. This is not enough to monitor the maintenance and operations of 129 carriers at 81 garages and on 234 separate routes in order to insure that the buses are properly maintained by each carrier and that service to the public is being improved.

In addition, the newer buses are much more difficult to maintain than older buses and also require capital expenditures for the installation of new support equipment (different testing, diagnostic, and repair equipment to insure proper vehicle maintenance). Without the centralization of maintenance training and the specialization inherent in such larger units, new buses will not be properly maintained and the establishment of an

efficient, centralized maintenance function capable of meeting necessary standards of maintenance may prove extremely difficult in this multi-carrier setting.

5. Implications for Federal Funding

The existence of large numbers of carriers results in numerous problems for the Agency in developing applications for federal funding which are readily acceptable to UMTA for grant approval. Part of the difficulties arise in the development of carrier financial information for the year in which federal financial assistance is sought and for two prior fiscal years. Because the Agency must deal with a variety of carriers, there is no guarantee of consistency, conformity, or completeness in the financial records each individual company keeps.

In addition to financial reporting difficulties, there are serious problems in developing operational and civil rights information for applications filed for federal operating assistance under Section 5 of the UMT Act. While not entirely attributable to the large number of entities with which the State must deal, there is no question that the process is made more difficult by not having the information available from a single source. The development of equipment rosters, vehicle assignment records, load factor analyses, etc., must all be done in close cooperation with the various carriers, and is heavily dependent on their accurate and timely input. Additionally, the implementation of changes in UMTA procedures is made more cumbersome by the large number of carriers in the operating assistance program.

6. Accounting and Revenue Collection Problems

Currently, fare collection for carriers receiving operating assistance is accomplished on an individual basis by the 22 carriers receiving assistance in 1978. Each carrier must maintain, and the State must fund,

individual revenue collection and accounting systems and, as a result, economies of scale and improved revenue collection methods cannot be implemented.

Each carrier must also employ its own "vault pullers," revenue counters, appropriate accounting personnel, and delivery personnel. Further, separate revenue accounting systems with appropriate auditability are necessary. Unfortunately, this situation is further aggravated by the uneven quality and productivity of each carrier's individual system. For example, Company M utilizes an extremely antiquated "drop" fare box with no fare registration, Company N employs a family member to count revenue with no auditing function, and Company O uses a system in which the money counter, who is the unpaid mother of a company executive, performs without direct audit. Each of these examples is contrary to proper accounting methods with necessary checks and balances.

Another difficulty with individually-managed small bus companies is the necessity for maintaining separate accounting statements for other regulatory agencies. This results in carriers such as Company P and Company Q spending over thousands of dollars in operating assistance annually to maintain intercorporate accounting records for revenue emanating from an interline ticket arrangement. Even though the State provides assistance to both of these carriers, including full funding of their duplicative accounting system, the Agency cannot change this situation since the Interstate Commerce Commission requires separate corporate financial records.

Carriers receiving operating assistance generate approximately $110 million a year in revenue. The costs of accounting for this revenue are high and effectiveness is low as compared to that of singly-managed carriers of similar total size. Further, the State has less control over this

revenue than would be the case if it directly accounted for and managed its collection. If an improved and integrated system were available, many dollars could be saved through the centralization of fare collection support services.

7. Insurance

The American Public Transit Association (APTA), which is the transit industry's national spokesman, has issued a preliminary report instructing transit carriers on how to reduce their cost of insurance. The prime recommendation is that the industry units standardize their claims practices and risk management procedures. This will require a number of separate tasks including reforms in accident investigation, personnel selection, driver training and accounting procedures which must be presented to insurers to persuade them that the risks of loss are under control. Many of the smaller transit companies in New Jersey will not have the administrative capacity to meet these standards. Consequently, insurance costs will continue to escalate in New Jersey unless this aspect of public transit operations and management is centralized.

8. Inability to Implement Innovative Practices

Advanced techniques are now available for bus service scheduling which can improve productivity by cutting costs through review of bus route running times, passenger demand, and reduction of deadhead and layover time. With the exception of TNJ, no operator in the State could support or utilize advanced techniques due to insufficient size.

C. ENFORCEABILITY

The third major weakness of the current contract assistance program is the Agency's inability to enforce its operational policies. Under the current program, the Agency agrees to pay the carrier the differences between revenues and allowable costs. While the fares, routes, and schedules

of the carriers are subject to contractual control by the Agency, the Agency in reality has very little control over the operational policies of the carriers. Thus, the Agency is investing huge amounts of money to provide bus service and has no real control over how that service is provided. However, where the quality of such service is poor, the Agency is held accountable by the riding public. In the few cases where the carrier is responsive to Agency control over its operations, this reliance is in fact dependence; the carrier typically relies on the Bureau of Bus Operations for almost all decisions, even though the Agency is paying salaries to executives to manage and operate the company.

Theoretically, the Agency could merely refuse to pay a carrier until it complied with the Agency's directions. However, such a course of action cannot be followed in most cases because the carrier can choose to drop from the program or curtail its operations or seek to increase fares on the grounds that it does not have sufficient funds to provide the service. This, of course, results in inconvenience to the public and intense political pressure on the Agency to take some action to continue the present service or provide adequate substitute service.

1. Inability to Improve Management Capability

DOT approached the management of TNJ and indicated its belief that a management audit should be performed to identify areas of potential change at TNJ so that service to the public could be improved. DOT offered to underwrite the expense of this activity. TNJ refused to cooperate and is conducting its own management audit, utilizing its own funds. Although pressed strongly, TNJ has not allowed any meaningful State involvement. In light of the public's approximately $33 million FY 1978 contribution to TNJ's

budget, it is not in the taxpayer's interest for the State to exercise so little control over the company's management.

Instead of addressing issues of immediate importance, TNJ's unilateral efforts have so far produced a selective document for public consumption, stressing positive statistics but deferring analysis of the factors which affect TNJ's ability to serve the public.

The Bureau of Bus Operations has approached various managers at TNJ on several occasions to elicit proposals for improvements: Examples include:

a) To improve the contract negotiations process through the hiring of a number of analysts who could provide the State with information necessary to make more cost effective decisions, the Agency offered to underwrite the costs. TNJ objected on the grounds that this offer infringed on their management prerogatives;

b) The DOT has asked TNJ to provide an analysis of shortcomings in their management compensation system, in order to determine means of enhancing the system in a cost-effective manner. TNJ has not provided such analysis but has continued to make unsupported, across the board demands for increased compensation;

c) The carrier has been requested to make a proposal to enhance its operator training program in a cost effective manner. The carrier has not provided such analysis.

d) The DOT asked for a proposal to increase the size of the schedules department to provide for increased service scheduling productivity and service modification flexibility. The carrier has requested more personnel but has not submitted the analysis necessary to support the request.

2. Effect of Perpetual Threats of Discontinuance

Because of the absence of effective Agency sanctions, Agency-carrier

conflicts over operational and/or financial problems often result in carriers' threats of discontinuance. Such threats not only create short-term "crises" with which the Agency must deal, but also have long-term deleterious effects on ridership stability.

Because of financial disputes with the Agency, Manhattan Transit, Drogin, Asbury Park-New York Transit, and DeCamp Bus Lines decided that they would no longer contract for service. As a result, they plan to or have sought permission from regulatory agencies to reduce service and/or increase fares to the detriment of the public. In addition, both DeCamp and Plainfield Transit, Inc., have, in the past, discontinued intrastate bus service without complying with the proper discontinuance procedures. The carriers did not begin providing the service again until after a court ordered them to do so. Associated Bus Company has threatened to discontinue service, although they have not actually done so. These threats to discontinue service result in an excessive amount of staff time being spent in court and regulatory proceedings. Further, inasmuch as the Agency is held responsible by the public and its elected representatives, it must undertake the often difficult task of lining up substitute carriers to minimize the resulting inconvenience.

3. Inability to Effectuate Service Improvements

The Agency's efforts to make service-related improvements are often frustrated by the carrier's refusal to cooperate. The following examples are illustrative:

a. Company R

Company R is unresponsive to the State's attempts to reverse the errors made in the implementation of an immediate action plan. The plan had proposed a dramatic cut in service on Company R's most heavily utilized route. When this service was cut, a public outcry resulted, since the

service level became, in fact, inadequate.

The State attempted to resolve this problem by conducting a survey for the purpose of determining the appropriate level of service. Unfortunately, improvements were impossible at that time since Company R did not maintain its buses adequately, rendering one-third of its fleet inoperable. The Bureau of Bus Operations had promised to fund the additional costs associated with proper maintenance of the fleet, and had repeatedly pleaded with the carrier to hire additional maintenance personnel. The carrier refused to cooperate.

b. Small Operators' Refusal to Use Air-Conditioning

During calendar years 1976 and 1977, the State purchased 866 buses which were distributed to over 100 private bus carriers, only 22 of which are now under the assistance program. Since the time of the delivery of these buses, the Bureau of Bus Operations has received a large number of complaints regarding lack of air-conditioning on buses leased to some of the smaller operators. These particular carriers feel that it is a waste of their money to operate air-conditioners during the summer, either on their own buses or on State-owned buses. Although the State exerts constant pressure upon these carriers to operate their air-conditioners, they have refused to do so.

4. Inability to Insure Proper Maintenance

The Agency is constantly thwarted in its efforts to ensure proper maintenance of both State-owned and non-State-owned equipment. Even if sufficient manpower were available to monitor the maintenance of the State's buses, the Division has no real enforcement powers to insure compliance with the leases short of bus repossession. This course of action would result in a reduction in both the quantity and quality of service to the public and thus the Division is reluctant to repossess unless it has no other choice.

This inability to effectively monitor and enforce the requirements of the lease program, coupled with the fact that most of the carriers are in poor financial condition, results in certain carriers not spending the funds necessary to maintain the buses properly. The following examples are illustrative with respect to State-owned buses;

a. Company S

As a result of financial problems described earlier, Company S had significantly reduced the level of maintenance on its vehicles (engines were not overhauled, air conditioners were not maintained, cosmetic repairs were not made). Only through a special infusion of State aid and intense monitoring of the company's maintenance operations was this situation overcome.

b. Company T

Company T was leased six (6) State buses. Because of the carrier's poor financial condition, it was unable to properly maintain these buses and the Division was forced to repossess them. A preliminary estimate indicates that it will cost $18,000 to repair the buses.

c. Company U

The State receives numerous complaints regarding this company's maintenance and driver performance. The Agency's concerns have been explicitly transmitted to the carrier. The carrier, however, has not made any significant proposals to modify conditions which could be improved if management was so disposed.

5. Inability to Insure Proper Operator Training

Other than TNJ's efforts in training operators, there is little operator training actively conducted among assisted carriers. The absence of an effective operator training program leads to increased instances of operator discourtesy, failure to provide customer information, and failure

to follow safety rules. This results in complaints and accidents. Any attempt to implement such a program has met with the following obstacles:

-- Each carrier would require its own safety and training director and appropriate staff. The larger carriers would require, correspondingly, larger staffs. The costs to implement such duplicative programs, under the current assistance program, are not justifiable on a cost-effective basis.

-- Many carrier managements are not interested in this program and have actively resisted the implementation of any training and safety program. Unless the individual managements cooperate, any program would be a failure since the carrier, under the current program, must manage its own activities, with the State having little effective policy control over operations.

6. Unsystematic Response to Commuter Complaints

The fragmented nature of the New Jersey bus industry results in various standards of operation and qualities of management. Some operators wax the floors of their buses and conduct immaculate housecleaning on an extremely frequent basis, whereas other carriers do not properly maintain their buses and exhibit very little ability or knowledge concerning bus operations. As noted earlier, certain independent bus owner associations, in their desire to cut costs, refuse to operate air-conditioners or to clean windows and floors. The riding public does not understand why standards vary so greatly, and legitimate complaints result. Another problem contributing to unsatisfactory handling of complaints relates to the complicated framework in which the State's transit bus industry operates. Passenger complaints are directed to many different agencies and parties, including the carrier, its regulatory agencies (COA, BPU, or ICC), the State, the Governor, members of the Legislature, the counties, or the

municipalities. The public is frustrated because of its failure to identify the truly responsible agency or party, particularly when such failure results in an unsatisfactory response.

An Executive Reorganization Plan was introduced by the Governor in September 1978. This Plan will transfer the functions and duties of the BPU relating to rail and bus carriers to the Department of Transportation effective January 1, 1979. In addition, federal legislation has recently been enacted by Congress which would provide for a mechanism by which the Department could be granted jurisdiction over interstate bus fares and service by the ICC.

D. INHERENT CONFLICTING INTERESTS

The fourth major impact of the existing program relates to the inherent conflicting interests between public and private goals, between the subsidized and unsubsidized carriers, and between the individual private carriers whether subsidized or unsubsidized. The existence of these conflicts hinders the achievement of public objectives.

1. Regulatory Issues

The responsibilities of the BPU for regulation of motor bus carriers will be shifted to the New Jersey DOT as of January 1, 1979. The DOT will thenceforth continually face decisions on the proper fare levels for unsubsidized carriers. Increases in fares will be necessary for those carriers to continue their services, but fare increases may decrease public transportation ridership. The DOT's basic decision will be whether to allow the carrier to raise fares or cut service in order to stay out of the subsidy program, or whether to refer the matter to the Agency so that it may subsidize their passengers as it now does for 80 percent of public transportation users.

2. Conflicts Between the State's Desire to Keep Fares Low and the Financial Interests of the Unsubsidized Carriers

In certain areas of the State, limited competition currently exists between subsidized and non-subsidized carriers. The major conflict is that the interests of the Agency and the public in keeping fares low and in rationalizing service are at odds with the private economic interests of the carriers.

The Agency endeavors to provide the maximum amount of bus service at the lowest possible fare, while the private, non-subsidized bus carrier must increase fares and/or reduce service to meet increased costs and to maximize profits. These conflicts are inherent in the present system. The studied avoidance of any potential conflicts would be to the detriment of the riding public. Such a stance would place the interests of these carriers, who provide a very small proportion of services, ahead of the public's objectives in support of mass transportation.

Several examples of the conflicts between public goals and the financial interests of the private unsubsidized carriers include these:

a. Reduced Subway Fare

When the Agency reduced the fare on TNJ's Newark City Subway to encourage additional ridership, the South Orange Independent Bus Owners objected that the Agency was improperly using taxpayer dollars to divert riders from their buses to the subway.

b. Conrail Fares

Short Lines, Inc., Suburban Transit, Lakeland Bus Lines, and Asbury Park-New York Transit, all nonsubsidized interstate carriers, complain that the Agency allows Conrail to unfairly compete with them through its Agency contract which subsidizes commuter rail passengers by holding fares lower than the fares charged by the competing bus carriers.

c. Red & Tan Objection

When the Agency determined not to increase the fares of TNJ until October 1, 1978, Red & Tan Bus Lines, a non-subsidized interstate carrier, objected and alleged that the Agency was using taxpayer money to keep fares artificially low on competitive TNJ services, and was allowing TNJ to compete unfairly with a non-subsidized carrier which must increase its fares each year to meet increased costs.

3. Conflicts Between the State's Desire to Save Taxpayer Money and the Financial Interests of the Unsubsidized Carriers

The State could save money in the subsidy program by using the profit from some operations to offset losses from others. However, the unsubsidized carriers understandably resist the possibility that carriers assisted by the State will gain profitable routes and aggressively seek the right to operate these routes themselves. Thus, progressively the State falls heir to the unprofitable routes while many carriers "skim" profits from the whole transportation system.

a. Route 18 Dispute

In order to improve bus services in East Brunswick and to provide additional parking for riders, the Township established a Transportation Center on Route 18. With substantial public support, the Township contracted with the Suburban Transit Bus Company to run the Center and to provide a certain level of express bus service to New York City originating from that site. In addition, TNJ and Lincoln Transit were prohibited from providing service from the Center notwithstanding that their existing services, though originating elsewhere, do pass by the site. TNJ and Lincoln protested the award of temporary operating authority to Suburban by the ICC and also filed suit in State court alleging, among other things, that the Township violated the public contracts law when it bid and awarded the contract.

b. Skimming by IBOA's

Certain of the non-subsidized independent bus operators whose routes overlap with those of TNJ engage in "skimming" whereby they only provide service in the peak hours. Such practice is not in accordance with their published timetables and thereby diverts ridership from TNJ, which provides service in both peak and off-peak periods. The effect of this "skimming" results in increased public losses and inefficient duplication of services. TNJ and the State end up with reduced revenues from peak hour service. Such revenues are ordinarily relied upon to offset the losses attributed to off-peak hour service.

4. Conflicts Between Subsidized Carriers Because They Wish to Preserve Their Operating Rights

a. Competition

The private economic interests of different subsidized carriers also sometimes conflict, in these limited cases where there is some overlap in routes between two subsidized carriers. Although services are coordinated to a certain extent, conflicts still develop between the carriers. Such conflicts would not exist if only one carrier were on the line. However, each desires to preserve its operating rights as doing so may contribute to the value of the company.

b. Refusal to Coordinate Services

Passaic, like many other counties, has an active interest in public transportation service improvements and a competent staff which has developed many suggestions for service coordination in the public interest. However, even the most straightforward improvements in coordination will have differential impacts on the eleven private companies in the area. It is anticipated that neither the County nor the Agency will have enough leverage,

even over the carriers in the assistance program, to implement and enforce service coordination improvements which conflict with any of the carriers' private economic interests.

5. Resolution of Conflicts Among Carriers May Not Benefit the Public

Where a subsidized carrier such as TNJ competes with a non-subsidized carrier, the Agency is sometimes brought under heavy political pressure, organized by the unsubsidized carrier, to discontinue subsidizing TNJ and allow the non-subsidized carrier to provide all of the service. An example of this problem is the situation that formerly existed on South Orange Avenue between Maplewood and Newark's Penn Station. Previously, TNJ and the South Orange independent bus owners competed on a portion of this line. TNJ provided more extensive service along a route substantially similar to that of the independents. After a lengthy regulatory proceeding before the Agency and the Board of Public Utilities (BPU), the independents finally purchased TNJ's operating rights and are now providing all of the services on the line. This preference for the currently low cost independent carrier is not necessarily in the best interest of the riding public, because there is now less service available to the public. Also, this result raises the question of whether the State should consistently side with the applicant with the lower wage structure. With less service, higher fares, and worsening conditions, passengers might forsake the service and employment in the bus industry will drop further.

6. Complaints to UMTA about Low Fares

A few non-subsidized carriers recently filed a complaint with UMTA alleging that the Agency is violating Sections 3(e) and 4(a) of the UMT Act by failing to encourage and provide for the participation of private mass transportation companies in its transit program. Specifically, these carriers have alleged that the Agency, by providing operating assistance to

competing carriers operating at lower fares, is in some way condemning their property. While the Agency believes this complaint is without merit, it indicates the inherent conflict between private unsubsidized carriers and the Agency's policy to hold down fares.

Thus, while other public agencies which hold down fares have gained the support of the public and UMTA for these efforts, New Jersey has to fight a rear guard action to overcome objections whenever it makes such decisions in the public's interest.

IV. CONCLUSION

The existing program is administratively cumbersome, lacks incentives for improved efficiency and productivity, is resistant to any efforts to institute innovative management and service improvements and continues to grow more costly at an alarming rate without any assurance that the public is receiving a reasonable benefit for each dollar expended. Further, it is marked by seemingly endless financial and administrative crises which create an aura of instability. This itself further exacerbates commuter dissatisfaction and lack of confidence.

The Department of Transportation concludes that the existing program of contract assistance to motor bus carriers in New Jersey is woefully inadequate. The findings clearly indicate that the program has failed to meet the needs which public transportation must serve today, in the 1980's and beyond. While the emergency program enacted in 1969 may have sufficed as a short'term "bail-out" approach, it is clearly inappropriate as the basis for a sensible, forward-looking public transportation policy of the future.

EXHIBIT A

BUREAU OF BUS OPERATIONS

ORGANIZATION CHART

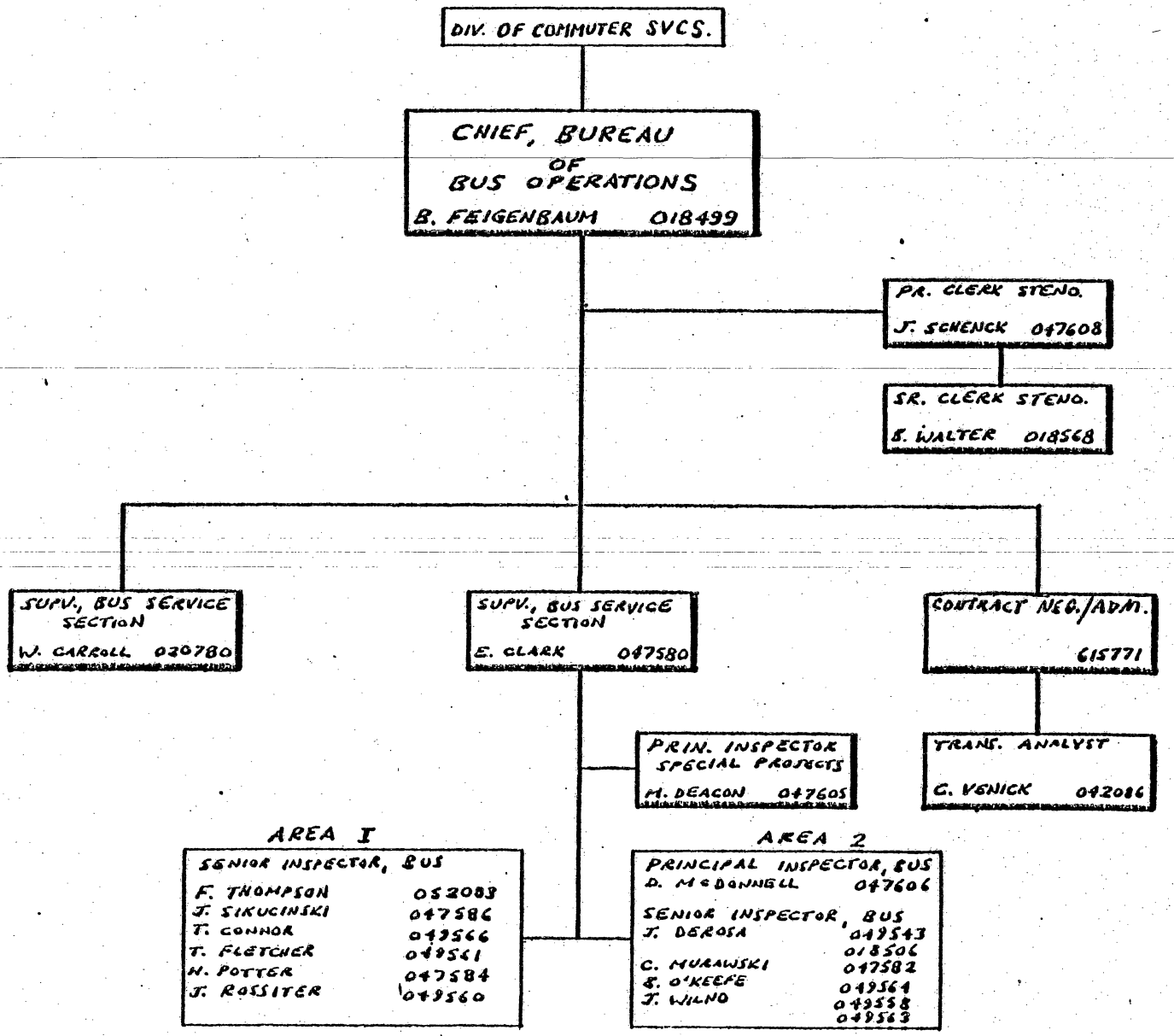


EXHIBIT B

FY '78 FINANCIAL ASSISTANCE TO BUS CARRIERS

STATUS REPORT: JANUARY 11, 1978

	FY '78 REQUEST	FY '78 NEGOTIATED	
Associated Bus Co.	$ 361,688	$ 330,984	
Atlantic City Transp.	1,282,913	1,241,502	
Bay View Bus Lines	313,085	305,300	
Boro Busses Co.	562,622	523,414	
Coast Cities Coaches	529,140	492,396	
Community Bus Lines	357,976	339,315	
DeCamp Bus Lines	975,052	288,088	
Delaware River Transp.	99,095	79,254	
Drogin Bus Companies	634,695	486,313	
Fairlawn Transp. Inc.	80,068	25,770	(A)
Garfield-Passaic Transit	304,258	160,529	
Hudson Bus Transp.	475,388	386,315	
Lincoln Transit	982,351	943,725	
Maplewood Equipment Co.	1,887,900	1,635,721	(B)
Mercer Metro Division	2,305,675	2,171,168	(E)
Middlesex Bus Co.	175,824	176,496	
N.Y.-Keansburg-Long Branch	600,489	522,207	
Passaic-Athenia Bus Co.	245,042	244,127	(C)
Plainfield Transit	140,612	150,462	
Salem County Transit	106,204	106,816	
Somerset Bus Co.	1,681,157	1,619,648	
Trackless Transit	918,418	941,220	(D)
Transport of New Jersey	37,878,400	35,498,499	
Watchung Mountain	542,516	522,965	
TOTAL	$ 53,440,568	$ 49,192,234	

Source: Bureau of Analysis and Statistics, Commuter Services Division

Notes:
(A) Partial year contract: January 1 to June 30, 1978
(B) Includes insurance escrow of $325,000
(C) Includes one-time payment of $2,071
(D) Includes one-time payment of $49,328
(E) Represents the State share only

EXHIBIT C

ASSISTANCE PAYMENTS TO BUS OPERATORS

	FY 1974	FY 1975	FY 1976*	FY 1977**	
Asbury Park-NY Trans. Corp.	150,000	$ 485,724	$ 439,928	$ -	
Associated Bus Co.	129,355	212,220	262,015	285,898	
Atlantic City Trans. Co.	570,000	720,437	898,862	1,038,664	
Baram/Rex (3)	-	84,926(a)	132,150	-	
Blue & White Bus Co.	-	44,544(a)	83,028	-	
Boro Busses Co.	266,640	318,648	500,818	510,389	
Coast Cities Coaches, Inc.	224,078	247,376	315,775	349,659	
Community Bus Lines	190,000	443,397	435,076	368,532	
DeCamp Bus Lines	-	242,460	122,561	214,131	(a)
Drogin Bus Co.	-	93,920(a)	426,704	409,290	
Garden State Coachways	85,885	74,567	44,255	33,393	(b)
Garfield & Passaic Trans. Co.	135,100	182,507	213,060	239,198	
Garfield-Passaic Bus Co.	50,000	-	-	-	
Hudson Bus Trans. Co. (3)	78,620	323,631	553,523	471,459	(a)
Jersey Bus, Inc. (1)	180,000	300,205	361,200	345,627	
Lincoln Transit	-	76,436(a)	807,820	564,481	
Manhattan Transit Co.	-	-	1,037,021	972,180	
Maplewood Equipment Co.	-	67,163(a)	665,000	1,423,033	
Marathon/Bayview/Amboy Coach	182,000	325,750	334,039	326,104	
Mercer Metro	150,000	1,452,712	1,743,254	1,793,598	
Middlesex Bus Co.	-	14,504(a)	70,663	151,800	
NY/Keansburg/Long Branch Bus Co.	99,364	325,030	540,272	654,563	
North Boulevard Trans. Co. (3)	-	68,496(a)	110,615	-	
Passaic-Athenia Bus Co.	108,346	143,279	236,886	247,038	
Plainfield Transit	58,891	90,696	111,068	108,526	
Rockland Coaches, Inc.	40,000	-	-	-	
Somerset Bus Co.	300,000	909,530	1,129,891	1,330,928	
Trackless Transit & Mountain Coaches & Graope Trans.	221,718	542,952	644,917	825,420	
Transport of New Jersey	8,225,521	18,899,212	26,200,000	30,230,000	
Watchung Mt. Transit (2)	68,021	80,337	97,386	121,403	
Albert F. Bauer	32,354	-	-	-	
TOTAL	$11,545,893	$26,770,659	$38,517,787	$43,015,314	

Source: Bureau of Analysis and Statistics, Commuter Services Division

Notes:
(1) Formerly known as Dovert-Mt. Hope-Picatinny Bus Lines
(2) Successor to Summit-New Providence Bus Lines
(3) Baram/Rex and No. Boulevard Trans. Co. merged into Hudson Bus Trans.Co. as of FY 1977.
(a) Partial year contract
(b) Contract under litigation
* Under appeal
** Unaudited

COMPARISONS OF

TNJ

AND OTHER LARGE BUS OPERATIONS

January 9, 1979

CONTENTS

TNJ PROFILE

- Number of Employees

operators	2017
others	1474
Total	3491

- Number of Buses

active buses	1582
peak buses	1129

- FY 78 Data

Expenses (without depreciation)	$98.5 million
Deficit (without depreciation)	$33.7 million
Total Passengers (Line)	109.3 million
Deficit per Passenger	$ .31
Miles of Line Service	49.3 million
Deficit per Mile	$ .63

- Comparative Ridership Data:

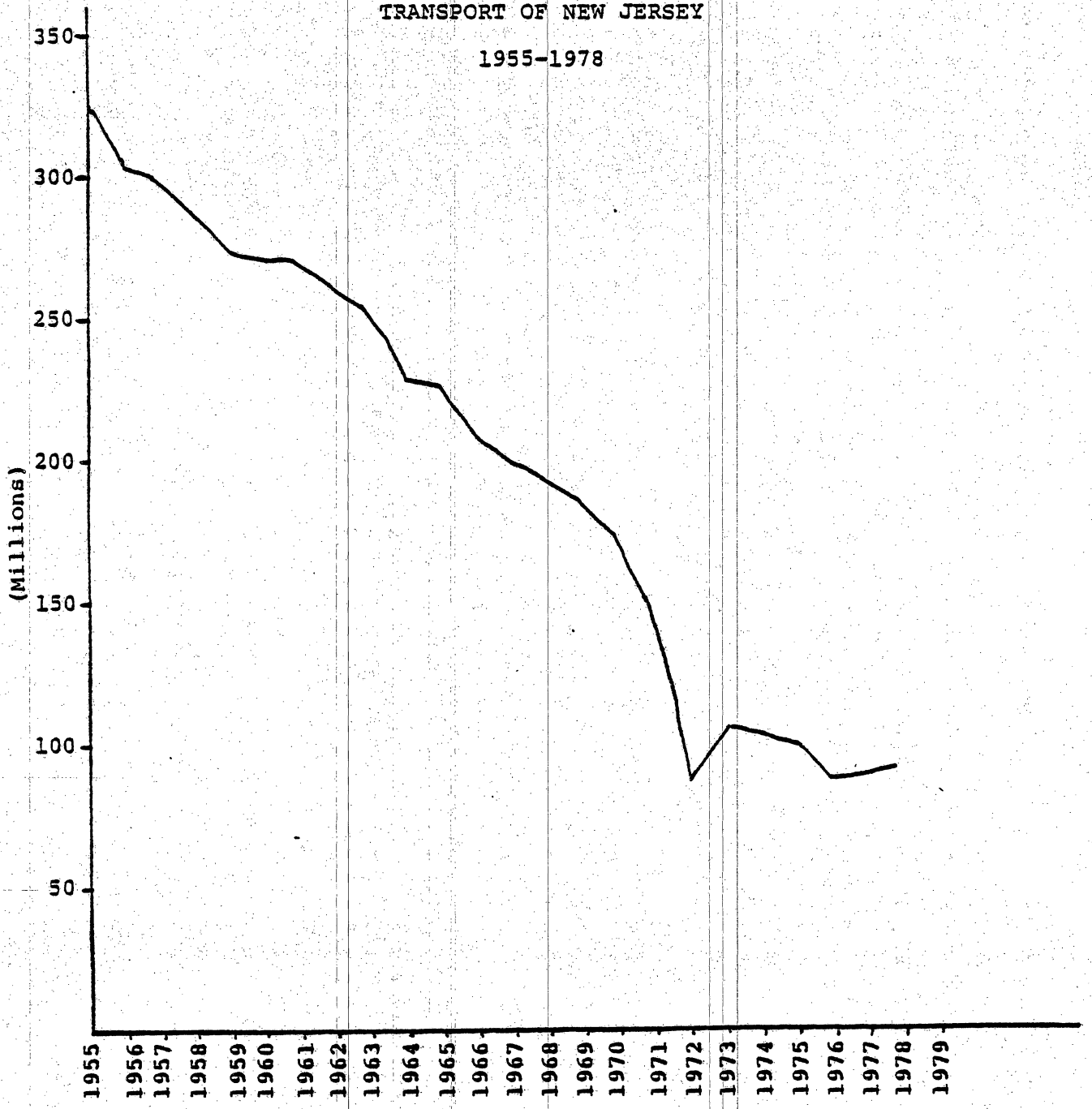
Calendar Year	Revenue Passengers
1960	271.0 million
1965	216.0
1970	172.9
1975	101.2
1976	85.5*
1977	90.1
1978 (projected)	94.6

* strike

REVENUE PASSENGERS

TRANSPORT OF NEW JERSEY

1955-1978



Introduction

Transport of New Jersey (TNJ) is the most important supplier of public transportation in the State of New Jersey. TNJ carries almost three times as many passengers as the State's commuter railroads, and more regular route passengers than all the rest of the State's bus carriers combined. TNJ performs many functions to a much higher standard than other New Jersey bus operators.

In the analysis presented here, factual comparisons are shown between TNJ and other large bus carriers. These comparisons were prepared in order to help judge where New Jersey's operations compare favorably with other carriers, and where there may be opportunities for improvements. No attempt was made here to be selective about the measures used, or to highlight either the positive or the negative aspects of any carrier's operations. Data was not manipulated in a manner which would hide how any two systems actually compare. The actual data for each carrier is shown, so nobody is compared to "averages" which are weighted heavily by the very largest opertors (e.g., Chicago, New York and Los Angeles). TNJ's data is from public reports and is fully comparable with data from the other carriers.

The only possible conclusions from all this data is that TNJ performs, on average, similarly to the other large carriers, based upon the kinds of service it provides. No claims for any great superiority or inferiority of TNJ can be supported on the basis of all this information.

This is not surprising, since all these systems face essentially the same kinds of market forces. Neither public or private ownership matters much for the determination of costs, efficiencies, or productivity. Labor costs, fuel costs, and passenger response to service and fares are the most important determinants of transit performance, and don't vary by type of ownership.

The comparisons of various bus systems can only be summarized in terms of what kinds of figures the State would prefer to see for TNJ in comparison to other operators. In these terms, the State's preferences are these:

We would prefer:

Lower subsidies per passenger
Lower costs per passenger
Lower fares per passenger
Higher revenues as proportion of costs
Growth in passengers served
Stable or growing service levels
Lower costs per mile of operation
Higher speeds
Lower costs per hour of operation
Higher passenger loads
Fewer employees per peak bus
Fewer operators per peak bus
More miles per gallon of diesel fuel
Lower maintenance costs per mile
Lower maintenance costs per hour
More operators compared to support staff
More labor expense in service delivery than in support functions
Higher miles per gallon of lubricating oil

Table I shows how many of the other bus systems show better or preferred performance in comparison to TNJ, and how many show worse or similar performance. On two-thirds of the direct comparisons, TNJ's performance is not better than or preferable to the performance of the other carriers.

Table 2 shows how TNJ's experience in controlling costs compares with the experience of the other large bus systems. The cost increases experienced by TNJ since the interim assistance program began are comparable to those of other large bus systems, whether measured in absolute terms or in terms of percentage cost increases.

TABLE 1

COMPARISONS OF THE PERFORMANCE OF TNJ AND OTHER LARGE BUS SYSTEMS

Indicator	Cases in Which Other Systems are better than TNJ	Cases in Which Other Systems are Worse or Same as TNJ
Subsidy per Passenger	7	6
Cost per Passenger	10	1
Fares	13	0
Revenue/Costs	2	12
Passenger Growth	12	0
Service Stability	12	0
Cost/Mile	5	10
Speed	2	11
Cost/Hour	11	2
Passenger Loads	12	0
Employees/Peak Bus	9	3
Operators/Peak Bus	6	5
MPG/Fuel	0	13
Maintenance Cost/Mile	8	4
Maintenance Cost/Hour	10	1
Operators/Total Staff	12	1
Operators Pay/Total Pay	8	4
MPG/Lubricating Oil	7	2
Total Cases	146	75

Conclusion: On two-thirds of the comparisons with other systems, TNJ's performance is not better or preferable to the performance of the other carrier.

TABLE 2

COMPARISONS OF COST INCREASES FOR TNJ AND OTHER LARGE BUS SYSTEMS

Trend in Costs (since 1970)	Cases in Which Other Systems Are Better Than TNJ	Cases in Which Other Systems Are Same or Worse Than TNJ
Change in Costs per Mile	5	8
Percent Change in Costs per Mile	6	7
Change in Costs per Hour	8	2
Percent Change in Cost per Hour	6	4
Change in Costs per Passenger	7	1
Percent Change in Costs per Passenger	4	4
Total Cases	36	26

Conclusion: TNJ's experience with cost control is average- no better than other large bus systems, all of which are publicly owned.

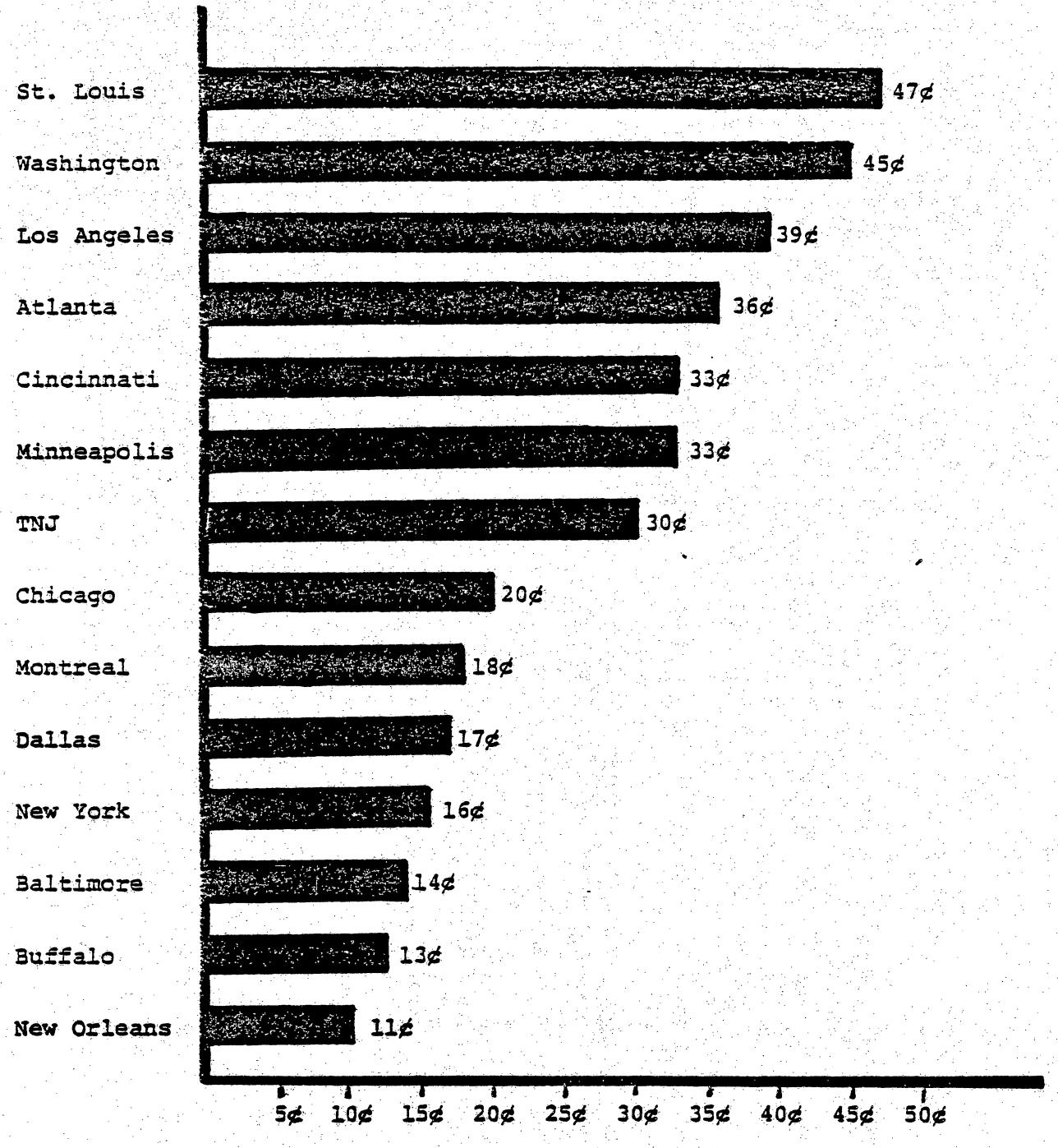
IV. ANALYTICAL DATA

Subsidy Per Passenger

Table 3 shows the subsidy per total passenger for large bus systems for which data is available. TNJ was average in subsidy per passenger for 1976, at about 30¢. Six areas had higher subsidies and seven had lower subsidies. These figures illustrate the basic level of support being provided by governments to public transportation.

TABLE 3

SUBSIDY PER PASSENGER 1976



Subsidy per Total Passenger

National Average 25¢

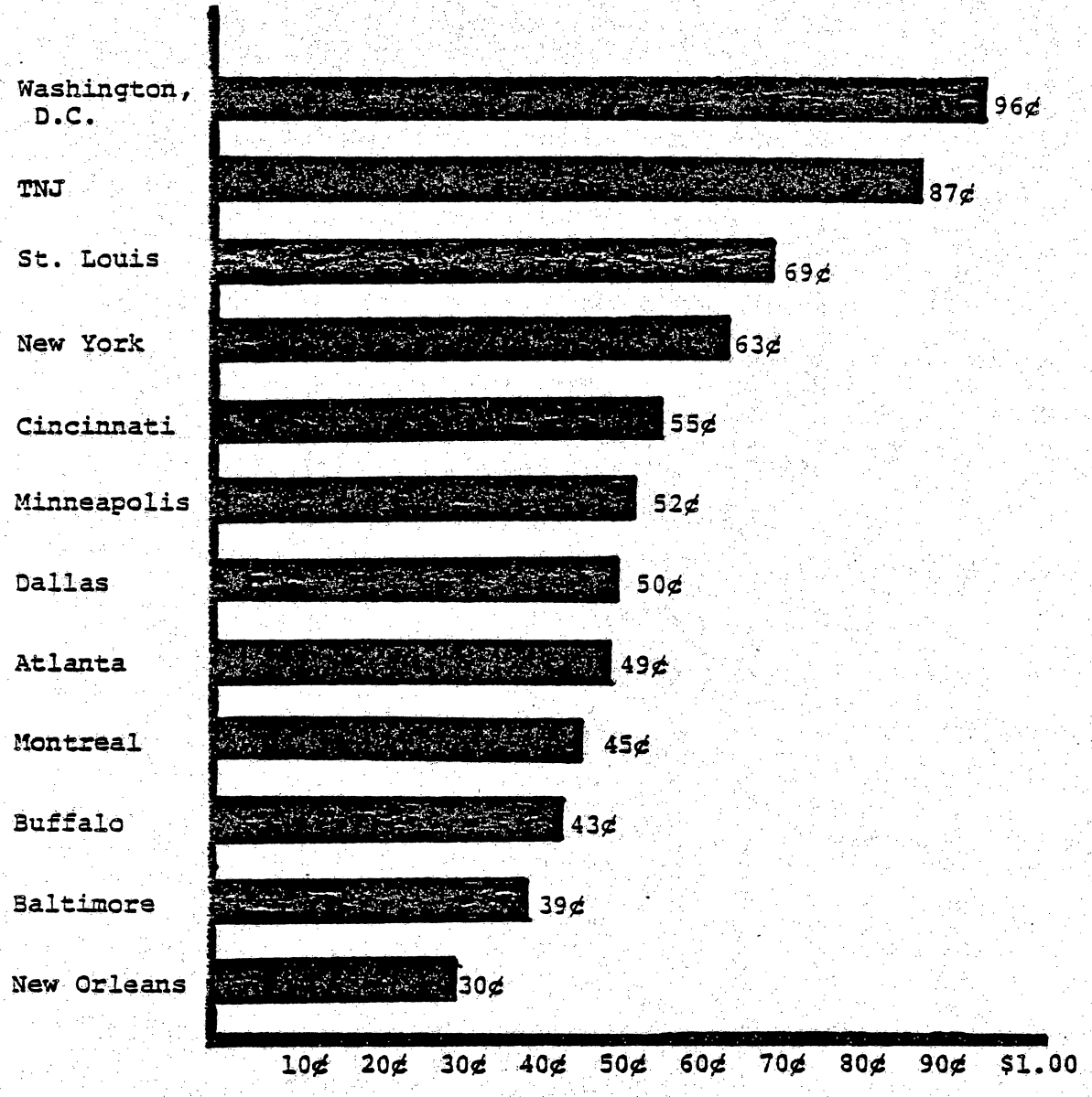
Operating Expense per Passenger

Table 4 shows total 1976 operating expenses per bus passenger for large bus systems. Only one other system, Washington, D.C., has higher costs per bus passenger than TNJ. All the other systems have much lower per passenger costs than these two. Washington, D.C. and TNJ each have substantial long distance commuter services, which account for their high costs on a per passenger basis. Many of the other systems have much lower fares, and attract more short distance trips, with lower costs per passenger. Thus, ten of the systems are below TNJ in cost per passenger.

TABLE 4

OPERATING COSTS

PER PASSENGER 1976



Average Fare Per Passenger

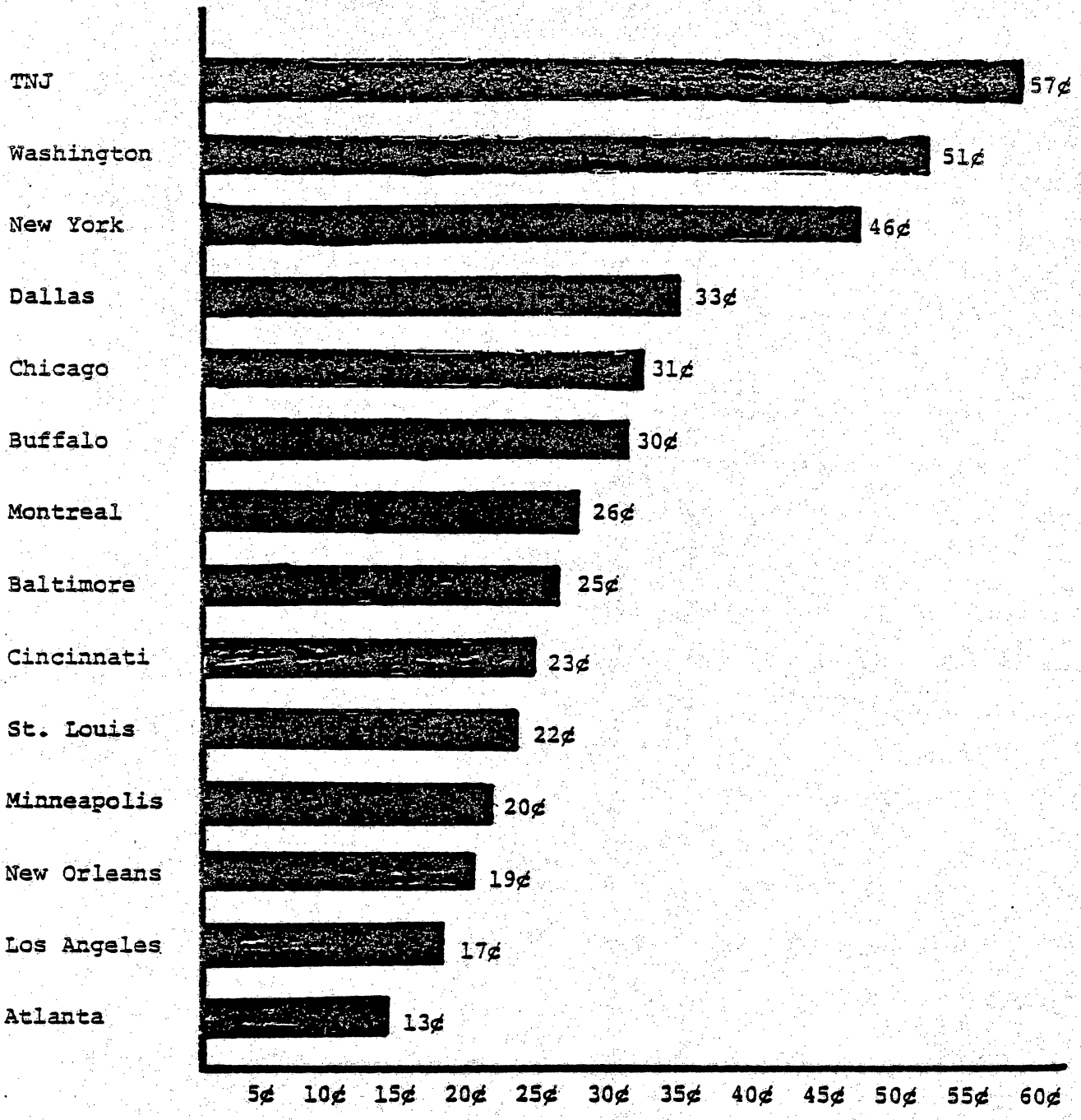
Table 5 shows the average fare paid per total passenger. Since some passengers ride for free or use free transfers, the average fare paying passenger will generally pay slightly more on each system than is shown here.

Once again, TNJ and Washington, D.C. have the two highest figures, and are the only bus systems with average fares of over 50¢ per passenger. Both these systems have long distance commuter services for which passengers pay a much higher tariff than for the one-zone base fare.

Most bus systems pursue a public policy of keeping fares low, as reflected in the fact that the majority collect less than 30¢ per passenger, and only three -- TNJ, Washington, D.C., and New York - collected more than 40¢ per passenger. Fares and subsidies can, of course, be varied in differing percentages to make up each system's total cost per passenger.

Thirteen systems had lower fares than TNJ, and none were higher.

TABLE 5



AVERAGE FARE PAID

PER PASSENGER-1976

Operating Ratio

Table 6 shows the ratio of operating revenues to operating expenses. This statistic reflects each jurisdiction's public policy decision on how great a proportion of transit expenses should come from the farebox and how much from operating assistance. The variation is quite wide, from New York, which gets 3/4 of its bus operating expenses from the fare box, to Atlanta, which chooses to raise only one-quarter of its expenses from fares. Fares in Atlanta averaged only 13¢ per passenger during this period.

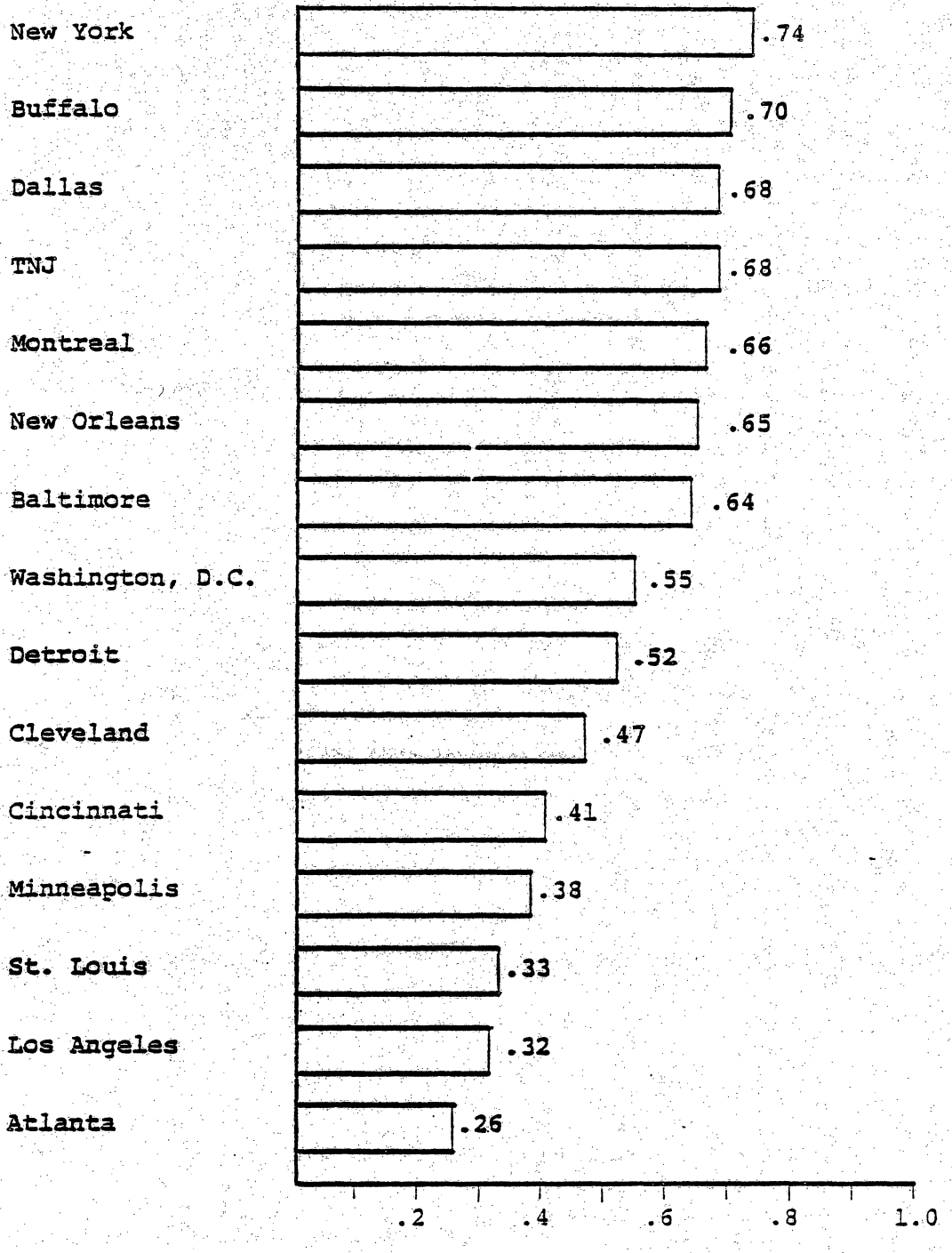
TNJ picked up a relatively high portion of total costs, 68 percent, of its operating expenses from the farebox. This reflected New Jersey's basic policy decisions on fares vs. subsidy levels. With the recent fare increases, New Jersey has continued its policy of raising a relatively higher percentage of expenses out of the farebox. Nevertheless, the percentage of TNJ expenses paid out of public assistance has risen since calendar year 1976.

Two systems had higher operating ratios than TNJ, one was similar, and eleven were lower.

TABLE 6

OPERATING RATIO 1976

FARE REVENUE/EXPENSE



Passengers Served

On measures related to preserving and enhancing public transportation ridership, TNJ has performed far worse than any other large bus system. All of TNJ's disastrous loss of ridership relative to other systems occurred prior to its full entry into the State's assistance program in 1974.

The magnitude of TNJ's passenger losses compared to other bus systems is absolutely staggering. TNJ used to carry 5.3 percent of the nation's bus passengers in 1960. By the mid 1970's, TNJ's proportion of bus passengers carried had dropped to 2 percent. Thus, relative to the average around the country, TNJ carried 2-1/2 times fewer passengers by the mid 1970's.

Further perspective on this incredible decline in passengers can be gained by comparing TNJ to other systems in terms of ridership trends between 1960 and the mid 1970's. No other system was even close to TNJ in losing passengers. In fact, the worst other experience in the nation was still 37 percent better than TNJ's ridership experience.

Table 7 shows the percentage by which the other carriers were superior to TNJ in ridership trends from 1960 to the present.

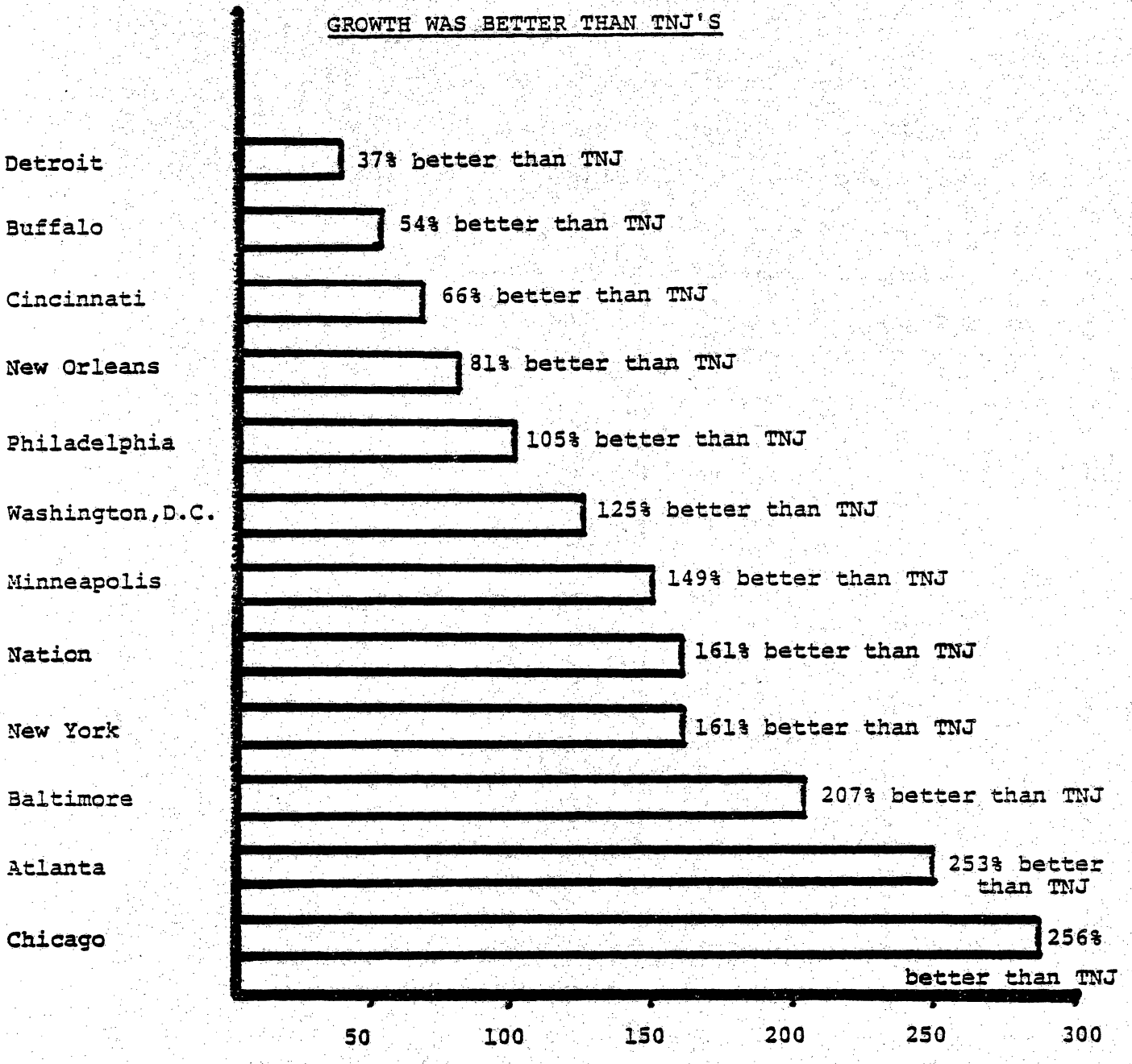
TABLE 7

PASSENGERS SERVED:

AMOUNT BY WHICH

EACH OTHER SYSTEM'S

GROWTH WAS BETTER THAN TNJ'S

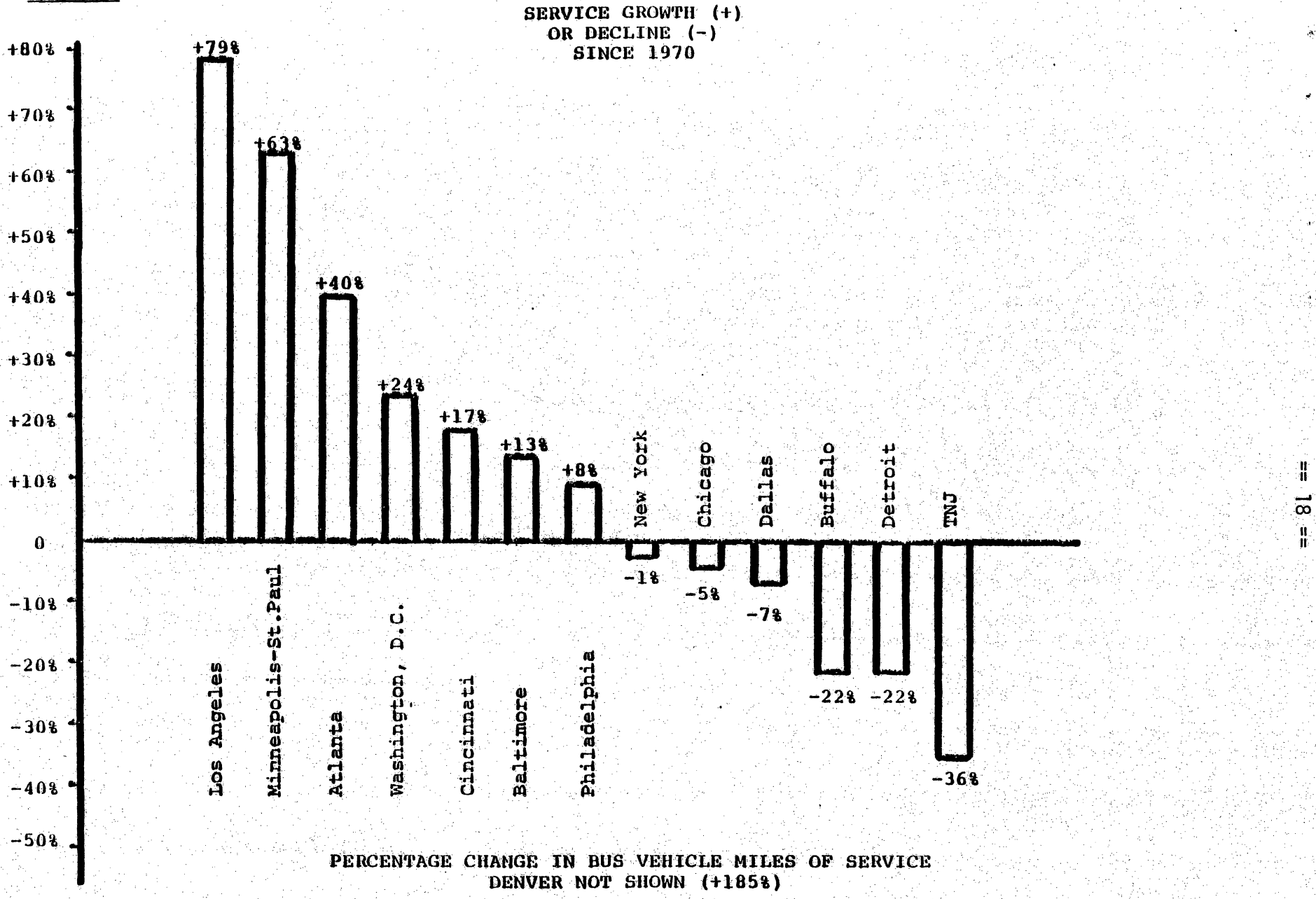


PERCENTAGE BY WHICH RIDERSHIP GROWTH SINCE 1960
WAS BETTER THAN TNJ'S RIDERSHIP RESULTS

Service

Table 8 shows service changes by major bus systems during the 1970's. TNJ decreased service by a larger percentage than any of the other systems. Virtually all of the service decrease occurred prior to 1974 when all of TNJ's routes went on the State's assistance program. Since 1974, the infusion of state support has stabilized service levels.

TABLE 8


SERVICE GROWTH (+)
OR DECLINE (-)
SINCE 1970
+80%
+70%
+60%
+50%
+40%
+30%
+20%
+10%
0
-10%
-20%
-30%
-40%
-50%
+79%
+63%
+40%
+24%
+17%
+13%
+8%
-1%
-5%
-7%
-22%
-22%
-36%
Los Angeles
Minneapolis-St.Paul
Atlanta
Washington, D.C.
Cincinnati
Baltimore
Philadelphia
New York
Chicago
Dallas
Buffalo
Detroit
TNJ
PERCENTAGE CHANGE IN BUS VEHICLE MILES OF SERVICE
DENVER NOT SHOWN (+185%)

Operating Expense per Mile

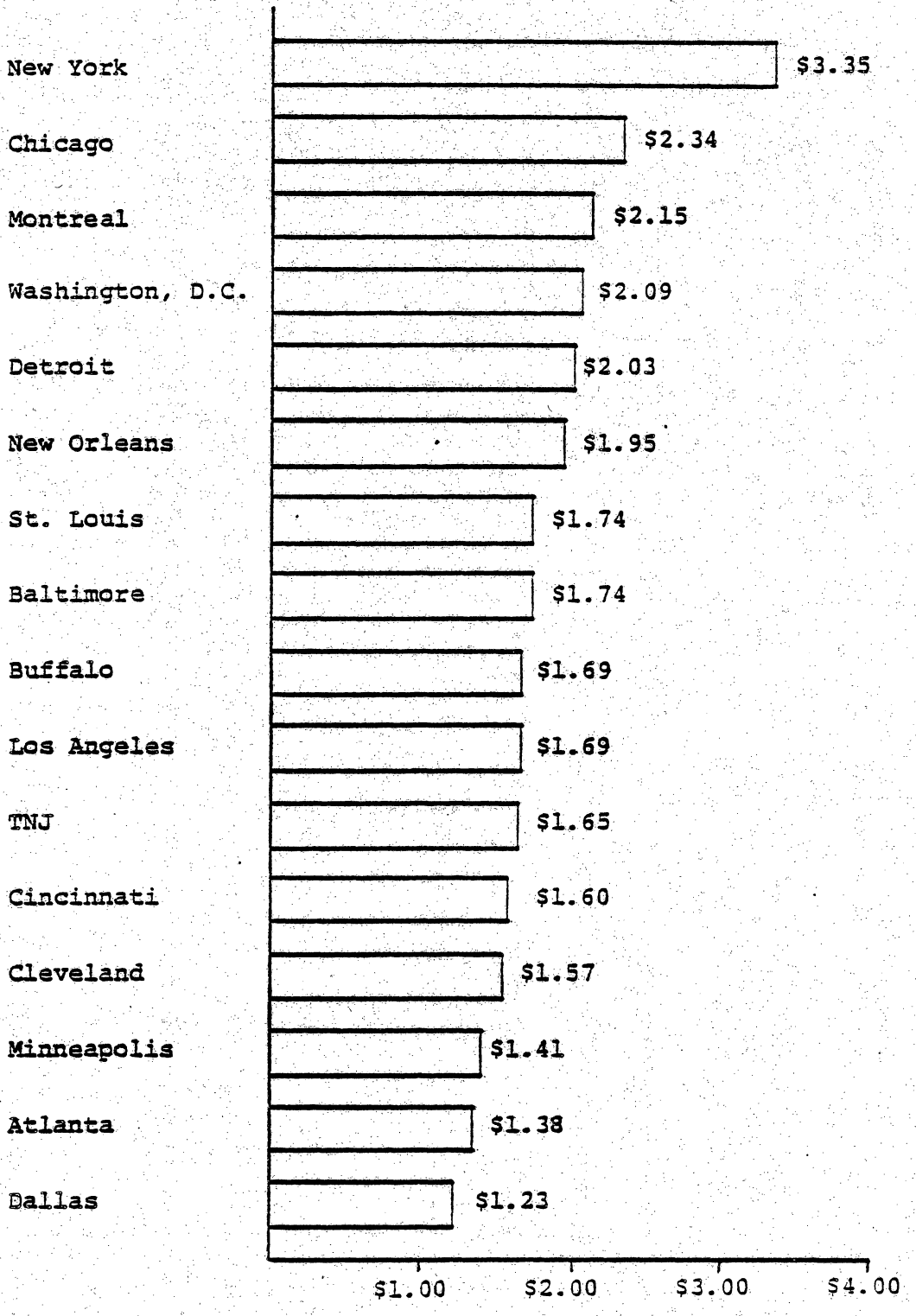
Table 9 shows operating expenses per total bus mile in 1976. Generally, systems which operate in more congested older cities will have higher expenses per mile because operating speeds are very low. This is true for New York which has by far the lowest operating speed, and for most other older cities. TNJ is slightly better than the median in cost per mile, reflecting the substantial high speed long distance commuter service in New Jersey.

Ten systems had higher costs per mile than TNJ, and five were lower.

TABLE 9

OPERATING EXPENSE

PER MILE 1976



Bus Speeds

Table 10 shows bus miles per bus hour for the large systems analyzed. The range is significant between Atlanta, which operates at an average of 14.77 miles per hour over a relatively uncongested street and freeway network, to New York, where the New York City Transit Authority buses operate only within the congested area of the city itself.

TNJ has relatively high speed service, reflecting the large proportion of miles operated by express services to New York City. Other systems in northeastern areas tend to have lower average speeds, reflective of the proportion of their services within congested inner-city neighborhoods. Two systems have higher average speeds than TNJ, while eleven have lower speeds.

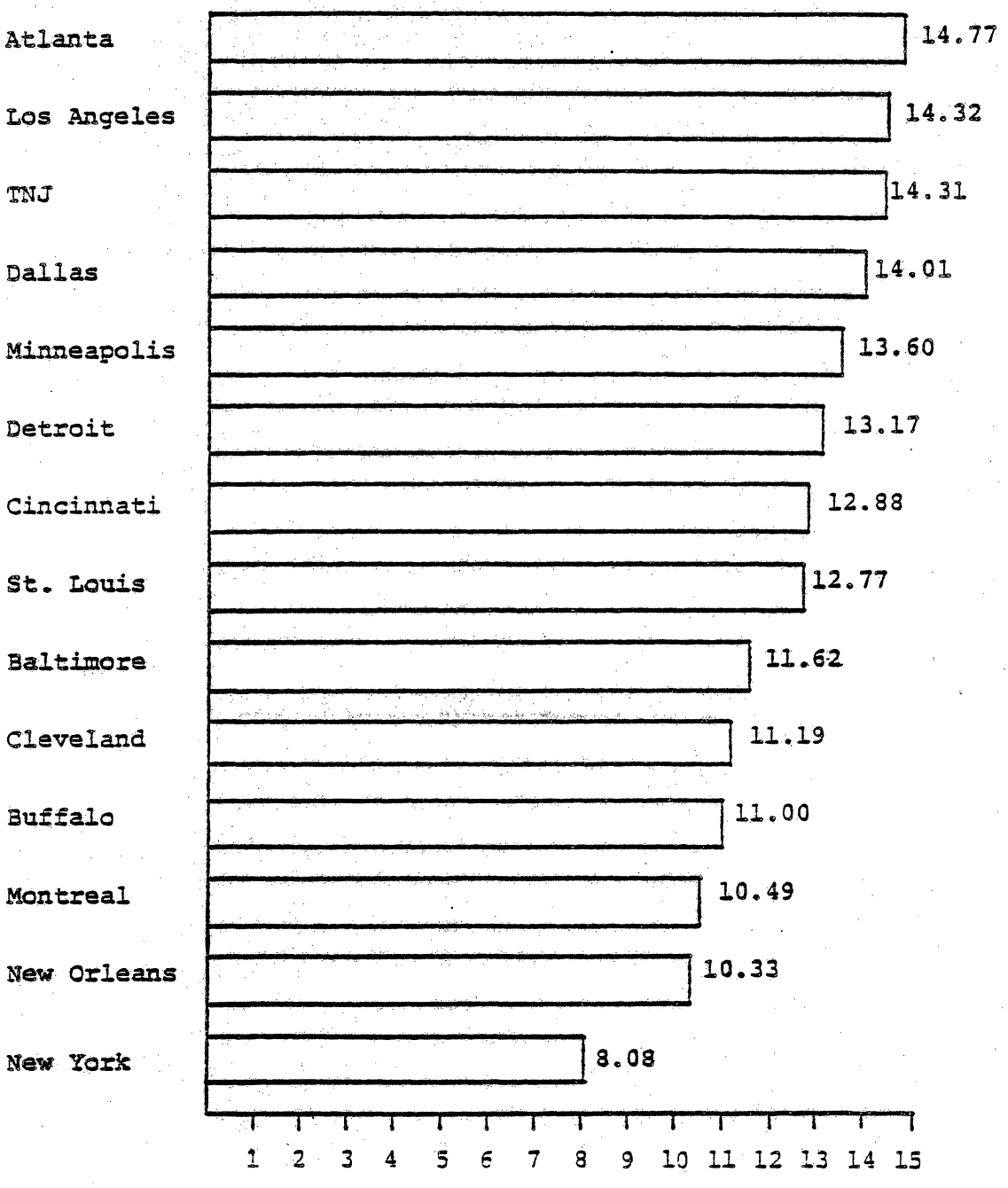
Because of high speeds, most TNJ statistics compiled on a per-mile basis should compare favorably to those of other systems. Without data on a per-hour or per-passenger basis, little can be concluded from comparisons between high speed and low speed bus systems.

TABLE 10

AVERAGE BUS SPEEDS

MILES PER HOUR

1976



Operating Expenses Per Hour

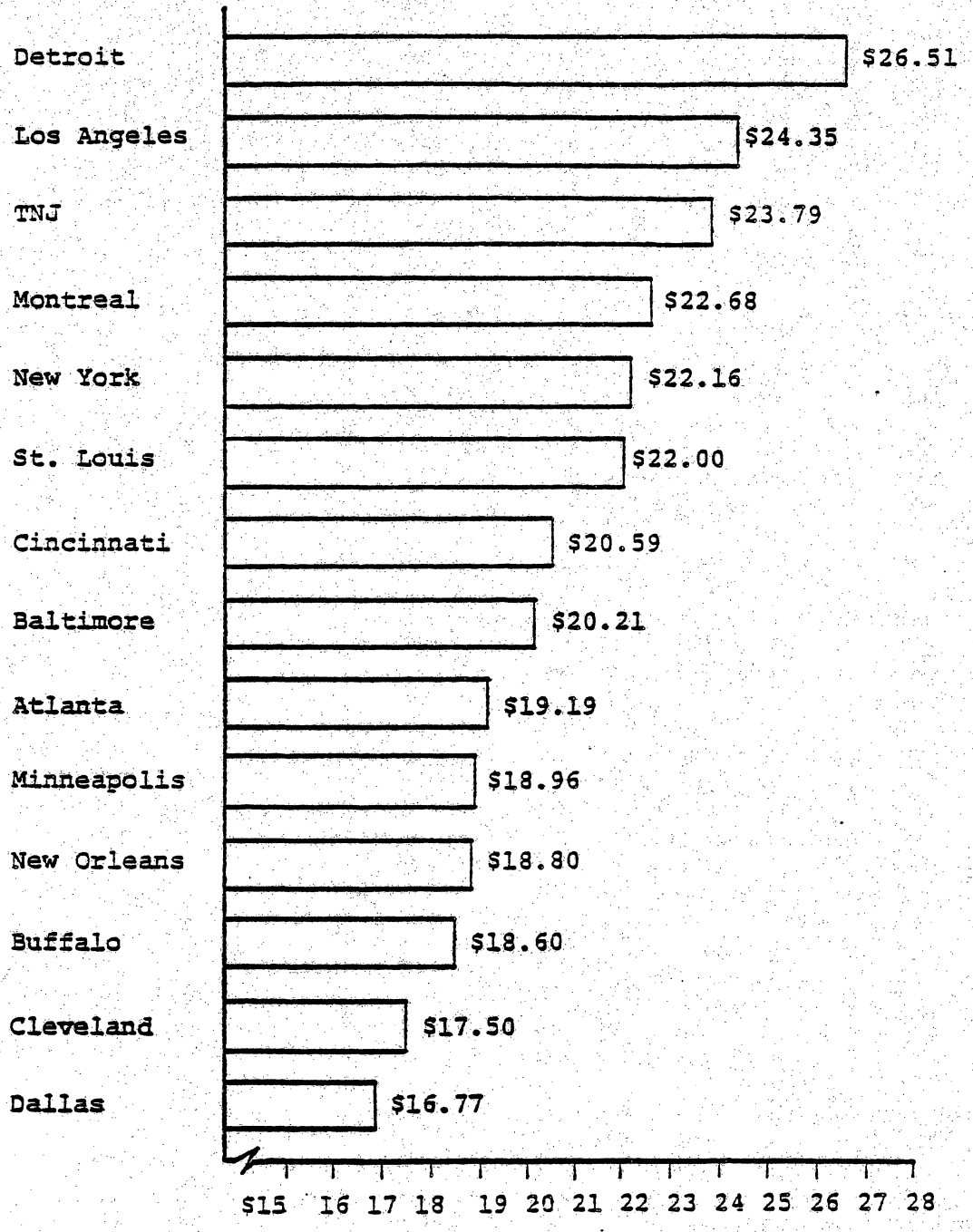
Operating expenses per bus hour are shown in the following chart. Most costs of bus operation depend upon hours. TNJ's costs on a per-hour basis are relatively high, reflective of the high average speeds of TNJ operations, which include a large amount of long distance commuter services. Only Atlanta and Los Angeles have higher average speeds than TNJ. Los Angeles has higher costs per bus hour than TNJ, while Atlanta's costs per hour are below the median.

Two systems have higher costs per hour than TNJ, while eleven had lower costs.

TABLE 11

OPERATING EXPENSE

PER BUS HOUR 1976



Passengers per Vehicle Mile

Table 12 shows passengers per vehicle mile, a statistic which reflects the intensity of passenger usage but which is also very strongly influenced by average trip distance. While TNJ's is the lowest, this does not reflect poor ridership results but the fact that much of TNJ's remaining service in 1976 was for long distance commuting.

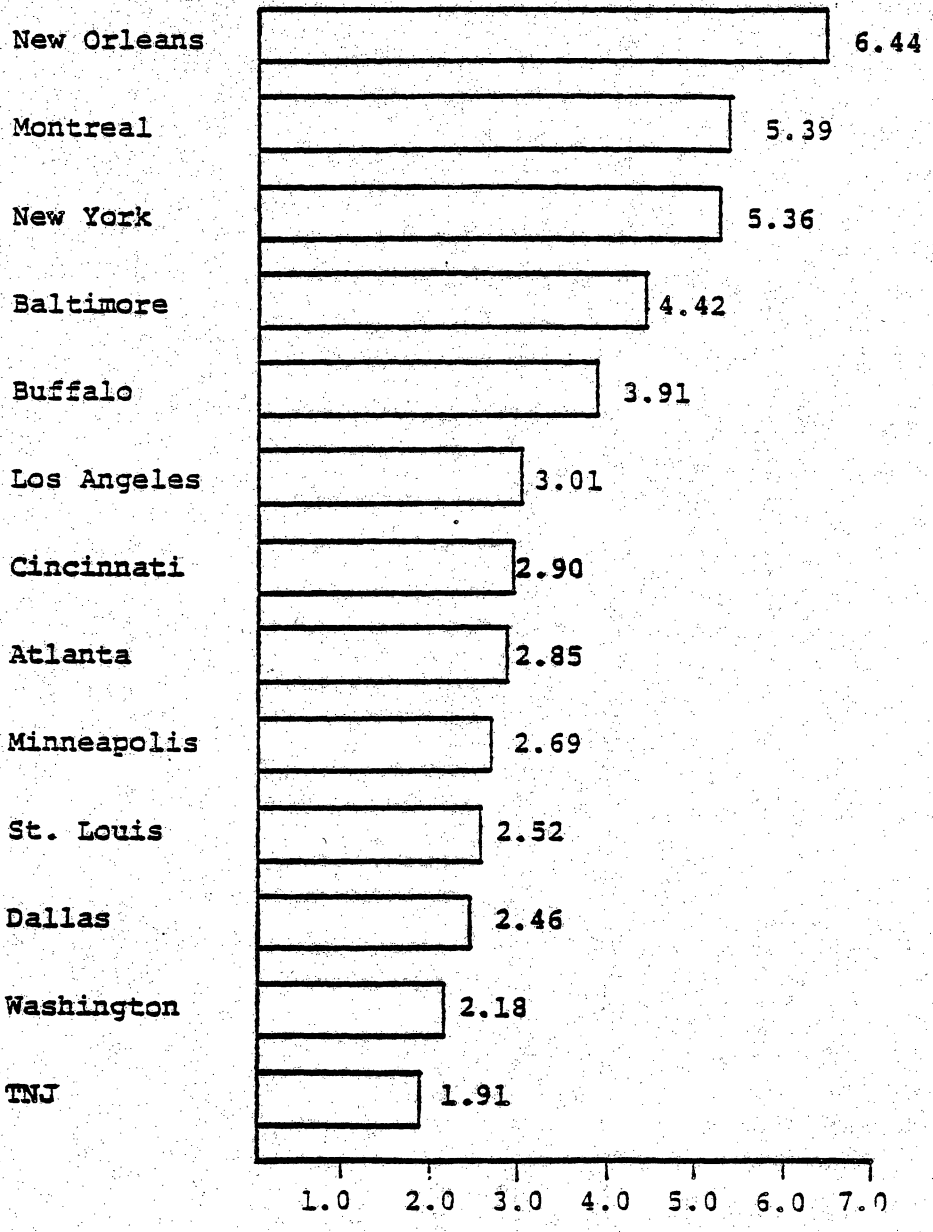
Systems which serve very densely populated areas have higher passengers per mile. These include New Orleans and New York, where the bus service analyzed is only within the cities themselves and does not include suburban services.

Twelve systems have higher passengers per mile than TNJ, while none are below.

TABLE 12

PASSENGERS PER VEHICLE MILE

1976



Employees per Peak Bus

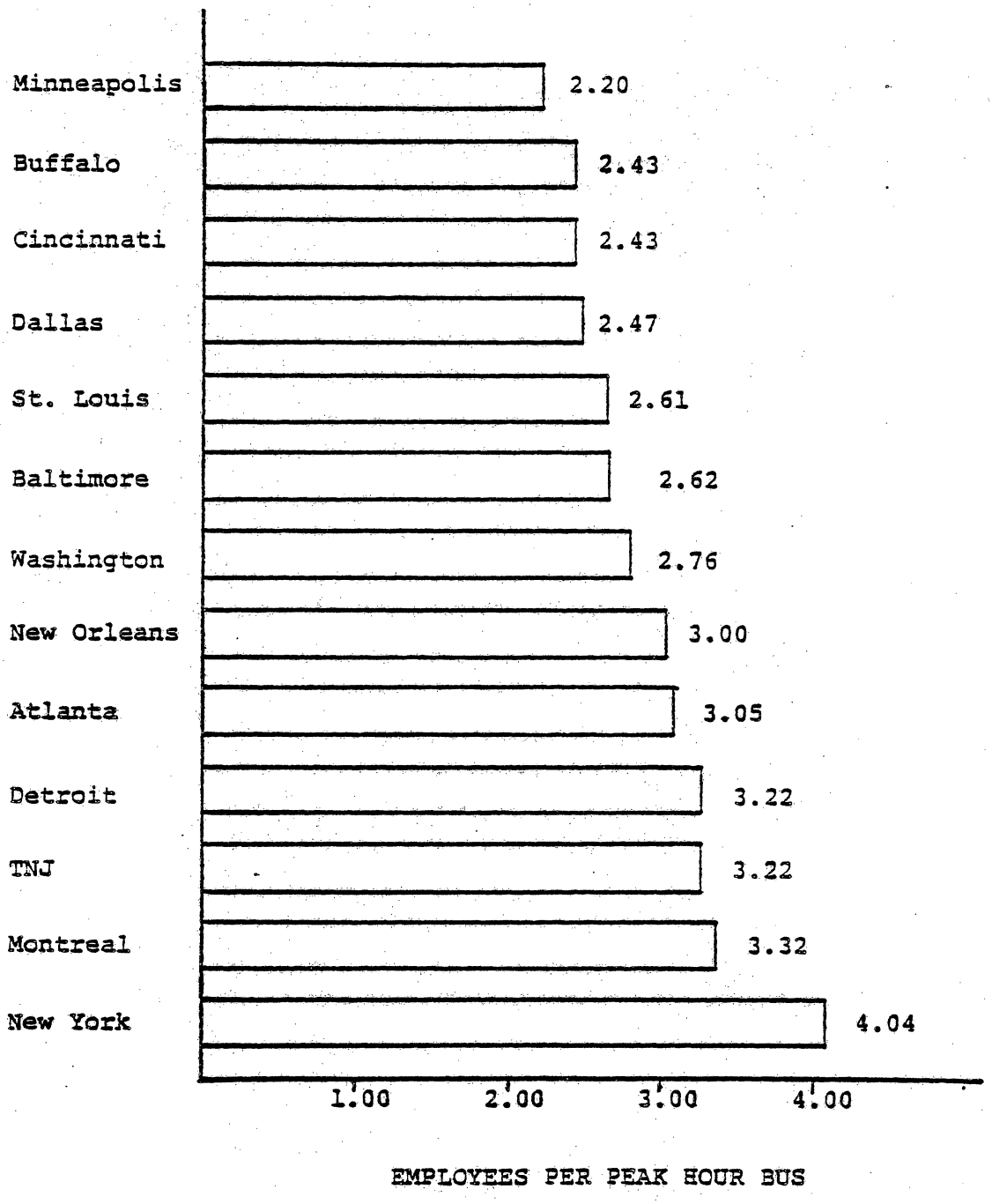
Table 13 shows each system's total employees per peak hour bus. A company which requires an average of fewer employees to put a bus on the street is generally considered to be using labor resources effectively. However, labor work rules have a strong impact on this statistic, particularly whether or not shifts can be split. Companies which provide a high level of all-day service will also tend to have higher ratios.

As can be seen, TNJ is slightly above the median on this measure, requiring somewhat more employees per peak hour bus than most other systems. Only two systems require more employees per peak hour bus than TNJ, one is similar, and nine require fewer employees per bus.

TABLE 13

EMPLOYEES PER

PEAK HOUR BUS

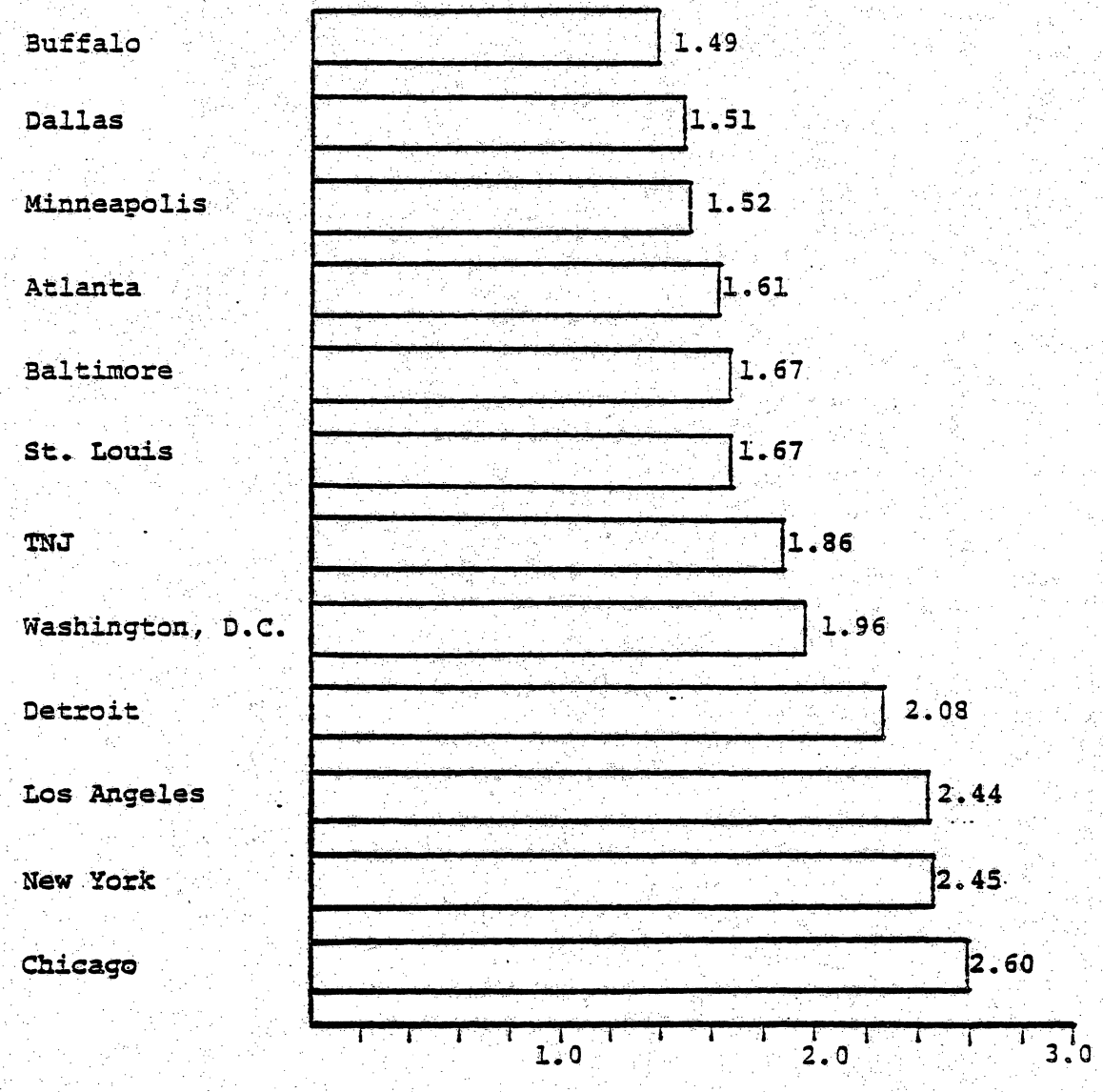


Operators per Peak Bus

Table 14 shows each system's operators (drivers) per peak vehicle. TNJ is at the median on this statistic. Six carriers require fewer operators per peak vehicle, while five have more.

TABLE 14

OPERATORS PER PEAK VEHICLE

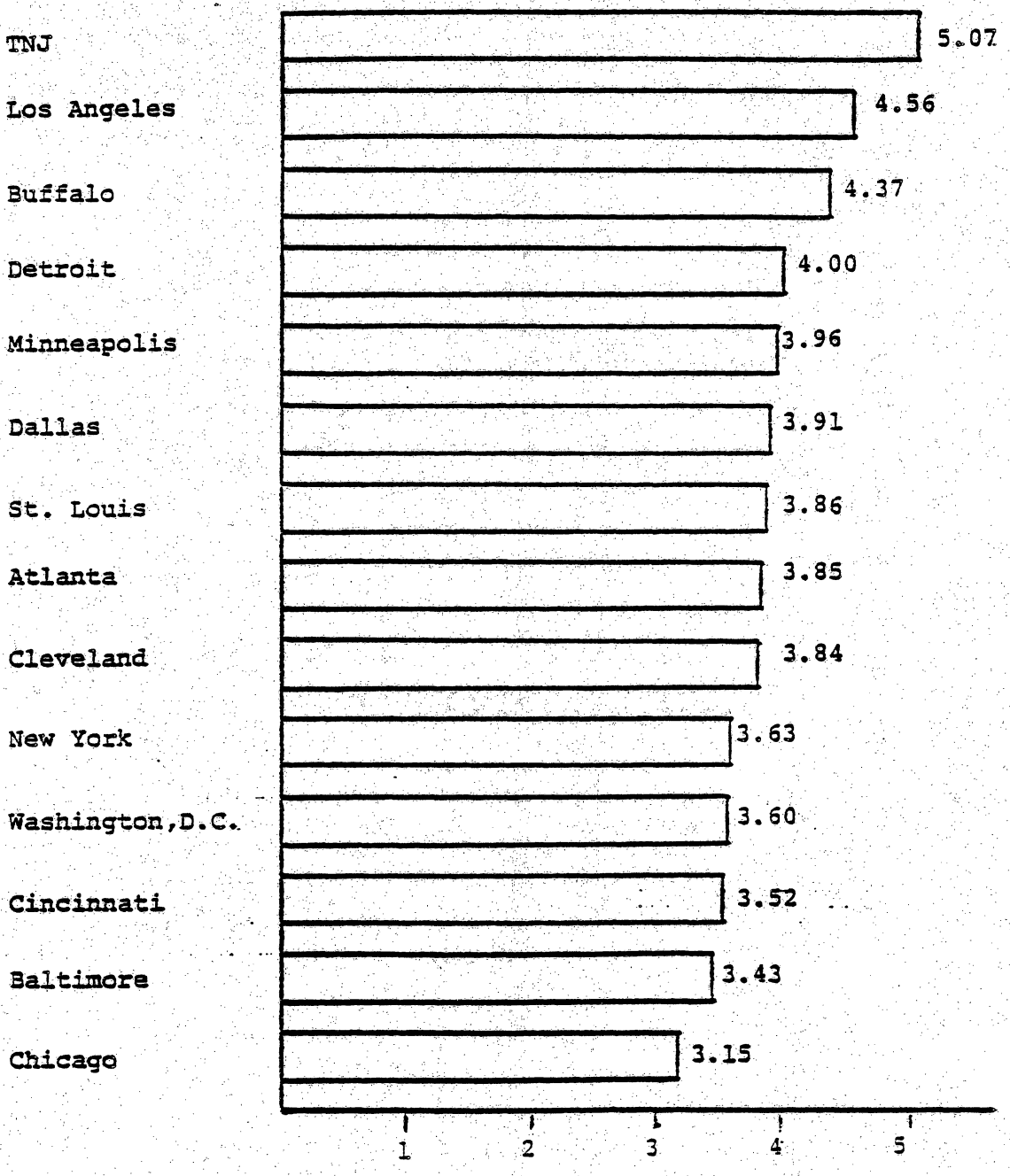


Miles Per Gallon

Table 15 shows the average number of bus miles per gallon of diesel fuel. TNJ has by far the best mileage figures for these large bus systems. Thirteen of the other systems use more fuel per mile than TNJ.

TABLE 15

BUS MILES PER GALLON
DIESEL FUEL



Maintenance Costs

The charts on maintenance costs per mile and per hour indicate that TNJ's maintenance expenditure levels are slightly above the median on a per mile basis and among the three highest cost systems on a per hour basis. While TNJ's maintenance practices are generally considered of high quality, as are Baltimore's, there may be some benefit from further study of the practices of cities with lower costs - particularly Los Angeles and Minneapolis, which each have high quality bus systems.

Eight systems had lower maintenance expense per mile than TNJ, while four had higher costs. One system had higher maintenance costs per hour than TNJ, while ten had lower costs per hour.

TABLE 16

MAINTENANCE EXPENSE

PER MILE 1976

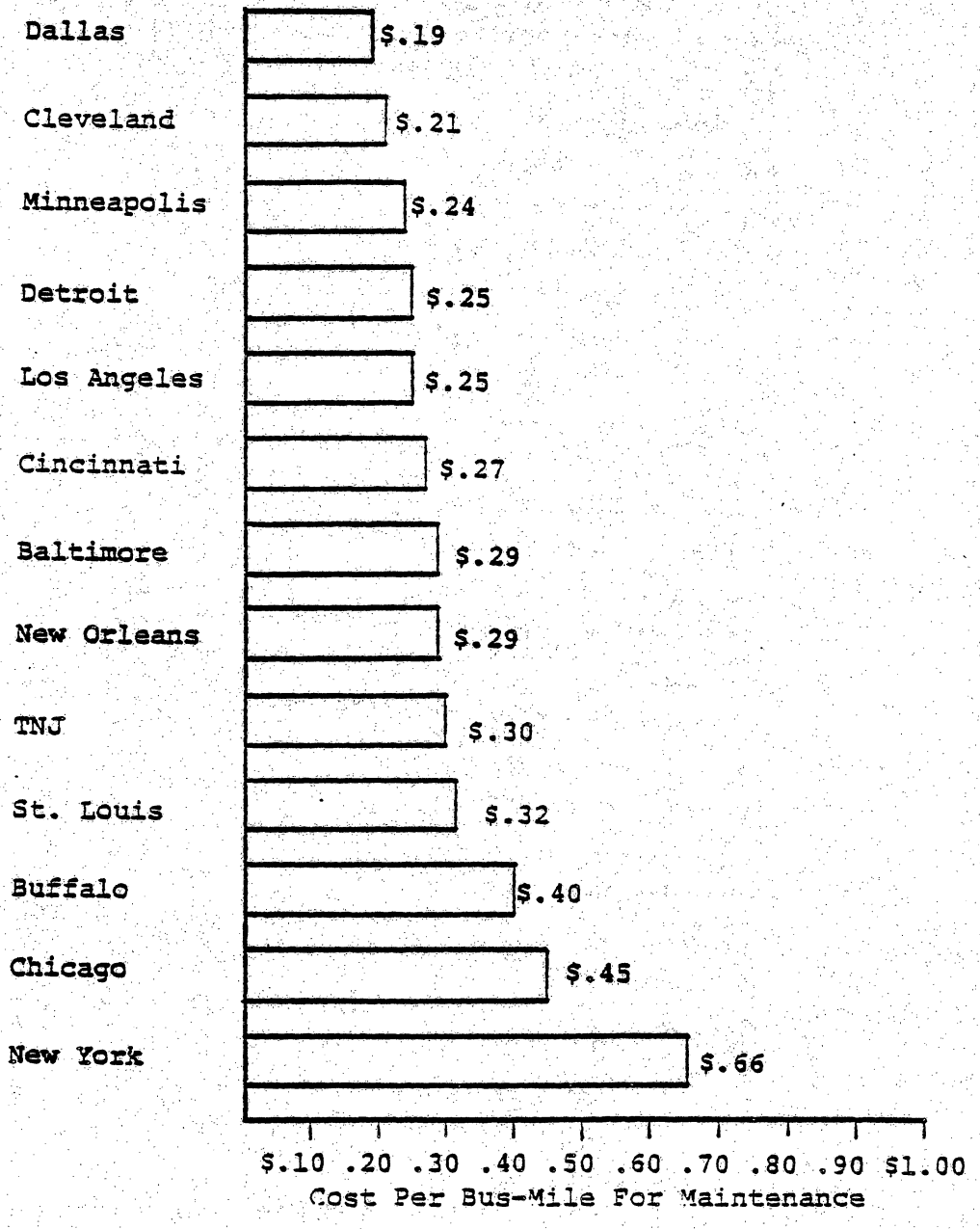
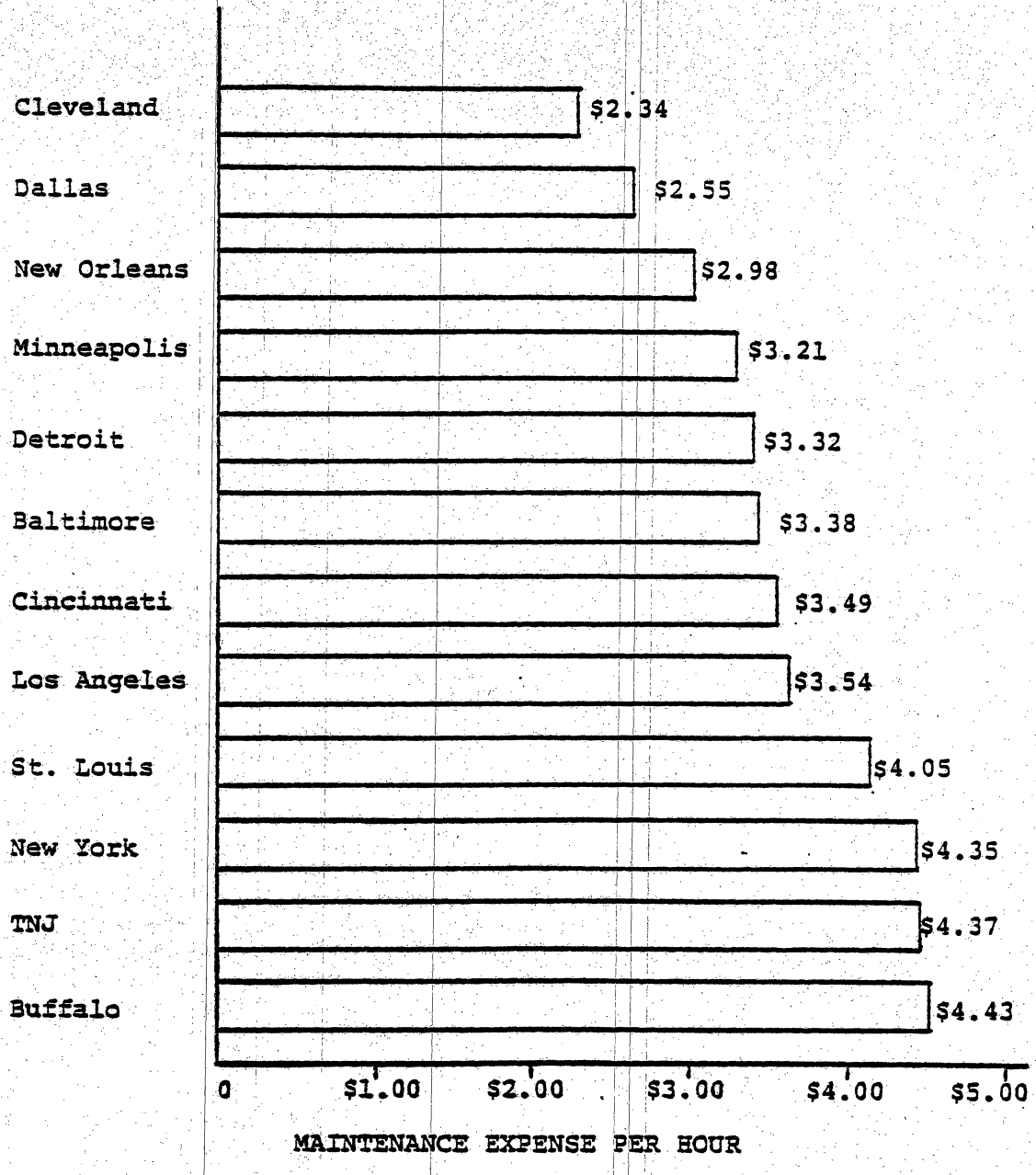


TABLE 17

MAINTENANCE EXPENSE PER HOUR OF OPERATION 1976



Operators as Percentage of all Employees

Tables 17 and 18 show the proportion of operators to total employees and the ratio of bus operator payroll to total payroll. These statistics illustrate how much of a company's direct labor and labor budget is spent in actually providing service vs. administration, maintenance, and other necessary tasks. The ratio for TNJ is very close to that of almost all other systems, which cluster near the 60 percent mark. While TNJ is not out of line with other operators in a negative sense, the fact that TNJ's statistics are low refutes the idea that a private operator tends to be more service oriented in the allocation of personnel.

Twelve systems have a higher ratio of operators to total employees than TNJ, while one is lower. Eight systems pay a higher proportion of payroll to operators than TNJ, three are similar, and one is lower.

TABLE 17

PROPORTION OF OPERATORS TO TOTAL EMPLOYEES 1976

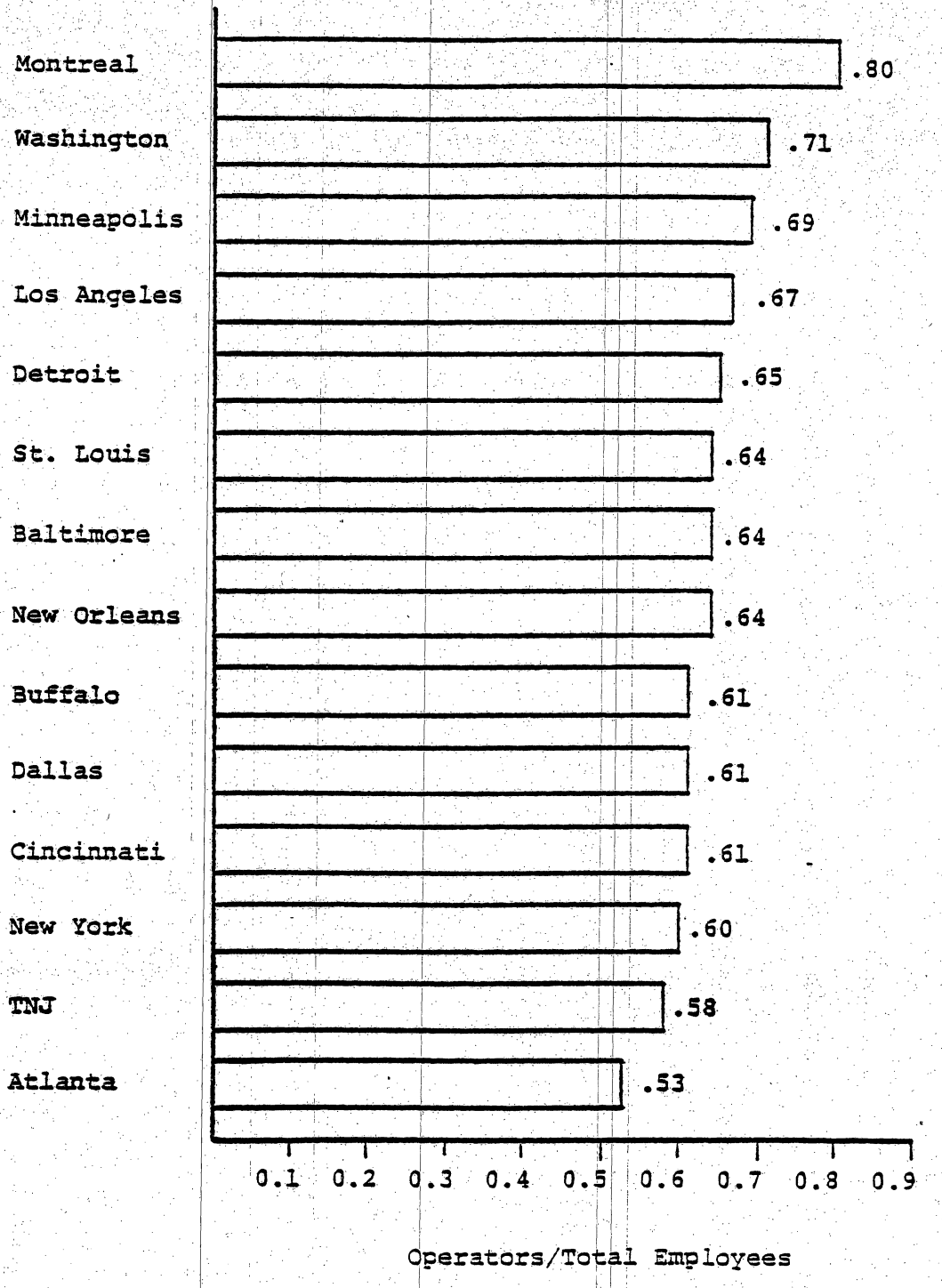
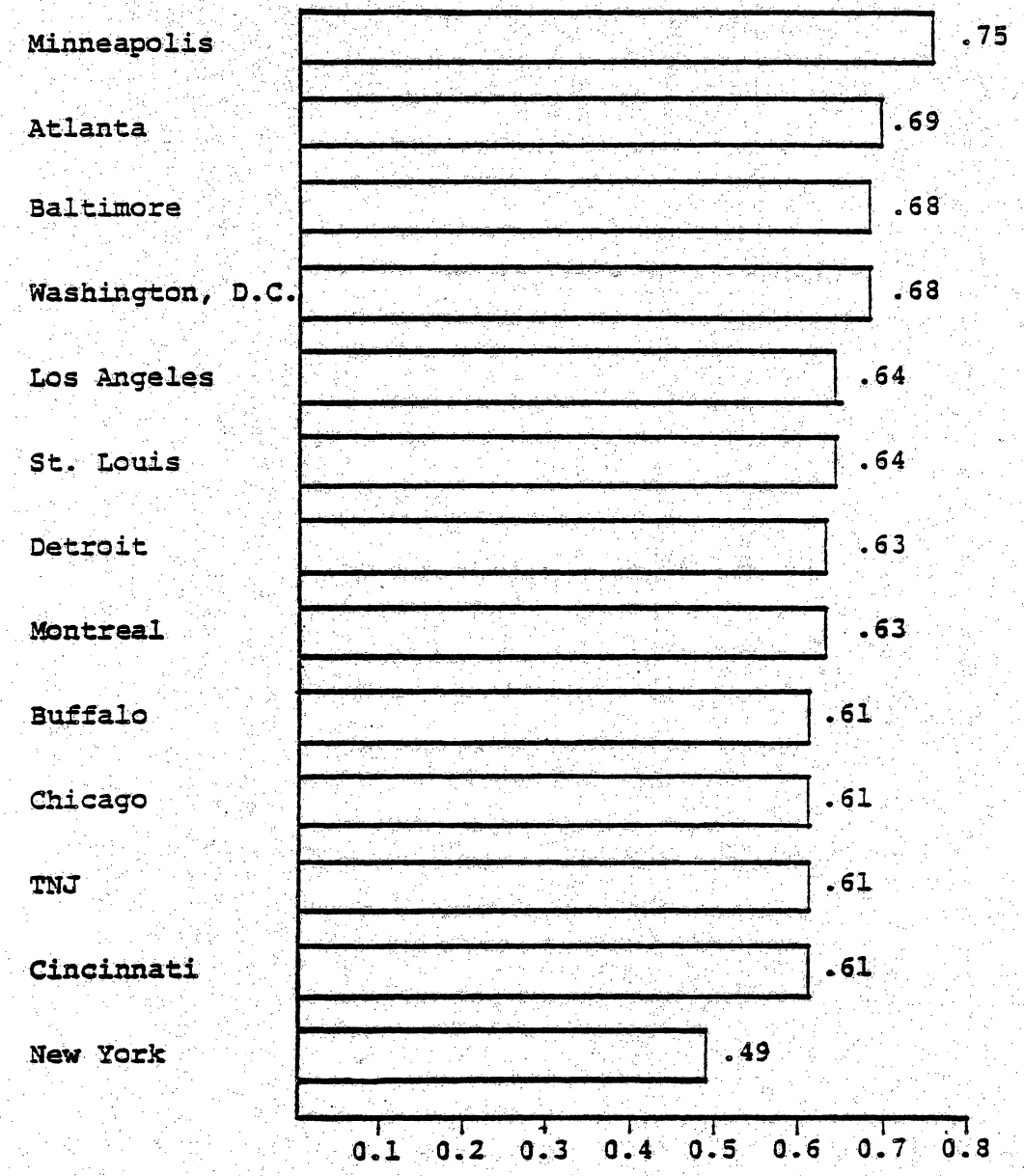


TABLE 18

OPERATOR'S PAYROLL / TOTAL PAYROLL



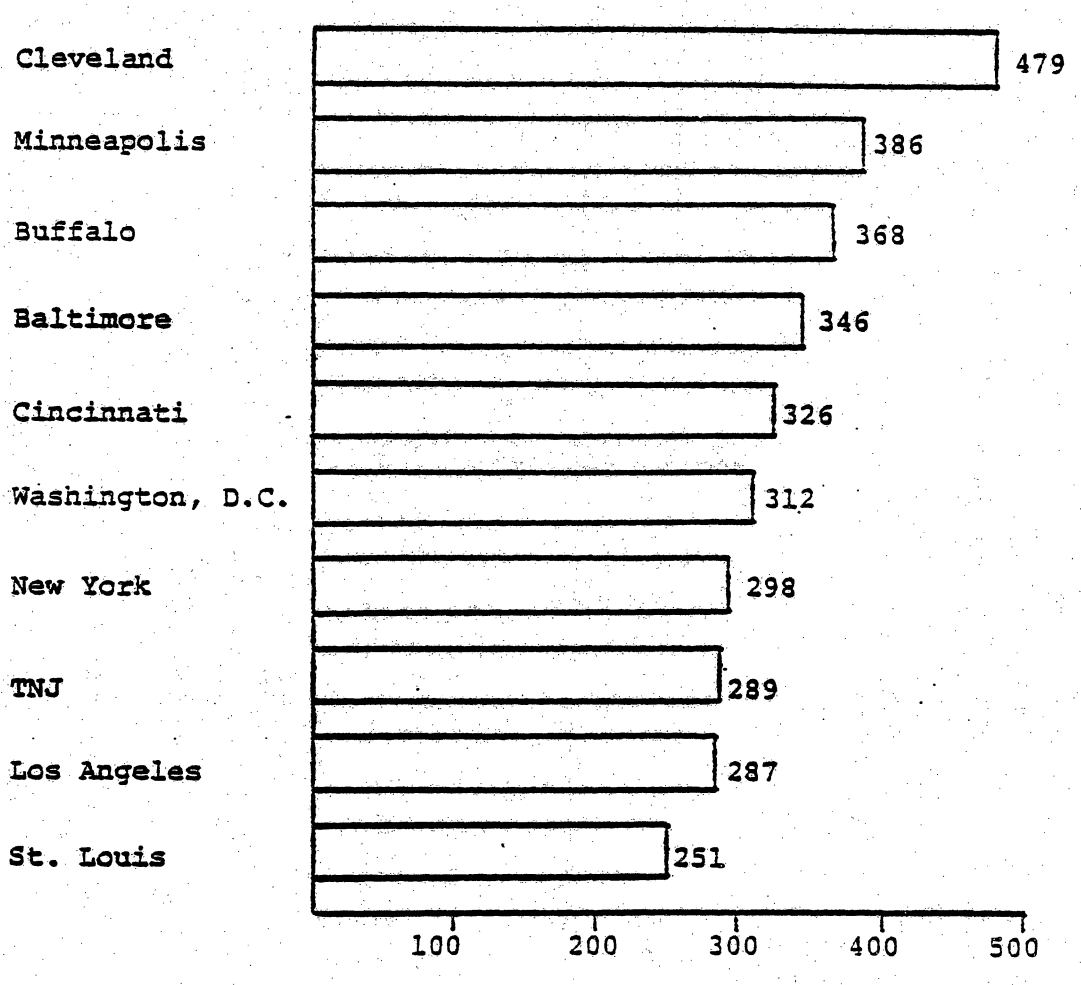
Miles per Gallon of Lubricating Oil

Table 19 illustrates the miles per gallon of lubricating oil for systems reporting their use of oil. Most are around 300 miles per gallon of oil, and TNJ's use of oil is average.

Seven systems operated more miles per gallon of oil than TNJ, while two operated fewer miles per gallon.

TABLE 19

VEHICLE MILES PER GALLON
OF LUBRICATING OIL



Average Wage Rates

Table 20 , from the U.S. Department of Labor, Bureau of Labor Statistics, shows the average 1977 union hourly wage rates of local transit operating employees in the principal cities of the U.S.

The average hourly wage rate for local transit operating employees in Newark was $7.59, which was somewhat higher than the adjacent cities of Philadelphia or New York. Only five cities had higher average wage rates than Newark, while 54 of the 60 cities listed had lower average wage rates.

Considering these facts, it is somewhat difficult to argue that New Jersey's private carriers have had positive experience in holding down transit labor costs in comparison to other areas.

TABLE 20

Table 8. Average wage rates by population group: Selected cities, July 1, 1977

(Average union hourly wage rates of local-transit operating employees)

City and population group	Average hourly rate[1]	Change from July 1, 1976	
		Cents per hour	Percent
All cities	$7.12	49	7.4
Population group I (1,000,000 and over)	7.37	50	7.3
Chicago, Ill.	8.26	72	9.6
Detroit, Mich.	7.17	26	3.8
Houston, Tex.	5.88	28	5.0
Los Angeles, Calif.	7.57	111	17.2
New York, N.Y.	7.24	29	4.2
Philadelphia, Pa.	6.80	42	6.6
Population group II (500,000 to 1,000,000)	7.36	50	7.3
Baltimore, Md.	7.48	54	7.8
Boston, Mass.	8.23	47	6.1
Cleveland, Ohio	7.05	67	10.5
Columbus, Ohio	6.10	60	10.9
Denver, Colo.	6.85	50	7.9
Indianapolis, Ind.	6.30	56	9.8
Jacksonville, Fla.	6.20	38	6.5
Kansas City, Mo.	7.22	81	12.6
Memphis, Tenn.	6.65	36	5.7
Milwaukee, Wis.	6.85	42	6.5
New Orleans, La.	5.70	130	29.4
Phoenix, Ariz.	5.86	50	9.3
Pittsburgh, Pa.	7.33	32	4.6
St. Louis, Mo.	7.16	34	5.0
San Antonio, Tex.	5.38	28	5.6
San Diego, Calif.	8.23	32	4.0
San Francisco, Calif.	7.64	43	6.0
Seattle, Wash.	7.36	61	9.0
Washington, D.C.	7.78	51	7.0
Population group III (250,000 to 500,000)	6.73	46	7.4
Akron, Ohio	5.58	27	5.1
Atlanta, Ga.	6.82	58	9.3
Buffalo, N.Y.	6.37	45	7.6
Cincinnati, Ohio	6.49	49	8.2
Fort Worth, Tex.	4.80	40	9.1
Honolulu, Hi.	6.78	-	-
Long Beach, Calif.	7.28	109	17.6
Louisville, Ky.	6.41	46	7.7
Miami, Fla.	6.46	50	8.4
Minneapolis-St. Paul, Minn.	7.30	56	8.3
Nashville-Davidson, Tenn.	6.38	51	8.7
Newark, N.J.	7.59	63	9.1
Norfolk, Va.	6.34	44	7.5
Omaha, Nebr.	5.56	25	4.7
Portland, Oreg.	7.51	54	7.6
Rochester, N.Y.	6.72	22	3.4
Sacramento, Calif.	7.18	36	5.3
Toledo, Ohio	6.38	49	8.3
Wichita, Kans.	3.95	36	10.0
Population group IV (100,000 to 250,000)	5.70	46	8.7
Albany, N.Y.	5.87	48	8.8
Chattanooga, Tenn.	6.09	45	8.0
Flint, Mich.	5.86	35	6.6
Fresno, Calif.	6.61	26	4.1
Grand Rapids, Mich.	5.40	40	8.0
New Bedford, Mass.	5.41	28	5.5
New Haven, Conn.	5.98	68	12.8
Providence, R.I.	6.10	62	11.3
Riverside, Calif.	7.57	111	17.2
Rockford, Ill.	7.01	47	7.2
St. Petersburg, Fla.	4.27	21	5.2
Salt Lake City, Utah	5.10	52	11.4
Santa Ana, Calif.	6.75	45	7.1
Scranton, Pa.	5.40	40	8.0
Spokane, Wash.	6.43	43	7.2
Stamford, Conn.	5.98	68	12.8

[1] Wage rates used to calculate these averages represent those available and payable on July 1, 1977, and do not include increases made later that are retroactive to July 1 or before. Averages were developed by weighting the top rate of the length-of-service progression for each occupation in each contract by the number of union members at that rate on the survey date.

NOTE: Because of rounding, sums of individual items may not equal 100. Variations in the size of annual increases from survey to survey may reflect, in part, timing of negotiations. Data do not include increases made later than July 1, 1977, that are retroactive to July 1 or before. Such retroactive increases are included in the wage rates reported in the following year's survey.

COST TRENDS:
COMPARISONS OF TNJ AND
OTHER LARGE BUS SYSTEMS

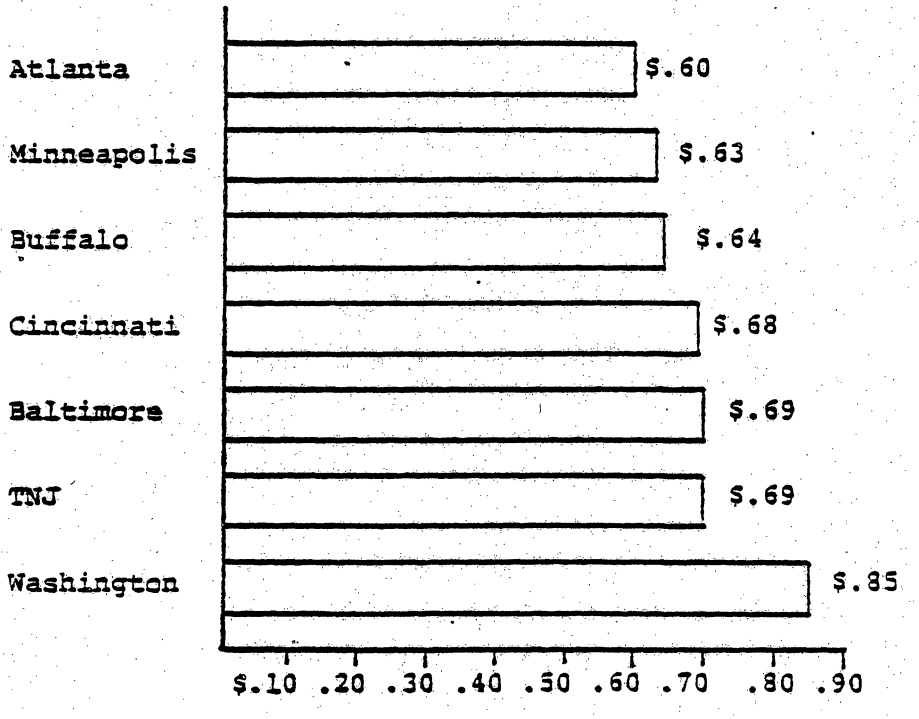
TNJ's cost increases during the 1970's have been as large as the cost increases of large bus systems which transitioned from private to public ownership. Tables show the increases in costs per mile and per hour from TNJ and for systems which changed from private to public ownership from 1970 through the present time.

This information gives a good indication of whether a transition from private to public ownership causes costs to increase more rapidly. While TNJ's cost increases are very similar to those of the publicly owned systems, TNJ was not better than average. Any statement to the effect that TNJ's private form of ownership has held down costs of public transportation is not accurate.

Table 21 shows TNJ's increase in costs per bus mile from 1970 to 1976, compared with the systems which transitioned to public ownership. Four systems had lower cost increases than TNJ, one was the same, and one had higher costs. Table 22 shows the percentage increase in costs per mile. Three systems had higher percentage increases, and three had lower percentage increases than TNJ.

TABLE 21

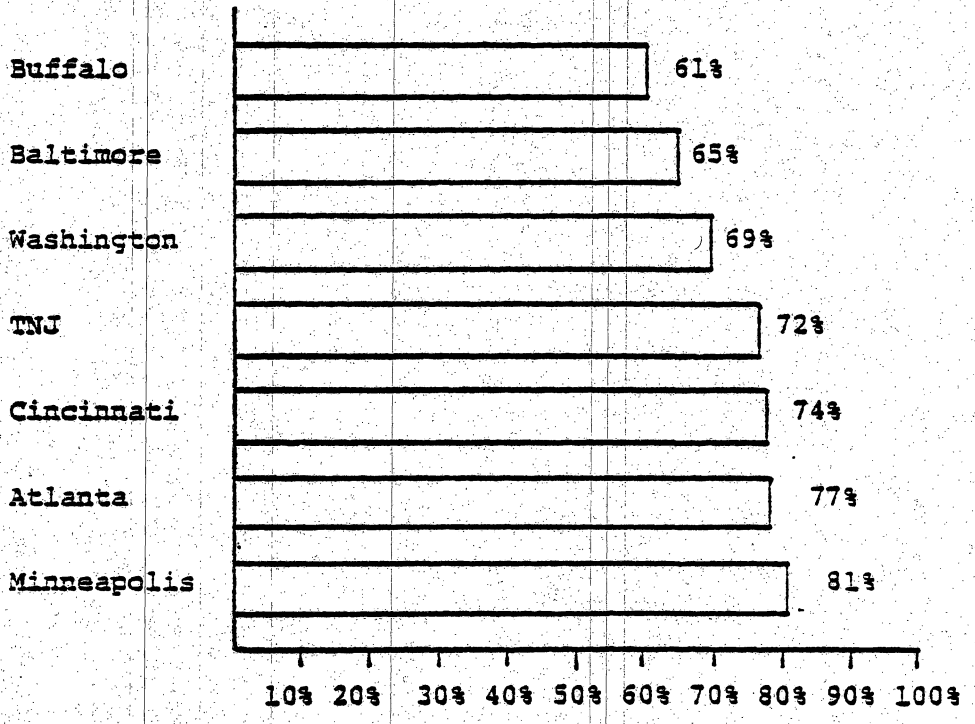
INCREASE IN COST
PER BUS-MILE
1970 to 1976



NET INCREASE IN COST PER BUS MILE
1970 to 1976

TABLE 22

PERCENTAGE INCREASE
IN COSTS PER MILE
1970 to 1976



NOTE: All these systems transitioned from private to public ownership between 1970 and 1976, except TNJ.

Table 23 shows the increases in costs per bus hour. The five systems for which data was available all had lower increases in costs per hour than TNJ. Table 24 shows the percentage increases in costs per hour. Three systems had lower percentage cost increases than TNJ, one was the same, and one was higher.

TABLE 23

INCREASE IN COST
PER BUS HOUR
1970 to 1976

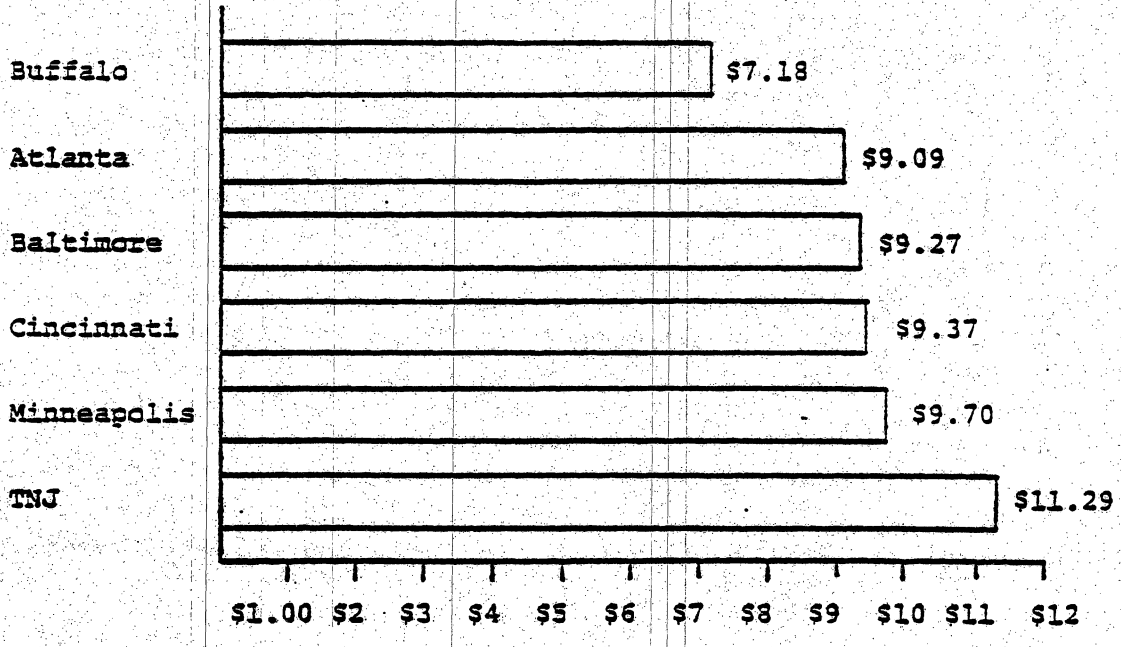
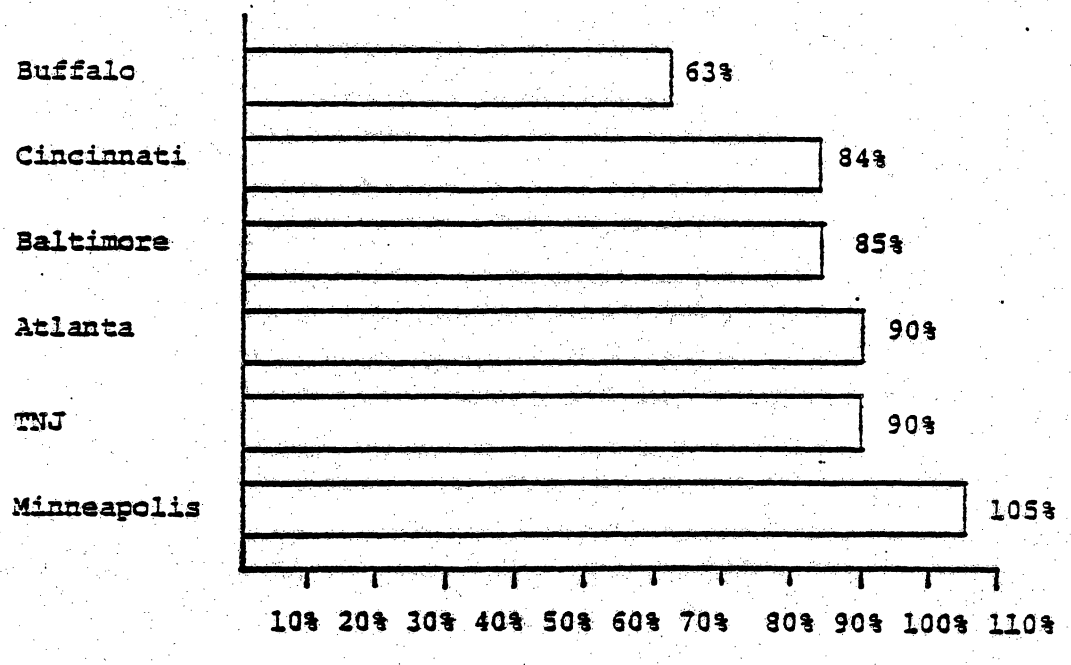


TABLE 24

PERCENTAGE INCREASE
IN COSTS PER HOUR
1970-1976



NOTE: All these systems transitioned from private to public ownership between 1970 and 1976, except TNJ.

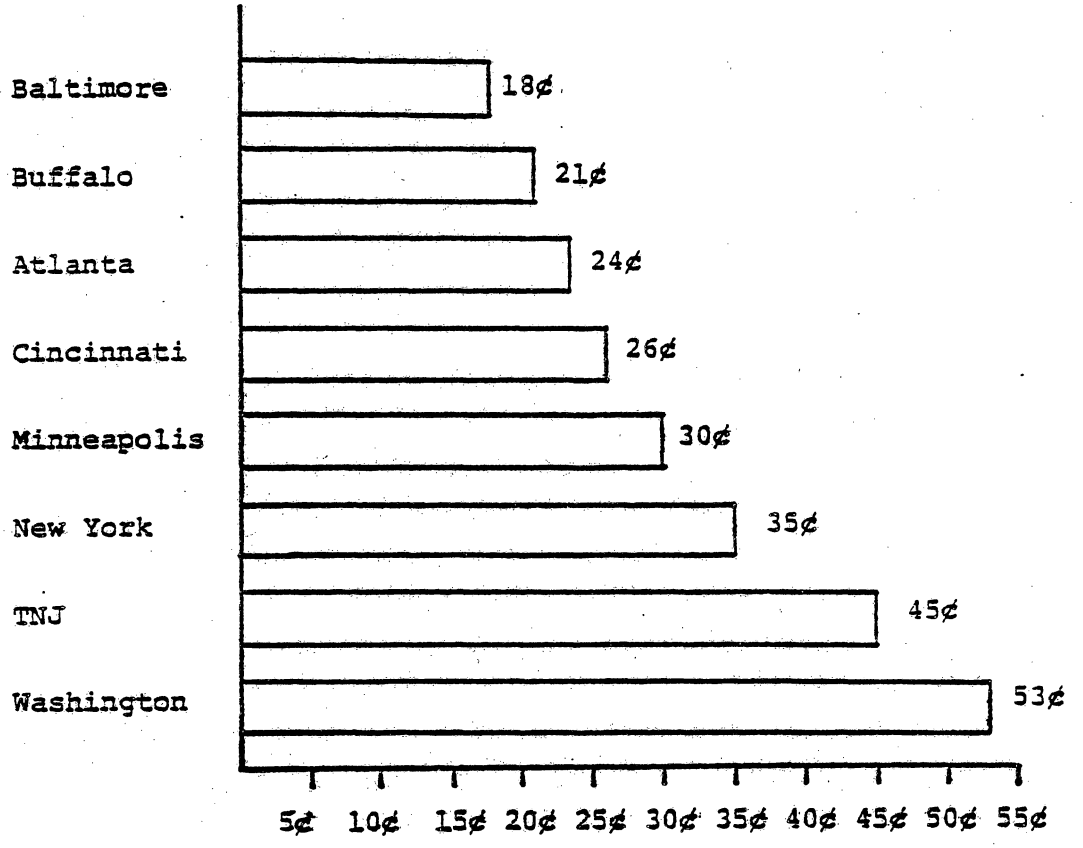
Tables 25 & 26 show the increase in costs per passenger which occurred from 1970 to 1976, and the percentage increase in costs which occurred over this period. As is apparent, the two bus systems with the largest cost increases (Washington and TNJ) were also the ones with the highest costs in 1970. It should be noted that Washington, D.C. was thus the highest cost system under private ownership and under public ownership. Baltimore started out slightly lower in cost, and gained further on the other systems.

TABLE 25

INCREASED OPERATING COSTS

PER PASSENGER

1970 to 1976



The percentage increases in costs per passenger are all near 100 percent. TNJ is in the middle of the range, with Baltimore showing 20 percent better results and Minneapolis 30 percent worse. Five systems had lower increases in costs per passenger than TNJ, while one had higher percentage cost increases.

TABLE 26

PERCENTAGE INCREASE

IN COSTS PER PASSENGER

1970-1976

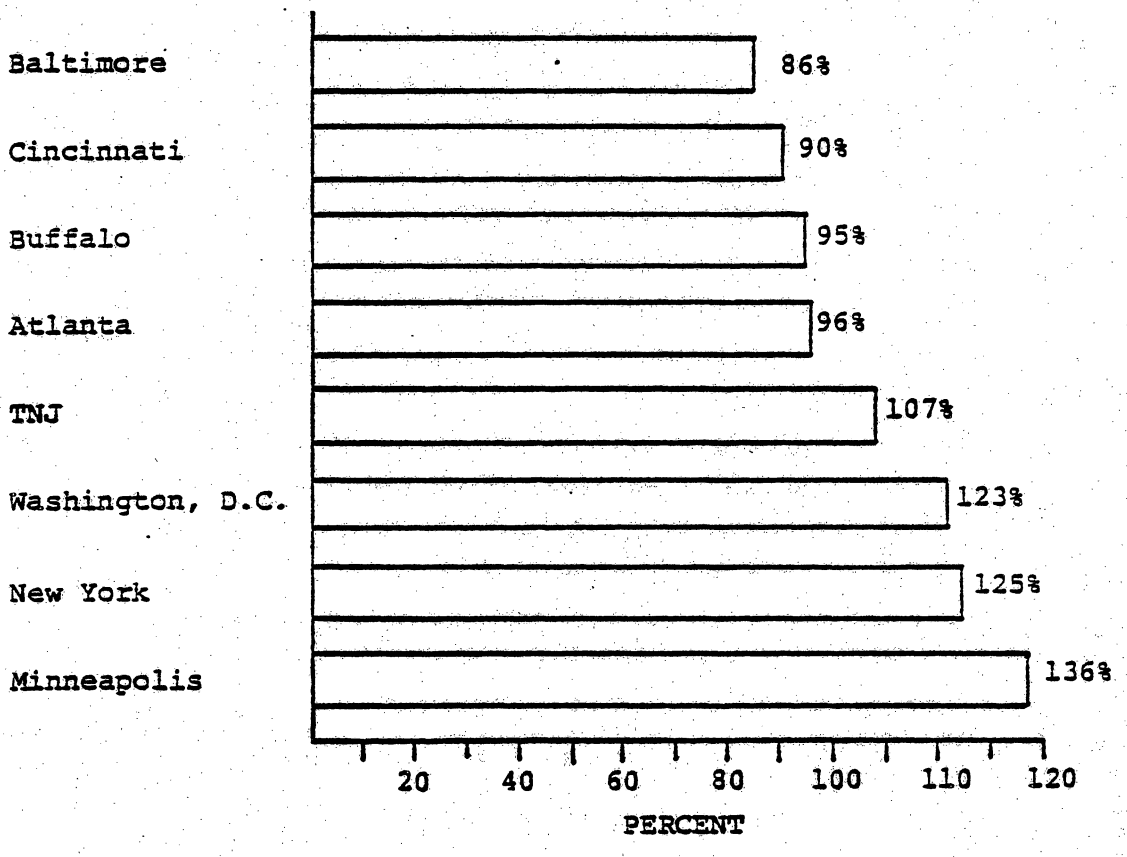


TABLE 27

	Year of Takeover
Baltimore	1970
Twin Cities	1970
Atlanta	1972
Cincinnati	1973
Washington, D.C.	1973
Buffalo	1974
TNJ	Private

TABLE 28

COST INCREASES IN EXPENSE PER MILE SINCE 1970

Bus System	Increase/Mile
New York TA	$1.41
Chicago	$ .96
Washington, DC	$ .85
Detroit	$ .85
Cleveland	$ .83
Los Angeles	$ .73
St. Louis	$ .70
TNJ	$ .69
Baltimore	$ .69
Cincinnati	$ .68
Buffalo	$ .64
Minneapolis	$ .63
Atlanta	$ .60
Dallas	$ .44

Totals
7 worse
1 same
5 better

TABLE 29

PERCENTAGE COST INCREASES PER MILE SINCE 1970

Bus System	% Increase/Mile
Cleveland	112%
Minneapolis	80%
Atlanta	77%
Cincinnati	74%
New York TA	73%
TNJ	72%
LA	72%
Detroit	72%
Chicago	70%
Washington, DC	69%
St. Louis	67%
Baltimore	65%
Buffalo	61%
Dallas	56%

Total 6 better
2 same
5 worse

TABLE 30

INCREASES IN BUS EXPENSES PER HOUR SINCE 1970

Bus System	Amount of Increase Per Hour
Detroit	$13.22
Los Angeles	$11.92
TNJ	$11.29
St. Louis	$10.37
Minneapolis	$ 9.70
Cincinnati	$ 9.37
Baltimore	$ 9.27
Atlanta	$ 9.09
New York TA	$ 7.28
Dallas	$ 6.69

Total 2 worse
8 better

TABLE 31

PERCENTAGE INCREASE IN BUS EXPENSES PER HOUR SINCE 1970

Bus System	Percentage Increase Per Hour
Minneapolis	105%
Detroit	99%
Los Angeles	96%
TNJ	90%
Atlanta	90%
St. Louis	89%
Baltimore	85%
Cincinnati	84%
Dallas	66%
Buffalo	63%
New York TA	49%

Total 3 worse
1 same
6 better

TABLE 32

INCREASE IN EXPENSES PER PASSENGER SINCE 1970

Bus System	Increased Expense Per Passenger
Washington	$.53
TNJ	$.45
Los Angeles	$.36
New York	$.35
Minneapolis	$.30
Cincinnati	$.26
Atlanta	$.24
Buffalo	$.21
Baltimore	$.18

Total 1 worse
7 better

TABLE 33

PERCENTAGE INCREASE IN EXPENSE PER PASSENGER SINCE 1970

Bus System	Percentage Increase Per Passenger
Baltimore	86%
Cincinnati	90%
Los Angeles	93%
Buffalo	95%
Atlanta	96%
TNJ	107%
Washington, DC	123%
New York	125%
Minneapolis	136%

Total 3 worse
5 better