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CONTINUING MASS TRANSPORTATION IN NEW JERSEY

STATEMENT BY DWIGHT R. G. PALMER, COMMISSIONER, NEW JERSEY STATE HIGHWAY DEPARTMENT, DIVISION OF RAILROAD TRANSPORTATION, BEFORE THE SENATE COMMITTEE INVESTIGATING THE FINANCIAL STRUCTURE AND OPERATIONS OF THE PORT OF NEW YORK AUTHORITY.

JANUARY 26, 1961

IN RECOGNITION OF A GROWING CRISIS IN MASS TRANSPORTATION, STATE HIGHWAY COMMISSIONER DWIGHT R. G. PALMER WAS DIRECTED BY GOVERNOR ROBERT B. MEYNER LATE IN 1958 TO STUDY NEW JERSEY RAIL COMMUTER PROBLEM AND MAKE RECOMMENDATIONS TOWARDS ITS SOLUTION.

AS A RESULT ON MARCH 12, 1959, THE STATE LEGISLATURE CREATED, WITHIN THE STATE HIGHWAY DEPARTMENT, A DIVISION OF RAILROAD TRANSPORTATION. THE DIVISION HAS SINCE CONDUCTED EXTENSIVE STUDIES INTO ALL PHASES OF RAIL TRANSPORTATION, PRODUCED A WORKING PROGRAM THAT HAS MET WITH WIDE ACCEPTANCE, AND HAS ASSURED CONTINUANCE UNDER CONTRACT OF 95% OF OUR CAR-MILES OF PASSENGER SERVICE.



Statement
of
Dwight R. G. Palmer, Commissioner
New Jersey State Highway Department

before the
New Jersey Senate Committee
Investigating the Financial Structure and Operations
of the
Port of New York Authority

January 26, 1961

It is a pleasure to have the privilege of appearing before this committee of the Senate affording me an opportunity to reflect some of the experiences and factual situations that we have met with in our attempts to carry out the responsibilities which the Chief Executive and you have delegated to the Division of Railroad Transportation. With your permission I will proceed to outline the various facets of what so many term "our transportation problem".

REVIEW

At an increasing rate our railroads have had to face up to not alone a decline in passenger travel but substantial inroads on their freight carriage.

Passenger trains in New Jersey have declined by 24% and passengers by over 40% in the last ten years. The railroad's



share of nationwide intercity freight traffic has dropped from 65% of the total in 1947 to 45% in 1959. Keeping pace with this decline, working capital has all but disappeared; on an average the New Jersey carriers have less cash than is required to meet payrolls for one month.

The number of railroad employees in New Jersey has declined in the past 3 years from 30,300 to the current low figure of 21,000.

So much for the basic compilation of figures that portray the effects of our population shifts, change in our travel habits and our preference, if you will, for "store door delivery" rather than utilizing several lines of transportation from origin to destination.

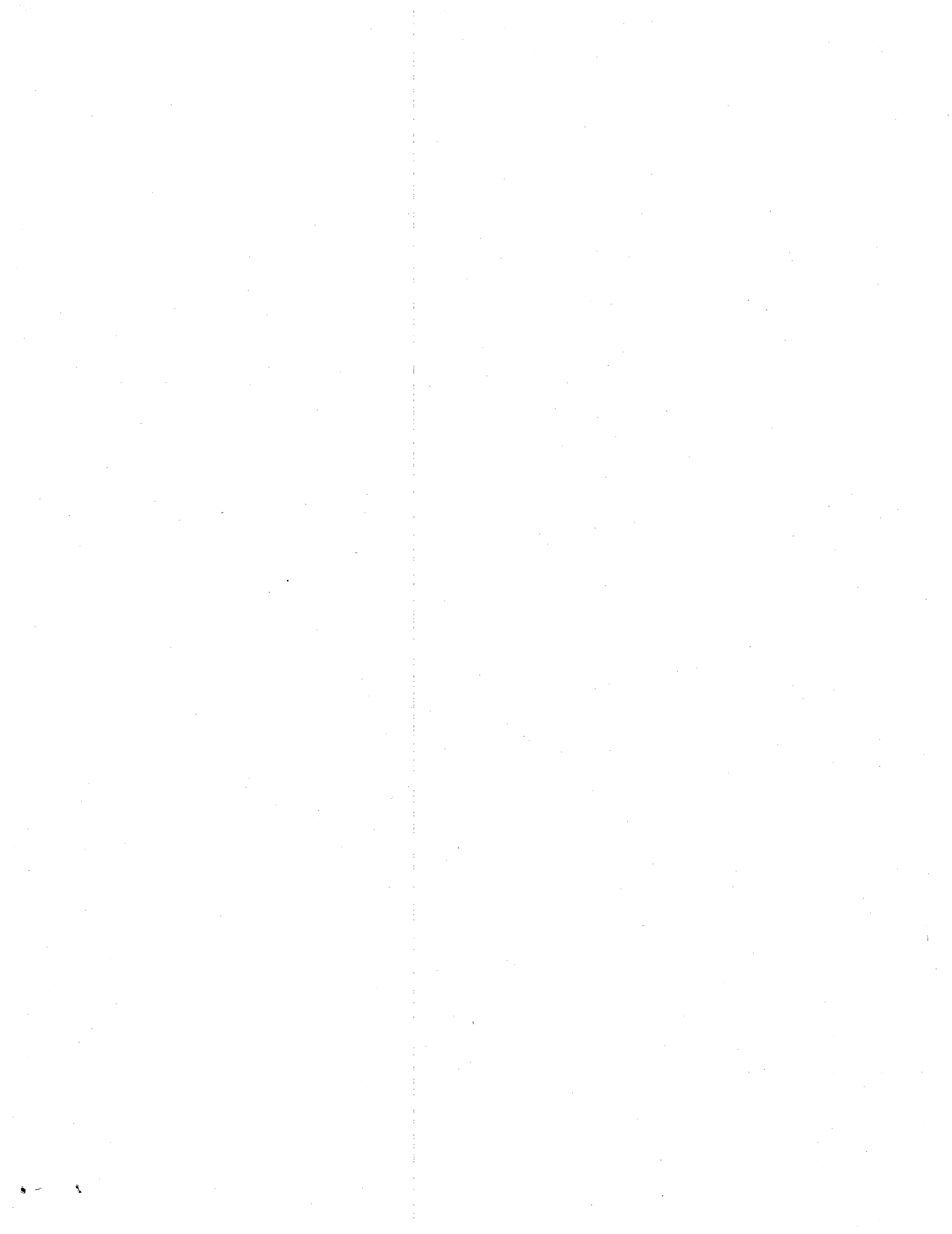
There has been a multiplicity of studies, countless commissions and associations engaged in surveys of our metropolitan areas. A perusal of these reports impresses one with the great detail and statistics of the majority of the reports. The supervisors of such compilations undoubtedly were sincere and felt they were pursuing the proper course and yet years after all these facts were presented we find ourselves about to go "down the drain" traffic-wise.



Most of these plans proposed expenditures that staggered the imagination. The likelihood of ever converting such plans into "pay dirt" and a practical solution had about as much chance as would the financing of Mark Twain's expedition of Captain Stormfield's trip to the moon.

So gentlemen, in 1959 our commuter problem was brought into sharper focus by the action of the U.S. Supreme Court permitting the New York Central Railroad to discontinue ferry service from Weehawken to Manhattan. This same year a rush of service curtailments and fare increase petitions flooded our regulatory agencies and one of our busiest New Jersey commuter railroads posted notice that all service would be discontinued.

Governor Meyner then assigned the problem to me, first directing my associates and me to provide vehicles of transportation for those 3,000 odd commuters that otherwise would have been stranded when the Weehawken ferry shut down. Within a few months our Legislature responded by establishing the Division of Railroad Transportation. We had adopted a new philosophy; that the job of the Highway Department was one of moving people and goods - not just providing highway alignments for vehicles to travel. This concept was the inception of the integration of transport facilities in New Jersey for we recognized that the suburban railroads were essential allies of the Highway Department in meeting the daily peak travel demands of our citizens.



We had not worked long with the problem before we realized that the essential ingredient needed to aid in the solution of our problem was money. Conscious of the general rejection of the Metropolitan Rapid Transit Commission plan to tax real estate to meet deficits in its proposals, we developed a different approach. An examination of the operation of the New Jersey Turnpike indicated the availability of sufficient surplus funds to take care of rail transportation difficulties as well as other transport needs, and do this after meeting commitments to all holders of Turnpike securities. However, the public decreed otherwise and denied to us the use of these funds.

After the defeat of the referendum we reviewed our studies of the rail passenger situation. The results of these studies were set forth in detail in our report to the Governor and Legislature dated April 4, 1960. This report recommended that in order to forestall a complete breakdown of rail services that the carriers be placed under contracts to operate specified trains at established rates. The contracts, we hoped, would assure a continuity of service for our citizens even though they were considered a "temporary expedient" to be pursued, say, for a period of three to five years, during which time a long range improvement plan could be put into effect.



Legislation enabling such contracts was introduced in the Senate in May of 1960. It was passed with dispatch in both houses, the legislature exhibiting a keen understanding of the problems and the seriousness of the consequences should the State fail to take action to ease the financial burdens of the rail carriers. The mechanics for placing carriers under contracts were clearly set forth in the Passenger Service Act.

Four steps were involved:

1. First determine what rail passenger service is "essential in the public interest".
2. Hold hearings and make known to the public such determinations.
3. File determinations with the Secretary of State.
4. Negotiate contracts with the carriers.

With regard to determining what service was "essential in the public interest" the Act set forth seven standards to be given consideration in making the determinations.

Although the Act does not compel railroads to participate in the program, the contracts that are now in effect have insured the continuation of 95% of the car-miles of passenger service operating in the State.

The first year's contracts required that:

1. All service be continued as set forth in the contract.



2. One-day round trip excursion tickets be restored or put into effect at rates 50% more than the one-way ticket.
3. The basic and commutation rates as set forth in the contract be continued for the life of the contract.
4. Additional service be operated on some lines for a period of six months to see if patronage could be developed.

Now, permit my return to our April 4 Report. Along with the passenger service contract program we recommended that the state participate in the Camden area rapid transit development program by providing \$1,000,000 per year for three years to be used for grade separation structures on the Camden-Kirkwood Line. The \$1,000,000 for the first year was appropriated. Progress on this development has not reached the point where the authorities administering the project have use for these funds.

In the north metropolitan area our recommendations included consolidation of the Jersey Central and the Pennsylvania passenger services over the New York and Long Branch operating the trains through to Pennsylvania Station, Manhattan and a rerouting of all the main line service of the Jersey Central to Penn Station in Newark. Certain of these suggestions are



still under study. We also recommended that the Port Authority play a significant part in improving the facilities for the interstate movement of our citizens. In this regard I am fully aware that there are those who suggest that the Port Authority should take over the financial responsibility and deficits of all commuter railroads in New Jersey and New York even at the risk of jeopardizing the Authority's credit standing and depleting its reserves below levels set by indenture agreements.

Considerable time has been devoted to reviewing the Port Authority's capabilities, as well as responsibilities, insofar as commuter rail transit is concerned. Our conclusion as stated in the April report was that:

"The Port of New York Authority should not, in our opinion, be handed New Jersey's rail transportation problem, nor should it become responsible for the New York subway system or for rail transportation for Westchester or Long Island. We are certain however, that the interstate aspects of the rail movement of persons and goods such as purchase and lease of new Hudson and Manhattan commuter cars and the purchase of the existing interstate railroad ferry boats, do come within their obligations. The foregoing fully recognizes the importance of maintaining the Port of New York Authority's commitments and credit requirements."

In other words, we became convinced that the Port Authority's responsibility in the rail transit field should be concerned principally with the interstate aspects of the problem as the



Authority is an interstate or bi-state agency. Our recommendations were consistent with that philosophy.

I arrived at this conclusion relying on years of experience in private enterprise. My career has been one of a business man in the industrial field where the courageous survived - where the complacent were left behind and where competition took care of the rest. I have had responsibilities of meeting a payroll - a payroll that each year sought to improve the standards for our workers - and to satisfy the demands of shareholders also. The Port Authority in my opinion must make money and accumulate reserves for the rainy day if it is to be equipped to meet the needs of our two states of New York and New Jersey. It does not have general taxing powers. Its only taxes are the tolls it collects from the users of its facilities. Its shareholders are the public, you and I, and the institutions that buy the bonds. Since the cost of financing often determines the feasibility of a project it stands to reason that you and I get more for our toll dollar in the way of modern and safe facilities if we make certain that the credit rating of the Authority remains intact.

Now let's talk specifics for a moment. The Authority has sizeable revenues and reserves today. While I don't have the 1960 figures, reports are that gross revenues in 1959 totaled \$105 million and the several reserve funds totaled \$71 million. Now as soon as "reserve funds" are mentioned

it is assumed by some that such reserves are "available" or uncommitted. Such is not the case. These revenues and reserves are pledged and committed by contract to the investors in Port Authority bonds as security for the re-payment of those bonds and for contingent liability in connection therewith, and they may not legally be diverted. For instance, to strengthen its credit position the Commissioners of the Authority have adopted a policy to commit retention of reserves in an amount equal to two years debt service. The \$71 million in all Port Authority reserve funds at the end of 1959 was just about equal to the following two years debt service on all bonds. The Authority is required to hold in reserve 10% of its outstanding indebtedness - this amount at the end of 1959 was \$57 million. Such revenues and reserves cannot be regarded as uncommitted funds. Diversion of these funds moreover might jeopardize the carrying out of future work authorized by the Legislatures of New Jersey and New York by inviting higher financing costs. Certainly the consequences of such an effect, from the standpoint of the growth and prosperity of this area, must be carefully considered.

The matter of the pooling of net revenues from all the Port Authority's facilities, as authorized by the Senate in 1931, has received some attention of late. By pooling the revenues, a credit base was established to facilitate financing of projects



like the bus terminal serving New Jersey commuters, the third tube of the Lincoln Tunnel, the Hoboken Piers, Port Newark, Port Elizabeth, and Washington Heights Bus Terminal which will principally serve New Jersey commuters. Indeed, it is the pooling of such revenues, as I see it, that will permit financing the purchase and rehabilitation of the H & M Railroad.

It is clear to me that the action of the New Jersey and New York Legislatures in authorizing the pooling of Port Authority revenues and the creation of reserves has made it possible to provide many public transportation facilities that we may not have had otherwise. With the needs for expanded and additional transport projects rearing up in every direction it seems that the principles which enabled the Authority to accomplish so much in so short a time and so efficiently should prevail.

Now most of us realize that the matter of credit is not an exact science. The credit of an organization depends on quite a few factors; past performance, efficient management and calibre of personnel and markets for the product the institution has to sell; and last but not least - what investors think of the operation as a financial risk. It is, in the final analysis, the practical assessment of being repaid money that they lend to it. This latter reason, I am certain, is why the Port Authority last September, in presenting to this Committee the plan to acquire the Hudson and Manhattan Railroad, talked in terms of



what might be done rather than to state positively what would be done. You will remember that they said the Port Authority might be able to sell bonds for the acquisition and modernization of the Hudson and Manhattan Railroad and at the same time continue the financing of the States' vital port development programs provided investors could be given assurance that investments in rail transit matters would be limited. The Authority also wanted assurance that the key recommendations in our April report would materialize and pointed out that fair financial terms for both the purchase of the H & M properties and the Pennsylvania Railroad operating agreements must be obtained. As I see it from my personal point of view acquisition of the H & M is a must. All our plans hinge on it. To insist on terms unacceptable to investors or terms that invite high interest costs might cause delays that will render our efforts "too little and too late." It gets down to how badly we need the H & M - do we want it on the investors terms or not at all - it is as simple as that.

The H & M railroad provides a vital link in our interstate transport network. It is essential to both states that it not only continue but that it be rehabilitated to more conveniently serve our citizens. The cost of purchase, renovation and a new fleet of cars may be over \$80,000,000. The H & M is in the last phase of reorganization, that when accomplished,

will separate the Manhattan Real Estate from the Railroad properties. The reorganization document now before the I.C.C. provides that sufficient cash be transferred to the separated Railroad Company to permit normal operation for a period of only two years. Extraordinary demands on its resources such as a prolonged strike, would substantially shorten the period it could operate without public assistance. We did not include the H & M in our contract program because of its interstate nature. We have insisted that it be put under bi-state regulation and that its rehabilitation be a bi-state venture. The Port Authority is the logical agency to do this - it has agreed, as just outlined.

I feel certain that you gentlemen of the Legislature have been and will be increasingly in touch with our transportation needs. I am also convinced that the Port Authority's responsibilities will be better met by preserving a sound credit base.

PASSENGER SERVICE DEFICITS

Leaving the H & M now and discussing New Jersey railroads it is generally known that rail service has been under regulation since passage of the Federal Interstate Commerce Act in 1873. Out of regulation has grown a requirement for railroads to follow a Uniform System of Accounts in reporting annually their entire operations. Since 1933 the carriers have been required to separate revenues and expenses of operating passenger service distinct from that of freight operations. The I.C.C. rules require that railroads divide all expenses into:

1. Expenses related solely to freight service.
2. Expenses related solely to passenger and allied service.
3. Expenses common to both.
4. Expenses related to neither.

These separation rules require the carriers to assign the expenses that are "directly or naturally" assignable either to the freight service or to the passenger and allied services to such services. The only additional guidance provided for assignment of an item of expense as either direct or common, is whether the service performed or the use of the facility is related solely to freight or passenger service or is common to both. In general, the common costs are then allocated to the freight and passenger services in the proportion that the common physical units of each

service, such as gross ton-miles, car-miles, train-miles, etc., bears to the total. The I.C.C. measure of the passenger service deficit is the amount by which the total of the solely related and common apportioned costs exceed the revenues. The revenues can usually be traced to their origins in either passenger or freight activities.

The I.C.C. does not require costs and revenues to be separated at state lines nor does it require passenger services to be subdivided between long haul and suburban or commuter traffic. The I.C.C. procedures produce systemwide results for operation of both passenger and freight services. In New Jersey we are primarily interested in the net from the suburban passenger operations, therefore, a further breakdown of solely related and also apportioned costs is essential. To determine such costs for a particular railroad it may be necessary to:

1. Separate cost and revenues at state borders.
2. Separate costs solely related to long haul through trains.
3. Allocate costs of through trains carrying New Jersey passengers.
4. Separate costs and revenues related to head-end operations.
5. Determine share of cost of operating terminals in adjoining states assignable to New Jersey service.

The deficits from operating passenger service in New Jersey as contained in our April report were compiled by the railroads with our accountants asked only to review methods used by each carrier in arriving at the figures. This past fall, however, we embarked on a program to draw up agreements with each carrier participating in the contract program setting forth item by item procedures to follow in order to develop:

1. Passenger service costs within the borders of the State of New Jersey giving consideration to the share of the cost of operating terminals in adjoining states assignable to New Jersey operations.*
2. Separation of costs and revenues relating to head-end business.
3. Effect of transporting "free" passengers.

Work has progressed with four of the five carriers now under contract towards drawing up a satisfactory cost analysis agreement. Because of inherent differences between the carriers, procedures and formulas for arriving at the New Jersey passenger loss must be tailored somewhat differently in each case. For instance, the Pennsylvania Railroad's New Jersey passenger operations are split between two regions. As a practical matter, each region must be the subject of a special study. In addition, the Pennsylvania

* Subsequent studies proposed by the Division will further separate the costs within the state of through train operation. Costs pertaining to the strictly commuter trains will then be known.

terminal in New York is in one of these regions and its costs must be accumulated separately and then spread over the applicable states. There are accounting differences between railroads even though they must all follow I.C.C. accounting rules. However, methods of accumulating accounting data may differ greatly. Information readily available on one railroad may be virtually impossible to obtain on another. Thus a procedure which gives the best results on one railroad may not be entirely practical for another.

In order to make the agreements as consistent as possible, our Certified Public Accountants are first familiarizing themselves with both the physical and accounting characteristics of each carrier. This is being done by interviewing key people on each railroad and examining books and records in each department. Subsequently, each of about 150 line item accounts will be reviewed to make certain their make-up properly portrays New Jersey operations. These agreements, after review by our Railroad Division, will be the framework of a contract between each carrier and the State with regard to arriving at passenger service losses. The carriers will be required to submit annually costs so determined and future service contracts will contain clauses obligating the carriers to this procedure. Our accountants will spot check the compilations.

This procedure will give the State annually the facts of life regarding deficits and on a basis both meaningful and reasonably comparable for all rail carriers.

FINANCIAL CONDITION OF NEW JERSEY RAILROADS

Our April 4 Report listed the deficits for all carriers operating passenger service in New Jersey. For the year 1959 the total loss was in excess of 27 million based on I.C.C. full cost allocations. Deficits in 1960 are expected to be of the same order. Higher basic and commutation fares are now in effect although these increased revenues might be entirely absorbed by higher wages contained in the new labor agreements and by higher payroll taxes resulting from increases in Railroad Retirement Benefits.

Following are some statistics pertaining to the financial structure of major New Jersey railroads:

Pennsylvania Railroad

The Pennsylvania provides service in New Jersey through its ownership or lease of affiliated companies. The majority of New Jersey trackage, including the Pennsylvania Railroad main line between Newark and Trenton is actually owned by the United New Jersey Railroad and Canal Company which is operated by the Pennsylvania Railroad on a 999-year lease on a fixed rental basis. The Pennsylvania owns 51% of United New Jersey capital stock with a book value of about \$25 million. The Pennsylvania Railroad also has the following major holdings affecting New Jersey service:

1. 50% of the New York and Long Branch Railroad stock with book value of \$2 million - the Jersey Central owns the balance. This enables Pennsylvania Railroad trains to operate between Perth Amboy and Bay Head.



2. 100% of Pennsylvania Tunnel & Terminal Railroad stock with a book value of \$25 million. This company owns the trackage and tunnel from Harrison, New Jersey to Long Island City.
3. 66-2/3% of Pennsylvania-Reading Seashore Lines common and preferred stock, each carried at a book value of 50¢. The Reading owns the other 1/3.
4. 85% of West Jersey & Seashore Railroad common and 68% of preferred stock having book values of \$7.4 million and \$90 thousand respectively. This railroad is leased to the Pennsylvania-Reading Seashore Lines for 999 years on a fixed rental basis.
5. 44% of Lehigh Valley Railroad stock of which 26% is owned directly with a book value of \$20 million and 18% of which is owned by the Wabash Railroad. The Pennsylvania Railroad has a 99% common stock ownership of the Wabash.

The Pennsylvania, we understand, has made an offer to other Lehigh Valley shareholders to exchange their stock for Pennsylvania Railroad stock on the basis of one share of Pennsylvania for 2-3/8 shares of Lehigh Valley. Full ownership of the Lehigh Valley would enable the Pennsylvania Railroad to effect some economies through coordination of services, and also apparently pave the way toward a rumored merger of the Norfolk and Western, and the Lehigh Valley. 33% of the Norfolk & Western is owned by the Pennsylvania.

The Pennsylvania has paid dividends on its common stock for 113 years. Payments per share for the past 10 years are:

1951	-	\$1.00	1956	-	\$1.55
1952	-	1.00	1957	-	1.25
1953	-	1.50	1958	-	.25
1954	-	.75	1959	-	.25
1955	-	1.50	1960	-	.25

In 1959 this company netted an income of \$7,200,000 from its system operations and investments, but reported a deficit of \$37 million from its passenger business, approximately \$7 million of which accrued on New Jersey suburban traffic. For the first 11 months of 1960 the company operated at a \$5,000,000 deficit and is expected to end the year with its second deficit in 115 years. The Pennsylvania's system passenger loss for 1960 may have reached \$32,000,000 including an estimated \$7.5 million occurring in New Jersey.

Erie-Lackawanna Railroad

The former Erie and Delaware, Lackawanna & Western Railroads received approval for a merger of the two carriers from the Interstate Commerce Commission and began operation as a single company on October 17, 1960. The merged company owns about 30% of the Lehigh & Hudson and most of the stock and bonds of the New Jersey and New York Railroad.

The Erie paid dividends on its common and preferred stocks in 1953 through 1957; preferred only in 1958 and 1959 and none in 1960.

The Lackawanna paid \$1.00 a share in 1955 and $62\frac{1}{2}\%$ in 1957. In 1956 it distributed 2 shares of Nickel Plate stock for every $33\frac{1}{3}$ shares of D.L. & W. stock. No dividends were paid in 1958-59-60.

In 1959 the Erie and Lackawanna operating separately had a combined loss from all operations of about \$10,000,000 with a passenger loss of nearly \$8,000,000, practically all of which was accumulated in New Jersey.

The merged company reports a \$16,000,000 deficit for the first 11 months of 1960 and expects a passenger loss of \$8,100,000 for the year in the New York area.

New Jersey & New York Railroad

This railroad is in receivership and under control of a Trustee. Actual operation of the line is under the jurisdiction of the Erie-Lackawanna Railroad. Reorganization plans anticipate that the line will eventually be absorbed by the Erie-Lackawanna. No dividends have been paid since this railroad went into receivership in 1938.

Reading Company

The Reading, has a 56% interest in the Central Railroad Company of New Jersey with a book value of \$16 million, however, the Baltimore and Ohio Railroad holds 42% of the Jersey Central Stock. The Reading also owns one-third of the common and preferred stock of the Pennsylvania-Reading Seashore Lines.



In 1959 this company paid \$2.00 per share on preferred and 2nd preferred stock, and 50¢ per share on common. In 1960 dividends were \$2.00 on preferred, 50¢ on 2nd preferred and none on common stock.

The Reading had net income of about \$1.8 million in 1959 but a passenger loss of \$7,000,000. For the first 11 months of 1960 net income was \$1.1 million but the passenger loss for the year will again approximate \$7,000,000, however, only about \$50,000 of this amount is applicable to New Jersey.

Central Railroad of New Jersey

The Jersey Central owns 50% of the New York & Long Branch Railroad stock. The last dividend on Jersey Central stock was paid in 1931.

In 1959 this railroad lost about \$2.8 million, however, its passenger deficit was about \$6.3 million, virtually all of which accrued in New Jersey. For 11 months of 1960 the railroad showed a net loss of \$3.4 million and the passenger deficit for the year is expected to reach \$6,000,000.

We have emphasized in the past that federal legislation is necessary to assure that financial benefits from any state or local government program are excluded as an income tax liability of the carriers. Otherwise they might be loose to the Federal Treasury more than one-half of every dollar received from carrying out their contracts with the State.

I have consulted tax authorities in Washington and laid some of the ground work for such legislation with our New Jersey delegation. The matter is not of immediate concern, however, as the rails' fiscal posture is such that no income taxes are currently being paid.

The Pennsylvania Railroad has not paid federal tax since 1954, although two of its subsidiary companies had tax obligations in 1958 and 1959.

The Erie and Lackawanna Railroads last paid tax in 1953; the tax paid by each in 1954 was later refunded. The Jersey Central paid taxes in 1956, 1957 and 1958, however, these were refunded as a result of subsequent losses. None of the other passenger carrying railroads have incurred federal tax obligations in recent years.

In discussing the financial situation of the New Jersey roads it has often been suggested that in bankruptcy lies a solution - that possibly the rails should be encouraged to take the paupers oath to shed themselves of their fixed charges. In railroad parlance fixed charges are limited to debt and interest obligations.

Bankruptcy in itself would not be the answer - for the amount of the passenger deficit exceeds the fixed charges on several of our carriers. We believe it necessary to find a more constructive answer to the dilemma.

THE ROLE OF THE RAILROADS IN NEW JERSEY'S ECONOMY

All of us are familiar with the commuter service operated by New Jersey railroads and how essential this service is to the economy of many of our communities and here I wish to emphasize the absolute interdependency of all our communities and counties. We are a state that is one unit of interest and I regret to have to note that the contribution to sustaining the state-wide economy made by the railroad industry is too frequently overlooked.

For instance, railroads during 1959 provided jobs for an average of 21,000 people in New Jersey with an annual payroll of \$128,500,000. These carriers also spent an estimated \$47,200,000 in the state during 1959 for operating supplies, fuel and new equipment. New Jersey's state and local governments received over \$18,000,000 in taxes from the railroads in 1959 and again in 1960.

New Jersey's railroads comprise an immense plant of tracks, stations, shops, signals and rolling stock. Within the state, 12 Class I lines operate a network of 1,899 miles of road. In addition nine Class II lines operate 186 miles of track, and two switching and terminal companies serve the area.

The railroads in New Jersey originated a total of 9,900,000 tons of rail freight in 1959 and terminated another 29,800,000 tons.

Industry in our state could not exist at its present level were the rails to be idle. Property values would drop and many businesses would suffer were a cessation of operation to occur.

CONTINUING THE CONTRACT PROGRAM

We recognize that a need for a general revitalization of railroad passenger service is necessary if the trend away from the rails is to be arrested. The carriers now, I believe, realize that the public must be satisfied if public support is to be continued.

Notwithstanding their strained fiscal situation, the carriers have at least expressed a desire to initiate improvements for their commuters. For instance, one railroad polled its passengers to determine public reaction to its service. The response was excellent and this railroad has found it possible to satisfy most complaints concerning cars by setting up a continuing program to improve interior and exterior car cleanliness and fix all windows so they serve passengers' comfort - not his discomfort.

Other railroads have somewhat similar programs to inaugurate if new contracts are executed. It must be recognized, however, that these efforts, while commendable in themselves, represent only an attempt to keep existing equipment comfortable and presentable.

The average age of railroad suburban passenger cars is over 35 years and lack of funds for many years has forced the railroads to defer maintenance on items not connected with safety. The total deferred maintenance on just passenger cars in the New Jersey suburban service we estimate is now over \$9,000,000. To this must be added similar deferred expenditures on locomotives, roadbed, communications and stations. Merely to rehabilitate present equipment or to provide replacements with modern cars will require



millions of dollars and several years to accomplish. Additional sums must also be spent on supporting facilities.

Another carrier has advised that under a new contract it will relax restrictions on the use of commutation and one-day bargain tickets, and all contracting railroads have agreed to work with the Division to revise schedules where necessary to provide the best possible service to the public.

In considering the extension of the contract program, it might be well to examine what might have happened had the program not been in existence during the current fiscal year.

It is certain that applications would have been made by the railroads for withdrawal of a considerable number of suburban passenger trains and on some branches complete abandonment of service. It is also probable that instead of the reduction in fares accomplished by the contract program through the establishment of one-day bargain tickets, the railroads might have been seeking still another increase in their rates.

In fact, the contract program has not only kept trains running but it has been directly responsible for the addition of 13 trains on three railroads. These services are being operated on an experimental basis by the railroads in an endeavor to stimulate passenger travel.

Without any qualifications we in the Division of Railroad Transportation are convinced that the Passenger Service Contract Program must be continued for several years, and I have requested funds to finance it for the fiscal year 1961-62. Most of you know that funds for the current program have been made available from the highway construction budget, which in my opinion, is not conducive to general public approval. Subsequent appropriations are requested to be made from the general fund. I am also convinced that with a modest budget for contracts we will bring about some badly needed service improvements. We are working on new schedules to improve express service from the outlying areas and are cognizant of the need for better on-time performance on some of the routes.

There can be no doubt that the maintenance of passenger train service under the contract program has saved the jobs of many railroad employees residing in New Jersey. For example, one railroad has stated unequivocally that no employee directly related to passenger train operations has lost his job since the effective date of the contract.

After all, Senators, the maintenance of essential employment is one of the mainstays of our state's economy and we in the Division of Railroad Transportation endeavor to keep before us as broad a horizon as possible giving due consideration to all facets of our economy.

