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Volume I

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SPECIAL SENATE COMMITTEE TO STUDY PASSENGER AND FREIGHT
RAILROAD OPERATIONS WITHIN THIS STATE AND THE ADVISABILITY
OF PROVIDING FOR THE CREATION OF A PUBLIC AUTHORITY WITH
POWER TO ACQUIRE AND OPERATE PASSENGER AND FREIGHT RAILROAD
FACILITIES, CREATED UNDER SENATE RESOLUTION NUMBER 4.

Held:
July 7, 1965
County Administration Building
Somerville, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator William E. Ozzard [Chairman]

Senator Anthony J. Grossi

Senator Thomas Joseph Hillery

Senator John A. Lynch

Senator Nelson F. Stamler

Senator Milton Woolfenden, Jr.

Also:

Samuel A. Alito, Secretary

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SENATOR WILLIAM E. OZZARD [Chairman]: We have three men from the Central Railroad. Gentlemen, I would like to introduce the Committee. At the end is Senator Grossi of Passaic; Senator Lynch of Middlesex; Senator Stamler of Union; myself, Senator Ozzard from Somerset; Senator Hillery from Morris; and Senator Woolfenden from Sussex.

I would appreciate it if you would introduce yourselves and tell us your position with the Jersey Central Railroad.

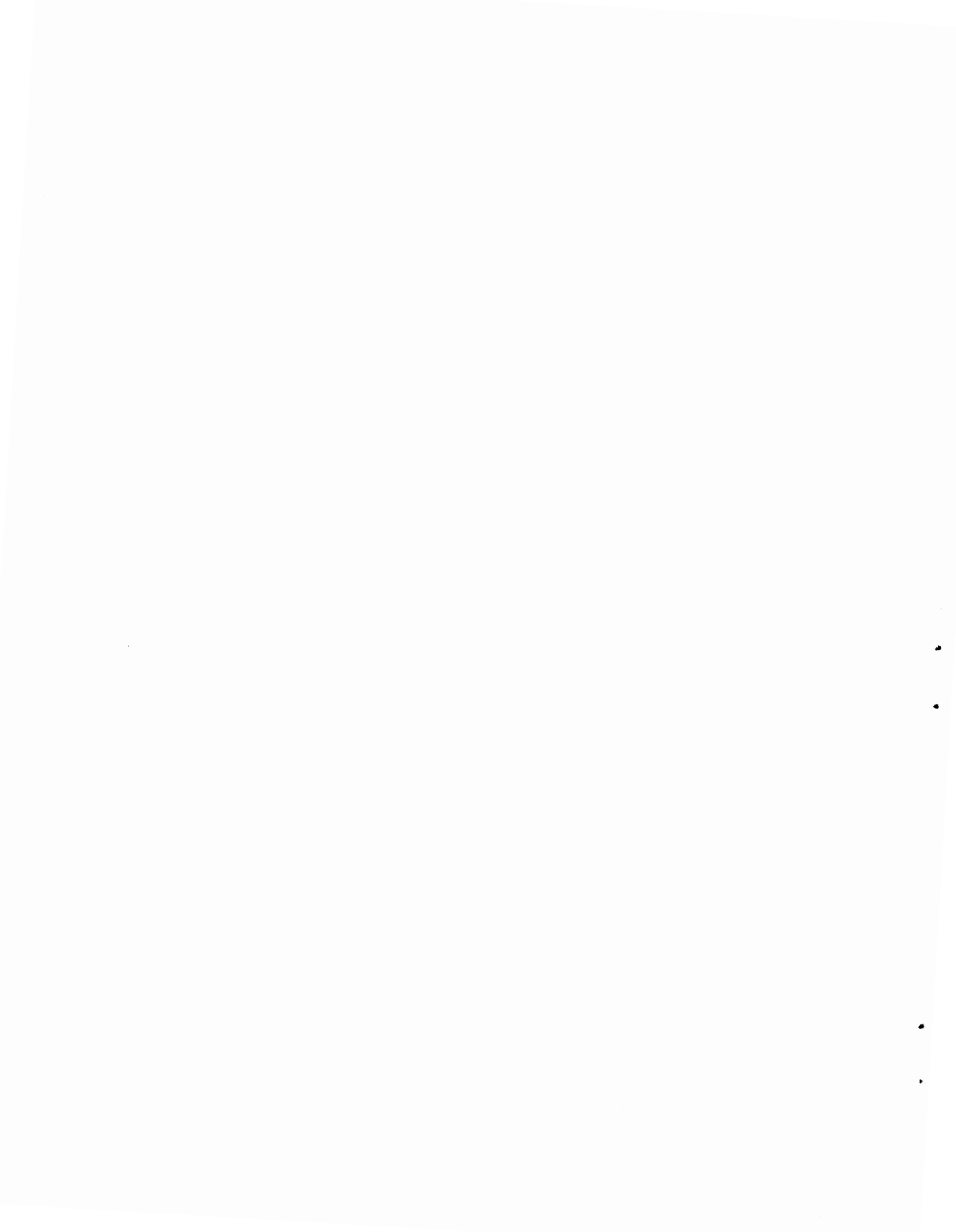
MR. FREDERICKSON: My name is Robert Frederickson. I am Comptroller of the Jersey Central Railroad.

MR. WACHENFELD: I am Richard B. Wachenfeld, Vice President and General Counsel.

MR. CRADDOCK: I am Jack Craddock, Vice President and General Manager.

SENATOR OZZARD: Gentlemen, this is the opening meeting of the Committee which was organized under Senate Resolution 4 and I believe you are all familiar with the resolution. We are charged with two things: one, to determine how far the State is to go in the matter of rail transportation, whether or not an authority or something similar is the approach - just what we should do; and two, we will consider whether or not we should look toward freight and passenger transportation if we are going to get into a takeover on an authority operation.

Now it was my selection that we call upon Jersey Central first so that this would not just be an organization meeting, but we could start getting into the meat of this.

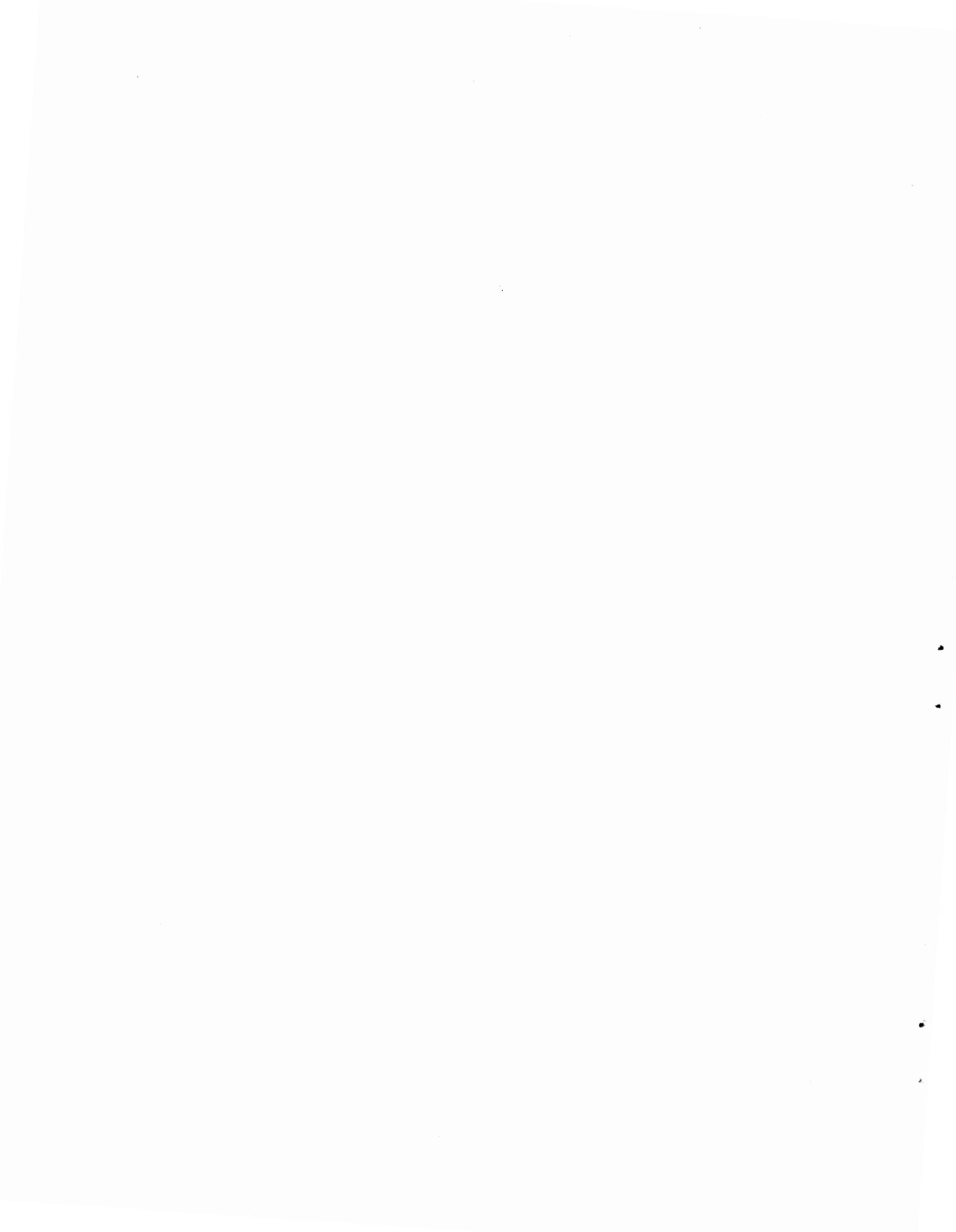


Largely because Mr. Shoemaker has been doing a pretty good job of hollering "uncle" lately and has been more than the other railroads at the moment regaling the press on the needs of the railroad, I thought we would start with the needs of the Jersey Central. From there, we are going to the other railroads who are not being selected separately, but I didn't think we could accommodate more than one group on this afternoon.

Mr. Frederickson, I understood that you as the comptroller would be here and what I would like, if you would to start this, is to have you give us a today picture of the status of the Jersey Central freight and passengerwise as to present conditions and the basis for the problem as Mr. Shoemaker has been offering it to the Governor and others.

R O B E R T F R E D E R I C K S O N: I'll have to just go back a little bit before I speak of today. One of our main problems has been that we have been incurring since 1958 where the system started losing money in total a passenger deficit averaging 6.6 million dollars a year before any State aid. And in the same seven-year period, the system as a whole has lost 38 million dollars or 5.4 million dollars on an average per year. Now leaving aside for the moment the problem of State taxes which has added to our burden, it can readily be seen that if it were not for the passenger deficit, the Jersey Central would have a modest income each year.

Now, getting more to the present picture, in 1964 we had the largest loss in the history of the company; both freight



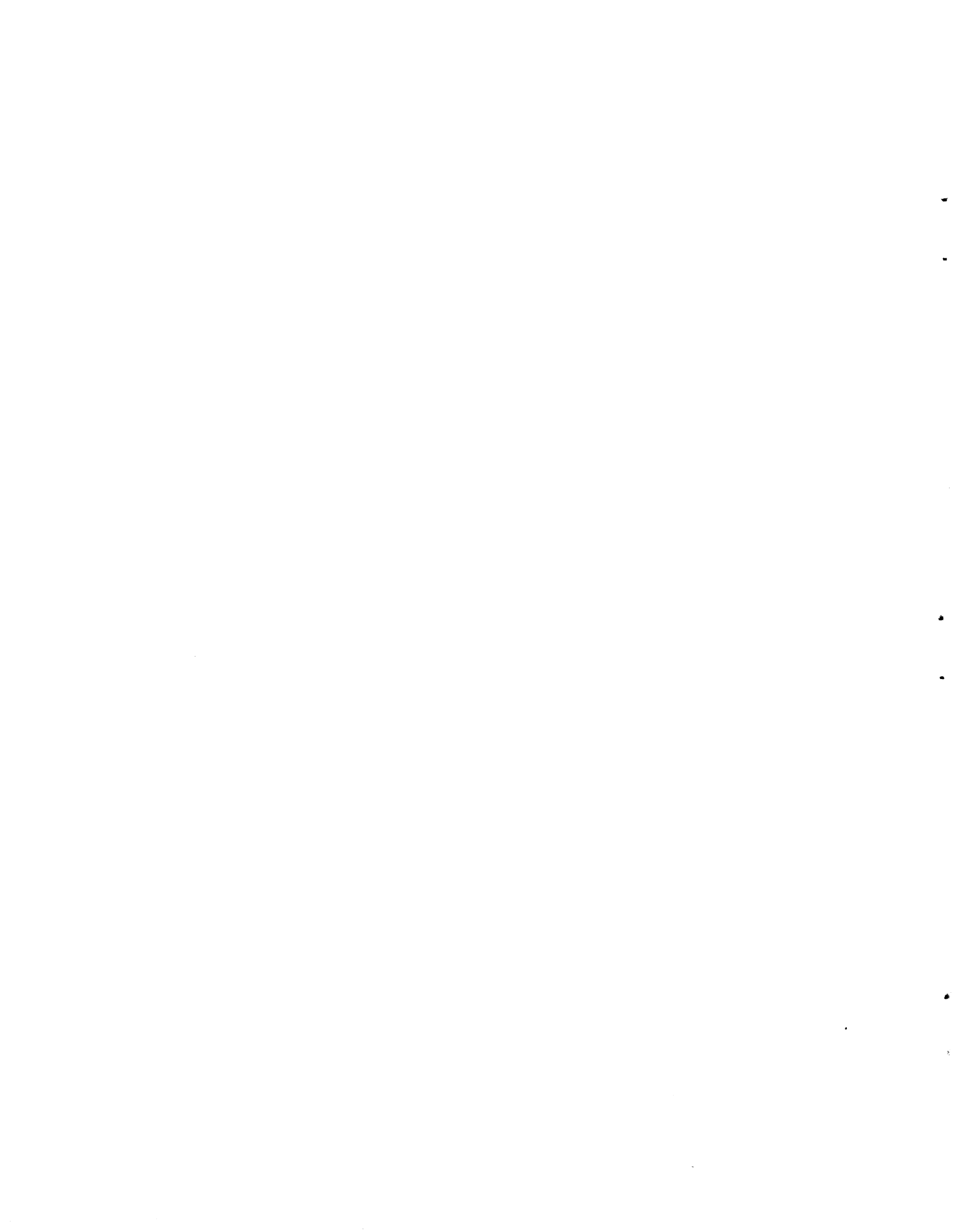
and passengerwise, we lost 8.3 million dollars after receiving from the State two and one-half million dollars in aid. Now of that eight million three, the passenger deficit was six million three. That meant that for the first time freight operations have also lost money. This was in the year 1964.

Now the first six months of 1965 indicate that we have reduced our deficit over a comparable period last year by one million dollars and our estimate is that for the full year of 1965 we will have a deficit in the neighborhood of six million two or about two million dollars less than the preceding year.

SENATOR OZZARD: That is after subsidy?

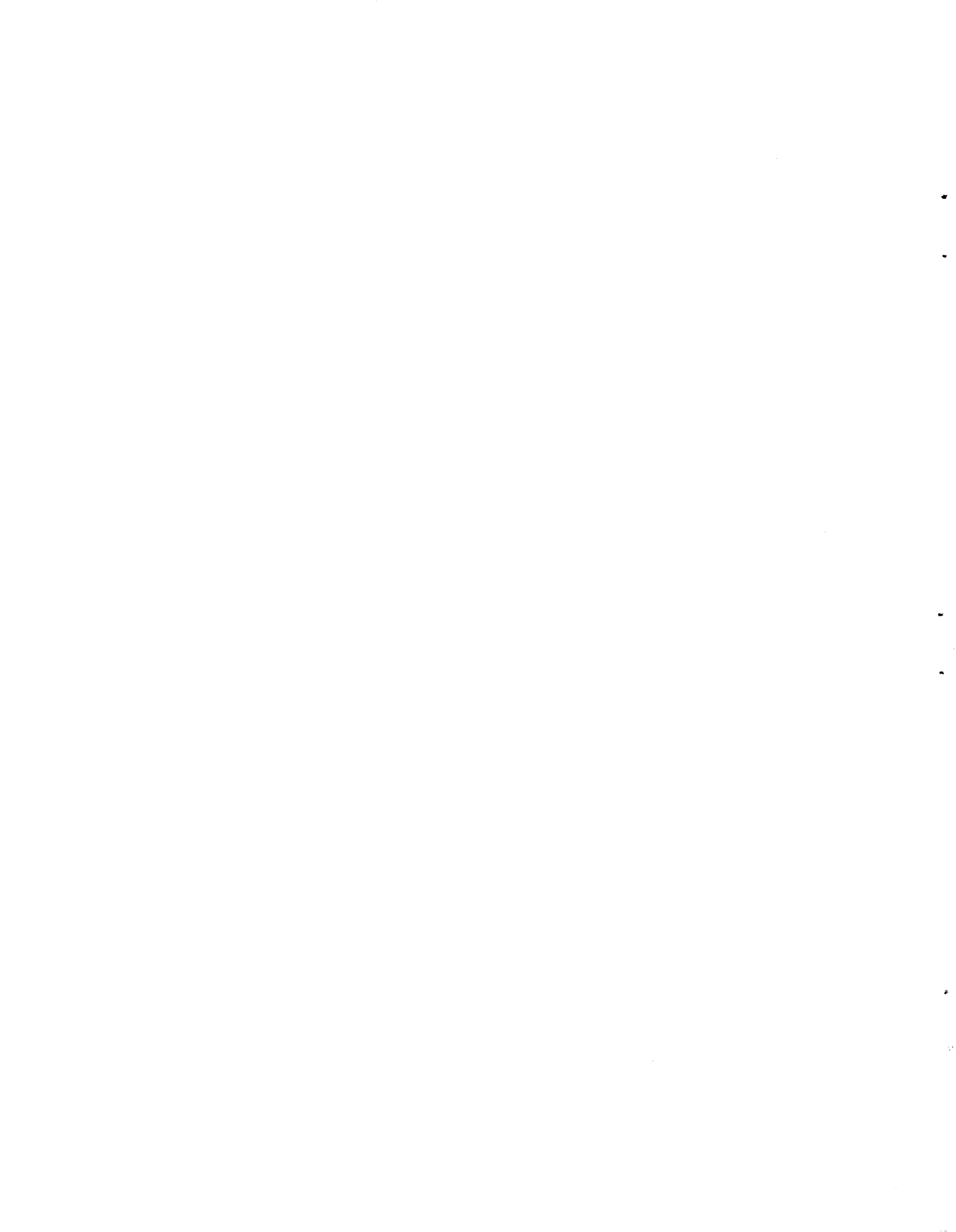
MR. FREDERICKSON: This is after subsidy, yes, sir. Now our estimates also indicate, by the way, actual figures for the first six months, that we have regained this loss position that we had in freight in 1964. In other words, we expect that when the year ends our freight net railway operating income - and I will explain that in a moment - will be somewhere in the neighborhood of a half million dollars profit, whereas our passenger loss will be close to a seven million dollar loss.

Now freight net railway operating income is as far as the Commission - that is, the Interstate Commission - goes in separating revenues and expenses between freight and passenger. After freight net railway operating income comes some miscellaneous income, miscellaneous deductions, which don't amount to much, but then comes fixed charges which are considerable and in the



case of the Jersey Central amount to in excess of four million dollars a year. Presumably these fixed charges have always been paid out of freight earnings because we have always had a deficit in passenger earnings. So that while in 1965 we may have freight earnings of roughly half a million dollars, these fixed charges of about four and one-half million dollars will have to be met and therefore we are going to run into a deficit.

Now the situation is so acute that as of the end of June we had approximately two million two hundred thousand dollars in cash. It takes a million and a half in ready cash each day to conduct the affairs of the company. On July 1st we had payments which had to be met of slightly over two million dollars and if we had made these payments, you can readily see that the company would have been bankrupt. It was on this basis that we approached the Governor and asked for immediate assistance towards our passenger losses. He promised us that in the early part of July of the funds already committed for railroad assistance, he would give us the full amount of two and one-half million dollars which was earmarked in our contract for this year. We expect that momentarily. He was also of great assistance in writing to the Interstate Commerce Commission to have them approve a deferral of a loan that we had due on July 1st, which the government had guaranteed, and the amount of this payment was one million fifty thousand dollars. We received that permission so that we theoretically benefited to the tune of roughly three and one-half million dollars in this short period of time.



The Governor, while he could not commit himself, has indicated that when the Legislature reconvenes in November, he will do everything within his power to secure another one million five hundred thousand dollars in assistance. Now this two and one-half million plus one and a half million is the very least that the Jersey Central can get by with this year until July of 1966.

SENATOR OZZARD: When you speak of the year, you are speaking of a fiscal year, June to July.

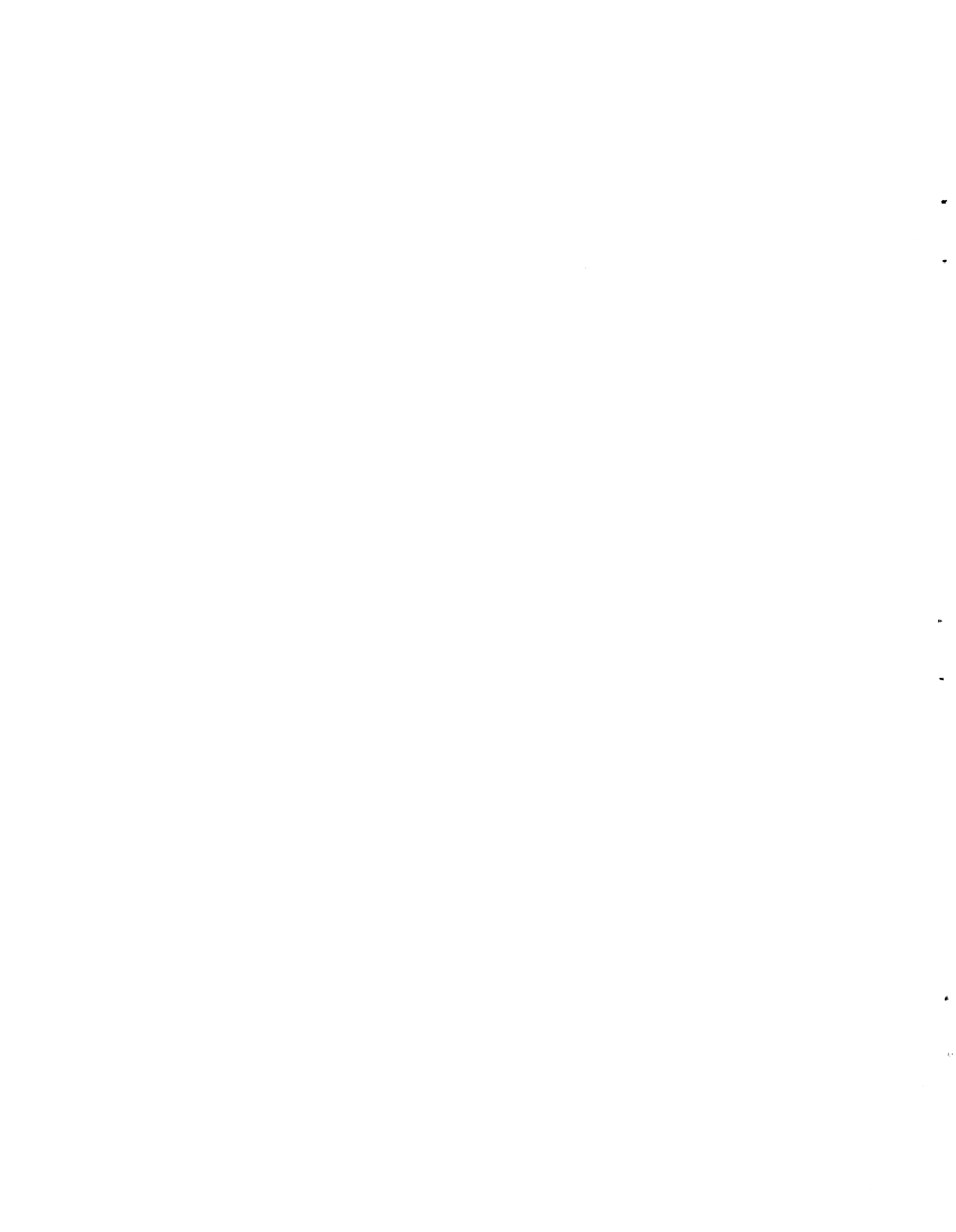
MR. FREDERICKSON: Yes, sir. When I speak of particularly assistance from the State of New Jersey, I am speaking of the fiscal year.

If this aid that the Governor thinks might be forthcoming is realized, we can get by to July of next year when again some heavy payments fall due, payments on our government-guaranteed loan, payments on our equipment obligations, payments on our rent, and at that time again we will need additional aid from the State.

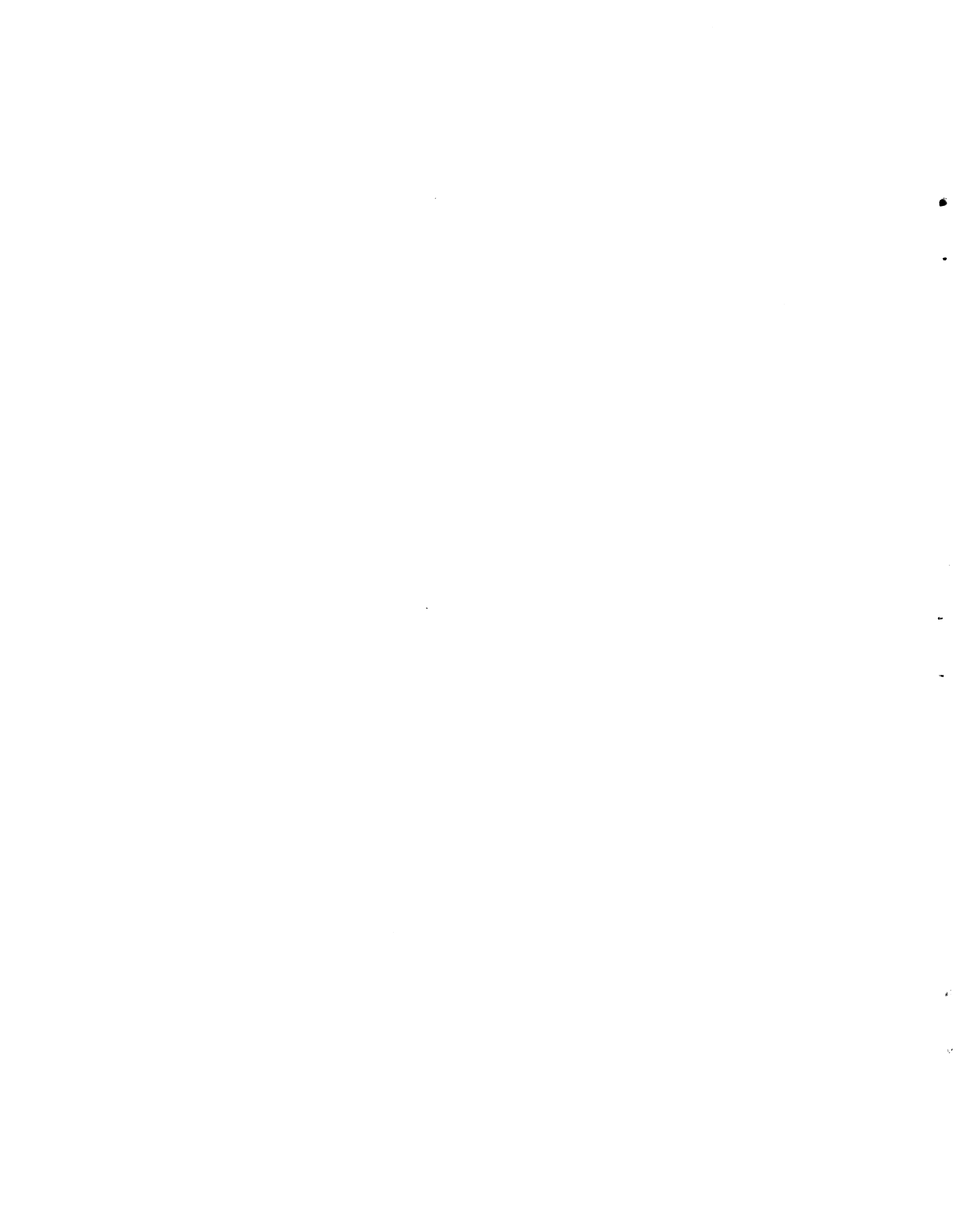
Now we have forecast for the next two years our position and if we can secure the four million dollars from the State this year and five million dollars next year, we think that we are in a position from that point on to ask for less and less assistance from the State. In the Spring of 1966 we expect to implement the Aldene Plan. Senator, should I describe that?

SENATOR OZZARD: I think for the press it might be well.

MR. FREDERICKSON: The Aldene Plan in brief is the



elimination of train service from Bayonne to New York. Our main-line trains will be rerouted at Aldene, which is near Cranford, running in an easterly direction, over the Lehigh Valley to Hunters. There they will connect with the Pennsylvania Railroad and run a short distance over that line to Penn Station in Newark where they will terminate. From that point on passengers will use the new PATH equipment and facilities to get to Downtown New York or the Pennsylvania Railroad to get to Uptown New York. Trains from the Jersey Shore, particularly Bay Head Junction, will use their present route as far as Woodbridge Junction, which is just south of Perth Amboy, and then will route over the Pennsylvania Railroad through Rahway and to their main line and also terminate in Penn Station in Newark. We believe that this plan which has been sponsored by the State is of utmost importance to the Jersey Central. It will effect a saving of at least \$1,500,000 to the Jersey Central. It will give a net income to the Pennsylvania Railroad from payments that we make for the use of trackage of roughly a half million dollars and will also give the Lehigh Valley approximately \$200,000 in trackage and yet give the Jersey Central the saving that I speak of. Now this is just a forerunner and to show the faith in this plan, the State of New Jersey has already appropriated 6.1 million dollars for capital construction costs, principally a connection from the Jersey Central to the Lehigh Valley at Aldene, a grade crossing elimination on the Lehigh Valley and signal changes on the Pennsylvania Railroad. In addition, the Federal government under the HHFA has just approved an 8.7 million dollar grant, of which 6.3 million dollars will



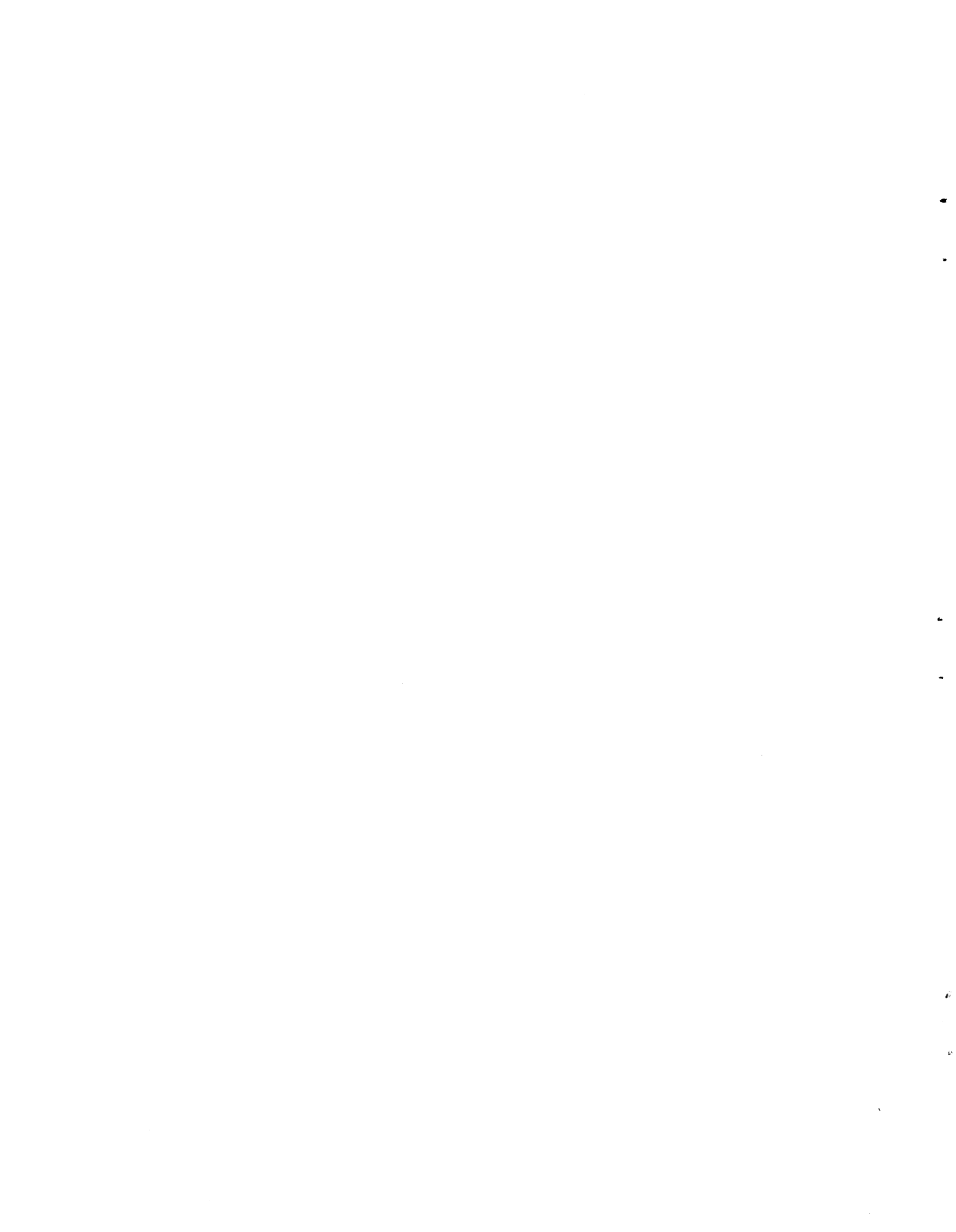
go to the further construction under the Aldene Plan, further modernization of facilities, and 5.1 million dollars will go to the Port Authority PATH organization for the purchase of new cars in connection with the Aldene Plan. That is one of the reasons that I say that beginning in 1966 we think we are going to improve our passenger position.

Furthermore, the Legislature of the State of New Jersey last year passed a law whereby Class I and III taxes would no longer be taxed against the railroads. This takes effect in the beginning of 1966 and as far as the Jersey Central is concerned will save us \$585,000.

There is further committee work being performed by the Legislature and various groups as to Class II taxes which are the most burdensome to all railroads in New Jersey. We believe that there is a very good chance within the next two years that these Class II taxes might be reduced by as much as 50 per cent and thereby the Jersey Central could save an additional million dollars a year.

Now these things must all come to pass. I am firmly convinced as are many other people that the only way to get people in mass transit to their destination, particularly in commuter service, is by rail. I just had the unfortunate experience of travelling Route 22 from Newark and if further traffic is put on our highways, our arterial highways, it just means the spending of large sums of money by the State of New Jersey and I don't think it is going to accomplish the fact.

I don't know whether I have been too wordy or not wordy enough, Senator.



SENATOR HILLERY: Would you point out the total cost of this you have gotten from the State? You have a total of four million five here in subsidies?

MR. FREDERICKSON: Speaking of subsidies, we hope to receive four million dollars this fiscal year.

SENATOR HILLERY: Plus the Aldene Plan which is six what?

MR. FREDERICKSON: Six point one. Now that is not, Senator, just Jersey Central money you understand. That has been divided amongst --

SENATOR HILLERY: The railroads are getting the benefit of it.

MR. FREDERICKSON: Yes, sir.

SENATOR HILLERY: Plus tax forgiveness of how much?

MR. FREDERICKSON: \$585,000.

SENATOR GROSSI: Plus a million on the new classification of Class II property tax.

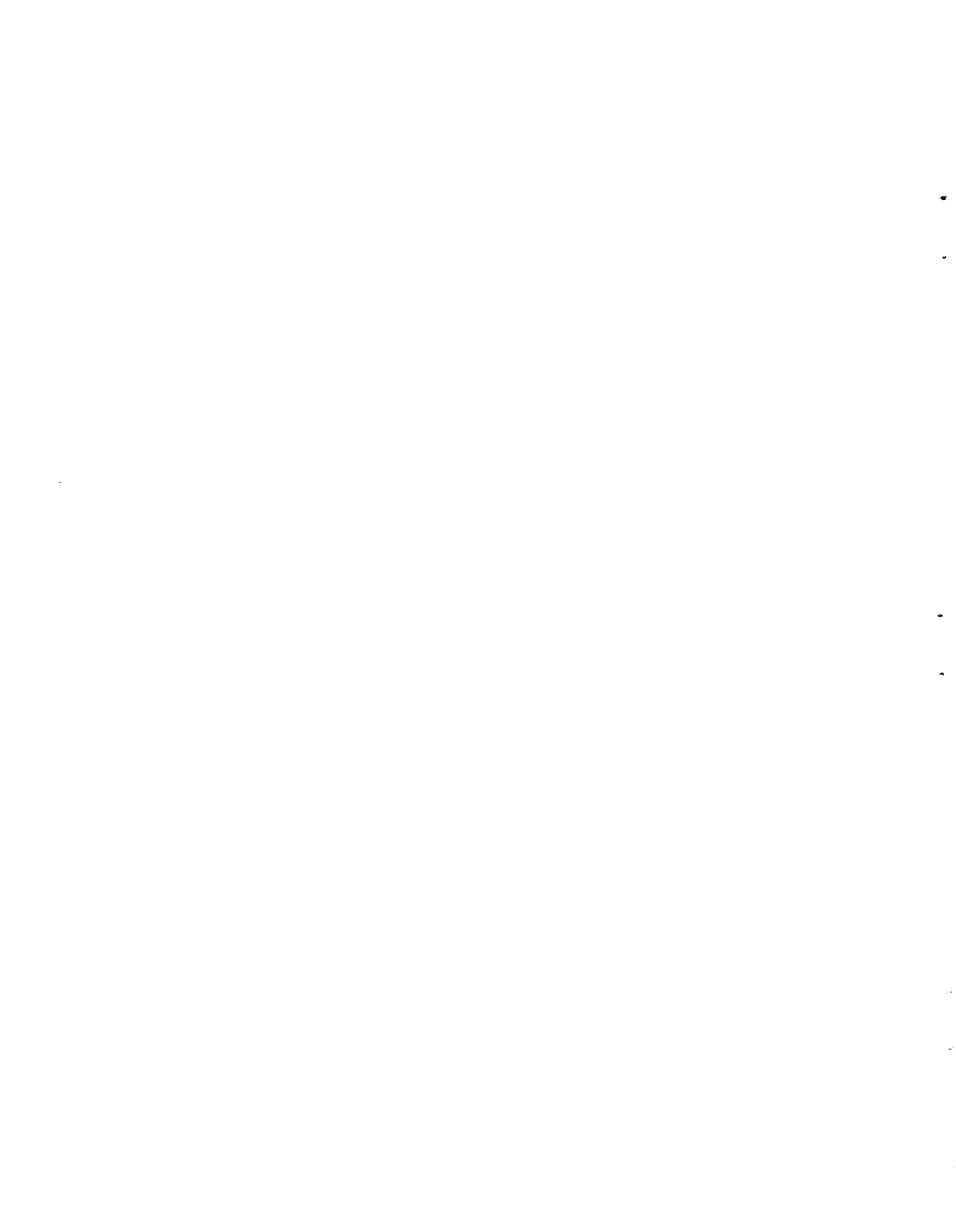
SENATOR HILLERY: Which is about 11 million dollars.

SENATOR OZZARD: You are adding this year's subsidy into continuing figures. Now the factors are separated I think.

SENATOR HILLERY: It is all tax money.

SENATOR OZZARD: Oh, yes. But I think he was making a point that certain things as continuing savings, aside from the subsidies, would play a part in this railroad recovering its stability.

MR. FREDERICKSON: That is correct, Senator. In other words, you should not take a one time capital cost like 6.1 million dollars and add it to a recurring cost like State subsidy.



SENATOR HILLERY: I wasn't talking about recurring costs. I was just trying to get a total of how much you have gotten out of State tax money. It is about 11 million dollars, isn't it?

MR. FREDERICKSON: Well, again I say, not all Jersey Central. You are probably aware, Senator, that the State has been appropriating roughly seven and one-half million dollars for subsidy money for all New Jersey railroads.

SENATOR HILLERY: I know that. I am on the Appropriations Committee.

MR. FREDERICKSON: -- of which for the last two years we have been getting roughly two and one-half million dollars. We do not know about the million and a half additional in November and, of course, the million dollars which was mentioned in Class II taxes is not a reality as of the moment. This is still in committee discussion stage.

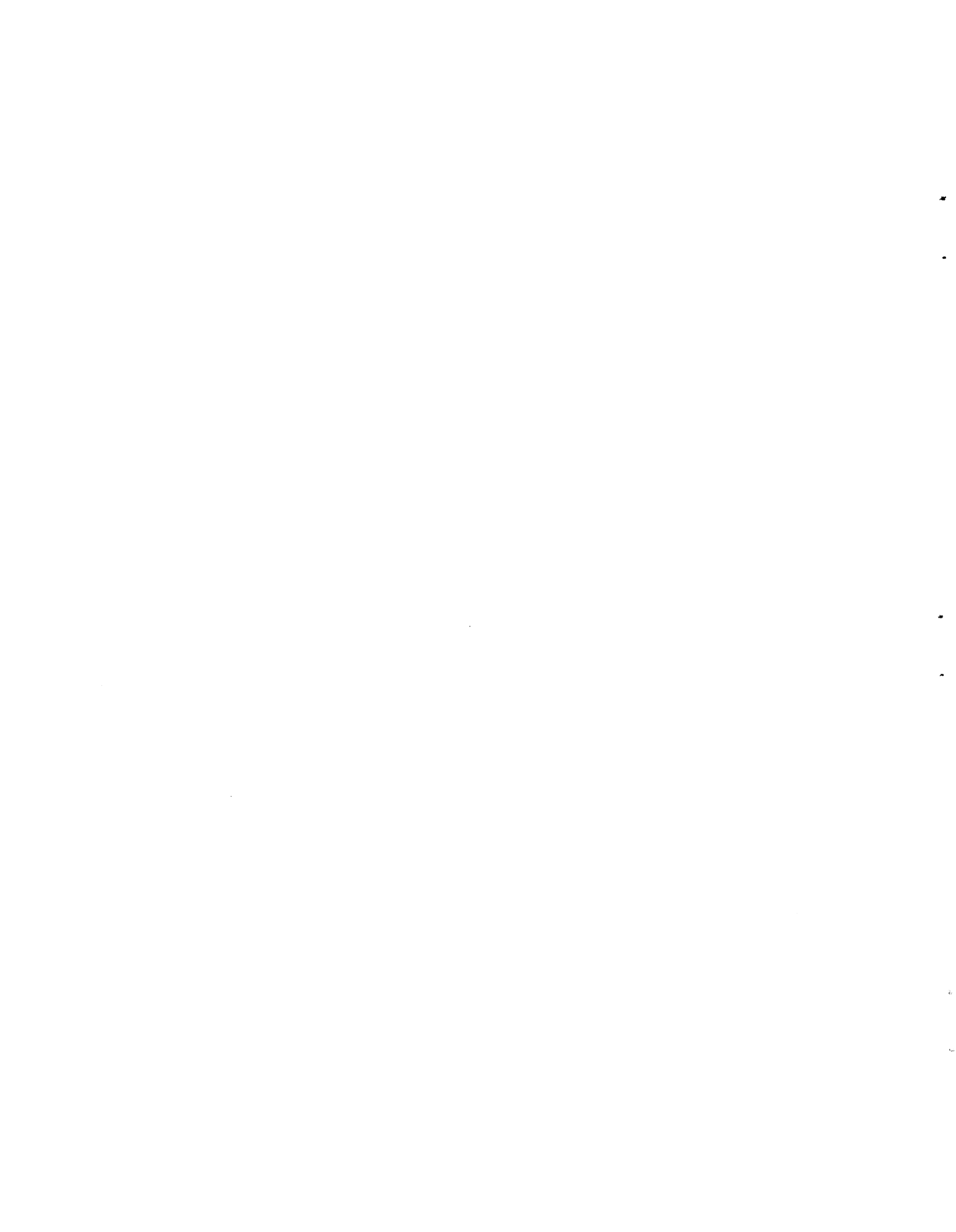
SENATOR OZZARD: I have a couple of questions to ask and then we will go through the Committee. I am curious about the freight losses. I know that you say that this year will show probably a half million dollars profit. I had been under the impression that the railroad had been operating at a freight profit right along. That is not so?

MR. FREDERICKSON: Yes, sir, it had until 1964.

SENATOR OZZARD: '64 was the first loss year.

MR. FREDERICKSON: Yes, sir. May I say that in the last 15 years, our freight profit has averaged eight and one-half million dollars a year.

SENATOR OZZARD: This has been the average?



MR. FREDERICKSON: Yes, sir. May I tell you the range?

SENATOR OZZARD: Surely.

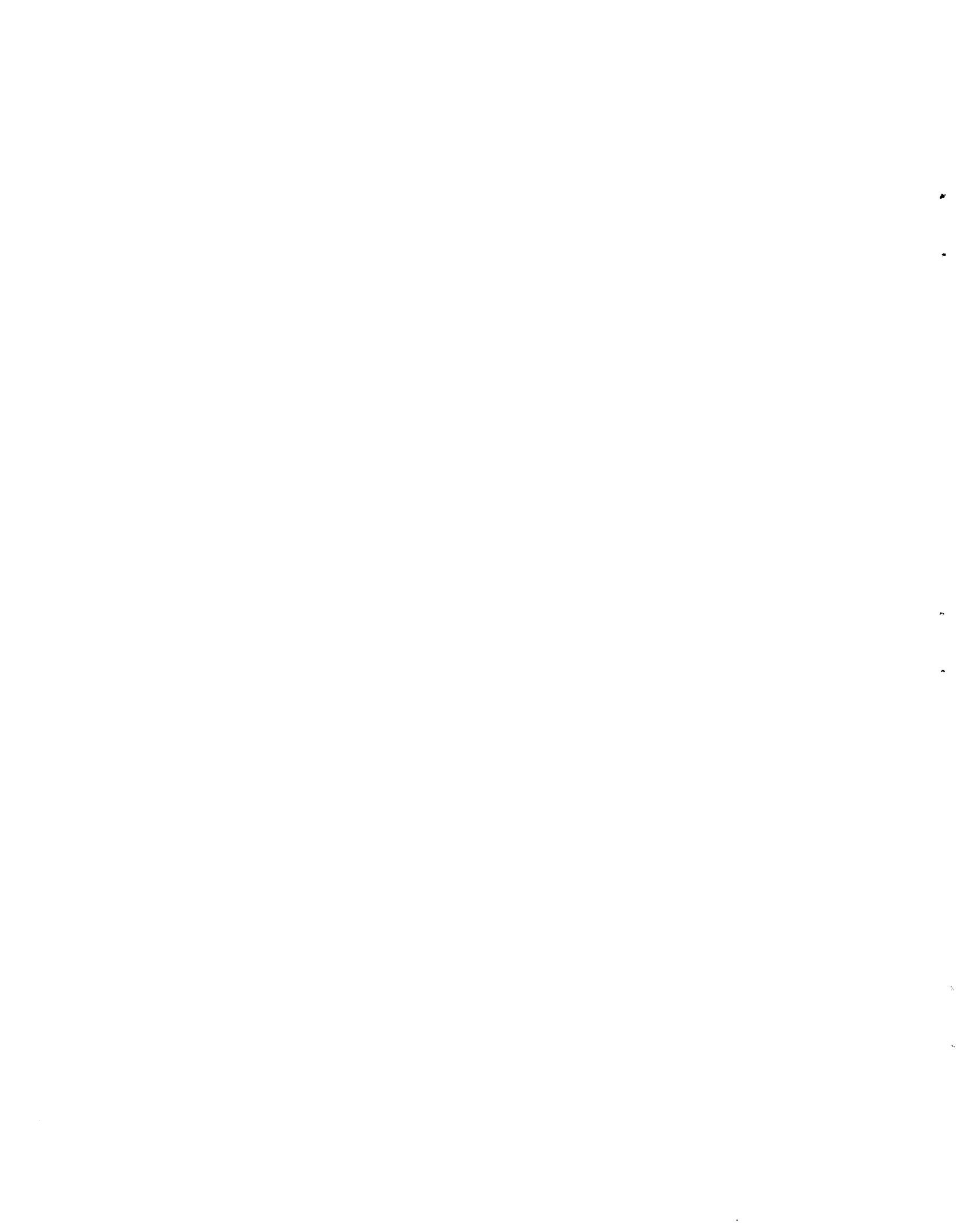
MR. FREDERICKSON: From fifteen million four to nine hundred thousand dollars profit and 1964 was the first loss year.

SENATOR OZZARD: When you give me this range, are you starting way back at a high figure and falling away or has it been a graft situation?

MR. FREDERICKSON: Let me say that in 1950 was the highest figure and it ranged at that time a little over 15 million dollars, kept that pace until about 1954, dropped to about 11 million dollars, and in 1958 it dropped to 8 million then 6 million, then 4 million, then 1 million, went back to 2 million and in 1964 had 1.4 deficit loss.

SENATOR OZZARD: Since we are inquiring both as to freight and passenger, I am curious if there are reasons - and I am sure you have analysts who have looked into it - as to why there has been a falling off of freight income to this railroad in this rather heavily industrialized central belt of New Jersey.

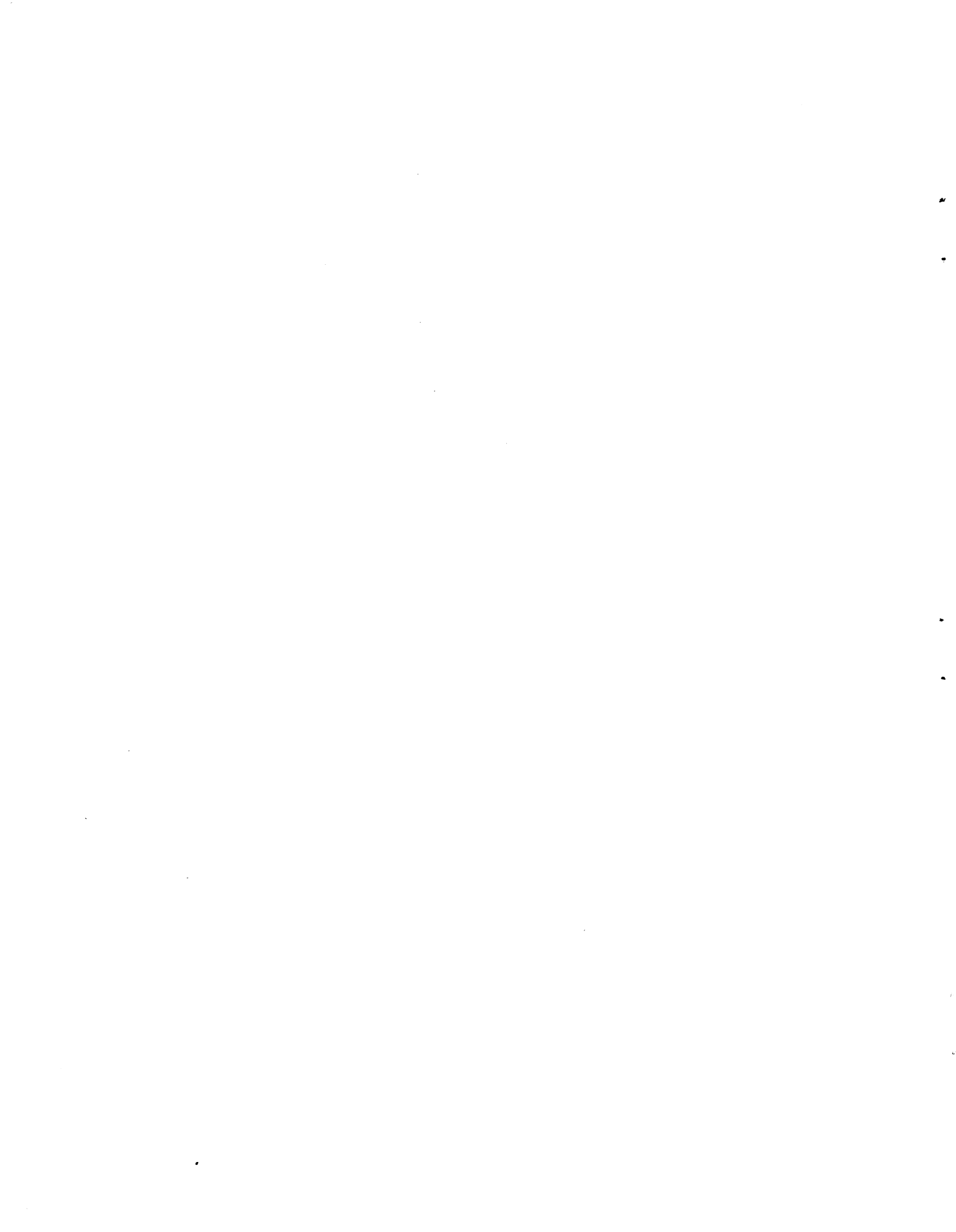
MR. FREDERICKSON: I think I can tell you that. Of course, after the Korean War freight traffic was drastically reduced for all railroads and about that time the trucking industry made very strong inroads into railroad transportation fields. There is no question that trucking can operate much cheaper for distances up to three and four hundred miles. Now the Jersey Central is in a very similar position with 34 other Class I roads in the East, 15, by the way, of which showed deficits



last year and that is that it is a short-haul line, its yards are highly populated in a dense zone such as Jersey City, Bayonne, Newark and so forth, the costs of moving traffic are very high and the revenue that we get from these loads is rather small due to the short haul that we have. You take a larger road, the Pennsylvania and New York Central, they can absorb these high metropolitan costs for their yard handling, for their lighterage and water-borne freight, because they move freight a thousand or two thousand miles and secure the long-haul revenue whereas our freight is given to us - well, we haul it an average of about 40 or 50 miles.

SENATOR OZZARD: Tell me, Mr. Frederickson - I think we can start with the point - whether you accept the premise of it being intentional or unintentional is unimportant - that there has been a deterioration of the services themselves as far as passenger lines are concerned, that is, the equipment, the condition of cars, the condition of stations and so forth. Has this also been true in the freight area resulting in a lesser use? In other words, are the cars in worse condition? Has there been a failure to replace them with new equipment as there has been on the passenger side and so forth?

MR. FREDERICKSON: No, sir. I would say that at one time, about three years ago, our bad-order ratio was fairly high, somewhere between 16 and 20 per cent, which is a high figure, meaning cars were in bad order; 16 per cent of the cars could not be used. But since that time, Mr. Shoemaker has embarked on a program of selling cars and buying them back after they have been repaired and then we have them under lease or we



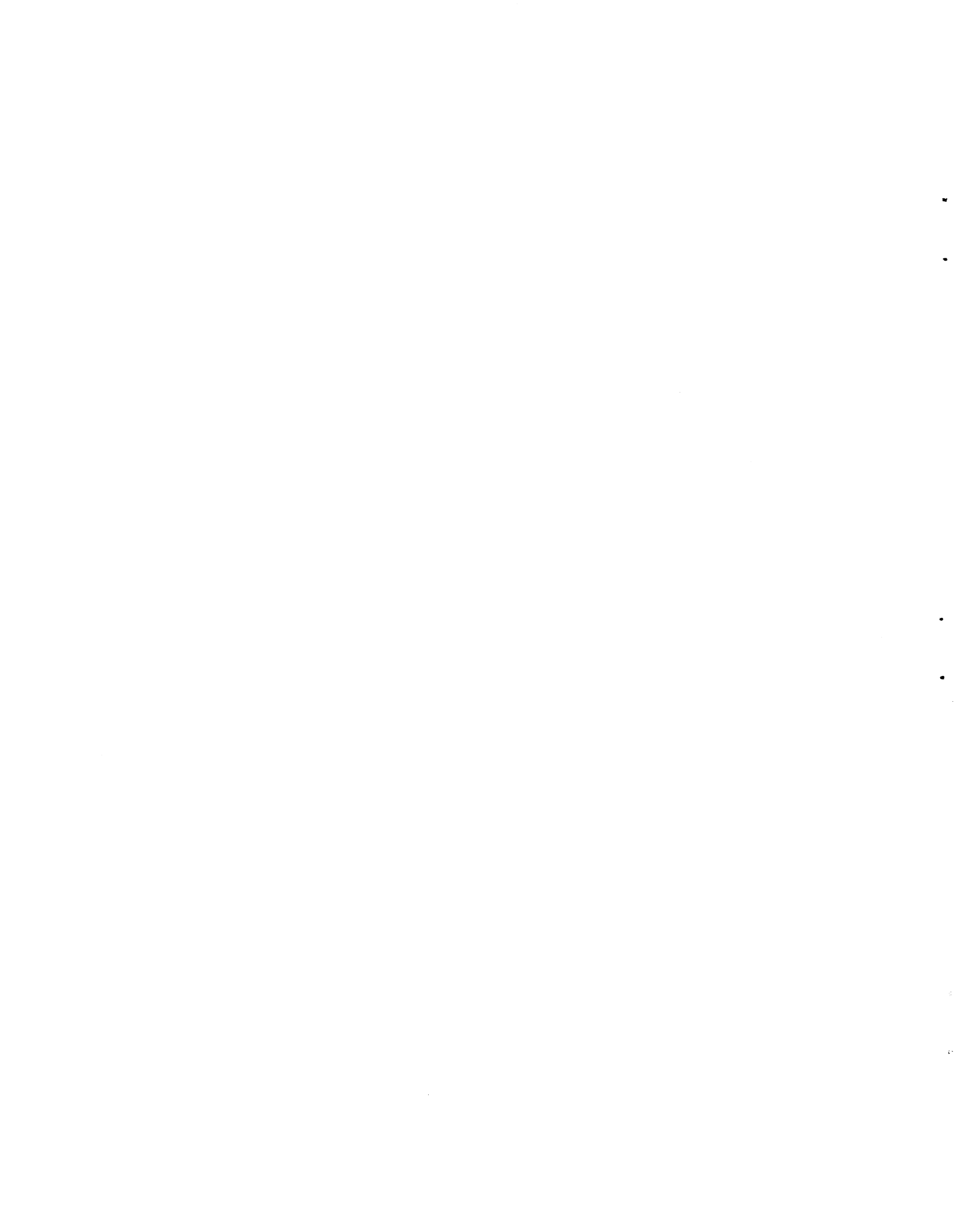
buy them back under conditional sales. So at the present time, our car supply on the whole I would say is quite adequate. Perhaps Mr. Craddock later on can comment on this.

Our mode of power - we have just bought 12 new 25-horse-power diesels which are replacing 20 obsolete diesels which were very expensive to maintain. We calculate that our savings on these new diesels will be a quarter of a million dollars a year, just maintenance cost, and, by the way, will pay the principal payments each year.

Freight service has not suffered qualitywise as has passenger service. We have just strengthened our sales organization. We have opened up offices in Albany, Cleveland, San Francisco and, I believe, down in Georgia, in addition to the ones which we already have. We have increased our sales force 20 per cent. We are out to get the business. And we think that we provide good service. Mr. Craddock has just initiated some service between, I believe, here and Chicago which matches the service of any railroad in the East. I am not an operating man; I shouldn't talk too much about this. Perhaps Mr. Craddock can comment on this a little later on.

I think that is all I can say about equipment. Again I think Mr. Craddock could comment on that.

SENATOR OZZARD: One last area of questioning and I will turn it over to other members of the Committee and that is, you made a statement that with what you anticipate this year from the Legislature, or what you are seeking at least, and with a further subsidy of five million dollars next year, you believe that you would then be in a position of asking for



less and less each year.

MR. FREDERICKSON: Yes, sir.

SENATOR OZZARD: Are you predicting that this railroad can work itself out of a subsidy program?

MR. FREDERICKSON: Yes, sir, I fully believe that we can.

SENATOR OZZARD: Now you base that upon the additional factors that Senator Hillery pointed to before, for example, the lessening of certain taxes. Is that a necessary part of accomplishing that?

MR. FREDERICKSON: Yes, sir, it is.

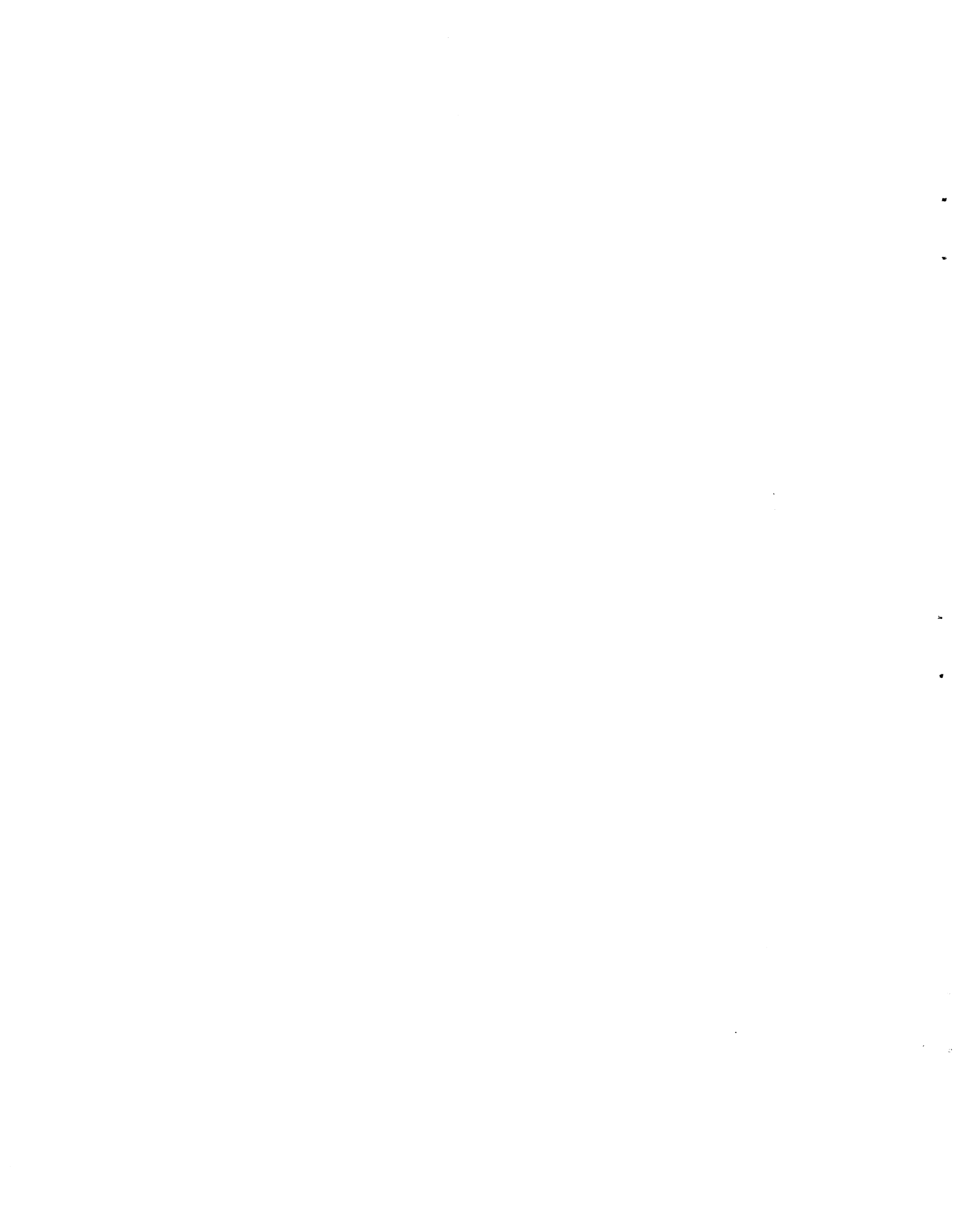
SENATOR OZZARD: The completion of the Aldene Plan?

MR. FREDERICKSON: Definitely.

SENATOR OZZARD: But you do envisage a reduction or possible elimination of State subsidy, is that correct?

MR. FREDERICKSON: Yes. But that, of course, is going to take some time, Senator, until there is a complete elimination of the State subsidy. We are firmly convinced that the public, the State government and the Federal government must pay the cost of passenger transportation, that railroads should not be saddled with this deficit which comes out of freight earnings and which deprives stockholders of any rate of return whatsoever.

SENATOR OZZARD: Well, your saying this now seems to be in contradiction of what you said before and it is something I heard Mr. Shoemaker say and Mr. White of Erie Lackawanna say, that the public must be prepared to assume the costs of operating passenger service.



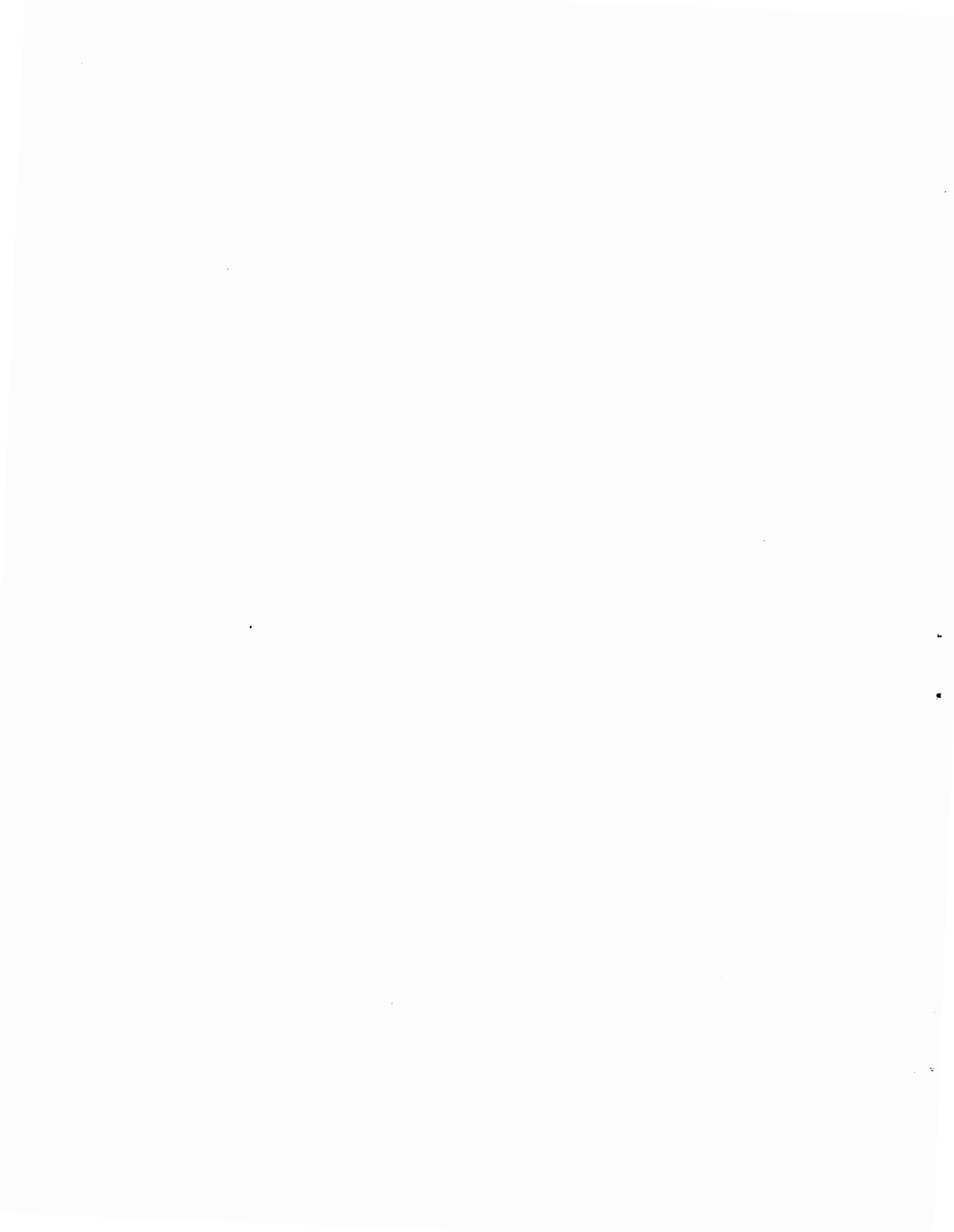
MR. FREDERICKSON: Yes, sir.

SENATOR OZZARD: Now is this not a contradiction to what you were saying before that you can ask for less and less each year? Less and less means ultimately nothing.

MR. FREDERICKSON: Well, less and less each year. I don't profess to be a forecaster, but I can see that we are definitely going to need assistance for the next four or five or six years in a lesser amount over the five million dollars for 1966, but we are going to need assistance.

SENATOR OZZARD: During that time, if you know, is there any company policy to during that time doing anything other than maintain the service in its present state and present equipment or does that also call for improvement of conditions and increase in the use of the railroads?

MR. FREDERICKSON: That calls for improvement in conditions. For example, some of the 3.6 million dollars just approved by the Federal government under the HHFA that I spoke about will be to improve some of the equipment, not in the manner in which we would like it. By that I mean, it will get a very cursory face-lifting, perhaps a painting, good interior cleaning, better lights, and strengthen the cars themselves. We are going to have to look forward to the State and/or the Federal government for new equipment. Not only the Jersey Central, all the railroads are in dire need of new equipment and it is the present equipment which is one of the reasons for our large losses, the expense of the maintenance of this equipment, the dissatisfaction of the passengers with this equipment and one reason why we can't attract new passengers.



Now with this new Aldene Plan and the proper equipment, we should generate quite a few additional passengers, particularly from our main line into Newark because we think that we can take the traffic off the highways with good, clean, modern equipment.

SENATOR OZZARD: This is, of course, necessary. I made a suggestion on the floor of the Senate a month ago that every railroad president once a month would be required to ride in every car and use every restroom and I thought we might improve conditions. But we can't do this by legislation.

Now, Senator Stamler, suppose I move down the row this way. Do you have any questions?

SENATOR STAMLER: Do you think a State authority, properly set up, could operate the railroads, both freight and passenger, at a lesser loss than you are presently operating it?

MR. FREDERICKSON: My personal opinion is no, sir.

SENATOR STAMLER: You made some comment about the stockholders rate of return. What is it now as far as the Central is concerned?

MR. FREDERICKSON: It has been zero since 1930.

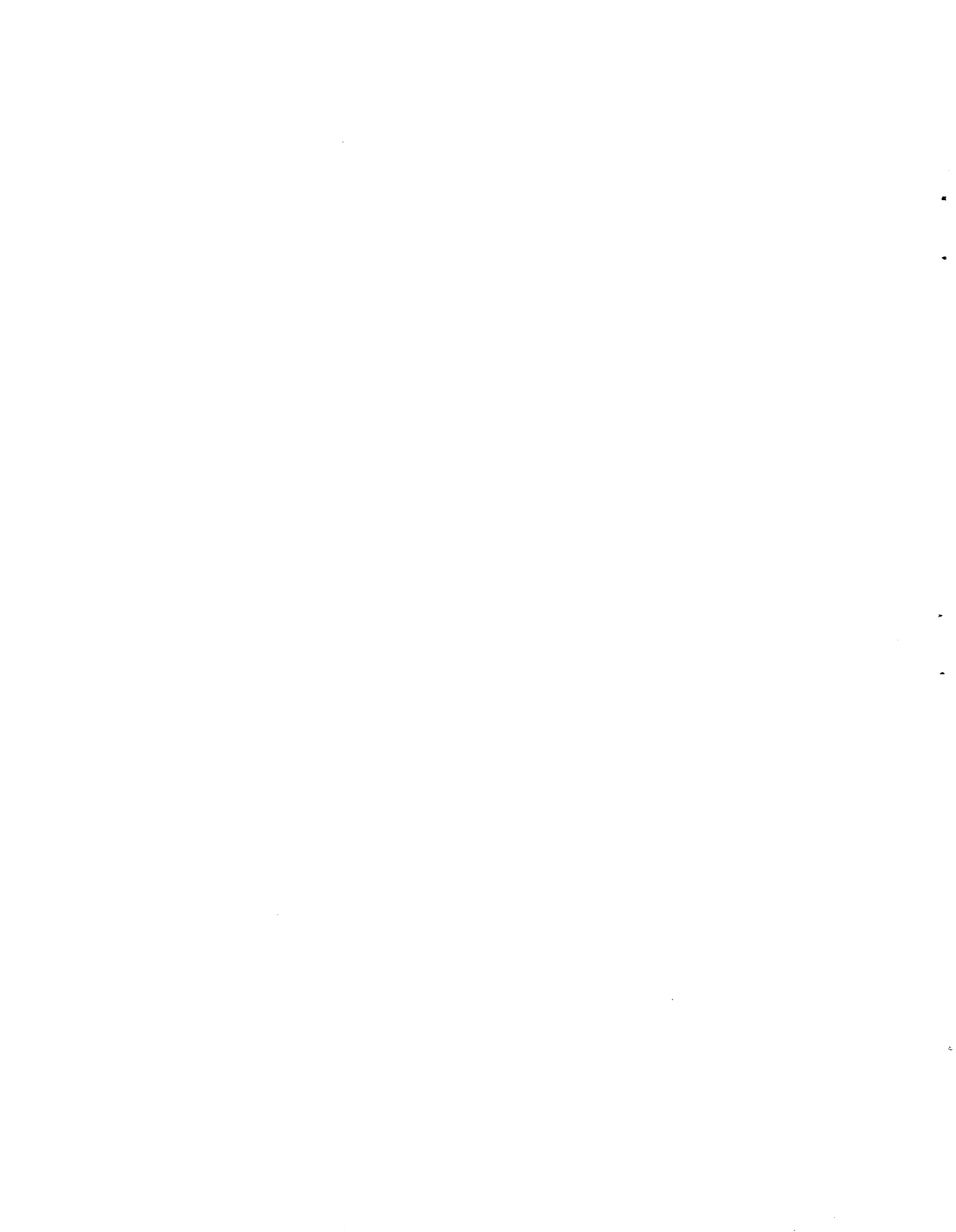
SENATOR STAMLER: What are the bonds selling at now?

MR. FREDERICKSON: Approximately \$400.

SENATOR STAMLER: Four hundred dollars.

MR. FREDERICKSON: Yes, sir.

SENATOR STAMLER: What were they selling at - let's take the year of 1957, if you can tell me, the year that you started this tremendous decrease?



MR. FREDERICKSON: I would have to guess, Senator Stamler. My recollection is that they have always been between \$40 - \$46, somewheres in that neighborhood.

SENATOR STAMLER: In that class?

MR. FREDERICKSON: Yes, sir. They haven't been over \$500 for many, many years.

SENATOR STAMLER: There hasn't been a remarkable change in the rate of the bond classification.

MR. FREDERICKSON: No, sir. That has been paying three and one-quarter per cent interest on the bonds all the years.

SENATOR STAMLER: Can I ask this? Do you think it would assist any at all if there were public members of the board of directors of the railroad in order to make public reports and we do have corporations in New Jersey - the Prudential is one - which have public members? Do you think that this would assist in giving the public and the Legislature the information needed to continue the operation of the railroad under private ownership?

MR. FREDERICKSON: Senator, this is a top managerial question that I wish you would defer and ask Mr. Shoemaker or perhaps our two vice presidents.

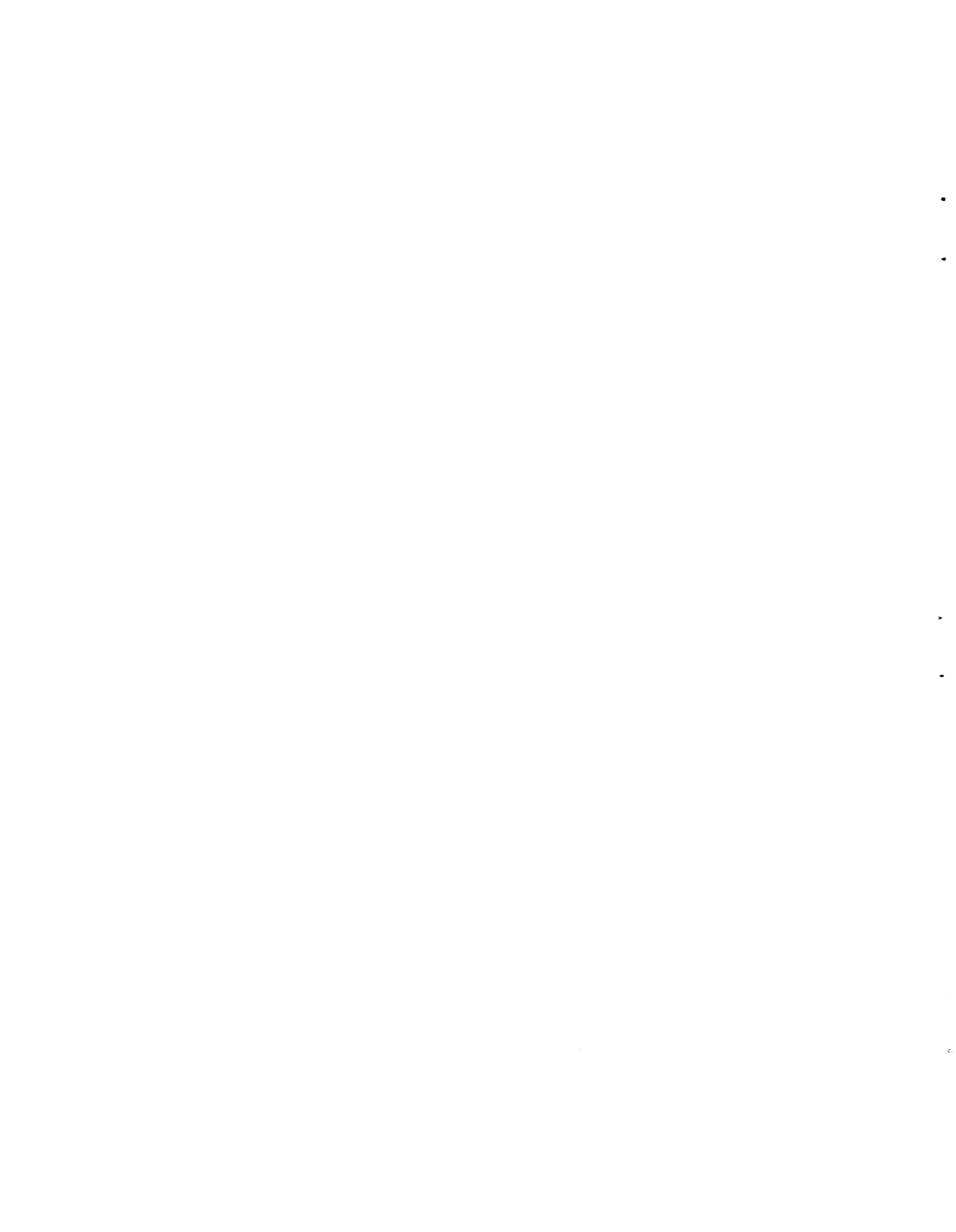
SENATOR STAMLER: All right. I will withdraw the question.

MR. FREDERICKSON: I am strictly an accounting man.

SENATOR STAMLER: I will withdraw the question.

MR. FREDERICKSON: Sorry, sir.

SENATOR STAMLER: That's all right. That's all I have.



SENATOR HILLERY: Your eight and one-half million dollars profit on freight, what was the gross business on that?

MR. FREDERICKSON: The average, of course, was eight and one-half million dollars. But I would say that the gross business on that, sir, was about 48 million dollars.

SENATOR HILLERY: Forty-eight million.

MR. FREDERICKSON: Yes.

SENATOR HILLERY: Now would it be too inquisitive to ask what the total management salaries are in the railroad? Do you have those figures?

MR. FREDERICKSON: The total management salaries?

SENATOR HILLERY: Yes.

MR. FREDERICKSON: I don't sir. Even if I did, I would be a little in a quandary as to what you class as management. We have what we call an officers' payroll and that includes approximately 72 employees.

SENATOR HILLERY: Officers' payroll?

MR. FREDERICKSON: We call this an officers' payroll.

SENATOR HILLERY: What do you mean by that?

MR. FREDERICKSON: Well, usually, it is an officer such as we three, Mr. Shoemaker, heads of various departments, the head of the Police Department.

SENATOR HILLERY: This is the top management group?

MR. FREDERICKSON: I would say top management, sir.

SENATOR HILLERY: Have you got that figure?

MR. FREDERICKSON: No, sir, I haven't. I'm sorry.

SENATOR OZZARD: What does the president of the railroad



earn?

MR. FREDERICKSON: \$60,000.

SENATOR OZZARD: Does that help you, Senator Hillery?

SENATOR HILLERY: A little. Will those figures be available before we get --

MR. FREDERICKSON: They won't be available today, sir, but any information - I was kind of at a loss exactly what to bring with me. I will be glad to supply this Committee within the next couple of days with any information which I do not have with me.

SENATOR STAMLER: In line with that may I ask one further question?

SENATOR OZZARD: Yes.

SENATOR STAMLER: How many members of the board of directors do you have now?

MR. FREDERICKSON: Nine, sir.

SENATOR STAMLER: And do they receive a salary or a ---

MR. FREDERICKSON: No, sir, they receive a hundred dollar fee for attending a meeting.

SENATOR STAMLER: For each meeting?

MR. FREDERICKSON: Yes, sir.

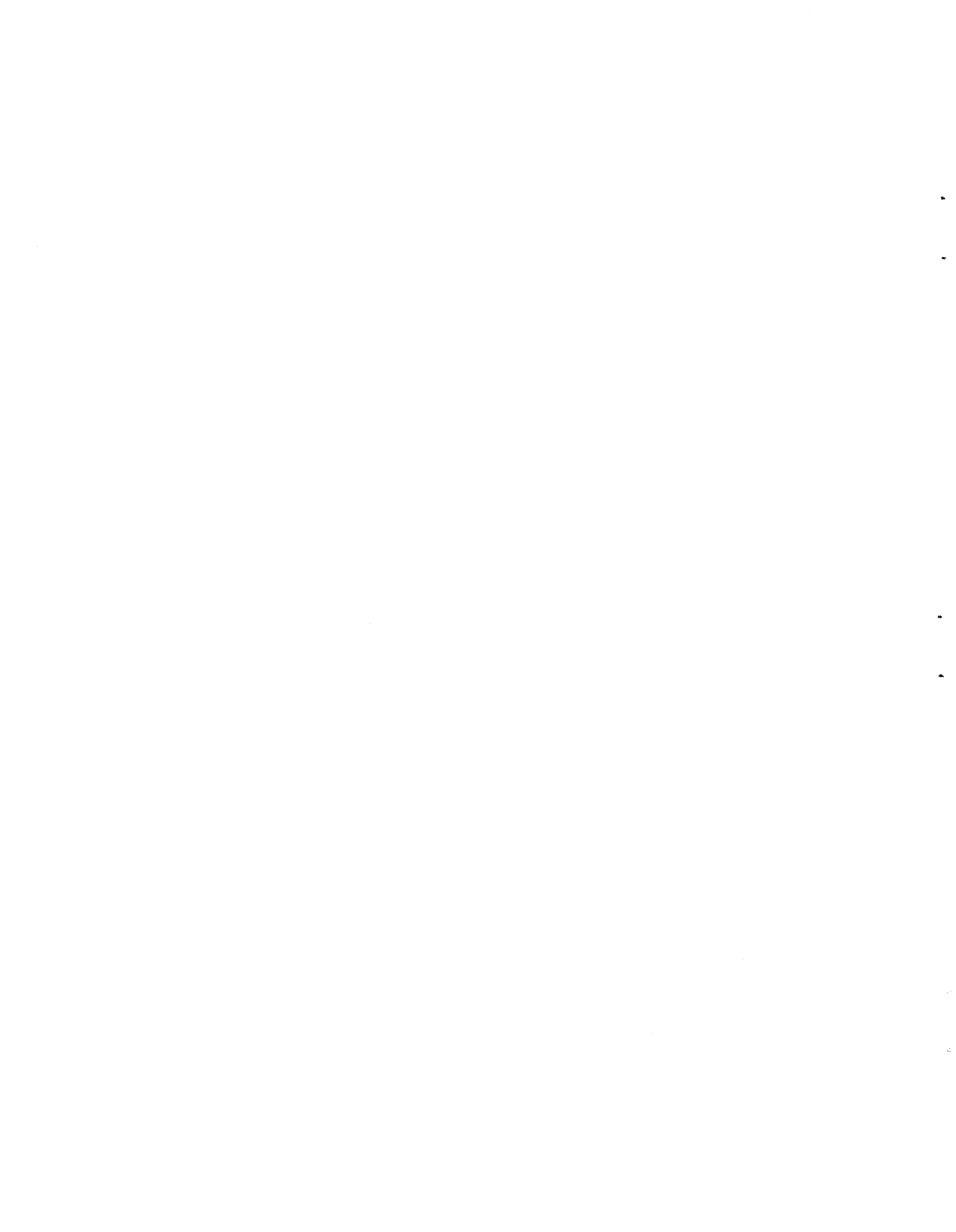
SENATOR STAMLER: And how many meetings a year are there?

MR. FREDERICKSON: Twelve usually, one each month.

SENATOR STAMLER: Thank you.

SENATOR OZZARD: Any other questions? Senator Lynch.

SENATOR LYNCH: Approximately how many miles of track



do you have in New Jersey?

MR. FREDERICKSON: Three hundred and ninety-six miles of track.

SENATOR LYNCH: You have trackage outside of the State too?

MR. FREDERICKSON: Yes, sir. In Pennsylvania we have 178 miles of track.

SENATOR LYNCH: But your passenger service is confined strictly to the State of New Jersey?

MR. FREDERICKSON: With the exception, sir, between Phillipsburg and Allentown, a distance of 16 miles, we have four round trips a day.

SENATOR LYNCH: You gave us a breakdown of the loss in passenger service and in some years a profit in freight service and a loss in freight service last year. How do you allocate costs and charges in passenger service as against freight service?

MR. FREDERICKSON: There is a formula which has been prepared by the Interstate Commerce Commission and briefly it is something like this: Well, it's rather complicated. All direct charges - by that I mean that which you know is definitely passenger, such as passenger fares and freight revenues - go to those two columns, the same with expenses. If you have a line which is nothing but a freight line, all expenses of that line go to freight. Now there are some lines, like our main line, which is used by both freight and passenger. The cost of maintaining the track, for example, is divided between passenger and freight, based on the gross ton miles made by freight



service as compared to passenger service. There is a pro-
ration. Other things - fuel stations is based on the gallons
of fuel consumed by passenger engines as compared to freight
engines, things of that nature. This is a 15- or 20-page
formula prepared by the ICC and all railroads must follow
this formula.

SENATOR LYNCH: How do you handle fixed charges and
fixed obligations, such as bonds?

MR. FREDERICKSON: They are not segregated, sir,
between freight and passenger. This freight-passenger
separation gets you down to what I mentioned before, net
railway operating income. After that comes fixed charges,
which are not allocated in any manner.

SENATOR LYNCH: It is based upon a formula prescribed
by the ICC?

MR. FREDERICKSON: Yes, sir.

SENATOR LYNCH: Do you think that formula truly
depicts and gives an accurate picture of passenger service
losses as against freight losses?

MR. FREDERICKSON: Yes, sir, I do. I attended
hearings in Washington about four years ago where certain
interests, particularly the coal interests, sought to attack
this separation and at the conclusion of the hearings, the
Commission and other members indicated that no one to the present
time has come up with a better formula. I might even say this,
that certain railroads, including our own, have made what we
call recoverable loss studies in passenger service. The Reading
Company is another and some roads out in the West have done



this. In other words, if you had no passenger service at all, what would be your real cash gain and these gains or losses, the way you look at them, very closely approximated the totals contained in the ICC study.

SENATOR LYNCH: Senator Hillery was asking something about officers' salaries, your officers' salary account. Is that allocated between freight and passenger service?

MR. FREDERICKSON: Yes, they are. They are allocated, except, of course, our vice president of freight operations would all be strictly freight. We have some passenger employees that would be strictly passenger. I believe all three of us, a portion of our salary is apportioned between the two services.

SENATOR LYNCH: Thank you.

SENATOR GROSSI: Mr. Frederickson, you mentioned the figure of four and one-half million as fixed charges.

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: What constitutes fixed charges?

MR. FREDERICKSON: The interest on general mortgage bonds and that runs, as I recall it, a million four hundred thousand dollars a year; interest on equipment trusts and conditional sales. This is the interest that we are paying on the money for equipment that we bought on time over a 15-year period. We pay off the principal, but, of course, there is a 4 or 5 per cent interest charge and this runs approximately \$200,000 a year. Interest on the 20 million dollars that we borrowed and was guaranteed by the Federal government - this runs \$850,000 a year. The largest item which I have neglected



is the rent that we pay for our properties in Pennsylvania which we lease from the Lehigh Coal and Navigation Company and that rent amounts to \$2,300,000 a year.

SENATOR GROSSI: That is in Pennsylvania?

MR. FREDERICKSON: All in Pennsylvania, sir.

SENATOR GROSSI: Why do you make a distinction that these fixed charges are applied after your net income? I don't quite understand that.

MR. FREDERICKSON: Not after net income, sir. We separate all revenues and expenses - revenues, then expenses and then equipment rents and so forth - until we reach a line called net railway operating income. That is where the separation stops. Now from that point on, one of your largest charges in your income account are these fixed charges that I just mentioned, a little over 4 million dollars. They are not separated, but are, of course, a part of your income account and they go into determining whether you make or lose money.

SENATOR GROSSI: So that when you said in your freight service you lost approximately a half a million dollars in 1964 - is that right?

MR. FREDERICKSON: We lost \$1,400,000 in '64.

SENATOR GROSSI: This year you have lost \$500,000?

MR. FREDERICKSON: No, we expect to make \$500,000.

SENATOR GROSSI: Now as against that you then apply your fixed charges. Is that right?

MR. FREDERICKSON: That is correct, sir.

SENATOR GROSSI: And that shows your net deficit of

running the railroad?

MR. FREDERICKSON: That's correct.

SENATOR GROSSI: Now as against that you have four million dollars in State aid this year. Is that right? You will have two and one half million that the Governor promised --

MR. FREDERICKSON: That is correct.

SENATOR GROSSI: -- and a million and a half that you receive or will receive. And also on the Aldene Plan you will save a million and a half dollars roughly on trackage.

MR. FREDERICKSON: We will save a million and a half dollars once the Aldene Plan is implemented and after severance pay is met to our employees who are laid off.

SENATOR GROSSI: You will save a million and a half then.

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: That would be a recurring item as far as your bookkeeping is concerned, wouldn't it?

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: And also you will save about a half a million dollars on taxes, as I understand it, when the Aldene Plan goes into effect.

MR. FREDERICKSON: That has nothing to do with the Aldene Plan. It happens that --

SENATOR GROSSI: But you will save that.

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: And with the implementation of Chapter 51, when you say that you expect you might save about



a million dollars on Class II property, have you considered or is it in your figures in those municipalities that have gone to one hundred per cent already and the railroad charges were at one hundred per cent over a period of years that you may save as much as 80 per cent in some municipalities - from 50 to 80 per cent? Has that been applied now or are you going to apply that in the future if I make myself clear?

MR. FREDERICKSON: I think I know what you are driving at, Senator. But whether a municipality was at one hundred per cent for years did not save us any money.

SENATOR GROSSI: No, but where they have been at 20 per cent and where they have been at 40 per cent. No municipality has been at 100 per cent for years. For instance, in the City of Paterson we have been at 40 per cent for years. Now we are at 100 per cent. But presumably railroad property has always been assessed at 100 per cent.

MR. FREDERICKSON: That's correct.

SENATOR GROSSI: If we went from 40 per cent -- to make it easier if we went from 50 per cent to 100 per cent, then your taxes should have been half of what they were before the implementation of Chapter 51. Is that true?

MR. FREDERICKSON: That is true, except unfortunately 80 per cent of the Class II taxes we pay are in Hudson County and there has been no change in Hudson County which has benefited us.

SENATOR GROSSI: One more question: You own considerable land which you term right-of-way property which will probably never be used for railroading purposes. Now that you have been in operation for so many years, you figure that this property



is excess property.

MR. FREDERICKSON: Oh, I think I see what you mean. Yes, sir. The two largest tracts that we own which will not be used for railroad purposes are what we call the Meadowlands along the Newark Bay and up in Rockaway, New Jersey, we have several hundred acres, I believe.

SENATOR GROSSI: Roughly what is the value of all that land that you will not use for railroad purposes that you own now, the Jersey Central? Could you tell us?

MR. FREDERICKSON: Of course, the minute I put a value on it, the taxing authorities are going to up their rates.

SENATOR GROSSI: Well, not if you aggregate them because we won't know where they are.

MR. FREDERICKSON: I don't want to say what the value of this property is. The Meadowlands in particular - let's speak about that - we have a little over 600 acres. As you know, at the moment that is tied up in litigation. The State claims if that land were ever inundated at mean high tide, why that land belongs to the State. We have been able to sell a good portion of that land for anywhere from ten to fifteen thousand dollars an acre for industrial use. We have tried to sell it to people who would put railroad spurs on there and give us business. It is valuable property. But at the moment we cannot see our way clear to selling any of this until our title is cleared up. You may recall that Governor Meyner, I believe, is heading one of these commissions looking into this. So while we have this land and we would like to sell it in lots for industrial purposes which will give us more business, at



the moment, it doesn't have very much value to us.

SENATOR GROSSI: Aside from the tax problem, it would only be a one shot item anyway if you sold it.

MR. FREDERICKSON: Yes, sir.

SENATOR OZZARD: We note that Mr. Meyner is on the Meadowlands Commission and he is also on your board of directors, isn't he?

MR. FREDERICKSON: Yes, sir.

SENATOR OZZARD: We wonder if this is a conflict of interest.

MR. FREDERICKSON: We don't think so because the recommendation which was made which would have assisted the railroad was vetoed by Governor Meyner. So we wonder whether he is on our side sometimes.

SENATOR WOOLFENDEN: You made a statement before, Mr. Frederickson, that you feel the passengers must be made to pay for these services.

MR. FREDERICKSON: The passengers and the governments, municipal, State and Federal.

SENATOR WOOLFENDEN: You indicated in this statement that you maybe think that the fares for these passengers should be raised?

MR. FREDERICKSON: Not under present conditions, sir, not with the equipment that we have and with the manner of their commuting services. I would say no. But if we are able to give them something a little better, cleaner cars, better equipment, shorter running time, then I think that the commuter should pay a small portion of the total over-all cost.

SENATOR WOOLFENDEN: How do you hope to regain this freight business, in which you felt a loss in 1964?

MR. FREDERICKSON: By improving our schedules, by having tighter control of our yard costs, and by this increased sales organization of 20 per cent. The fact is, we have seen the effect of that increased sales force already this year. Our revenue is up \$800,000 this year over a comparable period last year.

SENATOR WOOLFENDEN: This freight is being transported in the same areas as previously?

MR. FREDERICKSON: Yes, sir.

SENATOR WOOLFENDEN: This rent of 2.3 million dollars in Pennsylvania - is this for trackage?

MR. FREDERICKSON: Yes, and there were some buildings on it when we took it over. We have, of course, made 8 million dollars worth of improvements ourselves up in this territory. The Lehigh Coal and Navigation Company has recognized our financial problem and starting last year has deferred approximately 19 per cent of this rent or \$433,000 a year for at least two years without interest until such time as our passenger business is such that we can pay this money back.

SENATOR HILLERY: Through you, Mr. Chairman, you have a group working to improve freight services --

MR. FREDERICKSON: Yes, sir.

SENATOR HILLERY: -- promoting new type freight service. Do you have such a group working to promote commuter services?

MR. FREDERICKSON: I would say outside of our Manager of Passenger Traffic, we do not spend much money in promoting our

passenger services.

SENATOR OZZARD: I have a few more questions, Mr. Frederickson. I would like to give the court reporter just a few minutes break here. Let's take a five-minute recess.

(Five-minute recess.)

SENATOR OZZARD: Can we get back on the record now, please? Senator Stamler has a question or two, Mr. Frederickson.

SENATOR STAMLER: Mr. Frederickson, you talked about this cost in Pennsylvania, either two million three or two million five, the rental cost.

MR. FREDERICKSON: Yes, sir.

SENATOR STAMLER: And you said you made eight million dollars worth of improvements. I think you said that.

MR. FREDERICKSON: Yes, sir.

SENATOR STAMLER: Is that just for 16 miles of railroad?

MR. FREDERICKSON: No, sir, that is for 177 miles of track that extends from Easton to Taylor which is near Scranton, Pennsylvania.

SENATOR STAMLER: Well now, you used the term Easton to Allentown, I think.

MR. FREDERICKSON: Oh, I was asked the question, sir, whether we had any passenger services in Pennsylvania and I said no, only with the exception of Phillipsburg to Allentown, which was a distance of 16 miles.

SENATOR STAMLER: In other words, there is no passenger service to Taylor.

MR. FREDERICKSON: No, sir.

SENATOR STAMLER: It's all freight.



MR. FREDERICKSON: All freight, yes.

SENATOR LYNCH: Mr. Frederickson, is the Jersey Central a wholly-owned subsidiary of another railroad company?

MR. FREDERICKSON: No, sir. It is owned principally by the Reading Company who owns about 49 per cent of the stock.

SENATOR LYNCH: And in turn, who is the principal stockholder of the Reading Company?

MR. FREDERICKSON: The Baltimore and Ohio Railroad.

SENATOR LYNCH: Your bookkeeping records then have nothing to do with the Reading or the Baltimore and Ohio?

MR. FREDERICKSON: We act wholly independent and the Reading Company has exerted no control whatsoever since we have come out of bankruptcy.

SENATOR LYNCH: Are they a solvent and going concern, the Reading Company?

MR. FREDERICKSON: They lost money for the last three years. As of the moment, I think they are making money.

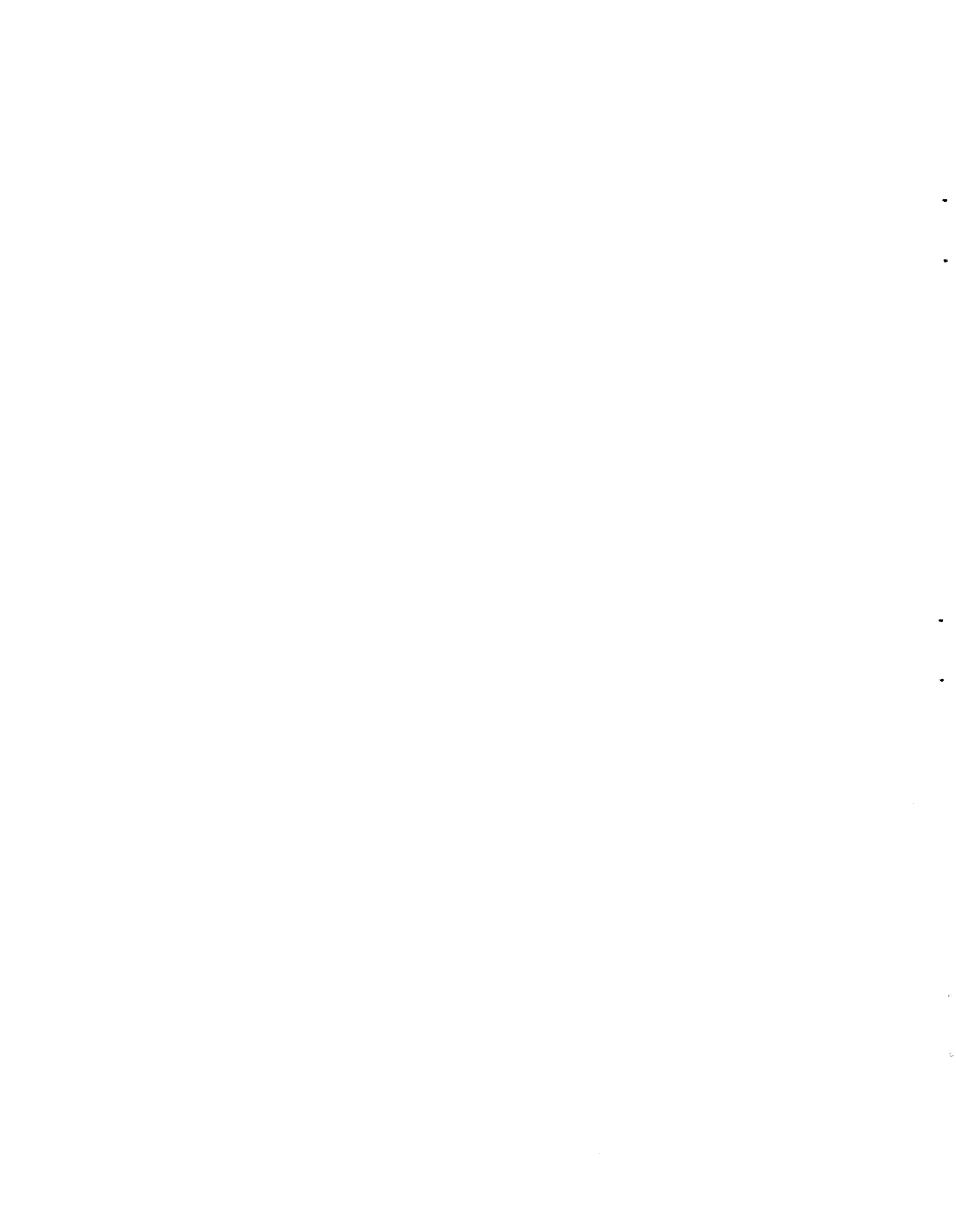
SENATOR LYNCH: How about the parent company? Are they making money?

MR. FREDERICKSON: The Baltimore and Ohio is making money, yes, sir.

SENATOR LYNCH: Did you ever try and touch them for a loan?

MR. FREDERICKSON: We certainly did. We also tried the C and O, who as you know controls the B and O.

SENATOR HILLERY: Is this Reading Company a Pennsylvania corporation?



MR. FREDERICKSON: Yes, sir.

SENATOR STAMLER: Who owns the C and O? I mean, now we are going up that ladder.

MR. FREDERICKSON: The C and O is owned by its stockholders.

SENATOR STAMLER: In other words, the C and O is owned by the stockholders. It owns part of the B and O.

MR. FREDERICKSON: It controls the B and O with Interstate Commerce Commission approval.

SENATOR STAMLER: You follow through down the line.

MR. FREDERICKSON: To the Reading Company and to the Jersey Central. Now as you may know, Senator, we would like very much to be included in the merger of these companies and I think we are in a good position to be included when we are self-sustaining and not before. In other words, I think that the C and O and B and O would like to own the Jersey Central for entry into New York and the metropolitan region, but they will not take us over or do anything for us until we can at least break out even.

SENATOR STAMLER: Now following that line, does the Central Railroad of New Jersey own any interests in any other companies?

MR. FREDERICKSON: Yes, sir, we own various small railroads, the Dover and Rockaway, the Wharton and Northern. We have an interest in the Raritan River, roughly 50 per cent. We have a one-eighth interest in the Lehigh and Hudson River Railroad, things of that nature. I could give you more detail.

SENATOR STAMLER: I think it might be helpful if you

will for the Commission to find out what the ladder is here. You don't have to do it now. You can make it available.

SENATOR WOOLFENDEN: You mentioned 8 million dollars in improvements on the Pennsylvania line, Mr. Frederickson. Over what period of time was that? I mean, was it within the last three or four years?

MR. FREDERICKSON: Oh, no, sir. That has been since 1890.

SENATOR HILLERY: What are your taxes in Pennsylvania? Do you have those figures available?

MR. FREDERICKSON: They, of course, don't have the same type of tax structure you have in New Jersey. They have what they call a capital stock tax. I would say roughly our taxes in Pennsylvania run between 50 and 75 thousand a year.

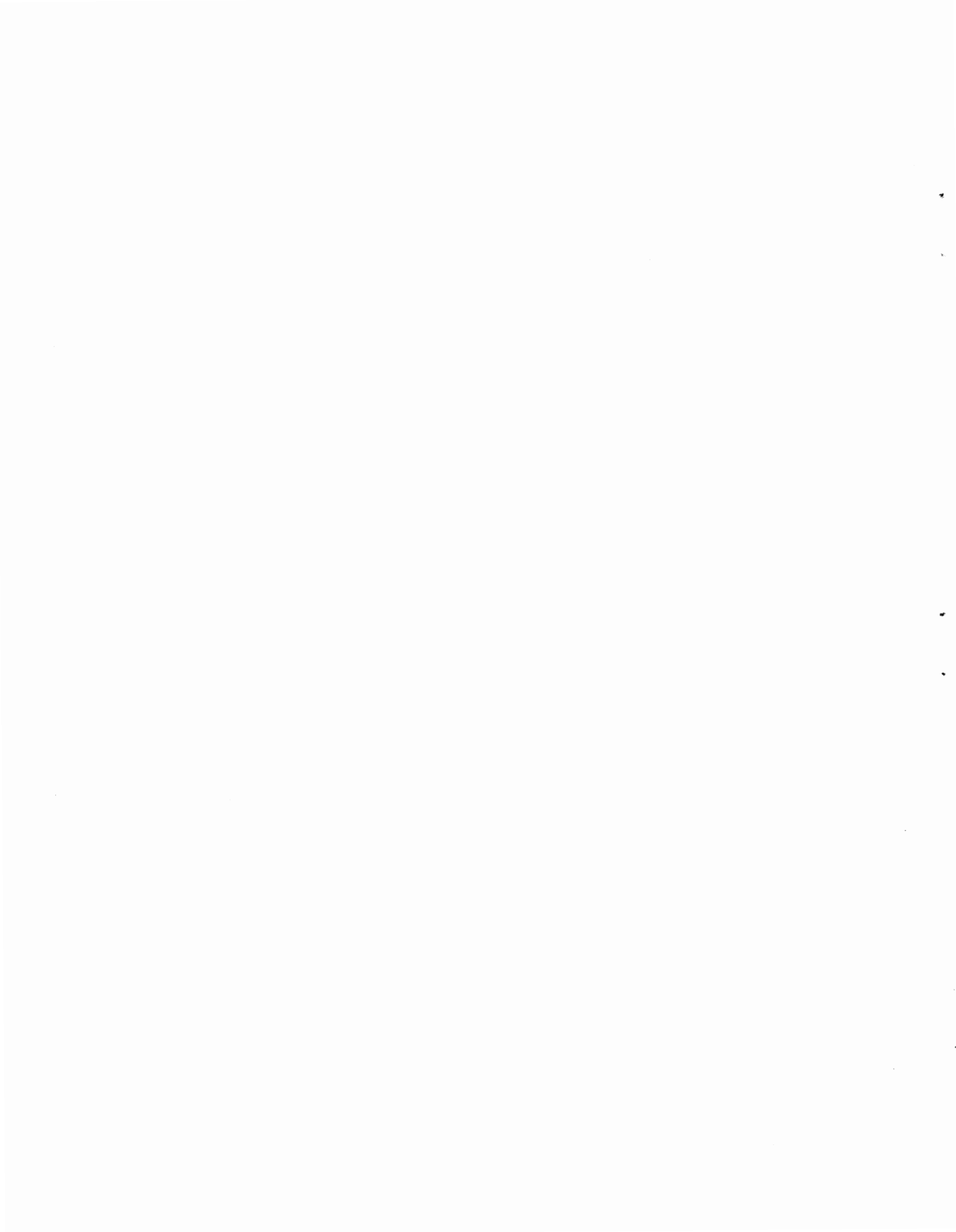
SENATOR WOOLFENDEN: I just wanted to follow up one thing on that question. By comparison of the eight million spent in Pennsylvania for improvements, how much would you say has been spent in the State of New Jersey for the same type of improvements? Do you have any idea?

MR. FREDERICKSON: Of course, we go back in New Jersey to about 1849 and I don't know whether you want me to go back that far.

SENATOR WOOLFENDEN: No. What I am trying to get ---

MR. FREDERICKSON: I would say ten fold, Senator, what we spent in Pennsylvania.

SENATOR OZZARD: I think what is more important here, Mr. Frederickson, is when did the Central Railroad last spend any money for improvement of passenger service in the State of



New Jersey, not how much it has spent since it started.

MR. FREDERICKSON: Approximately four years ago, Senator, when we bought some more Budd cars.

SENATOR OZZARD: Bought some what?

MR. FREDERICKSON: Budd cars, RDC Budd cars.

SENATOR GROSSI: The traffic in Pennsylvania - as a matter of bookkeeping is that included in the over-all picture as far as deficits are concerned?

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: For both freight and passenger?

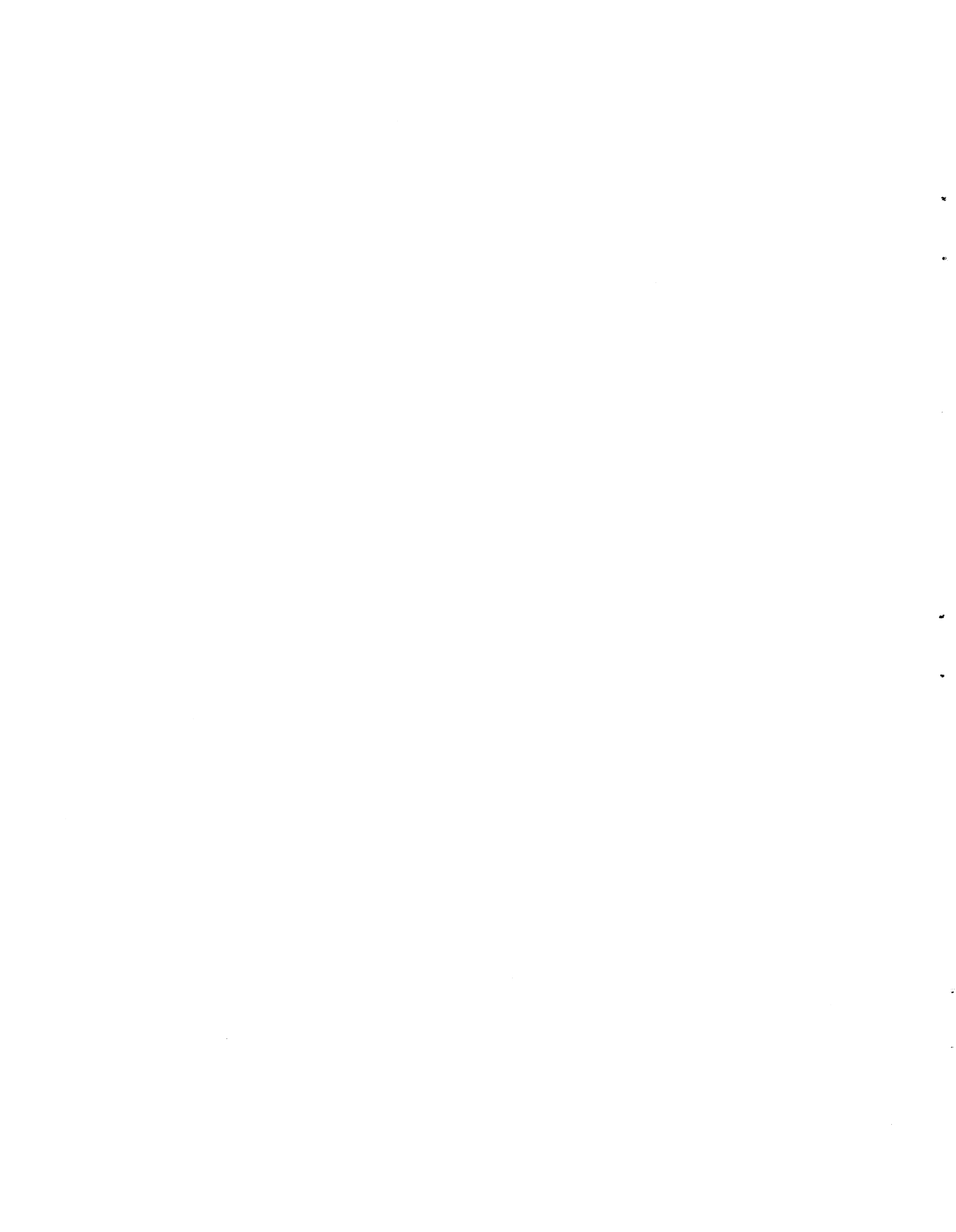
MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: And is the freight figured on a basis of intrastate and interstate too in Pennsylvania? Is that separated?

MR. FREDERICKSON: It is not separated, but all freight is thrown together in a lump sum. We do not make a separation of interstate and intrastate.

SENATOR GROSSI: In other words, what I am trying to get at is this: On the intrastate in Pennsylvania would the freight there show a profit as against the interstate operation? I mean, just for that particular trackage.

MR. FREDERICKSON: May I answer your question in a different vein? We had a study made by outside consultants for the year of 1962 as to whether the rental we were paying in Pennsylvania was too high - in other words, whether the Pennsylvania properties earned enough money to pay this two million three. And the study indicated that there was sufficient income derived from Pennsylvania operations to pay this two million three.



SENATOR GROSSI: Just one more general question: You have no qualms from what I have been listening to about the future of freight service and its efficacy as far as income is concerned for the railroad. Is that true?

MR. FREDERICKSON: No, sir. I think we have to keep on top of it all the time. I think we have to have laws passed which will make the trucking interests pay user services the same as railroads have to pay. I think we have to keep strengthening our organization, keep improving our freight service and keep buying more equipment.

SENATOR GROSSI: But as against passenger service, there is a brighter future for freight service?

MR. FREDERICKSON: Yes, sir. That is true.

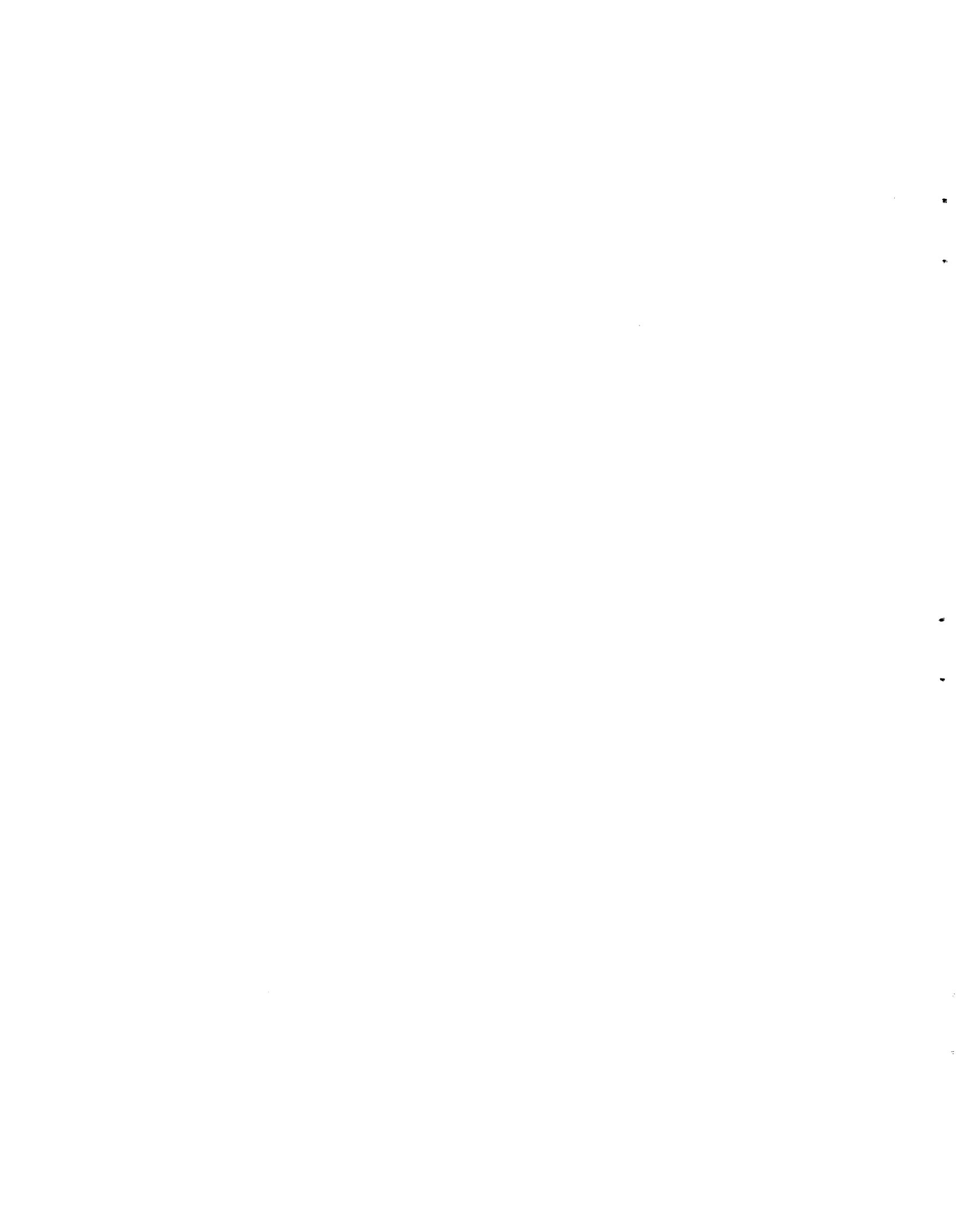
SENATOR GROSSI: If the State were to assume the full responsibility for passenger service, do you think that the State could operate the passenger service on the basis that it would at least break even or make a profit?

MR. FREDERICKSON: I think -- yes, if the State spent enough money to improve the equipment and the facilities used in passenger service, I think in the long run they could.

SENATOR GROSSI: You think they could make money to pay off the expenses or do you think they would just about make it go?

MR. FREDERICKSON: They would never make a lot of money on it, no, sir, particularly commuter services.

SENATOR GROSSI: There would be enough there for continuing maintenance of service and replacement of cars and making it up-to-date?



MR. FREDERICKSON: I think so.

SENATOR GROSSI: -- without a loss every year to the State.

MR. FREDERICKSON: It could come pretty close to it in my opinion, of course.

SENATOR LYNCH: In line with Senator Grossi's question, how much would the State have to put into the railroad to provide this equipment?

MR. FREDERICKSON: Just the Jersey Central?

SENATOR LYNCH: Yes.

MR. FREDERICKSON: I'll have to take a guess - somewhere around 30 to 40 million dollars.

SENATOR LYNCH: Thank you.

SENATOR OZZARD: Mr. Frederickson, I am interested in the inter-relationship of companies. This Lehigh Coal and Navigation Company, what is its relationship? Is it a partly-owned subsidiary or what?

MR. FREDERICKSON: It has no relation to the Central Railroad or any of its affiliates. At one time it was strictly a coal-mining industry in Pennsylvania. They owned the Lehigh and New England Railroad. They owned our tracks in Pennsylvania. They also had a couple of ships in some sort of a shipping industry. Then they began to sell out all their interests and we bought the Lehigh and New England Railroad, about a 40-mile line in Pennsylvania right in the cement region, from this company for about four million dollars. We bought some cars from them. So they divested themselves of this railroad. They have divested themselves of the shipping interest and as



far as I know of all their coal-mining interests. The only thing that they own right now is these properties that we use in Pennsylvania from Easton to Scranton. They are willing to sell that to us for a price and we are negotiating that right now.

SENATOR OZZARD: Does CRR have any subsidiaries partially or totally owned?

MR. FREDERICKSON: Yes, sir, it does.

SENATOR OZZARD: What?

MR. FREDERICKSON: Those are the ones that I started to give to you before and you thought that I should --

SENATOR OZZARD: They are subsidiaries; I am not speaking of parents now.

MR. FREDERICKSON: CRR?

SENATOR OZZARD: Yes.

SENATOR LYNCH: He is going to submit them.

SENATOR OZZARD: Are they numerous?

MR. FREDERICKSON: Yes, they are quite numerous.

SENATOR OZZARD: I'll take the submission, but what I would like to know is this: These subsidiaries are of what nature? Are they transportation companies?

MR. FREDERICKSON: Well, let me say - eight railroads, a very small land company which is a holding company for some property we own called the Communipaw Central Land Company. Principally that is the bulk and the gist of our --

SENATOR OZZARD: Am I asking too broad a question when I ask you to tell me the financial position of these companies generally? Are they making profits?

MR. FREDERICKSON: Some of them are owned 100 per cent by the Jersey Central. We operate over them and the rental is the expenses of the particular company. In other words, separate records are not kept. We pay their expenses and that is the rent to them. Now we own 50 per cent of the New York - Long Branch Railroad, which is one of our largest holdings. The other 50 per cent is held by the Pennsylvania Railroad. That is not an operating Company, but owns track and fixtures from South Amboy to Bay Head Junction, a distance of 38 miles. Both railroads operate over this line and pay all the expenses of this railroad.

SENATOR OZZARD: That is a profit-making company, isn't it?

MR. FREDERICKSON: No, sir. It just breaks even because we pay all their expenses.

SENATOR OZZARD: In other words then, it is not a loss company?

MR. FREDERICKSON: It is not a loss company. Whatever their expenses are, we pay for them between the Pennsylvania and ourselves.

SENATOR OZZARD: Now is this one of the basic costs that you apply generally to passenger and freight after you arrive at your net operating income?

MR. FREDERICKSON: The amount that we pay - by the way, I might tell you we pay close to a million dollars a year to the New York - Long Branch Railroad as our proportion of their expenses. The Pennsylvania Railroad pays 57 per cent compared to our 43 so they pay close to a million four in

expenses, which makes the New York-Long Branch a zero carrier. It neither makes nor loses money. We pay all their expenses. Now these expenses that both companies pay, a portion of that does get into our passenger expense figures for our system and it is used for determining passenger losses because our passenger trains run over this particular line and so that a portion of this expense must be apportioned to that.

SENATOR OZZARD: On the Long Branch line then, regardless of how expensive that may be to operate, you cover all of their costs on that line?

MR. FREDERICKSON: That's correct.

SENATOR OZZARD: Now generally what is the picture on your other subsidiaries? Are there any real loss companies in the balance of the subsidiaries, particularly the rail companies?

MR. FREDERICKSON: I would say, no, sir. The Dover and Rockaway, we own about two-thirds of that and it makes 20 or 30 or 40 or 50 thousand dollars a year. The Wharton and Northern, we own 100 per cent of that. That makes anywheres from 30 to 150 thousand dollars a year. The Lehigh and Hudson River, we own approximately one-sixth, I believe, of that. Five other carriers also own a portion. That has always made money and we get dividends from this company twice a year.

SENATOR OZZARD: Do all these companies use Central lines?

MR. FREDERICKSON: The Lehigh and Hudson River Railroad use the Central lines from Easton to Allentown, for which, of course, they pay for the use of these lines. The Wharton and Northern and the Dover and Rockaway are railroads up in the High Bridge region, High Bridge, New Jersey, if you know

where that is, Senator, and they operate freight service in conjunction with the Jersey Central. In other words, traffic might originate or terminate on these particular roads and then by-pass over the Jersey Central to its destination.

SENATOR OZZARD: So that actually in your subsidiaries, regardless of their size, there appears to be a bookkeeping opportunity here for spreading losses which don't take place. Is that correct?

MR. FREDERICKSON: There is an opportunity to do that in any instance where there are subsidiaries.

SENATOR OZZARD: The losses seem to be consolidated in the passenger end of the Jersey Central line as we know it and yet none of these others who share your trackage or make use of your facilities and so forth - none of these show any losses.

MR. FREDERICKSON: Well, the ones that I have talked about - they are strictly all freight operations. The only passenger operation of our subsidiaries is the New York-Long Branch. Now whether you look at that as a subsidiary or whether it were wholly owned by us, the fact remains that there are approximately 21 stations in 21 miles of line on the New York-Long Branch which have to be manned - it's a very expensive operation - and there are innumerable grade crossings which have to be protected. This line is a fundamental commuting line from Bay Head to New York. Now the fact that we pay a portion of these expenses doesn't mean that you can treat these expenses any differently than you do our main line from Raritan to New York. This is an expense of commuting operations. I might say that of the total use made of the New York-Long Branch,



I would estimate at least 75 to 80 per cent is for passenger purposes and the other 25 per cent for freight purposes.

SENATOR OZZARD: One last thing for the record - I understand that you have in prepared form the ICC formula proceeding that you spoke of earlier in your testimony.

MR. FREDERICKSON: Yes, sir. I have the publication put out by the Interstate Commerce Commission and I will be glad to send it to this Committee.

SENATOR OZZARD: Will you send it directly to Samuel Alito at the State House, Trenton, Secretary to this Committee.

SENATOR LYNCH: What is your room number.

MR. ALITO: Room 31.

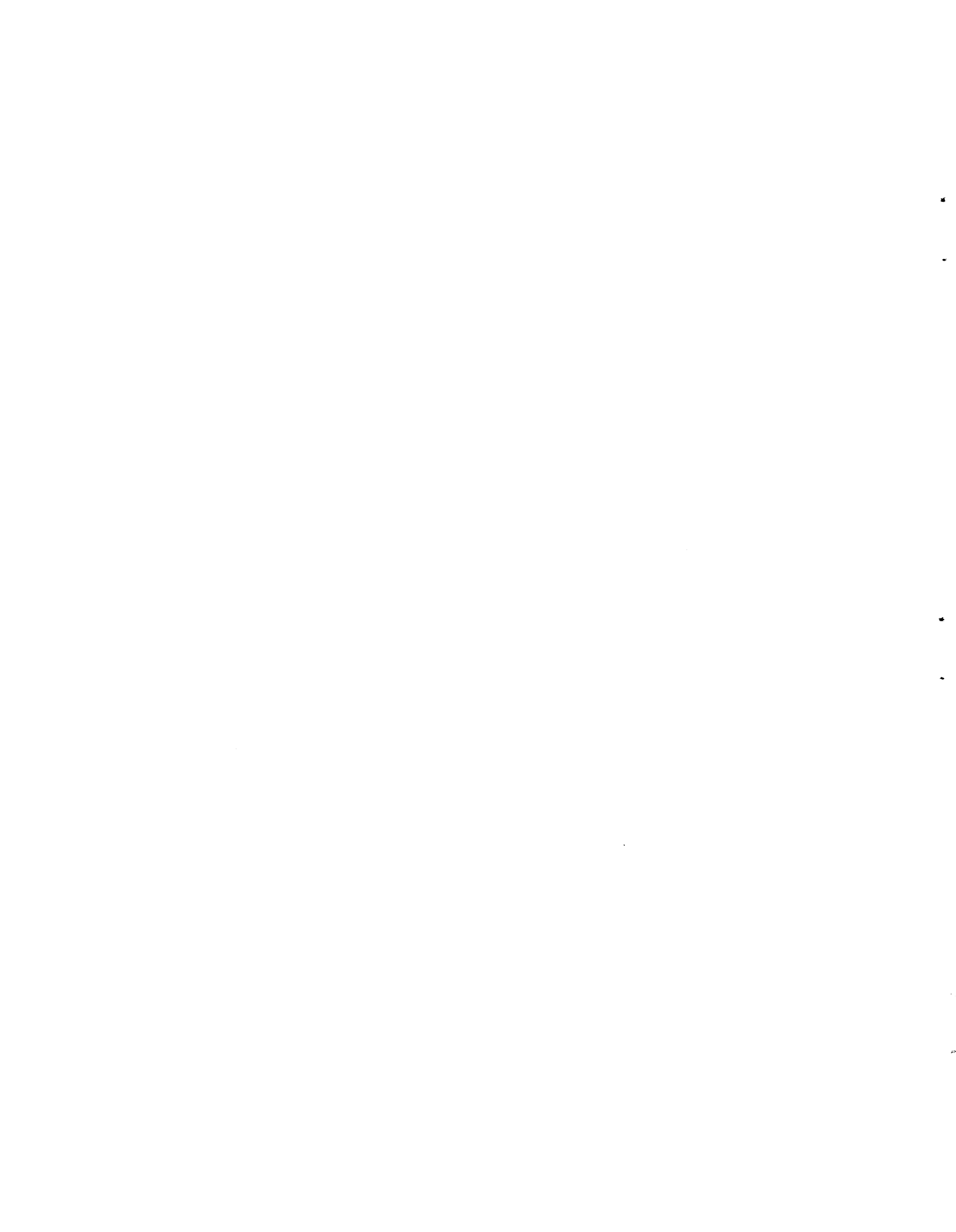
SENATOR OZZARD: Room 31, State House - A-L-I-T-O.

MR. FREDERICKSON: Yes, sir, I will do that.

SENATOR OZZARD: I have no other questions.

SENATOR GROSSI: I have one. No implications should be taken from this, but for years I have been hearing and also reading statements of rumors that railroads keep two sets of books, one for the Interstate Commerce Commission and one for local consumption purposes. Is that true?

MR. FREDERICKSON: That is definitely not true. Of course, the person who has his fare raised would like to think so and perhaps some other people. But might I say this, that the State of New Jersey has engaged twice their own consulting firms who have made studies of at least the Jersey Central passenger operations and in effect have come out with the same conclusions that our formula presents to the ICC. If my memory serves me correctly, of all the expenses



charged to passenger, I believe they condoned 99 per cent as being correct. There is definitely no other set of books.

SENATOR HILLERY: Did that study go into the freight operation too?

MR. FREDERICKSON: No, sir, only the passenger.

SENATOR HILLERY: Only the passenger.

MR. FREDERICKSON: The State Highway Commissioner, Mr. Palmer, before he recommended the State subsidy wanted to make sure that the various railroads were losing as much money as they said. He didn't want to pay them more than their losses were and he engaged at various times two different firms to make these studies.

SENATOR HILLERY: Passenger service only?

MR. FREDERICKSON: Yes, sir.

SENATOR GROSSI: My statement, of course, is not new to you, my asking that question?

MR. FREDERICKSON: No, sir. I have heard that many times, sir.

SENATOR GROSSI: In fact, I have read it in the newspaper where people - these civic railroad transportation committees have said so in their bulletins and so forth. You are aware of that?

MR. FREDERICKSON: I have heard that and I have said this under oath many times and I will say it again today, that any time any member of your committee would like to see our books and ascertain how we arrive at our passenger losses, I will be glad to ---

SENATOR OZZARD: We may assign Senator Grossi to do that



before this is over.

SENATOR STAMLER: Do you know the names of the firms that did those two studies?

MR. FREDERICKSON: Yes. One was Peat, Marwick and Mitchell and the other one was Edwards and Peabody.

SENATOR STAMLER: Thank you.

SENATOR OZZARD: I think we can give Mr. Frederickson a rest. I would like to direct some questions to Mr. Craddock who is the vice president and general manager of the railroad.

Mr. Craddock, I wonder if you could tell us what, if any, operations changes, that is, improvements and so forth, are planned in freight and passenger facilities - I'd like them separately - exclusive of the Aldene Plan which we now know about and have had some testimony on?

J A C K A. C R A D D O C K: Well, we have several plans for freight service improvement, many of which came into being within the past year. We have established new fast freight routes with the Reading Company and B and O. As of today we have the fastest freight service between metropolitan New York and St. Louis and a service from metropolitan New York to Chicago that compares with the service rendered by any other freight carrier in the area. We have installed new piggyback ramps, one in the Somerville area, another at Kenville, to supplement those already in existence at Jersey City and Elizabeth. We are providing a service to the South via piggyback identical to that performed by PRR and superior to that of any other carrier in the area. Again our piggyback service extends to the West via the Reading and



B and O. It is the fastest piggyback service to St. Louis and compares favorably to Chicago with any of the other carriers in the area.

Mr. Frederickson made brief mention of our recent acquisition of 12 new freight locomotives, 25 horse-power engines, the most modern engines being built today. They have replaced 20 obsolete engines on which our maintenance costs were running about 45 cents a mile. The maintenance cost on the new locomotives is slightly under 6 cents a mile and the experience of other carriers that have had this type of engine in service for a year or more has been identical with our experience to date, that the maintenance is less than 6 cents a mile.

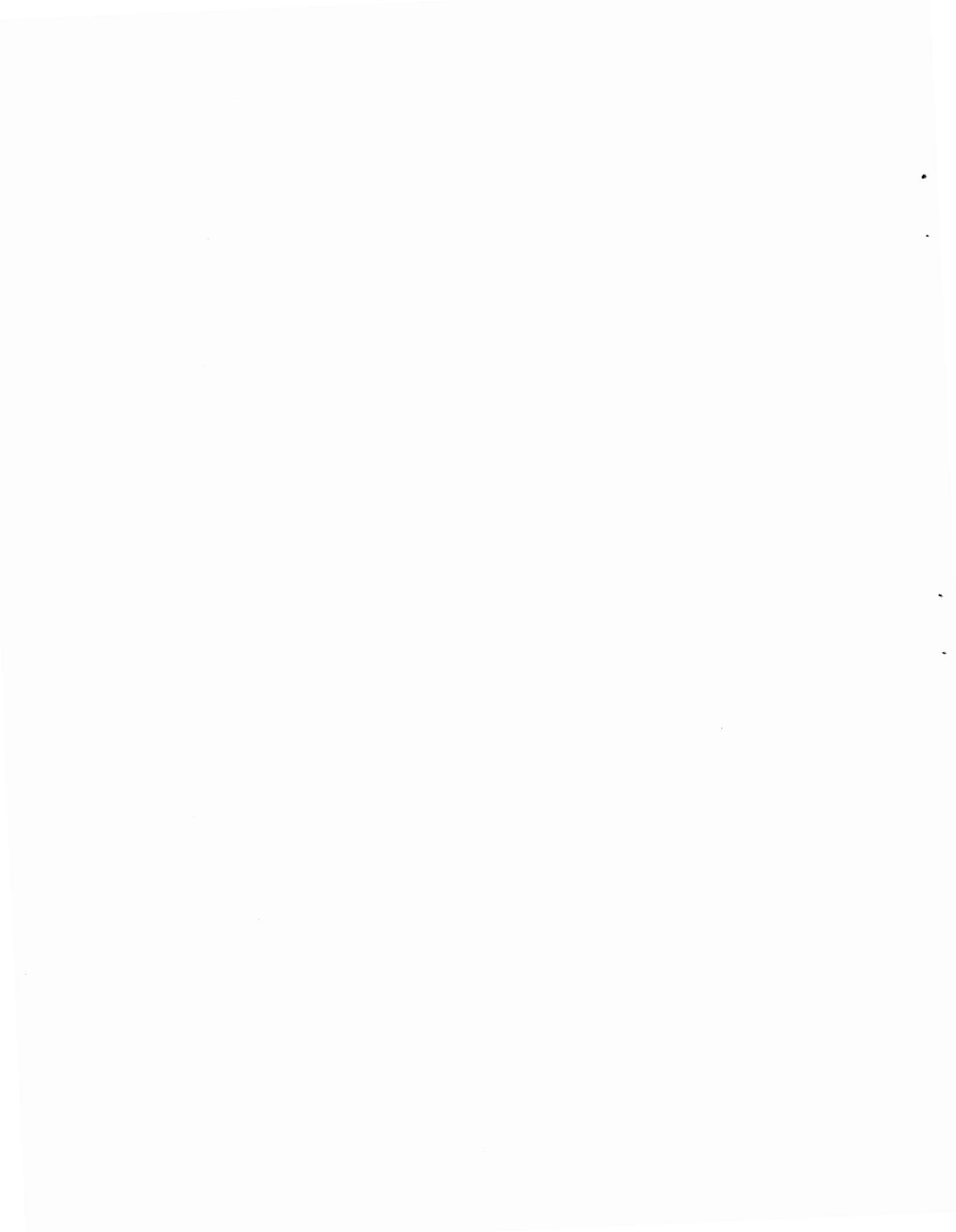
We have under way a program to single track considerable of our main line in New Jersey and to control the single-track operation by CTC, full name being centralized traffic control.

SENATOR OZZARD: What do you mean by single track your operation?

MR. CRADDOCK: In place of double track, we reduce it to single track, thereby saving the maintenance on double track, and at the same time not reduce the capacity because of the centralized traffic control.

We are studying the possible consolidation of several towers in New Jersey, again through the use of centralized traffic control, controlling the functions of many towers at one central location.

We have under way at the moment a study that we hope will result in our raising sufficient cash to permit repair to



every freight car that we presently have in bad order. We have in our ownership something over 800 boxcars that we are confident we can sell and lease back and obtain sufficient money from the sale of these cars to repair all of the cars that we presently have in bad order.

In our passenger service we would like to do many things. We know that many things are necessary. Phase One of the Aldene Plan will be a starter. Step number two for which some Federal money has already been appropriated involves construction of high-level platforms at several of our main-line stations and an automatic system of revenue collection that will and could result in considerable man-power saving. This, of course, requires a substantial capital expenditure for the platforms, the automatic collecting equipment, necessary fencing to channel people through turnstiles, and what have you.

Beyond that, we are fully aware of the need for new equipment, new passenger-carrying equipment. In my opinion we are not going to attract people from the highways until we do have attractive equipment, air-conditioned equipment.

SENATOR OZZARD: Mr. Craddock, you say these are things you would like to do. Are any of these things planned other than the Aldene Plan? Is there anything planned at the moment for improving the railroad?

MR. CRADDOCK: The high-level platform construction is planned. The platforms have been designed, the gating mechanism has been studied, the fencing has been designed.

SENATOR OZZARD: What, if any, serious consideration

has been given to consolidation of stations, that is, reducing the number? I think there was a suggestion from our Division of Rail Transportation a couple of years ago that possibly the railroads would do well to put a single station out in an open space and eliminate the close-in stations, eliminate the number of them, cut down on the amount of personnel operating them and give parking facilities. Is there any serious thought being given to this?

MR. CRADDOCK: We have given considerable thought to it, but we have had very little encouragement from the State to proceed. We know that there are too many railroad stations, not only on our main line, but on the New York-Long Branch.

SENATOR OZZARD: The New York-Long Branch is a good example of it - 21 stations in 21 miles.

MR. CRADDOCK: We are providing a rapid transit service, not a rail commuting service. That's what it amounts to.

SENATOR OZZARD: Well now, in the matter of maintenance, I am concerned about the fact that even after you get Aldene operating and for the first time the people in this area, the Plainfield area, and so forth will be able to go into downtown Newark, which I think should attract the housewives -- In fact, Mr. Shoemaker a couple of years ago when he was in my office discussing this plan said that would be one of the promotional stunts, to get the housewife to use the service during the day. I had the unhappy experience of trying to ride one of the regular trains, not a Budd car, to



New York a couple of months ago. I tried to use the Budd car. But I got on the train and it was a couple of these old reddish brown coach things and it was very apparently dirty. When I got in, I walked to the nearest seat and took the magazine I had in my hand and swatted the back of the seat and the dust billowed and I mean really billowed. I am not exaggerating. I called the conductor and asked him why. I said, "Don't you ever vacuum these things or clean them out?" He said, "We don't even have a vacuum cleaner up in the yards to do anything to these cars." Now what is the point or purpose in letting cars get dirty, just plain dirty? I can understand repairs, but I don't understand that. I can understand a woman, for example, even after you get Aldene, not wanting to sit in that coach. What is going to be done about getting the inside of these cars fit for people to use?

MR. CRADDOCK: Let me say this: Number one, we have maintained the cars so that they are mechanically safe and our policy is to do so and when a car is not safe to operate, we just wouldn't operate it. We do have a cleaning force at Jersey City. We do have vacuum equipment to clean the cars. We do use it. The cars are mopped at least once a week. At the present time we are not washing the exteriors because of the prohibition against using water. But under normal conditions the trains are washed - the exterior of the trains are washed with a car-washing machine at least once a week. This type of seat that you speak of - you can vacuum that seat from now to next week and go in and hit it with a magazine the day after and you are still going to get dust

out of it. It is the type of material that is used in the seat cover. This is one of the things we had hoped to correct in connection with the Aldene Plan and will still do if sufficient money is available to do so. We will use either a rattan cover identical with the Lackawanna's - you never have a dust problem with that - or a plastic cover of some type that will preclude this dust problem.

SENATOR OZZARD: Is there going to be a serious attempt made with the Aldene Plan in operation to encourage day-time use of the railroads to get the housewife and others to make use of the Newark facility and so forth to try and increase your passenger load?

MR. CRADDOCK: Very definitely. As a matter of fact, we have had in effect for a long period of time, not only our railroad, every railroad in New Jersey, mid-day special tickets, reduced-rate tickets, to try to encourage housewives to go into Newark. And from long experience of another railroad in New Jersey, a commuting line, maybe I could relate a little story to you that would tend to explain what has happened to the housewife trade. The shopping centers that have come into being in New Jersey, I think have done more to discourage mid-day use of rail service by housewives than any action or lack thereof on the part of railroads. What is the need for a housewife to go to Newark today when she can drive to a shopping center close to home with plenty of parking, selling the same merchandise as she can purchase in Newark at the same price? I think that is the answer. I think the mid-day travel as such as far as housewives are concerned is a



thing of the past.

SENATOR OZZARD: Well, isn't the lack of mid-day travel one of your present operating problems? You have heavy commuter morning and heavy commuter night and nothing in between or little in between.

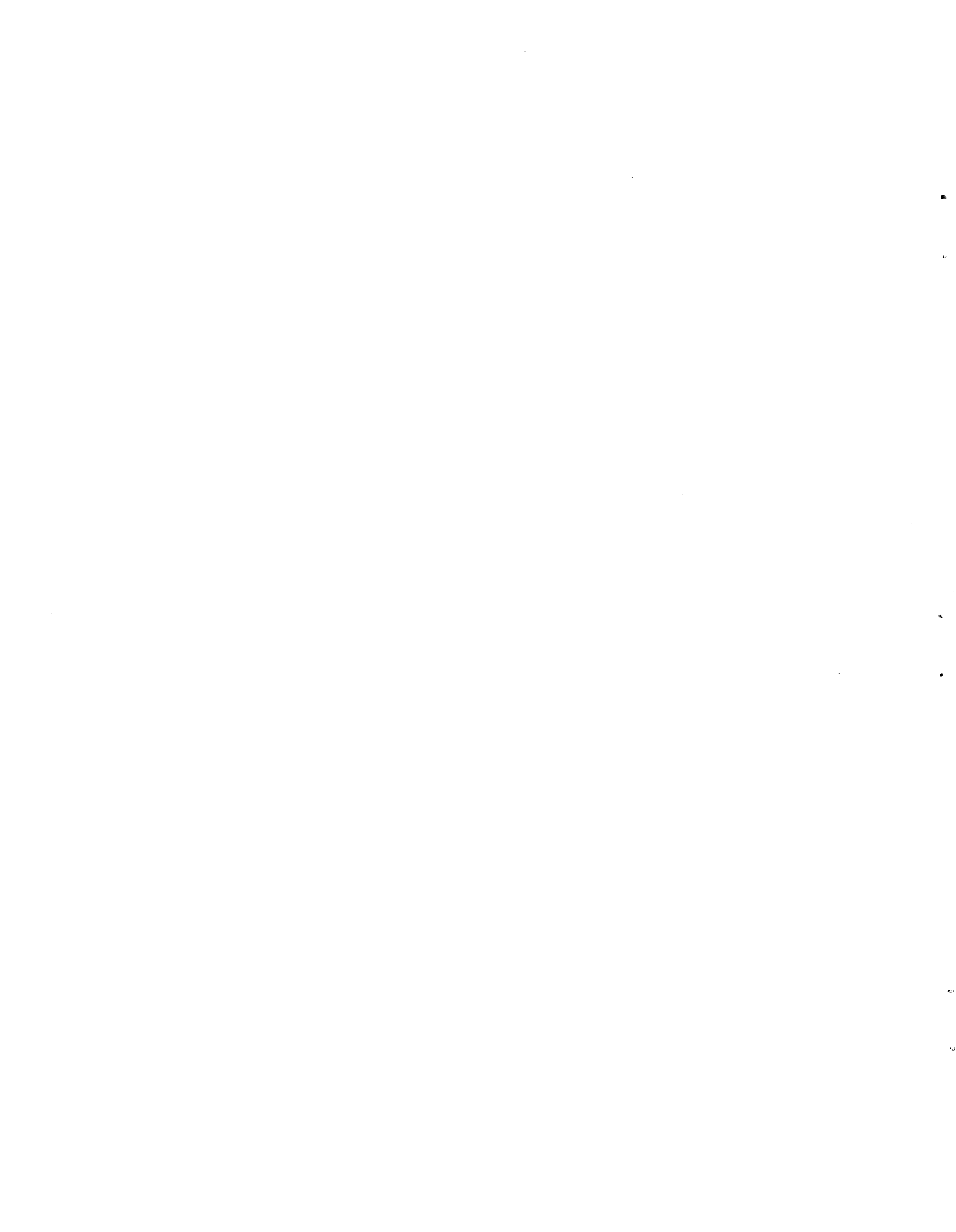
MR. CRADDOCK: Our source of expense comes from the need for a peak number of crews in the morning and a peak number of coaches and a peak number of crews in the evening and a peak number of coaches, equipment and men ready to work, willing to work, but nothing for them to do in the mid-day.

SENATOR OZZARD: Mr. Craddock, we have heard a good deal about featherbedding and its expense to the railroad. Is this still a problem on your road and, if so, do you have any estimate of cost?

MR. CRADDOCK: In my opinion there is little or no featherbedding in the passenger service. I feel strongly that there is no need for firemen on a diesel locomotive in the passenger service.

SENATOR OZZARD: You still use them though.

MR. CRADDOCK: Well, we still use them because we are required by the national labor settlement to do so. But I say they are unneeded because in electric multiple-unit service where the speeds are fully as fast as the diesel service, there are no firemen. So certainly from a safety aspect, they are not required. Other than the use of firemen and perhaps the restriction of not being able to reduce crews below the number of train miles taken off, I would say that



is the only featherbedding in passenger service.

SENATOR OZZARD: Won't you shortly have a personnel padding problem with the released mail service personnel? You have no place to put them, do you?

MR. CRADDOCK: No, sir, we do not.

SENATOR OZZARD: How many do you have - a hundred some odd?

MR. CRADDOCK: We have 87 people involved. Those are people now that are not used in the manning of trains. They were strictly mail handlers.

SENATOR OZZARD: And they are not equipped to do anything else on the railroad, are they, most of them?

MR. CRADDOCK: About 80 or 85 per cent are not.

SENATOR OZZARD: Are not?

MR. CRADDOCK: That's right.

SENATOR OZZARD: What are you going to have to do, keep them on your payroll anyway?

MR. CRADDOCK: We are obligated to protect those people who had as of October 1, 1964, two years of service with the railroad and had performed at least seven days' work per month in that two-year period. So we wind up with 79 of the 87 people as being protected employees.

SENATOR OZZARD: And how long must they be protected?

MR. CRADDOCK: Until through attrition they are somehow absorbed.

SENATOR OZZARD: They are either absorbed or they are pensioned off.

MR. CRADDOCK: That's right.

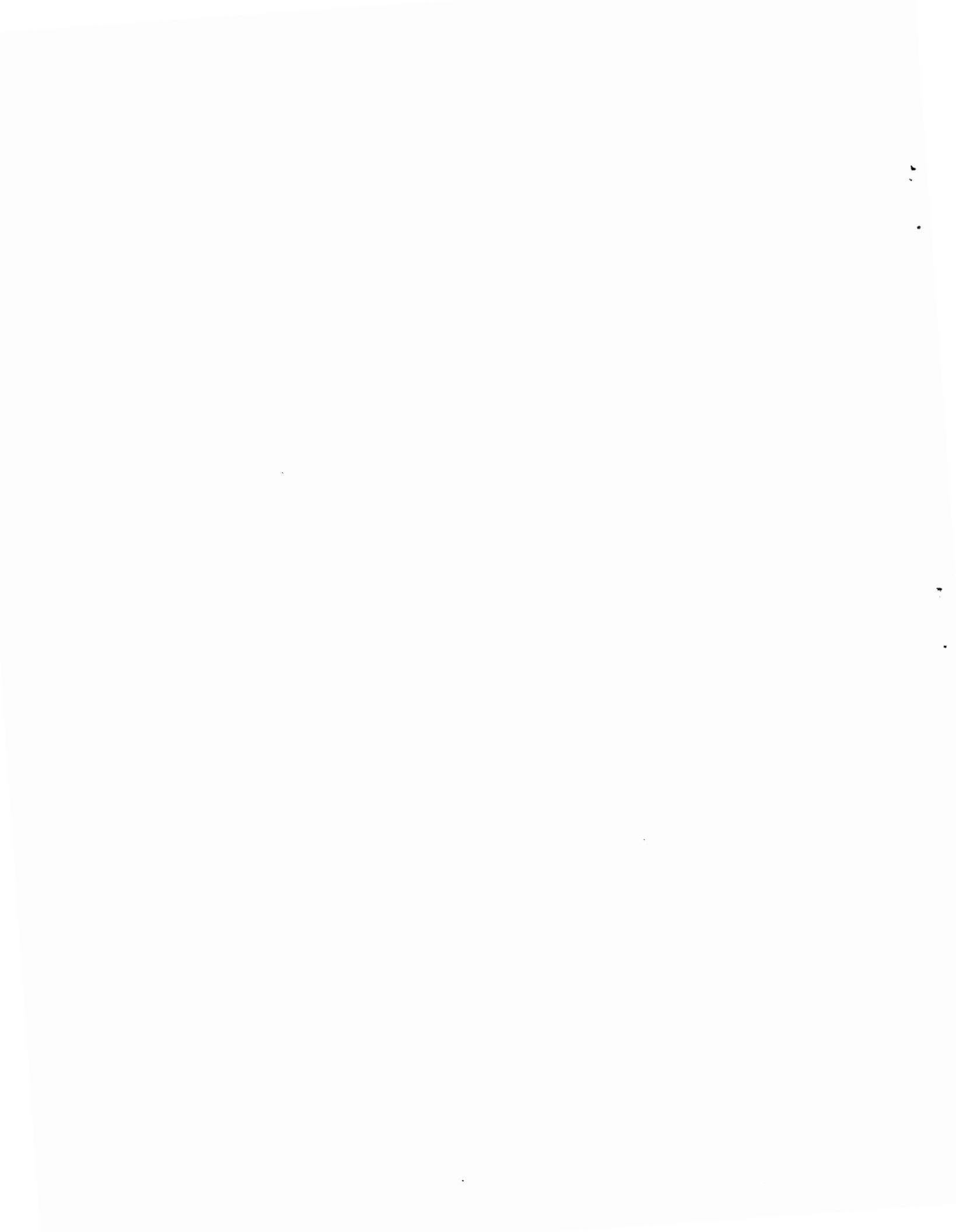
SENATOR OZZARD: So that you have 79 employees who may be sitting at home and on your payroll; is that correct?

MR. CRADDOCK: That isn't quite right. We didn't take this thing lying down - we couldn't afford to - and had to try to do something about it. Completely contrary to the principal of the attrition agreement, we conceived the thought of approaching some of these people, particularly those in the younger age group who might want to get away from the railroad business and get into a grocery store or gas station or something of their own - approaching them on the basis of severing their relationship with the railroad for an amount equal to that which they earned in 1964. And through that medium I am sure we will be successful in separating about 30 people. It is done strictly to help ourselves.

SENATOR OZZARD: One last question on the improvement of passenger service: As of now, with what you have to work with, you have no plan, do I understand you correctly, for any new passenger equipment or any improvements to the system other than the raising of platforms, high-speed platforms?

MR. CRADDOCK: We hope to improve all of the coaches to be used in the passenger service when the Aldene Plan commences. We think that there will be sufficient money available to do that sort of a job.

SENATOR OZZARD: Senator Hillery asked Mr. Frederickson before when Mr. Frederickson spoke of this Freight Improvement Committee or whatever it is called, this group that is working on the improvement of freight facilities, if there was any such comparable group for passenger transportation. Is



this entirely your function? I mean, is it entirely within your province to do this?

MR. CRADDOCK: Yes.

SENATOR OZZARD: In other words, there is no special committee or commission or anything designated by your board to try to improve passenger service.

MR. CRADDOCK: I don't know what you mean by "improve."

SENATOR OZZARD: Well, I think we start with some sort of an agreement that it is not in its best condition, both equipmentwise and servicewise. The service is just about what you have to hang onto in order to keep the railroad going or keep the State quiet.

MR. CRADDOCK: Well, the service is that which is deemed essential by the State. We have taken nothing off that is deemed essential.

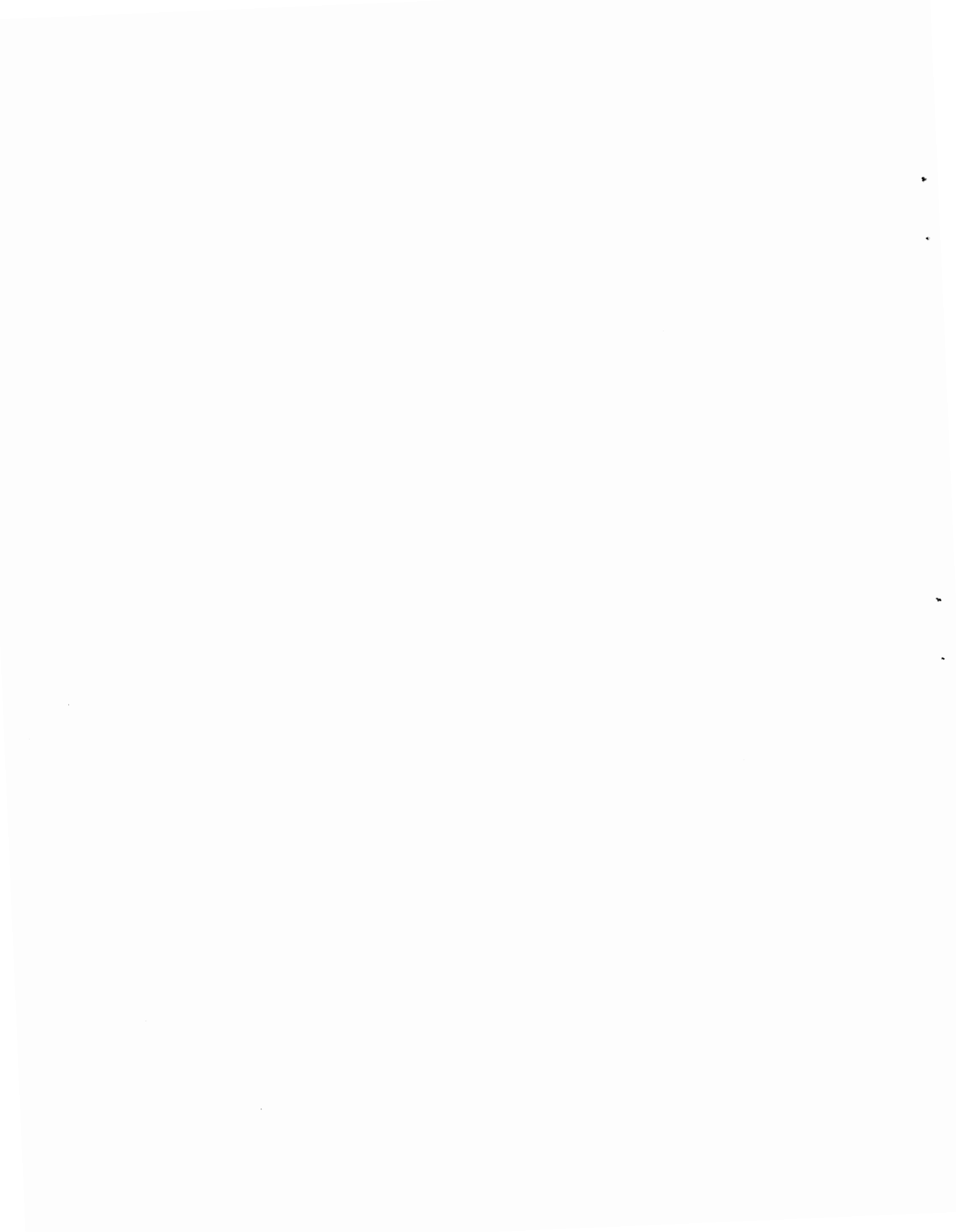
SENATOR HILLERY: There is no money spent for advertising, for promotional purposes.

MR. CRADDOCK: We spend some advertising money, yes.

SENATOR HILLERY: For the commuter service?

MR. CRADDOCK: Some for commuter service and some for the summer race track train service.

SENATOR OZZARD: Something was said to Senator Stamler and me at a recent meeting of the Intermunicipal Rail Group - of course, these men are all specialists and know more about your railroad than you do - the statement was that the Aldene Plan could not work because the time when you would be trying to operate your trains into the Pennsylvania Line would be at the peak operating time of the Pennsylvania Railroad



and it is questionable whether you can integrate your trains and theirs. Is there anything to this? In other words, has a program been worked out with the Pennsylvania?

MR. CRADDOCK: We have worked out completely a station program, a yarding program for the morning rush period, a movement from the yard to the station in the evening rush and station departures. That has been completely worked out with the Pennsylvania people.

SENATOR OZZARD: You are satisfied the Aldene Plan functionally can operate?

MR. CRADDOCK: I am.

SENATOR OZZARD: Senator Hillery.

SENATOR HILLERY: No questions.

SENATOR OZZARD: Senator Woolfenden.

SENATOR WOOLFENDEN: No.

SENATOR OZZARD: Senator Stampler.

SENATOR STAMLER: These twelve diesels that you bought for freight service - how much did they cost more or less?

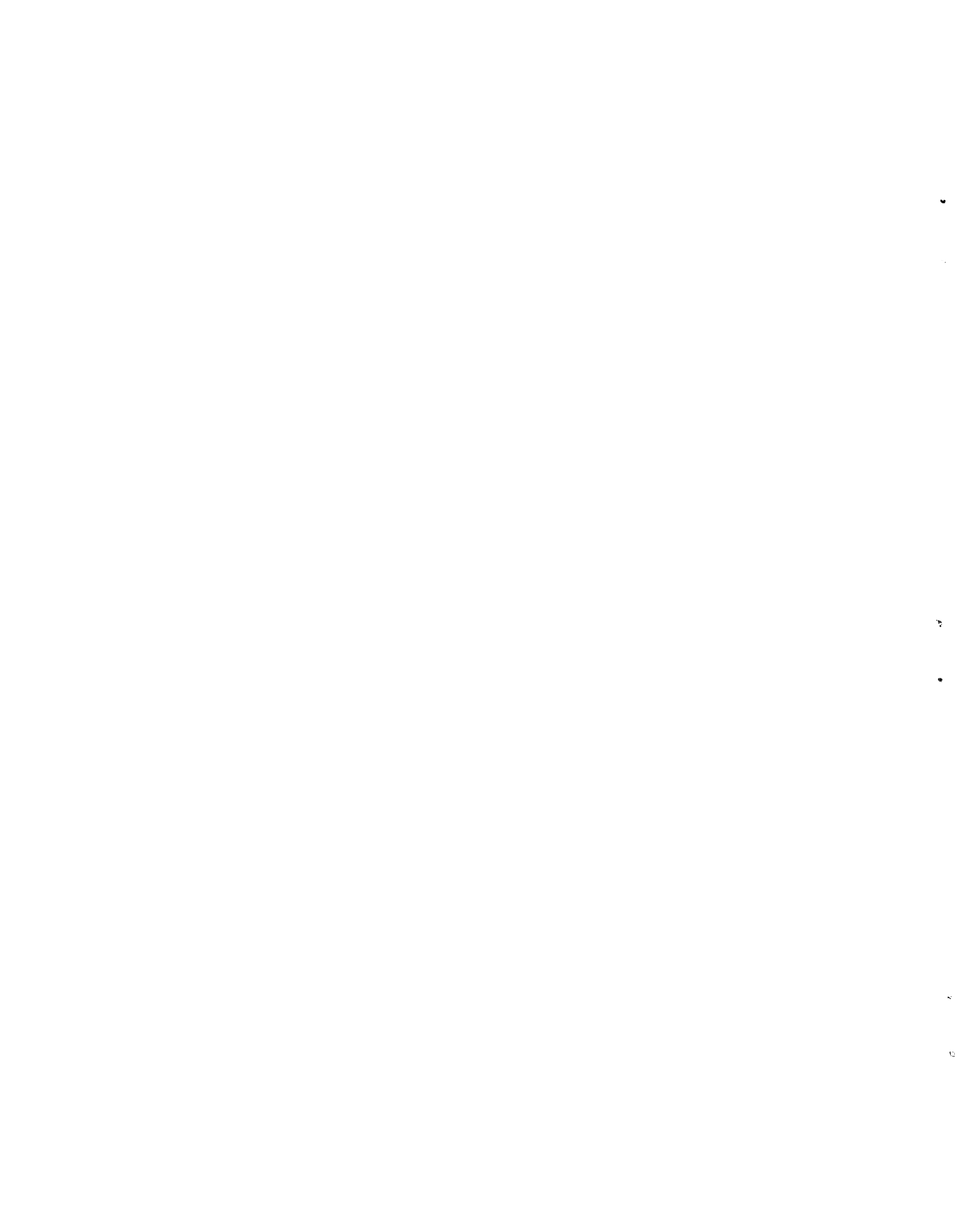
MR. CRADDOCK: \$235,000 per unit.

SENATOR STAMLER: Each?

MR. CRADDOCK: Yes.

SENATOR STAMLER: Was any of the State subsidy used for the purchase of those engines or whatever they are?

MR. CRADDOCK: No. Actually we had no money to put down on the engines. We had to arrange a financing plan and we traded in 15 engines and sold 5 others for scrap and used the trade-in proceeds plus the proceeds from scrap as the down payment for them.



SENATOR STAMLER: Therefore, none of those 12 locomotives are going to be used for the hauling of commuter traffic.

MR. CRADDOCK: No, I wouldn't say that. They could well be and have been already.

SENATOR STAMLER: Well, you said that they were bought for freight service.

MR. CRADDOCK: They were. But we integrate our locomotives. We don't assign anything exclusively to passenger service. In order to make maximum utilization of our locomotives, an engine might be in passenger service for ten hours and into the enginehouse for fueling and right out in freight service for eight more and back into passenger service.

SENATOR STAMLER: That's the point. They are for general use; they are not for freight service particularly.

MR. CRADDOCK: Particularly for freight service, but can be used in passenger service.

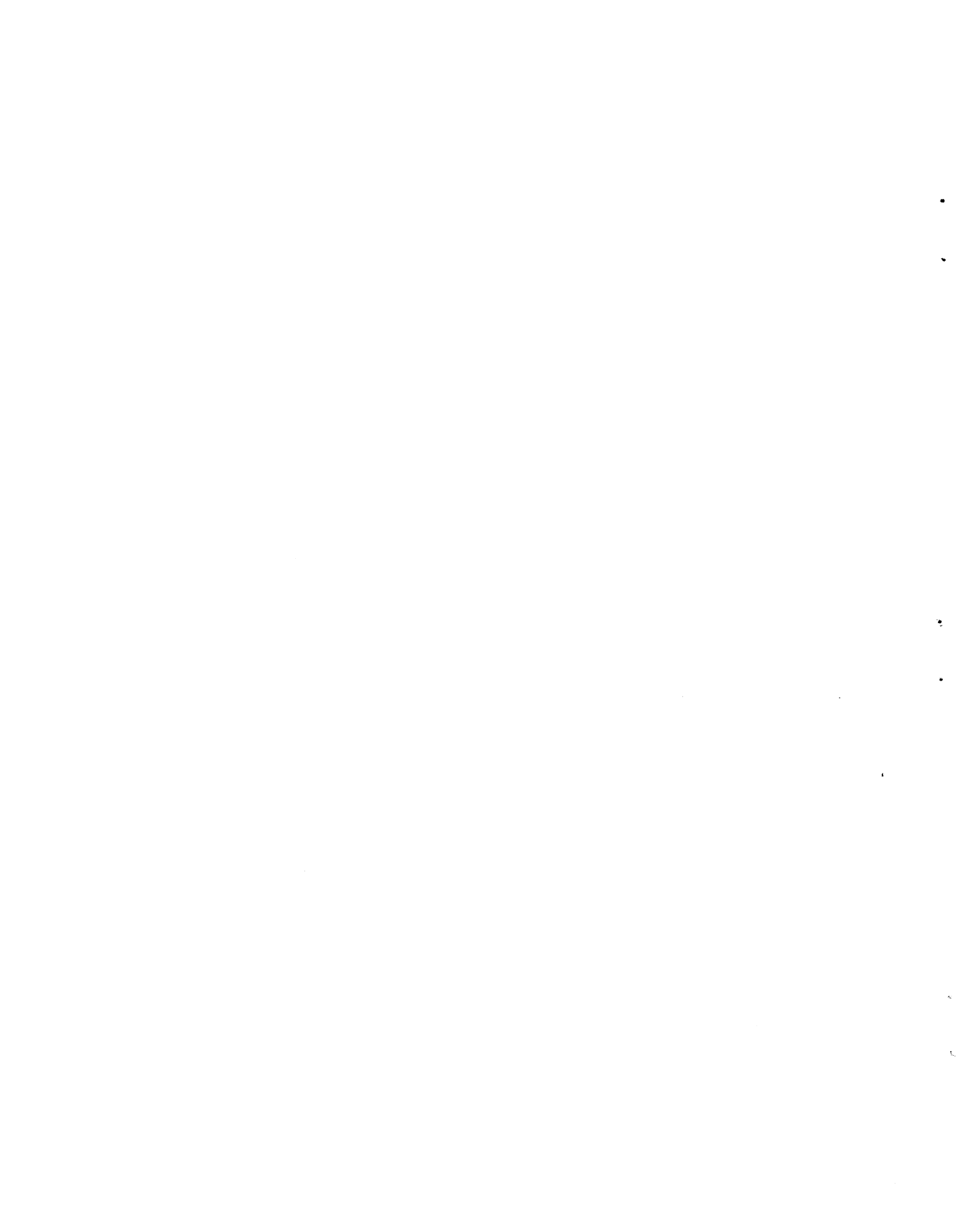
SENATOR STAMLER: But will they be used? That's the question.

MR. CRADDOCK: As the need arises, they will be.

SENATOR STAMLER: Well, that's not quite an answer, but I suppose I'll have to take it.

MR. CRADDOCK: Well, as the need arises. They are not going to be assigned in a passenger-freight pool. They are being assigned to freight service.

SENATOR STAMLER: Will they be used to haul commuters, let's say, between Plainfield and Aldene?



MRS. CRADDOCK: On occasion.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: I have no questions.

SENATOR OZZARD: Senator Grossi.

SENATOR GROSSI: The Federal money that will be allocated under the Federal Mass Transportation Act, the percentage that would be allocated to the Central Railroad of New Jersey - is it contemplated that this money would be used for the improvement of the passenger service exclusively?

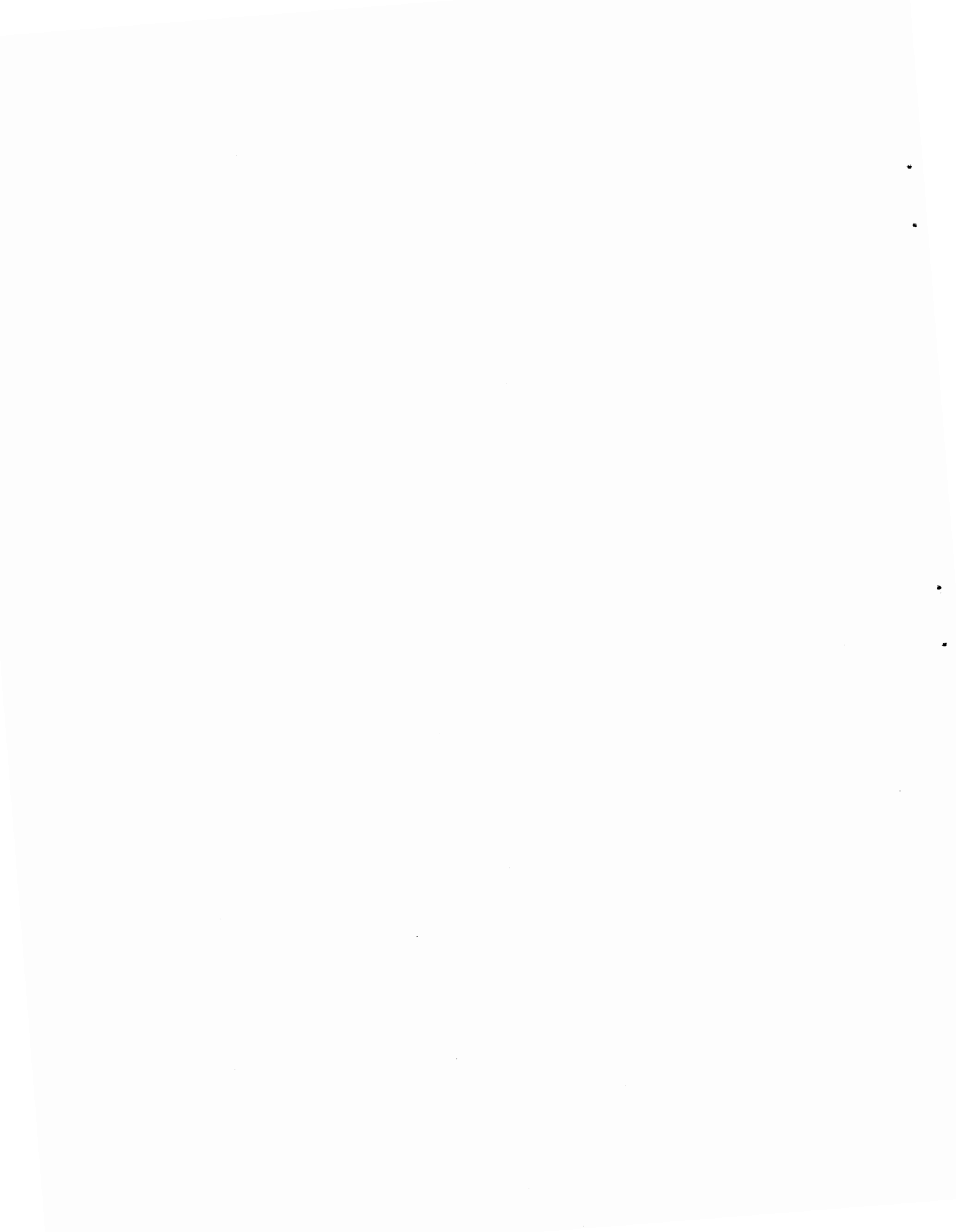
MR. CRADDOCK: My understanding from the Highway Department is that the money will be used for the high-level platform construction.

SENATOR GROSSI: For platform construction, not for the purchase of new cars, new passenger cars?

MR. CRADDOCK: No, sir.

SENATOR GROSSI: Would you say, Mr. Craddock, after listening to Mr. Frederickson in response to a question from Senator Ozzard as to how much has been done on passenger service over the last 4 years, that practically nothing aside from the pure maintenance, reasonable state of repairs just to keep them running, that it has been the policy on the part of railroads generally to permit the passenger service to deliberately deteriorate, anticipating that there would be a hue and cry raised so that you might speed up the Federal aid or State aid that you wanted?

MR. CRADDOCK: I think not. We talk about passenger service and there are many aspects to passenger service as you know. We have endeavored, and successfully so, to maintain



our equipment in a safe operating condition. There are some things you just can't do with old equipment without tremendous expenditure. I am thinking of air conditioning, for example. To air condition one of these old cars in our ownership, the unit alone would run about \$30,000. Because of the type of construction, this \$30,000 unit wouldn't adequately cool the car. You can do some painting, interior and exterior. Again that costs some money and we haven't spent money for that sort of thing.

 Servicewise if you are talking of moving people from Point A to Point B, our service has not deteriorated nor has that of any commuting railroad to my knowledge in the State. Sure there have been some mid-day trains discontinued. There have been some weekend trains discontinued, some evening service. But the basic commuting service of moving people for an hour and thirty minutes in the morning and one hour and thirty minutes at night, five days a week, has not deteriorated.

 SENATOR GROSSI: When was the last time the Central Railroad of New Jersey bought new passenger cars?

 MR. CRADDOCK: Four years ago.

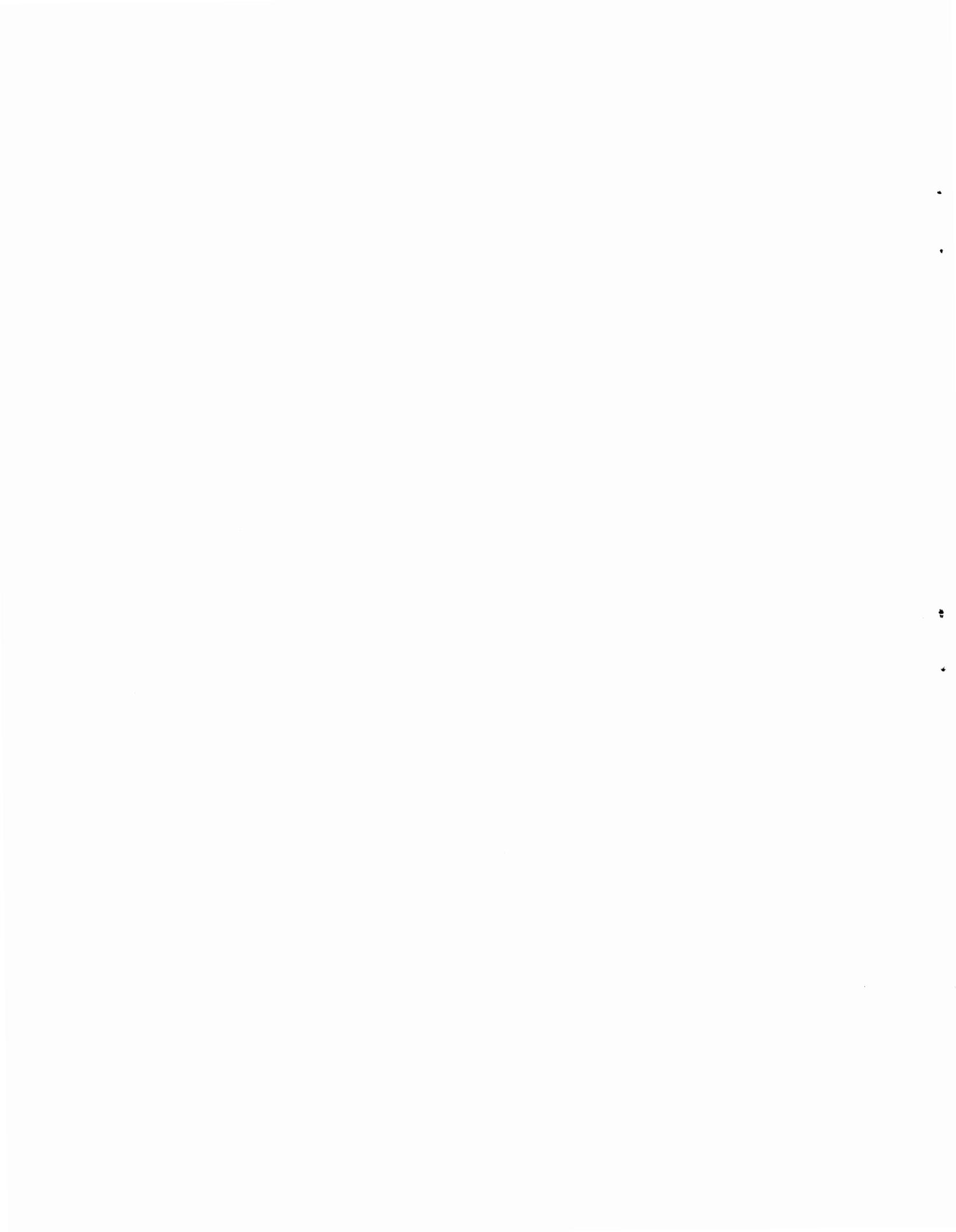
 SENATOR GROSSI: How many at that time?

 MR. CRADDOCK: I think there were four.

 SENATOR GROSSI: Four out of how many that you run?

 MR. CRADDOCK: Well, we are operating at the moment about 220.

 SENATOR GROSSI: So that the four were just replacements for passenger cars that could positively not even be repaired anymore. Is that about right?



MR. CRADDOCK: No. They were Budd cars.

SENATOR OZZARD: Self-propelled.

MR. CRADDOCK: Self-propelled cars to replace conventional-type trains.

One point I would like to clear up, we talked a bit ago about a bureau to improve freight service.

SENATOR OZZARD: A committee, I think it was.

MR. CRADDOCK: A committee. What Mr. Frederickson was referring to, I am sure, is an increased sales force to improve freight solicitation. We have no bureau as such working on the improvement of freight service. That is a day-to-day chore of every supervisor in the operating department. There is no bureau or committee as such.

SENATOR OZZARD: But you do have an active sales force in freight which you don't have in passenger service --

MR. CRADDOCK: That is correct.

SENATOR OZZARD: -- which is interesting in view of the fact that most of your big trucking companies have an active sales force for freight and so do most of the big bus companies. They are out all the time with a sales force selling excursions and so forth. The bus companies are out to get passengers and it is interesting the railroad doesn't have a sales force of its own to compete with the bus companies who on our highway up here are hauling them by the thousands every day from Pennsylvania into the World's Fair. You have one wonderful opportunity right here for the last two years that I think you have been missing.

MR. CRADDOCK: Saying we don't have a sales force isn't



quite right. We do have a sales force, a small one admittedly, but it is a four-man force.

SENATOR OZZARD: Tell me something, in the two years or the year and a half that the World's Fair has been on, have you had any excursion business at all from Pennsylvania into New York City?

MR. CRADDOCK: None whatsoever.

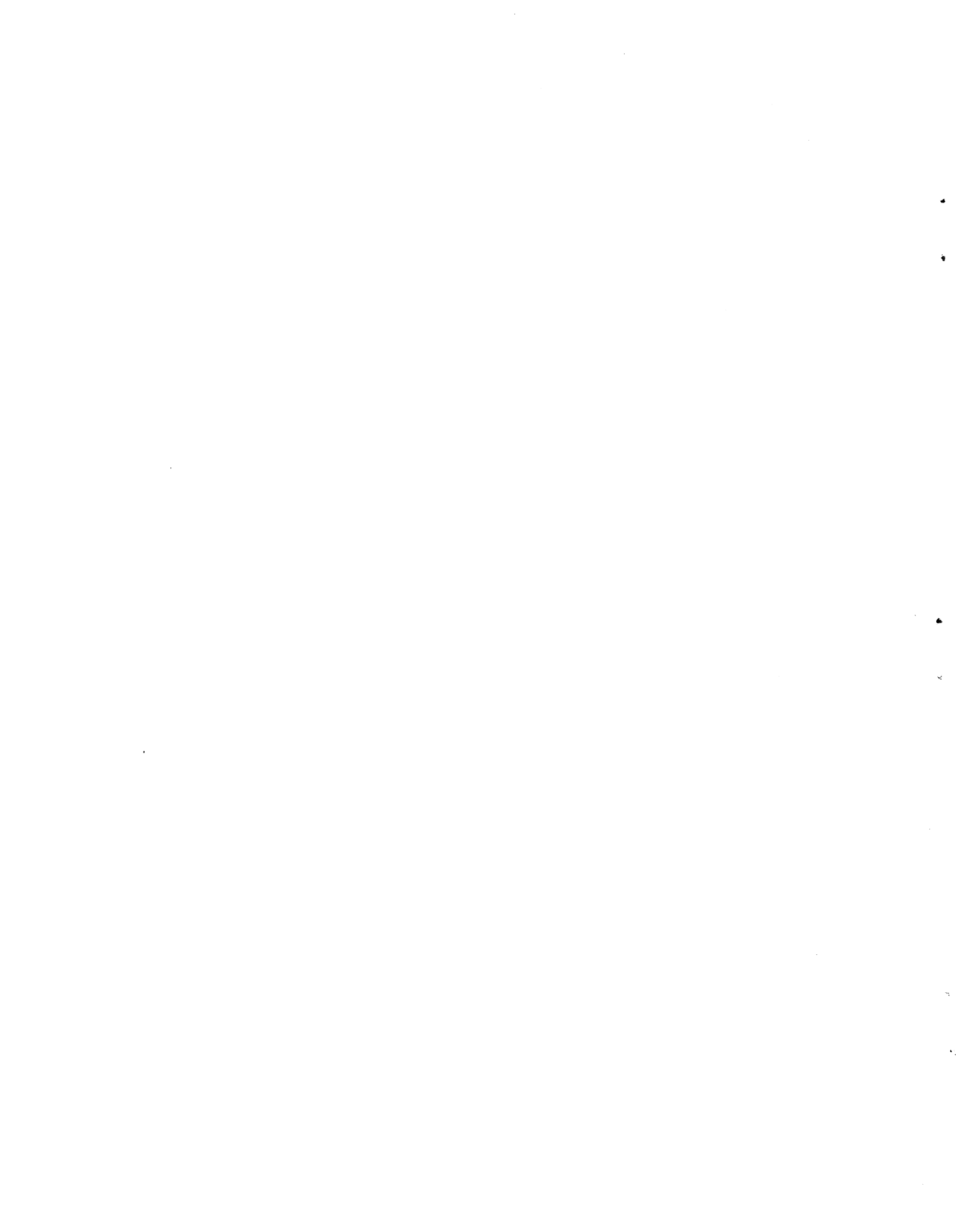
SENATOR OZZARD: Is there some reason for this in view of the fact that the buses, and I know because we have one diner here at the edge of Somerville that handles six to ten buses from Pennsylvania every morning except Sunday going to the World's Fair --

MR. CRADDOCK: We were in contact with several groups in Pennsylvania, service clubs, churches, and various organizations, who displayed an interest at one time in moving by train. When they realized and found out by actual traversing of the route the inconvenience involved in getting off a train at Jersey City, taking a ferry boat to New York, making your way to the subway or Penn Station, versus a direct move by bus into the Fair grounds, they lost interest immediately.

SENATOR OZZARD: The Central Railroad couldn't work out a bus contract at the Jersey City Terminal and have the buses go right on their ferries and go off the other end to the Fair and back again?

MR. CRADDOCK: Well, you could, but then the attractiveness of the excursion as far as we were concerned from an earning standpoint is gone.

SENATOR OZZARD: One last question, Mr. Craddock:



Are you in agreement with what I think Mr. Frederickson said that, though there may be a lessening in the need for public moneys, it looks, at least for the foreseeable future, as though the State government is in the railroad business at least on a money basis; is that right, passengerwise?

MR. CRADDOCK: I think for a few years that is a fact.

SENATOR OZZARD: Pardon.

MR. CRADDOCK: For a few years, I am sure that is a fact.

SENATOR OZZARD: Can you see a point where we will not have to spend any money for railroads?

MR. CRADDOCK: I can.

SENATOR OZZARD: Can you project that even on a guess?

MR. CRADDOCK: It all depends on many factors. Number one, the tax picture, if that is corrected --

SENATOR OZZARD: -- which is a State participation indirect.

MR. CRADDOCK: Number two, new equipment. Number three, of course, the automatic collection and vending of tickets. When those three things are accomplished, together with the Aldene Plan, I can foresee a time when commuting can be self-sustaining.

SENATOR OZZARD: You feel then that a major part of this proposition is tax relief plus State-leased equipment. Is that correct?

MR. CRADDOCK: Not necessarily State-leased, but equipment made available to the railroads in some way.

SENATOR OZZARD: Well, by either an authority or a State --



similar to what we are doing with the Pennsylvania on a lesser scale.

MR. CRADDOCK: Electric equipment - electrification system.

SENATOR OZZARD: Thank you very much. Is there anything else? [No response.]

Gentlemen, thank you. We are letting counsel off scot free today.

SENATOR LYNCH: There will be another day.

SENATOR OZZARD: Thank you. We appreciate very much your coming.

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