

ANNUAL REPORT
(62) 1998

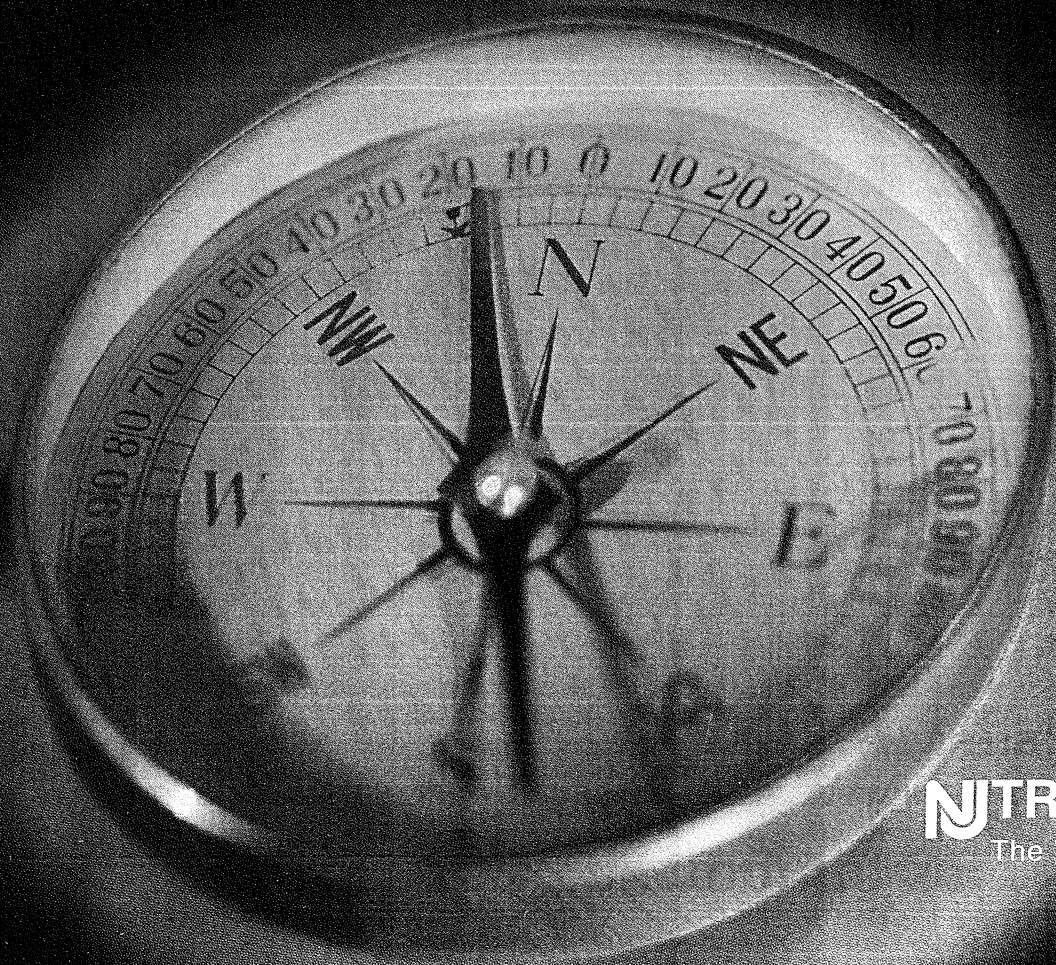
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DIRECTING THE COURSE

NJ TRANSIT 1998 ANNUAL REPORT

DIRECTING THE VISION
OF PUBLIC TRANSPORTATION
INTO THE 21ST CENTURY



NJ TRANSIT
The Way To Go.

NJ TRANSIT acknowledges with gratitude
the steadfast support of Governor Christie Whitman,
the Board of Directors, the New Jersey Congressional Delegation
and the State Legislature, the corporation's 9,000 employees,
and the people who depend on NJ TRANSIT every day.
Together, we are pursuing a bold, unprecedented vision
for public transportation in the 21st century –
the Governor's vision of a seamless system
which redefines convenience, reliability, technology,
safety and affordability, and plays a pivotal role
in the economic vitality of the State of New Jersey.
NJ TRANSIT shares that vision, and it is
NJ TRANSIT's job to meet the Governor's challenge.

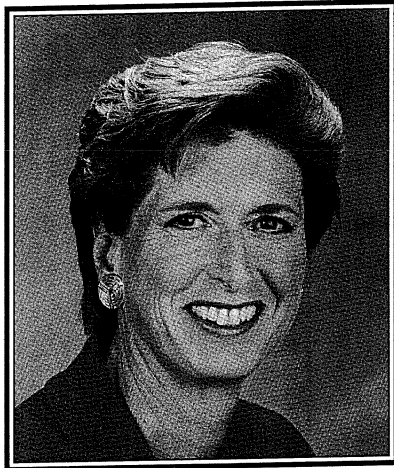
SETTING THE COURSE

NJ TRANSIT 1998 ANNUAL REPORT

DIRECTING THE VISION OF PUBLIC TRANSPORTATION INTO THE 21ST CENTURY

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CHRISTINE TODD WHITMAN
Governor

NJ TRANSIT is made up of a dedicated and diverse team of people who know that public transit must do more than respond to the needs of New Jersey's residents, workers, and businesses – it must anticipate tomorrow's needs today and continually evolve and recreate itself to ensure that those needs are met. New Jersey FIRST, Governor Christie Whitman's transportation vision for the 21st century, calls for a public transit system that will redefine the way we travel in the new millennium. Fiscal Year 1998 (FY98) will be looked upon as a year that brought New Jersey closer to meeting the Governor's vision – a year in which NJ TRANSIT continued to navigate the future, set the course for the year 2000 and beyond and establish initiatives that will enable NJ TRANSIT to realize the Governor's transportation vision.

BOARD OF DIRECTORS

JOHN J. HALEY, JR., Chairman

Appointed State Commissioner of Transportation in January 1997, Commissioner Haley has had more than 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. Commissioner 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.



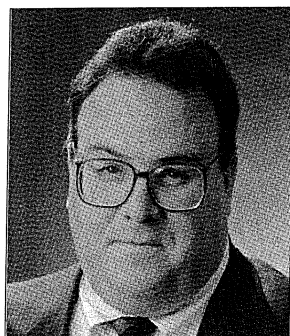
AMY M. ROSEN Vice Chairman

Ms. Rosen was appointed to the Board by Governor Jim Florio in May 1992. She is Managing Partner of Public Private Initiative (PPI) and has held various positions at the New Jersey Department of Transportation, including Assistant Commissioner. She also serves as a member of the Board of Directors of Amtrak.



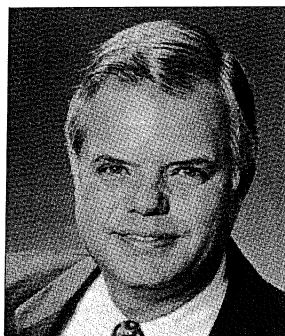
JAMES A. DiELEUTERIO, JR. State Treasurer

Mr. DiEleuterio serves on the 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 at the same time.
Designee: David Mortimer



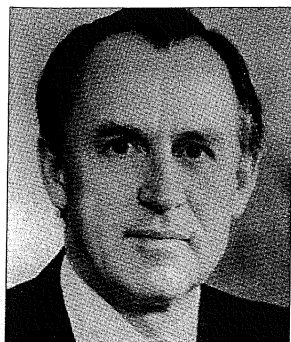
VICTOR CANTILLO Governor's Representative

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 independent authorities.



PATRICK W. PARKINSON

Mr. Parkinson, a resident of Middletown, was appointed to the Board by Governor Whitman in September 1994. He is Executive Director of the Middletown Sewerage Authority and a member of the Middletown Township Committee.



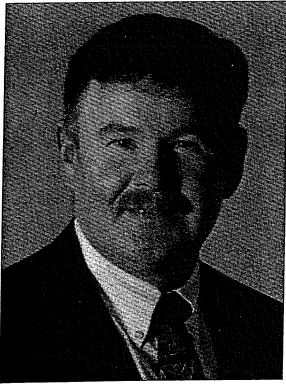
JOHN L. MCGOLDRICK

Mr. McGoldrick has been a member of the Board of Directors since the establishment of the corporation in December 1979. He is Senior Vice President for Law and Strategic Planning and General Counsel of Bristol-Myers Squibb Co.



MYRON P. SHEVELL

Mr. Shevell was appointed to the Board by Governor Whitman in May 1995. He is Chairman of the Board of New England Motor Freight, Chairman of the Shevell Group, Board Chairman of New Jersey Motor Truck Association and Regional Director of the Bank of New York.



MESSAGE FROM THE BOARD CHAIRMAN

The future of New Jersey's economic vitality and the quality of life for millions of residents and visitors in the Garden State largely rely on the preservation and expansion of New Jersey's transportation system. Simply put, commuters and industry need to find the path of least resistance to get where they're going in a state that is proud to be the economic engine of the northeast. Preserving and renewing the existing transportation infrastructure require tactical investments today that will continue to improve the efficient movement of people and goods tomorrow.

Undoubtedly, the most significant transportation message for New Jersey in decades was delivered in May 1998 when Governor Christie Whitman unveiled her Transportation Vision for the 21st Century. New Jersey FIRST — which stands for Future Investment and Reinvestment in State Transportation — sets ambitious transportation goals and objectives for the state to focus on well into the next millennium. The \$30 billion blueprint is built on several key initiatives including enhancing and upgrading the existing transportation system, new light rail transportation in northern and southern New Jersey, expansion of commuter rail service, purchase of new bus and rail equipment, linking the interstate highway system with the commuter rail system, and future economic development.

This year, NJ TRANSIT advanced several key projects. For example, the corporation received the green light to build the Montclair Connection — a project that has been in the planning stages for nearly 70 years and will offer many North Jersey residents direct rail service to New York for the first time. And southern New Jersey is about to become the recipient of one of the largest transportation projects in state history — the Southern New Jersey Light Rail Transit System linking Trenton with Camden along the Delaware River waterfront.

NJ TRANSIT also continued to make investment decisions and incorporate new policies and initiatives that build upon the existing transportation network, helping to redefine public transportation for the 21st century. We started or completed modernization work at dozens of train stations and bus terminals, began meeting the challenge of "moving" welfare recipients from welfare to work, and employed new technologies that provide a more safe, efficient and reliable transit system. Each project is designed to enhance the customer experience, linking New Jersey residents and visitors with job opportunities and recreational destinations.

One source of funding for the New Jersey FIRST projects

will be the federal Transportation Equity Act for the 21st century (TEA-21). Governor Whitman led a coalition of northeastern states this past year in a successful effort to convince members of Congress and the President that passage of TEA-21 was crucial to the transportation future of New Jersey and the rest of the nation. The State of New Jersey has consistently provided its share of transportation funding through the State Transportation Trust Fund. Rest assured that Governor Whitman will continue to work closely with the state legislature to protect our long-term transportation plan.

Innovations are on the horizon that will change the way we travel around the state in the next century. Ground was broken this past year for a new rail station that will link NJ TRANSIT rail riders with the monorail system at Newark International Airport. Work is nearing completion on the Initial Operating Segment of the Hudson-Bergen Light Rail Transit System (HBLRTS), which will serve a new north-south corridor along the Hudson River waterfront between Bayonne and Hoboken starting in 2000. Work also will begin soon on the First Operating Segment of the Newark-Elizabeth Rail Link, offering service from Newark Penn and Newark Broad Street stations to the New Jersey Performing Arts Center, a new minor league baseball stadium and other Newark destinations. In addition to improving transportation options, these new light rail projects will stimulate new economic development and help to revitalize the cities and towns they will serve.

In closing, I take great pride in the accomplishments of the Board of Directors and the NJ TRANSIT staff over the past year, achievements that have successfully positioned the corporation to meet the challenges of New Jersey FIRST. A true team effort has earned the corporation the American Public Transit Association's "Outstanding Achievement" award an unprecedented three times in the last five years. A famous New Jersey native, Vince Lombardi, once said, "Individual commitment to a group effort, this is what makes a team work, a company work, a society work, a civilization work." In this case, it's what makes transportation work in the State of New Jersey.

A handwritten signature in dark ink, appearing to read "John J. Haley, Jr.".

John J. Haley, Jr.



MESSAGE FROM THE EXECUTIVE DIRECTOR

Fiscal Year 1998 was truly a year of accomplishments for NJ TRANSIT. Thanks to the support of Governor Christie Whitman, New Jersey's legislators and congressional delegation, Board Chairman and State Transportation Commissioner John J. Haley, Jr., NJ TRANSIT's Board of Directors and the thousands of men and women who work for this corporation every day — I'm proud to say, unequivocally, that we are operating one of the best transit systems in the world.

I would also like to thank our 358,000 passengers who ride our buses, trains and light rail vehicles every day. That translates into more than 200 million riders annually, the most passengers this corporation has carried in its 19-year history. They have experienced the fruits of our labor as we continue to upgrade equipment, improve and expand our infrastructure, and launch new service initiatives that will lead us into the 21st century.

Innovation has abounded over the past year at NJ TRANSIT. We became the first transit corporation in the country to establish a customer- and community-focused concierge service at the Maplewood Train Station. We challenged several communities to launch new shuttle bus services between neighborhoods and train stations, providing them with the equipment and seed money necessary to start those services. We received the first of 50 new compressed natural gas buses that will be used as part of Governor Whitman's Advanced Technology Demonstration program.

Working closely with the town of Montclair, we were finally able to reach a mutual agreement that broke a 70-year stalemate, allowing us to construct the Montclair Connection. The 1,200-foot rail link connecting the Boonton Line with the Montclair Branch and a related electrification project will give Montclair Branch and Boonton Line riders direct access to midtown Manhattan for the first time ever.

We also broke new ground on meeting the needs of our customers. Two aggressive customer service initiatives were launched on the Raritan Valley and MidTOWN DIRECT services that will act as the genesis for future customer satisfaction action plans on the NJ TRANSIT bus, rail and light rail systems.

Hundreds of men and women in hard hats are continuing to build the Secaucus Transfer Station, which will offer new intrastate and interstate travel starting in 2002. Work is wrapping up on the

new Hamilton Train Station on the Northeast Corridor. Modernization work began for our popular Newark City Subway. A statewide effort to upgrade NJ TRANSIT's bus maintenance facilities also wrapped up during Fiscal Year 1998.

Fiscal Year 1999 began on an auspicious note. NJ TRANSIT — under the leadership and support of Governor Whitman and its Board of Directors — began the year by recording its eighth consecutive year without a fare increase while continuing to improve the quality of service, something unheard of in the transit industry. We are in the process of implementing the Governor's Transportation Vision for the 21st Century, a plan that relies heavily on improved and expanded public transportation. New light rail cars will begin arriving for use on the Newark City Subway and Hudson-Bergen Light Rail Transit System. New buses will be ordered to replace existing buses approaching the end of their useful lives. The new Hunter Connection will provide Raritan Valley Line customers with a quicker ride to and from Newark Penn Station.

Looking back over the last several years, I have witnessed a transformation of this company, one where our employees are more focused on the business at hand: customer service; transportation creativity; service expansion; reliability; cost containment; and safety.

While we certainly have had our share of success stories, I am always reminding our employees that we cannot rest on our laurels. Public transportation played an important role in New Jersey's history and will play an even bigger role in its future. The awards and recognition NJ TRANSIT continues to receive are admirable, but we cannot lose our focus. The company's mission statement is clear — *to provide a safe, reliable, convenient and cost-effective transit service with a skilled team of employees, dedicated to our customers' needs and committed to excellence.* We have all of the necessary ingredients. Now it's up to us to mix the recipe for success as we enter the next millennium, and I am confident we will.

Shirley A. DeLibero

NAVIGATING THE FUTURE

In FY98, NJ TRANSIT made significant strides in developing the framework and implementing the programs that will propel the agency and its riders into the 21st century. That framework was supported by an \$861.9 million operating budget that met the needs of our increased ridership. Increased passenger revenue, innovative revenue-producing initiatives, and aggressive claim-reducing safety programs collectively reduced the corporation's reliance on state-funded operating subsidies.

FY99, with an \$885.4 million operating budget, once again calls for no fare increases and funds a number of improvements that include customer service initiatives on the MidTOWN DIRECT and the Raritan Valley Lines, the private-carrier bus card program, Access Link service, and the Work First and "Get a Job. Get a Ride!" programs.

FY99's capital program allocates funds to the Hudson-Bergen and Southern New Jersey Light Rail Transit systems, the Secaucus Transfer, the Newark City Subway extension and the Montclair Connection — initiatives that are crucial elements of NJ TRANSIT's ambitious plan to provide a seamless public transit system. Capital funds are also set aside to purchase new buses and bus emission control kits, upgrade the rail network, continue the Station

Revitalization program (STAR), and step up installation of two rail safety systems, Automatic Train Control (ATC) and Positive Train Stop (PTS).

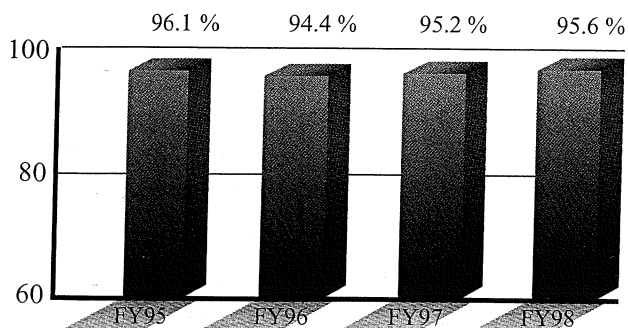
ATC and PTS are the best technologies available in the world to enhance railroad safety. ATC is designed to detect rail flaws and thrown switches and relay the information to the engineer. If he or she does not respond within a given time, the train is stopped automatically. Similarly, PTS provides the engineer with intermittent commands and can control the train's movement if the engineer fails to respond. Once both systems are in place, NJ TRANSIT will become the first rail system in the world to integrate these leading-edge safety technologies.

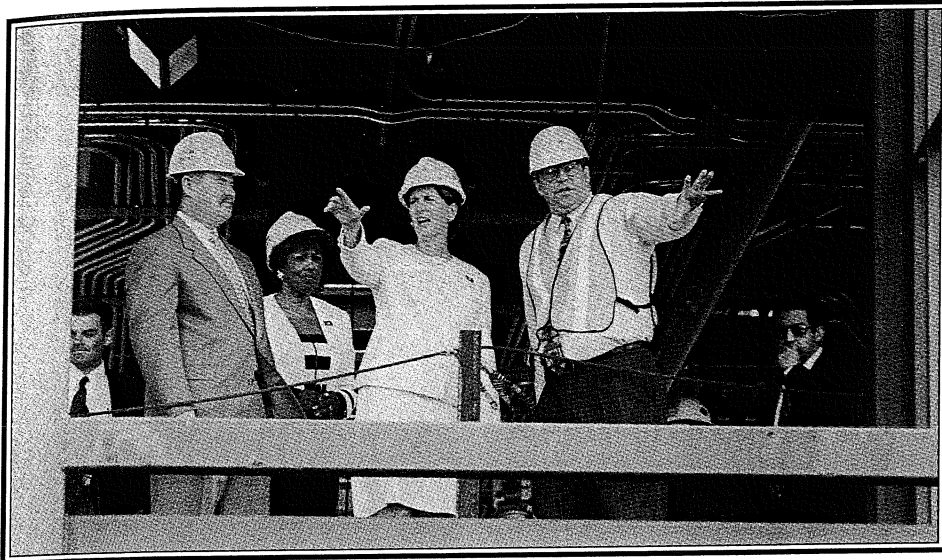
During the course of FY98, the announcement of Governor Whitman's landmark New Jersey FIRST transportation strategy and federal approval of the Transportation Equity Act for the 21st century (TEA-21) strengthened the foundation on which New Jersey's vitally important transportation programs and services are being designed, built, and managed.

TEA-21 was enacted by the United States Congress and signed by the President on the heels of the Governor's transportation vision announcement. Based on the 1991 Intermodal Surface Transportation Efficiency Act (ISTEA), TEA-21 provides the structure for all federal transportation funding through the year 2003. Nationwide, TEA-21 will allocate \$41.3 billion in transit funding during this period.

NJ TRANSIT is slated to receive funding of up to \$1.1 billion for TEA-21, which could mean an 11% increase over the funding provided by the original ISTEA legislation. TEA-21 earmarked \$750 million for a nationwide Clean Fuels Bus program, an equal amount for

NJ TRANSIT RAIL OPERATIONS ON-TIME PERFORMANCE





Governor Christie Whitman, State Transportation Commissioner and NJ TRANSIT Board Chairman John J. Haley, Jr., Executive Director Shirley A. DeLibero and Assistant Executive Director of Engineering, Development and Construction Rick Richmond toured the Hamilton Station project in FY98 as part of the Governor's New Jersey FIRST initiative. The new Northeast Corridor Station is scheduled to open in early 1999.

quality-of-life issues in FY98, serving as an important partner in the Garden State's welfare transportation program, co-sponsoring a summit on the transportation aspects of welfare-to-work, exploring the use of alternative fuels, and strengthening the corporation's diversity training, outreach, and strategic action planning.

In fact, NJ TRANSIT was and continues to be an employer participant in creating jobs for former welfare recipients and is the largest participant in Essex County in the Community Work

Access to Jobs and Reverse Commute programs, and an improvement in tax law governing the benefits to employers who participate in transit pass programs.

NJ TRANSIT continued to take the lead on several key

Experience Program (C*WEP). A \$3.7 million transportation initiative is helping to meet the needs of Work First New Jersey participants by funding programs such as Work Pass and "Get A Job. Get A Ride!"

NEW JERSEY FIRST

New Jersey FIRST (Future Investment and Reinvestment in State Transportation) was unveiled by the Governor at the annual conference of the Northeast Association of State Transportation Officials during an address in which she identified these transportation goals:

- Replacement of 1,400 buses during the next five years and replacement of 424 rail cars and 17 locomotives within 10 years
- Creation of a regional transit fare card system
- Completion of the Newark City Subway extension and the initial phases of the Hudson-Bergen Light Rail Transit System (HBLRTS) and the Southern New Jersey Light Rail Transit System (SNJLRTS) by 2002
- Provision of additional public access to Newark International Airport via a monorail connection between the Northeast Corridor and the airport

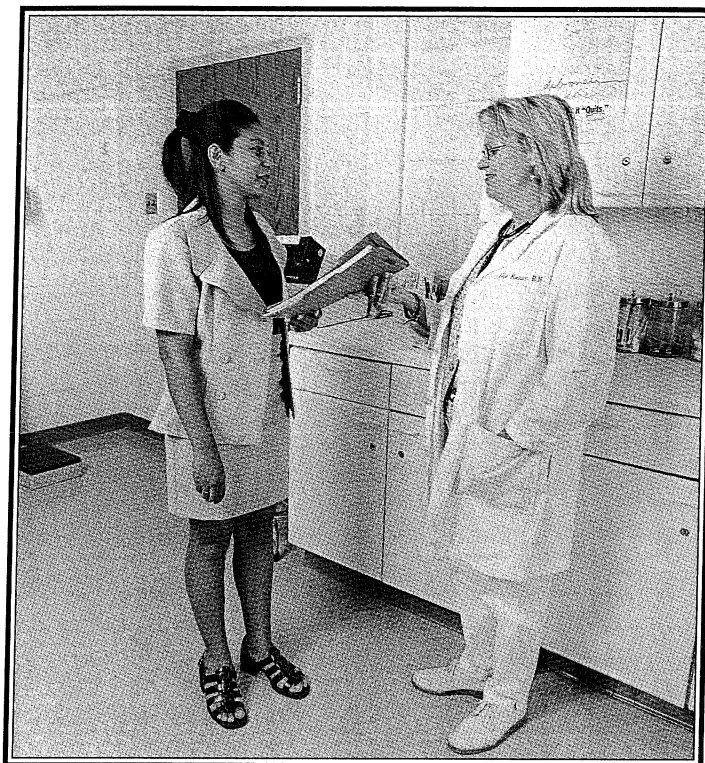
- Commencement of subsequent phases of HBLRTS and starting construction of two other major light rail projects
- Connection of the state's interstate highway and commuter rail systems via intermodal access points
- Expansion of the scope of direct service to Manhattan by increasing the capacity of NJ TRANSIT's rail system and Amtrak's Northeast Corridor
- Enhancement of safety at railroad grade crossings by completing installation of high-tech safety systems
- Creation of "transit villages" in the vicinity of rail stations to maximize the vitality of existing services and encourage private investment in new services.

Work Pass, administered by NJ TRANSIT, is a program by which social service agencies purchase NJ TRANSIT tickets to transport their welfare clients to gain valuable work experience. "Get A Job. Get A Ride!" is the program that provides former welfare recipients with a free monthly transportation pass when they enter the work force.

The Department of Transportation has established a Transportation Innovation Fund to underwrite creative county transportation plans that help fill gaps in transportation-to-work services. Counties that obtain assistance from the Transportation Innovation Fund must receive matching funds from county sources and demonstrate the long-term viability of the services they propose.

Of course, getting to work usually involves the use of fuel, and, just one year after Governor Whitman announced her Advanced Technology Demonstration program, the corporation has made substantial progress in integrating and investigating new, transportation-related technologies. The corporation has ordered 50 Compressed Natural Gas (CNG) cruiser buses; started construction on a new facility to fuel, maintain, and store the CNG buses; and researched the potential to use biodiesel fuel in existing buses.

NJ TRANSIT is also providing in excess of \$1.2 million for training and outreach programs



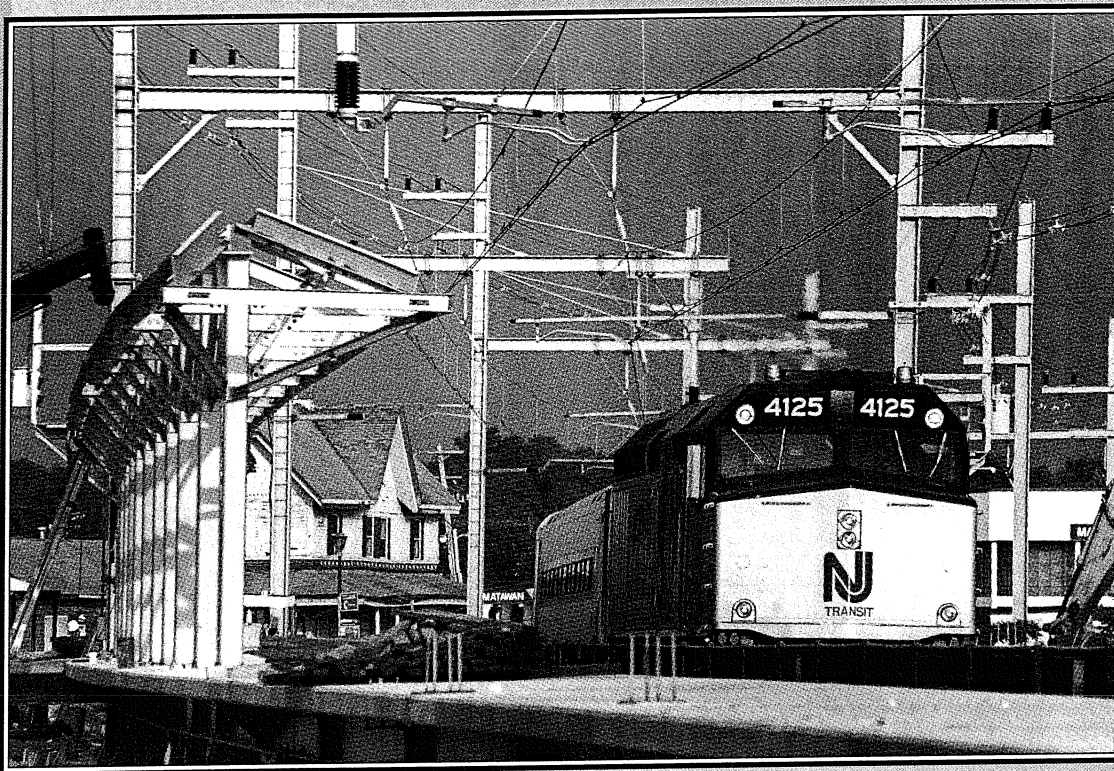
*C*WEP participants have a new future at NJ TRANSIT by working in a variety of positions in departments like Medical Services, Operations and Administration.*

designed to get more women and minorities involved in NJ TRANSIT construction projects. The program is being implemented in cooperation with the New Jersey Treasury Department's Affirmative Action Office, which selects the agencies designated to provide on- and off-the-job training. Several major NJ TRANSIT projects have funded this program.



NJ TRANSIT is exploring a variety of technologies, such as this Compressed Natural Gas (CNG) bus, to determine the source of power for its buses in the 21st century.

A NEW FACE....



- High-level platforms and a new station building are nearing completion at Matawan Rail Station (pictured above), the most heavily used station on the North Jersey Coast Line.
- The historic slate roof at New Brunswick's train station, constructed in 1905 and listed on the National and State Registers of Historic Places, has been repaired with the financial assistance of the New Jersey Transportation Trust Fund and a grant from the New Jersey Historic Trust, restoring the building's old-time elegance.
- Substantial upgrades to Plainfield's historic inbound station will begin in FY99. Improvements include historic rehabilitation of the facility, and new, high-level platforms and two elevators which will bring the facility into compliance with the Americans with Disabilities Act.
- NJ TRANSIT improved Lyons Station on the Gladstone Branch in FY98 by expanding parking, installing new sidewalks and lighting, and providing new landscaping around the station and parking lot.
- FY98 initiated improvements to Middletown Station. Work includes new high-level platforms, a pedestrian tunnel, and new signs and lighting.
- At the Montclair Heights Station, on NJ TRANSIT's Boonton Line, a reconstruction and upgrade project has been completed. The project included low-level platforms, canopies, mini high-level platforms, and, on the inbound side, a 200-square-foot waiting shelter.
- Along NJ TRANSIT's Pascack Valley Line, FY98 brought the warmest winter in 10 years to Wood-Ridge riders when the rail station, previously closed for 10 years, was reopened early in FY98 after interior renovations and upgrades to the parking lot were completed.
- FY98 closed with the completion of Rahway Station. This major renovation project included improvements such as a new station building; rebuilt and lengthened platforms; and new shelters, canopies, stairwells and waiting areas; as well as two new elevators between street-level and boarding platforms, and a refurbished pedestrian tunnel for full station accessibility.

SEIZING THE OPPORTUNITY

For the eighth consecutive year, NJ TRANSIT experienced ridership growth on its trains and buses. More than 200 million passengers chose NJ TRANSIT as "The Way to Go" in FY98, the highest annual ridership figure ever achieved by the corporation. The good news of continued ridership growth can be attributed to stable fares for eight consecutive years, high levels of service quality, implementation of new services, a strong New Jersey economy, population growth, and marketing efforts.

NJ TRANSIT relies on the input of its many customers to continually improve its transit system. Regular outreach efforts at customer forums and surveys provide opportunities for riders to give valuable input, which is used by the Planning and Operations departments to enhance service and facilities.

Routine communication with the business community also creates an ongoing dialogue so employers can have an impact on the type of service offered. This ensures that businesses are familiar with the many public transit services in their area.

In FY98, NJ TRANSIT initiated and continued to work on projects that will steer New Jersey toward the Governor's vision of a transportation system that is not only interconnected and intermodal, but, just as important, easy, dependable, pleasant to use, and part of the communities it serves.

NJ TRANSIT celebrated the opening of the New Jersey Performing Arts Center (NJPAC) and the burgeoning revitalization of downtown Newark by partnering with Prudential Insurance Company of America to launch a minibus service that makes it easy to attend NJPAC performances, patronize downtown businesses and restaurants, and enjoy many of Newark's points of interest. Called "The Loop," the 2.8-mile service is used not only by visitors to the city, but by workers and residents who wish to travel throughout downtown Newark at lunch time.

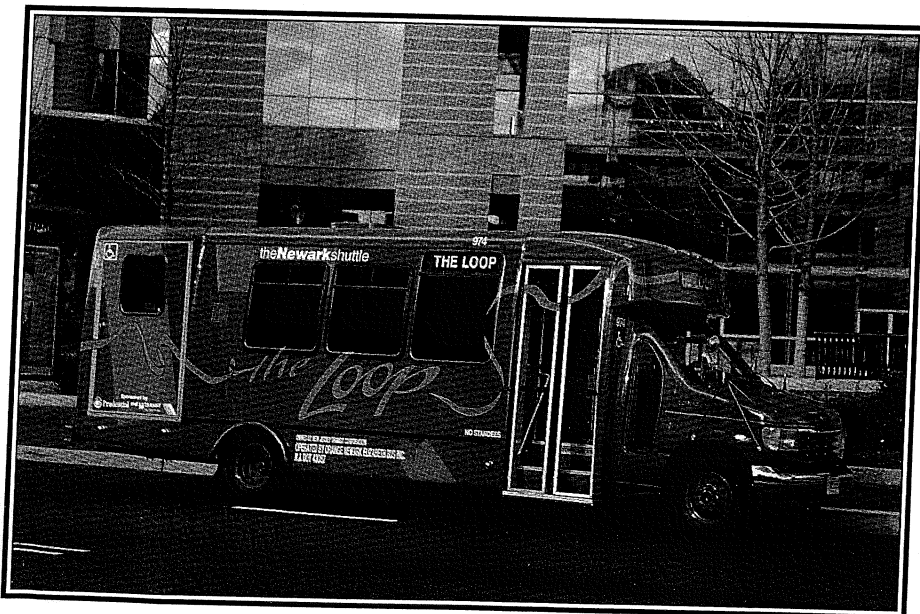
Several initiatives in FY98 were geared toward making public transit in New Jersey safer, easier to use, and even more dependable. NJ TRANSIT set the stage for a more user-friendly fare collection system when its Board of Directors authorized the purchase of an additional 200 ticket vending machines (TVMs) and approved the use of magnetic-strip ticket-paper stock.

During the next two years there will be close to 400 TVMs and ticket office machines in use systemwide for the convenience of our customers. A program involving TVMs at North Jersey Coast Line stations is expected to reduce heavy on-board ticket sales on weekends and during major Jersey Shore travel periods.

Magnetic-strip technology will allow standardization of all NJ TRANSIT tickets, make it possible for passengers using the Secaucus Transfer Station and Newark International Airport Station to transfer to NJ TRANSIT service, and ultimately, will integrate Smart Card technology into the fare collection system.

Another leading edge technology, an automated passenger counting (APC) and

"The Loop" bus started operating in FY98, offering service to popular Newark destinations including the New Jersey Performing Arts Center and businesses in downtown Newark.



real-time data management system, will be installed to replace a manual bus passenger data collection system. The data to be recorded include how many passengers board and leave the bus along its route, the timing and speed of the route, crowding and reliability factors, bus condition, and fare zone and fare transaction types. Data will be downloaded via wireless modem when a bus returns to the garage. Analyzing this type of data will enable NJ TRANSIT to more effectively identify crowded buses, schedule glitches and inefficiencies that affect the quality of service. APC will be deployed for testing on 234 buses on NJ TRANSIT's own fleet as well as on the corporation's contract-carrier-operated buses by the summer of 2000.

Unique this year, NJ TRANSIT is also installing an employee-developed innovative technology that is currently being deployed to help ensure the safety of pedestrians at night, when visibility is reduced. Known as the safety curb lighting system, it consists of lights mounted in such a way that they illuminate an area approximately 12 feet from the side of the bus.

Vehicle Maintenance Information System (VMIS) technology is also crucial to providing safe bus service and is one of the major factors in keeping road calls at an all-time low. The system eliminates the need to input maintenance information manually and automates certain functions and activities, such as driver-reported defects, in-service incidents

CUSTOMER QUALITY INITIATIVES

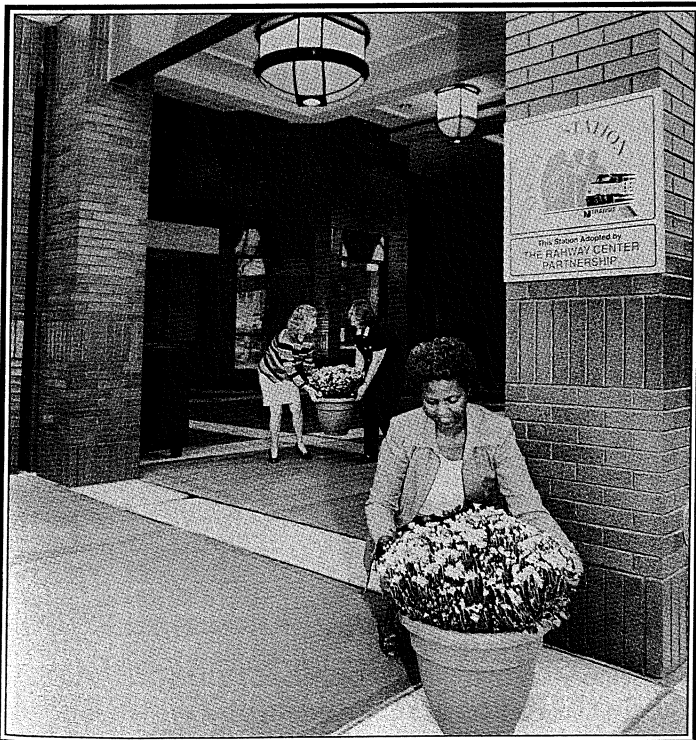
The core of NJ TRANSIT's mission is providing quality customer service to its 358,000 daily passengers. During FY98, a new Customer Quality Initiative was launched with a renewed focus on improving customer satisfaction.

Morris & Essex Lines customers who use the popular MidTOWN DIRECT Service to Manhattan saw improvements in service during FY98. Almost 500 peak-period seats have been added; steps have been taken to alleviate overcrowding at exits and entrances at Penn Station New York; procedures have been put in place to reduce delays and advise customers of delays that do occur; and NJ TRANSIT front line employees have undergone customer sensitivity training to better meet the needs of MidTOWN DIRECT customers. Passengers have also been asked to assist in developing a report card to help the corporation assess customer satisfaction.

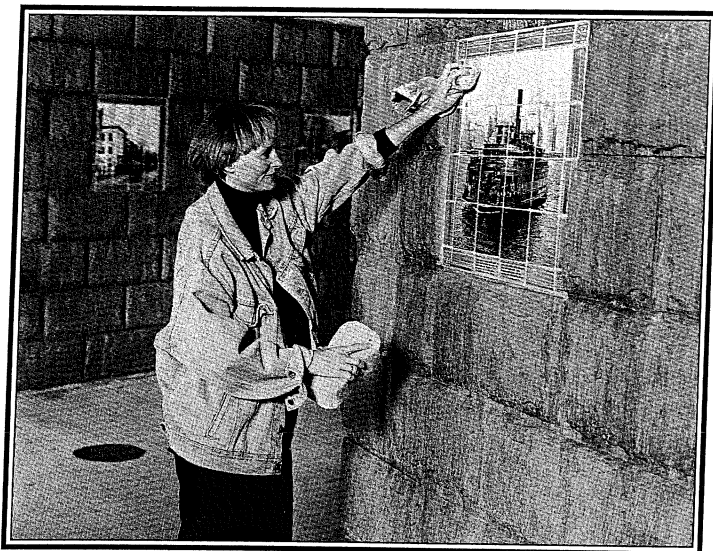
RVL98, an aggressive improvement program, has increased the focus on the cleanliness of stations and trains, additional station lighting, schedule enhancements that include express trains, more signs at stations, better announcements on trains and at stations, and more courteous employees. The more than 7,700 daily riders who use the Raritan Valley Line to get to and from work and for recreational activities will also benefit from improvements related to the Hunter Connection and the new Union Township Rail Station.

reported by drivers, preventive maintenance, and campaigns initiated on a seasonal basis or by the manufacturer. VMIS enables NJ TRANSIT to track maintenance and performance history at the component level and is linked automatically to bus operators' transmitters.

Rail stations not only serve riders but offer opportunities to create new businesses and generate sales for existing enterprises. As a result, NJ TRANSIT launched an Adopt-a-Station program in FY98 that highlights the role communities play in the vitality of NJ TRANSIT train stations. Roselle Park became the first official participant in the program in the spring of 1998 when members of the borough's environmental commission and the high school's ecology club adopted the local station. Participants plant and maintain flowers, small trees and shrubs, pick up litter, and are provided with safety instructions and orange safety vests. A plaque at the station displays the names of



Community groups providing improvements at Rahway Station is one example of the successful Adopt-a-Station program launched by NJ TRANSIT in FY 98.



NJ TRANSIT's Transit Arts Program allows artists to make several stations and terminals – like the Westfield Station – more appealing to commuters.

groups and businesses who have adopted the station.

The Atlantic City Rail Line celebrated its one-millionth passenger in a one-year period, setting yet another record. Residents and visitors have come to rely on the line, a fact that is testimony to the efforts of NJ TRANSIT. Ridership has increased from 525,000 passengers in FY91 to more than one million in FY98.

Atlantic City is only one of the recreational destinations served by NJ TRANSIT. In May, the corporation took advantage of Try Transit Week to promote newly expanded summer service to the Jersey Shore, amusement parks, and other tourist attractions in the region. FY98's Try Transit Week theme "Get a Jump on Summer Fun" emphasized how easy and affordable it is to use public transit to get to the area's most popular spots, especially by taking advantage of discount packages. Each year, NJ TRANSIT hosts many Try Transit Week activities including safety programs, a tour of historic Hoboken and a re-enactment of the Great Train Robbery, and highlights the corporation's commuter services and services to businesses.

NJ TRANSIT also promoted its winter services in a Winter Fun Guide. Some highlights for riders included receiving a combined discount on tickets and travel for the Broadway musical "Jekyll and Hyde," for "Sesame Street Live" at Madison Square Garden, and, of course, for "The Christmas Spectacular" at Radio City Music Hall.

The efforts of the Garden State's Transit Arts Committee were very much in evidence in FY98, as a number of new projects were approved and others were installed. NJ TRANSIT's systemwide Transit Arts program, which began in 1994, integrates public art into the architectural design of new construction as well as renovations and

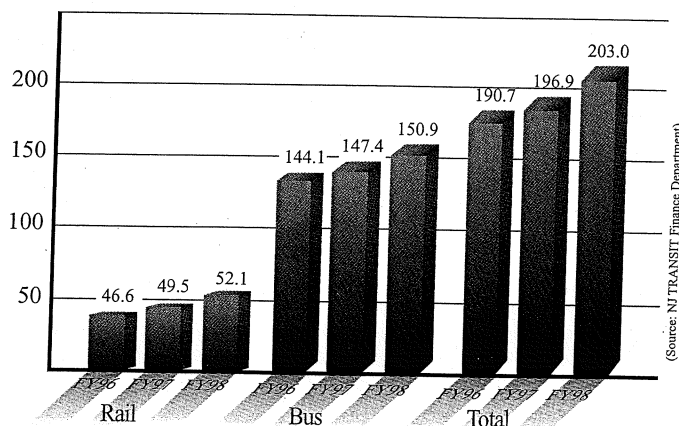
upgrades at transit facilities. The program is overseen by the Transit Arts Committee, whose members come from NJ TRANSIT, the community, the NJ State Council on the Arts, and representatives of local art institutions.

Hamilton Rail Station, under construction since April 1997, will feature three unique pieces of sculpture fabricated by three separate artists. At Newark Penn Station, a glass and tile mosaic mural will adorn the bus lane corridor opposite the Newark City Subway exit and complement the ongoing rehabilitation project underway at the station, which is listed on the State and National Registers of Historic Places. Passengers who use the pedestrian passageway at the newly renovated Westfield Train Station are treated to a visual history lesson, thanks to 18 murals depicting the town's evolution. The art project caps a station rehabilitation project which brought the facility into compliance with the Americans with Disabilities Act. All of the artists involved in these three Transit Arts program projects are either New Jersey residents or natives of the state.

Early in FY98, temporary installation gave 20 budding artists between the ages of nine and 13 an opportunity to help beautify Newark Penn Station while renovations were underway. Youngsters designed and painted 18 murals that cover construction barricades and depict the children's perceptions of their visit to The Newark Museum.

Diversity among riders is increasing as new technologies and legislation improve accessibility on the job, at school, and during leisure. NJ TRANSIT and the Eastern Paralyzed Veterans Association (EPVA) honored the corporation's bus operators in FY98 for their noteworthy sensitivity to senior citizens and riders with disabilities. Customers submitted more than 500 nominations for 15 Bus Operators Appreciation Awards.

NJ TRANSIT RIDERSHIP (IN MILLIONS)



NJ TRANSIT Is Doing It Right: TRANSPORTATION INDUSTRY HONORS NJ TRANSIT WITH FOUR MAJOR AWARDS

Once again the transportation industry has honored NJ TRANSIT with a number of prestigious awards that send a message to the corporation, its Board of Directors, its 9,000 employees, and its many supporters – NJ TRANSIT continues to set the pace in public transportation in the United States.

NJ TRANSIT has now received the American Public Transit Association (APTA) Award for Outstanding Achievement as the nation's best transit agency for the third time in five years. The award highlights the corporation's ability, with the support of Governor Whitman, to keep fares stable for eight years and at the same time to provide innovative services and implement projects that will modernize and interconnect existing systems. Consistent performance has generated increased ridership, as have a number of trendsetting initiatives. These include: the use of the design/build process to construct a major bus maintenance facility; the installation of Automatic Train Control and Positive Train Stop technologies; the development of a bus simulator training system that has reduced operator training time and costs; the establishment of statewide paratransit service for riders with disabilities; and the implementation of Governor Whitman's Advanced Technology Demonstration program.



For the third time in three years, and the fourth time in its history, NJ TRANSIT received the prestigious E.H. Harriman Memorial Safety Award, which honors the railroad with the fewest rail employee injuries per 200,000 employee hours worked. Among NJ TRANSIT's noteworthy safety initiatives are the employee safety committee, which helps identify and correct potentially hazardous conditions; routine facility inspections; a safety incentive program that helps ensure a safe work environment; an injury management team; an accident investigation team; and an employee injury policy designed to address the problem of injury-prone employees.

The corporation was also lauded by the Women's Transportation Seminar (WTS), which named NJ TRANSIT as its Employer of the Year. WTS was established in 1977 to enhance the personal advancement

of women in transportation and to encourage industry and government recognition of the contributions of women to the industry. This year's award recognized NJ TRANSIT and its leaders for actively supporting the advancement and promotion of women and minorities through employee development and staff training, and for efforts to support women- and minority-owned businesses. Currently, NJ TRANSIT's work force is 48 percent minority and 18 percent women.

FIRST EVER!

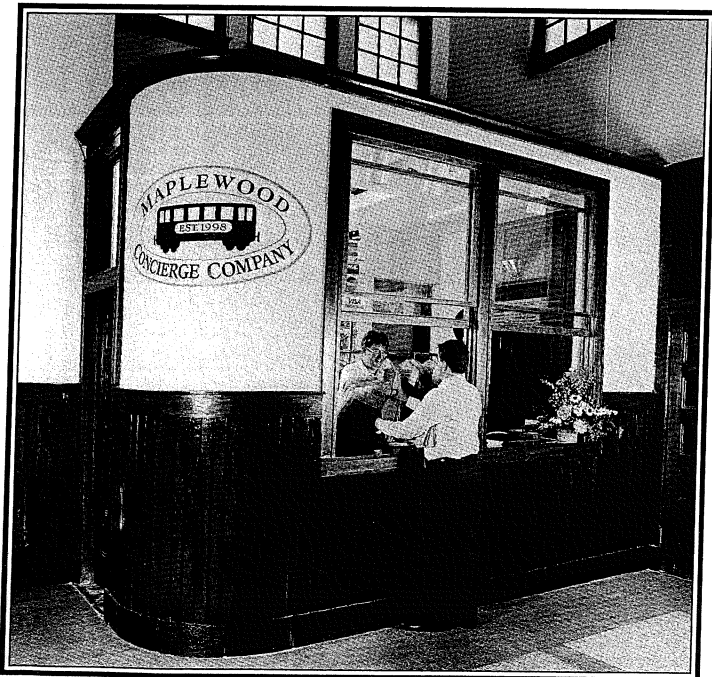
APTA also awarded NJ TRANSIT with the newly established Jobs Creation Award for the corporation's unique partnership with the New Jersey Department of Human Services and several state and local agencies. The partnership's Community Work Experience Program (C*WEP) helps prepare participants in New Jersey's Work First welfare reform program for entry or re-entry into the work force by helping participants develop employment readiness skills through on-the-job training.

ESTABLISHING INITIATIVES

The word "innovation" has long been associated with NJ TRANSIT. In FY98, NJ TRANSIT continued to establish and support initiatives that go beyond providing on-time bus and train service – initiatives that increase confidence in public transit and make meaningful improvements in the experience of using the Garden State's bus and rail systems.

FY98 brought a new twist in passenger amenities, when NJ TRANSIT and the Maplewood Chamber of Commerce launched a concierge program located in the Maplewood Rail Station on the Morris & Essex Lines. Operated by the Maplewood Concierge Company, the program allows passengers using the station to leave orders at the station in the morning and pick up the orders on their way home. Participating businesses include food stores, a dry cleaner, a shoe repair shop, an auto repair shop, a stationary store, a drug store, and a florist – more than 50 businesses in all. The service is bringing more business to the township, since commuters typically leave before local businesses open and return after closing and are therefore less likely to shop locally.

Maplewood Station commuters have a new concierge service to handle their routine errands during the day. The goods and services are ready for pickup when they get off the train at night.



STAR, the Station Revitalization program which began in FY97 and continued through FY98, is the type of program Governor Whitman envisioned when she unveiled her New Jersey FIRST transportation plan – a cost-effective means of enhancing the existing transportation system and improving the quality of life in the communities it serves. Seven more stations will become STARs in FY99: Atlantic City, Clifton, Perth Amboy, Mountain, Linden, Ramsey, and Millburn.

Thanks to NJ TRANSIT's adaptive reuse initiative, unused space in 45 rail stations has been converted into areas housing retail and non-profit operations. As a result, there are now a number of convenient small businesses that are not only serving commuters and local residents but are also profitable for their owners and operators. Among the newest are a Dunkin' Donuts facility at Metropark Station and the Train Stop deli at Newark Broad Street Station. In FY99, new businesses will open in rail stations at Summit, Netherwood, Hamilton, and Rahway.

NJ TRANSIT continued to emphasize passenger safety in FY98, expanding the Police-on-Board bus program to encompass Camden, Cumberland, Atlantic, Essex, and Union counties. Plainfield is the latest addition to the program, in which uniformed and plainclothes police officers from municipalities and members of the NJ TRANSIT Police Department board buses at random to put potential troublemakers on notice that disturbances will not be tolerated on public buses. The joint venture of NJ TRANSIT and local communities is consistent with the philosophy of community policing and with the corporation's commitment to encourage more people to use public transportation. Decals affixed to each bus on a Police-on-Board route alert passengers that an officer could board the bus at any time. Because existing personnel are assigned to the program, no additional costs are incurred. Other bus safety programs include the use of radios in all buses; the Transit on Patrol (TOP) program, which enables operators to use their radios to report street

crime, summon emergency assistance, or communicate information to police; and, the Request a Stop program, which allows passengers to be dropped at any safe location along a given route between 8:00 p.m. and 4:00 a.m.

Another policing program, new this year, is called Park, Walk and Talk. NJ TRANSIT police officers randomly travel between four Northeast Corridor Line stations — Rahway, Edison, Metropark, and New Brunswick. When the officers arrive at each station, they get out of their cars and inspect the area and look for potential problems. The officers then interact with commuters to see if they have any concerns or comments, moving on to the next station if all is well. The random stops are made throughout the day and evening.

Implementation of several ancillary services brought NJ TRANSIT closer to the Governor's 21st century vision of interconnectivity. Six communities in the Morris & Essex Lines Corridor received grants and a minibus vehicle to establish shuttle service to and from commuter trains. The program, financed by NJ TRANSIT's Challenge Grant program, is intended to help communities combat the problems of limited parking at rail stations and to aid the municipalities that do not have rail stations.

In FY98, NJ TRANSIT also entered into a new service agreement with Metro-North Railroad to provide additional express trains for Metro-North on the Port Jervis Line. Not only does the partnership enhance the quality of service,

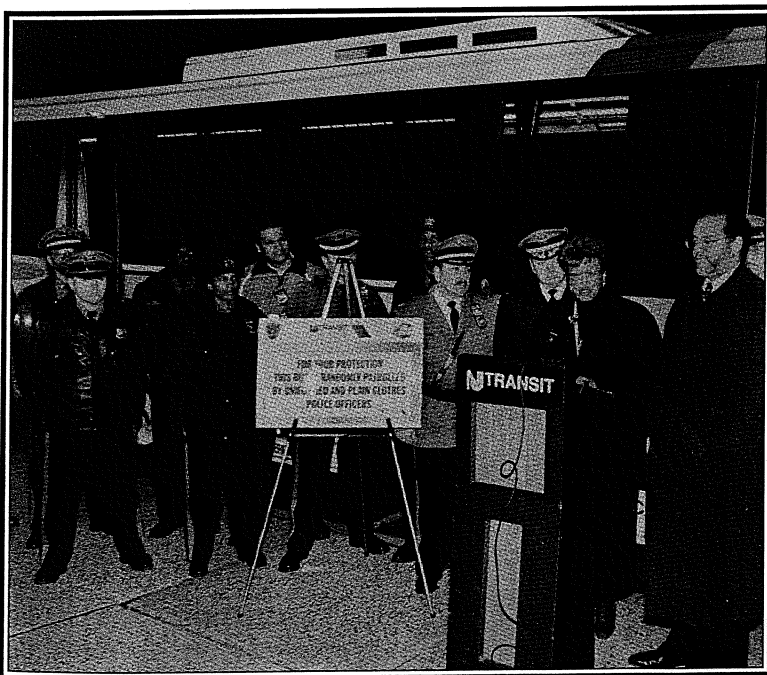
Metro-North contributed \$53 million to be used for the Secaucus Transfer project.

An arrangement between NJ TRANSIT and the Atlantic City Jitney Association (ACJA) has replaced aging jitneys and introduced fully accessible jitney bus service between the Atlantic City Rail Terminal and the city's casinos. Under the agreement, ACJA will provide bus service to NJ TRANSIT's rail passengers free of charge for a minimum of three years. The New Jersey Transportation Trust Fund has funded the project.

NJ TRANSIT and the state's Transportation Management Associations are co-sponsoring a van pool program that provides financial incentives to commuters who switch from private cars to van pools, thereby reducing traffic congestion and air pollution. Participating van pool groups provide monthly ridership statistics to the Transportation Management Associations. More than 180 van pools are program participants.

NJ TRANSIT's bus card program, which allows passengers to take unlimited trips on NJ TRANSIT buses within the state, is extremely popular. Passengers can now purchase discounted monthly bus cards for use on participating private carriers. More than 40,000 cards are sold systemwide each month. An agreement between NJ TRANSIT and two private carriers, the Orange-Newark-Elizabeth Bus Co. and the Independent Bus Co., both of Newark, allows NJ TRANSIT bus passengers to use their monthly intrastate bus card on four private carrier routes without paying additional fares.

FY99 will see stepped up service in the Garden State's 21 counties, thanks to the allocation of \$22.5 million of NJ TRANSIT, Casino Revenue Tax Fund, and Federal Transit Administration monies. NJ TRANSIT authorized the funds to provide local transportation services for senior citizens, people with disabilities, and residents and workers in rural areas of the state — in many instances, this program will provide the only means of transportation for some of the state's neediest residents. Several programs will receive support. The majority of the funding supports the state's Senior Citizen and Disabled Resident Transportation Assistance program. One service in particular, which is funded by the State of New Jersey, called the Access Link program, provides tailored transit service for citizens who cannot access public transit and became available in all 21 New Jersey counties in FY98.



NJ TRANSIT continued to expand its Police-on-Board program in FY98, adding another level of security for its bus passengers.

WELCOMING THE FUTURE

New Jerseyans who use public transit in the 21st century will be able to move throughout the state and indeed the region with an ease that could only be imagined when NJ TRANSIT began operations in 1979. Since then, the corporation has moved steadily and consistently to increase the scope and sophistication of public transportation services. As a result, the contributions of public transit to the Garden State's economy, vitality, and attractiveness as a place to live, work, visit, and do business have grown exponentially.

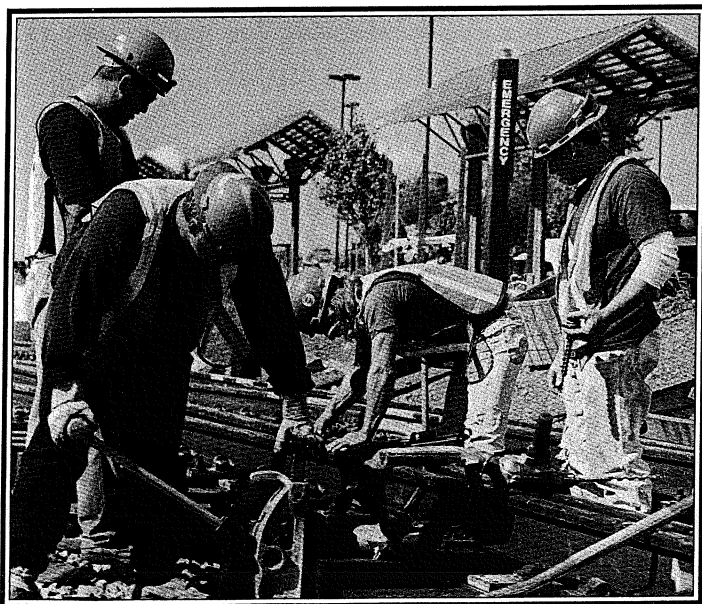
FY98 brought the state a step closer to that future, a future in which light rail services will play a larger and larger role. Substantial work has progressed during FY98 on the initial phase of the \$1.2 billion Hudson-Bergen Light Rail Transit System (HBLRTS), which will ultimately extend 20.5 miles from Bayonne and Route 440 in southwest Jersey City to the Vince Lombardi Park-and-Ride on the New Jersey Turnpike in Bergen County. When completed, HBLRTS will be the second busiest light rail system in the country and will serve 100,000 riders daily by 2010, reducing traffic congestion and emissions in the area considerably. More than 24,000 jobs will be created by increased

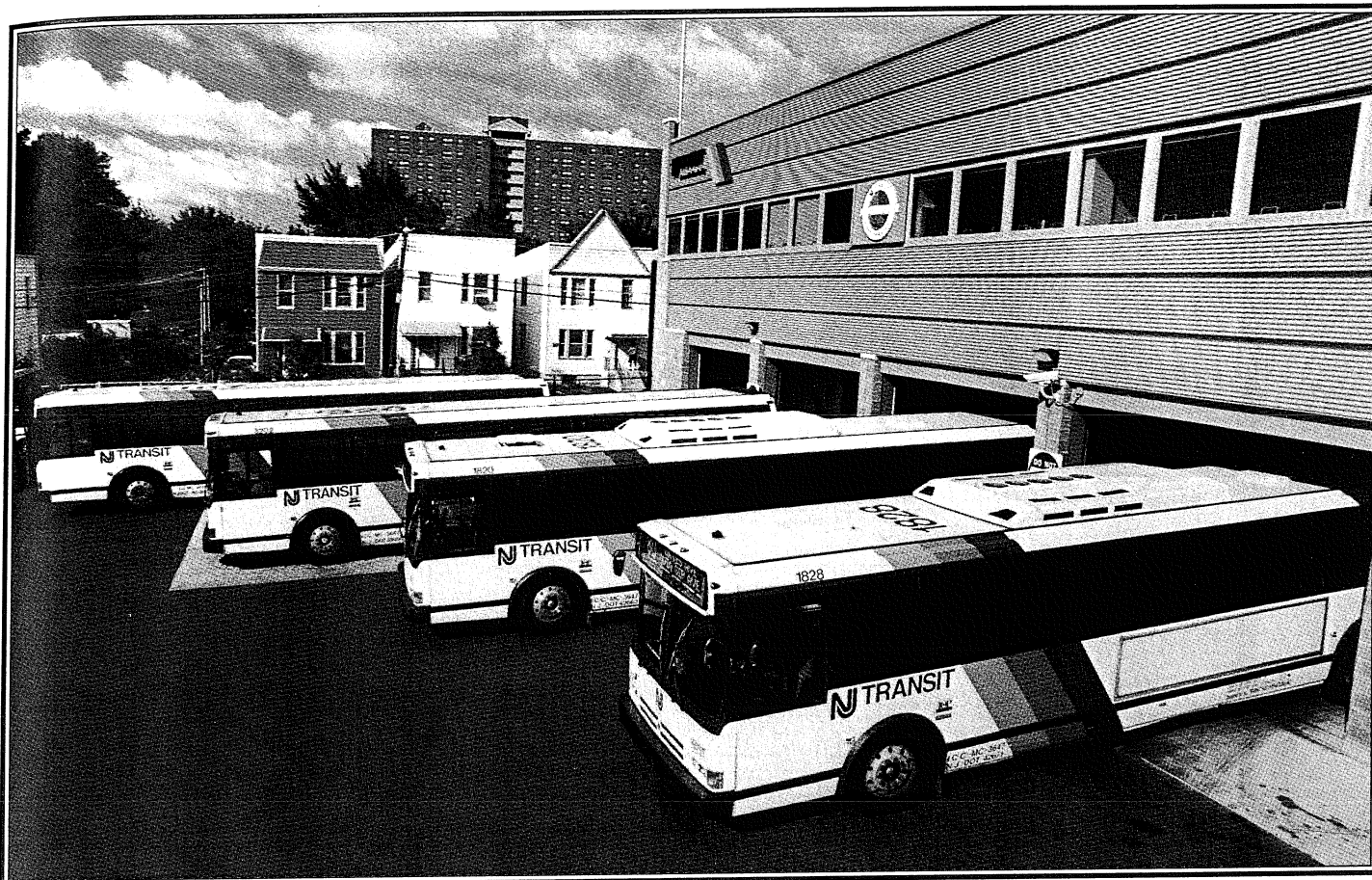
accessibility within the HBLRTS' north-south route. The project is being implemented via a landmark Design, Build, Operate and Maintain (DBOM) contract awarded to 21st Century Rail Corporation, which brings together a consortium of companies in a turnkey approach that will shave four years off the time frame that would have been required had the project been undertaken under traditional financing and building methods. Construction of the 10-mile Initial Operating Segment (IOS), linking commercial, residential, and retail developments along the Hudson River with local neighborhoods, is creating a number of well-paying jobs in construction, engineering, and related fields. Riders will be using the IOS by the turn of the century, and they'll be transported on 90-foot, articulated, state-of-the-art light rail cars.

NJ TRANSIT's Newark City Subway system has served Newark since the 1930s. Although various improvements have been made over the years, a 1996 system assessment by NJ TRANSIT indicated the need to upgrade the infrastructure. This would include a one-mile line extension and a new station and park-and-ride facility, a new maintenance facility and storage yard, 16 new light rail cars, capital improvements to five existing stations, and a complete replacement of the power supply, overhead catenary and signal systems.

NJ TRANSIT has also begun designing a project to extend the Newark City Subway by linking Broad Street Station and Newark Penn Station — Newark's two commuter rail stations. The extension is the first segment of the Newark-Elizabeth Rail Link (NERL). The initial light rail extension will link Newark Penn Station, the New Jersey Performing Arts Center, Washington Park/Broad Street, the new baseball complex currently under construction and Newark Broad Street Station. More than 13,200 riders are expected to use the initial segment daily — 6,300 of them new to public transit. Allocations from the New Jersey

NJ TRANSIT and 21st Century Rail Corporation are making progress on the Hudson-Bergen Light Rail Transit System, which is scheduled to carry its first passengers in March 2000.





NJ TRANSIT has upgraded all of its bus garages, like the Greenville Bus Garage in Jersey City, to enhance bus maintenance systemwide.

Transportation Trust Fund and Federal Transit Administration are funding the project.

Northern New Jersey is not the only part of the state to benefit from NJ TRANSIT's light rail program. Progress was made in FY98 on the Southern New Jersey Light Rail Transit System (SNJLRTS) when the Board of Directors authorized additional funding to develop a DBOM contract for the 33-mile Initial Operating Corridor (IOC). The IOC will operate along the Delaware River waterfront between Trenton and Camden, providing connections to NJ TRANSIT, Amtrak, SEPTA and PATCO.

The Secaucus Transfer project, one of five major inter-modal connectivity projects currently underway, received more than \$421 million in ISTEA funds through FY97 and an additional \$26.3 million in FY98. It involves reconstructing a two-mile section of the Northeast Corridor and constructing a rail transfer station. By 2002, riders from NJ TRANSIT's Main, Bergen County, Pascack Valley, and Port Jervis lines will be able to reduce their Manhattan commute 15 minutes each way, as well as have rail access to other parts of the system including the Jersey Shore and

Trenton. Usage of the transfer station is expected to reach 32,000 daily trips by 2010 – almost 21,000 of these trips will be made by commuters who have not used public transit previously.

Rail service will be linked seamlessly with international airline service in 2001, when the Newark International Airport Monorail Terminal and Rail Station opens. Not only will the complex link passengers to the airport's monorail system, it will enable customers using the Northeast Corridor and North Jersey Coast lines access to the airport. Riders on NJ TRANSIT's Raritan Valley Line can reach the airport by transferring at Newark Penn Station. Once the Secaucus Transfer is completed in 2002, North Jerseyans also will have easy access to the airport. Funding for the project is principally from passenger facility charges authorized by the Federal Aviation Administration, and the project is a joint venture with the Port Authority of New York and New Jersey.

In Hamilton Township, a new, \$69 million transit complex will help meet the growing demand for transportation services in central New Jersey. Thousands of passengers are

expected to use the new Northeast Corridor Hamilton Rail Station. The spacious 13,000-square-foot rail station features the latest in passenger amenities and space for concessions, provides easy access between the trains, and offers a pedestrian bridge and 1,600 parking spaces. Funded largely through ISTEA monies, the complex is also home to a bus maintenance facility recently opened to replace the outmoded Mercer Bus Garage in Trenton.

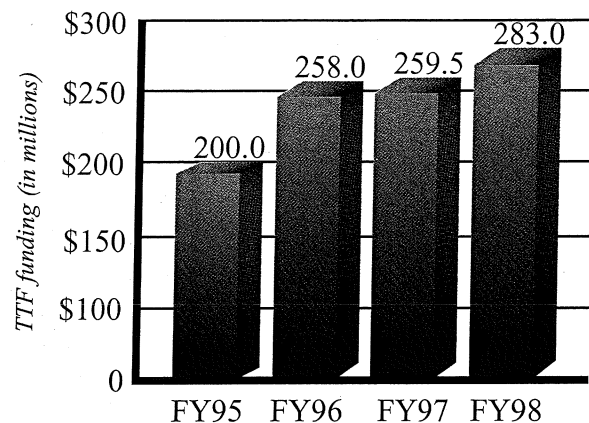
Under an agreement with the statewide transportation corporation and the Township of Montclair, NJ TRANSIT is proceeding with the long-awaited Montclair Connection – a 1,200-foot rail link between NJ TRANSIT's Boonton Line and Montclair Branch that was first proposed in 1929. The \$44.7 million project will consolidate the two lines, providing riders with a one-seat ride to New York, expanded service to Broad Street Station in Newark, and continued service to Hoboken. The project also will extend rail electrification from Bay Street Station through the connection and on to Great Notch Station in Little Falls. The Montclair Connection also supports the township's Bay Street Development Plan, a community-based program to enhance the neighborhood with a community center, child care program, fire department headquarters, police substation, and retail/office space.

Finally, the \$33 million Hunter Connection will reduce travel time and improve operational flexibility on NJ TRANSIT's Raritan Valley Line. An existing track linking Conrail's Lehigh Valley Line to Amtrak's Northeast Corridor has been reconfigured to increase the speed at which trains travel between the Raritan Valley Line and Northeast Corridor from 15 mph to 45 mph.

Major improvements begun or continued in FY98 will make it simpler and more pleasant for riders at Penn Station New York and Newark Penn Station to board and leave trains and move about the stations. Restoration programs at Hoboken Terminal, Newark's Broad Street Station, Bound Brook Train Station, New Brunswick Station, and Plainfield Train Station are not only helping to bring the stations up to 21st century standards, but are showcasing the features that have marked these facilities as historic structures.

FY98 moved NJ TRANSIT closer to the construction of the corporation's new East End Concourse at Penn Station New York (PSNY). MidTOWN DIRECT service has taxed

NEW JERSEY TRANSPORTATION TRUST FUND (TTF)



■ The New Jersey Transportation Trust Fund (TTF) is one of the key funding sources for NJ TRANSIT's Capital Program. In FY98, NJ TRANSIT received a record \$283 million from the TTF to help advance valuable projects like the Southern New Jersey Light Rail Transit System, the Hunter Connection, ticket vending machines and a new rail station in Edison.

the capacity of the existing PSNY infrastructure, and projects such as the Secaucus Transfer will generate thousands more Manhattan-bound passengers as the number of NJ TRANSIT trains serving PSNY increases to as many as 18 trains per hour at rush hour. NJ TRANSIT has designed the construction process to minimize interference with train and pedestrian traffic. When completed in 2001 the "station within a station" will improve passenger flow and ease congestion, as well as provide new ticketing, information, and passenger waiting areas.

At Newark Penn Station, more than \$20.6 million in Federal Transit Administration funding has been allocated for circulation and rehabilitation projects at the facility, which handles 94,000 bus, rail, and light rail riders daily. Through improvements to the Raymond Boulevard concourse, customers will also enjoy additional retail concessions; renovations of the customer service office, information kiosk, ticket office, and public rest rooms; and rehabilitation of the building's historic features.

In Hoboken, a vast rehabilitation project is underway at the Hoboken Terminal. Since the terminal was constructed in 1907, time and weather have deteriorated much of the structure and infrastructure, and stop-gap improvements have compromised the building's classic beaux-arts design. Restoration of the waiting room, an \$8.8 million project underwritten by the Federal Transit Administration and the New Jersey Transportation Trust Fund, will begin in FY99.

Skylights will be restored, replicas of the original pendant lights installed, plaster repaired and painted, limestone cleaned and patched, woodwork refinished, and copper windows, wood benches and terrazzo flooring restored.

A unique, no-cost, land exchange has enabled NJ TRANSIT to acquire a larger, newly paved parking lot for Atlantic City Rail Line customers who use the Cherry Hill Station. NJ TRANSIT obtained the property from a development group which will be constructing a shopping center near the station. The group will use NJ TRANSIT's former lot as a buffer between the shopping center and a nearby residential area.

Work is underway on a new Edison Station building on the heavily traveled Northeast Corridor. Located at Plainfield and Central avenues in Edison, the \$5.2 million project will serve more than 2,000 commuters each weekday. Parking will be upgraded, new lighting installed, and landscaping added to the surrounding grounds. The New Jersey Transportation Trust Fund is financing the new construction.

During FY98, designs were underway for a new railroad station in Union Township on the Raritan Valley Line. The New Jersey Transportation Trust Fund will pay for the project, which should begin in early FY2000. Half the 800 daily customers using the station are expected to be new to public transit. A new bus stop will be located near the station, which is within walking distance for many area residents.

Transportation Commissioner and NJ TRANSIT Board Chairman John J. Haley, Jr. dedicated 1998 as the Year of the Raritan Valley Line focusing on customers' needs and improving service. Throughout the year, NJ TRANSIT solicited input from Raritan Valley Line customers to identify the improvements that need to be made and put specific facilities and service improvement projects on a fast track. Westfield Train Station was first in line to receive high-level platforms with canopies, a new pedestrian tunnel with a series of tile murals and two elevators. Work at the Fanwood, Bound Brook, and Plainfield train stations, and other Raritan Valley Line facilities followed in FY98 and underscored NJ TRANSIT's commitment to improvements along this strategic line.

Upgrades to the 63,000-square-foot Greenville Bus Maintenance Facility were completed in FY98 and will allow it to employ new technologies to maintain NJ TRANSIT's bus fleet in top shape. A 17,000-square-foot addition to the building was constructed as well. Eighty NJ TRANSIT buses that operate in Hudson and Essex counties are serviced at the facility. The New Jersey Transportation Trust Fund paid for the \$21 million project. The Wayne Township Bus Maintenance Facility neared completion in FY98 and will replace the outmoded Madison Avenue Garage. The 210,000-square-foot facility can store 135 buses and maintain 180. Detention basins, an elevated viaduct approach roadway, lighting, pavement, walkways, fencing, and a wetlands mitigation basin were included in the \$38.9 million project, funded by the Federal Transit Administration and the New Jersey Transportation Trust Fund. The 130,000-square-foot Hamilton Township Bus Maintenance and Storage Facility also neared completion in FY98. The new building will have the ability to store up to 80 buses and serve 12 NJ TRANSIT routes in Mercer and Middlesex counties.

NJ TRANSIT's booming ridership growth has left many municipalities searching for new answers as train station parking lots reach capacity. This past year the corporation launched the Challenge Grant program, awarding seed money and minibuses to six towns along the Morris & Essex Lines to provide local shuttle bus service between residential areas and the station. In addition to the six towns receiving



NJ TRANSIT is in the process of restoring one of New Jersey's historic jewels, Hoboken Terminal, located on the Hudson River waterfront.

grants in FY98, NJ TRANSIT is expanding the program to other rail corridors where access constraints exist.

NJ TRANSIT partnered with several other New Jersey agencies this past year to help move New Jersey residents from welfare to work. With the assistance of the state's 21 counties, new bus routes will be established, existing bus routes will be extended and service frequencies will increase to help Work First New Jersey participants get to their new jobs.

Other service expansion projects are on the horizon as NJ TRANSIT plans ahead. In FY98 the Board of Directors authorized several studies that could enhance the corporation's services by restoring passenger rail service on several lines. Such projects could significantly reduce traffic congestion and improve air quality in some of the Garden State's most heavily congested areas.

NJ TRANSIT is taking part in a joint study focusing on the costs and benefits of providing passenger service along the West Shore Line, also known as Conrail's River Line, and the Northern Branch located in northeastern New Jersey, and the New York Susquehanna and Western Railway Line (NYS&W) in Bergen County. Several types of service are under consideration, including commuter rail and light rail.

An analysis of the potential to restore commuter rail passenger service on the NYS&W Railway in Sussex, Morris,

Passaic, and Bergen counties has been underway since 1996, when NJ TRANSIT met with local, county, and state officials and planners to begin assessing public response to the proposed service. Nine stations are envisioned: Hawthorne, Midland Park, Wyckoff, Oakland, Pompton Lakes, Butler, Newfoundland, Stockholm, and Sparta. Five morning and five afternoon rush-hour trains are being considered. Design work and property discussions are in progress.

NJ TRANSIT is also developing a master plan for restoring passenger rail service on the West Trenton Line, a 21.6-mile route owned by CSX railroad through Mercer and Somerset counties, with the intention of ultimately connecting the line with NJ TRANSIT's Raritan Valley Line in Bound Brook. Passengers could then continue on to Newark Penn Station, with connecting service to New York City. Analyses of this type requires assessment not only of operating issues, but infrastructure, environmental, cost-recovery issues and impacts on freight operations.

Governor Christie Whitman's transportation vision for the 21st century is being realized by NJ TRANSIT's commitment to carry the people of New Jersey into the new millennium while focusing on the quality-of-life, mobility, and economic issues that are crucial to the success of New Jersey FIRST.

NJ TRANSIT FISCAL YEAR 1998 ANNUAL FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

NJ TRANSIT began fiscal year 1998 with a surplus carryforward of \$32.8 million which was earmarked to cover fiscal year 1998 operating costs. NJ TRANSIT concluded the fiscal year utilizing \$12 million of this carryforward, consequently providing over \$20 million to fund operating costs in fiscal year 1999. The results for fiscal year 1998 include a \$68.2 million reduction in State and Federal Operating Assistance.

NJ TRANSIT increased passenger revenue by \$13.8 million, as a result of a 3.1 percent increase in ridership. The growth in passenger revenue and ridership was a result of the economic health of the State, the continued success of the MidTOWN DIRECT rail service and the impact of holding passenger fares constant for the 8th consecutive year. Other Revenue, meanwhile, declined \$6.5 million essentially due to the difference in the level of leveraged lease activity during fiscal year 1998 compared to fiscal year 1997. Leveraged lease arrangements for fiscal year 1998 provided \$14.1 million of Other Revenue.

Expenses declined \$2.1 million when compared to fiscal year 1997. This accomplishment is remarkable given the implementation and expansion of high quality service such as MidTOWN DIRECT, Access Link paratransit bus service and the private carrier bus card program, while at the same time maintaining an aging fleet of revenue vehicles.

NJ TRANSIT has consistently maintained Bus and Rail on-time performance levels in excess of 90 percent. This performance has earned NJ TRANSIT the coveted American Public Transit Association's (APTA) Outstanding Achievement Award for the third time in the last five years, notwithstanding the receipt of other awards such as APTA's Jobs Creation Award, the E.H. Harriman Memorial Safety Award and the Employer of the Year Award from the Women's Transportation Seminar. Governor Christie Whitman's New Jersey FIRST Transportation Vision for the 21st Century — announced in FY98 — will build upon these successes by providing NJ TRANSIT with the resources necessary to upgrade and expand its existing infrastructure and maintain a premier transportation system into the next century.

OPERATING RESULTS

PASSENGER REVENUES

Passenger Revenues 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 contract bus service managed by NJ TRANSIT.

Rail passenger revenue increased \$12.0 million over fiscal year 1997, representing a 6.1 percent improvement. Rail ridership, led by the highly successful MidTOWN DIRECT service, grew by 2.7 million passengers. Bus passenger revenue increased \$1.7 million over fiscal year 1997, representing a 0.8 percent increase. Bus ridership grew by 3.5 million passengers.

RIDERSHIP (in millions)	FY98	FY97	% Inc.
Newark Division Rail Lines	33.5	32.1	4.3
Hoboken Division Rail Lines	17.6	16.4	7.4
Atlantic City Rail Line	1.0	0.9	8.1
Total Rail Ridership	52.1	49.4	5.4
Northern Division Bus Lines	54.4	52.3	4.1
Central Division Bus Lines	72.3	71.8	0.7
Southern Division Bus Lines	24.2	23.3	3.7
Total Bus Ridership	150.9	147.4	2.4
Total Ridership	203.0	196.8	3.1

OTHER REVENUE

Other Revenue consisted of proceeds from leveraged lease transactions, interest income on investments, station and vehicle advertising, rental of equipment and facilities, operation of parking lots and the leasing of certain NJ TRANSIT rights related to the private operation of bus service.

Although over \$14 million was generated from leveraged lease activity during fiscal year 1998, this was a decline of \$13 million from the prior year. Leveraged lease transactions which occur periodically have generated significant proceeds in the past several years. The reduction in fiscal 1998 was partially offset by increases in investment earnings, advertising income, permit proceeds and an increase in revenue related to the lease of the No. 300 Bus Line. The proceeds from the leasing of this line more than offset the net reduction in passenger revenue and expenses related to NJ TRANSIT's operation of this line.

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 \$11.4 million or 2.2 percent when compared to fiscal year 1997. This increase reflects additional costs of service related to ridership increases, labor agreement contract increases and additional overtime costs associated with the continued maintenance of aging revenue vehicles. NJ TRANSIT's medical and health care expenses increased, further impacting the employment cost increase.

OTHER COSTS

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

Parts, Materials and Supplies expenses increased \$4.2 million or 5.3 percent above fiscal 1997 levels. Cost increases related to service expansions, the continued emphasis on safety and preventative maintenance and improvements to NJ TRANSIT's aging revenue fleet, right-of-way and facilities had a significant impact on the corporation's materials costs.

Service expenses declined by \$10.7 million or 12.4 percent. This decrease was principally related to reduced spending for environmental remediation activities, contracted snow removal costs and outside legal fees.

NJ TRANSIT's outstanding safety record, improved claims management and the impact of the Railroad Immunity Act resulted in a \$17.3 million or 48.3 percent reduction in Claims and Insurance expenses as compared to the prior year. During fiscal year 1998, NJ TRANSIT's safety record was recognized by the American Association of Railroads who, for the third straight year, awarded NJ TRANSIT the prestigious E. H. Harriman Memorial Safety Award as one of the safest railroads in America.

Purchased Transportation expenses increased \$4.6 million or 7.1 percent over fiscal year 1997 as a result of increased Access Link paratransit and Contract Carrier services.

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 1998 declined by \$68.2 million due to decreases in both State appropriations and Federal grants. However, other Federal, State, and Local Reimbursements increased \$17.2 million in fiscal year 1998 as compared to the prior year. This funding group includes the New Jersey Transportation Trust Fund, Casino Revenue Fund, and various Federal grants for specific activities.

OPERATING ASSISTANCE AND REIMBURSEMENTS

(Dollars in Millions)	FY98	FY97	Inc/(Dec)
State Operating Assistance	\$164.6	\$219.0	\$(54.4)
Federal Operating Assistance	4.2	18.0	(13.8)
Total Operating Assistance	168.8	237.0	(68.2)
Federal, State & Local Reimbursements	191.1	173.9	17.2
Total Operating Assistance & Reimbursements	\$359.9	\$410.9	\$(51.0)

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 show a decrease of \$103.2 million or 19.9 percent below fiscal year 1997. However, expenditures associated with the Hudson-Bergen Light Rail Transit System (HBLRTS) project, totaling \$163.1 million, were funded by Grant Anticipation Notes (GANs) and State of New Jersey Certificates of Participation (COPs). Major project activity during the year included the Secaucus Transfer, HBLRTS, the purchase of rolling stock, improvements to passenger and support facilities and rail infrastructure. The Board of Directors approved a fiscal year 1999 capital spending program which totals \$1,083.6 million, subject to the availability of funds, and provides for the continuation of the major projects currently underway, as well as new initiatives, including the Southern New Jersey Light Rail Transit System. Funds have been allocated for the replacement and overhaul of rolling stock, passenger and maintenance facilities, rights-of-way throughout the State and improvements to the Northeast Corridor Rail Line. Provisions have also been made to comply with all Federally mandated accessibility and environmental regulations.

WORKING CAPITAL

NJ TRANSIT ended fiscal year 1998 with working capital of \$87.9 million representing the excess of current assets over current liabilities. This is a decrease of \$26.4 million below fiscal year 1997. The working capital decrease is essentially the result of a decrease in cash and amounts due from the Federal and State Governments partially offset by a decrease in accounts payable.

FINANCING ACTIVITIES

In the last 10 years NJ TRANSIT has earned approximately \$100 million through leveraged leasing activities. During fiscal year 1998 NJ TRANSIT continued its very successful leveraged leasing activities by completing one transaction involving 181 railcars and 30 locomotives. This agreement assigns various tax benefits associated with the lease payment terms, while NJ TRANSIT receives a one-time, up-front benefit for entering into the transaction. NJ TRANSIT recognized \$14.1 million of Other Revenue during fiscal year 1998 as a result of the transaction mentioned above. The opportunity to enter into these transactions occurs periodically and the fiscal year 1998 revenues from these arrangements were \$13 million below fiscal year 1997.

NJ TRANSIT included 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 balance sheet. 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 balance sheet.

During fiscal year 1998 NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the HBLRTS and the Newark City Subway System (NCSS). These cars were financed through a sale of COPs by the State of New Jersey in May, 1998.

OTHER MATTERS

In March of 1997, the Governmental Accounting Standards Board (GASB) issued Statement Number 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." NJ TRANSIT adopted the provisions for this new standard in its financial statements for the year ended June 30, 1998 and restated the financial statements for the year ended June 30, 1997. The effect of adopting Statement Number 31 was to increase restricted funds and investment income for June 30, 1998 and 1997 by \$3.8 million and \$2.5 million, respectively. The cumulative effect on equity as of June 30, 1996 was \$5.6 million.

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 may result in higher operating costs and unanticipated capital expenditures. NJ TRANSIT has made and will continue to make the necessary expenditures for environmental protection. During 1998 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. Note 14 to the financial statements includes additional information on environmental matters.

The Americans with Disabilities Act (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. Note 14 to the financial statements has additional information on the ADA.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in thousands)

	As of June 30,	
	1998	1997
		(As Restated)
ASSETS		
Current Assets:		
Cash and Equivalents (Note 6)	\$261,311	\$296,571
Due from Federal Government	26,197	50,578
Due from State of New Jersey	38,158	44,508
Inventories	55,802	52,831
Other Current Assets	28,509	21,536
Total Current Assets	409,977	466,024
Restricted Funds (Notes 6, 7, 11 and 13)	1,237,538	893,180
Transit Operating Property, Plant and Equipment-Net (Note 8)	3,417,212	3,041,789
Other Assets	21,763	17,839
Total Assets	\$5,086,490	\$4,418,832
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$114,445	\$146,113
Accrued Payroll and Benefits (Note 9)	109,817	103,647
Current Installments under Capital Leases	40,548	42,788
Other Current Liabilities (Notes 4 and 10)	57,313	59,142
Total Current Liabilities	322,123	351,690
Notes Payable (Note 11)	350,859	351,583
Accrued Injury and Damage Claims (Note 4)	60,793	75,228
Obligations under Capital Leases (Note 12)	1,035,761	599,693
Postretirement Benefits Other Than Pensions (Note 9)	209,914	200,014
Deferred Revenue and Other Non-Current Liabilities	93,915	42,795
Total Liabilities	2,073,365	1,621,003
Equity:		
Contributed Capital	3,081,820	2,854,500
Net Deficiency in Facilities (Note 13)	(68,695)	(56,671)
Total Equity	3,013,125	2,797,829
Total Liabilities and Equity	\$5,086,490	\$4,418,832

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,	
	1998	1997
		(As Restated)
Revenues:		
Passenger Fares	\$421,747	\$407,944
Other Revenues (Notes 3 and 13)	65,376	71,864
Total Revenues	487,123	479,808
Expenses:		
Labor	339,536	335,493
Fringe Benefits	186,963	179,602
Parts, Materials and Supplies	82,417	78,259
Services	75,646	86,309
Claims and Insurance (Note 4)	18,488	35,756
Fuel and Propulsion	40,040	39,901
Utilities	18,398	17,576
Purchased Transportation	68,842	64,288
Interest	6,901	7,612
Other	17,613	12,101
Total Expenses	854,844	856,897
Loss Before Operating Assistance and Reimbursements and Depreciation	(367,721)	(377,089)
Operating Assistance and Reimbursements:		
State Appropriation	164,657	219,000
Federal Appropriation (Note 5)	4,206	18,016
Federal, State and Local Reimbursements	191,050	173,895
Total Operating Assistance and Reimbursements	359,913	410,911
Income (Loss) Before Depreciation	(7,808)	33,822
Depreciation	191,860	199,795
Loss Before Depreciation Transfer	(199,668)	(165,973)
Depreciation Transferred to Contributed Capital	187,644	198,728
Net Income (Loss)	\$(12,024)	\$32,755

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, 1998 and 1997

	Net Investment (Deficiency) in Facilities	Contributed Capital		
		Total	Federal	State, Local and Other
Balance June 30, 1996, Before Cumulative Effect of Accounting Change	\$(95,067)	\$2,539,601	\$1,616,995	\$922,606
Cumulative Effect of Accounting Change	5,641			
Balance June 30, 1996, After Cumulative Effect of Accounting Change	\$(89,426)	\$2,539,601	\$1,616,995	\$922,606
Loss Before Depreciation Transfer	(165,973)			
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	\$(56,671)	\$2,854,500	\$1,836,242	\$1,018,258
Loss Before Depreciation Transfer	(199,668)			
Capital Grants		415,756	222,075	193,681
Assets Removed from Service		(792)	(140)	(652)
Depreciation on Capital Improvements	187,644	(187,644)	(135,027)	(52,617)
Balance June 30, 1998	\$(68,695)	\$3,081,820	\$1,923,150	\$1,158,670

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years ended June 30,	
	1998	1997
Cash Flows from Operating Activities:		(As Restated)
Loss Before Operating Assistance & Depreciation	\$(367,721)	\$(377,089)
Adjustments to Reconcile Loss Before Operating Assistance and Depreciation to Net Cash Used in Operating Activities:		
Interest on Investments	(15,567)	(14,288)
Interest Expense	6,901	7,612
Cumulative Effect of Accounting		
Change for Investments		5,641
Changes in Assets and Liabilities:		
Inventories	(2,971)	(4,117)
Other Current Assets	(6,973)	(8,966)
Other Assets	(3,924)	(2,347)
Accounts Payable	(31,668)	54,250
Accrued Payroll and Benefits	6,170	13,440
Postretirement Benefits Other Than Pensions	9,900	12,600
Other Current Liabilities	(1,829)	6,088
Accrued Injury and Damage Claims	(14,435)	(1,219)
Deferred Revenue and Other Non-Current Liabilities	51,120	(21,885)
Net Cash Used in Operating Activities	(370,997)	(330,280)
Cash Flows from Non-Capital Financing Activities:		
Operating Assistance and Reimbursements Received	369,235	401,944
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Transit Operating Property, Plant and Equipment, and Construction in Progress	(537,196)	(518,214)
Capital Grants	437,166	506,632
Repayment of Obligations under Capital Leases	(16,534)	(11,836)
Interest Expense	(6,901)	(7,612)
Transfers to Restricted Funds	(59,872)	(354,526)
Transfers from Restricted Funds	134,996	27,897
Notes Payable	(724)	351,583
Net cash used in Capital and Related Financing Activities	(49,065)	(6,076)
Cash Flows from Investing Activities:		
Interest on Cash, Cash Equivalents and Investments	15,567	14,288
Net (Decrease) Increase in Cash and Equivalents	(35,260)	79,876
Cash and Equivalents:		
Beginning of Year	296,571	216,695
End of Year	\$261,311	\$296,571

See notes to consolidated financial statements.

NEW JERSEY TRANSIT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 1998 AND 1997

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 and the Transportation Equity Act for the 21st Century (TEA-21) of 1998. The Federal grants are administered by the Federal Transit Administration (FTA). These government grants are used to support the operation of public transportation services.

NJ TRANSIT provides these services through the operation of wholly owned 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, right-of-way maintenance costs and certain transportation services.

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 FASB Statements and interpretations issued after November 30, 1989, except those that conflict with or contradict 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 1997 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.

INVESTMENT VALUATION

Investments are stated at fair value based on quoted market prices.

CAPITAL GRANTS

NJ TRANSIT receives designated funds from Federal, State and Local sources for a substantial portion of its capital acquisitions and construction. 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 \$2.2 million and \$2.9 million as of June 30, 1998 and 1997, 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:

	Years
Buildings, Stations and Trackwork	25
Rail Cars and Locomotives	22-25
Buses and Vans	5-12
Furniture, Fixtures and Equipment	3-10

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 \$8.1 million and \$7.5 million as of June 30, 1998 and 1997, 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.

3. OTHER REVENUES

Other Revenues are comprised of the following (in millions):

	For the years ended June 30,	
	1998	1997
Leveraged Lease Benefits (Note 12)	\$14.1	\$27.1
Investment Income	19.3	16.8
Lease and Rental Revenue	7.8	6.9
Advertising Revenues	6.3	5.9
Other Operating Revenues	10.5	8.2
Other Non-operating Revenues	7.4	7.0
Total Other Revenues	\$65.4	\$71.9

4. INJURY AND DAMAGE CLAIMS

As of June 30, 1998, the self-insurance retention for NJ TRANSIT was \$5 million per occurrence with commercial insurance coverage for 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 \$95.8 million and \$109.8 million as of June 30, 1998 and 1997, respectively, for outstanding public liability, property damage, FELA, workers' compensation and employment practice claims. Of this amount, \$35.0 million and \$34.6 million are included in Other Current Liabilities as of June 30, 1998 and 1997, respectively.

A reconciliation of total claims liability follows (in millions):

	As of June 30,	
	1998	1997
Balance, Beginning of Year	\$109.8	\$110.7
Claims Expense	15.6	30.6
Payment of Claims	(29.6)	(31.5)
Balance, End of Year	\$95.8	\$109.8

5. FEDERAL GRANTS

The Urban Mass Transportation Act of 1964, as amended by ISTEA and TEA-21, 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 (in millions):

	As of June 30,	
	1998	1997
Cash on Hand	\$6.0	\$5.1
Short Term Investments	255.3	291.5
Total Cash and Equivalents	261.3	296.6
Restricted Funds	1,237.5	893.2
Total Cash and Investments	\$1,498.8	\$1,189.8

The fair value of NJ TRANSIT's portfolio of cash and investments includes the following (in millions):

	As of June 30,	
	1998	1997
Cash	\$7.4	\$6.4
State Cash Management Fund	35.7	62.6
Commercial Paper	287.6	236.9
Dollar and Yen Deposit Accounts	1.0	2.3
Leveraged Lease Deposits	938.8	519.7
U.S. Government and Agencies Obligations	10.4	10.3
Collateralized Investment Agreements (Note 11)	217.9	351.6
Total Cash and Investments	\$1,498.8	\$1,189.8

During fiscal year 1998, NJ TRANSIT changed its method of accounting for investments to conform with Governmental Accounting Standards Board (GASB) Statement Number 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which establishes fair value standards for investments. Accordingly, NJ TRANSIT has recorded all related investments at fair value.

Collateralized investment agreements represent U.S. Government and agency 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 (in millions):

	As of June 30,	
	1998	1997
Leveraged Lease Deposits	\$938.8	\$519.7
Grant Anticipation Notes (Note 11)	217.9	351.6
Secaucus Transfer Project	56.3	
Newark Penn Station	10.0	9.9
All Other Restricted Funds	14.5	12.0
Total Restricted Funds	\$1,237.5	\$893.2

In October 1997, NJ TRANSIT entered into a funding agreement with Metro-North Commuter Railroad Company for the Secaucus Transfer Project and the right-of-way modifications to the Main/Bergen and Northeast Corridor Rail lines. This agreement provides initial cash proceeds of \$53.0 million to NJ TRANSIT. Such proceeds, along with interest earnings on investment of funds, have been recorded as Restricted Funds and Deferred Credits.

Since fiscal year 1996, NJ TRANSIT has entered into leveraged leases with certain domestic and overseas

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. Such proceeds have been recorded as Restricted Funds and Deferred Revenues.

8. TRANSIT OPERATING PROPERTY

Transit Operating Property is summarized as follows (in millions):

	As of June 30,	
	1998	1997
Buildings, Stations, Trackwork and Right-of-Way	\$2,049.7	\$1,904.6
Rail Cars and Locomotives	1,116.1	1,083.8
Buses and Vans	519.1	517.9
Furniture, Fixtures and Equipment	241.8	238.1
Capital Projects in Progress	1,263.7	893.4
Transit Operating Property (at cost)	5,190.4	4,637.8
Accumulated Depreciation	(1,773.2)	(1,596.0)
Net Transit Operating Property	\$3,417.2	\$3,041.8

As of June 30, 1998, Capital projects in progress includes capitalized interest expense and income of \$22.0 million and \$19.3 million, respectively, related to the Grant Anticipation Notes (Note 11).

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 and PFRS plans 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 plans are cost sharing multiple employer defined benefit pension plans and

require employee contributions. The State of New Jersey issues a separate, stand-alone financial report for the PERS and PFRS plans which can be obtained through the Division of Pensions, State of New Jersey.

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 \$243.3 million and \$232.3 million for the 1997 and 1996 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, 1998, an employee who retires at age 65 with 10 years of credited service is entitled to an annual retirement benefit equal to 1-3/4 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 as of 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 plans valuation dates. The current assumptions include (a) a weighted average assumed rate of return of 8.0 percent for all plans except the Mercer plan which utilizes a 7.0 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 1998 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. Normal costs are accrued on a current basis. The prior service costs are amortized over a thirty year period. Contributions to sponsored plans during 1998 were made in accordance with actuarially determined requirements computed through actuarial valuations performed as of July 1, 1997. Total contributions to all plans amounted

to \$22.5 million, \$20.7 million and \$20.3 million for plan years 1998, 1997 and 1996, respectively.

The plans' 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 benefit obligations. The pension benefit obligations of all NJ TRANSIT sponsored plans are summarized below.

(In Millions)

Pension Plan Year	1997	1996	1995	1994	1993
Accrued Benefit Obligation:					
Participants Currently Receiving Payments	\$170.5	\$137.1	\$119.5	\$99.7	\$95.4
Employer-Financed Vested Benefits	165.1	166.7	151.2	131.2	100.9
Employer-Financed Nonvested Benefits	11.5	10.3	8.9	20.9	30.1
	\$347.1	\$314.1	\$279.6	\$251.8	\$226.4
Pension Benefit Obligation	\$420.0	\$382.2	\$345.3	\$319.3	\$288.8
Fair Value of Net Assets Available for Plan Benefits	448.4	369.6	320.2	271.9	268.5
(Funded Excess)/Unfunded Pension Benefit Obligation	\$(28.4)	\$12.6	\$25.1	\$47.4	\$20.3

Pension expense for defined benefit plans (excluding PERS, PFRS and Railroad Retirement) totaled \$22.5 million, \$20.8 million and \$19.3 million in fiscal years 1998, 1997 and 1996, respectively.

For the three plan years ended 1997, 1996 and 1995, respectively, available assets were sufficient to fund 106.7, 96.7 and 92.7 percent of the pension benefit obligation. The (funded excess) unfunded pension benefit obligation represented 11.6, 5.4 and 11.2 percent of the annual payroll for employees covered by NJ TRANSIT pension plans for 1997, 1996 and 1995, respectively. Disclosing the (funded excess)/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 1997, 1996 and 1995, all made in accordance with actuarially determined requirements, were 9.2 and 8.9 and 9.1 percent, respectively, of applicable annual covered payroll.

During fiscal year 1998, NJ TRANSIT implemented GASB Statement Number 27 "Accounting for Pensions by State and Local Governmental Employers." The implementation of this new standard did not have an effect on NJ TRANSIT's financial position. NJ TRANSIT contributes to five single employer defined benefit pension plans, four of which cover Bus agreement employees and the fifth plan covers all non-agreement employees. The four agreement plans are the Amalgamated Transit

Union Employees Retirement Plan, The Transport Union Employees Retirement Plan, The Utility Co-Workers Association Employees Retirement Plan and the Mercer Employees Retirement Plan. The single plan covering all non-agreement employees is the Non-Agreement Employees Retirement Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. NJ TRANSIT maintains the authority to establish and amend benefit provisions of the non-agreement plan while the agreement plans are subject to the collective bargaining process. Separate audited

financial statements are issued for the five pension plans which can be obtained from NJ TRANSIT.

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 \$10,000 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 per year in fiscal years 1998 and 1997.

Recorded expenses for all plans (including PERS, PFRS and Railroad Retirement) amounted to \$57.4 million and \$57.1 million in fiscal years 1998 and 1997, 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 age 65.

Rail Agreement retirees are eligible for benefits once they reach age 60 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 80. These benefits include retirees and spousal coverage for medical and life insurance.

Dental coverage is also available for non-agreement retirees until age 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 (in millions):

	As of June 30,	
	1998	1997
Accumulated Postretirement Benefit Obligation:		
Retirees	\$76.4	\$78.7
Fully Eligible Active Plan Participants	31.7	29.6
Other Active Plan Participants	85.9	78.9
Accumulated Postretirement Benefit Obligation	194.0	187.2
Unrecognized Net Actuarial Gain	15.9	12.8
Total Accrued Postretirement Benefit Cost	\$209.9	\$200.0

The accumulated postretirement benefit obligation was determined using the unit credit method and an assumed discount rate of 7.5%. The assumed health care trend rate used for bus agreement employees was 9.5% for pre-age 65 retirees and 6.5% for post-age 65 retirees; for non-agreement employees it was 9.5% for pre-age 65 retirees and 8.0% for post-age 65 retirees and for rail agreement employees it was 9.5% for pre-age 65 retirees only. The rate decreases to 5.5%, in all cases, by fiscal year 2000.

The net periodic postretirement benefit cost is summarized as follows (in millions):

	For the years ended June 30,	
	1998	1997
Service Costs	\$6.3	\$6.3
Interest Costs	12.6	13.5
Amortization of Actuarial Gain	(.6)	
Total Net Postretirement Benefit Cost	\$18.3	\$19.8

10. OTHER CURRENT LIABILITIES

Other Current Liabilities are comprised of the following (in millions):

	As of June 30,	
	1998	1997
Injury and Damage Claims (Note 4)	\$35.0	\$34.6
Miscellaneous	22.3	24.5
Total Other Current Liabilities	\$57.3	\$59.1

11. GRANT ANTICIPATION NOTES

In April 1997, NJ TRANSIT issued \$351.6 million of capital 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. As of June 30, 1998, total project expenditures financed through the note proceeds were approximately \$131.9 million. 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 project expenditures, the remaining balance of cash received and the payment obligations as transit operating property, restricted funds and notes payable, respectively, in the Consolidated Statements of Financial Position (Notes 6, 7 and 8).

12. LEASES AND OTHER COMMITMENTS

LEVERAGED LEASE TRANSACTIONS

In fiscal years 1998 and 1997 NJ TRANSIT 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 Number 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 (Notes 6 and 7).

Leveraged lease agreements initiated during fiscal years 1998 and 1997 are summarized as follows:

Fiscal Year of Lease Inception	Lease Type	Lease Term	Assets Leased	Present Value of Lease Obligations (In Millions)
1998	Domestic	Between 8 & 13 years	181 Rail Cars 30 Locomotives	\$445.4
1997	Domestic	16 Years	96 Rail Cars	\$94.4
1997	Domestic	Between 20 & 27 Years	6 Bus Facilities	\$133.6
1997	Cross-Border	5 Years	172 Buses	\$42.4
1997	Cross-Border	18 Years	12 Locomotives	\$7.2

NJ TRANSIT received a benefit of \$14.1 million and \$27.1 million, respectively, for fiscal years 1998 and 1997 related to the above transactions. This amount has been included in Other Revenues (Note 3).

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, 1998.

EXTINGUISHED LEVERAGED LEASE OBLIGATIONS

Since fiscal year 1991, NJ TRANSIT has entered into a number of leveraged leasing arrangements with 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, 1998 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 Locomotives	\$47.5
1995	7 years	147 Buses	\$19.4
1995	15 years	17 Arrow III Cars and 5 Electric Locom.	\$61.2
1995	15 years	46 Arrow III Cars	\$86.5
1994	7 years	91 Suburban and 74 Transit Buses	\$20.2
1994	15 years	46 Arrow III Cars	\$75.9
1994	15 years	48 Arrow III Cars	\$83.0
1993	15 years	43 Arrow III Cars	\$74.9
1993	10 years	16 Arrow III Cars	\$28.0

NJ TRANSIT has made certain indemnifications prescribed in the transaction agreements for the above and is in compliance with such commitments through June 30, 1998.

CAPITAL LEASES

In 1996, NJ TRANSIT entered into a Design, Build, Operate and Maintain (DBOM) Agreement for the design, building, operation and maintenance of the Hudson-Bergen Light Rail Transit System (HBLRTS). In 1998, NJ TRANSIT entered into a contract for the purchase of 45 light rail cars for the HBLRTS and the Newark City Subway (NCS) system. These cars were financed through a sale of Certificates of Participation (COPs) by the State of New Jersey in May 1998. The cars will be subleased by the State and Department of Transportation of New Jersey to NJ TRANSIT pursuant to an Equipment Sublease Purchase Agreement. NJ TRANSIT will repay the financed amount of \$156.2 million over 15 years beginning June 2000 and ending June 2014.

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 \$16.1 million as of June 30, 1998.

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 repaid the financed amount of \$78.9 million over 12 years ending 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 \$1,076.3 million and \$642.5 million as of June 30, 1998 and 1997, respectively, of which \$40.5 million and \$42.8 million represent Current Installments Under Capital Leases as of June 30, 1998 and 1997, respectively.

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

	As of June 30,	
	1998	1997
Land and Buildings	\$409.9	\$411.7
Rail Cars and Locomotives	580.9	649.8
Buses	109.0	117.8
Equipment		12.1
Transit Operating Property		
Under Capital Leases (at cost)	1,099.8	1191.4
Accumulated Depreciation	(297.4)	(297.4)
Net Transit Operating Property		
Under Capital Leases	\$802.4	\$894.0

Annual depreciation of assets recorded under capital leases is included with depreciation expense. Minimum capital lease commitments as of June 30, 1998 follow (in millions):

Years ending June 30,	
1999	\$52.3
2000	69.2
2001	87.3
2002	120.8
2003	92.2
Thereafter	1,482.9
Total Minimum Lease Payments	1,904.7
Estimated Amounts Representing Interest	(828.4)
Present Value of Minimum Lease Payments	\$1,076.3

As of June 30, 1998, 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 (in millions):

Hudson-Bergen Light Rail Transit	\$81.6
Rail Passenger Facilities	67.7
Secaucus Transfer	60.9
Monorail NEC Connection	57.2
Rail Infrastructure	44.5
Special Services	21.2
Bus Maintenance Facilities	21.1
Bus and Light Rail Infrastructure	16.6
Hunter Connection	12.2
Southern New Jersey Light Rail Transit	9.1
Northeast Corridor Signal Construction	8.1
Rolling Stock Improvement	7.7
Bus and Light Rail Rolling Stock	7.0
Rail Support Facilities & Equipment	5.3
Passenger Communication & Revenue	4.9
Montclair Connection	3.5
Urban Core New Initiatives	2.6
West Shore DEIS	2.5
Rail Maintenance of Way	2.5
Rail Immediate Action	2.5
Other	32.8
Total Capital Projects and Special Services Commitments	\$471.5

In addition, NJ TRANSIT has entered into contracts for the purchase of diesel fuel for fiscal year 1999 and is committed for future expenditures of approximately \$17.5 million.

13. CHANGE IN ACCOUNTING PRINCIPLE

In March 1997, the GASB issued Statement Number 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." NJ TRANSIT adopted the provision for the new standard in its financial statements for the year ended June 30, 1998 and restated the financial statements for the year ended June 30, 1997. The effect of adopting Statement Number 31 was to increase restricted funds and investment income at June 30, 1998 and 1997 by \$3,772,350 and \$2,490,477, respectively. The cumulative increase in equity as of June 30, 1996 was \$5,641,000.

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 results of operations or consolidated financial position 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 material effect on the results of operations or consolidated financial position of NJ TRANSIT.

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 results of operations or consolidated financial position of NJ TRANSIT.

The Railroad Retirement Board (RRB) has conducted an examination of NJ TRANSIT's payroll and tax records for prior fiscal years 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 not have a material financial effect on NJ TRANSIT's results of operations or 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 Stations — NJ TRANSIT was required to identify high usage, strategically located stations which would be given priority to be made accessible to people with disabilities. These stations were designated as "Key Stations." A Key Station plan was developed and submitted to the FTA by the July 26, 1992 deadline. This Key Station plan identified 37 stations which would be made accessible, 23 of which were to be made accessible by July 26, 1993. The remaining 14 stations required major renovations and time extensions were granted ranging from 1997 to 2008. The estimated total future costs of this project, \$50.5 million, will be funded by a mix of capital funding sources including Federal, State Transportation Trust and Casino Revenue funds. 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 termination 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.

15. YEAR 2000 ISSUE (UNAUDITED)

NJ TRANSIT has developed a plan to modify its information technology to be ready for the year 2000 and has begun converting critical data processing systems. NJ TRANSIT currently expects the project to be substantially complete by early 1999. NJ TRANSIT does not expect this project to have a significant effect on its results of operations or consolidated financial position.



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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, a component unit of the State of New Jersey, and subsidiaries as of and for the years ended June 30, 1998 and 1997. 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, 1998 and 1997, 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 13 to the accompanying financial statements, in 1998 New Jersey Transit Corporation changed its accounting policies related to investments.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 1998, 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 25, 1998

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
Luke Koppisch
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.

PRIVATE CARRIER ADVISORY COMMITTEE

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

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Maryann Scott, alternate member
George Williams

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Dan Censullo, Senior Director, New Rail Construction
Robert J. Guarnieri, Auditor General
Alfred Harf, Assistant Executive Director, Planning
Frank Hopper, Assistant Executive Director, Procurement and Support Services
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Robert Randall, Vice President/General Manager, Rail Operations
Rick Richmond, Assistant Executive Director, Engineering, Development and Construction
Herman Volk, Assistant Executive Director, Marketing and Communications
Gwen Watson, Board Secretary
H. Charles Wedel, Chief Financial Officer and Treasurer



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