PUBLIC HEARING

before

SENATE INDEPENDENT AUTHORITIES COMMITTEE

The Budget, Capital Improvement Plan, and
Toll Structures of The
Port Authority of New York and New Jersey

December 19, 1989
Room 403
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Carmen A. Orechio, Chairman
Senator Francis J. McManimon
Senator Leanna Brown

ALSO PRESENT:

E. Joan Oliver
Office of Legislative Services
Aide, Senate Independent Authorities Committee

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New Jersey State Legislature

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NOTICE OF PUBLIC HEARING

The Senate Independent Authorities Committee will hold a public hearing on the following topic:

**The Budget,
Capital Improvement Plan, and
Toll Structures of the Port Authority of New York and New Jersey**

The hearing will be held on **Tuesday, December 19, 1989, at 10:00 a.m., in Room 403 of the State House Annex, Trenton.**

The public may address comments and questions to E. Joan Oliver, Committee Aide, at (609) 984-7381. Persons wishing to testify should contact Sandra Nitzberg, secretary, at (609) 984-7381. Those persons presenting written testimony should provide 20 copies to the committee on the day of the hearing.

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SENATOR CARMEN A. ORECHIO (Chairman): Good morning. I'm sorry we're getting started late. We were waiting for another one of our colleagues who was rushed to the hospital, and as a result we were delayed.

The proposed toll hike for 1990 appears to violate the compact made between the Governors of New York and New Jersey, the Port Authority Commissioners, and the public. On March 7, 1987, the two Governors indicated that the toll increase they had approved was sufficient to carry the Authority's capital program through 1991. Now, just two years later, and into the five-year program, the Authority seeks a 50% increase in tolls. This tax will be unfairly borne by New Jersey commuters who cross the tunnels and bridges, and apparently the justification for the hike is to accelerate the capital construction plans at JFK Airport.

Regardless of the merits of the $5.8 billion capital program, surely it has been recognized that a toll hike of 50% within two years is unreasonable, and a toll increase of 100% in four years is outrageous. Press releases from your Authority state that the fundamental reason for the need for this hike is due to a shortfall of revenues at the river crossings. The same press releases also state your desire to increase your capital spending.

Well, I am no accountant, but if I experienced a shortfall of income, it doesn't appear that acceleration of spending would be warranted.

It is unfair to breach your compact with the public enunciated in 1987 and then impose a 50% tax on that public. It is unreasonable to accelerate your spending without having sufficient funds. It is unconscionable to threaten to prevent New Jersey projects from proceeding until your hike is approved, while at the same time placing the majority of the tax on the shoulders of New Jersey citizens.

I am anxious to hear your testimony, and I offer these statements to indicate my concerns, which I ask you to address as fully as possible.

At this point, Mr. Berger, maybe you would like to sit at the table. We have a series of questions we would like to ask. If you want any of your colleagues to sit with you, it's fine.

S T E P H E N B E R G E R: I'd love to. Thank you, Senator. I am joined, Senator, by Patrick Falvey, who is a Deputy Executive Director and Chief Counsel, and John Colura, who is the Director of our Office of Management and Budget.

SENATOR ORECHIO: You have met Senator Brown, to my left, and Senator McManimon, to my right, and staff aides, Joan Oliver, Russ Molloy, and Robert Noonan.

The first question I guess we should get answered is: Are the toll increases required to meet the bond covenant?

MR. BERGER: Senator, I wonder if it might be possible, with the indulgence of the Committee, for me to try to put some framework and some context on this discussion. Then I would be glad to answer any questions you have. Or, if you would like, I can try to--

SENATOR ORECHIO: You want to make a statement first, do you mean?

MR. BERGER: Yes.

SENATOR ORECHIO: All right, you may.

MR. BERGER: Okay. Thank you very much. I submitted a statement for the record, but what I would like to do, if I can, is to try to put a framework and a context on all the activities of the Port Authority, including the interstate network issues, and including the costs, and including our operations.

One of the things I actually did yesterday was I looked over the list of material that the Committee had requested from the Port Authority. And one of the documents that we submitted to you was a bistate panel report on the Port Authority that was issued in 1982. I was a member of that bistate panel -- the blue-ribbon panel appointed by the two Governors -- and I found it remarkable as I read the document, which was actually written in the fall of 1982. I tried to figure out why I found it so strange. Part of the reason, I think, was that there was a sense of time warp in it. One of the things that the document conveys was a world which really passed by, even though we didn't know it at that point in time. If I had to summarize the world, it was the world of regulation.

The Port Authority, and many of the activities we are charged with by the two states, were activities that were constructed during a period when particularly the transportation world was a regulated world; when we and all the people we did business with were living in a monopoly state. We have at least three major activities we are charged with by the two states: We have the interstate network, which is the primary subject of the conversation today, but we also have trade and commercial activities in the marine and aviation field, which, in their own right, provide about 630,000 direct and indirect jobs in the metropolitan region, and kick in about $60 billion in economic activity for the two states.

Both of those areas, as well as some other areas, have changed dramatically in the short period of time since the blue-ribbon report and, in fact, in the time since I have been at the Port Authority. The Shipping Deregulation Act of 1984 occurred after that blue-ribbon report was issued. Deregulation of aviation in '82 was only four years old. Deregulation of trucking and railroads was just coming into its own. What I found when I came to the Port Authority in 1985 were two very serious problems which had not been addressed. They had not been addressed, really, for the metropolitan region to some extent for either state.

We had grown up as an organization -- we and the people we did business with, particularly in the marine and aviation field -- in a totally regulated monopoly world. While my predecessor signed 30-year leases with airlines, we sign 30-day renewable leases with airlines today. When I came to the Port Authority, when a lot of the transactions were done, you didn't have the kinds of bankruptcies that we now have. People's Express went bankrupt on my watch. U.S. Lines went bankrupt, and Holland Hook, a facility that was being developed, had to, at that point, be abandoned.

The opposite side of monopoly and regulation is deregulation and competition. What we found as the largest trade and commercial center in the United States, was that we were under severe attack from competitive areas, whether it was Norfolk or Baltimore or Jacksonville on the sea, whether it was Los Angeles, whether it was Chicago, whether it was Atlanta ~~or~~ Dallas in the air. The attack was an attack on businesses which supplied anywhere from 600,000 to 700,000 jobs in the region. That was one basic issue.

The second basic issue cut across all of our activities, and that was we had an asset plan that had been fundamentally underfunded, with probably one exception, for a long period of time. That doesn't mean that it was unsafe. That was never the case. It was fundamentally underfunded. That meant that we had not been putting the renewal into the capital plan that was necessary for a capital plan in the interstate network, in the marine and the aviation businesses, which affected 25% of the jobs in the metropolitan area.

The year before I came to the Port Authority, on a capital plan whose estimate is very hard to judge, with a replacement value probably over $15 billion or $20 billion, we had spent $200 million in capital, in 1984, the year before I came to the Port Authority. Any of you will know that that kind of percentage reinvestment just tells you that what you are doing is treating facilities as cash cows. You are milking them. You are not putting the money back in, and you will pay the price sooner or later.

The capital plan that we developed, and other changes we made in the Authority, have been geared to deal with all three of the major areas for which we are responsible. What I would like to do is just take a moment to talk about the three, and then I will come back and will be delighted to answer the specific questions, and also try to deal with some of the statements, Senator, in your introduction, which I think are just not true. I think I can hopefully try to clear them up.

I have submitted for the record a full statement. I do not intend to read that full statement. I would like to make a couple of comments: The capital plan which you discussed, and the financial plan we recommended to the Board for 1990, is the fourth year of a capital plan approved in 1987. It calls for $2.9 billion in spending, including $1.27 billion in capital investment. It is true, it is the highest one-year total in the agency's history. This capital investment does build upon the plan that we were asked to undertake in 1987 by the two Governors. Since that program was initiated three years ago, we have invested $2 billion in the regional infrastructure, and we believe that these investments have already yielded significant dividends. That $2 billion which we have completed spending approximately at the end of this year, puts us exactly on time and on target in terms of the capital plan.

One of the first and highest priorities was to rebuild and expand our interstate transportation network, which consists of bridges, tunnels, bus terminals, PATH, and our newest addition, the Hoboken ferry.

Three years ago when we began this program, the interstate network was in a state of deterioration. That was the result of successive years of record volumes for most of the decade and the facilities were rapidly showing their age. Since that time -- since 1987 -- we have invested $750 million in the interstate network. We have modernized the entire fleet of cars on PATH; we have renovated the stations; and we have made a lot of investments which nobody will ever see. They are vital safety and maintenance operations on the in-house-- Everybody says, "We put the money into the ground, or under the ground," and that is exactly where it goes.

The result of that is evident, I think. PATH on-time performance has gone from 76% in 1987 to 92% this year. We have lengthened trains. We have restored ferry service. What we have been able to do on PATH has been to give us a 33% increase in transit capacity in that corridor across the Hudson, and this is the biggest trans-Hudson gain in a generation. We have rehabilitated the Holland Tunnel, the Outerbridge, the Lincoln Tunnel helix, and we are now rebuilding the Holland Tunnel extrance plaza, as any of you know who drive through that. I got caught twice yesterday. And we are set to begin major rehabilitation work both on the Lincoln Tunnel and the George Washington Bridge.

We have also made very heavy investments in our other services as well. We have completed Terminal C at Newark and we built a new international arrivals facility. We have completed a new state-of-the-art container terminal at Port Elizabeth, an auto processing port in Jersey City/Bayonne, and we recently dedicated a new industrial park in Elizabeth. Last week, we opened the Legal Center in downtown Newark. Last week we also announced the conclusion of negotiations for the redevelopment of the Hoboken waterfront. We have done an equal amount, we believe, on the New York side.

The revenue shortfall that we now project of over $200 million is due to the stalled economy, which is reflected in the flattening of volumes at Port Authority facilities, especially the airports and interstate transportation network.

In 1987, when we and the Governors discussed the capital plan, we submitted to the Governors a capital program which called for two toll and fare increases during the five-year period. In discussions with the two states, the Governors' offices stated that they thought we could, in fact, make the capital plan with one toll increase in that period. We pointed out that that was based upon our having the revenue assumptions that were built into the plan. Those revenue assumptions have not held up.

We have also faced rising costs, especially with regard to the operations and maintenance of the interstate network. These costs include things like: replacing the rivets, one-third of the rivets on all of our bridges; increased policing; as well as the provision of social services at the midtown bus terminal, at Journal Square, and also at the airports. We have had, as everybody else has in this region and around the country, high costs in the area of health insurance, and we have also had to deal with very sharply rising costs in the area of federally mandated removal of asbestos. Those increased costs -- $150 million of those increased costs -- have fundamentally been eaten by making other reductions and changes inside the program.

The revenue shortfall is the primary reason for the price increases in the financial plan. These price increases would raise $93 million on the interstate network, and an additional $103 million from the other areas of activity -- aviation, port, World Trade, and economic development. We, like any other organization whose services are financed solely by user fees, must bear the costs of maintaining and rehabilitating these facilities -- these aging facilities.

PATH is virtually alone in the United States among urban rail transit systems. They receive no Federal, State, or local government subsidies. The operating deficit of PATH alone will be $95 million in 1989, and the amount grows year by year. It is an operating deficit. Remember, we have put almost $700 million in capital into that system in the last three years.

The midtown bus terminal operates at a chronic deficit. Now, that is, in part, due to a direct subsidy to the commuter bus lines like New Jersey Transit, which, in 1989, averaged a $55 subsidy for a round-trip move in and out of the midtown bus terminal. Consequently, the overall financial results for the network -- the tunnels and bridges, the bus terminal, and PATH -- will show a $57 million loss in 1989. At current pricing levels, this deficit will grow to $94 million next year. The deficit -- the chronic deficit on the network -- has been offset each year by a subsidy from the Port Authority's other activities, particularly the World Trade Center and the airports. Today, however, the capacity of these functions to continue furnishing the same massive subsidy to the interstate commuter as in years past, is constrained by the competitive environment in which they operate; a competitive environment which I described in the opening of my remarks.

Moreover, the future capacity of the World Trade Center and the airports to support the commuter at any level, will disappear altogether unless the Port Authority can keep those facilities competitive by promptly reinvesting and modernizing them. As we sit here and talk, airports and port facilities along the entire East Coast are making massive capital investments, and the target of business they are trying to draw away is the business centered in the metropolitan region. Even the Trade Center, which is now 20 years old, must catch up to a whole generation of new office development, if it is to continue to attract tenants and thus generate revenue which we can use to help other kinds of activities. Remember, it is the revenue from activities like the Trade Center which enabled us to invest in the Newark Legal Center and the Essex

County Resource Recovery Plant and the Elizabeth Industrial Park, facilities which will not, and do not generate a return at this point to the Authority.

The airports, as you know, are operating at twice their designed capacity, and at the same time we are losing market share to other North American gateways, particularly in the international market. That market share that we lose-- Thirty years ago, we had 80% of the international flights at John F. Kennedy Airport. Today, we are down to 60%. That market share is more than just passengers coming in and out. It is cargo traveling in the belly of aircraft. It is air cargo that generates thousands of jobs in the region, either at Newark or John F. Kennedy Airport. If the pressing need to reinvest in these facilities goes unmet, or is unusually delayed, the efforts will be damaging not only to the facilities, but to all the rest of the activities of the Port Authority, including the interstate commuter. More importantly, declining competitiveness in these areas will be devastating to the regional economy. Aviation alone generates almost $20 billion in regional economic activity, and 300,000 jobs. Many of those jobs are this generation's replacement for the classic blue-collar manufacturing jobs. They are the classic blue-collar distribution jobs.

World trade aviation must reclaim, for its own needs, a portion of the subsidy it has steadily furnished to the interstate transportation network. The sooner these program rebuildings are put into service and the competitive position of these areas is strengthened, the sooner they will begin to return dividends that will help to relieve the fiscal pressure on all lines of Port Authority activity, the interstate network included.

This capital investment is important to the region and to the two states. Since the capital program was undertaken, the Port Authority has moved aggressively to strengthen its operations. We have had a hiring freeze since June of 1988, except for a handful of technical jobs and specialized skills that had to be replaced. We have restructured our administrative organization, in many cases reducing management from seven to three layers. We have had a 5% administrative reduction in 1989. These steps have resulted in the reduction of about 200 positions from the agency payroll, and for two consecutive years zero growth in administrative overhead. We are committed to increasing these activities and reducing costs in the years ahead.

We believe that we have to continue rebuilding and renovating the entire capital plan. It is true, the amount of annual capital investment by the Port Authority has more than quadrupled since 1984, and we have expanded our commitments on a scale unprecedented in the agency's history. We have done so with fewer rather than more administrative resources. We are delivering on our commitments. Our overall program is under budget and probably -- and probably -- the overall program, even in its magnitude, will just allow us to catch up with investments in a variety of areas, including the interstate network, which should have been made a decade ago.

Some say this program should be scaled back or deferred in light of the weak economy. Certainly, if we are unable to raise the revenue to close next year's shortfall, our momentum will be slowed considerably, and we will be forced, with the two states, to make painful decisions on how to reduce both the 1990 capital plan and, we should understand, subsequent years' capital plans as well. We are not just talking about moving $300 million of spending out of 1990 into 1991. There is a continuing role that that would force additional movement of capital projects from 1991 into 1992 and 1993, with a shrinkage of the value of the dollar as you move forward, as inflation eats away at your ability to deliver programs.

Not only that, but as these programs fall across the entire range of Port Authority activity, not only are you stretching out the investment, not only are you stretching out the capital work, you also stretch out the point in time when the other areas can begin to restore revenues to the Port Authority cash flow, because we cannot charge or bill a port customer or an aviation customer, who ultimately pay the cost of their business, until we can actually put activities into service.

I have said that we have now reduced and have a capital program where any changes are not changes where we would cut and eliminate. I could not recommend that to the Board. I could recommend deferring, if we had to. That means it is work that comes later. It does mean that we have 3800 less construction jobs next year, but obviously that is not a determinative issue. I think what is crucial is to let the short-term ups and downs in the regional economic cycle drive our investment and our infrastructure priorities.

We made that mistake in the metropolitan region in the mid-'70s. We allowed ourselves to fall behind in almost every area of infrastructure investment. The result was that as the region and the two states came out of the economic slump of the '70s, we did not have the economic infrastructure to deal with the needs of the economy that we had built.

It is my recommendation that we have to look at this not merely in terms of the separate pieces, but the fact that the metropolitan region is now in brutal competition both around this country and around the world in trade and commercial activities. We have to provide the infrastructure for the economies of our region if we are going to continue to have a future of growth and stability. It is in the long-term context that we believe our capital and financial plan should be evaluated.

I appreciate the opportunity of having said that to you.

SENATOR ORECHIO: Thank you. I guess all of us are pretty much perplexed by the staffs of the Governors of both states, and your staff in March of '87, advocating the need for the increase which you received and the statement that this would be a step that was needed and there would be no toll increases for capital programs for at least beyond the next five years.

MR. BERGER: Senator, we did not say that. I'm sorry, Senator, we never said that. It was very clear at that point. We said, to the two states, that we believed that two toll and fare increases were necessary. In the Governors' letter to the Board of Commissioners, the Governors' position was that we did not need it. Our staffs reviewed the numbers with the staffs of the Governors, and we concluded that if, in fact, all the assumptions could be met exactly as they were in the plan, we might not need it for that period of time.

I would like to point out that in projecting the revenues for a four-year period, we projected \$6.1 million in revenues over the four-year period. (Mr. Berger consults with one of his colleagues here) I'm sorry, did I knock some zeros off? I'm sorry, we projected \$6.1 billion over the four-year period. We are 4% off. That 4% is the result, very frankly, of the October '87 financial downturn, which has affected travel; it has affected the rent levels in the Trade Center; it includes the loss of seven million passengers at Newark Airport as a result of People's Express.

The fact of the matter is, to some extent, the two states were right. If, in fact, the revenue estimates would have been exact, we could, in fact, have gotten into 1991. The fact is, they were not. You could not have predicted these differences. But, we were very clear in 1986 and 1987 when we proposed the plan, about the level of revenues that were needed. We have not reached that level of revenues. And 4% off, Senator, on a \$6.1 billion base, with the financial crisis of '87 and the collapse of several major businesses in our region, is not that bad.

SENATOR ORECHIO: I made that statement because in the March 7 letter -- 1987 -- to the Board of Commissioners, in the third paragraph on page 8-- This is a letter that the Governors signed. The paragraph leads off by saying: "Our staffs have subsequently determined, in conjunction with yours, that a second round of increases is not needed to fund the Port Authority's capital program and operating costs in the coming five-year period. However, we believe the first phase increase is necessary to fund this program. We recommend the Board of Commissioners upon considering these increases immediately schedule a series of public hearings on these actions."

That brings to mind the question I have: The Port Authority, basically of New York and New Jersey, is an entity that is also governed by an Open Public Meetings Act that we have in New Jersey, and I understand the law in New York is similar to ours. You announced on December 1 that these increases were going to take place. Obviously you are going to have a meeting and the Governors then have the action.

The question I have is: Normally, would an undertaking like this, especially after this compact was signed in '87, a dramatic move to increase these tolls again after a prediction that they wouldn't be increased for five years or so-- Wouldn't that have required some public hearings? I am just questioning the process.

MR. BERGER: The process would have been, though, and will still include public hearings. Let me go back a second and try to put it into context: First of all, in the paragraph before the one you read, Senator, I think there is a sentence which says that your staffs recommended -- and I don't know the exact words -- but we don't agree with the notion that you need two toll and fare increases. I would just like to point out that even the Governors recognized that our original proposal for funding the capital plan said we believed we needed two toll and fare increases.

Again, if, in fact, we had been exact in our projections, in fact they would have been right and I would have been wrong. But being exact on a $6.1 billion base over four years is pretty tough to do.

The normal process which we have followed for the last five years since I have been at the Port Authority has really not changed. We have a process whereby every month I report to the Board of Commissioners on the financial condition of the Authority, and that report goes to the two State Houses as well. We you know, we contribute $200,000 to each state on the basis of the agreement that was reached in 1983 for the two states to have staff to review our budget and our activities. Each month, I present to the Board and to the two State Houses an ongoing report on our financial condition. Each year, at the end of the 10-month period, I review the financial condition to make a report to the Board on the financial condition. We did it at the end of October. At that point, I show the Board what we have been showing them every month, the revenue picture -- we had been tallying it; we tallied it at the end of last year -- the revenue losses that had taken place, particularly in the interstate network and the aviation area, the flattening of revenues, and the slowing down of revenue growth on the World Trade Center.

At the end of October, I made that presentation to the Board, as we do every year. In the middle of November, after we present that to the two State Houses, which we did this year as we have done each year, I was directed to come back to the Board with a recommendation on how to deal with the revenue shortfall. That recommendation, which included both interstate network toll and fare increases, as well as revenue increases from the rest of our businesses, I transmitted to the Board at the end of November, as I always do.

It was my judgment that, in fact, because it had a toll and fare increase in it, that it was important for me to make that recommendation -- and it is only a recommendation -- public as soon as I made it to the Board, rather than have it sitting around in private desks and private offices. It is kind of an odd situation. Having gone public before there was a full discussion, I guess I am being criticized. Had I held it until there was a full discussion, I then would have been criticized for holding it. So I am not sure which way you come out ahead.

I transmitted the recommendation to the Board. The Board would discuss this on December 14 ordinarily in a public meeting, which we have done every year since I have been there. If, in fact, toll and fare increases were recommended by the Board, we would be required to have public hearings, which we would have, as we had in 1987. What I did was make a recommendation. That was the beginning of the process for debate and discussion.

SENATOR ORECHIO: Are you also saying that you never had a discussion with the Commissioners about this proposed increase? When you announced it, that was the first time the Commissioners heard about it?

MR. BERGER: What I said to the Commissioners at the end of October, was that we would need a revenue increase. We possibly would need a toll and fare increase. They asked me to go back and review all of the options, and come up with a recommendation which would deal with the revenue shortfall. The recommendation I made for a toll and fare increase-- In fact, the judgment of my recommendation, which included the toll increase and the PATH increase, the selling of multiple trip tickets, and the discount on PATH-- Frankly, I didn't finish that recommendation until three days before I made it. Part of the reason for that was because I spent a lot of time with the staff reviewing the capital plan line by line to see if there were things we could defer that would be painless, and also making sure that if, in fact, we were going to propose a multiple trip discount ticket for PATH, we could have the system in place, which is the reason it is recommended for December, as opposed to April, when the toll increase was in place.

I didn't have a final recommendation, probably, until 48 hours before I released it, Senator.

SENATOR ORECHIO: Would either one of your colleagues be able to give us a breakdown on where this revenue shortfall took place that necessitates the toll increase?

MR. BERGER: It's very simple. I can start. Do you want to talk (speaking to colleagues), or should I do it? I'll do it. I can start, Senator, and then I will let John fill in.

Let's start with the pieces of the deficit. The PATH-- Actually, I know '90 by heart, but I have to look at '89. (referring to his papers) The revenue shortfall is $200 million. The interstate variance is about a third, and we can give you the exact numbers. It is about a third, a third, a third. It is about a third from the interstate transportation network; it is about a third from the aviation business; and it is about a third from everything else flattening out.

Obviously, the largest chunks occur in the interstate network, where you've got massive deficits on both PATH and the bus terminal, for example -- very large deficits. In 1990, if the PATH rider were to fully pay the cost of his or her ride, which includes the operating costs as well as the costs of the capital, the cost would be $3.20, for a PATH ride. Now, you have to remember that we get no Federal subsidy. Also, unlike government agencies which draw their revenues from a tax base, we raise the capital in the public markets. You know, we're paying debt on it. So the PATH cost would be, next year, about $3.20, if you were going to fully charge.

On the commuter bus, we now charge about-- Total cost is about $5.85 for a commuter bus to go in and out of the bus terminal. About 80% of our traffic now is our commuter buses. The long haul business, which paid more, no longer exists. A lot of it is gone to aviation. If we were to charge the commuter bus the full cost of moving in and out of the terminal, that cost would be about $60 per round trip, as opposed to the $5.85 we now charge.

I have to say, and it is very hard, and I understand the way many motorists feel, if you just think about the situation-- We now move 125,000 people, roughly, via mass transit across the Hudson every morning, and we are doing it reasonably efficiently and reasonably well. If 5% of those people decided to get out of either the PATH train or the express bus, and decided to get into their automobiles to come into New York City, you would double the length of the traffic jams. If 10% tried to do that, you wouldn't have an interstate network.

So, in fact, as we have argued up to the United States Supreme Court, the fact is that it is a network. If any piece is not functioning, the rest of the system does not work. I think it is crucial. I mean, if you look at the dollars we have spent in the last three years, one can argue that spending $700 million on the PATH system, which is a zero return -- I mean, for every dollar you spend, you lose two more -- was not a wise investment. I think socially it is an extraordinarily wise investment. I think what it does, first of all, is allow the tunnels and bridges to function. By getting on-time performance from 76% up to 92%, we draw people into the PATH system and off the roads. It has a clean air impact. It has a transportation impact.

I understand the notion that, "Hey, we should just pay for this bridge," but the answer is, "If you didn't have a mass transit system, the bridge would be a parking lot. The tunnel would be a parking lot." It is a network, and that is why the costs are so high, Senator.

SENATOR ORECHIO: When you initially talked to the Commissioners about the fiscal problems of the Authority and the shortfall projections, did you discuss with them any other options, rather than just escalating tolls? If so, tell us what those options were.

MR. BERGER: I told them that the revenue stream supported a level of expenditure both for operations and revenues -- operations and capital -- that was less than what we had contemplated. I also pointed out the implications in not doing the capital investment work in the three major areas -- interstate network, aviation, and marine in particular. They asked me to go back and look at the possibilities of making additional cuts, which I did. My judgment was that the additional cuts, at this point, would have not only a serious and dramatic effect on 1990, but would have a very serious and long-term effect on the agency. Each time you move $100 million of capital work into the next year, you've got an inflation factor, so when you are replacing it you have to replace at a higher level. Also, what you end up doing is putting activity into service much later, particularly where you need it.

A lot of the work we have we just couldn't push off. For example, if you look at the list of projects which are nearing completion next year which have large expenditures attached to them, the Harrison Shop is about to be completed. That is our new rail shop to take care of our entirely new and entirely rehabilitated PATH car fleet -- entirely new, entirely rehabilitated, done under this program. But we are working in a shop which cannot handle the car lengths that we now have. If any of you have not been there, I almost don't want to invite you into the old shop. The fact that our workers have been able to keep the system going in that shop is a tribute to them.

The new car shop is scheduled to open in 1990. The notion of deferring or delaying that expenditure makes absolutely no sense. It is a large expenditure, probably almost $70 million.

The Essex County Resource Recovery Plant is scheduled to open in June or July. It would make no sense to even think about delaying something like that which is absolutely crucial.

Part of where we are, because we are starting the fourth year of a program, is a great deal of the capital expenditure is stuff that is in the ground about to be completed. It does not make sense to stop any of that. What we would have to do, if we had $300 million to take out and roll forward, is, we would have to look at stuff that has not yet started. In your opening remarks you talked about one airport. The fact of the matter is, the memorandum I gave to the Board mentioned two airports, if not three, in which new startups, which had contracts that had not yet been let, might have to be held up. The fact of the matter is, we would have to look line by line at each item in the capital program and make a judgment. A great deal of it, really, is stuff that will be brought on-line next year because we are basically on time.

One other thing I want to point out: We now have 102 projects -- capital projects -- out there. Those 102 projects had a budgeted authorization of about $2,100,000,000. At this point, those 102 projects look as if they are coming in at somewhere between 4% and 7% under budget. So we have been managing the capital program. Is that right, one hundred and something under? (speaking to colleagues) We are under budget on the existing capital program.

The Board asked me to look at it, and my recommendation is to move that stuff forward. It has very severe long-term implications not only for the Authority, but for the region as well.

SENATOR ORECHIO: Steve, you mentioned resource recovery in Essex. Of course, I come from Essex and we are the beneficiaries of the Port Authority's assistance in that project. I am just wondering: The Port Authority is about 70 years old now, created by the legislatures of both states. We have had some amendments to that law to give you expanded and broader authority and powers. Now, of course, we are in the real estate business for economic development. I am just wondering: The initial scope of the Authority was to focus on transportation projects -- the bridges, the tunnels, I guess the port's economic development to some extent. I am wondering: Have we gone beyond the scope? I know legally you can do what you have done, and I am just wondering-- Do you think the time has come where maybe there ought to be some sunsetting? That is just a question.

MR. BERGER: Legally, we have gone-- It is not that we can do what we have done. We have done what collectively all of you have told us to do, to some extent.

I am torn, but let me give you my best judgment. My best judgment is that we would not be sitting here today having this discussion if the Trade Center didn't exist. If the Trade Center didn't exist, we would have been having this discussion last year, or the year before. It is the revenue stream from some of those projects which, in fact, has enabled us to maintain subsidies for those areas which we have been mandated to run, and which we have run at a deficit for some time.

When I came to the Authority, though, my judgment was-- I use this phrase to the staff: "I really want to get us back to basics." My definition of basics was the interstate network and the trade and transportation aspects, the aviation, the port, the marine, and the completion of those activities which the Port Authority and the two states had agreed upon, such as the waterfront development project -- yes, it is a county project -- those projects which were on the books.

Now, I am torn because some of those projects have created the revenue stream which has allowed the kind of level of subsidy to the interstate network which we have. You have to remember, Senator, in 1927, the toll was a dollar. The first toll was a dollar. It had a $7.31 buying power. With that kind of buying power, you could do a lot of capital reinvestment. The present $3 toll has a buying power, as opposed to when it was enacted in 1987, of about $2.60. So we have had a declining buying power.

My feeling is that there is an incredible amount of economic activity that we can generate out of what I call our "basic businesses." To give you an example: Air cargo is a wonderful business for the metropolitan region. First of all, the air cargo out of Kennedy and Newark in particular -- the two airports -- is now equal in value to the air cargo that moves through the marine facilities, through the port facilities; obviously not in weight, but in value. More than that, it is almost 50/50 export/import. Almost half of that, and it swings back 52/48, 48/52, is export, which means there is often regional American manufacturing which is being exported overseas.

So, that kind of activity, creating good jobs, well paying jobs, blue-collar jobs, that kind of activity is crucial to the region. Reinvesting in the aviation facilities, therefore, is, in fact, an enormous economic generator. It is not just people saying, "People go to the hotels and they go out to the Meadowlands. They go to the raceway; they go to Broadway." Cargo now travels more and more in the belly of the aircraft. By holding on to the route structures that we have because we are a dense business and large region for origin of destination, we also encourage greater air cargo.

If you ask me how do we generate more and more economic activity, our basic businesses do that very well. I think we should concentrate on those basic businesses. I think we are very lucky that we have done some other things which provide the revenue streams that have allowed us to subsidize the interstate network. I am not sure I would suggest that we give up all of that. But if you look at the bulk of our investment in the capital plan the way we have restructured the personnel of the Authority, it has been focused on the basic businesses; on the development area, the real estate stuff, for example.

Our position now is that we are not going to be the developers. We will not be the developers, for example, either in Hoboken or Hunter's Point. That will be the private sector. What we will do is make the infrastructure investment, and we will leave the development to the private sector, because I think that is appropriate. We are good at the aviation business; we are good at the interstate network business; and we are good at the port business. We should let the real estate developers develop the real estate. Should, in fact, some of that revenue stream go so that we have some way of creating subsidies for the socially needed programs that we run, like the mass transit system, to some extent, the answer is, "Yes," but we cannot make that the focus of our activity.

SENATOR ORECHIO: Getting back to the tolls, what do you realize from PATH and the bridge crossings?

MR. BERGER: In terms of total revenue?

SENATOR ORECHIO: Yes, annually.

MR. BERGER: PATH will produce $55 million in revenue. Basically, it's-- Is this 1990?

JOHN J. COLLURA: That's '90.

MR. BERGER: That's '90? Give me '89. I'll get '89 for you. PATH will produce $58 million -- our estimate for 1989. Do you have a summary for that, John? And the entire interstate network, the bulk of it being the bridges and the tunnels, therefore will produce $460 million. That includes the PATH $58 million.

SENATOR ORECHIO: In '87, when the toll went up a dollar from $2 to $3, what effect did that have on PATH? For example, did you notice any pickup there of passengers?

MR. BERGER: It went up a little bit, and then dropped after '87 -- after the '87 financial crisis. We are really very-- Two things, I think, at least, maybe three things affected ridership in the region: Number one, the health of the New Jersey economy has affected our ridership, because people-- The New Jersey counties are intercepting the work force. So if you are in Bergen County, for example, you don't come across the river to work. You can stay in Bergen County. You can stay in Hudson County. So there has been an interception of the work force.

Secondly, I think it is very clear that from '87 on, the reduction in work force, in the financial services industry in particular, in the central business district in Manhattan, has an impact on our ridership. And economic slowdowns have an impact on our ridership. Obviously, a major event like the bankruptcy of United States Lines has a dramatic impact on our ridership. We probably lost 70,000 truck trips with the bankruptcy of U.S. Lines.

SENATOR ORECHIO: Would you say that if this proposed increase were to be effected, the impact on mass transit would be significant or insignificant?

MR. BERGER: Oh, I think it is very significant. Our intention is to do several things: First, on the capital side, is to finish the build-out of the interstate system that we have planned. That includes-- I hope to begin next year with the reconditioning of the Lincoln Tunnel. We have done the Holland, and now we are supposed to begin, two by two, in the Lincoln. That is one major piece of work.

Obviously, we will complete the PATH program, which we think is very important. These funds would also have at work additional planning dollars for an additional crossing between

New Jersey and Staten Island. These are planning dollars included in this budget. The one area where we have continued to have substantial growth, is between New Jersey and Staten Island. That has been growth on facilities that are particularly-- They are facilities which are-- The bridges are narrower. They were really not geared to handle the size and the kinds of trucks that now move. They are 60 years old, Pat reminds me (referring to Patrick Falvey, Chief Counsel), and there is substantial traffic growth. It is clear that within the decade the dynamic economy between New Jersey and Staten Island is going to require additional crossing capacity. That will require a great deal of work with the communities in both states, the New Jersey Department of Transportation, the New York State Department of Transportation, with elected officials in both states. We have been working on this process now for several years. So that is one new piece of added capacity that we would like to continue to pursue.

SENATOR ORECHIO: Senator McManimon, you had a question before.

SENATOR McMANIMON: Yes. My major concern here is, has the acceleration of any of your projects resulted in this projected shortfall?

MR. BERGER: No, sir.

SENATOR McMANIMON: You say, "No," emphatically?

MR. BERGER: Emphatically. Absolutely not.

SENATOR McMANIMON: All right. Then there is another area of concern: The original estimate of capital expenditure at JFK was at $2.7 billion, when you adopted the '87-'91 plan. That was the estimation that was presented. Yet, when the Commissioners voted in March of this year for JFK redevelopment, the price tag was $3.2 billion. I would like to know, how did that go up $500 million?

MR. BERGER: The answer, Senator, is that, when we originally contemplated the plan and drew the plan up in 1986, the project was $2.7 billion. The plan was delayed in enactment for a year, and that added to inflation. In addition, there were other pieces in terms of JFK development which were not part of the "redevelopment plan" -- work that was ongoing on the airport which was folded in. I think it is clear, though, at this point, that -- and I said this in March when we enacted the plan -- it is my judgment and my belief that we can, on the schedule we now have, design, develop, and bring the Kennedy program in at a cost that will be even lower than the original projection.

SENATOR McMANIMON: Well, my concern was that your initial projection was over eight years. It was on a four-phase plan, correct?

MR. BERGER: Well, it was stretched out over between seven and eight years. That is correct.

SENATOR McMANIMON: So right away, when I see the difference in the structure I would assume that this acceleration is directly responsible for the increased price.

MR. BERGER: No, Senator, it's not. The Kennedy plan, at this point, has not been accelerated. At the end of three years, we had planned to spend about $150 million on Kennedy. In fact, we spent about $135 million. The loss in revenue is revenue we have already lost. It is not going forward.

The acceleration of Kennedy -- and, by the way, we have already accelerated, for example, so we should understand-- We have accelerated the interstate spending dollars. We accelerated PATH spending during this last three years because we thought the system needed it, even though that adds to the problem because it doesn't return anything for what you spend.

Our concern on the Kennedy project was that the longer it stretches out, the more it costs. We have added inflation.

Remember, we have to pay for the costs of capital throughout the period of construction. We do not get any returns from the airlines, whether it is Kennedy or Newark or LaGuardia, until we can put the constructed piece into service. They only pay when they can use it. Ultimately, they pay the full freight. The airlines will pay the costs of the redevelopment at all three airports, but they do not start paying, in rental payments, in flight fees, until they can use it. So we have to carry the costs.

One of the real concerns we have, as we look out over the next 10 years, is the extended Kennedy program which stretches it out. Not only do the costs keep going up because of inflation, but the fact is, you don't start generating the revenues you need to support the program, because you don't put it into service until much later. The fact of the matter is, we believe we can bring the Kennedy program in at or below the cost originally projected, even though it is a broader scope and will be done in two years less, at lower costs, thereby generating the revenue stream from that, which will help to relieve the Authority's cash flow.

SENATOR McMANIMON: In your original projection, you had not projected any built-in inflation then?

MR. BERGER: Oh, we had, but the fact of the matter is, we had projected a built-in inflation, but if you look at the numbers, Senator, I think you will find that there are two pieces to it. One is the cost, and one is the cash flow from revenues we generate. I think you will see that if you look at the total projected budgets going out over a period of time, that the reconstruction we have done, in fact, relieves the pressure on the Authority sooner than it would have under the other scenario.

There is another issue which we have to face, which we would have to face even if the facts were as everybody perceives them to be, as opposed to as they are, which is how you pay for it. That is that we are in a very difficult competitive position in the aviation business, even though we've got the largest airport network system in the United States. Because of its age, and because of its problems, even Newark, which now has one terminal, which is the finest terminal, we believe -- I am going to get into an argument with some of my colleagues -- on the East Coast; if it is not the finest in the country, at least it is the finest on the East Coast; I think it is as fine as any others -- a lot of the other pieces of the airport are going to need major work just to keep in a competitive position.

We are in a very interesting and changing time in the aviation industry. Many of the carriers we have servicing the metropolitan region, are facing very severe financial problems. Other carriers are stronger. Some of those carriers are not based here. We want to bring them to this region. One of the reasons we have made the investment, and it has proved to be prudent, not only in Terminal C-- You have to understand that Terminal C was a risk investment at the point we moved ahead with it. If we had not made that investment, Newark Airport wouldn't have 20-some million passengers today. Instead of 28 or 29, it would probably have 14.

Another reason we made the investment in the international facility which we are going to increase, we believe, and we projected the increase, is because it was a speculative investment. It was to draw additional international carriers into Newark. We are not concerned. We think that that strengthens the region, and by having the facility they will begin to come in. So we have made speculative investments, for example, in Newark.

Frankly, with less underpinning than we have for either Kennedy or LaGuardia investments, they prove to be correct, and they have proved to be important revenue generators not only to the Port Authority, but for the City of Newark as well.

SENATOR ORECHIO: Talking about airports -- and I will defer to you in a minute, Senator Brown -- there was a time when there was quite a disparity in the revenues and charges that the airlines incurred at the New York airports -- LaGuardia and Kennedy -- has compared to Newark, and, of course, the reason advanced for that was the age of the facilities, when they were built, and so forth.

What is the status today of this -- your rate structure for the airports? Are they comparable now?

MR. BERGER: No, no. LaGuardia may be the highest. I think LaGuardia is the highest, and Newark and Kennedy are comparable. It is really a market-driven issue, Senator. The other side of these discussions are private sector companies, and it is a market-driven issue. We charge what the market will allow us to charge. As volume builds up, the unit cost goes down. But a lot of the fees, gate fees, for example, are generated by what the market dictates.

The costs are very-- My guess is that the costs at this time are very comparable at the three airports.

SENATOR ORECHIO: Senator Brown?

SENATOR BROWN: Thank you, Chairman Orechio. Yesterday at four o'clock, Senator Hurley became a member of the Casino Control Commission, and therefore I was appointed by Senate President Russo to be a member of this Committee. I am delighted to be here today.

As a PATH rider, I must underscore an appreciation for what the Port Authority has done in recent years to upgrade that operation. I must also remind my colleague that there were several fires in the operation a number of years back, and there was really no choice for the safety of ridership but to put in the capital investment which you have done. Needless to say, there is a big difference from what it was five or six years ago, and for that we are greatly appreciative.

You talked about some of the changes that have happened in the transportation industry, such as deregulation. Certainly, in the area of authorities, in the last decade, there have been changes, and certainly there has been closer public scrutiny of the activities of authorities than there was a decade ago.

I guess my first question to you is: Given the fact that the public, and therefore elected officials, are interested in greater accountability on the part of public authorities, how can you document that we really have a prudent, accountable operating budget? You know, there have been discussions about the discount sales of tickets at the Hudson River crossings. The toll collectors, due to a labor agreement, are receiving more money for doing less work. I was at a party over the holidays, and there were other comments. You know, are we getting our full mileage out of the salaries that are being paid to Port Authority officials?

MR. BERGER: Let me try to deal with a couple of those points. By the way, thank you for your comments about PATH. One other piece we have to do in the continued investment in PATH is an interesting reflection on what we at the Authority, both because of our mandate and the reality, see as a regional economic pattern, as opposed to two states. We see the region very clearly. One of the places you are going to see it is on PATH platforms, where you have interesting patterns with what used to be called "reverse commute." Therefore, one of the pieces of capital investment we have to make, for example, is increased access to the platforms. We will have enough train capacity, enough track capacity, and enough safety to handle reverse commute in the peak hours. What we have to do is make some additional capital investments to handle platforms so the platforms are safe when that takes place. We are working on that right now.

Let me talk about--

SENATOR BROWN: We have to put in a plug for our colleague, Senator Jackman, who is not here, because certainly a lot of this growth is happening at the Pavonia Station and other stations in Hudson County.

MR. BERGER: Yes, and we are very pleased. Actually, if anybody hasn't seen the new Exchange Place station, we would like to take you through it. We think it has made a real difference in people's feeling toward the system.

Let me talk about a couple of issues that you have raised, Senator. The first one has to do with the discount ticket books, which if I had to restage this opera, I would have done it a little differently. The first piece of it, though, I think remains absolutely sensible. That was, we really had to get the sales out of the toll lanes. The notion that you really have non-peak hour times is kind of true, but they are a lot shorter than they used to be. There are more people traveling and, you know, the congestion in the toll lanes was really not acceptable.

So the first goal was to get it out of the toll lanes. The mail-in process through which it takes place is one which some people who are used to, for example, buying train passes and other monthly discount tickets, are perfectly used to. We had 400 complaints in the first month with 70,000 sales. That is not a particularly bad number. I don't need 400 complaints, however, so we have agreed that we will take a look at the possibility of finding alternative ways of distributing them in addition to mail. We are looking at that right now.

By the way, just one point to make in terms of discounts, if I may: The deepest discount that exists on any interstate system that I know, is the one we are maintaining and are not proposing to change, which is the car pool discount. The cost of that will still be 50 cents, which makes it a very important and major discount aimed at truly multiple occupancy riders -- three or more riders in the car. We think that is important as part of our subsidy for mass transit riders.

With regard to supervision of the Port Authority, I am fascinated, I guess, by the notion that we are not. There is a mixture of myth and reality. We pay for the two states to maintain staffs whose responsibilities appear to be primarily to deal with us. I have somebody in my office, for example, who spends his entire time, basically, working with the two State Houses on budget and program issues. We release, and we distribute to the press, and we have monthly open meetings at which almost every aspect of our budget, of our acts, is discussed publicly. There is a rumor that there is one particular reporter on one of the major Newark dailies who probably knows my job better than I do, or at least he seems to. But the fact of the matter is, we distribute everything.

One of the things we do not do in public, which neither state's Open Meeting Laws requires, nor should they, is that since a great deal of our contractual transactions are leases and transactions with private sector companies which are under negotiation and are often not finalized, until they are actually finalized, those are discussed in particular by the Board of Commissioners in a closed session, allowing us to conclude negotiations. You know, if you look at our agendas -- I just took a look at the agenda for the last month; Pat had a copy -- almost every one of them was a real estate or lease transaction with different private sector partners, which get released as soon as they are completed, but which we cannot negotiate, frankly, in public. Other than that, I think we have full discussion in public, Senator.

SENATOR BROWN: Let me just interject here, because in a couple of hours we can't possibly go into detail on your 1990 budget. Having served for many years on the Appropriations Committee down here in Trenton, my guess is that if we did a thorough job, the fact that only 200 employees have been let go in recent years is minuscule compared to some of the downsizing that major corporations are doing in order to be leaner and better able to meet this economic challenge that you so rightly paint as being out there.

Let me just say that as one member, albeit it temporary, of this Committee, I do have real qualms about whether your operating budget is as efficient and as streamlined as it could be.

Secondly, when it gets to the infrastructure in your capital program, let me just say that I feel very strongly about the importance of it. What you have done at Newark Airport justifiably is a tribute to the Port Authority. I wonder if we again in your operating budget have the marketing thrust to maximize the capital investment that has been made at Newark. But this again is a rather small item in the whole financial scheme of things here today.

If there are no total increases, how will your program -- your capital program -- change? You know, what New York programs will be slowed down, and what New Jersey programs will be decelerated?

MR. BERGER: May I answer the question after I make a short comment on your original comment? (no response) I don't pretend for a moment that we have trimmed everything out of the budget that we can trim. You have to understand, though, that we are talking about a work force which is getting down now to about 9200 people. Of that, we have 1500 police officers, toll collectors, field supervisors, you know, 1100 on PATH. You are talking about over half of that number are represented unionized employees who are doing functions that have been established over a period of time. When I am talking about reducing 300 to 400 people, I am talking about roughly a 10% reduction in the nonrepresented ranks, which is a substantial reduction, Senator.

I am also talking about a process by which from the first year I got there I began to shift using retirements and vacancies and established a series of priorities for rehires. So, as administrative staff slots became available from my first year, I substituted for administrative staff either engineers for the capital program, security, or field operations. I am particularly concerned, by the way, about field operations replacements, particularly in the skilled crafts, which are very competitive areas. I am also very concerned with the potential retirements. One of our departments, part of the interstate network department, has a substantial number of people over 55 who are eligible to retire, and replacing many of these skilled craftsmen has very great concern for us.

Secondly, we are doing almost four times the capital program today than the year before I got there, and we are doing it with a work force which is about equal in size, which I think is not just cutting bodies, Senator. I think we have gotten a lot more work out of them, and I think we can get a lot more out of them. We have reduced in the first round, for example-- You now have three layers, right?

MR. COLLURA: Yes.

MR. BERGER: Yes, delightful. We have now reduced all the staff departments to three layers of management from seven. The rail department, for example, has gone from 11 layers of management to seven. We may be able to take it down another level. That is the process which we have been taking. What we have done is, we have examined each and every job in the Authority to make a determination as to what-- We are trying to find out whether we have any people who are still blacksmiths working on horse.

Now, you asked another question which I think is important. My answer is, "No." No, Senator, we do not have the same level of marketing skills at all of our facilities that we have to build into engineering. That is partly because we are still emerging from our history as a monopoly provider of airport or port or other services. Even the Trade Center, which has been this wonderful generator of revenue which has allowed all these other -- the Newark Legal Center and Essex County -- to be generated, started off as a white elephant and became a cash cow, and then they built everything up around us. So we have the World Financial Center across the street. We have lower income costs runs. We have to sell everything. We've got to sell our port against other ports. We've got to sell our aviation facilities, and that is an area where I think, yes, we are weak in, because we still haven't learned how to market as well as we should.

My plan is to keep going on the program and to steal slots as people retire and to build marketing strength. We have just reorganized, for example, our port department. It has gone through a total reorganization, with a major emphasis on marketing and selling the facilities, as opposed to sitting-- Marketing is no longer going to be you sit on your behind in your office and wait for someone to call you. It doesn't work that way. I just came back. They finally got me out. They sent me to Asia. For four-and-a-half years, I refused to go. Los Angeles has been eating us for lunch. I mean, they're out there; the Director is out there once a year; the staff guys are out there all the time. Other ports are out there. We can't just sit. We've got to go out and compete. What happens if we don't get it?

SENATOR BROWN: I encouraged you a couple of years ago to go out.

MR. BERGER: You did? I went; I finally went, and we are going to make some changes. We are going to make some changes and we are going to do some personnel trading with some of our sister ports. We have talked to Pusan about it in Korea, which is the largest container port in Korea. I have met now with port directors, and Lillian Loberti, who is our Port Director, has met with many port directors from LeHavre, from Rotterdam, from Tokyo. We are going to have to do a lot more to reestablish and to help the business continue to grow.

The answer to the question of what happens if we don't get it, on the numerical side is simple, because we are governed by our financial capacity. Our financial capacity tells us how much money we can raise and spend, because we can't borrow more than that in the financial market. We will have to cut about $35 million on the operating budget, and we will have to cut about $300 million-- I'm sorry. We will have to cut $35 million on the operating budget, and we will have to defer about $300 million on the capital budget.

In terms of the operating budget cuts, can we do them? The answer is yes. One of the things that I will do -- because we are in a similar position-- Remember, I have had zero administrative growth now for two years in a row, and we have been eating a lot of our costs. We have eaten $50 million in asbestos costs. Health care $50 million? (Mr. Collura nods affirmatively) Fifty million in additional health care costs over this three-year period; $12 million in rivet replacement on the bridge; homeless costs at the six facilities, additional policing costs, overtime costs.

We can do it. The piece I don't like doing was a new starter and an added piece I put into the budget for next year, which is about $18 million; $14 million in the interstate network, and about $4 million in the port facilities, which was for an upgraded -- an increased level of maintenance at certain facilities. Part of that was, we have a major maintenance round-table process going on, and what I asked the staff to do was to look at the procedures. We have facilities now which when I got there were-- Let's say we're 65 years old now, 70. Fifteen years ago they were 30-year-old facilities. They are now 45; they're going on 50 years old. I have asked for a review of procedures to see if we have to accelerate and catch up on certain, not capital, but operating kinds of maintenance.

It had a history of layering the major work programs between structural, which is imperative -- very important -- and then the less important. Sometimes the very important stuff gets pushed aside because the structural has to be done first. By the end of 1990, my plan was to be totally caught up on all of those operational programs. I may have to slide that a little longer. I don't want to. I think that is a mistake, but we may have to.

On the capital side, I can't answer for you which projects. That is a decision that the Board and the two states will have to talk about. Will they be in all areas? Absolutely. They will be in all areas, because if you look at the $1,270,000,000 we have projected for next year, a large portion of that is the build-out of shovels that are now in the ground, which one would not stop. It would be both costly and foolish to try to stop them.

SENATOR ORECHIO: What was that number?

MR. BERGER: One billion, two-hundred and seventy million is the proposal for next year. We have to reduce our spending by $300 million. I must say, and I have said this again to be very accurate about it, on the basis of the present revenue levels as projected, we are talking about $300 million. If there is any softening, it might have to be some more.

But the areas from which the Board can really move are limited, because in the 850 we will spend this year, there is a lot of build-out that gets completed next year.

SENATOR BROWN: Mr. Chairman, I just have about two other questions, if I may?

SENATOR ORECHIO: Yes, yes.

SENATOR BROWN: One is, you mentioned several times that when you had your last toll increase you had requested two in the period of time. Is there another toll increase that you envision coming up in a couple of years?

MR. BERGER: My answer is-- I don't have a number for you, or a time, but my answer is, you are talking about recurring deficits on the interstate system. What we will have to do is look at the long-term process and understand-- Whether it is PATH or the interstate network or New Jersey Transit, or any other mass transportation agency, this is an issue that will have to be faced over time. Pat reminds me that we get no--

SENATOR BROWN: So we, as elected officials, have a responsibility to discuss the high costs of transportation?

MR. BERGER: Absolutely. I think you have to discuss the high costs of transportation. I think you have to discuss the other side of it. And the other side of the high costs of transportation is the disaster if we don't put the investment into the infrastructure and into the transportation facilities we have. The thing that makes this region different is, in fact, the density of our transportation network. Is it congested? Sure it is. Has it been under-invested in? It has. But it is incredible, and it is a base which very few people have on which we ought to build.

SENATOR BROWN: My last question is: As we obviously have a responsibility to make sure that New Jersey's point of view is represented in Port Authority decisions, when you come to your highest levels of management at the Port Authority, can we, as elected officials, feel that we have good representation from people who live in New Jersey?

MR. BERGER: Well, I will tell you, Senator, of our five major line departments-- When I testify on the other side of the river, they have been asking me now for four years why all five of them are New Jersey residents. This year, for the first time, one of them is a New York resident. But the major-- In fact, I think there is an almost equal division, although they have not been chosen for that reason.

SENATOR BROWN: And some of these people have New Jersey government experience, or not?

MR. BERGER: There are some people, I know, who have New Jersey government experience. I honestly don't know all of their histories.

SENATOR BROWN: Well, obviously, as we look forward to-- You know, you mentioned marketing, and marketing is important if we are going to increase the revenue so that we don't have to increase the tolls. People who have hands-on experience in what makes Newark Airport work, or PATH work, or, you know, the facilities in Essex County you are building, I think can really be an asset to the Port Authority.

Thank you, Mr. Chairman.

MR. BERGER: I don't deny that. I would also like to find the guys who sell Apple computers and IBM computers and--

MR. COLLURA: And pieces of the Berlin Wall.

MR. BERGER: And pieces of the Berlin Wall, yeah. I would like to find some really-- We are going to have to do something about upgrading the marketing. I think the whole region has to, by the way. I think it is an American problem. I don't think it is unique to us. I think it is an American problem of first really learning how to market internationally. In many ways, we are more than decades, we are centuries behind some of our competitors who spend all of their time marketing internationally, and we are really still learning how to do it.

SENATOR ORECHIO: Steve, when you were asked by Senator Brown what the projects were that are in the ground and have to be done, you mentioned $1.2 billion.

MR. BERGER: No, that is the total capital for '90.

SENATOR ORECHIO: For '90, right. However, in the projections that we had presented by the Port Authority, for 1990, the number was $745 million. How do you reconcile that disparity? The original proposal on your five-year plan was $745 million.

MR. BERGER: We have evolved a plan each year, Senator. The plan, as it was put together in 1986 -- that is when it was actually put together -- called for a program which would cover-- At that point, the 1986-'90 period was approved in '87 through '91. It has been an evolving document each year. That evolution has been an evolution which has been both approved by our Board and by the two State Houses each year, as we presented it to them.

SENATOR ORECHIO: There just appeared to be a 50% increase, and I just thought that was kind of high.

MR. BERGER: There is a projected increase, but there are several things that have taken place which I think are important. First of all, we have already added expenditures in the early part of the plan, particularly in the interstate network. But more than that, if you look at the original plan, the original $5.8 billion plan called for $3.9 billion in actual expenditures during the five-year period. We had what was in effect a corporate delay factor of almost 40% on expenditures. That corporate delay factor was based upon the historical pace of the Port Authority's being able to deliver projects.

When I came to this job, both Governors directly said to me, "One of the things you've got to do is deal with that bureaucracy," in words of one kind or another, which I think we have done. One of the issues we have, is that the corporate delay factor is something we have finally begun to get control of. There are two elements in the corporate delay factor: One element has to do with external acts, getting permits from a state Department of Environmental Conservation or Environmental Protection, whichever one you've got in whichever state. That sort of process is one kind of delay -- external to the agency.

The second kind of delay is internal to the agency: How long it takes you to get the damned drawings from your engineering department over to the aviation department, so they can get off their duffs and let a contract. That is how we start with the historic 40% delay. So, as we said in the program, we would spend $3.9 billion out of the $5.8 billion basically because we had a corporate delay factor.

We have attacked that corporate delay factor on both sides. Internally, this year finally, we have caught up, and we do not have an internal corporate delay. We are now turning out projects the way an organization ought to turn them out, whether they are public or private. I would say that is about half of the corporate delay issue -- our own internal rigidity and bureaucracy.

The second half has to do with managing corporate delay factors in the external world. There, we are never our own masters. We are negotiating in both states on a constant basis. There are a variety of environmental issues, permitting in particular, which have a normal and routine process. However, even on that side, we are doing a better job of managing our end of that negotiation. So, part of what you are seeing here is not an increase in the program content, it is a decrease in the historic delay and "bureaucratese" of the Port Authority, which I think is positive, rather than negative, because one of the reasons--

We tend to get two kinds of criticism from the people in the private sector we deal with -- maybe three. One is, we are slow; we are difficult and bureaucratic, and therefore we cost too much. One of the reasons we cost too much is because we have been slow and bureaucratic. If we can turn a project around in 30 days, instead of in six months, the costs go down, because the people we are negotiating with live in the same world we do. They borrow the money and they have to pay the costs of interest on it.

I'll give you a couple of examples: We have done some things which basically have not been done before. When the international facility -- the new international facility -- had to be built at Newark and had to be opened by June 1 -- we made a commitment to SAS and to Continental to open it by June 1 -- we did that in 110 days. We made a commitment to Pan Am to open their new shuttle terminal at LaGuardia. It was done in 45 days. Those would have been six to eight or ten months in the marvelous history of our organization. That doesn't happen anymore. That is the good news. The good news is, it happens faster and costs you less in the long term. The bad news is, it happens faster, and you have to pay for it right then.

The Board had a meeting with the Chief Executive Officer of one of the leading American airlines last week to talk about investment -- investment in all three airports. He complained about the quality of the facilities; they need upgrading. He complained about the bureaucracy, but admitted that what we have done in the last two years has cut project time by 25% of what it was historically. Part of the reason for the increased expenditure is that we are not sitting on top of ourselves anymore. What I have said to people is, you know, one of the impacts of the delayering of the organization means that instead of having to go up and across sometimes 10 sign-offs on something, you may now have four, and that just chops out the amount of time enormously.

Now, the other part, of course, is that we now have, in fact, the first three years of the plan under our belts. We are at $2.1 billion, which is about $100 million under what we thought we would spend at the end of three years, but we are basically accomplishing everything we said we would accomplish.

SENATOR ORECHIO: Steve, you talk about commitment, and I can't resist a comment: In '87 there was a commitment, too, that in the foreseeable future tolls would not be increased either.

MR. BERGER: Senator, I'm sorry, but that is not the case. That is not the case. What we said was we needed two. We agreed we could make it with one if the revenue base held up, but the revenue base did not hold up. The commitment was a commitment based upon a set of assumptions about the revenue base.

SENATOR ORECHIO: But wouldn't it dictate, though, that if those projections -- revenue projections -- weren't attained, that within the system there should be an effort made to contract the ambitious capital improvement program and live within the means you had available to you?

MR. BERGER: That is not unreasonable, except if you look at the capital program and understand what you have to do, you know you will have to do it later. It will cost you much more. Secondly, the activity will go into service much later.

Senator Brown was talking about some of the things that we did on PATH. Could we have delayed some of those expenditures? It would have been prudent to delay an expenditure which doesn't return anything to you if you are a self-supporting agency. The answer is, "Yes." It would have been prudent to stretch out the PATH redevelopment.

SENATOR ORECHIO: So the proposition really is this: On the one hand, if you make these capital improvements and you do them today rather than tomorrow, the costs are going to be less. On the other hand, in order to achieve that saving, then you have to raise revenues to meet the costs.

MR. BERGER: But the costs will be so much more as you push it out, and the sources of the revenues that we have are limited. It is an interesting phenomenon, if you think about it. But to a large extent, remember, we are rebuilding aging facilities. We are not adding new facilities, which means we understand the framework of the revenue stream.

You asked me a question before, Senator, about the three airports, about how much they charge and what we get. In the airports in the port area, in the real estate area, the revenue streams -- which we have increased substantially, and continue to increase -- are based on our ability in a competitive situation to raise revenues. If we can't get the airlines to pay for the reinvestments in the aviation system, we just won't make the reinvestments.

In the interstate network, we have a responsibility to maintain that network. The revenues for that network cannot be supported by the mass transportation system. We are the only unsubsidized system. If you look at all the rest of the systems, we are the only one that is unsubsidized, and we are not treating it like a second-class system. We think the responsibilities we have to the 350,000 people who are mass transit users of our facilities are absolutely crucial, not only to them as individuals, but to the regional economic health. We really do not believe it is a prudent management tool not to improve the conditions in those systems.

SENATOR ORECHIO: What is the mix with respect to the New Yorkers and New Jerseyans, as well as out-of-staters who use the river crossings and PATH? How does that work out with respect to New Jersey motorists? Do you know what that might be?

MR. BERGER: I think it is hard to know. Obviously--

SENATOR ORECHIO: Sixty percent of New Jerseyans using the crossings-- Is that a reliable figure?

MR. BERGER: Probably.

MR. COLLURA: That's about right.

SENATOR ORECHIO: So what we're really saying is that New Jersey has a disproportionate burden with respect to handling your capital improvement needs by virtue of the toll increases affecting them, versus the New Yorkers who use them, as well as the out-of-staters.

MR. BERGER: On the other hand, one could argue-- I don't like the argument because I don't think it is fair, because I think we share an economic region. But, the other side of the argument is, the subsidy is extraordinarily deep. The subsidy to the mass transit rider -- and the higher percentage, I guess, would be the New Jersey rider -- is much deeper than any other subsidy that you have in the region. It is an extraordinarily deep subsidy. The PATH fare box contributes the smallest percentage of any mass transit system in the region. The subsidy to the commuter buses is very deep. I don't think there is anything wrong with that, Senator. I think that is appropriate. But the subsidy level is extraordinarily deep in terms of where we are doing the subsidy.

SENATOR ORECHIO: Of course, on the other hand, those who are utilizing those river crossings going to New York-- New York derives a benefit from it as well.

MR. BERGER: I don't deny that. That is why I say that everybody benefits from it, and a lot of people get something for it. It's like the Army a little bit. There is a real unhappiness with paying additional tolls and fares -- I have been living with this now, wearing different hats, for probably 20 years of my life -- particularly when you see it as an individual act -- individual action. I am driving my car. I've got enough problems; I've got enough congestion. Why should I pay any more for this congestion?

Part of my answer, first of all, is, we have put a lot of money into the capital facilities you are using. But I come back to the other answer, which is absolutely true and accurate: The fact that you are on a facility that moves is because hundreds of thousands of people are being drawn into mass transportation, which we, as a society, have decided is going to be paid for by a sharing of the costs. That is the heart of the real debate. If New Jersey Transit is in trouble, if Port Authority mass transportation is in trouble, if the New York MTA is in trouble, the regional transportation network just breaks down.

Other sources of financing mass transportation-- I would love to see them. Federal resources go to the two states, not to the Port Authority. That is an agreement between the two states and the Port Authority. But we are subsidizing out of other activities.

SENATOR ORECHIO: Steve, you talked before about the charge given to you by the Governors of both states, about taking on the bureaucracy. With respect to your own procedural activity, with respect to, say, toll increases, do you sit down, for example, with the Treasurers of both states, or the Governors' men or women who are involved in the Authority Units, to discuss the financing and so forth?

MR. BERGER: Absolutely.

SENATOR ORECHIO: You do?

MR. BERGER: Yes. We meet with the--

SENATOR ORECHIO: So what you are saying is, with respect to this toll hike we are talking about this morning, this is a matter you discussed with the Treasurers as well as the Governors' point people.

MR. BERGER: We discussed it with the Governors' people.

SENATOR ORECHIO: Prior to--

MR. BERGER: Our consultation-- Our formal consultative process is a regular ongoing-- Discussions are with those people designated by the Governors. In New Jersey, it is in the Authorities Unit. In New York, it is in the-- It is actually, I think, in the Department of Economic Development for the State of New York.

SENATOR ORECHIO: Wouldn't this particular event be somewhat irregular in a way, in that, you know, the compact in '87 -- the fact that this is a dramatic increase two years later? Wouldn't that necessitate exploring, or at least discussing it with the Treasurers of both states? I mean, there has to be some agreement with respect to the shortfall of revenues and the projections falling off. Wouldn't that have made some sense? I am just wondering.

MR. BERGER: Senator, that is really a judgment which would have to be made inside each state by the Governor as to who he wants us to discuss these matters with. We are audited; I ought to point out that we are audited. We are reviewed in at least three ways by people outside of the Port Authority on a regular and consistent basis. We are reviewed each month by the staffs of the two Governors. We are independently audited by an outside accounting firm each year, and now, for three years in a row, we have won the Government Finance Officers' Award. For three years in a row, we have won the Government Finance Officers' Award in terms of financial reporting.

Thirdly, we are reviewed and have quarterly discussions with rating agencies in terms of our activities, in terms of our revenue, in terms of our projections. We go over this on a regular basis. In addition, the State of New York formally audits-- I guess that is the Comptroller's office. Yes, the Comptroller's office formally audits us.

In addition, we are audited by the airlines, because our charges to them are based upon costs. Therefore, they have the right, under the leases, to audit us.

MR. COLLURA: And the City of New York.

MR. BERGER: And the City of New York. Is there a longer list?

MR. COLLURA: Yes.

MR. BERGER: We will get you a full list of everybody who audits us, if you would like.

SENATOR ORECHIO: You indicated before that the Governor's office of both states had been contacted about a toll increase. When was that done? Prior to December 1, no doubt.

MR. BERGER: I had been informing the state offices about the revenue and expenditure projections actually beginning in October of 1988. I reported to the Board, in the last week of October of this year, what the financial projections looked like, and that it was my judgment that we would need to increase revenues roughly in the amounts I finally suggested, which was about $100 million from other sources, and close to $100 million by means of a toll and fare increase.

The Board suggested I go back, take another look at it, and see if there were any other options or any other ways. That was the last week in October, which was our briefing. I then proceeded to brief the states on November 17.

MR. COLLURA: No, it was earlier.

MR. BERGER: Earlier? Sometime right after I sent the material I sent to the Board to the two state offices -- to the two State Houses. I don't remember the exact date.

MR. COLLURA: It was two weeks before that.

MR. BERGER: About the middle of November, and we briefed them. At that point, I did not have a final recommendation on a toll/fare package, but I had a final picture of what the numbers looked like. I told them, at that point, that it was my intention to recommend a toll and fare increase to the Board. Exactly what it would be I did not know until another 10 days.

SENATOR ORECHIO: Well, when the announcement was made about the increase in tolls, I think the Governor of New York said that he was going to discuss it with Governor-Elect Florio. Our Governor in New Jersey, Governor Kean, indicated that he wanted an independent audit of the Authority. What is the status of the audit?

MR. BERGER: We have said from the beginning that we are totally prepared for an independent audit. We would be delighted to have one. That is up to the two states -- the two State Houses to discuss.

SENATOR ORECHIO: So nothing has been initiated yet, from that perspective?

MR. BERGER: If it gets initiated, I think it ought to be done by them. We are anxious to cooperate in having it done. I would be delighted to have it done as soon as possible, Senator.

SENATOR ORECHIO: Senator McManimon, do you have any questions?

SENATOR McMANIMON: Well, what I am concerned with is, is the Board prepared not to vote on the issue then until that audit is completed?

SENATOR ORECHIO: The Port Authority Board of Commissioners?

SENATOR McMANIMON: Yes.

MR. BERGER: I can't speak for the Board, Senator. I don't think an audit would take very long. I think that any substantial accounting firm could do it in a reasonable amount of time.

SENATOR ORECHIO: Wasn't that an edict by Governor Kean?

MR. BERGER: I'm sorry?

SENATOR ORECHIO: Wasn't that an edict by him that before he would consider approving minutes, that an audit had to be finished?

MR. BERGER: I am anxious to see it done. I am not going to speak either for the Board or for the Governors. I personally would love to see it done. We have-- How many are left, the Big Six?

MR. COLLURA: Yes.

MR. BERGER: There are now six; there used to be eight. I can't keep track of the accounting firms anymore. There are now a Big Six. Obviously, we have our own auditors. It can't be one of ours. That leaves five big -- the Big Five. As soon as they pick one, we will be delighted to cooperate and get it done as soon as possible.

SENATOR McMANIMON: Mr. Chairman?

SENATOR BROWN: Two months?

MR. BERGER: Oh, I don't think so.

SENATOR ORECHIO: Senator McManimon?

SENATOR McMANIMON: I have one other area of concern. I had previously asked you a question about your accelerated programs: Were they resulting in a possible shortfall because of the fact that you had taken it upon yourself to accelerate them? And in your presentation, your answer to the Chairman was that you jumped in, but that you felt in the long run you would be saving money. I thought that you were spending money faster than you expected, and you were not staying within a structure of specific phases.

MR. BERGER: Senator, we have not, at this point, spent money any faster than we had originally contemplated. We had planned to spend-- Even in the 1987 plan, our program had us spending 7, 14, 21, no, actually more, \$2.3 billion -- \$2.2 billion as of the end of '89. We will have spent \$2.1 billion at the end of '89.

SENATOR McMANIMON: My concern is, you are here, and you are concerned about the increase in the tolls. When I asked about acceleration, you gave me that specific answer. Are you planning on going to a bond issue then?

MR. BERGER: We sell bonds every year. We sell bonds basically every quarter. We support ourselves by selling bonds. We support our capital program by selling bonds. Our capital program is supported both by bond sales and by the drawing down of reserves. If we can't go into the capital markets, we can't spend anything on the capital program.

SENATOR McMANIMON: The reason why I am coming at you in this vein is, you know there is a tempo out there. You know what the present economy is. You know what is taking place in North Jersey. You know what is taking place in some of our other toll areas, where people are practically trying to demand the fact that we cut tolls in certain areas of the State. For us to come right around and say, "Hey, we recommend this, this, and this," in lieu of the present situation, I think is a little ticklish, you know.

The question was asked before: In the event you do not get the increase, are you already in a position to scale back? You stated $300 million and $35 million, if I recall correctly.

MR. BERGER: But it's more than that, Senator. It is that it then rolls forward and you keep scaling back. Could I suggest something to you?

SENATOR McMANIMON: Well, first I want to get to another point.

MR. BERGER: Okay.

SENATOR McMANIMON: I admire the program that you had already projected and put forward, because it is quite evident what you have already quadruptively spent in capital investments over these last five years, which shows that there has been a positive forward action. But, in view of the present economy, there comes a time when, hey, we all have to pull our belts in. You know, when you look at your own homestead, you know there is only so much there, and you have to stay within that structure until better times come along.

MR. BERGER: Senator, I would like to challenge that, for a couple of reasons; not that it doesn't make a lot of sense, particularly if you are dealing with your own personal economic situation. If you think of it, though-- Let me just frame it a little differently, if I can.

First of all, one of the things we have managed to do, which I am very proud of, is to deliver a lot of what we have already delivered at prices less than had originally been budgeted. But more than that, I would argue that given the slowing down of the economy, that this is the worst time to cut back on some of these expenditures, not the best time. I argue that for two reasons:

The first is, we learned that lesson in the mid-'70s. We did that in our part of the two states in the mid-'70s. We crippled our infrastructure investment. The result was, when the economy started to boom, almost all of our public infrastructure, from resource recovery to water supplies to aviation facilities to port facilities-- We found ourselves noncompetitive with places around the country which took our business away from us. That was the first thing.

Secondly, we know-- Studies now show that for every dollar of public investment in infrastructure, you get about $15 of private sector investment to match it. That is an incredible piece of leverage.

Then we come to my final point, which is really a judgment which certainly you and we and everybody else in public life has to make. I would like to state it in reasonably rough terms, if I may: I said earlier -- either here or in answer to a question a reporter asked me -- in 1927, the Port Authority toll was a dollar, and that gave you $7.31 in buying power. The present $3 toll enacted in 1987 gives us $2.60 in buying power. The people who built the institutions and most of the facilities I have been given responsibility for on a day-to-day basis, were a generation of people who believed in the future. They invested for the future. They invested for their kids and their grandchildren, whether it was in their personal decisions, their saving habits, their educational investments, in what they did with housing, in what they didn't do for themselves so that their children would have a better world. It is expensive to rebuild the infrastructure in a dense, congested part of the United States, because you are not working in cow pastures. You are working--

Look at our costs. We work in the PATH system-- We've got five hours -- okay? -- because we run 24 hours. We get the train out, we close down part of the system, we get a work train out, and then they have to clean up and get out of there before the rush hour. The same is true of everything we are working on. Everything is in the middle of congestion.

But I think the question is: Are we prepared to invest for the future? I think that is really an issue not just for the Port Authority, but for the entire debate about transportation and infrastructure investment. We are asking for those dollars to be able to continue the program, but the heart of it is that the interstate network is losing substantial amounts of money. We did not make a judgment that because this part of our responsibility was an enormous money loser, we would not put the capital back in. We even put capital in which gives us more capacity that we need today on the southern route, which is the new PATH and the ferry area, because we believe in the growth of the future.

It's tough. I understand that. You know, I am in the paper every day. I don't like being in the paper every day. I understood what would happen. But I truly believe in the future of our region. I think this is the time to reinvest. The '70s taught us that when the private sector starts backing out, if the public sector also backs out, then the long-term costs are extraordinary. We are facing that now. We are just beginning to catch up on what we didn't do in the '70s. To turn it around again, I don't think makes sense for the region, but I understand that a lot of other people may have other judgments.

SENATOR ORECHIO: What is your bonded debt today, and what is your capacity?

MR. BERGER: Our bonded debt is $4 billion, and our capacity-- That really depends, Senator-- It is hard to answer that question. It depends on our revenues. The answer is--

SENATOR ORECHIO: How about next year -- based on next year's projection?

MR. BERGER: With or without a toll increase? (no response) Well, we would have to get you an exact answer, Senator, but doing an estimate here, looking at the numbers-- Our estimate is that without a toll increase, we could raise probably about $300 million next year, and we couldn't raise anything in '91.

SENATOR ORECHIO: How about with a toll increase? What would it be?

MR. BERGER: About $800 million.

SENATOR ORECHIO: Senator Brown?

SENATOR BROWN: To underscore some of the points that have been made previously, certainly if we are competing in the global economy, which is the case, and there is a lot of discussion with New Jerseyans and other Americans about competition, particularly with the Japanese-- The Japanese are planning to spend trillions in the next 15 years upgrading their infrastructure. Certainly, we've got to pay a lot of attention to improving our infrastructure in this region.

The other side of it, Steve, is, you have offered to take us on various tours to see what you have done, and I have told you that I have been very much impressed with the PATH improvements, and so on. But I think you've got to be able to welcome this Committee through your World Trade Center facility and be able to say to all of us, "This is what this person is doing, this is what the other person is doing, and so on," in the same competitive economy that we are building our infrastructure to meet.

I am not sure you are there yet. Some of us are very willing to go to bat for the future of this region, because we've got to have safe bridges, safe airports, safe tunnels. At the same time, we've got to have maximum bang for the buck when it comes to the administrative side of the coin.

MR. BERGER: Senator, I don't deny that. I am not sure anybody ever gets "there" entirely. I think we have come a long way toward there. I think we have made major improvements.

SENATOR BROWN: I have been there in the past, Steve, so I know a little bit. There was an era in Port Authority history where people sat around wondering what would be the next project that would be worthy of their talents. And you know, that day and age is long gone.

A specific question: When it comes to investments in Essex County, as far as, you know, the Resource Recovery and the Legal Center, what is the dollar capital investment?

MR. BERGER: The Legal Center is $75 million. The Essex County Resource Recovery Center is $380 million.

SENATOR BROWN: By the Port Authority?

MR. BERGER: The Legal Center is all Port Authority. The Essex County is-- I think $300 million is us, and I think $80 million may be the private sector.

SENATOR BROWN: And these projects-- How do they help the transportation in the region?

MR. BERGER: I don't think they were directed toward the transportation issues in the region. I think the judgment, Senator, made by the two states in conjunction with the Port Authority, was that these were necessary infrastructure projects. I think they go back to the approach that was taken in the blue-ribbon report which I participated in in 1982, which looked to the Port Authority for a wider range of infrastructure projects. I think time has overtaken that, and I think-- I would expect that there would be less of those in the future.

SENATOR BROWN: Well, I loved your reference to the corporate delay factor. It makes waste and inefficiency sound rather glamorous, but if it could be suggested in the future-- I think the Port Authority has more than it can handle making transportation and the economy, as far as the delivery of goods and services in one of the most exciting regions in the world, really work. I certainly hope that is going to be the major focus.

MR. BERGER: I do too, Senator.

SENATOR ORECHIO: Steve, earlier you talked about rivets, $12 million. How often is that expenditure required?

MR. BERGER: No, that was a one-time expenditure, which was part of what was not calculated. What I gave you, Senator, was a list of costs that we have fundamentally eaten during this period, which had not been contemplated, which came up as we moved through certain other activities.

You had asked a question about how much we could do with, and without, a toll increase. I will have to calculate that and get it to you, Senator. See, the back of an envelope and three microphones is a little tough, sitting right here.

SENATOR ORECHIO: Okay. Do the Commissioners, as a rule, pretty much make all the meetings? Basically, when you initially broached the subject of the need to increase tolls because of the revenue shortfall, was there 100% attendance of Commissioners on both sides? The reason I ask the question is, in newspaper reports subsequent to your announcement, several Commissioners, in New Jersey especially -- I don't know about New York -- expressed shock and outrage and so forth, and surprise; maybe surprise, rather than outrage. I am just kind of surprised that they would react that way, when it appeared to me that you had conferred earlier about the need for potential increases. For them to react that way kind of just disarmed me.

MR. BERGER: I can't really comment on that.

SENATOR ORECHIO: Okay. Any other questions? Senator Brown, do you have any questions? (no response)

I have a question, and I recognize-- I may be misinformed, but I recognize the hazardous work that the Port Authority police officers encounter in the normal course of their workday. I was wondering: Would you know what the minimum and maximum scale -- pay scale is for a Port Authority policeman? I remember that at one time it was substantially more than big cities in New Jersey. As I understand it also, it exceeded the salary level for patrolmen in New York City. I don't know whether that is accurate, but that is what was reported to me.

MR. BERGER: I'll have to get that for you, Senator. I don't know those exact numbers off the top of my head. I think the last time I looked, they were not more than the New York City police--

SENATOR ORECHIO: They were not?

MR. BERGER: --but they were very close.

SENATOR ORECHIO: And of course, in New Jersey we have binding arbitration. I guess you have that in New York as well.

MR. BERGER: No, we don't.

SENATOR ORECHIO: You don't? What law applies with respect to the negotiation process?

PATRICK J. FALVEY: We have a labor relations resolution and policy that blends in New York State law and New Jersey law.

SENATOR ORECHIO: So how do you resolve an impasse?

MR. FALVEY: We have an independent panel consisting of people appointed by our Board on recommendation from each Governor, and they pick a third. It is an independent review panel. They do not arbitrate, and they do not have the power to impose settlements on our Commissioners.

SENATOR ORECHIO: Who is the labor counsel who represents the Port Authority in those negotiations.

MR. FALVEY: I represent the Port Authority.

SENATOR ORECHIO: Oh, you do. You are in-house, though, aren't you?

MR. FALVEY: Yes.

SENATOR ORECHIO: You don't have a special counsel to deal with--

MR. FALVEY: We consult with Grotta, Glassman in New Jersey occasionally on specific issues, including particularly some of the police issues. I also consult, from time to time, with a New York counsel on given issues, where my day-to-day expertise might not be equivalent to theirs.

SENATOR ORECHIO: Senator Brown?

SENATOR BROWN: I'm sorry, these are a series of questions, but maybe you can get back to us, through the Chair, in writing. But, you know, I think they ought to be asked.

First of all, the percentage of your operating budget that goes to salaries? Secondly, the status of your staff salary studies? Thirdly, you have mentioned some cost reductions, but I don't think it would hurt to have them on one page of paper. How about the reductions-- Of course, we have not discussed expense accounts, which I always think is a relevant thing to ask when we are into a discussion of operating budgets.

What about management efficiencies? You know, you have had outside consultants come in and look at your overall situation. Are there any underway at the moment? Have any management studies been completed?

MR. BERGER: We have just completed a round of studies and we have made some major internal changes on procedures. I will be glad to send you a copy of the report.

SENATOR BROWN: I think that would be very helpful, Steve, because it is necessary to build the credibility in your operation.

MR. BERGER: I have absolutely no problem with that. In fact, I am very pleased with the studies and their results, and with some of the decisions we have made. They have basically been geared in the direction of, I think, two general rules: One is, we have to maintain a level of checks and balances because we are a public agency, but we do not have to strangle ourselves in the process. The fact of the matter is, we have created a whole series of different ways of doing a lot of things, which will both expedite and save money over time. I would be delighted to share them with you. I am very excited about it. I think, as I have said to a variety of public agencies that I have talked to, that I don't think there is anything unique about what we have done. I think it can be done by other public agencies as well, with very substantial both direct and indirect savings.

SENATOR ORECHIO: I guess we all recognize that we are in a slow economy. I think the issue really, as Senator McManimon articulated earlier, is that there has to be some balance struck between the moving forward of capital projects and the impact of the public that has to pay for those projects.

Basically, in connection with that, would you be able to tell me, hypothetically -- I don't mean to be the voice of gloom and doom here -- but if the toll increase is not granted, which projects that you projected would be affected by that?

MR. BERGER: I can't tell you that, Senator, because, as I said, the Board has said that they want to review the entire capital program, and I think, in all fairness, that is the first round of discussion. What I have said, and I think this is fair, is that those things which we know are going to be completed next year would not be affected by it. That would just not make any sense. But that would leave them-- Unfortunately, it is a limited pool, but they would have to take a look through that limited pool.

I really don't want to speak for the Board at this point, because that would be an unfortunate-- That would be a different level of discussion.

SENATOR ORECHIO: Well, let me just say in conclusion, certainly we have a concern -- and I am sure I am echoing the sentiments of our Legislature, the members of both houses -- about the capital projects, and will continue to monitor them.

I would also hopefully expect to receive some information that I asked for that you didn't have, if you could send that to us, in writing, if you would.

MR. BERGER: Absolutely.

SENATOR ORECHIO: I also appreciate the fact that you came this morning on short notice. If you can keep us informed as to what else we should know here, I would be most appreciative.

Senator Brown, do you have any comments to make in conclusion?

SENATOR BROWN: No. I appreciate your taking the time.

SENATOR ORECHIO: Senator McManimon, do you have any comments?

SENATOR McMANIMON: I would just like to compliment Mr. Berger. I have been quite impressed. You know, like everything else, we all-- I am more impressed with your positive philosophy. I think you do an outstanding job of presentation, but I think you realize where we have to come from. But I do want to congratulate you on your presentation.

SENATOR ORECHIO: Mr. Berger has not disappointed us. He has been characterized by many -- on this side of the river, as well as on the other side -- as being brilliant and being very experienced and being a creative financing genius. We respect that, and we applaud you. Thanks for coming.

MR. BERGER: Thank you, Senator, for your kindness, and Happy New Year.

(HEARING CONCLUDED)

APPENDIX

STATEMENT

of

STEPHEN BERGER

EXECUTIVE DIRECTOR

THE PORT AUTHORITY OF NEW YORK & NEW JERSEY

before

THE NEW JERSEY SENATE

COMMITTEE ON INDEPENDENT AUTHORITIES

December, 19, 1989

Trenton, New Jersey

Thank you for the opportunity to come before you this morning to discuss the Port Authority's financial plan for 1990 and the toll and fare increases that are part of that plan. There has been a great deal of misunderstanding regarding the reasons underlying our proposal. I hope to clear up any misconceptions, as well as answer the questions you undoubtedly have.

The financial plan recommended to the Board of Commissioners for 1990 calls for $2.9-billion in spending, including $1.27-billion in capital investment. We are proud that this is the highest one-year total of capital investment in the agency's history.

Every year, as part of our budgetary process, the Port Authority updates and revises its five-year capital plan. The program of capital investment outlined in the 1990 budget builds upon the plan that we were asked to undertake in March, 1987, by Governors Kean and Cuomo.

Since that program was initiated almost three years ago, the Port Authority has invested $2-billion into the regional infrastructure and these investments have already begun to yield significant dividends to the region, its citizens and the economy.

One of our first and highest priorities was to rebuild and expand our interstate transportation network, which consists of our bridges, tunnels, bus terminals, PATH, and our newest addition, the Hoboken ferry.

At the outset of the program three years ago, the interstate transportation network was in a state of deterioration -- the result of successive years of record volumes for most of the decade on facilities that were for the most part well over 50 years old and rapidly showing their advancing age.

Since 1987, we have invested almost three-quarters of a billion dollars in the interstate network. We have modernized the entire fleet of cars on PATH, renovated stations, and made vital safety, maintenance and operational enhancements that the rider doesn't see, but which show in improved on-time performance -- from 76% in 1987 to 92% this year.

Additionally, we have lengthened trains on our busiest route, between Newark and Lower Manhattan, and with our private sector partners we have restored ferry service between New York and Hoboken. These initiatives constitute a 33% percent increase in transit capacity in this corridor -- the biggest gain in trans-Hudson capacity in a generation.

On the network's vehicular facilities, we have rehabilitated the Holland Tunnel tubes, Outerbridge Crossing and the Lincoln Tunnel helix, are now rebuilding the Holland Tunnel entrance plaza in Jersey City, and are set to begin major rehabilitation work inside the Lincoln Tunnel and on the George Washington Bridge.

We have invested heavily in our other services, as well. At Newark Airport, we finished Terminal C and built a new international arrivals facility. We have completed a new state-of-the-art container terminal at Port Elizabeth, an auto processing port in Jersey City-Bayonne. We recently dedicated a new Industrial Park in Elizabeth, last week we opened the Legal Center in downtown Newark, and have begun the redevelopment of the Hoboken waterfront. We have been equally active on the New York side.

In all, we have more than 100 significant capital improvement projects underway, with over 90 percent on schedule and within budget, and overall, implementation of the capital plan is within the budget outlined three years ago.

While we have met our capital investment commitments, the Port Authority -- like virtually all organizations both public and private throughout the region -- has experienced a dramatic revenue shortfall; in our case, it is a shortfall of $200-million less than initially projected. This is due primarily to the stalled regional economy, which is reflected in the flattening of volumes at Port Authority facilities, especially the airports and interstate transportation network.

Second, we have been faced with rising costs, especially with regard to the operation and maintenance of the interstate network. These cost factors include the need for increased policing, as well as the provision of extensive social services to the homeless at the Midtown Bus Terminal and elsewhere. We also face rising costs of federally mandated asbestos removal and health insurance premiums.

This revenue shortfall is what necessitates the price increases incorporated into the 1990 financial plan. These increases would raise $93-million in additional toll and fare revenues on the interstate transportation network, and $103-million in additional revenue from the Port Authority's three other principal areas of activity: aviation, port and world trade and economic development.

Like any organization whose services are financed solely by user fees, the Port Authority must bear the entire cost of operating these aging and intensively used facilities.

PATH -- virtually alone among urban rail transit systems -- receives no federal, state or local government subsidies. Its operating deficit will total $95-million in 1989, with the amount growing year by year. The Midtown Bus Terminal also operates at a chronic deficit -- in part due to a direct subsidy to commuter bus lines like NJ Transit that in 1989 averaged $30 for each of the 1.1 million bus arrivals and departures.

Consequently, the overall financial results for the interstate transportation network -- tunnels and bridges, as well as the bus terminal and PATH -- will show a loss of $57-million in 1989. At current pricing levels, this deficit would grow to $94-million next year.

This chronic deficit on the interstate network has been offset each year by an enormous subsidy from the Port Authority's other activities, particularly the World Trade Center and airports.

Today, however, the capacity of these functions to continue furnishing the same massive subsidy to the interstate commuter as in years past is severely constrained by the fiercely competitive environment in which each of them operates.

Moreover, the future capacity of the Trade Center and airports to support the commuter at <u>any</u> level will disappear altogether unless the Port Authority can keep those facilities competitive by promptly reinvesting and modernizing them, as provided for in the capital program, and has already been one for much of the interstate transportation network.

The Trade Center, now 20 years old, must catch up to a whole new generation of office development if it is to continue to attract premium tenants and thus remain among the front ranks of commercial real estate.

The airports are operating at twice their design capacity, yet at the same time, we are losing market share to other North American gateways in the all-important international market. Almost 30 years ago, when the last major upgrade of JFK was complete, 80 percent of all international traffic entered through this gateway; today our share is about 60 percent.

If the pressing need to reinvest in these facilities goes

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unmet or is unduly delayed, the effects would be damaging not only to them, but to all the interlinked activities of the Port Authority and their users, including the interstate commuter. More importantly, declining competitiveness in these areas would be devastating for the regional economy. Aviation, for instance, generates almost $20-billion in regional economic activity and accounts for more than 300,000 jobs.

Consequently, world trade and aviation must reclaim for their own pressing needs a portion of the subsidy they have steadily furnished to the interstate transportation network. The commuter must pay a greater share -- though still not a full share -- of the costs of using the interstate network.

The sooner these programmed investments are put into service, and the competitive position of the world trade and aviation functions strengthened, the sooner they will yield the premium dividends that will help relieve fiscal pressure on all lines of Port Authority activity, the interstate network included.

We recognize that the capital investment agenda developed with the full participation of Governors Kean and Cuomo is ambitious and challenging, all the more so in a slowing economy. We acutely appreciate the sacrifices being asked of our citizens in order to reinvest in the region's future. It is absolutely reasonable of the public to demand that this program be carried out with extreme attention paid to efficiency and economy.

Since this capital program was undertaken, the Port Authority has moved aggressively to strengthen its operations and to maximize their efficiency and effectiveness. Executive salaries have been frozen, and new hires have been limited only to fill positions requiring specialized skills otherwise unavailable within the agency. We have restructured and streamlined our administrative organization to remove bureaucratic layers.

These steps have resulted in a reduction of about 200 positions from the agency payroll and for two consecutive years, zero growth in our administrative overhead. Today, the Port Authority is leaner and working harder, smarter and more productively than ever before. We are committed to continue these efforts to reduce costs and increase efficiency.

Yet we have not allowed these economies and reductions to deter us from our capital investment agenda. The amount of annual capital investment by the Port Authority has more than quadrupled since 1984. We have expanded our commitments on a scale unprecedented in the agency's history; we have done so with fewer, rather than more administrative resources; and we are delivering on those commitments on or ahead of time and within or under budget.

There are some who say that this ambitious reinvestment program should be scaled back or deferred in light of the weak economy. Certainly if we are unable to raise the revenue to close next year's shortfall our momentum will be slowed considerably and we will be forced with the two states to make painful decisions as to how to cut the 1990 capital plan.

These cuts would inevitably fall across the full range of Port Authority activity. On the interstate transportation network, this could eventually result in a deterioration in service, increased congestion and worsening air quality.

I emphatically believe that slowing the rate of investment is precisely the wrong way to go in a time of economic weakness. First, we can accomplish more for less now, because prices are lower, while if we defer we will end up doing less for more because of the effects of inflation. Second, our capital investments are injecting much needed energy into the regional economy. Our capital program will account for some 3,800 private sector construction jobs next year. Third, the sooner our investments are in service, the sooner they produce dividends for the region, especially the users of our facilities such as the interstate commuter.

Finally, it would be a dreadful error to let the short-term ups and downs of the business cycle undermine the region's long-term investment priorities. Such an approach resulted in the disinvestment policies of the 1970s, and we continue to pay heavily for that disinvestment. Rather than expanding regional transportation capacity to promote greater economic growth, environmental quality and enhanced quality of life, a large share of the region's capital is absorbed simply rebuilding the systems and facilities that were permitted to deteriorate in the preceding years. As a result, the region has missed out on some portion of the benefits that should have been ours during the growth years had we been better prepared and had we invested more steadily and more intelligently during the downturns.

The current economic slowdown can be viewed two ways. Either it is a pause for breath after a decade of headlong expansion -- in which case, we had better invest now in order to capture the benefits rather than be overwhelmed again by the demands of the next up-cycle. Or, as some believe, we are witnessing the first signs of a serious erosion in our region's ability to compete in a globalized economy -- in which case, we had better get serious about reinvesting and rebuilding for the future.

Around the world, in Europe, in Asia, and elsewhere in North America, new programs of infrastructure investment are being undertaken that dwarf those of this region. In Japan, some $8-trillion in new infrastructure has been programmed for the years 1985-2000. If you think their economy is competitive today, what will the next generation have to face?

At the Port Authority, we are sobered by our competition, but we are intensely optimistic about the region's future. Our capital investment program is an expression that optimism.

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Keeping it on track over the next few years will be tough, but it is one of the most important commitments the region can make to the next generation.

It is in that long-term context that our capital program and financial plan should be evaluated.

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Mr. Chairman and members of the committee:

My name is Peter McDonough and I represent New Jersey Motor Truck Association (NJMTA). The Association is the public voice for more than 1,500 member-companies in truck transport in New Jersey, and these companies employ the bulk of the 250,000 men and women in the industry in our state.

Senator Orechio, I ask your indulgence to place in the minutes of this hearing my brief comments here and our formal comments (in the form of a white paper) to The Port Authority of New York and New Jersey. I also ask your permission to distribute copies of the white paper to you and to members of the committee. Thank you, Senator.

Essentially, it is the position of NJMTA that the proposed increase in the per axle toll on the Hudson River crossings would be detrimental to our industry and, even moreso, detrimental to the consumers of our state. To summarize:

* Truck operators in New Jersey simply cannot absorb the increase in the truck toll from $3 to $4 per axle.

* Consumers in New Jersey will have to pay higher prices because of the higher transport charges (tariffs) on everything we eat, drink, wear or use in our state.

* Truck operators in New Jersey absorbed a 100 percent increase in tolls (per axle) in 1987, just two years ago, and the Port Authority said then it would not require another toll increase until 1991 at the earliest.

* Toll revenues from Hudson River crossings are not dedicated to improvements of those essential transport links. To be sure, the Port Authority is diverting its toll revenues to subsidize its airports, its real estate ventures, and even its social programs.

* Finally, Gentlemen, New Jersey must not allow insensitive bureaucracies to outprice the cost of doing business in our state. Transport costs are an essential factor in decisions by business persons to locate or relocate. The proposed 33 and 1/3 percent toll increase would have a severely negative effect on transport costs in New Jersey.

Our job, Senator, is to deliver goods; we are not in the legislature. We are not elected to make laws. But we do believe, and we believe strongly, that legislators are the ultimate arbiters of tax policies. Since when has this tax-creating policy — and tolls are taxes, as we all know — been turned over to bureaucracies like the Port Authority?

Senator, the Port authority needs oversight. It needs to be monitored by the state legislature, so that unconscionable toll increases do not become an annual power grab by a bureaucracy unaccountable to the public — and, for that matter, almost unaccountable to the state legislature.

I thank you on behalf of the trucking industry in our state and I urge you to use your considerable influence and power to defer the proposed toll increases. The consumers of our state will thank you.

December 7, 1989

COMMENTS

OF

NEW JERSEY

TO

THE PORT AUTHORITY

OF

NEW YORK AND NEW JERSEY

ON PROPOSED TOLL INCREASES

ON

PORT AUTHORITY CROSSINGS

Edmund Hmieleski,
President

Samuel Cunninghame,
Executive Director

Prepared by:
Russell Roemmele
Assistant Executive Director

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New Jersey Motor Truck Association (NJMTA), which represents more than 1,500 companies in truck transport in the state, has historically supported necessary increases in transport user fees when it has been clearly shown that the required revenues are dedicated to vehicular transport intrastructural purposes and current revenues and reserves are insufficient to meet these kind of expense obligations.

Our position with reference to the proposed increase in tolls on trucks using the Hudson River crossings of The Port Authority of New York and New Jersey is no different: If the total revenues from the proposed increase in tolls were dedicated to infrastructural purposes of Port Authority tunnels, bridges, roads and access routes of the crossings, NJMTA will support reasonable increases, provided however, such funds are clearly needed by the Port Authority.

NJMTA insists, however, the revenues from the proposed toll increases not be used for purposes other than vehicular transport infrastructure improvements. Tolls are, after all, another form of taxation — a "use tax." Motor carriers who use the crossings are, in effect, paying this use tax for the operation, maintenance and capital improvement of the Port Authority's vehicular crossings, period. It is unfair to tax the trucking industry or highway users to finance projects of the Port Authority unrelated to the operation, maintenance, and capital improvement of the vehicular crossings.

NJMTA is well aware of the increased costs in the everyday operations of the crossings. We understand our responsibility in helping to finance the Port Authority schedule of transport improvements that are so vitally needed and from which — yes! — the trucking industry would benefit.

The trucking industry, however, is in no position financially to endure increased tolls. Several reasons exist for this condition, some long term and some of more recent vintage, but either way any increase will have a severe negative impact on motor carriers in the region. We list some of these negatives:

1) The profit picture in trucking over the past five years has not been good. This somewhat depressed environment has been the consequence of the general downturn in income as a consequence of the Motor Carrier Act of 1980, which has substantially deregulated the trucking industry and has caused bitter, often "cut throat" competition. Profits have been low for most companies as freight rates have tumbled. Motor carriers cannot survive without passing on the toll increases to the consumer.

2) The trucking industry has been burdened with increases in federal and state taxes on diesel. Various other taxes — federal tax on equipment and unfair third structure taxes in many nearby states (including New York, Pennsylvania) — have increased dramatically.

3) The metropolitan area (New Jersey-New York) is traditionally a high labor rate location. Prices on equipment, land use, and services for the trucking industry are higher locally than in other parts of the country.

4) In 1987 truck operators were devastated with a 100 percent rise in the per axle toll on the Hudson River crossings of the Port Authority.

Without trucks the economic industrial base of the metropolitan area will cease to exist. Almost every business and industry in this region is dependent upon trucks to service their freight needs. What sense does it make to develop a master plan to attract business and industry to the region when the one link between almost all business and industry — trucks — face such prohibitive operational expenses? The Port Authority must recognize the importance of truck transportation.

NJMTA members are, if anything, service-oriented. Truck operators are dependent upon maintaining reasonable costs for shippers and, in turn, for manufacturers, distributors and jobbers. Arbitrary hikes in freight costs have contributed, are contributing and will continue to contribute to shipper and manufacturer relocation. The old philosophy — "tax the trucker for he'll pass it along" — is, alas, correct.

As we said, truck transport can neither absorb the 33 1/3 percent increase in per axle rates nor can it be expected to be the middle-men — may we say, the bag-men — in imposing a higher use tax on consumers who would have to pay much higher prices for goods moved by trucks over the Hudson River crossings.

This propsed 33 1/3 percent increase is unreasonable and inflationary. Please reconsider what you have done. Please think of those who have to pay these increases — truck operators AND consumers!

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