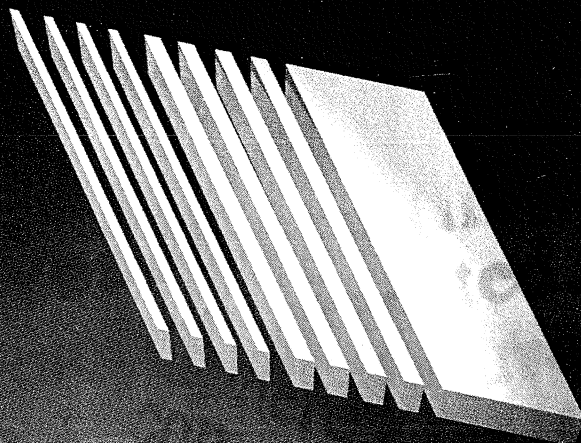


Annual Report
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NJ TRANSIT
The Way To Go.



1997
ANNUAL REPORT

DEFINING THE FUTURE OF
PUBLIC TRANSPORTATION

NJ TRANSIT
The Way To Go.



Each of NJ TRANSIT's 321,000 daily riders is on a journey. Whether they're going to work, to school, to shop, or to visit, they know that NJ TRANSIT is "The Way To Go." NJ TRANSIT is on a journey too – one that began 18 years ago with an unequivocal belief in the power of public transportation to make the Garden State even stronger and more vibrant. The destination – a virtually seamless bus, rail, and light rail system that carries passengers throughout the entire region quickly, conveniently, safely, and cost-effectively. It's a journey that requires investment, commitment, and vision, and all along the way it produces significant returns for riders, their communities, the economy, and the environment – returns that will only increase as the future becomes the present.



NJ TRANSIT: DEFINING THE FUTURE OF PUBLIC TRANSPORTATION

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Christine Todd Whitman
Governor

BOARD OF DIRECTORS

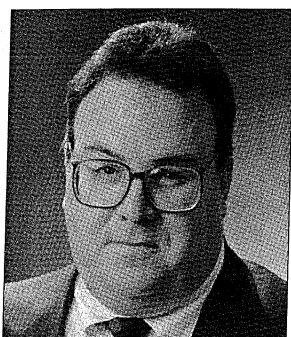
John J. Haley, Jr., Chairman
Appointed State Commissioner of Transportation in January 1997, Mr. Haley has had over 20 years of management, policy development and strategic planning experience. Prior to his appointment, he served as Deputy Executive Director of the Port Authority of New York & New Jersey. Mr. Haley had previously worked at NJ TRANSIT and has held executive positions at the Massachusetts Bay Transportation Authority, Southeastern Pennsylvania Transportation Authority, Chicago Transit Authority, and San Francisco Bay Area Rapid Transit District.



Amy M. Rosen, Vice Chairman
Ms. Rosen was appointed to the Board in May 1992. She is Senior Vice President at Lockheed Martin IMS and has held various positions at the New Jersey Department of Transportation, including Assistant Commissioner. She is a resident of Montclair.

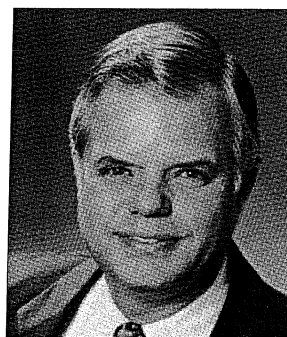


James A. DiEleuterio, State Treasurer
Mr. DiEleuterio serves on NJ TRANSIT's Board in an ex officio capacity as the Treasurer of the State of New Jersey. Appointed Treasurer by Governor Whitman in July 1997, he joined the Board of Directors in July 1997.
Designee: John Ekarius



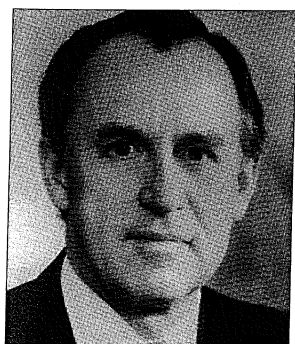
Victor Cantillo, Governor's Representative

Mr. Cantillo, who serves as Governor Whitman's representative, joined the Board in January 1994. As a financial advisor in the Governor's Authorities Unit, he is the liaison for many of the state's other transportation agencies.



Patrick W. Parkinson

Mr. Parkinson, a resident of Middletown, was appointed to the Board by Governor Whitman in September 1994. He is Director of Operations and Sales Administration for the Khepra Beauty Group and Deputy Mayor of Middletown Township.



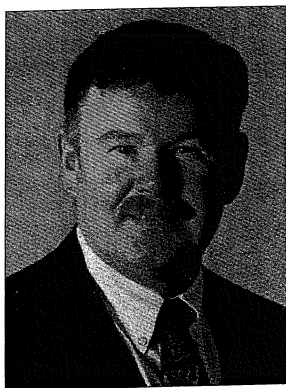
John L. McGoldrick

Mr. McGoldrick has been a member of NJ TRANSIT's Board of Directors since the Corporation's establishment in December 1979. He is General Counsel and Senior Vice President of the Bristol Myers Squibb Company. Mr. McGoldrick is a resident of Princeton.



Myron P. Shevell

Mr. Shevell, a resident of Elberon, was appointed to the Board in May 1995. He is Chairman of the Board of New England Motor Freight and Chairman of the Shevell Group—real estate, trucking, and logistics companies. He is also Board Chairman of New Jersey Motor Truck Association and Regional Director of the Bank of New York.



MESSAGE FROM THE BOARD CHAIRMAN

Fiscal Year 1997 showed significant progress in shaping the future of public transportation in New Jersey. As one of the top three, most transit-dependent regions in the nation, the Garden State received unparalleled public and financial support — without which visionary projects such as NJ TRANSIT's Secaucus Transfer, Hudson-Bergen Light Rail Transit System, and Work First—New Jersey could never have been imagined.

Through such steadfast support as well as the perseverance to leverage vital federal dollars for New Jersey projects, Governor Christine Todd Whitman's vision to enhance the state's mobility is clear. Her belief: public transportation is at the pulse of the state's short- and long-term economic vitality and must be developed in ways that produce the maximum benefits for all New Jerseyans. To that end, creating a seamless transit system that links the northern and southern portions of the state; providing quicker, more convenient access to existing employment and recreational hubs; developing flexible/adaptable programs such as van service and parking expansion projects to support traditional transit options; and, advocating transportation projects that create jobs for thousands of New Jerseyans

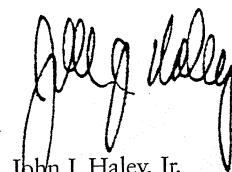
were paramount in the Governor's efforts to ready New Jersey for the 21st century.

And the future couldn't be more exciting. As long as the commitment of our state and federal governments continues — despite an ever-changing political landscape in our nation's capital — NJ TRANSIT can continue the projects that will interconnect public transportation throughout the state and look to embrace the benefits of new technologies, including: advanced rail signal systems; alternative fuel vehicles; electronic toll devices; smart cards; and, state-of-the-art equipment. Specifically, NJ TRANSIT and the people it serves can continue to benefit through the pending re-authorization of the federal Intermodal Surface Transportation Efficiency Act (ISTEA) and re-approval of the state's Transportation Trust Fund (TTF) — a fund that designates one-third of its dollars solely to public transit projects.

Monies from these sources and efforts to increase ridership are instrumental in NJ TRANSIT's ability to create and implement capital projects, revamp and enhance existing infrastructure and keep fares stable. Thus far, such improvements have yielded substantial benefits — economic vigor, an improved quality of life, a cleaner environment, and an increasingly integrated

system that moves people in and around New Jersey. But we must challenge ourselves to develop the seamless, multimodal public transit system of the future, one that provides service to and from outlying areas of New Jersey as well as traditional destinations, such as New York and Philadelphia. We must challenge ourselves to develop an interconnected, adaptable system which serves the needs of our residents as needs continue to change and demands become more complex.

I am confident that the ongoing collaboration among the Governor, our Congressional delegation, the state Legislature and federal government, the New Jersey Department of Transportation, and NJ TRANSIT's Board of Directors, as well as the men and women of NJ TRANSIT, will continue to ensure the availability of affordable, reliable, and efficient public transportation that contributes to the joy of living and working in the Garden State. I am further confident that New Jersey's public transportation future is in good hands today.


John J. Haley, Jr.



MESSAGE FROM THE EXECUTIVE DIRECTOR

Does the computer technician who rides on the Raritan Valley Line realize that he's taking one of 47 million passenger trips on NJ TRANSIT? Is the student heading to school worrying about her chemistry test or thinking that she is riding on one of 1,900 NJ TRANSIT buses? And what about the young man on his way to a job interview — does he know that he is among more than 300,000 riders on NJ TRANSIT today?

Probably not. But these and all our other customers know the most important thing. They know they can count on NJ TRANSIT to do the job and do it better and better all the time. They can rely on the corporation to define what public transportation means to New Jersey and to build and operate the interconnected, intermodal transit system that New Jerseyans deserve — one that will take the state into the 21st century and beyond.

In its short 18-year history, NJ TRANSIT has become the third largest public transit provider in the nation, covering well over a billion miles a year. Since 1983, NJ TRANSIT has invested more than \$4.1 billion in a capital program to electrify or re-electrify rail lines, purchase or rehabilitate more than 3,200 buses, 775 rail cars, and 150 diesel and electric locomotives, and upgrade

maintenance operations and yards, passenger facilities, and internal support systems. Infrastructure improvements, including new track, state-of-the-art signal systems, safety devices, station upgrades, and amenities, are planned, underway, or already completed. The FY97 capital plan funded the exciting construction projects highlighted in the pages of this annual report, and the capital program for FY98 is continuing to support an aggressive approach to meeting New Jersey's transportation needs well into the future.

In FY97, NJ TRANSIT continued to break on-time performance records, increase ridership, and post impressive on-the-job- and passenger-safety results. The Corporation ended the year \$30 million below budget as a result of cost savings and ridership generated. And, for the seventh year in a row, fares did not increase and they won't increase in FY98.

The Corporation maintained service levels and initiated a new system for handling service-related emergencies that captured the very special American Public Transit Association's Management Innovation Award. This year, the award recognizes the efforts of the 240-member, all-volunteer NJ TRANSIT Emergency

Response Team, which provides invaluable assistance to customers during unforeseen and unavoidable service disruptions.

But NJ TRANSIT cannot rest on these achievements. The future of public transportation in New Jersey is today in the hands of the men and women who embody the Corporation's ideals and vision. NJ TRANSIT's ambitious agenda in the coming years will continue to challenge the organization to achieve increasingly higher goals and set increasingly higher standards. NJ TRANSIT has no choice but to continue to work ever harder and ever smarter.

The entire team at NJ TRANSIT looks forward to the future with enthusiasm, confidence, and creativity. Our mission is clear — to continue our efforts to shape and define what public transit will mean to New Jersey's future. Thanks to the outstanding contributions of NJ TRANSIT's employees, the commitment of the Governor, the Commissioner of Transportation, and the NJ TRANSIT Board of Directors, we are well on our way to fulfilling that mission.

A handwritten signature in dark ink, reading "Shirley A. DeLibero".

Shirley A. DeLibero



INNOVATION, PLANNING, AND EXPERTISE THAT MAKE CAPITAL WORK HARDER

Investing is one thing; investing ingeniously in ways that work together to meet vital short- and long-term goals is another. FY97 was a year in which NJ TRANSIT's ability to invest with creativity, diligence, and foresight brought the Corporation significantly closer to the facilities, infrastructure, and equipment that will, in the not-too-distant future, drive New Jersey's virtually seamless public transportation system.

It's no surprise that more New Jerseyans are riding with NJ TRANSIT. FY97 saw outstanding performance in the areas of safety, service reliability, customer satisfaction, and operating efficiency. Bus Operations set an all-time high of 8,300 miles between service interruptions, eclipsing the FY96 record. Employee injuries were at a record low, 24% below last year's record low. On the rail side, reportable passenger injuries declined to 0.1 per million miles, the lowest in the Corporation's history. NJ TRANSIT's enviable equipment-reliability figures increased, and on-time performance met or exceeded industry standards at 95.2% and 91% for train and bus service, respectively.

In FY97, NJ TRANSIT continued to set the stage for New Jersey's public transportation future. The Corporation undertook an impressive number of projects designed to make service safer, more comfortable, and more convenient for today's riding public.

This is evidenced in the opening of the Atlantic City Bus Terminal and Egg Harbor Township Bus Maintenance Facility, completion of a major parking expansion at Metropark Station, new rail stations at

Elberon and Point Pleasant Beach, and new equipment purchases. In addition, a number of major initiatives were at the forefront of NJ TRANSIT's capital program. These projects, which are discussed throughout the pages of this annual report, will create the seamless, interconnected transit system that will carry New Jersey into the 21st century.

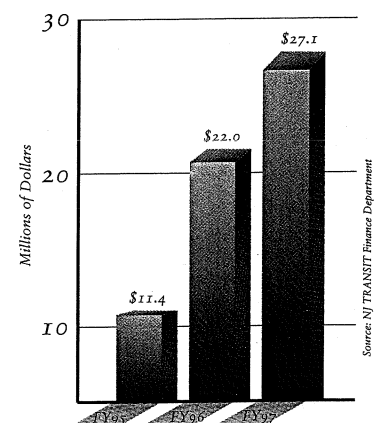
Students from Atlantic City's Indiana Avenue Elementary School took part in the opening of the new \$7.3 million Atlantic City Bus Terminal. The terminal, funded by the Federal Transit Administration (FTA) and the Casino Reinvestment Development Authority (CRDA), provides 21,500 square feet of bright, open space and includes 21 canopy-covered and heated bus platforms, shuttle bus parking and a taxi stand for NJ TRANSIT customers. (See sidebar on page 7.)

Another South Jersey project, the Egg Harbor Township Bus Maintenance Facility, opened its doors in November 1996. The state-of-the-art complex replaces the overcrowded Atlantic City Facility. Costing approximately \$29 million, the Egg Harbor Facility can house up to 120 buses.

In FY97, an ambitious, two-year \$31.2 million project to expand parking at

Metropark Station in Middlesex County was completed, nearly doubling the parking capacity of one of New Jersey's busiest stations. Thanks to the availability of 3,500 parking spaces, customers can park hassle free. Prior to the construction of the decks, many were on waiting lists for parking permits for several years. (See sidebar on page 8.)

A number of improvements were also completed for riders who travel on the North Jersey Coast Line. Completed at a cost of \$2.1 million, Elberon Station in Long Branch replaces an historic building



REVENUES GENERATED FROM
LEVERAGED LEASE
TRANSACTIONS
(DOLLARS IN MILLIONS)

R E T U R N



With its grand opening in May 1997, the Atlantic City Bus Terminal serves approximately 7,000 people a day and provides New Jerseyans easy access to the newly built Atlantic City Convention Center, casinos and local businesses.

NEW FACILITIES, UPGRADED INFRASTRUCTURE, STATE-OF- THE-ART EQUIPMENT

that was destroyed by fire in 1988. Although the facility's elegant diamond-mullion windows echo the past, the facility is distinctly modern, with high-level, brightly lit platforms and a newly paved parking lot. The station is wheelchair accessible, and platforms are equipped with tactile warning edges for the safety of passengers with visual impairments. In FY97, similar improvements were made at Point Pleasant Beach and Asbury Park stations.

New high-level platforms are planned for other stations on the North Jersey Coast Line, including NJ TRANSIT's Matawan-Aberdeen Train Station, the busiest on the line. Other passenger amenities at the station will help make rail service more attractive to daily commuters and recreational riders. The \$7.1 million project will be completed in late 1998.

Another ambitious construction project, the Hamilton Transit Complex, is slated for completion in early 1999. The project is expected to be a boon to the local economy, and to attract more regular riders to public transit.

Conveniently located between NJ TRANSIT's Trenton and Princeton

To the 7,000 passengers who walk along its canopy-covered platforms each day on their way to fun in the sun, activities at the Convention Center, the excitement of a casino, or even another eight hours on the job, the new Atlantic City Bus Terminal is a convenient, comfortable, modern facility — well designed and well run. They're right, but it's more than that. It's an investment for the future, literally, buried in a vault just to the right of the building's entrance is a time capsule containing saltwater taffy, NJ TRANSIT bus memorabilia, and visions of the future — artwork by Indiana Avenue Elementary School children showing what they think transportation in Atlantic City will be like 50 years from now when the capsule will be opened. Of course, the terminal is also an investment for today—one that will continue to support the state's growing recreational industry and help create jobs in the southern New Jersey region for years to come.

The Hillsdale Station parking project is a good example of what can happen when the private and public sectors invest in the future together. To create 100 additional parking spaces at Hillsdale Station, NJ TRANSIT enlisted the help of three private-sector partners. Stop 'N Shop contributed a parcel of land on which 30 of the spaces were built, while two other local

merchants, Kings' Supermarket and Walgreen's, contributed \$200,000 for required grade-crossing construction. NJ TRANSIT provided \$350,000 for the parking project, using funds provided by the Port Authority of New York and New Jersey.

In its continuing entrepreneurial approach to maximize its assets and search for additional sources of revenue, the NJ TRANSIT Board of Directors approved an agreement allowing Olympia Trails Bus Company, Inc. to operate the No. 300 bus route, beginning April 5, 1997. This route transports approximately 2,500 passengers per day between Port Authority Bus Terminal (PABT) in New York and Newark International Airport. The agreement called for Olympia to pay NJ TRANSIT \$16 million over a 5-year period.

Ninety-nine gleaming new Comet IV rail cars recently delivered to NJ TRANSIT are an investment for the future, too. These state-of-the-art commuter coaches feature advanced heating, ventilation, and air conditioning systems, microprocessor-controlled doors and automatic announcement systems that use Global Positioning Satellite data to let riders know what the next stop will be — and passengers are more than pleased with the Comet IV's comfortable seats.

METROPARK'S PARKING DECK: A SOLUTION THAT WORKS

As rail and bus ridership continues to grow, more commuters need more parking spaces in which to leave more cars when taking public transit. That's exactly the problem NJ TRANSIT faced at Middlesex County's Metropark Station, one of the state's busiest rail stations. Parking spaces were in short supply, and the 'Lot Full' sign went up not long after the sun rose each workday. The solution? A two year, \$31.2 million project that doubled parking capacity at the station. The project involved the construction of two parking decks, interconnected by a bridge for vehicular traffic. One deck contains 1,500 parking spaces and the other contains 2,000 spaces. Pedestrian bridges offer direct access to the New York-bound platform from

both decks. In addition to the parking expansion project, \$4 million is being spent on roadway improvements near the station. These improvements include new turning lanes, traffic signals and striping. For those who prefer to leave their cars at home, the station is served by shuttle buses to and from surrounding communities, corporate office parks and other work sites; for those who prefer to bicycle to the station, recently installed bike racks provide ample storage. Together, the parking project and shuttle bus service should help make Metropark Station an easy and convenient destination to reach for years to come.

Junction stations, the 65-acre, \$38.8 million project will include a new bus-storage and maintenance facility and a rail station/park-and-ride featuring a 13,000 square-foot station and parking for over 1,600 vehicles.

General construction activities also continued at the Greenville and Wayne Township Bus Maintenance facilities. After major renovation, the Greenville Facility opened in fall 1997. The existing one-story masonry structure built in 1950 features a 17,000-square-foot addition, a second story add-on, and housing for 80 buses. The Wayne Township Facility, to be completed in late 1997, is 200,000 square feet, has a maintenance capacity for 180 buses, and will allow for the closing of the Madison Avenue Facility.

In addition to the Metropark parking deck, numerous other parking projects took shape in FY97, including 100 spaces at Hillsdale Station (*see page 7*), a 575-space parking deck adjacent to the Elizabeth train station now in construction, and 300 additional parking spaces to meet the needs of MidTOWN DIRECT commuters and other passengers at the South Orange Station.

Station improvement projects also continued in FY97. Installation of high-level platforms at the Westfield train station is well underway. The \$6.1 million project calls for improvements that will bring the facility into compliance with the Americans with Disabilities Act (ADA). In addition, elevators on either side of a new pedestrian tunnel will make the high-level platforms accessible, and improvements to the station building will provide easier access to people with disabilities.

NJ TRANSIT purchased state-of-the-art equipment in FY97 — equipment that will help meet the region's transportation demands well into the next century.

Fourteen new ALP-44M electric locomotives, manufactured by the Swedish firm Adtranz at a cost of \$70.5 million, are now in service. The locomotives feature microprocessor technology to control propulsion and braking.

Ninety-nine Comet IV rail cars purchased from the Bombardier Transit Corporation at a cost of \$113 million are also in daily service throughout the state. These comfortable, passenger-friendly rail cars boast such features as microprocessor-

controlled doors and automatic equipment monitoring that instantly displays the status of all major train systems. Automatic visual and audible announcements of upcoming stations are triggered by leading-edge Global Positioning Satellite data that pinpoint the position of each train. And, to add to the comfort of the rail cars, newly appointed interiors include a relaxing color scheme of mauve and blue. Funds for the new cars came from the state's Transportation Trust Fund and federal transit grants.

The \$2.35 million purchase of 45 accessible mini-buses and 10 accessible extended vans was a vital step in the expansion of NJ TRANSIT's AccessLink program, which provides local and regional bus transportation for people whose disabilities prevent them from using existing local bus services. AccessLink now serves 18 counties and schedules 24,000 trips each month.

Each year, the Corporation draws its funding from a number of sources, including fares and public monies. Revenues and expenses fall into two categories, each with its own separate budget: operating and



One of the two parking decks constructed at NJ TRANSIT's Metropark Station in FY97. The decks are the answer to many-a-commuter's prayer. Many riders had been on waiting lists to park at the station for several years.



Alternative fuels, such as compressed natural gas, are being tested in prototype buses.

capital. Capital funding comes from federal programs, such as the Intermodal Surface Transportation Efficiency Act (ISTEA) and the Transportation Trust Fund (TTF), with matching funds from state and/or regional sources; the capital budget funds equipment purchases and the construction and repair of facilities. Operating funding is derived from farebox revenues, various state and federal programs, advertising, leases/permits, and contract services.

One of NJ TRANSIT's most successful yet lesser-known revenue-generating programs is the cross border and U.S. leveraged lease initiative. In FY97 NJ TRANSIT continued its leveraged leasing program with both domestic and foreign investors. Leasing transactions included Comet IV cars, bus garages, Nova transit buses, and ALP-44 locomotives. These transactions resulted in an up-front benefit of more than \$27 million to NJ TRANSIT which has now received almost \$80 million since its first leveraged lease transaction in 1990.

ALTERNATIVE FUEL BUSES: ANOTHER "WAY TO GO."

NJ TRANSIT has made a pioneering \$32 million investment that provides the Garden State additional mobility options: the purchase of 50 Compressed Natural Gas (CNG) buses and the construction of a facility to maintain and fuel them. The CNG vehicles will be put into service on the Route 9 corridor in Ocean, Monmouth, and Middlesex counties—the most heavily traveled bus corridor in the state.

The first CNG bus will be delivered in the summer of 1998, and the remaining 49 buses will arrive the following spring. NJ TRANSIT is the first large transit organization in the country to make such a significant investment in long-distance CNG buses. The new CNG bus support facility in Howell Township will include indoor and outdoor areas for fueling, defueling, maintaining, and storing the vehicles.

NJ TRANSIT is also making a \$2.5 million investment in four low-floor hybrid electric transit buses. The buses use a small diesel

engine to power an electric generator. The generator, in turn, supplies electricity for an electric motor which propels the bus. A bank of batteries provides additional energy for climbing hills or whenever extra power is needed. Because the diesel engines used in these hybrid electric vehicles are smaller than those of conventional buses, they produce far fewer emissions. In fact, the hybrid electric buses exceed the emissions reduction requirements of the Federal Clean Air Act. As a bonus, the hybrid electric buses are significantly quieter than conventional buses, too. Because the floor of the buses is virtually at curb height, the buses comply with the accessibility mandates of the Americans with Disabilities Act without the need for costly-to-maintain lift systems. Experience with hybrid electric buses, CNG buses, and other alternative fuel technologies will help NJ TRANSIT identify the most promising ways to power the clean-running bus fleet of the future.

Commitment

A SKILLED TEAM, DRIVEN BY EXCELLENCE AND DEDICATED TO CUSTOMER NEEDS

NJ TRANSIT became a reality in 1979. Its mission then was "to acquire, operate, and contract for transportation service in the public interest." A broad mandate and one that brought with it a disjointed patchwork of transit services no longer able to serve the growing needs of one of the most heavily traveled regions in the nation. By FY97, NJ TRANSIT was the third largest public transit system in the US, and was chosen by the industry as best in the nation.

Only 18 years ago, the Garden State's existing transit facilities were due for rehabilitation. New facilities and equipment were needed urgently, and linkages were required to transform a spate of essentially local services into a regional system for all New Jerseyans. Since then, NJ TRANSIT's commitment to public transportation has been the driving force behind the development of an increasingly comprehensive system serving hundreds of thousands of customers each day and comprised of 178 bus routes, 12 rail lines, almost 600 daily trains and nearly 2,400 buses and vans. But there are other levels of commitment at NJ TRANSIT, too; commitment to enabling passengers to access and use NJ TRANSIT services easily and safely, and commitment to working with businesses, civic groups, and other agencies in win-win programs that benefit the state and those who live or work here.

FY97 saw the inauguration of a cooperative bus security program that strengthens the partnership between NJ TRANSIT and existing local law enforcement. Under the plan, local officers, trained by NJ TRANSIT, ride the

Corporation's buses randomly as part of regular patrol duties. Bus decals alert passengers that a uniformed or plain-clothes officer could be riding any bus at any given time. There are no costs attached to the program. Initially implemented in Camden County, the cooperative bus security initiative began serving Atlantic City and Essex and Cumberland counties in FY97 with plans for expansion to other parts of the Garden State as well. The new on-board initiative supplements a number of passenger safety measures, including the use of two-way radios on all NJ TRANSIT buses.

Safety aboard NJ TRANSIT trains was also at the forefront in FY97. The year marked the start of an industry-standard-setting \$140 million program to install two state-of-the-art braking systems on the Corporation's train lines within five years. The Automatic Train Control (ATC) system detects broken rails or improperly thrown switches and uses electrical current from the rails to relay continuous signals to the engineer. If the engineer does not respond, the system activates the brakes automatically but gently. Positive Train Stop



Use of electric cars as a way to travel to work sites from Morristown, Princeton Junction, and Woodcrest stations was an NJDOT and TMA initiative that began testing in FY97. The cars can travel a range of 50 miles and are recharged at the stations overnight for use the next day.

(PTS), the second system, uses transponders placed along the tracks which send signals to the engineer via an on-board computer. The system will stop or slow a train if the engineer does not respond.

ATC and PTS complement each other beautifully. PTS can bring a train traveling at any speed to a stop before a stop signal even if on-board computer messages are not followed. ATC provides continuous readings to engineers so that misaligned switches and broken rails can be detected. Currently, ATC is installed on 54% of NJ TRANSIT's rail lines. At least one of

S E R V I C E



The MidTOWN DIRECT service took decades to plan. Its debut in June 1996 meant a one-seat ride to Manhattan for Morris & Essex lines commuters.

the two systems will be installed on every line by the end of 1998. When installation of both systems on all lines is completed by 2002, NJ TRANSIT will be the only rail system in the United States to have these advanced safety features systemwide.

In FY97, NJ TRANSIT produced a new safety video, "Dead in Their Tracks," designed specifically for adolescent audiences and featuring teenaged actors, rap music, and trendy clothing. The video was developed following a series of focus groups with high school students who live near railroad tracks, and its message is clear – trespassing on the tracks claims more than 3,000 people each year nationwide. Don't be one of them. Re-enactments of fatal and near-fatal accidents involving young people and interviews with witnesses to the actual accidents speak eloquently to an age group to whom taking a short cut across railroad property, trying to beat the train at gated crossings, or failing to wait until gates are raised can be tempting.

"Dead in Their Tracks" is the newest video tool in NJ TRANSIT's School Safety Education Program, available to all New Jersey schools. "Chicken on the Tracks,"

SAFETY, RELIABILITY, AFFORDABILITY, CONVENIENCE

MIDTOWN DIRECT: A FIRST-ANNIVERSARY REPORT *7,000 Riders a Day, with Economic Benefits Along the Way*

As FY97 drew to a close, so did the first exciting year of NJ TRANSIT's MidTOWN DIRECT service, which offers Morris & Essex lines commuters service directly to and from Penn Station New York and can save them as much as 40 minutes a day. Ridership statistics and the results of an economic-benefits survey conducted in communities along the MidTOWN DIRECT corridor agree – in spite of growing pains related to the overwhelming response to the service, the long-awaited, \$69 million link is a resounding success.

Ridership soared quickly from a first-day total of 5,200 to an average of 7,000 commuters a day. Some 3,700 passengers switched to MidTOWN DIRECT from service to and from Hoboken, and 2,300 riders were new to commuting by train.

NJ TRANSIT quickly adapted the service to fit customer needs. Additional trains and cars, including state-of-the-art Comet IVs, were put into service. More than 700 parking spaces have been added at participating

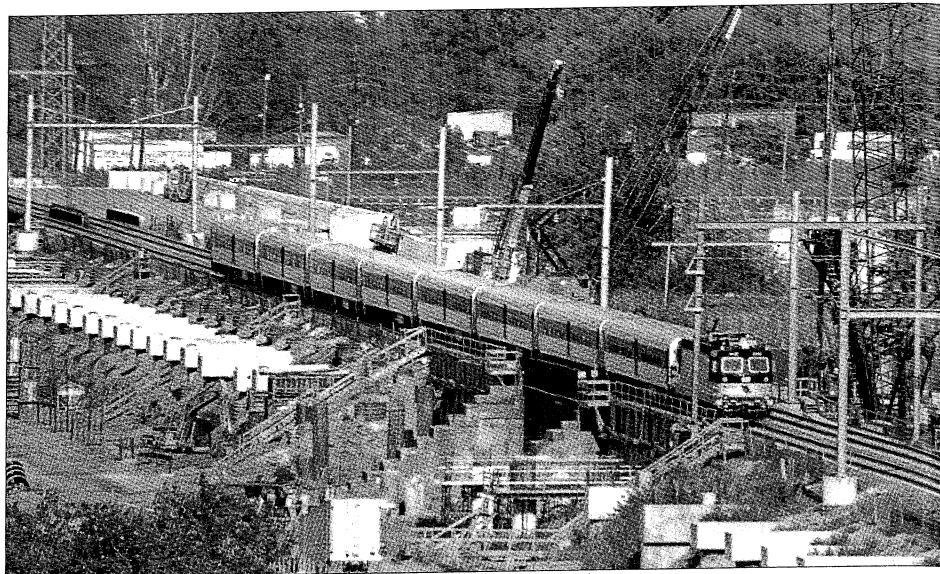
stations and numerous station improvements have been made. Three months after daily service was inaugurated, the well-received weekend service was introduced.

An Eagleton Institute survey indicates that it is not only riders who profit from MidTOWN DIRECT. Residents along the Morris & Essex corridor have seen the value of their homes increase. Approximately 5,200 riders moved into towns along the rail line in the past two years. More than 4,000 of them indicated that rail service was important in choosing a new home, and about 1,000 said they moved to the area because of MidTOWN DIRECT.

The survey also found that rail passengers in the Morris & Essex corridor spend nearly \$20 million annually at businesses within a half mile of the train station. Non-resident riders account for 40% of the spending.

MidTOWN DIRECT service is an example of how investing in public transportation brings returns to commuters, municipalities, and the state. Next stop for MidTOWN DIRECT – improved service, amenities, and additional cooperative efforts to improve parking at and around stations that serve MidTOWN DIRECT passengers.

When completed, the Secaucus Transfer will link the Hoboken and Newark divisions, making rail travel throughout the state possible. Other benefits include faster travel time to Manhattan for commuters and easier access to recreation and employment destinations.



which targets younger children, illustrates what can happen to kids who make a game of waiting until the very last moment to move out of the way of a train. The program has been presented to almost one-half million school children since 1983.

Improvements of a different sort were made in NJ TRANSIT's WHEELS service and AccessLink service in FY97, as both were expanded to serve more riders. WHEELS, an experimental initiative, provides bus service to suburban commuter, medical, educational, and recreational destinations that have not traditionally been served by public transportation. Typically, WHEELS routes are served by minivan-style, wheelchair-accessible vehicles. New routes are initially funded through a federal grant. NJ TRANSIT has established minimum goals for the routes to attract and maintain ridership. Approximately 65% of the WHEELS routes inaugurated in the first phase of NJ TRANSIT's program are continuing. The newest WHEELS route, in Morris County, is the result of cooperative planning between NJ TRANSIT and

McRIDES, the county's transportation association.

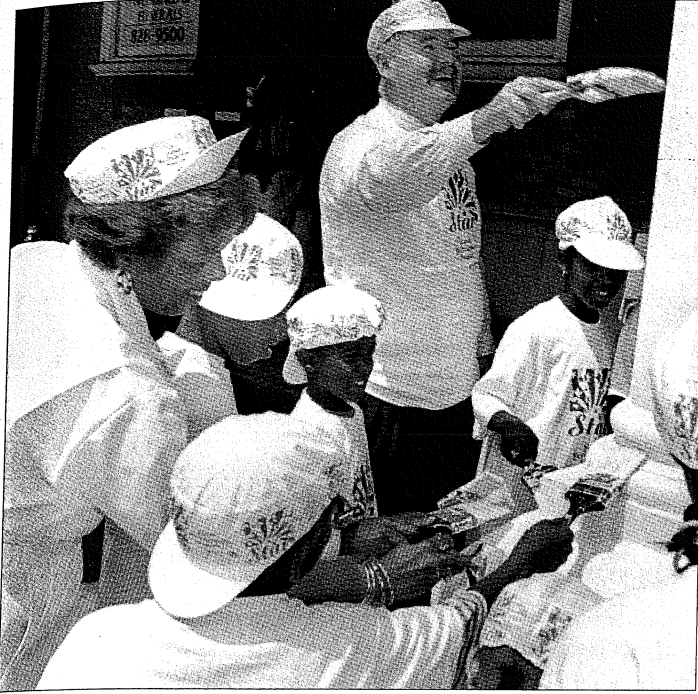
During FY97 NJ TRANSIT made public transportation even more accessible thanks to systemwide implementation of AccessLink, New Jersey's fully accessible minivan- and minibus-based paratransit service for people whose disabilities cannot be accommodated on NJ TRANSIT's lift-equipped buses. AccessLink provides service to 24,000 disabled riders each month, transporting them along NJ TRANSIT's fixed bus routes at similar fares. For many riders, AccessLink has been the key to landing a job, attending school, or taking advantage of any number of opportunities that simply depend on the ability to travel aboard public transit.

Custom-tailored public transportation is also coming to Atlantic City, thanks to a joint venture between NJ TRANSIT and the Atlantic City Jitney Association; it's a distinctive form of transit for which "America's Favorite Playground" is known. A new, improved version of the nostalgic jitney buses will begin to make its

appearance in fall 1997. Purchase of the 14-passenger jitneys was funded by the New Jersey Transportation Trust Fund.

Another partnership, this time with the state, NJDOT and the Department of Human Services, helped NJ TRANSIT embark on a new initiative in FY97 called Work First-New Jersey. Under the program, monthly transportation passes are provided to former welfare recipients as they return to the workforce.

While the Work First venture is one of NJ TRANSIT's newest joint efforts, FY97 marked the anniversary of a long-standing NJ TRANSIT partnership, the Business Transit Alliance (BTA). In 1987, the alliance began as a small cooperative venture between 19 businesses and NJ TRANSIT to promote bus and rail service. Today, 1,045 firms are involved in BTA, providing information on public transportation to 700,000 employees and, in many cases, selling NJ TRANSIT passes at work sites or offering public transit fare subsidies of up to \$65 a month to workers who ride the bus or train to their jobs. NJ TRANSIT also provides Transitchek, Business Pass, and



Transportation Commissioner & NJ TRANSIT Board Chairman John J. Haley, Jr., and NJ TRANSIT Executive Director Shirley A. DeLibero joined young residents of New Brunswick in applying a new coat of paint on the New Brunswick rail station. NJ TRANSIT's Station Revitalization or "STAR" Program is an executive-level commitment to enhancing and improving facilities throughout the NJ TRANSIT system.

Transit Plus — additional incentive programs for riders and their employers.

Opening the doors of public transit is only the first step. Once people begin using NJ TRANSIT, the next step is to retain them. In recent years, the Corporation's program of rehabilitating and upgrading bus shelters, rehabilitating rail stations, and working with the private sector to provide amenities has been ambitious and successful.

Under the Corporation's STAR Program for station rehabilitation, rail facilities in Trenton, New Brunswick, Elizabeth, Little Silver, Summit, Madison, Long Branch, Asbury Park, Orange, East Orange, and Highland Avenue are being upgraded. STAR, a six-month project to be completed fall 1997, was officially launched in June as residents, local officials, and area merchants joined NJ TRANSIT at the New Brunswick Station to paint the exterior of the station building. Typical STAR Program improvements include new signage, roofing, landscaping, and painting.

NJ TRANSIT always looks for new ways to attract new riders. The Corporation's newest initiative is a unique

NJ TRANSIT EDUCATES, ENTERTAINS, AND RECRUITS RIDERS DURING TRY TRANSIT WEEK

Though riding with NJ TRANSIT may be the quickest way to sample the benefits NJ TRANSIT's customers enjoy, perhaps the most exciting way is taking part in the annual Try Transit Week celebration. This year, 20,000 people attended the culmination of Try Transit Week, the Try Transit Festival in May. The annual festival, formerly known as the Hoboken Festival, marks the end of a full week of nationwide activities sponsored by the American Public Transit Association (APTA) and co-sponsored locally by NJ TRANSIT to highlight the benefits of public transportation. New Jerseyans who attended the festival and the thousands more involved in Try Transit activities throughout the week had an opportunity to learn that public transit improves the quality of life in the entire region, not just for individual riders.

Throughout the week there were opportunities to win free trips on

NJ TRANSIT and other valuable prizes. NJ TRANSIT's three Rodeo buses were on the road throughout the state, operated by winners of the Corporation's annual Bus Rodeo. Radio stations WHTZ (Z-100), Magic 98-FM, and WZZL-FM broadcast live from the buses. The festival featured arts and crafts, international foods, railroadiana, rail safety exhibits, and displays of NJ TRANSIT's Comet-IV rail cars, Nova Bus, compressed natural gas bus, new electric car, and historic transit equipment. The most popular activity at the festival? The Wild West Train Ride, a re-enactment of the Great Train Robbery. And what drew the most smiles? NJ TRANSIT's 1996 and 1997 Lionel train sets, which feature a NJ TRANSIT work engine and three rail cars or a GP-40 locomotive and three rail cars. Try Transit Week is the "way to show" that NJ TRANSIT is The Way To Go!



"Dead in Their Tracks," a safety video designed specifically for adolescent audiences provides a somber message. Along with the video, NJ TRANSIT produced a public service announcement in FY97, reinforcing the dangers of trespassing along railroads, which aired at numerous Sony-Loews theaters at the beginning of the school year.

public/private demonstration project that brings tomorrow's technology to bear today by allowing commuters to use an electric car to travel to and from specific train stations. During the first phase of the program Morristown, Princeton Junction, and Woodcrest stations will each receive six electric cars available for designated commuters to use to travel between the station and their work site. In the second phase of the program, during FY98, three additional cars will be provided at each site for designated commuters to drive between their homes and the station. The project is in cooperation with the New Jersey Department of Transportation (NJDOT) and regional Transportation Management Associations (TMAs), and is funded by New Jersey's Transportation Trust Fund.

But not everyone uses trains and buses simply to travel to and from work. Weekend and off-peak service takes riders to and from Manhattan, the Jersey Shore, the New Jersey State Aquarium, Sony Music Entertainment Center, and other leisure-activity destinations in the Garden State — no sitting in traffic, no looking for a

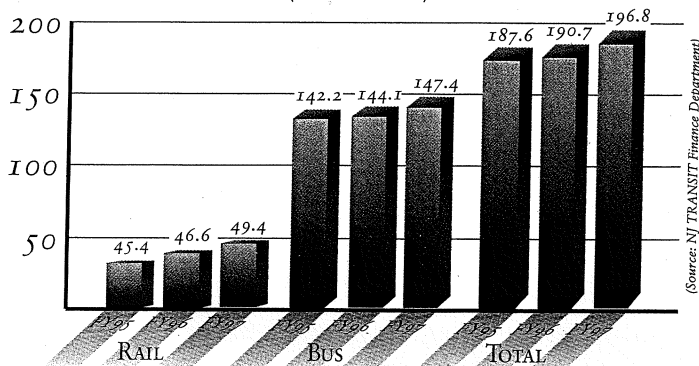
parking space. The Corporation's Winter Fun Guide, available by telephone, in the *Star-Ledger* and *Bergen Record*, at libraries and community centers, and through NJ TRANSIT ticket and customer service agents, made it easy for New Jersey families to plan exciting, safe, affordable outings.

NJ TRANSIT experienced ridership increases thanks to its tremendously popular destination co-promotion program, offering transportation and discounted admission packages to Trenton Thunder games, Monmouth Park, Meadowlands Race Track, Six Flags Great Adventure and theaters throughout New Jersey. More than 75,385 took the

bus to Great Adventure in FY97 — realizing a 13% increase in ridership through that attraction alone. Sales were also up for off-peak performances of the Radio City Christmas Spectacular, and a number of events at Madison Square Garden.

These and other co-promotions throughout FY97 enabled NJ TRANSIT to garner nearly \$1 million in added advertising value through barter opportunities with its partners.

NJ TRANSIT RIDERSHIP
(IN MILLIONS)



A YEAR OF ACCOMPLISHMENTS GARNERS NJ TRANSIT INDUSTRY ACCOLADES

How can NJ TRANSIT's commitment to public transit in FY97 be measured? There are any number of ways – determining how many people try transit and then use it again and again; assessing the ability of its leaders to establish a mission that's meaningful in the short and long term; analyzing how well its management team and employees work together to carry out the mission creatively, cost effectively, and on time; or quantifying the economic benefits derived from what the enterprise does. And indeed, NJ TRANSIT measures its own performance in all these ways. One of the most significant yardsticks, however, is how the industry views the Corporation. NJ TRANSIT was honored with several top industry awards in FY97, including the American Public Transit Association (APTA) Public Transportation System Outstanding Achievement Award, the National Transit Institute Bus Operations Award, the E.H. Harriman Safety Award, the W. Graham Clayton Jr. Award, the Progressive Railway Award, the APTA Management Innovation Award, and the APTA's Jesse L. Haugh Award. Each and every accolade is a tribute to NJ TRANSIT's 9,000 employees – the men and women whose commitment to the Corporation's customers is on display for all to see, on the streets, on the rails, and in NJ TRANSIT stations and terminals seven days a week.

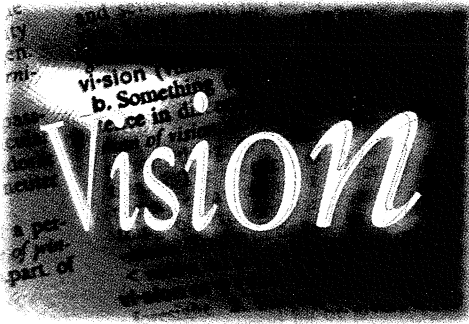
NJ TRANSIT received the Outstanding Achievement Award for the nation's best transit agency three times. In its FY97 citation, the APTA noted the Corporation's increased ridership, fare stability, on-time performance, and overall reliability. It also praised initiatives that include the introduction of MidTOWN DIRECT, expansion of automatic ticket vending technology, adaptive reuse program for

train stations, creation of a guide to understanding the benefits of public transit in community development, use of interactive simulation for bus operator training and cross-border leasing as sources of revenue, and a number of other cost-saving measures.

For the second time in two years, NJ TRANSIT received the prestigious E.H. Harriman Memorial Safety Award, presented annually for the fewest rail employee injuries per 200,000 employee-hours worked during the year. The Corporation is the only passenger rail system to have been honored with this award, which is an outgrowth of comprehensive programs created to help reduce on-duty injuries and time lost due to work-related injuries.

In FY97, APTA also honored NJ TRANSIT Executive Director Shirley A. DeLibero with its Jesse L. Haugh Award, the most prestigious award that can be given to a public transit official in North America. DeLibero was singled out for her diligent leadership, sensitivity, courage, contributions to the community, and programs to keep fares stable, contain costs, and bring outstanding public transit service to residents of the Garden State.

NJ TRANSIT's all-volunteer Emergency Response Team (ERT) received APTA's Management Innovation Award in September 1997 for a program that began in FY97. There are now 240 employee members of the ERT, which provides customers with delay and alternate-service information during times when weather or operational emergencies disrupt service. The Corporation was honored for its commitment to providing high-quality, customer-sensitive service through this innovative, cost-effective team approach.

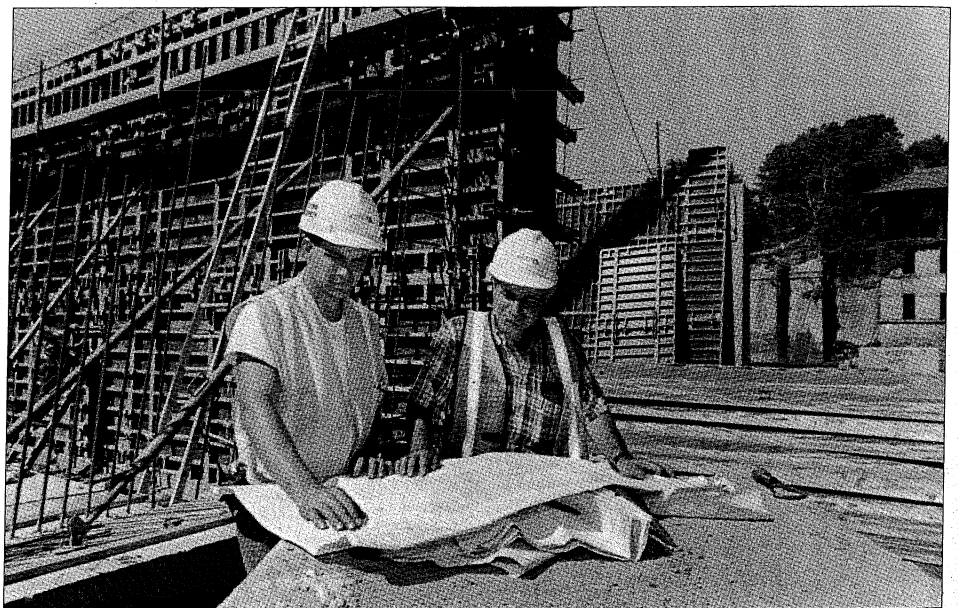


VIRTUALLY SEAMLESS RAIL, BUS, AND LIGHT RAIL SERVICE

It's not science fiction any more. Being able to move throughout an entire region on an intermodal public transportation system that's fast, affordable, reliable, and hassle free no longer raises eyebrows. NJ TRANSIT is on the threshold of providing virtually seamless rail, bus, and light rail service, and the links required to make the system work are progressing beyond the drawing board very, very rapidly. It's what residents of the Garden State have every right to demand, and what NJ TRANSIT is committed to provide as the 20th century gives way to the 21st.

In FY97, a number of projects continued to pave the way for the interconnected, intermodal transportation system of the future. Work continued on the Secaucus Transfer, Hudson-Bergen Light Rail, and Hunter Connection projects and began on the long-awaited Newark Airport rail station. Plans were approved for a new station in Union Township, a light rail extension of the Newark City Subway, and a light rail system for southern New Jersey — all vital, interconnected links that will eventually carry riders to, from, and through the region.

Visible progress was made in FY97 on the \$450 million Secaucus Transfer, for which ground was broken in mid-1995. The massive project involves reconstruction of a two-mile segment of the Northeast Corridor, realignment of the Main and Bergen County lines, and construction of a rail transfer station. Travel time for passengers who use NJ TRANSIT's Main, Bergen County, Pascack Valley, and Port Jervis lines to reach Hoboken will be cut by an average of 15 minutes once the transfer to New York is completed in 2002. Riders will also be able to use the transfer to access rail lines directly into Newark, Trenton, the Jersey Shore, and



Plans for the future move from the drafting table to the construction site as the Hudson-Bergen Light Rail Transit System (HBLRTS) takes shape in Jersey City. As the state's first large-scale light rail system, the HBLRTS offers significant environmental and economic benefits.

with Amtrak. By the year 2010, the Secaucus Transfer will provide service to 12,300 people. Nearly 5,000 of these riders are expected during each peak period.

Work continued as well on the Hudson-Bergen Light Rail Transit System (HBLRTS), a 20.5-mile, north-south route along the Hudson River. More than 10 years in the planning, the HBLRTS will make a tremendous difference in the mobility of

those who live along its route. The system will ultimately span a route from Bayonne and Route 440 in Jersey City to the Vince Lombardi Park-and-Ride on the NJ Turnpike in Bergen County. More than 100,000 daily riders are projected to be using the system upon its completion in 2010, making the HBLRTS the second most heavily traveled light rail line in the US. Thirty-one stations will be linked by five intermodal transfer

REALITY

WHAT'S AHEAD? FY98 CAPITAL PROGRAM HIGHLIGHTS

The remarkable pace set in FY97 doesn't slacken in FY98. A forward-thinking yet prudent \$591 million FY98 capital program will propel work forward on rail and bus infrastructure while continuing to support the projects that will expand public transit, improve interconnectivity, and heighten accessibility. The program assumes the continuation of the crucial federal Intermodal Surface Transportation Efficiency Act (ISTEA) and maintenance of current levels of state Transportation Trust Fund (TTF) funding.

Rail projects include \$44 million for signal improvements, including installation of Automatic Train Control and Positive Train Stop technology and the construction of a new signal system between Newark and Penn Station New York. Almost \$20 million is programmed for work on the Montclair Connection, \$13 million for NJ TRANSIT's ongoing track-rehabilitation program, \$8 million for rehabilitation and construction work at support facilities and rail yards, \$8 million for bridge work, and \$7 million to complete catenary and signal work for the Hunter Connection. Rail passenger facilities programs include almost \$14 million for station construction and upgrade projects along the Raritan Valley Line, more than \$5.5 million to complete construction of the new Hamilton Township rail station, \$3 million to purchase land required for various parking projects, and \$5 million for various infrastructure projects at Hoboken Terminal.

Bus and light rail projects include \$26 million to continue design, environmental investigation, preliminary engineering, and other

activities required to support construction of the first phase of the Southern New Jersey Light Rail Transit System from Camden to Trenton. More than \$28 million is earmarked for work on the Newark City Subway and \$10 million is intended for bus tires, parts, and repair-and-maintenance-related equipment.

Urban Core projects include more than \$73 million for final design and initial construction of the Hudson-Bergen Light Rail Transit System; \$25 million for continued construction of the Secaucus Transfer; \$21 million for initial construction of the NJ TRANSIT concourse at Penn Station New York, and \$7 million for final design and land acquisition for the first segment of the Newark-Elizabeth rail link.

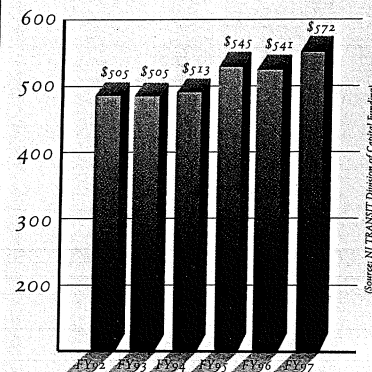
Accessibility initiatives include more than \$14 million for ADA-related improvements at key Newark City Subway stations and stations systemwide, and almost \$2 million to purchase AccessLink vehicles and computer equipment that supports the AccessLink program.

sites and supported by 8,000 parking spaces in eight Park-and-Ride locations.

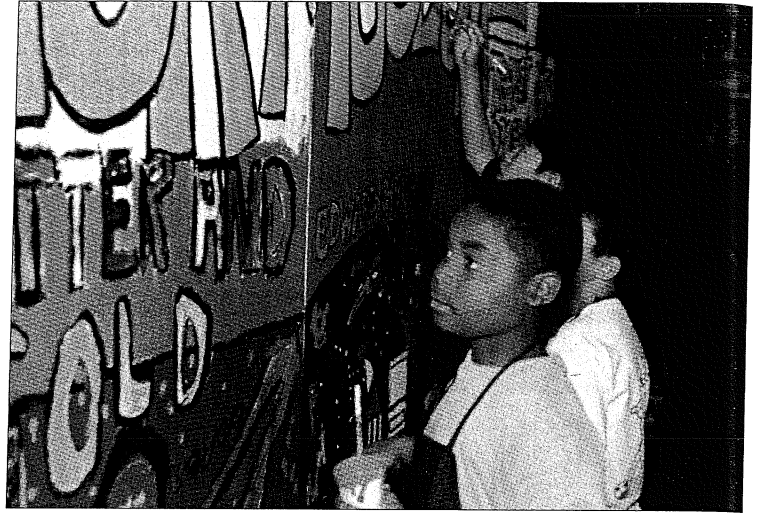
The 21st Century Rail Corporation, a private consortium, is contracted to design, build, operate, and maintain (DBOM) the first phase of the project, a 10-mile segment that will run between 34th Street in Bayonne and Hoboken Terminal. Although DBOM projects are common in Europe, NJ TRANSIT is the first American transit agency to use the "super turnkey" strategy, under which public agencies form partnerships with private firms to develop and operate public works projects.

In Newark, an extension of the Newark City Subway is planned, linking Newark Penn Station (the current terminus) and the Newark Broad Street Station with employment sites and visitor attractions in Newark and Elizabeth. Envisioned as a staged project, the first stage will link the two commuter rail stations in downtown Newark and serve the downtown business district as well as the new New Jersey Performing Arts Center (NJPAC) and planned riverfront development. Succeeding stages will extend southward, serving

NJ TRANSIT CAPITAL PROGRAM FY92-97
(IN MILLIONS)



An extension of the new Transit Arts Program is to engage local area children to decorate plywood panels that serve as construction barricades. This allows youngsters the opportunity to showcase their talent, while making the construction site more appealing to the communities and patrons it serves.



Newark Airport, the developing Elizabeth port area, and center city Elizabeth.

A light rail system — called the Southern New Jersey Light Rail Transit System (SNJLRTS) — is also in the works for southern New Jersey. An initial, 33-mile operating segment will link Camden and Trenton, enabling passengers to connect with NJ TRANSIT, Amtrak, and service to Philadelphia, New York, Newark, and other portions of New Jersey and the northeast. Costs are expected to be approximately \$450 million for the initial segment.

Passengers on the Hudson-Bergen, Newark-Elizabeth, and Southern New Jersey light rail transit systems won't just enjoy the smooth, pleasant ride, they'll enjoy the atmosphere, too, thanks to a recently established public arts program, an initiative that allocates up to five percent of federally funded project budgets for artwork. Artists, working in concert with NJ TRANSIT engineers, architects, and planners, created opportunities for art to be integrated into the station designs from the very beginning. In collaboration, artists infused familiar system forms such as columns, walls, ceilings, platforms, seats, stairways, landscapes and even light-rail vehicles, with special qualities

and references to the communities which they will serve. The artists also developed concepts for art opportunities in and around transit facilities to enhance the overall quality of the public environment. Works at these facilities include murals and sculptures.

Construction of the \$33 million Hunter Connection on the Raritan Valley Line leapt forward in FY97 with the demolition of the Hunter Tower, an obsolete facility once used to control switches and signals at Hunter Interlocking. The interlocking connected Conrail's Lehigh Valley Line with Amtrak's Northeast Corridor. Prior to the demolition, Amtrak workers relocated the signal controls for the Hunter Interlocking and the United Railroad Historic Society removed the signal control equipment from the tower for preservation and eventual display to the public.

The project provides a realigned 5,400-foot ramp between Amtrak's Northeast Corridor Line and Conrail's Lehigh Valley Line, and incorporates a new 17,000-foot passing track. Once the project is finished in early 1999, trains will be able to proceed through the area at 45 mph instead of the 15 mph necessitated by the curvature of the old connection. Passengers on the line can expect

their trip to be five minutes shorter — certainly enough time for a second cup of coffee.

Three important rail passenger facilities projects were on the "fast track" in FY97: a new passenger concourse at Penn Station New York and construction of new stations to serve Newark Airport and Union Township.

In anticipation of increased ridership to Penn Station New York when the Secaucus Transfer project is finished in 2002, NJ TRANSIT and Amtrak have authorized the construction of a new, \$105-million passenger concourse at the southeast corner of the station in what is presently Amtrak office and retail space. The enthusiastic response to MidTOWN DIRECT service has increased daily ridership on NJ TRANSIT trains to and from Penn Station New York to 70,000 and has already strained passenger-circulation patterns, particularly those involving access to and egress from tracks.

Conceived as a "station within a station," the new, 46,000 square-foot concourse will supplement NJ TRANSIT ticketing operations, customer waiting areas, customer services offices, and facilities for NJ TRANSIT operations personnel. Monies from the Federal Transit Administration, and



Governor Christine Todd Whitman listens attentively as Rick Richmond, Assistant Executive Director, Engineering, Development and Construction, provides information to onlookers at a tour of the Secaucus Transfer site earlier this summer.

New Jersey Transportation Trust Fund will fund the aggressive project.

Ground was broken in the spring of 1997 for a Northeast Corridor rail station that will serve Newark International Airport by enabling NJ TRANSIT and Amtrak passengers to access the airport's monorail system. NJ TRANSIT is coordinating the complex project, which is being funded by fees collected by the Port Authority of New York and New Jersey under the Federal Aviation Administration's passenger facility charges program. Initially, the station will serve passengers on the Northeast Corridor and the North Jersey Coast lines.

Once the Secaucus Transfer project is completed in 2002, riders on the Pascack Valley, Main, Bergen, and Port Jervis lines will be able to use the Newark International Airport Station. Airport service will run every 15 minutes and should be instrumental in reducing traffic congestion, improving air quality, and enhancing the Garden State's ability to attract business and promote tourism.

Students at Kean College, employees of Schering-Plough and Elizabethtown Gas in Union Township, and people who need to travel to Newark Penn Station on the

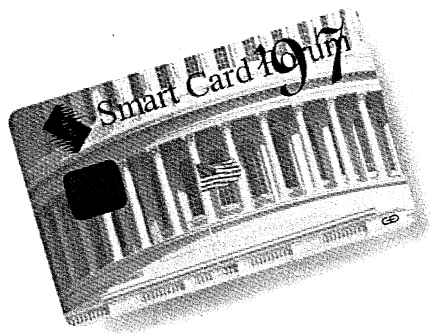
COMFORT AND CONVENIENCE ATTRACT RIDERS

Ridership on NJ TRANSIT is growing – a more-than-encouraging trend in a region that lies between two world-class metropolitan centers.

New Jersey is a critical link in the nation's transportation system, sees 850 million tons of freight transported annually, and endures 60 billion vehicle miles per year on its roadways. In the midst of this incredibly dynamic movement of vehicles and goods, 87% of all commuters going from New Jersey to Manhattan use public transit, and the number is rising. NJ TRANSIT's new MidTOWN DIRECT service brought between 2,000 and 3,000 new commuter rail passengers to the Morris & Essex lines in less than a year.

Ridership is also up on the Northeast Corridor, North Jersey Coast Line, Raritan Valley Line, and Atlantic City Line as well. And the greatest ridership gains on the bus operations side were made on intrastate lines and on commuter bus routes serving Newark and Atlantic City.

During the first half of FY97, NJ TRANSIT led the region in ridership growth at 3.3%. In the same time period, New York's Metropolitan Transit Authority ridership increased 1.1%, the Port Authority's PATH ridership grew 1.4%, and ridership on Philadelphia's SEPTA system increased slightly, by 0.5%.



Just as credit cards speed the way we make purchases, the SMART CARD promises to make travel faster and easier. On NJ TRANSIT buses, devices that read smart cards will automatically record the vehicle identification number and deduct tolls — all without stopping.

Raritan Valley Line will be among the many who benefit from the planned construction of a new rail station on Morris Avenue in the township. Preliminary design work will be complete by April 1998 and is being funded by the state Transportation Trust Fund. The station will help relieve parking congestion at stations in nearby Roselle Park and Cranford, play a role in the revitalization of Union Township, and serve approximately 800 daily riders. Amenities will include retail space, ticket machines, passenger information displays, and rest rooms.

Other forward-looking projects made progress in FY97. Funding was secured to commence design work on the New York, Susquehanna and Western (NYS&W)

commuter rail restoration project — a 42-mile branch off of the Main Line in Hawthorne and extending northwestward to Sparta in Sussex County. Environmental assessment work on the Montclair Connection neared completion; the connection is a planned link between the Boonton Line and the Montclair Branch in Montclair to enhance rail access from both lines to Newark and New York. Planning for prospective rail extensions in Bergen also proceeded, while a similar effort in Somerset and Mercer counties was readied for commencement.

Another area in which NJ TRANSIT is looking toward the future is in fare and ticketing technology. Today, users of transit

services and toll roads in the region are obliged to make separate ticket purchases for each service they use, a time-consuming and cumbersome practice that can and should change as a result of emerging technology solutions. NJ TRANSIT is actively exploring opportunities for making ticketing more “seamless” with members of the New Jersey Electronic Toll Collection Consortium and transit agencies in neighboring New York and Pennsylvania. Ultimately, users of the services can look forward to a single “smart card” that would be an electronic purse allowing access to all transportation services.



NJ TRANSIT

FISCAL YEAR 1997 ANNUAL FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

NJ TRANSIT ended fiscal year 1997 with net income of \$30.3 million. This performance was accomplished through a combination of increased ridership, innovative financial arrangements and continued cost control. The net income has been carried forward into the fiscal year 1998 annual budget allowing NJ TRANSIT to balance the budget while reducing State Operating Assistance.

Passenger revenues increased over \$16 million in fiscal 1997 reflecting a 3.3 percent increase in ridership. This growth reflects the economic health of the State, the highly successful implementation of the new MidTOWN DIRECT rail service and the impact of holding passenger fares constant for the 7th consecutive year.

NJ TRANSIT continues to be an industry leader in the use of innovative financing arrangements with the completion of four leveraged lease transactions during fiscal year 1997. These arrangements provided over \$27 million of Other Revenue during the year, representing a single year record. NJ TRANSIT has earmarked almost \$10 million of these proceeds to fund certain capital improvements.

Expenses increased less than one percent when compared to fiscal year 1996. This is an outstanding accomplishment given the implementation of the new MidTOWN DIRECT service, the State-wide expansion of the Access Link paratransit bus service and the increasing cost of maintaining an aging fleet of revenue vehicles while continuing to provide a high level of service quality. NJ TRANSIT has consistently maintained Bus and Rail on-time performance levels in excess of 90 percent while upgrading and maintaining the Bus and Rail rolling stock and facilities. This performance has earned NJ TRANSIT the American Public Transit Association's coveted Outstanding Achievement Award for the second time in the last three years.

OPERATING RESULTS

PASSENGER REVENUE

Passenger Revenue consist of funds collected from the sale of rail tickets and passes utilized during the year by riders on either NJ TRANSIT or Amtrak trains (under a cross honoring agreement) and bus farebox receipts and tickets and passes sold which were utilized during the year by riders on either NJ TRANSIT buses or contracted bus service managed by NJ TRANSIT.

Rail passenger revenue increased \$13.5 million over fiscal year 1996, representing a 7.4 percent improvement. Rail ridership, led by the highly successful implementation of the MidTOWN DIRECT service grew by 2.8 million passengers. Bus passenger revenue increased by \$3.1 million over fiscal year 1996, representing a 1.5 percent increase. Bus ridership grew by 3.3 million passengers.

RIDERSHIP (in millions)	FY97	FY96	% Inc(Dec)
Newark Division Rail Lines	32.1	30.7	4.6
Hoboken Division Rail Lines	16.4	15.0	9.4
Atlantic City Rail Line	0.94	0.91	3.0
Total Rail Ridership	49.4	46.6	6.2
Northern Division Bus Lines	52.3	51.6	1.3
Central Division Bus Lines	71.8	70.0	2.6
Southern Division Bus Lines	23.3	22.5	3.9
Total Bus Ridership	147.4	144.1	2.3
Total Ridership	196.8	190.7	3.3

OTHER REVENUE

Other revenue consists of proceeds from leveraged lease transactions, interest income on investments, station and vehicle advertising, rental of equipment and facilities, operation of parking lots, and for the first time this year, proceeds from the leasing of certain NJ TRANSIT rights related to the private operation of bus service.

Record earnings from leveraged lease transactions, increased advertising and investment income contributed to a \$6.5 million increase in Other Revenue over fiscal year 1996. Leveraged lease transactions occur periodically and have generated significant proceeds in the past several years. Approximately \$10 million of the current year's leveraged lease proceeds have been earmarked to fund the fiscal year 1998 capital program (see note 3 to the financial statements "Other Revenues," for additional information).

EMPLOYMENT COSTS

Employment costs consist of full-time and part-time agreement wages and overtime, non-agreement salaries, employment taxes, health and welfare expenses, retirement costs and other fringe benefits.

Employment costs were up by \$15.7 million or 3.1 percent when compared to fiscal year 1996. This

increase reflects agreement labor contract settlements and additional employment costs associated with the implementation of the new MidTOWN DIRECT rail service. These increases were partially offset by the elimination of approximately one hundred non-operating positions. The expansion of NJ TRANSIT's managed care health benefits program reduced health and welfare costs further mitigating the overall employment cost increase.

OTHER COSTS

Other Costs include parts and materials used to maintain rolling stock and facilities, services, claims and insurance, fuel and propulsion power, contracted transportation services and other miscellaneous expenses.

Parts, materials and supplies expenses were reduced slightly from fiscal 1996 levels. Cost increases related to service expansions, the expiration of warranty coverage on recently purchased equipment and the continued emphasis on safety and preventative maintenance were offset by the savings associated with the relatively mild winter of fiscal year 1997 compared to the severe winter of fiscal year 1996.

Services expense increased almost \$8.3 million over fiscal year 1996. This increase was principally related to the recognition of the liability for known environmental remediation activities that will be required of NJ TRANSIT at various locations throughout the system. A significant portion of the environmental remediation costs are expected to be funded through specific Federal and State grants. The increase in services expense was partially offset by reduced snow removal costs in fiscal year 1997 as compared to fiscal year 1996.

NJ TRANSIT's outstanding safety record and improved claims management resulted in a \$13.2 million reduction in claims and insurance expense as compared to the prior year. During fiscal year 1997, NJ Transit's safety record was recognized by the American Association of Railroads who, for the second straight year, awarded NJ TRANSIT the prestigious E.H. Harriman Award for Rail Safety.

Fuel and propulsion expenses increased \$1.5 million over fiscal year 1996. The cost of diesel fuel averaged approximately \$0.16 per gallon higher than fiscal year 1996, while overall consumption decreased by approximately 669,000 gallons as compared to fiscal year 1996. The increase in diesel fuel cost is the result of a substantial increase in spot prices which occurred during fiscal 1997. NJ TRANSIT has taken steps to limit the company's exposure to diesel fuel price increases in fiscal year 1998.

Purchased transportation expenses increased \$1.5 million over fiscal year 1996 as a result of

NJ TRANSIT's phased implementation of the State-wide Access Link paratransit service.

LIQUIDITY & CAPITAL RESOURCES

NJ TRANSIT receives government operating assistance which consists of Federal grants and State of New Jersey appropriations. Total operating assistance for fiscal year 1997 increased by \$4.8 million from fiscal year 1996 due to increased State appropriations while Federal grants remained essentially at fiscal year 1996 levels. Other Federal, State, and Local Reimbursements increased \$26.6 million in fiscal year 1997 as compared to the prior year. This funding includes the New Jersey Transportation Trust Fund, Casino Revenue Fund, and various Federal grants for specific activities.

OPERATING ASSISTANCE AND REIMBURSEMENTS

(Dollars in millions)	FY97	FY96	Inc/(Dec)
State Operating Assistance	\$219.0	\$214.2	\$4.8
Federal Operating Assistance	18.0	18.0	0
Total Operating Assistance	237.0	232.2	4.8
Federal, State & Local Reimbursements	173.9	147.3	26.6
Total Operating Assistance & Reimbursements	\$410.9	379.5	\$31.4

NJ TRANSIT also receives federal, state and local grants for essentially all of its capital construction and acquisitions. The federal, state and local interest in assets acquired and constructed is provided in the Statement of Net Investments in Facilities and Contributed Capital. Capital grant receipts increased by \$39.3 million or 8.2 percent over fiscal year 1996. With the completion of the Kearny Connection in June 1996, fiscal year 1997 marked the first full year of MidTOWN DIRECT service. Major project activity during the year included the Secaucus Transfer and the Hudson-Bergen Light Rail Projects. Major capital acquisitions and improvements included the purchase of Rail and Bus rolling stock, the completion of the Metropark Parking Deck and improvements to facilities and rail infrastructure. The Board of Directors approved fiscal year 1998 capital program totals \$591 million and provides for the continuation of the major projects currently underway as well as new initiatives, including the Newark Airport Station and the Southern New Jersey Light Rail Transit System. Funds have been allocated for the replacement and overhaul of rolling stock and passenger and maintenance facilities throughout the state. Provisions have also been made to comply with all federally mandated accessibility and environmental regulations.

WORKING CAPITAL

NJ TRANSIT ended fiscal year 1997 with working

capital of \$114.3 million representing the excess of current assets over current liabilities. This is an increase of \$23.8 million over fiscal year 1996. The working capital increase can be attributed to the fiscal year 1997 leveraged lease transactions.

FINANCING ACTIVITIES

During fiscal year 1997 NJ TRANSIT continued its very successful leveraged leasing activities completing four such transactions involving Nova buses, Comet IV rail cars, ALP-44 locomotives and various bus garages. These agreements assign various tax benefits associated with the ownership of assets to the lessor, while NJ TRANSIT receives a one-time, up-front benefit for entering into the transaction. In accordance with the accounting change required to conform with Statement of Financial Accounting Standards (SFAS) Number 125 (Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities) NJ TRANSIT no longer records "in substance" defeasance of its leveraged lease obligations as extinguished. Consequently, although investment arrangements have been made to meet all payment obligations under these lease transactions, NJ TRANSIT is now required to include amounts on deposit to meet lease payment obligations under these arrangements as an asset and the lease obligation due under these arrangements as a liability on its Consolidated Statements of Financial Position. These amounts appear as "Restricted Funds" in the asset section and "Obligations Under Capital Leases" in the current and long-term liability section of the Consolidated Statements of Financial Position. NJ TRANSIT recognized \$27.1 million of Other Revenue during fiscal year 1997 as a result of the four transactions noted above. This is an increase of \$5.1 million over fiscal year 1996. The opportunity to enter into these transactions occurs sporadically and this level of activity is not anticipated in fiscal year 1998.

During fiscal year 1997 NJ TRANSIT issued \$351.6 million of Grant Anticipation Notes (GAN's) to fund Phase I of the Hudson-Bergen Light Rail Project. Federal funding has been identified to fulfill the payment

obligations associated with this GAN's issuance. The proceeds from this transaction also appear in the "Restricted Funds" line item and are separately identified in the liability section as "Notes Payable." Amounts included in the "Restricted Funds" account are accessible only to make payments related to specific obligations of NJ TRANSIT, such as the Hudson-Bergen Light Rail Project (See Note 12 to the financial statements "Leases and Other Commitments" for additional information).

OTHER MATTERS

NJ TRANSIT must comply with current standards which regulate the discharge of material into the environment or otherwise relate to the protection of the environment. Compliance with these progressively more stringent regulations results in higher operating costs and unanticipated capital expenditures. NJ TRANSIT has made and will continue to make the necessary expenditures for environmental protection and remediation. During 1997 NJ TRANSIT's expenditures for these activities were incurred for work performed in the current period and additional amounts were recorded to reflect the future costs of site cleanups known at year end but not yet completed. (See Note 14 to the financial statements "Contingencies," for additional information on environmental matters).

In response to the Americans with Disabilities Act (ADA), NJ TRANSIT's Access Link Paratransit service was fully implemented throughout the state for the first time in fiscal year 1997. ADA is a Civil Rights law passed in 1990 which carries severe sanctions for noncompliance from the federal government as well as civil litigation by private citizens. The law requires that people with disabilities be guaranteed access to public transportation and mandates that virtually all new equipment, services and facilities be fully accessible. All costs of this unfunded mandate must be borne by existing revenue and funding sources. (See Note 14 to the financial statements "Contingencies," for additional information on the ADA).

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in thousands)

	At June 30,	
	1997	1996
Assets		
Current Assets:		
Cash and equivalents (Note 6)	\$296,571	\$216,695
Due from Federal Government	50,578	29,278
Due from State of New Jersey	44,508	35,922
Inventories	52,831	48,714
Other current assets	21,536	12,570
Total Current Assets	466,024	343,179
Restricted Funds (Notes 6, 7 and 11)	891,118	261,041
Transit Operating Property, Plant and Equipment-Net (Note 8)	3,041,789	2,732,757
Other Assets	11,769	15,492
Total Assets	\$4,410,700	\$3,352,469
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$146,113	\$ 91,862
Accrued payroll and benefits (Note 9)	103,647	90,207
Current installments under capital leases	42,788	17,561
Other current liabilities (Notes 4 and 10)	59,142	53,054
Total Current Liabilities	351,690	252,684
Notes Payable (Note 11)	351,583	—
Accrued Injury and Damage Claims (Note 4)	75,228	76,447
Obligations Under Capital Leases (Note 12)	597,650	351,022
Postretirement Benefits Other Than Pensions (Note 9)	200,014	187,414
Deferred Revenue and Other Non-Current Liabilities	44,838	40,368
Commitments and Contingencies (Notes 12 and 14)		
Total Liabilities	1,621,003	907,935
Equity:		
Contributed capital (Note 13)	2,854,500	2,539,601
Net deficiency in facilities	(64,803)	(95,067)
Total Equity	2,789,697	2,444,534
Total Liabilities and Equity	\$4,410,700	\$3,352,469

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES

(Dollars in thousands)

	Years ended June 30,	
	1997	1996
Revenues:		
Passenger fares	\$407,944	\$391,234
Other revenues (Note 3)	69,373	62,876
Total Revenues	477,317	454,110
Expenses:		
Labor	335,493	324,148
Fringe benefits	179,602	175,255
Parts, materials and supplies	78,259	78,439
Services	86,309	78,025
Claims and insurance (Note 4)	35,756	48,977
Fuel and propulsion	39,901	38,379
Utilities	17,576	16,320
Purchased transportation	64,288	62,760
Interest	7,612	8,250
Other	12,101	20,385
Total Expenses	856,897	850,938
Loss Before Operating Assistance and Reimbursements and Depreciation	(379,580)	(396,828)
Operating Assistance and Reimbursements:		
State appropriation	219,000	214,200
Federal appropriation (Note 5)	18,016	18,024
Federal, state and local reimbursements	173,895	147,333
Total Operating Assistance and Reimbursements	410,911	379,557
Income (Loss) Before Depreciation	31,331	(17,271)
Depreciation	199,795	162,303
Loss Before Depreciation Transfer	(168,464)	(179,574)
Depreciation transferred to contributed capital	198,728	159,979
Net Income (Loss)	\$30,264	\$(19,595)

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INVESTMENT IN FACILITIES AND CONTRIBUTED CAPITAL

(Dollars in thousands)

Years ended June 30, 1997 and 1996

	Net Investment (Deficiency) in Facilities	Contributed Capital		
		Total	Federal	State, Local and Other
Balance June 30, 1995	\$ (75,472)	\$ 2,307,629	\$ 1,412,929	\$ 894,700
Loss before depreciation transfer	(179,574)			
Capital grants		479,722	330,132	149,590
Assets removed from service		(87,771)	(59,041)	(28,730)
Depreciation on capital improvements	159,979	(159,979)	(67,025)	(92,954)
Balance June 30, 1996	\$ (95,067)	\$ 2,539,601	\$ 1,616,995	\$ 922,606
Loss before depreciation transfer	(168,464)			
Capital grants		519,002	329,329	189,673
Assets removed from service		(5,375)	(979)	(4,396)
Depreciation on capital improvements	198,728	(198,728)	(109,103)	(89,625)
Balance June 30, 1997	\$ (64,803)	\$2,854,500	\$1,836,242	\$1,018,258

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years ended June 30,	
	1997	1996
Cash Flows from Operating Activities:		
Loss Before Operating Assistance & Depreciation	\$(379,580)	\$(396,828)
Adjustments to reconcile Loss Before Operating Assistance and Depreciation to net cash used in operating activities:		
Interest on investments	(14,288)	(13,594)
Interest expense	7,612	8,250
Changes in assets and liabilities:		
Inventories	(4,117)	(5,492)
Other current assets	(8,966)	314
Other assets	3,722	(3,346)
Accounts payable	54,250	(571)
Accrued payroll and benefits	13,440	4,954
Postretirement benefits other than pensions	12,600	10,100
Other current liabilities	6,088	6,541
Accrued injury and damage claims	(1,219)	7,889
Deferred revenue and other		
Non-Current Liabilities	(21,885)	6,565
Net cash used in Operating Activities	(332,343)	(375,218)
Cash Flows from Non-Capital Financing Activities:		
Operating Assistance and Reimbursements Received	401,944	380,594
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Transit Operating Property, Plant and Equipment, and Construction in Progress	(518,214)	(470,267)
Capital Grants	506,632	475,970
Repayment of Obligations Under Capital Leases	(11,836)	(11,360)
Interest Expense	(7,612)	(8,250)
Transfers to Restricted Funds	(352,463)	(804)
Transfers from Restricted Funds	27,897	1,926
Notes Payable	351,583	
Net Cash Used in Capital and Related Financing Activities	(4,013)	(12,785)
Cash Flows from Investing Activities:		
Interest on Cash, Cash Equivalents and Investments	14,288	13,594
Net Increase in Cash and Equivalents	79,876	6,185
Cash and Equivalents:		
Beginning of Year	216,695	210,510
End of Year	\$296,571	\$216,695

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1997 AND 1996

1. ORGANIZATION AND BUSINESS PURPOSE

The New Jersey Transit Corporation (NJ TRANSIT) was created by the New Jersey Public Transportation Act of 1979 and is empowered with the authority to acquire, own, operate and contract for the operation of public transportation services. NJ TRANSIT is a component unit of the State of New Jersey.

NJ TRANSIT receives operating assistance and capital funds from the State of New Jersey by legislative appropriation and the Federal Government by defined formula grants and discretionary funding under the Urban Mass Transportation Act of 1964 as amended by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. The federal grants are administered by the Federal Transit Administration (FTA) and are used to support the operation of public transportation services.

NJ TRANSIT provides these services through the operation of bus and commuter rail subsidiaries. NJ TRANSIT also contracts with several motor bus carriers for certain transportation services. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's Northeast Corridor, including propulsion costs and right-of-way maintenance costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

The accounts are maintained on the accrual basis of accounting in accordance with generally accepted accounting principles of fund accounting for enterprise funds of State and local governmental units. Also, all Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989, except those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements, have been applied.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of NJ TRANSIT and its wholly owned subsidiaries.

FINANCIAL PRESENTATION

Certain reclassifications have been made to the 1996 consolidated financial statements to conform to the current year's presentation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and other short-term investments with maturities of three months or less when purchased.

CAPITAL GRANTS

NJ TRANSIT receives designated funds from Federal, State and local sources for a substantial portion of its capital acquisitions. The receivables for these capital grants and the related contributed capital are recorded when eligible expenditures are incurred on projects funded by such grants. Assets acquired in connection with capital grants are included in Transit Operating Property, Plant and Equipment ("Transit Operating Property"). Certain grants require a State or local match at an agreed upon percentage of the total project costs.

REVENUE RECOGNITION

The two principal sources of revenue are passenger fares and governmental operating assistance. Passenger fares are recorded in the period in which the transportation services are provided to the customer. Operating Assistance consists of Federal grants and State of New Jersey appropriations. State of New Jersey funding represents the largest single source of operating assistance revenue. It is NJ TRANSIT's policy to record all operating assistance revenue in the year for which the funds are appropriated and received. Federal, State and Local Reimbursements for planning and operating projects and leases are recorded as related expenditures are incurred.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of an allowance for uncollectible amounts of \$2.9 million and \$5.5

million at June 30, 1997 and 1996, respectively.

TRANSIT OPERATING PROPERTY

Transit Operating Property is recorded at cost and depreciated using the straight-line method based on the estimated useful lives of the related assets as follows:

Buildings, stations and trackwork	25 years
Rail cars and locomotives	22-25 years
Buses and vans	5-12 years
Furniture, fixtures and equipment	3-10 years

Transit Operating Property, which was acquired by the State of New Jersey, Department of Transportation, and subsequently transferred to NJ TRANSIT at cost, is recorded as Contributed Capital. Depreciation is included as an expense in the consolidated statements of revenues and expenses with that portion of depreciation relating to assets funded by Federal, State or other local contributions transferred as a reduction of Contributed Capital.

Ordinary maintenance and repairs are charged to expense as incurred. Expenditures over \$5,000 determined to represent additions or betterments with a useful life greater than one year are capitalized.

INVENTORIES

Fuel, spare parts and supplies purchased are recorded as Inventories at average cost net of a reserve of approximately \$ 7.5 million and \$7.7 million at June 30, 1997 and 1996, respectively, for slow-moving and obsolete parts.

INJURY AND DAMAGE CLAIMS

Injury and damage claims resulting from NJ TRANSIT operations are accrued at estimated award or settlement amounts when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. NJ TRANSIT is insured against public liability, property damage and Federal Employee Liability Act (FELA) claims through various levels of coverage placed with commercial insurance carriers. Such coverages include self-insurance retention.

PENSION COSTS

Current service costs, determined on an actuarial basis, are accrued. Prior service costs are amortized over a thirty year period.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that

affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

INCOME TAXES

NJ TRANSIT is exempt from federal income taxes under the Internal Revenue Code, Section 115 and from state income taxes under NJSA27:25-16. Accordingly, no provision is made for federal and state income taxes.

NEW ACCOUNTING PRONOUNCEMENTS

In March 1997, the GASB issued Statement Number 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." For governmental entities, such as NJ TRANSIT, GASB 31 establishes fair value standards for investments in (a) participating interest-earning investment contracts (b) external investment pools, (c) open-end funds, (d) debt securities, and (e) equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values.

NJ TRANSIT is required to adopt this new standard in connection with the organization's 1998 financial statements and in management's opinion this adoption will not have a material effect on NJ TRANSIT's financial position.

3. OTHER REVENUES

Other Revenues are comprised of the following:

(Dollars in millions)

For the years ended June 30,	1997	1996
Leveraged Lease Benefits (See Note 12)	\$ 27.1	\$ 22.0
Investment Income	14.3	13.6
Lease and Rental Revenues	6.9	7.0
Advertising Revenues	5.9	4.7
Other Non-Operating Revenues	8.2	9.0
Other Operating Revenues	7.0	6.6
Total	\$ 69.4	\$ 62.9

4. INJURY AND DAMAGE CLAIMS

As of June 30, 1997, the self-insurance retention for NJ TRANSIT was \$5 million per occurrence with commercial insurance coverage for the amounts in excess of \$5 million to \$200 million. Additionally, NJ TRANSIT is self-insured for workers' compensation and employment practice claims. NJ TRANSIT has recorded an estimated liability of \$109.8 million and \$110.7 million as of June 30, 1997 and 1996, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims.

Of this amount, \$34.6 million and \$34.3 million are included in Other Current Liabilities at June 30, 1997 and 1996, respectively.

A total claims liability reconciliation is presented below:

(Dollars in millions)

As of June 30,	1997	1996
Balance, beginning of year	\$ 110.7	\$ 99.9
Claims expense	30.6	45.5
Payment of claims	(31.5)	(34.7)
Balance, end of year	\$ 109.8	\$ 110.7

5. FEDERAL GRANTS

The Urban Mass Transportation Act of 1964, as amended by ISTEA, provides for the funding of a portion of NJ TRANSIT's operating costs and capital needs based upon a defined formula grant program. Generally, such funds may be utilized for no more than 80 percent of project costs for capital assistance or 50 percent for operating assistance. Funds are apportioned to NJ TRANSIT annually and generally are available until expended.

NJ TRANSIT also receives discretionary capital grant awards to supplement the capital assistance obtained from the defined formula grant programs. Such discretionary awards are generally limited to projects for equipment acquisition, continued system expansion and modernization or construction of major facilities.

6. CASH AND INVESTMENTS

The investment of NJ TRANSIT funds is governed by the by-laws of NJ TRANSIT. The Treasurer is authorized to invest and deposit funds of NJ TRANSIT in obligations and/or depositories, which are generally consistent with the investment policies of the State of New Jersey cash management fund as permitted under Public Law 1950 and subsequent legislation or as otherwise prescribed by the Board of Directors of NJ TRANSIT. Investee institutions and organizations qualify as depositories based on such criteria as minimum capital, credit ratings and other evaluation factors.

Cash and investments consist of the following:

(Dollars in millions)

As of June 30,	1997	1996
Cash on Hand	\$ 5.1	\$ 6.4
Short-Term Investments	291.5	210.3
Total Cash and Equivalents	296.6	216.7
Restricted Funds	891.1	261.0
Total Cash and Investments	\$ 1,187.7	\$ 477.7

The carrying value of NJ TRANSIT's portfolio of cash and investments included the following:

(Dollars in millions)

As of June 30,	1997	1996
Cash	\$ 6.4	\$ 7.5
State Cash Management Fund	62.6	65.5
Commercial Paper	236.9	155.8
Dollar and Yen Deposit Accounts	2.3	3.0
Leveraged Lease Deposits	519.7	237.3
U.S. Government and agencies obligations	8.2	8.2
Municipal Bonds	—	0.4
Collateralized Investment Agreements (See Note 11)	351.6	—
Total Cash and Investments	\$ 1,187.7	\$ 477.7

The U.S. Government and agencies obligations have a fair market value of \$10.2 million and \$10.4 million as of June 30, 1997 and 1996, respectively. For all other amounts, fair market values are determinable and approximate the carrying values presented.

Collateralized investment agreements represent U.S. Government and agencies obligations at a fixed interest rate of 6.13 percent.

Cash is deposited in FDIC insured accounts providing protection up to \$100,000 per account. Commercial paper is uncollateralized and uninsured and is limited to investment-grade paper. The remaining short-term investments are held in the State Cash Management Fund whose investments are insured or registered or for which the securities are held by the Division of Investment or its agent in the Fund's name. Earnings on this Fund are distributed through an allocation method based on the individual holding balances in the fund. Obligations of the U.S. Government and its agencies are guaranteed by the full faith and credit of the issuing entity and are held by NJ TRANSIT's escrow agent in an account for NJ TRANSIT.

7. RESTRICTED FUNDS

Restricted Funds consist of cash and investments restricted from use for normal operations and held for the following:

(Dollars in millions)

As of June 30,	1997	1996
Leveraged Lease Deposits	\$ 519.7	\$ 237.3
Grant Anticipation Notes (See Note 11)	351.6	—
Newark Penn Station	7.8	7.7
All Other Restricted Funds	12.0	16.0
Total	\$ 891.1	\$ 261.0

In fiscal years 1997 and 1996, NJ TRANSIT entered into US leveraged leases with certain domestic lessors. Restricted funds for these lease agreements represent investment arrangements made to meet NJ TRANSIT's payment obligations throughout the term of the leases.

In May 1984, NJ TRANSIT purchased the land under and adjacent to Newark Penn Station along with air rights above the land and acquired operational control of the station. This arrangement also provides cash proceeds to NJ TRANSIT which management projects will assist in the funding of net station operating expenditures for a period of approximately 15 years. Such proceeds have been recorded as Restricted Funds and Deferred Revenues.

8. TRANSIT OPERATING PROPERTY

Transit Operating Property is summarized as follows:

(Dollars in millions)

As of June 30,	1997	1996
Buildings, stations, trackwork and right-of-way	\$ 1,904.6	\$ 1,859.4
Rail cars and locomotives	1,083.8	916.9
Buses and vans	517.9	524.1
Furniture, fixtures and equipment	238.1	234.5
Capital projects in progress	893.4	607.7
Transit Operating Property (at cost)	4,637.8	4,142.6
Accumulated depreciation	(1,596.0)	(1,409.8)
Net transit operating property	\$ 3,041.8	\$ 2,732.8

Buses and vans include \$177 million of the original cost of \$220 million representing the buses purchased by the Port Authority of New York and New Jersey ("Port Authority") and leased to NJ TRANSIT at no cost. (See Note 13).

9. PENSION AND EMPLOYEE BENEFIT PLANS

NJ TRANSIT and its subsidiaries have pension plans covering substantially all employees, except for certain employees who participate in the New Jersey Public Employee Retirement System (PERS), certain police employees who participate in the Police and Fireman's Retirement System (PFRS) and certain rail operations agreement employees who participate in the Railroad Retirement Fund. NJ TRANSIT contributes to the PERS plan, the PFRS plan and Railroad Retirement Fund based upon a fixed percentage of applicable compensation as determined by the respective plan sponsors. The PERS, PFRS and Railroad Retirement Fund plans require employee contributions.

NJ TRANSIT employees not participating in PERS, PFRS or the Railroad Retirement Fund as defined above are covered by defined benefit, single-employer pension plans. Total payroll used for benefits and cost calculations for employees covered by NJ TRANSIT sponsored plans was \$232.3 million and \$222.9 million for the 1996 and 1995 plan years, respectively. Under the provisions of the pension plans, pension benefits vest after ten years of full-time employment. Employees are 100 percent vested if they are age 55 and have five years of full time employment. As of June 30, 1997, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 1-1/2 percent for each year of service multiplied by the average of the highest three years earnings, excluding overtime, in the last 10 years of service. The sponsored pension plans also provide early retirement programs and death benefits.

Presented hereinafter is the total pension benefit obligation of the NJ TRANSIT sponsored pension plans at June 30. The amount of the total pension benefit obligation is determined on an actuarial basis using the projected unit credit method, which is a standardized measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The intent of the standardized measure is to help users assess the funding status of pension plans on a going-concern basis, to assess progress made in accumulating sufficient assets to pay benefits when due and also to make comparisons among employers. A variety of significant actuarial assumptions are used to determine the valuation of the pension benefit obligation at the pension plan valuation dates. The current assumptions include (a)-a weighted average assumed rate of return of 8 percent for all plans except the Mercer plan which utilizes a 7 percent rate of return, (b) annual salary increases ranging from 5.0 percent to

6.4 percent, and (c) no postretirement benefit increases. For fiscal year 1997 there were no changes in actuarial assumptions or funding method.

Periodic employer contributions to the pension plans are also determined on an actuarial basis using the projected unit credit actuarial method for all plans except NJ TRANSIT Mercer which uses the frozen entry

(Dollars in millions)

Pension Plan Year	1996	1995	1994	1993	1992	1991
Accrued benefit obligation:						
Participants currently receiving payment	\$137.1	\$ 119.5	\$ 99.7	\$ 95.4	\$ 91.4	\$ 73.5
Employer-financed vested benefits	166.7	151.2	131.2	100.9	83.3	76.6
Employer-financed nonvested benefits	10.3	8.9	20.9	30.1	37.7	42.5
	\$314.1	\$ 279.6	\$ 251.8	\$ 226.4	\$ 212.4	\$ 192.6
Pension benefit obligation	\$382.2	\$ 345.3	\$ 319.3	\$ 288.8	\$ 267.7	\$ 248.5
Market value of net assets for plan benefits	369.6	320.2	271.9	268.5	232.8	205.5
Unfunded pension benefit obligation	\$12.6	\$ 25.1	\$ 47.4	\$ 20.3	\$ 34.9	\$ 43.0

age actuarial cost method. Normal costs are accrued on a current basis. The prior service costs are amortized over a thirty year period. Contributions to sponsored plans during 1997 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 1996. Total contributions to all plans amounted to \$20.7 million, \$20.3 million and \$20.3 million for plan years 1997, 1996 and 1995, respectively.

The plan assets are held in a variety of investment instruments including common stock, fixed income securities and corporate bonds.

The significant actuarial assumptions used to compute the contribution requirements are the same as those used to determine the pension obligation. The pension obligations of all plans are summarized above.

Pension expense for defined benefit plans (excluding PERS, PFRS and Railroad Retirement) totaled \$20.8 million and \$19.3 million in fiscal years 1997 and 1996, respectively.

Separate audited financial statements are issued for the various pension plans.

For the three plan years ended 1996, 1995 and 1994, respectively, available assets were sufficient to fund 96.7, 92.7 and 85.1 percent of the pension benefit obligation. The unfunded pension benefit obligation represented 5.4, 11.2 and 20.9 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for 1996, 1995 and 1994, respectively. Showing the unfunded pension benefit obligation as a percentage of

annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. NJ TRANSIT's contributions to the plans for the three plan years 1996, 1995 and 1994, all made in accordance with actuarially determined requirements, were 8.9, 9.1 and 8.1 percent, respectively, of applicable annual covered payroll.

In addition to the defined benefit plans, NJ TRANSIT provides an employee savings and protection plan (401k) for all eligible non-agreement employees. This plan permits employees to contribute up to 17 percent of salary not to exceed \$9,500 annually on a pre-tax basis. NJ TRANSIT provides a maximum 50 percent matching contribution on the first 6 percent contributed by the employee.

NJ TRANSIT also provides a money purchase pension plan (401a) and employee savings/deferred compensation plan (457) for eligible agreement employees. The 457 plan permits employees to contribute up to 25 percent of salary not to exceed \$7,500 annually on a pre-tax basis. NJ TRANSIT contributed 3 to 5 percent of annual compensation to certain employees' accounts in the 401a plan. NJ TRANSIT's expense for the defined contribution plans totaled \$9.2 million and \$8.9 million in fiscal years 1997 and 1996, respectively.

Recorded expenses for all plans (including PERS, PFRS and Railroad Retirement) amounted to \$57.1 million and \$56.4 million in fiscal years 1997 and 1996, respectively.

In addition to the defined benefit pension plans, NJ TRANSIT sponsors a health care plan that provides postretirement medical, dental and life insurance benefits for retired agreement and non-agreement employees.

Bus Agreement retirees are eligible for benefits upon the earlier of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 80. These benefits include retiree and

spousal coverage for medical and life insurance. Dental coverage is also available for bus agreement retirees until the age of 65.

Rail Agreement retirees are eligible for benefits once they reach age 61 with 30 years of service. These benefits include retiree and spousal coverage for medical benefits and life insurance. The spousal coverage becomes 100% contributory once the retiree reaches age 65.

Non-Agreement retirees are eligible for benefits upon the earlier of age 55 with 10 years of service or once the sum of their age plus their years of service is equal to or greater than 85. These benefits include retirees and spousal coverage for medical and life insurance.

Dental coverage is also available for non-agreement retirees until the age of 65 and for those non-agreement employees who retired under the Voluntary Special Retirement Program.

The status of NJ TRANSIT's postretirement benefits plan is summarized as follows:

(Dollars in millions)

As of June 30,	1997	1996
Retirees	\$78.7	\$ 65.0
Fully eligible active plan participants	29.6	27.2
Other active plan participants	78.9	77.7
Accumulated postretirement benefit obligation	187.2	169.9
Unrecognized net actuarial gain	12.8	17.5
Total Accrued Postretirement Benefit Cost	\$200.0	\$ 187.4

The accumulated postretirement benefit obligation was determined using the unit credit method and an assumed discount rate of 8%. The assumed health care trend rate used for bus agreement employees was 10% for pre-age 65 retirees and 7% for post-age 65 retirees; for non-agreement employees it was 10% for pre-age 65 retirees and 8.5% for post-age 65 retirees and for rail agreement employees it was 10% for pre-age 65 retirees only. The rate decreases to 6%, in all cases, by fiscal year 2000.

The net periodic postretirement benefit cost for fiscal years 1997 and 1996 is summarized as follows:

(Dollars in millions)

For the years ended June 30,	1997	1996
Service Costs	\$6.3	\$ 6.1
Interest Costs	13.5	12.3
Amortization of Actuarial Gain	—	(.1)
Total Net Postretirement Benefit Cost	\$19.8	\$ 18.3

10. OTHER CURRENT LIABILITIES

Other Current Liabilities are comprised of the following:

(Dollars in millions)

As of June 30,	1997	1996
Injury and Damage		
Claims (See Note 4)	\$ 34.6	\$ 34.3
Miscellaneous	24.6	18.8
Total	\$59.2	\$ 53.1

11. GRANT ANTICIPATION NOTES

In April 1997, NJ TRANSIT Corporation issued \$351.6 million of grant anticipation notes bearing interest between 4.625 % to 5.500 % and maturing on September 1 of the years 2000 through 2003, inclusive. The proceeds of the notes shall be used to design, acquire, construct and equip the first phase of the Hudson-Bergen Light Rail Transit System project. These notes are special limited obligations of the Corporation payable solely from note proceeds, federal capital grant proceeds and investment earnings on funds held by the Trustee. NJ TRANSIT has recorded the cash received as restricted funds and the payment obligations as notes payable in the Consolidated Statements of Financial Position (See Notes 6 and 7).

12. LEASES AND OTHER COMMITMENTS

LEVERAGED LEASE TRANSACTIONS

In fiscal year 1997 NJ TRANSIT has entered into a number of leveraged leases with certain domestic and overseas lessors. NJ TRANSIT has made investment arrangements to meet its payment obligations throughout the terms of the leases.

Effective January 1, 1997, NJ TRANSIT changed its method of accounting for extinguishment of leveraged leased obligations to conform with Statement of Financial Accounting Standards (SFAS) Number 125 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). In accordance with SFAS 125 the Corporation no longer records "in-substance" defeasance of its leveraged lease obligations as extinguished. Accordingly, NJ TRANSIT has recorded the payment obligations as obligations under capital leases and the related investments as restricted funds in the Consolidated Statements of Financial Position (See Notes 6 and 7).

Leveraged lease agreements initiated during fiscal year 1997 are summarized as follows:

Lease Type	Lease Term	Assets Leased	Present Value of Lease Obligations (In millions)
Domestic	16 Years	96 Rail cars	\$ 94.4
Domestic	Between 20 & 27 Years	6 Bus Facilities	\$140.0
Cross-Border	5 Years	172 Buses	\$ 47.8
Cross-Border	18 Years	12 Locomotives	\$ 7.2

NJ TRANSIT received a benefit of \$27.1 million for fiscal year 1997 related to the above transactions. This amount has been included in other revenue (See Note 3).

Also in connection with the above transactions, NJ TRANSIT has made certain indemnifications and must comply with certain covenants prescribed in the transaction agreements. NJ TRANSIT is in compliance with such commitments through June 30, 1997.

EXTINGUISHED LEVERAGED LEASE OBLIGATIONS

Since fiscal year 1991, NJ TRANSIT has entered into a number of leveraged leasing arrangements with domestic and overseas investors for transit operating equipment. NJ TRANSIT has made investment arrangements to meet all of its payment obligations throughout the term of the leases for all of these agreements and in some instances has been released as the primary obligor. Accordingly, these lease obligations have not been recorded in the Consolidated Statements of Financial Position.

Extinguished Leveraged Lease Obligations effective as of June 30, 1997 are summarized as follows:

Fiscal Year of Lease Inception	Lease Term	Assets Leased	Present Value of Remaining Rental Payments and Fair Option Purchase Price (In millions)
1997	18 years	12 Electric Locom.	\$ 50.0
1995	7 years	147 Buses	\$ 23.2
1995	15 years	17 Arrow III Cars	
		5 Electric Locom.	\$ 61.5
1995	15 years	46 Arrow III Cars	\$ 86.8
1994	7 years	91 Suburban Buses	
		74 Transit Buses	\$ 24.9
1994	15 years	46 Arrow III Cars	\$ 81.1
1994	15 years	48 Arrow III Cars	\$ 83.5
1993	15 years	43 Arrow III Cars	\$ 75.5
1993	10 years	16 Arrow III Cars	\$ 28.3
1991	12 years	15 Electric Locom.	\$ 59.5

NJ TRANSIT received a benefit of \$0.5 million for fiscal year 1996 related to the above transactions. Such amounts have been included in other revenue (See Note 3). Also in connection with the above transactions, NJ TRANSIT has made certain indemnifications prescribed in the transaction agreements. NJ TRANSIT is in compliance with such commitments through June 30, 1997.

CAPITAL LEASES

In 1994, NJ TRANSIT entered into a 23 year lease/sublease agreement for the land adjacent to its Metropark Train Station for the purpose of constructing an above-ground parking facility. A portion of the financing for this facility was provided by the New Jersey Economic Development Authority (NJEDA) through the issuance of parking facility sublease revenue bonds. NJ TRANSIT has committed in substance to make rental payments in an amount equal to the bond obligations. The remaining rental payments have a present value of approximately \$16.0 million at June 30, 1997.

In fiscal year 1991, NJ TRANSIT entered into a 25 year, \$66.7 million capital lease for its headquarters building in Newark, New Jersey. NJ TRANSIT will own this facility at the end of the lease. Rent increases every five years beginning at \$15.80 per square foot and rising to \$22.85 per square foot in year 21 of the lease.

In 1986, NJ TRANSIT entered into a contract for the purchase of 20 new and 147 refurbished rail cars at an approximate cost of \$73 million. These cars plus an additional three new cars were financed through a sale of Certificates of Participation by the State of New Jersey in April, 1986. NJ TRANSIT is repaying the financed amount of \$78.9 million over 12 years. The last scheduled lease payment will be made in December, 1997.

In 1986, NJ TRANSIT entered into a \$35.9 million lease agreement for land and building facilities to be utilized for bus maintenance and storage. The initial lease term is 25 years and the lease contains options for an additional 25 years.

NJ TRANSIT has recorded Obligations under Capital Leases of \$640.5 million and \$368.7 million as of June 30, 1997 and 1996, respectively, of which \$42.8 million and \$17.5 million represent Current Installments Under Capital Leases as of June 30, 1997 and 1996, respectively.

Transit Operating Property cost under capital leases, including leveraged leases, is summarized as follows and is included in Net Transit Operating Property (See Note 8):

(Dollars in millions)

As of June 30,	1997	1996
Land and Buildings	\$ 411.7	\$ 239.3
Rail cars and locomotives	649.8	485.8
Buses	117.8	75.5
Equipment	12.1	12.1
Transit Operating Property		
under Capital Leases (at cost)	1,191.4	812.7
Accumulated depreciation	(297.4)	(208.7)
Net Transit Operating Property		
Under Capital Leases	\$ 894.0	\$ 604.0

Annual depreciation of assets recorded under capital leases is included with depreciation expense. Minimum capital lease commitments as of June 30, 1997 are as follows:

(Dollars in millions)

Years ending June 30,	
1998	\$ 53.1
1999	41.2
2000	52.3
2001	51.4
2002	78.4
Thereafter	1,204.9
Total minimum lease payments	1,481.3
Executory costs	(2.0)
Net minimum lease payments	1,479.3
Estimated amounts representing interest	(838.8)
Present value of net minimum lease payments	\$ 640.5

As of June 30, 1997, NJ TRANSIT was committed for future expenditures under the following capital projects and special services which will be funded from federal, state, local or other capital sources:

(Dollars in millions)

Secaucus Transfer	\$104.1
Hudson-Bergen Light Rail System	53.4
Bus Maintenance Facilities	46.0
Rail Infrastructure	40.2
Monorail NEC Connection	38.9
Rail Passenger Facilities	30.4
Special Services	24.8
Urban Core New Initiatives	24.0

Rolling Stock Improvements	18.0
Bus and Light Rail Infrastructure	9.4
Rail Support Facilities & Equipment	9.3
Bus and Light Rail Rolling Stock	6.1
So. NJ Light Rail System	5.1
Passenger Communication & Revenue	4.8
Rail Immediate Action	3.8
West Shore DEIS	3.0
Rail Maintenance of Way	2.5
Other	23.4
Total	\$447.2

In addition, NJ TRANSIT has entered into contracts for the purchase of motor fuel for fiscal year 1998 and is committed for future expenditures of approximately \$18.9 million.

13. TRANSACTIONS WITH THE PORT AUTHORITY

In October 1985, the Port Authority committed \$220 million to NJ TRANSIT for the purchase of buses which qualified as local match on certain FTA capital grants. The buses are leased to NJ TRANSIT at no cost for a period approximating their useful lives. NJ TRANSIT recorded such assets at market value (original cost) at time of donation as Transit Operating Property and Contributed Capital.

Under several other agreements, the Port Authority has provided capital funds for the design and engineering work required for the rehabilitation of rail stations and right-of-way, construction of park and ride facilities, acquisition of automatic ticket vending machines, planning studies for the Newark-Elizabeth Rail Link and construction of the Newark Airport Station.

14. CONTINGENCIES

NJ TRANSIT is party to various legal actions and disputes. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the consolidated financial position or results of operations of NJ TRANSIT.

There are several locations within the State in which by virtue of ownership or use of the railroad or bus facilities, NJ TRANSIT is addressing environmental issues. Management has analyzed all of these matters and has provided for amounts which it currently believes are adequate and, in its opinion, the ultimate liability if any will have no significant effect on

NJ TRANSIT's consolidated financial position.

NJ TRANSIT receives federal and state grants for capital projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits will not have a material effect on the consolidated financial position of NJ TRANSIT.

The Railroad Retirement Board (RRB) has conducted an examination of NJ TRANSIT's payroll and tax records for the fiscal year through 1991 and has proposed certain adjustments to increase NJ TRANSIT's RRB tax liability for that period. Management has analyzed all of these matters and has provided for amounts which it currently believes are adequate and, in its opinion, the ultimate additional liability, if any, will have no significant financial effect on NJ TRANSIT's consolidated financial position.

The Americans with Disabilities Act (ADA) is a Civil Rights Law passed in July 1990. The law requires that people with disabilities be guaranteed access to public services, such as transportation. The ADA required that virtually all new equipment, services and facilities be fully accessible to people with disabilities.

Key Station - NJ TRANSIT was required to identify high usage, strategically located stations which would immediately be made fully accessible to people with disabilities. These stations were designated as "Key Stations". A Key Station plan was developed and

submitted to the Federal Transit Administration (FTA) by the July 26, 1992 deadline. This Key Station plan identified 35 stations which would be made accessible, 23 of which were made accessible by March, 1997. The remaining 12 stations required major renovations and time extensions were received ranging from 1997 to 2008. The estimated total future costs of this project, \$37.2 million, will be funded by a mix of capital funding sources including federal funds, state transportation trust funds and casino revenue funds.

Complementary Paratransit - In addition to rail station accessibility, NJ TRANSIT was also required to implement a statewide paratransit system for passengers who are not able to ride the bus system because of their disabilities. The Federal Regulations require that this system be implemented as quickly as possible but no later than January 1997. NJ TRANSIT implemented its paratransit system, called Access Link in four phases with full statewide implementation completed in January 1997.

In the case of the Key Station plan, NJ TRANSIT must complete these renovations as required or face severe sanctions by the Federal Government. Failure to comply with the ADA can result in the loss of all Federal Funds, as well as civil litigation by private citizens and the U.S. Department of Justice. NJ TRANSIT expects that it will complete these renovations on a timely basis and will not incur sanctions.



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REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS NEW JERSEY TRANSIT CORPORATION

We have audited the accompanying consolidated financial statements of the New Jersey Transit Corporation and subsidiaries as of and for the years ended June 30, 1997 and 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Jersey Transit Corporation and subsidiaries as of June 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 12, effective January 1, 1997, New Jersey Transit Corporation changed its method of accounting for defeased leveraged lease obligations.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 1997, on our consideration of New Jersey Transit Corporation and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants.

Ernst & Young LLP

September 30, 1997

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

NJ TRANSIT ADVISORY COMMITTEES

To assure citizen representation, two transit advisory committees—one serving North Jersey and another in South Jersey—regularly advise the Board of Directors on riders' opinions. Committee members are appointed by the Governor with the approval of the State Senate.

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The Americans with Disabilities Act (ADA) Task Force consists of individuals with disabilities who assist NJ TRANSIT in the implementation of its ADA improvements plan.

AMERICANS WITH DISABILITIES ACT TASK FORCE

Don Crocker
Dr. Frank Dolan
Nina Edwards
Harriet Findlay
Robbie Friedner
Lee Nash
Charles Newman
Robert Paige
Virginia Peters
Kenneth Wedeen
Ina White

The Business Transit Alliance advises public and private sector employers about public transportation options.

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The Transit Plus Advisory Board advises public and private sector employers in Essex and Union counties on the requirements of the federal Clean Air Act.

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The Private Carrier Advisory Committee was created in 1986 to monitor the concerns of New Jersey's private carriers.

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The Special Services Advisory Committee advises the Corporation on public transit decisions regarding accessibility issues.

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George Williams

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Robert J. Guarnieri, Auditor General

Alfred Harf, Assistant Executive Director, Planning

Frank Hopper, Assistant Executive Director, Procurement and Support Services

Z. Wayne Johnson, Assistant Executive Director, Administration

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Mary Rabadeau, Chief of Police

Robert Randall, Vice President/General Manager, Rail Operations

Rick Richmond, Assistant Executive Director, Engineering, Development and Construction

Frank Russo, Senior Director, New Rail Construction

Rosemary Sheridan, Assistant Executive Director, Marketing and Communications

Gwen Watson, Board Secretary

H. Charles Wedel, Chief Financial Officer and Treasurer

*Our Mission is to provide
safe, reliable, convenient
and cost-effective
transit service with a
skilled team of employees
dedicated to our
customers' needs and
committed to excellence.*



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