

PUBLIC HEARING

before

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

Held:  
November 30, 1965  
Court House  
New Brunswick, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator William E. Ozzard (Chairman)

Senator Thomas J. Hillery

Senator John A. Lynch

Senator Nelson F. Stamler

Senator Milton Woolfenden, Jr.

Also:

Samuel A. Alito, Secretary

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SENATOR WILLIAM E. OZZARD [Chairman]: I would like to call this hearing to order, please.

For those of you who may not know those of us at the table, I am Senator Ozzard, Chairman of the Commission; to my left is Senator Stamler of Union County; Senator Lynch of Middlesex County; and Senator Hillery of Morris and other counties.

The agenda this morning is available to anyone who wants it. First will be the representative of the Interstate Commerce Commission, then Mr. Tobin of the Port Authority, Mr. Palmer of the Highway Department, Mr. Thomas of the Division of Railroad Transportation, and Mr. Hyland of the Board of Public Utility Commissioners of New Jersey.

I would like to ask Mr. Samuel Towne to come forward, if he will, please.

Mr. Towne, the Committee is very much appreciative of your appearance this morning and we have a particular problem that we've been wrestling with for some time and that is the representations of the various railroad representatives that have come before us that the ICC establishes and controls the accounting procedures, and these procedures confuse us, to say the least.

We are not fully appreciative of the alleged ability to shift costs. We would like to know just how far the ICC does control the accounting procedures. If you would give us a few basics on the methods that are being used so that we may be more fully informed and possibly understand some of the previous testimony we've had before us and we would like you to

give us a brief outline of exactly what the ICC's accounting procedure does require of the railroads.

SAMUEL A. TOWNE: Yes, sir. I'm glad to be here this morning to discuss the questions you have outlined.

The Interstate Commerce Commission prescribes a uniform system of accounting for railroads. The latest issue is for 1962 and supplements are issued, under orders, from time to time to take care of accounting changes and changes in operation. A copy of this system of accounts is here for the record, if you wish.

SENATOR OZZARD: Thank you, sir.

MR. TOWNE: This system of accounts provides instructions for property accounts, revenue accounts, the railway operating expense accounts, income accounts, and the general balance sheet account. I will discuss those a little further as soon as I come to the annual report.

In addition, the ICC prescribes rules governing the separation of operating expenses, railway taxes, equipment rents and joint facility rents, between freight service and passenger service on the Class I railroads. A copy of these rules are here.

SENATOR OZZARD: Thank you, sir.

MR. TOWNE: These rules are premised on the railroad system of plant, being a multipurpose plant, and the expenses are separated on factors representing the use of the plant.

An illustration might be made in the case of the accounts relating to the tracks. The expenses are separated in the annual report by types of track, either on a direct

basis or on an equated track mile basis. The yard switching tracks or the tracks in yards for yard locomotives are used part of the day or on shifts around the clock. The maintenance there is on the basis of the locomotive hours in the common yards. Certain yards, of course, are devoted to one type of service, entirely freight, and a few may have yards that are entirely passenger. Those expenses are assigned direct and are used for separation to govern the tracks in the yards where locomotives are used or the work done is common to both services.

When it comes to the running tracks, the expenses are separated on factors relating to the gross ton miles of what the locomotives are pulling behind them and, in addition, the ton miles of the locomotives themselves. Now our gross ton mile is computed by taking the weight of the car and contents and multiplying by the distance moved.

The same method is followed for computing the gross ton mile for a locomotive. Here you are using the weight of the locomotive.

When we come to stations that are used in common, the rule is a little more flexible and in some cases the expenses are divided on pro rates developed from the stations that can be assigned direct. If this does not equal at least 50% of the total money in the account, then the railroad is supposed to make a special study in a representative period and divide the expenses on that basis.

The wages of the crews are mainly direct. A crew works in freight service or works in passenger service.

Now the revenues in the accounting system are set out separately for passengers. There is an account 101 or 102 for passengers, the carriage of passengers and the sale of tickets. And a separate account for baggage, another for sleeping cars, another for parlor and chair cars, mail, express, and other passenger train. So the separation there is mainly on a direct accounting basis.

When you come to the expense accounts, I have a copy of the annual report which I will present at this time. I think your main interest may be in schedule 320.

For reporting purposes the carriers show, in Column B, the total expenses for the year. In Column C, expenses related solely to freight service. These should be designated in the accounts and kept separate. Then Column D is common expenses apportioned to freight service. The common expenses go initially into a pool and then they are pro-rated between the freight service and the passenger service in accordance with the rules, a copy of which has been furnished.

Now Column E shows an addition of the solely related freight plus the common expenses apportioned to freight. Column F, solely related to passenger and allied services. Column G is the passenger portion of the common expenses. And Column H is a total of Column F and G making the total of the passenger expenses.

Now, based upon 1964 figures for the United States, the results in Column F would be approximately 75% of the total in Column H, and 25% is the common expenses apportioned to passenger, which would be the sum of those expenses in Column G.

These percentages will vary considerably from road to road, depending upon the volume of passenger service that a road has.

Now, in the passenger deficit proceedings held before the ICC in the late fifties, the railroads introduced figures or percentages showing what they estimated the variable portion, which may be defined as the portion of the common expenses that might be saved or rather would vary with changes in volume of traffic. And if those percentages are applied to the common and added to the solely related, the total would be somewhere between 75 and 90% of the total. This might be conceived as what would eventually be saved if after a period of time they would not represent what would be saved the day after elimination of all passenger service or even the next week. But after the adjustment had taken place, it is my best opinion that those expenses would be savable in the long-run.

Now I will be glad to answer any further questions.

SENATOR OZZARD: Mr. Towne, you spoke of factors for determining differentials between freight and passenger service, and I'm not clear as to how you arrive at these factors in the first place. Who makes the determination as to the percentages allocated to freight and passenger, the railroads or the ICC?

MR. TOWNE: Well, these factors are computed by the railroads each year based upon work units that are related to the expenses for that year. Now, if you are concerned with an expense relating to yard switching tracks

or other expenses related to yard work, they would be based upon the number of hours in each service, that is, an engine that's performing common service, the hours come directly from the payroll or the time slips of the crew. That is a basic source of information and it can be derived in that manner.

The facts that involve the gross ton mile, they would be an accumulation of it or a build up of the gross ton miles of all the trains over a piece of track for a year's period.

SENATOR OZZARD: This isn't what bothers me, whether it's a --

MR. TOWNE: Now the Commission has a field staff which for technical purposes is still under the jurisdiction of the Bureau of Accounts although for certain other reasons, of a management nature, they report through the Managing Director's office. But these are qualified accountants who go into the area offices and, while their main objective is to look after the financial reporting of the carriers, from time to time they receive instructions to make an inspection of these separations and report to the Director's office the items that seem out of line or raise questions, and we in the office go over their material and advise the carriers to change if it seems necessary and make corrections for the future along that line.

SENATOR OZZARDS: How are such things as executive salaries allocated where you can't make time slip determinations? What do you use as a factor here? How do you know how much of a \$75,000 salary goes on freight and how much goes on

passenger?

MR. TOWNE: Well, that's done on a basis mainly or to state it briefly, on the basis of the other accounts. In other words, on the theory that he is supervising all the operations for which he is responsible, in other words, the operating expenses or the other items in the annual report.

SENATOR OZZARD: How much elbow room does a railroad have in shifting expenses from one to the other - for example, the transfer of a freight locomotive just prior to its last gasps and transferring it to passenger lines and then having passenger absorb all major overhaul costs, etc., is this a possibility under your system?

MR. TOWNE: I don't see it as a possibility.

SENATOR OZZARD: Well, how would you prevent this? In other words, how would you prevent this type of shifting of costs, placing undue burden on passenger.

MR. TOWNE: Well, beside the inspection in the field, we make comparisons of certain relationships every year. We compare the expenses in the annual reports as they come in with the expenses of the previous year and we also divide expenses with statistics and come up with unit amounts, and if they seem to be out of line we may question the result or we can, if we think it necessary, advise the field man to go in there and make a report.

SENATOR STAMLER: You said you take the annual reports of the company --

MR. TOWNE: Yes, sir. This is Rail Form A, this

is the annual report to the Commission.

SENATOR STAMLER: All right. And you say you have a field staff. How many members of the field staff do you have, say making inquiry of the railroads of New Jersey, the three railroads that service New Jersey?

MR. TOWNE: I can't answer that.

SENATOR STAMLER: Do you have any?

MR. TOWNE: Well, the big Class I railroads are inspected every year and we have a cycle of inspections - some of the smaller roads we may not get to except at two-year and three-year intervals. But the large railroads, the Class I railroads, which are the railroads which have \$5 million or more revenue per year, the bigger ones, are inspected every year.

SENATOR STAMLER: Well, now, is the Erie Lackawanna one of those railroads?

MR. TOWNE: I would think so but I didn't come prepared to answer that.

SENATOR STAMLER: No, but I would judge that it would be in that classification.

MR. TOWNE: I would judge so, yes, sir.

SENATOR STAMLER: And the Pennsylvania would be.

MR. TOWNE: The Pennsylvania certainly is.

SENATOR STAMLER: The Central?

MR. TOWNE: New York Central?

SENATOR STAMLER: No, New Jersey Central.

MR. TOWNE: Oh, New Jersey Central. I don't know. I would have to look it up.

SENATOR STAMLER: Now, in line with your use of this form at 121.01 you say "Carriers shall first assign to freight service or to passenger service, including allied services, the expenses, taxes, equipment, rents, joint facility rents, incurred solely for the benefit of such services, respectively." And is it in that order? "Carriers shall first assign to freight service --" Do you understand what I mean, Mr. Towne?

MR. TOWNE: Are you tying the word "first" with "freight" or are you --

SENATOR STAMLER: That's what I'm trying to find out.

MR. TOWNE: They are to assign expenses solely related to either service first, and the residue is the common expenses. Now, they will have a freight station or they will run a freight train and certain expenses are assignable direct to the freight service. Now you can have another station that may be exclusively passenger. The expenses of that would go directly to passenger. Now this is supposed to be done first in order to prevent that expense from getting into the common pool which has to be allocated.

SENATOR STAMLER: Right. Now, you have a station which has freight and passenger.

MR. TOWNE: Yes, sir.

SENATOR STAMLER: Now, when do you assign the first charge and to whom, to freight or to passenger, under this rule?

MR. TOWNE: Well, if we're talking about the wages of the employees working in the station we would assign a clerk that works 100% of his time on freight to freight, and

a ticket clerk who did nothing but sell tickets to passengers would go to passenger.

SENATOR STAMLER: Well now, in line with this rule - I don't want to press this but you say the expenses first, the taxes, the equipment rents and the joint facility rents incurred solely for the benefit of such services. The only point I'm trying to make is, does the ICC have determination on a joint facility in which they can determine which charge is first.

MR. TOWNE: Does the ICC -- I missed the point.

SENATOR STAMLER: Well, under your rule 121.01 I pick up the term "first." "Carriers shall first assign to freight service or to passenger service, including allied services --"

MR. TOWNE: Well, that has reference to mail, express and baggage and so forth.

SENATOR STAMLER: In other words, allied service here does not mean freight and passenger?

MR. TOWNE: No, sir.

SENATOR STAMLER: That's separate and we can leave that out.

MR. TOWNE: That's right.

SENATOR STAMLER: All right. Then excluding allied services, shall carriers first assign to freight service or to passenger service the expenses, taxes, etc.? Does the ICC determine which shall charge first for a joint facility? Do you know?

MR. TOWNE: No. I would say that the carrier makes

the initial determination.

SENATOR STAMLER: So, therefore, the ICC does not control that determination.

MR. TOWNE: Except to the extent that when they make an inspection of the accounts they may raise questions about that particular point.

SENATOR STAMLER: How often have they made an inspection of the accounts of the Central Railroad and the Erie Lackawanna in New Jersey?

MR. TOWNE: Well, I think they make one every year.

SENATOR STAMLER: You think. One other item in your rules that interested me - you have the authority to make inquiry and supervise investments of railroads in other affiliated companies, is that right? according to your rules.

MR. TOWNE: Yes, we have some. The accounting system is set up to separate the transportation accounts from the non-transportation accounts.

SENATOR STAMLER: Now, there has been some testimony in previous hearings that the Central Railroad is controlled by the Reading Railroad, that the Reading Railroad is controlled by the B&O, and that the B&O is controlled by the C&O. When an inspection is made of the Central Railroad's records, are the other three affiliated companies' records taken into consideration?

MR. TOWNE: Well, I would think that would be done only to the extent that some question was raised by the inspection on the Central of New Jersey. Each of the other railroads will be inspected in turn and if the case before

the Commission involves some problem that they are interested in in the interrelationship between the companies then they would presumably direct a special investigation to determine the answer to that problem.

SENATOR STAMLER: Well what determines the need for a special investigation, a complaint against --

MR. TOWNE: A complaint like might come from a stockholder or --

SENATOR STAMLER: Could a state make a complaint, the State of New Jersey?

MR. TOWNE: I would think so.

SENATOR STAMLER: Not being a stockholder, just being a subsidizer?

MR. TOWNE: I don't know of any reason why you couldn't, although I'm not a lawyer.

SENATOR STAMLER: Well, under Rule 205 -- I'm merely trying to find out what authority the ICC has over the combination of the number of railroads which control a railroad in New Jersey.

MR. TOWNE: These matters, if I understand you correctly, would be something that would come out in a finance proceeding or it might come out there, and that's not an area in which I do any great amount of work.

SENATOR STAMLER: Well, this I am told is form 205 of your forms. Is this one of your forms?

MR. TOWNE: It looks like pages out of the annual report, yes, this schedule from here.

SENATOR STAMLER: Therefore you would have a listing on the Central Railroad of its connection with other affiliated companies.

MR. TOWNE: That's right.

SENATOR STAMLER: And all the way up the line. Then you would have all of the interlocking companies and all their investments in each other, wouldn't you?

MR. TOWNE: That's right.

SENATOR STAMLER: Well, would the ICC in its inspection of the books of one of the companies which, let's say, was in financial difficulty require the other company which is not in financial difficulty to help it, under the rules?

MR. TOWNE: I think that would involve more than accounting and it sounds to me like it would be something that would have to be determined on the record through a hearing. Then the Commission can proceed to render a decision on the basis of the evidence. If there is something wrong with the accounting the Commission has the authority to go in there and make an investigation of the account.

SENATOR STAMLER: Maybe I didn't make myself clear, Mr. Towne. If D railroad is in financial difficulty and it's owned by C, B and A, interlockingwise, can the ICC under its rules require A, B, and C to assist D?

MR. TOWNE: My opinion is that this a matter that would have to go to hearing.

SENATOR STAMLER: You said that. But all I'm trying to do is find out about the rules. I mean, can it be done? I'm not saying it should be.

MR. TOWNE: Well, you're tying it in with strictly accounting matters.

SENATOR STAMLER: Yes, sir. I'm tying it in with the annual reports which you say are required to be filed with the ICC by every railroad in the country. We are particularly interested in New Jersey.

MR. TOWNE: Well, this schedule sets forth certain information which the Commission can use anyway it sees fit. But I know of no case where they have ever directed as a purely accounting matter the one railroad to assist another. I get the intent of your question.

SENATOR STAMLER: Not only is it an accounting matter, it's a financial matter.

MR. TOWNE: This is something that has to be decided on a record. Somebody has to make a complaint or there has to be some action before the Commission and it's set down for hearing and the matter is handled from then under the rules of procedure.

SENATOR STAMLER: Thank you.

SENATOR OZZARD: Senator Lynch?

SENATOR LYNCH: No questions.

SENATOR OZZARD: Senator Hillery?

SENATOR HILLERY: Mr. Towne, you are Chief of the Cost Finding Section.

MR. TOWNE: Yes, sir.

SENATOR HILLERY: How many people are in your office?

MR. TOWNE: In my section, I am one of four. There are 51 in my section. The Bureau has close to 170 all told.

SENATOR HILLERY: 170. Would you say that from the testimony you've given here this morning, with the lack of inspection facilities - I gather from what you said that there is not a large inspection force that goes out and checks all of these operations of the railroads, not the accounting operation but as they relate to where they are charging the costs to the accounting system. You don't have a staff that does that, do you? the ICC? to check the actual operation of the railroad?

MR. TOWNE: You mean go out and check the operation, the running of the trains?

SENATOR HILLERY: The way you would in a factory where somebody is checking who is doing what work and how many pieces they are turning out an hour, and that sort of thing. You don't have that?

MR. TOWNE: We don't have the staff to make what sounds like time and motion studies.

SENATOR HILLERY: That's probably what it is. That's what makes money, time and motion.

MR. TOWNE: Our field staff is related to the accounting work.

SENATOR HILLERY: I gathered from what you said that it is not a forceful operation, the inspection end of it, the actual inspection of the operation of the railroad.

MR. TOWNE: Not from the point of view of the efficiency.

SENATOR HILLERY: Isn't it almost an honor system on the basis on which you deal with the railroads? I mean,

you have their stubs and all that but isn't it really almost on an honor system?

MR. TOWNE: It might be called that.

SENATOR HILLERY: Has there ever been any area to your knowledge where executive salaries have been questioned in your accounting work against the cost of the railroad?

MR. TOWNE: Well, there have been comments.

SENATOR HILLERY: Comments. But that's about the extent of it?

MR. TOWNE: That's about the extent of it.

SENATOR HILLERY: All right. Now when they are taking trains off the railroads and they appeal to the ICC because of the loss of certain trains, is this done just on the basis of the accounting system, the evidence that is provided by the railroad, or do they go out and make an inspection of the train service or check to see as they would in an industry, time study and that sort of thing?

MR. TOWNE: We don't ordinarily go out and make elaborate studies of that kind. Now there is a pending proceeding where we were directed by the Commission to make a study and we sent a few people from my office out to go over the railroad and look at their operation and their facilities so that they would be familiar with it and understand what was going on. But that is a special case, I might say.

SENATOR HILLERY: But again it all ties back.

MR. TOWNE: It ties back to a pending proceeding for train discontinuance.

SENATOR HILLERY: Again on the evidence of the railroad.

MR. TOWNE: Well, we will submit independent evidence and expert witnesses. One of my employees will do that. The railroad itself will put in a study. This material we're preparing is supplemental, you might say, and it was done on a certain basis to satisfy a felt need or to be sure that the record was complete when the Commission comes to the decisional-making process. We function as staff, ordinarily.

SENATOR HILLERY: All right, thank you.

SENATOR OZZARD: Mr. Towne, I talked to you before about expenses. I'm also interested in the allocation of income in the railroads. I'm speaking of general income, not those income items which are specifically related, for example, income from the rental of trackage, the rental of land, profits from the sale of land, interest income - what standards are used or what factors are used to allocate this income to both of the services, rate and passenger?

MR. TOWNE: Well, is this land some that was used in transportation service?

SENATOR OZZARD: Well, for example, along the Central Railroad --

MR. TOWNE: If it's non-transportation service it goes down, what we say, below the line, or below net operating income and has no effect on the transportation property. But if it was land that was used in transportation then it would depend upon its use.

SENATOR OZZARD: Well, for example, I know of land located along the Central Railroad in the Bound Brook area that has been leased for some years to a coal, fuel and feed company. Now this is the main line and it's used for both freight and passenger. What's your procedure, what's your factor for allocation of income from that type of rental? This is the sort of thing I'm talking about. How do you allocate income? Is my question clear, Mr. Towne?

MR. TOWNE: I was looking for the annual report.

SENATOR OZZARD: Here it is.

MR. TOWNE: Well, this instruction here - schedule 310.

SENATOR OZZARD: Schedule 310?

MR. TOWNE: 310.

SENATOR OZZARD: What are you referring to, item 4?

MR. TOWNE: Item 4.

SENATOR OZZARD: "Revenues which are not assignable to freight service or to passenger and allied services are includible in column E - well, this doesn't answer my problem.

MR. TOWNE: No, I don't think it does.

SENATOR OZZARD: We have had representations made to us by the railroads that freight produces so many dollars and has so much in the way of expenses, and the same with passenger. Now I know that some of the income is general and I am just trying to find out from you if the ICC cares whether the railroad puts the interest income from its securities, its rental income from sideline property, the

profits from sale of land, and so forth, whether it cares one bit whether the railroads put this money into freight income or passenger income, and if they don't care then we may have a distorted income picture here and thus a distorted profit and loss picture.

MR. TOWNE: Well this would indicate it follows the same procedure that was related to the expenses but, of course, in the case of land I presume there are no expenses. This could be on a --

SENATOR OZZARD: Apparently you are not prepared on this particular point, Mr. Towne. I wonder if you would care to submit a memo to the Commission explaining how the money is allocated.

MR. TOWNE: I will be glad to look that up, yes, sir. It's a piece of land along the right-of-way.

SENATOR OZZARD: It could be that or interest income from securities held by the railroad, profit from sale of land, revenue from track rental, any of these general items.

MR. TOWNE: Most of these items you're mentioning now are in the nature of other income.

SENATOR OZZARD: Well how is that other income divided?

MR. TOWNE: We don't divide it. We don't call for its division. In the income statement on page 300 of the annual report, schedule 300, the division between freight and passenger ceases at what we call "net operating railway income." These other items get into the income picture and eventually end up or have their influence on net income but

that's --

SENATOR OZZARD: That's for over-all.

MR. TOWNE: That's the corporate.

SENATOR OZZARD: That's corporate net income.

MR. TOWNE: And has nothing to do with the transportation. But I'll be glad to look this up and submit a memorandum.

SENATOR OZZARD: Would you do that, please.

MR. TOWNE: Interest on stock?

SENATOR OZZARD: On securities, right.

MR. TOWNE: Profit from sales.

SENATOR OZZARD: Sales of land. Also rental from sideline properties. Any similar items. In other words, general income items that are not separately attributable to either freight or passenger.

Have you a question, Senator Stamler?

SENATOR STAMLER: Mr. Towne, is there any other agency connected with the Federal Government in any way that supervises the railroads in this country, other than your division or commission?

MR. TOWNE: I'm not aware of it.

SENATOR STAMLER: Would the SEC have anything to do with the supervision under the stocks, sale of stocks?

MR. TOWNE: No. It's my understanding that this power has been left with the ICC but I could verify it through the law office.

SENATOR STAMLER: Well, if you could. There is one other question along the same line. When you have an intra-

state railroad, do you examine its books differently than you do an interstate, if it's passenger service, as against freight?

MR. TOWNE: You mean a railroad that operates exclusively intrastate?

SENATOR STAMLER: Well, suppose we had a railroad operating interstate, freightwise, and intrastate, passengerwise.

MR. TOWN: I don't think we would. Do you have an example of a railroad of that kind?

SENATOR STAMLER: No. I wondered whether your accounting figures took this into consideration in breaking all of this down.

MR. TOWNE: Well, this accounting system is set up for the system of the entire railroad. It doesn't make any attempt to cut off as between intrastate and interstate.

SENATOR STAMLER: All right. Thank you.

MR. TOWNE: That's a very difficult process.

SENATOR STAMLER: I would imagine it would be.

SENATOR OZZARD: Senator Lynch has one question.

SENATOR LYNCH: Mr. Towne, you are aware, I'm sure, of the plight of the Jersey Central Railroad and the Erie Lackawanna Railroad in New Jersey.

MR. TOWNE: In a general way.

SENATOR LYNCH: And that their passenger service has been kept alive by virtue of a subsidy being given to them by the State of New Jersey.

MR. TOWNE: Yes, I'm aware of this, that some help

is being given them.

SENATOR LYNCH: And it's conceded by all that their passenger losses have been rather substantial. Has your staff ever undertaken a special audit of either of those two railroads to determine whether the allocations made to freight service and passenger service were correct?

MR. TOWNE: I think they were included when we went into this subject at the same time we were looking at other railroads.

SENATOR LYNCH: When was that, sir?

MR. TOWNE: Oh, I think it was six or seven years ago.

SENATOR LYNCH: That's all.

SENATOR OZZARD: Mr. Towne, thank you very much for appearing here this morning. We appreciate the information and if you will give me that supplemental information we will have that.

MR. TOWNE: Yes, sir.

SENATOR OZZARD: So our records will be complete.

MR. TOWNE: Would you like another copy of this?

SENATOR OZZARD: A second copy might be of use to the stenographer.

Thank you very much, Mr. Towne.

Mr. Tobin, please.

MR. AUSTIN J. TOBIN: Senator, may I say first, before I start, that the Board is represented here this morning by Commissioner John Clancy who is Vice Chairman of our operation --

SENATOR OZZARD: I want to acknowledge Mr. Clancy's presence and we appreciate his coming here this morning.

MR. TOBIN: And we have here our General Counsel, Sidney Goldstein; our Deputy Director of Finance, Howard Leslie; Chief of our Planning Section, Roger Gilman's Department, Mr. Alcott; and the Secretary of the Port Authority, Mr. Carty; and Roger Gilman, Chief of our Port Development Department; and Neal Montanus, Vice President and General Manager of PATH.

SENATOR OZZARD: Thank you, Mr. Tobin.

MR. TOBIN: How would you like me to proceed?

SENATOR OZZARD: I would appreciate it if you could give us a summary of this, yes, and then there might be some questions.

MR. TOBIN: Well, in addressing ourselves to your request to appear here on the general subject of the resolution under which your Committee was created, we felt that it would be helpful at the outset to review the current status of the commuter problem. Many of the aspects of that are subjects to which you have devoted a lot of attention in your other hearings in which other witnesses have discussed with you the sharply declining passenger volume on the railroads since 1930, and I'm talking, of course, of railroads here, particularly the New Jersey

commuter railroads.

In 1930 we had 170 million railroad passengers cross the Hudson River during that year. And in 1964, by way of comparison, that amount had dropped to 50 million passengers. And, of course, as has been discussed here so many times, two-thirds of those were concentrated in the Monday to Friday morning and afternoon peak hours.

There are a great many reasons for this, which you have also studied and reviewed in the work of your Committee. - the 5-day work week which automatically cut one-sixth off the railroad commuter traffic, and the fact that today almost all American recreational travel and week-end travel is by automobile.

Other reasons are to be found in a wide variety of economic and social forces which have tended toward this general phenomenon of our day of decentralization from the central core cities, and this has taken with it not only the decentralization of the population considered from the residential standpoint but also employment itself has been in this process of decentralization which again, in the whole picture, has tended to make this very tremendous drop in rail passengers who were crossing the Hudson, as I said, Senator Hillery, down from 170 million people in 1930 to 50 million today.

Another factor in the rail probelm has been the establishment of shopping centers, recreational and amusement facilities in the suburbs and, generally speaking, the fixed railroad traffic as it was originally built up and as

the communities originally built around it - this has not been generally suited to the complex patterns of origin and destination which you have in our largely automobile economy which is practically the social and economic phenomenon of American development. Even if it had been, therefore, economically justifiable, which it was not, the fact was that there were on the commuter railroads no program of modernization, no new air conditioning of cars and in our opinion, which we respectfully submit, no such program of modernization or public relations' program or publicity gimmicks would have substantially affected the diminishing patronage of the commuter railroads because we think overwhelming, in our view, is the fact that social and economic and technological forces that I referred to are the things which have brought down the commuter rail traffic.

The interesting fact I point out as part of this is that total Manhattan employment has remained relatively constant. It has been the mode of traffic that has changed. We still have something like the equivalent of these 170 million people crossing the Hudson to come to work or for other purposes but now 70,000 of them, expressed in terms of today's traffic, are coming by train and another 70,000 by bus, and a very much smaller amount - that is in terms of daily commuters - by rail. So that it's the mode of transportation that has changed.

At the same time the people, these same people that do come, are people quite vital to the thriving economy of

the entire New Jersey-New York Metropolitan Area. They are people of managerial skills that create and maintain jobs. Their purchasing power is also obviously of great importance to New Jersey and, as I see it, no less than 60,000 of these daily commuters depend on the commuter railroads to get into Manhattan. It is, therefore, obvious that the maintenance of our existing commuter rail service is important to the State's welfare and economy.

You had testimony here and you are familiar with the fact that our commuter railroad equipment, not just PATH but all of it, is used only 20 out of the 168 hours of the week and railroad workers must be properly compensated for 40 hours work each week half of which, under the facts of life, is economically unproductive.

This essential public service, therefore, of commuter rails is certainly not a business, it's simply a necessary and essential public service that must be maintained.

I have suggested, as an example, the Aldene Plan. It's an essential public improvement that Commissioner Palmer has been working so hard on and is about to bring to fruition. Most of the Jersey Central Railroad passengers transferring to PATH at Newark will be commuters, under the plan, and in order to serve them our PATH service will have to buy another 44 modern air-conditioned cars at a cost of over \$5 million. We will have to upgrade the Pennsylvania Railroad's Joint Service trackage, increase the capacity of our traction power system and signaling, so that the total project cost for implementation of the Aldene Plan, so far as PATH is concerned,

is about \$15 million and, then, in addition to that, we will have to provide the extra manpower.

Most of this investment - I cite this only by way of example of the general over-all problem - will be unused during the 148 non-peak hours of the week. The cost associated with PATH's participation in the Aldene Plan, therefore, is estimated to be a loss of about \$650,000 a year in excess of the added revenues that PATH will receive when the Aldene Plan is put into operation. The net result will be a substantial increase in the already high PATH deficit. To put it another way, it will cost us 29 cents over and above his fare for every Jersey Central passenger who transfers to PATH in the morning, and it will cost us another 29 cents to get him from Manhattan back to his Jersey Central train at Newark in the evening, over and above whatever fare he pays.

As a result then of these higher costs and lower passenger volumes, the financial condition of the New Jersey and New York railroads, other than the Pennsylvania and the New York Central, has steadily deteriorated. You've heard a great deal of testimony before this Committee about that.

The commuter passenger services of the northern New Jersey and New York railroads in 1964 had a combined total deficit, before application of State financial relief, of about \$35 million a year - I'm using mostly Commissioner Palmer's figures here, not the ICC figures - about \$35 million a year. \$21 million of that deficit was a deficit of the New Jersey carriers - which is Commissioner Palmer's figure - and \$14 million, as we estimate, is the deficit of the New

York carriers. And on top of this, the New York City Transit Authority, the subway system in New York, is operated at a deficit of about \$160 million a year.

In the light of all these factors, we must conclude that commuter rail service in this area cannot continue to exist within the framework of private enterprise. Commuter railroads, I repeat, are essential. They are not a business within the meaning of that term in the field of private enterprise, they are a public service.

The issue of maintaining these important commuter services for these 60,000 New Jersey rail riders to Manhattan and, incidentally, another 17,000 intrastate passengers in the morning peak hours on the New Jersey rails - we don't generally think of them, we focus on the 60,000 going into New York but there's another 17,000 rail commuters that are intrastate in New Jersey - so that I've emphasized in talks that I've made, particularly one last year before the United States Chamber of Commerce, that this isn't a planning or an engineering problem - I think in the country there is the combined knowledge to meet most of those problems - it's a money problem, entirely a fiscal problem and nothing else.

The equipment needs, to emphasize that, of the New Jersey railroads for the commuter service has been, we think, conservatively estimated at \$100 million that they could spend right today on equipment requirements that we think are practically essential.

The holding operation, Commissioner Palmer, with

your approval and continued cooperation, as witnessed yesterday, has been a holding operation to keep things rolling. The Erie and the Jersey Central are still bringing those people to New York. The H&M has been saved from the scrap heap, and you have now, I guess, with yesterday's action entered into these annual service contracts now up to \$10.5 million a year that has made this holding action possible but it is only a holding action, it's temporary to keep the thing operating until a definitive solution can be worked out which I gather is the subject of the resolution that created the Committee.

I have reviewed in here the Port Authority's role in commuter transportation but I've appeared before your committees before and discussed this and you've enacted the legislation that made it possible so I shall not review it in detail here at this time except to note that our own contribution is running at the rate now, in PATH, which is simply being paid for by the pool revenues of all Port Authority facilities, - is running at the rate of \$6 million a year.

SENATOR OZZARD: Deficit?

MR. TOBIN: That's a deficit.

Commissioner Palmer and I used to discuss and weigh this through the years and we worked together to try to work it out. He thought I was kind of high when I used to say I was positive it was going to be \$5 million but it was \$4 million last year, \$6 million this year, it will be \$8 million next year, because most of these deficits now are

just straight operating deficits. The real impact now will start to come in as we start to pay off the capital charges of the job that we undertook of putting \$100 million into that rolling wreck that we just took over.

SENATOR OZZARD: Do you use the ICC accounting methods that don't account for income --

MR. TOBIN: No. We have to submit reports to the ICC but internal Port Authority accounting is a much rougher matter.

I have reviewed the whole PATH operation here and I think you are familiar with most of the operation. I've gone into the figures and --

SENATOR OZZARD: You've done a very creditable job of it, I might interject at this moment.

MR. TOBIN: Thank you. I hope the cars are comfortable.

I have also reviewed, in the light of your Committee's assignment, the New York State Program. They have gone through various phases, as you know, of substantial tax relief so that really the commuter railroads in New York are virtually free of taxes at the present time. The current state-wide commuter railroad tax relief in New York amounts now to about \$25 million a year, of which the State is paying half to the communities in the form of additional State aid. Bus companies in commuter service have been granted similar tax relief.

The State has also passed statutes to authorize the suburban counties and the City to contribute to the

operation and maintenance of the commuter stations.

Then, of course, they have the railroad equipment program which is being financed with special bonds under legislation which New Jersey and New York approved, issued by the Port Authority but guaranteed by the State of New York. And under these we have purchased and put on the rails in New York, the New York Central and the Long Island some 117 new passenger cars.

SENATOR OZZARD: That was done in conjunction with the Port Authority, as I remember.

MR. TOBIN: Yes, it was a joint statute that was passed in both states which authorized us to act as the agent of either state or both states that requested us to do so, and it required in the State of New York, as it would in the State of New Jersey, a constitutional amendment to permit the states to guarantee the bonds. And they have guaranteed those bonds in a total amount of some \$19.5 million under that statute.

SENATOR OZZARD: These are leased to --

MR. TOBIN: We then lease them to the railroads on a very, very long drawn out leasehold term that brings the cost of the cars down to a very, very small amount indeed, and in which they have the benefit, even in that long drawn out so-called railroad equipment financing that bears no resemblance to normal railroad equipment financing at all --

What is your term on those, 30 years?

MR. MONTANUS: 30 years with the right to extend

it.

MR. TOBIN: 30 years with the right to extend it if they want to and with the benefit of the interest which is very low, much lower than our own bonds because they are guaranteed by the State of New York. They are really State of New York bonds and the interest rate is down around 2 1/2% or something like that.

SENATOR STAMLER: You mean New York State's bonds are better than yours?

MR. TOBIN: Oh, yes, very much better than ours. They are backed by the taxing power of the State of New York. We still think ours are pretty good bonds.

SENATOR STAMLER: I think so too.

MR. TOBIN: I hope you continue to think so. We'll try to keep them that way.

Then, of course, New York took a tremendous step forward with the organization last year of its Metropolitan Commuter Transportation Authority which has gone forward and purchased from the Pennsylvania the Long Island Railroad for \$65 million and, for all practical purposes, it is going to operate the Long Island Railroad.

They are also trying to work out some basis of an operating contract for the operation of the New Haven in the contract made with this New York Metropolitan Transportation Authority.

They are authorized to issue their own bonds. A \$200 million program of rehabilitation has been started and they have worked it out on the same basis as the New

York State housing bonds under which they are directed by the statute to maintain a debt reserve of two years' debt service and any year that that is below the two year debt service they shall so certify to the legislature and the legislature shall apportion funds to bring that reserve up to the two year debt reserve. So through that financing device these bonds are really guaranteed by the State. It's an improper word to use - they are technically not guaranteed but actually the State has committed itself to keep that reserve up to the two year debt service.

SENATOR OZZARD: Mr. Tobin, I note in your prepared remarks that the Commuter Transportation Authority is exempt from regulation by the Public Service Commission.

MR. TOBIN: Yes, it is.

SENATOR OZZARD: Do you know and, if you know, can you tell me why the necessity for exemption?

MR. TOBIN: Well, they have to issue bonds and they have to establish the rates of service and they are a public body with members appointed by the Governor with the approval of the Senate and it would seem that they feel there is no sense in having two public bodies in the State controlling the rates and services, particularly since the rates and services become a matter of public policy and really public subsidy and expenditure.

SENATOR OZZARD: In other words, there is no review of their determination at all. They are a final authority.

MR. TOBIN: Subject to review by the Governor. They do not, as a matter of fact, even have a veto power

of the Governor but he appoints the Commissioners.

SENATOR STAMLER: With the advice and consent of the Senate.

MR. TOBIN: I have commented here, I think, not extensively but I certainly would be very happy to make any further detailed material available which we have.

We follow all the developments of the general way in which Boston, Philadelphia, Pittsburgh, and other communities, which you are familiar with, have been supporting their commuter services, and we feel that it's clear that the creation of such a commuter agency in New Jersey, as is posed in the resolution creating this Committee, with sufficient powers to carry out essential improvements in commuter transportation would have to be similarly supported by the financial resources of the State, as is the one in New York. However, we believe this issue is going to have to be faced if existing vital commuter services are to be preserved and are to continue to serve the traveling public.

We have, in compliance with your request for our appearance here, reviewed the concept of railroad freight operations within the State of New Jersey and come to the conclusion, for reasons which we state in this paper, that it would be both unwise and completely impracticable for the State to acquire and operate freight facilities within the State.

We have also submitted to you and discussed what we consider the terribly vital importance of the preservation of the Erie Railroad and the Jersey Central Railroad from the standpoint of the whole future and welfare of the Port and I ask you to remember with the developments that we are moving so rapidly on in Newark Bay, it is not going to be very long before New Jersey is handling 53 per cent of the entire cargo of the Port of New York. In this whole picture, in the terribly difficult, competitive picture between the ports along the Atlantic Coast, Baltimore, Philadelphia, Norfolk, it would be an absolute tragedy if the Erie Railroad and the Jersey Central for that matter, but particularly the Erie, ever went out of existence with their healthy, strong freight system. The Erie Railroad delivers 30 per cent of all export-import cargo coming into the Port of New York. And with the Pennsylvania Railroad, if this merger goes through, about to absorb the New York Central and the fact that the Pennsylvania Railroad has always been most antagonistic to the Port of New York and has lost no opportunity to attack its freight structure, its cargo handling - even one of its vice-presidents a couple of years ago said that if he had his way not a ton of freight on the Pennsylvania would move through the Port of New York -- With that situation and if the Erie Railroad as an independent system going through the Buffalo Gap with access to the great, competitive Central Railroad territory, connecting up with the Norfolk and Western and its new system at Buffalo, ever went down the drain - and I know all of us are suffering with problems of the commuter system and it is hard to draw comparisons

between types of disasters - but I say to this Committee that if ever the Erie Railroad went out of existence as an independent freight handler bringing commerce down to this whole Port, it would be a greater disaster than the collapse of the commuter service itself. It would be an economic disaster to the Port where 400,000 people earn their living every day in the direct workings of the Port. There are some two million people, when you consider their families, depending on them. They need that independent freight service of the Erie Lackawanna and its only salvation, as we see it, is its merger into the Norfolk and Western system. It is, I think, a critical element that has to be kept in mind through our consideration of the whole problem.

The State of New Jersey and the State of New York and the Port Authority have as you know been very, very active in these merger cases for the reasons that I suggest here, because of the disaster that it would mean to something that is almost the basis of our whole economy here in this area, the operations, the fundamental operations of this Port, and they would be dealt about the worst blow that I could ever imagine if we do not succeed in getting the Erie Railroad taken into the Norfolk and Western system because it is its only hope of survival. It will not last a year if the Pennsylvania-New York Central merger goes through and the Erie Railroad is left out on a limb.

SENATOR OZZARD: Is this true, Mr. Tobin, even if the passenger problem is relieved on the Erie?

MR. TOBIN: The only hope of the Erie being taken

into the Norfolk and Western system, in our judgment, is the Erie being relieved of the passenger service and I don't think that there is any hope of the ICC going along with the merger with the Norfolk and Western without also accompanying it with provision for the relief to the Erie of the commuter burden. Otherwise, the ICC, in my thinking, without any question will order an abandonment. I think that is sure to happen.

SENATOR OZZARD: -- without the merger. But relief as far as the passenger service is concerned - why does this cause the Erie Lackawanna to be in a vulnerable position if they keep the hauling of freight?

MR. TOBIN: With the tremendous power of freight solicitations, service, resources, of a combined Pennsylvania-New York Central system, and with their power to divert all their freight at Buffalo down the Lehigh or other ways down, or over the Pennsylvania system, or down into Baltimore, or down into Norfolk, there is no possible survival of the Erie Railroad in the light of that competition. And that is the position your Attorney General has taken before the ICC and the Attorney General of New York.

SENATOR STAMLER: In line with that, why doesn't the Pennsylvania Railroad like the Port of New York Authority?

MR. TOBIN: Oh, --

SENATOR STAMLER: I mean, you are doing business now.

MR. TOBIN: Well, actually the Pennsylvania Railroad in servicing the tremendous business complex of the Port region which they want to service, if you take it on all freight

coming into New York and not just export-import, handles 30 per cent of the freight coming in and out. But the Pennsylvania has always been sort of main-line minded. It is a Philadelphia Railroad. They think Philadelphia. And in our experience over 30 years, we have been before the ICC all the time, on every issue, fighting efforts by the Pennsylvania to divert the flow of freight from the Port of New York in favor of the Port of Philadelphia or Baltimore or wherever it may be. We fought the differential case all over the map against the Pennsylvania. Every freight issue, we have fought. We have a list of battles with the Pennsylvania that have been going on for years. They are simply Philadelphia minded. I wish that what was happening was really a New York Central merger or takeover of the Pennsylvania. But that isn't according to the "facts of life." If their merger is approved, it is in effect a Pennsylvania takeover of the New York Central. Its directorate is still going to be the mainline and there is nothing in it for the Port of New York but hurt and harm.

SENATOR STAMLER: But if we had testimony, Mr. Tobin, before this Commission by the - and now I am not sure whether he was the Vice President of the Norfolk and Western or the C&O - that they would still like to get rid of the passenger service if they did take over the Erie, but they really and truly wanted the Erie for an entry to the Port of New York - this was the real reason for their merger - it had nothing to do with passenger service at all - would that change your mind?

MR. TOBIN: No. I think the Norfolk and Western would like to have the Erie, not at the price - the Erie has

\$330 million of bonds outstanding - but I think they would like it and I think they would like to come in and serve the Port of New York. But the price of a negotiated merger is more than they feel as a matter of corporate decision they are willing to pay.

SENATOR STAMLER: Are you finished, sir?

MR. TOBIN: Yes, Senator.

SENATOR STAMLER: Well, in line with the point that I made that either the Norfolk or Western or the C&O - and I don't recall now which one it was - said, "What we really want is an entry into the harbor; we are not interested in the commuter or the passenger service," --

MR. TOBIN: Well, Senator, they all came to me, or rather to the Port Authority, and they said, "We love the Port of New York and this C&O-Norfolk and Western merger will be one of the finest things that ever happened to us." And Stewart Saunders came in and he said the same thing. So they always tell all the ports in these merger discussions and decisions that you can be sure that they love the flow of their freight to that port and you can be assured it will be preserved. But you have to analyze it for yourself and see what is happening in the field and you know what is happening has happened in the past. We have no confidence in a Pennsylvania-Central merger that there would be the same flow of freight down to Port Newark and Port Elizabeth.

SENATOR STAMLER: For the moment, forget the freight. I am talking about the passenger service. If what I said is so - and as I recollect his testimony, this is generally what he said -

would this merger not therefore affect the whole commuter system were the Norfolk and Western or the C&O, whichever the railroad will be that will control the Erie-Lackawanna, to cut off the passenger service? Won't we then again have the same problem?

MR. TOBIN: No. The Norfolk and Western has said that they will not consider merger if the passenger service is included in it and they must keep it up. And they testified here that that was one of the basic conditions of any merger. It is also one of the conditions of the so-called C&O-Norfolk and Western Dereco Plan. But certainly in all of our analyses, one of the conditions to the working out of an acceptable plan which would commend itself to the ICC, one of the essential conditions, is that the Erie be relieved of its commuter services. I don't think there is a chance of a merger without it.

SENATOR STAMLER: Well, what will we do with the commuters then?

MR. TOBIN: They have to travel. I think the State has to take some such approach to them as was taken in New York. It is just part of the necessary, heavy burdens of operation.

SENATOR STAMLER: In other words, if we are to go along with this merger, the State - not that we have that much to say in this - our commuter service on the Erie Lackawanna can be at an end and will be.

MR. TOBIN: Not if you go along on the -- Well, I think it is going to be at an end either way, Senator.

SENATOR STAMLER: You think so.

MR. TOBIN: Yes. I think that the Erie's application for abandonment, which I assume they will file after the first of the year, is almost certain to be granted by the ICC.

SENATOR OZZARD: As I recall, Mr. Tobin and Senator Stamler, the point made relative to the merger is not that the passenger service be abandoned, but that the railroad not be financially responsible for any of its losses.

MR. TOBIN: I think Mr. White put it on the basis, if you make up their losses, then with such a merger, they would be able to maintain their roadway and services in better condition so that they could make a better operating arrangement with the State.

SENATOR STAMLER: That's right.

SENATOR OZZARD: Would you want to finish your summary?

MR. TOBIN: I think I have covered about all of it.

SENATOR OZZARD: Except, I see on page 23 and a little later, you speak of the terminal operations. At page 23 you refer to terminal activities and the cost thereof and so forth.

MR. TOBIN: That is in connection with the concept which is posed for discussion in the resolution of whether or not there is any advantage in the State taking over the freight service.

SENATOR OZZARD: Right.

MR. TOBIN: And in connection with that, I talked about the heavy cost of terminal operations. Of course, most of the New Jersey railroads have heavy costs of terminal operation and they don't have the benefit of the long haul, which is the real attraction and revenue of freight service.

It was in connection with that matter of freight service that I discussed the terminal matter.

SENATOR OZZARD: Well, it is in the area of terminal facilities that I wanted to direct a few questions to you, if I might. I know there have been some interesting debates over the years as to what your charter says you shall or shall not do in the area of rail transportation. However, there seems to be a rather clear directive to involve yourself in terminal facilities. Now, since you do point out that the terminal operations are a heavy-expense item for the railroads, and if the State gets into some sort of a commuter agency, whatever this might be, working with the railroads and we are going to be talking then - I think we are going to be talking merger of commuter services - what part can the Port Authority play in establishing, operating and generally maintaining terminal facilities? Suppose there is a consolidation of terminal facilities, if this is possible. Can the Port Authority engage in this at all?

MR. TOBIN: Well, we are engaging in what we can do within the framework of the PATH statute, which is the limitation of what we can engage in, in accordance with your commitment to our bondholders. We are engaging in what amounts to a very involved terminal development and consolidation in the Aldene Plan, which is really what that is, a consolidation of PATH, Jersey Central, and to some extent Pennsylvania, terminal services at Newark. That will handle the Jersey Central. The Erie Lackawanna at some stage or other will quite possibly in the future abandon their ferry services and there will be

terminal requirements of the Erie Lackawanna, I think, in the future at Hoboken and Erie Lackawanna passengers will be handled in the tubes. There is a problem there of the capacity - the number of trains - that can get through the tubes. Even with the new trains, there are still nevertheless only four tracks and four tubes and the maximum you can get through is, I think, about 37 trains an hour. But having in mind that limitation, at some stage I would assume that there will be terminal requirements in handling the Erie Lackawanna passengers, many of whom are handled today on PATH. But we will have further terminal capacity when the new PATH terminal under the World Trade Center is completed, which will be in, say, three or four years, and at that point we will be able to handle ten-car trains in the completely new terminal of PATH in Manhattan. That would aid in meeting the Erie Lackawanna terminal problem at Hoboken.

SENATOR OZZARD: Do you have any idea, Mr. Tobin, as to the cost of a new under-river railroad crossing and terminal facility in New York?

MR. TOBIN: It would be fantastical.

SENATOR OZZARD: What do you mean by fantastical? All your figures are fantastical.

MR. TOBIN: Just put three more zeroes at the end of it. The problems are still the same. Well, remember the Metropolitan Rapid Transit proposal that was rejected in New Jersey. That was \$800 million at the time. That had new tunnels across to New York.

SENATOR OZZARD: Was that the Loop Plan?

MR. TOBIN: The Loop Plan. And if it was \$800 million then, let's talk about a billion, two hundred thousand today. Costs are almost prohibitive.

SENATOR OZZARD: We had a suggestion made to us at the last hearing relative to the Port Authority playing a part in a new central terminal facility in New York and taking over possibly the Pennsylvania setup and tying both the PATH and the Pennsylvania River crossings together and setting up a central facility for the New Jersey railroads. Has this been proposed to you?

MR. TOBIN: No, Senator, it has not been proposed.

SENATOR LYNCH: He said, "Thank you, no."

MR. TOBIN: There are all sorts of plans of that kind that are very fascinating rhetorical exercises, but when they get down to the real facts, they fall apart.

SENATOR OZZARD: As far as the Port Authority's participation is concerned, you feel that the PATH activity is your present limit or the foreseeable limit. Is that right?

MR. TOBIN: Yes, we do, with the present losses that we are sustaining and under the terms of the statute, we will be right at the limit on our present operations of PATH.

SENATOR OZZARD: Now you speak of a commuter agency and make the recommendation or suggestion in here that a commuter agency be established. Are you talking about an agency or suggesting an agency that will operate the passenger service in New Jersey or will merely be a financial agency to fund the railroads as the railroads themselves have suggested and which is the way they would like to operate it?

MR. TOBIN: I think, Senator, one of your questions you almost turned into an answer of that this morning in the previous testimony. I think that when the State gets as heavily into subsidy as the State is now or heavier into subsidy as it may have to go, the responsibility of operation just inevitably becomes the public's and so the State's. And if you are going to be operating the commuter service, you are going to have to take the responsibility for the quality of service and the quantity of service and for every decision, so that if one can go through the formula of making an operating agreement, as they are talking about in New York now with the New Haven - but if to the desk of that railroad commuter agency has to be brought every problem of capital expenditure, of service, of fares, of labor problems, and in effect they have to decide it because the operating agency is working just on a cost-plus basis and really couldn't care less -- So the responsibility is going to be the State's and it is going to be right there in New York in their present agency. I think really as they are moving in the Long Island, that just inevitably they have to operate it. Commissioner Palmer and I were discussing this the other day. He doesn't quite agree with me and I have great respect for his judgment, so he may give you a different view of that. And we were just talking - exploring what could happen. But I think when it is the State that has to make every single decision, that there is no other answer than inevitable State operation itself because with these operating contracts, it sounds as if one were putting the awful responsibility away from one a little bit, but it just

doesn't go. The problems are there. It is to that State agency, whatever it may be, that every one of these decisions are going to come and they are going to be back to the Legislature with their decisions. So when you are all through, they are operating them and I don't get too excited myself about a comment that this is socialistic. I don't see what is socialistic about it. The City subways in New York have had to be run by the public just by inevitable economic facts.

SENATOR STAMLER: It sounds like Mike Quill.

MR. TOBIN: Mike says on the television that he is looking for me and I am trying to stay on the other side of the street. I feel I am safer down here before this Committee.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: I have no questions.

SENATOR HILLERY: I have. Mr. Tobin, through you, Mr. Chairman, if such an agency would take over the commuter service as they have done in New York, does this mean that it would be completely subsidized in any losses that it might incur by State taxes or do you believe that the freight service of the railroad involved should contribute some of its profits to the operation of this commuter service?

MR. TOBIN: Senator, if we were talking in abstract terms about what is right and what is just, there is a great persuasiveness to the concept that the freight service should contribute something to it, if the freight service is a profitable service. But I am afraid we are past that and with the Federal amendments to the Railroad Act in 1958 or so and the decisions of the ICC since, that they are going to divorce

the two and that the realistic outcome is that freight revenues are not going to be available for commuter services here or any place else in the country.

SENATOR HILLERY: Well, how about having the railroads contributing the use of the track to such an agency without cost to the taxpayers in New Jersey or do you think they should be reimbursed for that use?

MR. TOBIN: Well, they are private corporations and they are going to make this property available and, of course, it has to be maintained and where you have inevitable joint services, such as the Pennsylvania and the Erie main freight lines, I don't know that there is going to be any constitutional escape from compensation for that service. I don't know whether in the very proper sense of the term "political pressures," Interstate Commerce matters of national policy might affect it. But I think inevitably there will have to be payments made for the use of that property. I read in some of the testimony before the Committee of terribly difficult problems of combining commuter service and rail service and scheduling on the main line tracks of the Erie or the Pennsylvania. It is difficult, but it is not an overwhelming problem. This is done in all types of railroading where there is joint service of one kind or another.

SENATOR HILLERY: We had testimony here by some of the railroads that if they carried on the commuter service, they would have a deficit of \$8 million, but if they eliminated commuter service, they would have a profit of \$10 million or something of that nature. Under their original franchise when

they enjoyed the profits of both the commuter service and the freight - it was granted on that basis - otherwise, I don't think many of those franchises might have ever been granted - and they enjoyed those over the years and then they fell into disrepair and they have all assumed an attitude today that they just don't care about commuter service. They have told us right out here they want to get rid of it as fast as they can so they can get back into the profit area of the freight service which seems to be pretty good. Some of them gave evidence here that they think there is a pretty good future for it. There is another case built up relative to the individual who is paying taxes in New Jersey who doesn't use the railroads, paying taxes for somebody who has to use the railroad to get to his job in New York City.

MR. TOBIN: From the standpoint of fairness and justice, Senator, which is what you are talking about, there is a tremendous amount to be said for that. I simply point out that the law seems to be turning against us on it.

SENATOR HILLERY: In many areas.

MR. TOBIN: There is one interesting thing in the New Haven situation and this is only within the last ten days or two weeks; I understand that the ICC has taken a position that the revenues which accrue to the New Haven from the real estate, the very large real estate rentals of the use of Grand Central, must be considered in computing the cost of their commuter passenger service into New York. I haven't seen either the opinion or the decision, but I am reliably informed that there is such an opinion or decision. Mr. Gilman,

do you have anything specific about that?

MR. GILMAN: No, sir.

SENATOR OZZARD: Senator Stamler.

SENATOR STAMLER: In line with Senator Hillery's question about the improvement to the assets of the rail system were this merger to be created, Mr. Owen Clarke, who was Vice President of the C&O and coincidentally Vice President of the B&O, just by one of those quirks, was asked a series of questions by Senator Ozzard and then he said, "The only reason we want the merger is we want a strong system in the East to compete with the New York Central-Pennsylvania." And he admitted that neither one of the two railroads had a line into New York Harbor. Then the question was asked whether he didn't think that this would be a tremendous asset to the new, I think he called it Dereco --

MR. TOBIN: Dereco.

SENATOR STAMLER: Well, he admitted it was. Now in line with that, were this system to be created, it would seem - again in line with Senator Hillery's question - that with the improvement of their assets, they could render some public service and, after all, they are still a public utility or were. Wouldn't it be possible that the State could be in the position of at least negotiating to keep the commuter service alive at a much lesser rate than we are now doing? Do you understand the question?

MR. TOBIN: Yes, I do. But I am afraid in your negotiating point, your position is not a strong position. As I said to Senator Hillery, great things can be said for it

as a matter of abstract fairness and justice, but the ICC under the 1958 statute, I think, is certainly going to say that the Erie Lackawanna is going to be permitted to abandon its commuter service.

SENATOR OZZARD: I would interject at this point, Senator Stamler and Senator Hillery, that if we take over the passenger service and the freight is profitable, that the railroads might assist us very easily through increased taxes.

SENATOR HILLERY: That was in my mind too.

SENATOR STAMLER: I was interested too, Mr. Tobin, in your opening statement. You said something about a \$4 million loss just a year or so ago, \$6 million and then in the future --

MR. TOBIN: Next year, I said \$8 million.

SENATOR STAMLER: And this will go further, I assume to \$10 million?

MR. TOBIN: I think almost certainly, in the two years ahead. After all, we have an operating loss without any capital cost of at least \$5 million and we are putting \$100 million into it in new capital and roughly you can estimate the cost of that at about \$5 million a year. That is \$10 million right there.

SENATOR STAMLER: Is the World Trade Center going to be profitable?

MR. TOBIN: Oh, yes.

SENATOR STAMLER: When?

MR. TOBIN: Oh, I think very shortly after it is constructed. The board, reviewing all the facts, have come to the conclusion that it will be self-supporting. They had

to in order to be able to issue bonds on it and at the present time we have committed about 75 per cent of the space. Bearing in mind that we haven't started even demolition yet, we think that is pretty good evidence of the attractiveness of the World Trade Center as a place to do export-import business. That, of course, does include some rather large blocks of space. The combined custom house will take 800,000 square feet and the State of New York will take 1,800,000 and the Port Authority itself will move its offices in there with about 700,000 square feet of space. So these are rather large blocks. But even so, we are delighted with the way the commitments of space are going at this very early stage of the game.

SENATOR STAMLER: Have you worked out your taxes over there, your municipal taxes?

MR. TOBIN: We have a general understanding with the City of New York. It still has to be put into definitive form and, as you know, Senator, with these agreements, the going gets tough. But the general understanding is that we pay a fundamental floor tax of the amount of taxes they are getting on that 16-block area now. Then we pay the City the full amount of currently assessed city taxes on space that is leased to private tenants. Now no tenant may come into the building unless he is in some phase of the import-export business. But nevertheless, be it a freight forwarder or transportation company or whatever it is or the foreign department of a bank, it is a private business. And on that type of space, the City of New York will assess on a horizontal basis, floor by floor, and get full taxes and we compute full

taxes in our rental. On the space occupied by the custom house or by the Port Authority itself or by the State of New York, which would be tax exempt of itself, they do not receive taxes. That continues to be tax-exempt. So the City of New York is receiving a million and a half dollars in taxes on that property today and, oh, I am sure that they will realize four or five million dollars in taxes when the World Trade Center is built.

SENATOR OZZARD: Senator Woolfenden.

SENATOR WOOLFENDEN: I have no questions.

SENATOR OZZARD: Before I let you go, Mr. Tobin, I have one other question that might help us to put this crisis situation in better perspective. If the commuter railroads were abandoned, if we weren't able to do anything about this, are the Port Authority's facilities, bridges, tunnels, and so forth, sufficient to handle the increase in traffic?

MR. TOBIN: Absolutely not. It would be traffic chaos. It isn't even close. There isn't any possibility of our handling it, be it by bus or what have you. The load in the peak hours of these 60,000 people a day coming in - we couldn't handle it and the roads couldn't handle it. The highway system of New Jersey and the bridge and tunnel system are absolutely incapable of handling this. Senator, even if we assume that the money was there to build new tunnels and bridges and roads and highways and what not, which I doubt that it is there - but even if it was there, it would take years and years to do such a thing and there would be chaos

in the meantime.

SENATOR OZZARD: So we face a must situation?

MR. TOBIN: Oh, it is a must situation. There isn't any escape from it. It is one of those terrible public problems.

SENATOR OZZARD: As usual we thank you for a very fine presentation, Mr. Tobin.

We are going to take a five-minute break at this time.

[Five-Minute Recess]

SENATOR OZZARD: May I call this meeting back to order, please.

Commissioner Palmer.

D W I G H T R. G. P A L M E R: Mr. Chairman, I brought with me Mr. Dey and Mr. Thomas of the Division staff for such questions as they may contribute answers to.

I have a short statement.

SENATOR OZZARD: I trust this isn't your short statement.

COMM'R PALMER: No, sir. I did that to frighten Senator Stamler. I thought he might come late.

Shall I proceed, sir?

SENATOR OZZARD: Yes, please, Commissioner.

COMM'R PALMER: First, it is a privilege to appear before your Committee, and to give an accounting of what we have done up to date. We are not going to fracture our arm by patting ourselves on the back, but we will at least give you the facts.

To get the proper perspective of our overall problem I feel it desirable to outline the situation which existed in 1959 when the State first began its efforts to preserve essential rail passenger service. That year climaxed a decade in which the number of passenger trains in New Jersey had dropped 25% and fares had constantly spiralled upward. The New York Central had succeeded in discontinuing its West Shore line, the Lehigh Valley was in the process of eliminating all passenger trains, the Lackawanna had posted notices that it was following suit and the other railroads were preparing to take advantage of the 1958 Federal Transportation Act to get rid of all or most suburban trains.

The action of the State in instituting a program of contracting for rail passenger service halted this erosion of service. Since 1960 authorization has been granted for discontinuance of only about 2% of the trains under contract. Practically all of these were lightly patronized off-peak services or trains which were operated primarily for the handling of mail. In any event there has been practically no decrease in the rush period commuter service during these five years and on some lines service has actually increased.

While the cost of living has inched upward since 1960 and rail commutation fares increased in Chicago and Philadelphia, the State's program held the line on fares in New Jersey until this year when rising labor costs resulting from national agreements forced a modest increase in Erie Lackawanna commutation fares which as yet has not been extended to other lines. In addition, a feature of our activities to increase rail travel has been the institution of greatly reduced off-peak fares.

Planning for the future has not been neglected. In 1960 the Division of Railroad Transportation presented a report widely distributed which has formed the basis of future actions since that time. In that publication the Division recommended the service contract program, the rerouting of Jersey Central service to Newark (now known as the Aldene Plan), and New York Port Authority assistance in improving the then H&M service. Again in 1962 the Division reported on the need for physical improvements in the railroad plant and outlined a minimum scope program to accomplish these. This report also was widely distributed. In 1964 the Division's report and recommendations for legislative action resulted in the passage of several bills which have assisted the State's program. The latest report of the Division released in April of this year deals specifically with the Erie Lackawanna Railroad and is a comprehensive analysis of the situation on that carrier. It might be well to point out here just what the Legislature asked us to do when it set up the Division of Railroad Transportation. Chapter 14 of the Laws of 1959 charges the Railroad Division with three principal duties. These are:

"1. The Division "...shall examine and study the facilities of the various commuter and passenger railroads and their related transportation facilities and seek agreements and accords between the operators thereof whereby the separate facilities of each may be interrelated, co-ordinated, combined, consolidated or unnecessary duplications eliminated, and as will tend to improve commuter and passenger services or result in greater efficiency in operations."

2. "...shall lend assistance to such operators, separately or jointly, in developing plans for the construction of additional facilities or the development of existing facilities and in obtaining agreements and accords in connection therewith between them, as will improve their commuter and passenger railroad services or the services of their related transportation facilities."

3. "...shall engage in a continuous study of the commuter and passenger railroad operations throughout the State with the end in view of seeking solutions to the various problems facing the railroad companies and the railroad traveling public, including but not limited to, the need for commuter and passenger railroad services in the various areas of the State, the need for extensions of existing services, deficit operations and the reasons therefor, and the railroad tax situation and the State tax policies in connection therewith."

The activities that have been carried out by the Railroad Division and those now under construction, as we see it, are fully in accord with the requirements of the law. And I know that the law was written by legislators who were intimately acquainted with the railroad passenger problem such as Senator Lance. It was not written by outside pressure groups and handed to the legislature to pass.

The cost of maintaining essential rail service now totals about \$37 million in contract payments, including all of the existing commitments through June 30, 1966. (See Exhibit A) Considering that this amount would construct only a few miles of urban freeway, not to mention the chaos resulting from the loss of rail service, we believe the State has had a bargain. Furthermore, most of the money used for these service contracts with railroads has come from the proceeds of the Commuter Benefit Tax which is paid by residents of New York State (See Exhibit B).

I would be certainly less than frank if I were to say that the actions of the State in the last five years solved all of the problems. In all candor, a high percentage of the job lies ahead.

First, let us examine the Jersey Central, one of New Jersey's major railroads. Only through Government guaranteed loans and sale of

assets has the Central been able to keep its head above water for the past several years. Heavy passenger losses and a marginal freight operation resulted in a serious drain on the cash reserves of the Central which culminated in a crisis last June. Bankruptcy was averted only by the personal intervention of the Governor when he authorized immediate payment of \$2.5 million to the railroad under its contract and persuaded the carrier's banker to delay payment on a note that was due for one million and fifty thousand dollars. As a matter of fact that was broken down to be paid in the two succeeding years instead of all in one lump. The crisis has now returned in the form of the railroad's State tax bill for \$2.7 million due tomorrow which the President of the Central has told us cannot be paid. A supplemental appropriation in the amount of \$3 million will be necessary to increase the level of payments to the Jersey Central and other carriers. A bill was introduced yesterday to provide these additional funds and I am happy to say you gentlemen passed it.

However, these payments serve only to avert a collapse of the service. Other actions must provide permanent relief. One of these is the Aldene Plan with which I am sure you are fully familiar. There have been some unavoidable delays in completing this major change, but I can report that the construction work on the Lehigh Valley is proceeding satisfactorily. There still remains the completion of yard facilities at Raritan and east of Newark, as well as final determination of schedules and fares, and the acquisition of additional new cars to carry adequately the passengers from Newark to Hudson Terminal.

The contract with the Erie Lackwanna expires December 31st and the railroad management has made it clear it will file for complete abandonment of suburban passenger service on January 2nd. We have no reason to doubt that this will be done and we are preparing to oppose such an application as vigorously as possible.

I might add here that in the event that that comes to pass, which it will, it probably will be a year, judging from experience, before the ICC would permit it, not from an accounting standpoint. By contrast, our situation with the Pennsylvania Railroad presents a hopeful picture for the future. Direct cash payments for Pennsylvania service ended as of June 30th and we do not believe it will ever be necessary to resume them. Instead we have embarked upon a program of capital improvements which will both improve service for Pennsylvania passengers and the economics of the suburban operation. Incidentally, this same program was proposed to the other major carriers but their need for cash prevented acceptance.

The first step in the Pennsylvania program will be the replacement of equipment and we have applied to the Federal government for a capital grant of \$2,000,000 to match State funds already appropriated for this purpose. We hope to obtain approval of the grant shortly which would permit the ordering of 15 new cars immediately. Tentative agreement has also been reached with the Pennsylvania whereby it would guarantee payment for about 23 to 25 more cars in the expectation that the State will appropriate \$3,000,000 next year to be again matched with Federal funds. This will permit the initial order to be for about 40 cars, or one-half of the total number required for the Pennsylvania fleet operating its electrified services.

The Railroad Capital Improvement Program - 1966 through 1972  
Pennsylvania and Jersey Central Railroads

The capital improvement program -- and by the way, I might add there --

SENATOR OZZARD: You didn't tell us about that extra three million yesterday.

COMM'R PALMER: Pardon.

SENATOR OZZARD: You have another three million. You didn't tell us about that yesterday when you got the other three million.

SENATOR STAMLER: I tried to find out.

COMM'R PALMER: I think there are lots of rubber heels used. They don't use them any more though; they are synthetic.

The capital improvement program has had its beginning in the Aldene Plan and the purchase of new cars to be operated by the Pennsylvania Railroad in the services between Trenton, Newark and New York. With regard to the former, the combination of State and Federal funds has permitted Phases I and II of the Aldene Plan to be initiated. Phase I includes the connection at Aldene, new station in Roselle Park, grade crossing eliminations, storage facilities east of Newark, Terminal facilities at Raritan and rehabilitation of coaches. Phase II includes alterations at the main line stations between Raritan and Newark to regiment the flow of passengers preliminary to changing from on-train to station validation of tickets, and other station and parking area improvements. Details of Phase III for which funds are not available include the electrification of the main line with 11,000 volt A.C. 25 cycle power (same as the PRR electrification),

high-level platforms throughout, station and parking area improvements and the acquisition of a new fleet of cars similar to those to be purchased for the PRR territory. Details of work included in Phases I and II of the Aldene Plan are set forth in the application to HHFA and identified as Exhibit C, which is part of your foot-high package. Electrification of the Jersey Central main line will then permit through operation to Pennsylvania Station, Manhattan, without transfer from main line stations such as Westfield, Plainfield and Somerville.

A description of the new cars to be purchased for the Pennsylvania Railroad territory is set forth in the preliminary application to HHFA identified as Exhibit D to this statement.

It is assumed that under the financing plan described in subsequent paragraphs that funds will be available in 1967 to finance the acquisition of the remaining cars so that all suburban services operated by the Pennsylvania in New Jersey would be equipped with modern rolling stock. Along with the new cars, it is proposed that all stations be provided with high-level platforms, parking areas be paved and lighted and that additional park and ride facilities featuring convenient vehicular access, ample parking and frequent train service be established.

The second phase of the PRR improvement plan includes making much more use of the PRR high line east of Newark and its tunnels under the Hudson River to provide more commuters with rail access to midtown Manhattan. This can be accomplished by constructing a transfer in the Meadows for the lines serving Bergen

County and making a connection between the Erie Lackawanna electric lines and the PRR so that through service, at least outside the peak hours, could be provided passengers originating in the Oranges, Madison, Morristown, Dover, etc. In order to operate the through service, the existing Erie Lackawanna 3,000 volt DC electrification would have to be converted to the PRR high voltage AC system or third rail extended from the PRR tunnels to the connection. Under either alternative an entirely new fleet of cars would be needed.

In order to accommodate expanded use of the Pennsylvania tunnels and the mid-town terminal additional tracks would have to be constructed in the Meadows, the signal system rebuilt to permit operations under closer headways and the use of the tunnels by locomotive-hauled trains curtailed in the peak hours.

Operationally, all suburban passenger service on the New York and Long Branch, the PRR main line and the Jersey Central main line should be under the control of one management team closely supervised by the State. First action to accomplish this should be taken on the New York and Long Branch by relieving the Jersey Central of its obligations to operate any service over this line to Newark or New York.

#### The Erie Lackawanna Railroad

The comprehensive Report on the Erie Lackawanna suburban passenger services issued by the Railroad Division in April, 1965 emphasized that the operation of the low-density branch lines was causing most of the deficits on this railroad's suburban service. It was this situation that led the Railroad Division to recommend the carrying out of a demonstration project

to see if by "grass-roots" participation in the program the over-all economics of the operation could be improved sufficiently to justify continuation of the branch lines or if by operating a combination of through or feeder bus services, certain rail routes could be terminated.

I might add there that we have a representative from each one of the nine counties affected from the Freeholders on the Committee and we also have the benefit of five of the Brotherhoods as advisors to the Rail Division, so that we have both labor and the public interest as well as the State's interest involved.

The details of such a demonstration project are set forth in the application to HHFA identified as Exhibit E to this statement. Federal action is pending. In any event complete engineering and economic analyses on the electric plant must be carried out to determine the most economic arrangement under which through service to Manhattan via the PRR tunnels could be operated. Funds to make such studies supplementing those accomplished in 1961 have been requested for the next fiscal year.

The entire fleet of cars should be replaced by 1972 with high-density, high-performing cars on the electric lines and with modern, high-density coaches on the diesel routes.

Rail service to Newark from the northwest should be improved by constructing the connection between the Greenwood Lake Division and the Montclair Branch and extending the electrification to the vicinity of Mt. View as has been outlined in earlier reports.

The Erie Lackawanna should also be improved by the construction of high-level platforms such as I have mentioned with the others, modernizing stations and by making the changes necessary to substitute station rather than on-train validation of tickets. All parking areas should be paved and lighted.

#### Grade Crossing Eliminations

The continuation of the hazards resulting from having high-density rail routes cross busy vehicular thoroughfares cannot be tolerated. The State must adopt a program of grade-crossing elimination far greater in scope than that authorized by the Fielder Grade Crossing Act and probably greater than that for the first five years recommended in our 1962 report. It would be our recommendation that the proceeds of any funds outlined in this statement be used for grade crossing eliminations on any route over which passenger trains operate, provided the improvement of such route is a part of the rail program.

#### Organization to Carry Out the Improvement Program

Much of the testimony before this Committee, as we have reviewed it, has been concerned with the creation of an agency to deal with rail transportation. In my view, the type of organization is only a part of the solution. Equally important is a feasible program and provision of the means to carry it out. In this statement both are defined.

Although there is no State department presently empowered to carry out the program I have outlined, the establishment of a separate agency to do so is not in my opinion in the public interest at this stage of the game. It is vital that rail transportation activities be coordinated with those in other

forms of transport and most particularly with the State's highway program. I hope I get some questions on that.

SENATOR OZZARD: You will.

SENATOR STAMLER: You can rely on that.

COMM'R PALMER: And I am not talking about myself or you either, Senator.

A new organization will not achieve that coordination, nor will an autonomous authority provide the necessary safeguards for State interests.

Consolidation of all transportation planning, construction, regulation and other activities into a single Department of Transportation has considerable merit. However, such a restructuring of the State government should not be undertaken hastily nor can the State's transportation problems be shelved until such action is taken. It is imperative that we move forward promptly on the type of program outlined herein and for that reason I recommend the creation of a Public Transportation Agency within the framework of the State Highway Department. This Agency, which would replace the present Division of Railroad Transportation in this Department, should have the power to (1) acquire or lease property required for the performance of rail or bus passenger service determined by prescribed procedures to be essential to the transportation needs of the State, (2) contract with rail or bus carriers or other qualified organizations for the operation of such essential service at specified fares, (3) make improvements in the equipment and facilities used in the provision of this service and (4) enter into agreements with Federal agencies in connection with whatever

assistance is available for public transportation purposes. The Agency would also be responsible for comprehensive planning for public transportation and integrating it with that for highway development.

#### Financing of Improvements

No program will work nor can any type of organization make it work unless adequate funds are available. In our opinion the capital improvement program recommended herein should be financed in an amount of \$150 million. This amount could be used for rail and bus equipment, new rail connections, construction of exclusive bus lanes, purchase of existing rail rights-of-way, grade separations, modernizing stations, parking areas, signal and power systems, mechanized ticket validating, etc. The State would retain title to all equipment or facilities financed by these funds and would have equity in the improvements made to all facilities on land owned or leased by the State.

The amount of \$150 million is insufficient by itself to accomplish the entire rail improvement and grade separation programs. It is anticipated that not only will Federal funds be made available after July 1, 1967, the expiration date of the present program, but that the Federal share of programs will increase as comprehensive planning is accomplished in the metropolitan areas. It is on this basis that the amount of \$150 million is recommended.

#### Other Railroads

The New Jersey and New York Railroad, which soon will be taken back in the Erie Lackawanna, needs the same improvements

that have been outlined for the other carriers including the more direct mid-town connection via transfer to the PRR in the Meadows. Subsidy at approximately \$150,000 per year should be anticipated until these improvements have been accomplished.

The Reading Railroad passenger service should be continued until the Aldene Plan is in effect and for six months thereafter to determine the effect on patronage. Subsidy at about \$60,000 annually should be planned during this period.

The New York, Susquehanna and Western Railroad passenger service continues to decline and the number of passengers it now carries is so small that the economic justification for continuing to subsidize this service certainly needs to be re-appraised.

The Pennsylvania-Reading Seashore Lines service is being replaced on several routes by rapid transit service to be operated by the Delaware River Port Authority, the first being the Camden-Kirkwood Line. The commuter service to Atlantic City should be continued and operated with modern equipment to see if greater patronage can be developed. A park and ride station convenient to the Garden State Parkway should be tested to determine if more economic arrangement of bus and rail service could be provided for Cape May County passengers.

Engineering studies have indicated that a roadway could be constructed on the New York Central, West Shore Division right-of-way for about \$5 million for exclusive use of buses. There are still plans for extending the New Jersey Turnpike to connect with the New York Thruway. If this is done and the Turnpike extension route follows the Hackensack River Valley, the exclusive

bus route construction on the West Shore would not be advisable in our opinion. It is essential that the West Shore right-of-way be preserved for mass transportation services until a decision on the Turnpike extension is made.

### Tunnels and Trucks

I cannot let this opportunity go by without mentioning one of my favorite remedies for the congestion that exists in the tunnels during the morning and evening rush hours. I have long advocated that trucks be prevented from using these facilities during these peak periods, but none of those consulted has shown much interest in the idea. As an alternative, the tolls for trucks in the rush hours could be doubled and this might result in some voluntary adjustments that would ease the pressure during these rush periods.

### Planning

Transportation problems - like all other problems - do not remain static and the State must always look forward to the future. By placing the suggested Public Transportation Agency in the Highway Department, I believe we can accomplish a high degree of integrated transportation planning on the State level. Yet New Jersey is only part of two giant metropolitan complexes - one in the north and one in the south. We believe it is essential that the State's transportation planning be coordinated with other states through continued participation in the Tri-State Transportation Commission and by the enactment of legislation creating an interstate official planning body in the Camden-Philadelphia area as has been enacted in the State of Pennsylvania.

SENATOR STAMLER: Senator Hillery, do you have any questions?

SENATOR HILLERY: You go ahead.

SENATOR STAMLER: Senator Lynch?

SENATOR LYNCH: I will yield to you.

SENATOR STAMLER: How about that?

COMM'R PALMER: I think that is wonderful.

SENATOR STAMLER: That shows how easily you can develop a reputation.

At page 5 of your statement, you discuss the Aldene Plan rather carefully.

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: And you discuss unavoidable delays in completing this major change and I assume you are talking about eventually completing it. Do you have a final date of completion?

COMM'R PALMER: Yes, sir, we have. In so far as the actual construction is concerned, we can be ready by spring. There are certain labor situations that we are working on with the Federal government and also as applied to the Lehigh Valley and until those are straightened out, it is impossible to get the entire show on the road.

The Port Authority under their interest of this overall situation are impelled to await those labor settlements before they incur the obligation of all the cars essential and with the delays that came in initially with the legal opposition to the World Trade Center and with these other angles, I dare say that if we were to lay all the cards on the table,

by late summer the complete show could be on the road. There might be some little polishing here and there of a platform, but that is about the meat of the coconut.

SENATOR STAMLER: The late summer of '66?

COMM'R PALMER: Yes.

SENATOR STAMLER: Now you said that the labor difficulties had to be ironed out prior to the complete solution.

COMM'R PALMER: The difficulties, sir, are this: The Lehigh Valley has certain commitments to make for the carrying on of certain of their employees and Mr. Thomas has been down to Washington with the Department of Labor. We have met with representatives in my office and until that is cleared -- One of our principal objectives in this whole situation is the employment of people as well and we do not wish to attempt to push forward - as a matter of fact, HHFA will not give us all the funds that are under the commitment to us until those elements are straightened out.

SENATOR STAMLER: Well now, how long do you think that will take to straighten that out?

COMM'R PALMER: I gave you my answer.

SENATOR STAMLER: You have no idea?

COMM'R PALMER: Yes, I have an idea. I gave you my complete answer including the labor thing when I gave you --

SENATOR STAMLER: This includes the whole package?

COMM'R PALMER: It includes the whole package, the whole ball of wax.

SENATOR STAMLER: And this is the unavoidable delay

that you talk about in your statement?

COMM'R PALMER: Yes.

SENATOR STAMLER: Now, once the contracts have been negotiated and we are open, you are not going to be able to use the World Trade Center for several years to come.

COMM'R PALMER: Until it is built - that's correct.

SENATOR STAMLER: In '68, I think Mr. Tobin said.

COMM'R PALMER: It is about three or four years off, yes.

SENATOR STAMLER: So that this does not apply, the Aldene Plan has no ---

COMM'R PALMER: The Aldene Plan applies for the dumping of the traffic in Newark and to the conveyance over PATH of the 12,000 customers that will come in.

SENATOR STAMLER: -- into Newark with your passengers?

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: Now what plans have you made to take them further on until the World Trade Center has been built?

COMM'R PALMER: They will go right on the existing lines as soon as the cars are purchased. There is no problem of capacity at all.

SENATOR STAMLER: The cars purchased for --

COMM'R PALMER: -- by the Port Authority for the old H & M --

SENATOR STAMLER: -- for PATH.

COMM'R PALMER: [Continuing] -- for PATH to take care of the additional customers that we are providing them with.

SENATOR STAMLER: You were talking about the two million dollars at page 6, I think it was, "two million dollars to match funds already appropriated for this purpose." This is on the Pennsylvania program.

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: Has the government acted on this?

COMM'R PALMER: They are ready to act. They have not yet acted. They are ready to act. And I might say here that there is quite a state of flux in the HHFA at the present time insofar as settlement of all applications, not just ours. I have no idea of what is causing the delays, but I am sure that before the year is out we will have word on the Pennsylvania cars and there has been no inclination or direction of any kind in opposition to it.

SENATOR STAMLER: This year is out? You are talking about this year?

COMM'R PALMER: I mean this year.

SENATOR STAMLER: 1965?

COMM'R PALMER: This calendar year, yes.

SENATOR STAMLER: Then you further say that you are hoping that the State will appropriate \$3 million more next year to again be matched with Federal funds.

COMM'R PALMER: That's correct. That is in order that eventually all of the services of the Pennsylvania in the State of New Jersey will be with modern cars and there will no longer be any subsidies to the Pennsylvania. The money, the \$3 million, would be in lieu of subsidy. We no longer, if we engaged in this program of acquisition of cars, will

pay any more subsidies to the Pennsylvania. And as soon as these new cars are all in operation, say in three or four years, all money to the Pennsylvania will go out the window. There will be no more drain on the State's resources.

SENATOR STAMLER: At that point?

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: Now what will the \$3 million bring us from the Federal government at that time?

COMM'R PALMER: Equal matching.

SENATOR STAMLER: Equal?

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: On page 7, you discuss details of Phase III for which funds are not available.

COMM'R PALMER: That is electrification.

SENATOR STAMLER: And how much is that going to cost?

COMM'R PALMER: Probably about \$11 million.

SENATOR STAMLER: And that is for the Aldene Plan? That is part of the Aldene Plan?

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: And further on you testified that we are going to have to electrify part of the Erie Lackawanna system.

COMM'R PALMER: That's right.

SENATOR STAMLER: What will that cost us?

COMM'R PALMER: I'll ask Mr. Thomas to comment on that, if he will.

MR. THOMAS: Well, we haven't got the estimates all in order on that, Senator, but it would be - oh, in the eight

to twelve million dollar area somewhere.

SENATOR STAMLER: Eight to twelve?

MR. THOMAS: Yes.

SENATOR STAMLER: What happens to the four million in between? There seems to be quite a spread.

MR. THOMAS: I say the estimates haven't been made on it. We have the statement - I believe the Commissioner says that funds are included in next year's budget to carry out the engineering and detail studies.

SENATOR STAMLER: On this plan?

MR. THOMAS: Yes.

COMM'R PALMER: That is \$450,000 for the studies.

SENATOR STAMLER: Then at page 10, you say that "the entire fleet of cars should be replaced by 1972 with high-density, high-performing cars on the electric lines..." How much will that cost more or less?

MR. THOMAS: You are talking just about the Erie Lackawanna now?

SENATOR STAMLER: Yes.

MR. THOMAS: Between \$40 and \$45 million, depending upon the electrification that is decided on the conversion.

COMM'R PALMER: That will be State money. That will have to be matched by the Federal government.

MR. THOMAS: Maybe I could help by pointing out that \$150 million covers all of these items that we have mentioned. We have said that it isn't sufficient by itself, but we are counting on substantial Federal funds as the Federal program continues. Now we can't sit here today and say how much we

are going to get in Federal funds in programs that aren't yet legislated. But from our association with people in Washington that are working on this problem, we feel confident that the amount of Federal funds is going to be increased in the years ahead and not decreased and we are counting on it.

SENATOR STAMLER: That would seem logical.

MR. THOMAS: Yes.

SENATOR STAMLER: I assume, therefore, that this is not a portion, this \$150 million you are talking about, and does not involve itself with an amendment to the Fielder Grade Crossing Act at all. This is separate and aside.

COMM'R PALMER: That's right.

SENATOR STAMLER: How much would that cost - the suggestion that you make here at the bottom of page 10?

COMM'R PALMER: Well, there is a total in the State of some eleven or twelve hundred grade crossings. Just how many of those are applicable to the state highways, I am not certain, Senator. But if I were to make a wild guess, I would say we would need about \$30 million to eliminate those hazards.

SENATOR STAMLER: And would this be done in conjunction with or with the Public Utility Commission?

COMM'R PALMER: At the present time, it certainly would be.

SENATOR STAMLER: It is being done now?

COMM'R PALMER: Yes. Well, the allotment that they are the recipients of at the present time is only about

\$2 million a year and I think it is only in the last two years that the Legislature has given them that. I think they made that application for about seven years, but the application went down the drain. That is my recollection.

SENATOR STAMLER: I don't know whether it went down the drain or not.

COMM'R PALMER: Well, it depends on the weather.

SENATOR STAMLER: I will save the Department of Transportation for Senator Ozzard. I know he wants to talk to you about that.

I noted through your testimony, Commissioner, that there were a great number of references to the Pennsylvania Railroad and to the subsidies we give it by way of purchase of cars. The Pennsylvania Railroad is in pretty good shape financially, isn't it?

COMM'R PALMER: The Pennsylvania Railroad showed a profit last year, as I recall it, of \$29 million, of which \$22 million was some interest totally outside of the railroad business. They are the owner of about \$430 million worth of stock in the Norfolk and Western and their annual return on that is at least about \$15 million. There is one element. They are also interested in properties in the South and out on the West Coast and they also recently have just declared another dividend. Of course, all of us immediately are conscious, why can't they be self-supporting insofar as all of these activities are concerned. They have the highest losses on passenger service of any one of the railroads. I think they run up to something like \$9 million, something of

that character. And after all is said and done, in any line of business, certainly in the line of business I used to be in, if we had an item that we produced and the customers wouldn't buy it or we couldn't make a profit on it, we quit manufacturing it. I think that is the proposal of these various railroads about cancelling out commuter service. I don't think they are against commuter service. I think psychologically they are for it, but it is purely a question of dollars and cents. And as far as the Pennsylvania Railroad's profits are concerned, they do not come from the operation of passenger service.

SENATOR STAMLER: In further line with your testimony, at page 14 you testified about the connection between our Turnpike and the New York Thruway. Don't you think that this would affect the income of the Port of New York Authority rather seriously?

COMM'R PALMER: I think it would be of benefit provided there are certain details which Mr. Tobin and I have discussed and about which I have certainly gone into very thoroughly with the Turnpike people. They are giving consideration at the present time to an offshoot to the west to go up the Hackensack Valley. The congestion at the Lincoln Tunnels at the present time is unconscionable and as soon as the widening program was brought into the picture, the widening of the Turnpike, the Port Authority naturally reacted to that and so did we because at the present time as you get off the Turnpike and go into the Lincoln Tunnel where there is the convergence of the traffic from Route 3, it is a long

period of time to get to the tunnel. Then the Legislature authorized us in the Highway Department to develop a route from, say, 12th Street in Jersey City up to the westward of Hoboken and up to the Lincoln Tunnel. We have extended an amendment of that to carry it up to the George Washington Bridge so that that area will be served, but at the same time it will not dump the traffic into the Lincoln Tunnels. I think that if a modest program of the Turnpike is executed, it will be of benefit to all of us. But if the Turnpike in my humble opinion were widened to extensive lanes and without any diversion of traffic at all, I think it would be detrimental to the crossings into New York.

SENATOR STAMLER: I want to get back to the Erie Lackawanna and the Demonstration Plan that we discussed before. I don't know whether we did, you and I. Is this now in process, the Demonstration Plan, the project, up there?

COMM'R PALMER: It is in process and last Friday one of the attorneys from the HHFA came in and had a visit with us. As a matter of fact, we had at that meeting, the Central Railroad people, Pennsylvania Railroad people and PATH and the Highway Department and then after that we had an individual meeting with him. And we have no reason to feel at the present time that that program will not be approved. There have been a lot of pessimistic comments in the press and some justification for some of them, but in the over all we are convinced in our department that that will be approved.

Now under this program, we have a deal at the present time, we pay the Erie Lackawanna \$2,200,000 for the last six

months of this year, minus if the HHFA should take over on the 1st of December --

SENATOR STAMLER: Tomorrow morning.

COMM'R PALMER: [Continuing] -- we'd take a proportion off.

SENATOR STAMLER: That is tomorrow morning.

COMM'R PALMER: Yes, tomorrow morning.

The next phase is this: As Mr. Tobin pointed out, the Erie Lackawanna regardless of the program going through or not going through is definitely going to file with the ICC, cancelling out passenger service, and that primarily is to qualify them to sit in on the seats of the mighty with the Norfolk and Western combination, which also Mr. Tobin referred to and of which we are one hundred per cent in favor and are pressing it to the very limit of our capabilities. But the Norfolk and Western will not take over the Erie Lackawanna if they have the losses - and leave out the word "commuters" - and the losses come from the commuters and if they have the losses, they will not take them over. So in order to accomplish it, some other means has got to be developed to take care of the commuter situation, to preserve the Port of New York Authority, to keep the Erie Lackawanna from biting the dust and at the same time to prevent all of our mortgages being foreclosed, people moving out of the State and little businesses folding up.

SENATOR STAMLER: Is this the same Norfolk and Western that the Pennsylvania Railroad gets \$15 million a year from?

COMM'R PALMER: Yes. At the present time they are

making fabulous profits out of the movement of coal. One of their largest customers is Japan. And they have also over a period of years been making great sales to Europe and their profits are enormous. I know Mr. Pevler quite well who operates it and I know Mr. Fishwick, their financial genius, and they are doing a fabulous job, but there is no such source of revenue for any of these other railroads.

SENATOR STAMLER: Do you have any idea, Commissioner, what Pennsylvania's interest is in Norfolk and Western?

COMM'R PALMER: I have it exactly, sir. I might as well give you some of the others. The Pennsylvania Railroad, of course, owns the Long Island 100 per cent; but now that Mr. Tobin has said that Governor Rockefeller is going to take it over for \$65 million, that would leave that out. The Pennsylvania Railroad owns 82 per cent of the Detroit, Toledo and Ironton. They own 18 per cent of another section of that via the Wabash. They own 86.7 per cent of the Wabash Railroad. This recently was leased to the N&W for six years' use. However, PRR still controls voting rights. They own 97.3 per cent of the Lehigh Valley. They own 25.9 per cent of the Norfolk and Western. The ICC recently, as a condition of their approval of the PRR-NYC merger, ruled that PRR must divest itself of this stock within 10 years. This is under way.

The C&O owns 2.8 per cent of the Jersey Central. The B&O owns 38 per cent of the Reading and the Reading owns 49 per cent of the Central Railroad.

SENATOR OZZARD: We are practically dealing with one railroad nationally, aren't we?

SENATOR STAMLER: The Pennsylvania Railroad.

COMM'R PALMER: Well, as far as the economy is concerned

I think that the additions that they have made to it and the fabulous job they have done would cause commendation on the part of all of us for the way it has been operated.

I think Mr. Saunders is a genius in his field.

SENATOR STAMLER: No question about it.

Actually when you heard Mr. Tobin testify that it was needed to get Dereco, which Norfolk and Western is going to be part of, into the Port to help our economics, actually you are going to have the Pennsylvania Railroad competing with itself because it will have an interest in Dereco.

COMM'R PALMER: Well, Dereco is a widespread program - I heard you quote that and refer to it - that is way beyond the immediate situation of the Norfolk and Western and the Erie Lackawanna. Dereco is long range, involving the C & O and the B & O, and it will take four or five years I personally would think to execute such a program. But what we are all interested in is immediately getting the Norfolk and Western to take over the Erie Lackawanna to preserve the freight situation flowing into New York, to keep our commuter business going, our freight business going in the State of New Jersey, and then we having to assume the obligation of the commuter business.

SENATOR STAMLER: Do you think that this is really a solution to this, the proposed merger of the C & O and the N & W - the solution to the Erie Lackawanna and the commuter service?

COMM'R PALMER: The Erie Lackawanna will drop dead if they don't get in either the Pennsylvania or the Norfolk

and Western and by priority they are needed in the Norfolk and Western and the Norfolk and Western want them and I think have their tongues hanging out to get them, but that tongue needs to be relieved of some of the other elements before they are attractive enough to go in. Meetings are being held continuously between the two and I am positive that as soon as this commuter situation is clarified so that they are relieved of that dollar sign - not the commuter, the dollar sign - that the show would get on the road.

SENATOR STAMLER: Thank you, Commissioner.

SENATOR OZZARD: Commissioner, I have a couple of questions. First of all, I have heard a great deal of talk in these various hearings we have had about the losses of passenger service. You and your staff have dealt with the passenger problem for some years now.

COMM'R PALMER: Yes.

SENATOR OZZARD: I mean commuter service. Tell me, did commuter service ever make any money for the railroads?

COMM'R PALMER: Yes, it did.

SENATOR OZZARD: When?

COMM'R PALMER: The total rail service into New York back in 1930 was 266,000 people and today it is 90,000.

SENATOR OZZARD: This doesn't say it made any money. I am informed, for example --

COMM'R PALMER: Well, the point is this: Whether or not in those days they had a breakdown between the cost of commuter service versus all of the passenger service, I do not know. But they had very heavy mid-day traffic at that time.

We were not up against the program of the establishments in New York moving out into the country and of the activities of the automobile and so forth, and the upshot was that they made money on their passenger business. Whether they divided between commuter and long-haul, I do not know.

SENATOR OZZARD: The reason I asked the question, I am advised that the railroads may be in part just ducking what was once something not too attractive monetarily, but attractive to them otherwise - in other words, the days when they gave out free passes to get people to live on the railroad right-of-way in order to develop the necessity for hauling goods.

COMM'R PALMER: Incidentally, we don't have any of those passes in the department.

SENATOR OZZARD: I know you don't any more.

COMM'R PALMER: Any more? Not since I've been there.

SENATOR OZZARD: This is because the Star Ledger publishes the list and it is rather awkward when the --

SENATOR STAMLER: The Newark News.

SENATOR OZZARD: [Continuing] -- the Newark News publishes the list and it is rather awkward for the department to have its personnel --

COMM'R PALMER: I would say this: I am really in my business not influenced by anything like that. But nevertheless it is very stimulating at times. Is that the correct thing to say, Senator?

SENATOR OZZARD: Very fine. The fact is that whatever the beginning was, whatever the railroads have done, they

now contend that they can't make any money on this and this, whether or not we ever understand their bookkeeping; is that correct?

COMM'R PALMER: Yes, but I would say this: I want you to ask some questions on bookkeeping too of me. But I want to say this, that the detriment that the State suffers from the operation of railroad passenger service is evidenced by no replacement of cars over a period of 30 or 50 years that has amounted to anything. You ride on some of the carriers today and you go to pull the shade down and the whole business comes down. This thing has been going down the drain, if I may use that expression again, Senator Stamler, for about 12 or 15 years and your question might be, I would think from the Committee's standpoint, as to why in the interim something hasn't been done about it by the people who were running the business. Of course, if you are running a regular commercial business, you don't let your machinery drop dead because you can't produce economically. So the question is: Where along the line would have been the proper time to have taken the animal by the neck and have done something about it? But gradually it has just gone down the drain and in some of the railroads the locomotives are in hock. They have been taking spare parts off of them and so forth and the whole organization needs a complete overhauling in so far as equipment is concerned. So when it gets down to equipment needed for passenger service, the railroads say no soap - we can't put any money in any equipment due to the loss of the service.

SENATOR OZZARD: Commissioner, you are a former industrialist. You have been telling me here these last couple of minutes about an enterprise that has neglected part of its activities.

COMM'R PALMER: Upkeep, yes.

SENATOR OZZARD: It hasn't bought new equipment. It hasn't maintained its equipment. It hasn't maintained its service, etc. As an industrialist, if you were in a position of control over the persons running that sort of thing, would you care to retain them as part of your personnel if they couldn't do a better job than that?

COMM'R PALMER: Well, I wouldn't consider it was their responsibility; I would consider it was mine.

SENATOR OZZARD: Then you ought to be replaced too, is that it, if you were the head of the industry?

COMM'R PALMER: Well, I had occasion to be involved in companies that were about to go into the hands of receivers and was able to take them out and to build up not only a capital surplus, but also a net surplus.

SENATOR OZZARD: But when management has done a lousy job, you don't just continue to give them responsibility. You replace them or you transfer the activity to some other agency, don't you?

COMM'R PALMER: I can answer it this way.

SENATOR OZZARD: Then why do you recommend, Commissioner, that we let railroads continue to do this lousy job and just have a loose arrangement with the Department of Transportation financing them?

COMM'R PALMER: I am not recommending that.

SENATOR OZZARD: Aren't you doing this when you oppose a public agency taking over the operation of passenger facilities in the State?

COMM'R PALMER: I don't know what observations you gentlemen might have made as to the capacity of public agencies. We have certainly some that are fabulous.

SENATOR OZZARD: The Port Authority, the New Jersey Highway Authority, the Turnpike Authority, all doing a heck of a job.

COMM'R PALMER: Yes.

SENATOR STAMLER: At least incomewise.

COMM'R PALMER: Yes. The Turnpike is the outstanding toll road in the country. Certainly I don't need here to repeat my opinions about the entire operation of the Port Authority. We all agree on that.

SENATOR OZZARD: I've never heard your entire opinions but your public opinions I'm aware of.

COMM'R PALMER: Well, come on upstairs and I'll repeat them.

Senator, in so far as the Garden State is concerned, you know the State guarantees \$250 million of their bonds as well. But I think that risk is over. But to get back to your main question as to why, if the railroads have operated as they have, do I feel that we ought to have the kind of an agency that I mentioned instead of having a public agency.

I believe that there should be an operating agency to run the railroads and I'm not saying whether that agency should consist of railroad men or whether it shouldn't, but there are so many intricacies to the railroad business, for any agency to start off without knowing all of the ramifications, the labor obligations and the others, would be a weird approach to accomplish anything. Therefore, I feel that there should be employed a director to insure that the railroads were properly operated, and there ought to be a commission, whether it's in the Highway Department or not, to supervise that and to run the business end of the thing and to see that the accounting is properly taken care of. And as to the accounting which was discussed here this morning, I want to say this, so far as we're concerned we've had Edwards & Peabody; Peat, Marwick & Mitchell; and we've had Ford, Bacon and Davis, and others, go over exhaustively the division between the costs of freight and passenger

service in the State of New Jersey. And while the gentleman who testified here this morning was not too certain as to those elements they have taken care of, I say with a certainty we have. We have verified the losses of the Central Railroad of New Jersey, we've looked at all the divisions all the way through, the assignment of charges. It's quite true that when they sell a piece of land and they gain from other things it comes down into a different category, it's a non-operating item. But in the operating end we have gone through it from stem to stern. And Mr. Thomas can tell you the details of it if you would be interested.

SENATOR OZZARD: I would be interested but I don't want to get away from the agency for a moment.

COMM'R PALMER: All right.

SENATOR OZZARD: When you said that you weren't taking a final position as to who should operate, perhaps then I misinterpreted something you said that was contained in your statement when you said all suburban passenger service should be under control of one management team closely supervised by the State, not a management team of the State but supervised by the State. This meant to me that you want the railroads to run the railroads.

COMM'R PALMER: Not necessarily. There should be some railroad men on the Commission but the head man that runs it should not be the railroad man. And taking your point of view, as I see it, and other people's point of view, if the railroads have run their passenger service as they have to

date why pick a railroad man to continue it. That's your point of view.

SENATOR OZZARD. This is my point of view. They've proved to me they can do either a deliberately lousy job or a casually lousy job.

COMM'R PALMER: I'm not saying that they should do either one, whether it's casual or otherwise. I do not believe that the railroads should run the commuter service for the State, but you've got to have railroad men on it to handle many of the items. I noticed in the press where someone made the statement the other day that they thought the vice presidents of the railroads were either paid too much money or they shouldn't have them. After all is said and done, in any industry, no matter how simple it is, you've got to have heads to delegate authority. So I'm not contending that the railroads are overloaded with personnel or haven't sufficient, but it's a cinch that to have the railroads continue to run the passenger service would not be the wise thing.

SENATOR OZZARD: Then the difference, as I see it, as I now understand you, is simply one of whether or not there should be an authority or whether there should be an agency within the Highway Department or a Division of Transportation.

COMM'R PALMER: Please understand when I speak of the Highway Department my period of service, so far as that's concerned, has nothing to do with that recommendation. I want to give you a citation of the benefits that can accrue.

When the Erie Lackawanna was up against it, from a cash standpoint, we were building Route 80 in the northern part of the State and we found that, instead of going through a rock mountain, by picking up a right-of-way of the Erie Lackawanna we could save three and a half million dollars which would be saved partially to the State and partially to the Federal Government. We purchased that land from the railroad for \$2,600,000. They met a lot of their obligations and they took a million dollars of it and rebuilt some of the lines that could take care of that service.

Now, wherever we move, we've got to consider are we going to take business away from the railroad or are we going to contribute something to it. And the same thing is applicable to the busses. And today, if the railroads were to go out like a light, we have neither the space nor the time nor the money to take care of the chaos that would result. So the upshot is that whoever has the job, whether you call it State Highway or hinky-dink or something else, they've got to have the responsibility for coordinating the services of bus and rail and other movements.

SENATOR OZZARD: If the Department of Transportation was finally decided to be the answer, could you see any objection to having its activities, within a limited scope, supervised by the PUC so that there would be proper hearing procedures for citizens and others who want to come forward and be heard on matters of discontinuance, rates and everything else?

COMM'R PALMER: Not at all. But I want to point

this out, that the Public Utility Commission is a regulatory body and the body that we've been discussing here today is a proprietary body. So the line would have to be drawn someplace as to the regulatory features and the other features.

SENATOR OZZARD: If the HHFA project is successful, this will cause no change in the position of the railroads in their effort to discontinue passenger service. Is that correct?

COMM'R PALMER: None whatever.

SENATOR OZZARD: This is merely to find some economy, is that right?

COMM'R PALMER: This is merely to find out whether by getting a grassroot's committee of representatives from each one of the counties along with the rail division, along with the advice from the brotherhoods, etc., if economies can be instituted and improvements made with a grassroot's point of view instead of anything up here in the ether. So that at the end of the demonstration project, instead of the losses being five or six or seven million, they may be down to a shoestring of a million or a million and a quarter, and the State then is facing an issue which is not of the magnitude that it is at the present time because at the present time it is totally unknown what the results will be.

SENATOR OZZARD: My last question, Commissioner, for the record. Since we talked about discontinuance of passenger service bringing with it more highway construction

and river crossings and all these other things that seem to be astronomical in cost, could you tell me approximately what the cost of a mile of four-lane freeway in the metropolitan area is?

COMM'R PALMER: In Bergen County it's about \$12 million.

SENATOR OZZARD: Per mile.

COMM'R PALMER: Per mile. And on an average, in the southern part of the State, anywhere from about a million two to a million four or five. And you may recall that when the first issue came up on this rail transportation situation we contributed out of the Highway Department, really out of self-protection, - when we couldn't get the money out of the Legislature we took it out of the Highway Department budget and it was never paid back - that was six or seven million dollars. And in my opinion rail service is the greatest ally that the Highway Department has, absolutely, without question.

SENATOR OZZARD: Then it should be expanded and not be allowed to --

COMM'R PALMER: It should be expanded. And another thing is, we look at these things in the light of existing conditions. A long-range program has got to be worked out and it's got to be worked out not alone on the service but you ought to get somebody that's had to meet a payroll in business or industry to be a part of the situation so that they can look at it with a broad horizon and not just a narrow point of view that this is a railroad

or this is a highway or something else. The greatest benefit can accrue by probably people who have gone through the wringer themselves and have come up with some ideas on how to avoid the pitfalls in the future.

SENATOR LYNCH: Commissioner, you mentioned the figure of \$150 million in your statement.

COMM'R PALMER: Yes, sir.

SENATOR LYNCH: Is that just for capital improvements for the railroads?

COMM'R PALMER: Yes, sir.

SENATOR LYNCH: Electrification of lines, purchase of new equipment, high level platforms, etc.?

COMM'R PALMER: Yes, sir.

SENATOR LYNCH: Of that sum how much would you anticipate that you might receive from the Federal Government?

COMM'R PALMER: We'd get a half matching.

SENATOR LYNCH: You get a half matching. So it would cost the State \$75 million.

COMM'R PALMER: Well, it all depends on the size of the program.

SENATOR LYNCH: Yes.

COMM'R PALMER: It could be either \$300 million with the State putting up half or \$150 million with the State putting up \$75 million.

SENATOR LYNCH: Then assume we were to make those improvements and spend the money, then we have to operate the railroad.

COMM'R PALMER: Yes, sir.

SENATOR LYNCH: Do you have any idea as to what the cost would be to operate the railroads?

COMM'R PALMER: Senator, to begin with, at the present time the maintenance of these cars per mile, --

SENATOR LYNCH: The old cars.

COMM'R PALMER: -- the old cars is something like 60¢ per mile. You get new cars, you have a little bit of maintenance but at the maximum it would be ten or twelve cents. You begin to see the benefits of modernization and unless the railroads and the State do as successful industry has done and have research and development and modernization, the whole business is going to go flat. We can't pussyfoot with the thing as we've done over a period of years. And this activity which you gentlemen credit us with the responsibility of has simply been a subsidy for preventing the demise of the carriers.

SENATOR LYNCH: I take from what you told us today, Commissioner, that you believe the State of New Jersey must get into this railroad picture and get in pretty fast.

COMM'R PALMER: Yes, sir.

SENATOR LYNCH: That's all I have.

SENATOR HILLERY: Through you, Mr. Chairman, this question was brought up before, Commissioner. In your planning and thinking for this agency in the department to handle commuter service, have you given thought to the question that I asked before about the responsibility of

the railroads in their freight profit? Should there be a contribution? Should there be a contribution by way of letting them use the tracks or should they pay additional taxes out of this profit that they might make minus the commuter service?

COMM'R PALMER: I think, Senator, that we should with our own accounting people undertake to analyze the costs, the allocation of salaries, the allocation of everything, and then properly divide the monetary responsibility.

SENATOR HILLERY: Thank you.

SENATOR WOOLFENDEN: Commissioner, when you mentioned \$150 million did you have in mind \$300 million?

COMM'R PALMER: No, sir. But I answered the question --

SENATOR WOOLFENDEN: \$150 million total, federal and state.

COMM'R PALMER: As you branch out, it's fifty-fifty and I, of course, have no way of knowing what the future legislation will be. But I would like to mention here - I brought along with me, and I will leave a copy with you, a very interesting bill introduced by Senators Williams and Ribicoff and others, Senate Bill 2339 which authorizes the governor of each state to determine out of the highway funds allocated to the state what proportion should be diverted to mass transportation. That would be subject only, that decision, to the chief executive of the state or the legislative counsel and the chief of the Department of

Commerce.

So, to give you the drift of what's going on, every branch of movement of people, with the exception of the railroads, is being favored with subsidy by the federal government. This seems to be the first bite of the cherry of an approach to that, that if these \$41 billions, or whatever it is, are going to be spent on highways whether or not, since the rails are so important, some of that money shouldn't be diverted.

So far as we are concerned in our particular activity, not just because we're the Highway Department, we feel that the amount of money that is allocated should go for highways but we feel also that there should be a substantial sum allocated to the public carriers. I think it's criminal. And I think for that reason also that there's some excuse on their part, over these 15 years of difficulty, for their not getting a little enthusiastic because in everything the shoe has been on the other foot.

SENATOR WOOLFENDEN: Do you feel, sir, that with the proper stimulation of commuter service, if it could be stimulated, that the State could run it on a break-even basis rather than at a loss?

COMM'R PALMER: I have my doubts. My feeling is this, that with all the so-called sex appeal of new cars and bars on the cars and all of the other things, and all the money that we've spent, there is still a question as to whether you are going to bring the people

back to the rails. The thing we've got to face up to is the nucleus of necessity but not look on the point that we are going to be able to get a lot of people back because in my opinion the fellow who leaves his house in the morning, instead of rushing with the toast in his mouth to catch a train, much prefers to eat his toast at home and drive in his car to a certain location. So I have no ideas of that being the situation.

SENATOR WOOLFENDEN: Thank you.

SENATOR OZZARD: Just one thing, Commissioner. I am curious about your \$150 million and half of that coming from the federal government. Since it's my information for every dollar of federal aid we get we send about \$2.60 to Washington --

COMM'R PALMER: We send \$2.57 to Washington and we're the highest state in the country.

SENATOR OZZARD: Well, that being so, if you take \$75 million of our money and \$75 million of federal money, I calculate it would only cost the State of New Jersey \$265 million to get \$150 million of capital money. Don't you think this is pretty lousey business?

COMM'R PALMER: Well, that's if they are going to increase our taxes.

SENATOR OZZARD: This is a foregone conclusion, Commissioner.

COMM'R PALMER: Well, thank you. I have yet to find the source for such validity but thank you very much.

SENATOR STAMLER: Commissioner, how many railroad men do you now have on your staff in the Division of Rail Transportation?

COMM'R PALMER: Mr. Thomas?

MR. THOMAS: We have 7 men in the Railroad Division.

SENATOR STAMLER: And do they operate exclusively on the rail problems?

MR. THOMAS: Exclusively.

SENATOR STAMLER: Are you a rail man?

MR. THOMAS: No.

SENATOR STAMLER: What is --

MR. THOMAS: I'm a Civil Engineer.

SENATOR STAMLER: You're a Civil Engineer. And you're in charge of the Division of Rail Transportation.

MR. THOMAS: I am.

COMM'R PALMER: Mr. Day has been a rail man, though, for 15 years, haven't you?

MR. DAY: Yes.

SENATOR STAMLER: I was just asking Mr. Thomas but, if you want me to, I will ask him.

COMM'R PALMER: This is a gratuity.

SENATOR STAMLER: Mr. Day, are you a rail man?

MR. DAY: Yes, I am.

SENATOR STAMLER: For how long?

MR. DAY: Make it 18.

SENATOR STAMLER: What railroad were you with?

MR. DAY: The Pennsylvania.

SENATOR STAMLER: At least you got one that pays a profit.

COMM'R PALMER: That's why we have him.

SENATOR STAMLER: You testified that the PUC was a regulatory agency and you suggested that in your Division of Rail Transportation, your Public Transportation Agency, that you would also sort of supervise or control busses.

COMM'R PALMER: Correct.

SENATOR STAMLER: Now, aren't you practically, by doing this, destroying the purposes of the PUC?

COMM'R PALMER: Well, sir, we are not discussing either the birth or the demise of any agency, we are simply discussing the benefits that can accrue.

There are many locations - for example, take west of Raritan where there are few customers but there is still a rail service. A bus service could contribute to that point and would be very beneficial. On the shore line, the situation in Atlantic Highlands where there are some 540 customers a day, a bus service down there would be fabulous.

It's very essential that busses be used as feeders to the main carriers. I think in that way we would gain a lot in the form of additional customers.

SENATOR STAMLER: Right. In that line then, why couldn't, instead of setting up a new division, - why couldn't we strengthen the authority of the Public Utilities Commission and give it the control?

COMM'R PALMER: I would say that it would be perfectly all right whoever you get so long as it's done.

SENATOR STAMLER: It doesn't have to be in the Highway Department.

COMM'R PALMER: No, sir, it doesn't have to be --

SENATOR STAMLER: Which is in competition, more or less, with the railroads?

COMM'R PALMER: No, they are not. I beg your pardon.

SENATOR STAMLER: They are not in competition?

COMM'R PALMER: No, sir. It's just the opposite, they're allies. All you have to do --

SENATOR STAMLER: Well, so is the Pennsylvania and the Norfolk & Western.

COMM'R PALMER: Thank you for putting us in that category but the money that you give us does not upgrade us to that extent. Let me say this, that the movement of people and goods is the answer to this whole situation, and the preservation of the economy of the State. And to try to have railroads run by one outfit and the shoe industry, we'll say, shank's mare, by the others --

SENATOR STAMLER: Then you have no objection to the Public Utilities Commission being the agency, both proprietary and regulatory, --

COMM'R PALMER: I have no objection to an agency that can do this job, whatever name it might be.

SENATOR STAMLER: I would like to get back for one second to the Aldene Plan because it affects

my county seriously, my district seriously, I'm sorry.

COMM'R PALMER: We all can be corrected.

SENATOR STAMLER: When the Aldene Plan is finally implemented and finally running, what effect will there be on the fares for the commuter in the use of the Aldene Plan?

COMM'R PALMER: Could I use the expression, if I was that smart I wouldn't be working here.

SENATOR STAMLER: You've been here a long time.

COMM'R PALMER: Too long. Thank you. Let me say this -- I'm not speaking of today, I'm speaking of with the State. Let me say this, that the results of the Aldene Plan will amount to \$1.5 million a year gain to the Central Railroad of New Jersey when it's in full effect. Just what the capillary attraction may be to the customers, the maintenance of the service will largely depend on whether the rates go up or go down. As a matter of fact, my humble opinion is that the rates should be raised. As I pointed out here previously, we've had a recent modest rise in fares on the Erie Lackawanna. I think for the public to hang on a meat hook and expect to get everything for nothing, as they're getting subway service in New York at a deficit of \$128 or \$150 million a year, is a poor way to make them appreciate it. It's like taxes. I think when people are taxed they know what's cooking. And I think that probably the fare should be raised. But there is this to point out, that every time there's a fare rise somewhere between 5 and 15% of

the customers leave the line, temporarily. Now that will have to be balanced out with a business judgment of your Public Utility Commission or the Stamler Agency or whatever it may happen to be at the time.

SENATOR STAMLER: Well it won't be that last. Actually though, will you have the control of a fare increase or will the ICC?

COMM'R PALMER: We would.

SENATOR STAMLER: You will.

COMM'R PALMER: The ICC comes in on the interstate but we would do it on the intrastate.

SENATOR STAMLER: So that in other words any fare increase on Aldene would be under your control?

COMM'R PALMER: Yes, sir.

SENATOR STAMLER: Presently, I mean.

COMM'R PALMER: Presently, yes.

SENATOR STAMLER: And would be subject to the approval of you and not the PUC.

COMM'R PALMER: That's correct. That's the way it's operating now.

SENATOR STAMLER: Under present legislation. Right. Now, what guarantee have you that you will not, by raising this fare, using your term of 5 to 15%, drive the Central and Aldene Plan into - with all the money that we've put into it and will put into it - a lack of usefulness?

COMM'R PALMER: Well, I certainly wouldn't sit on my chair and wait for a thing like that to happen.

You certainly do things by piecemeal to find out what the effect is, and if it were so detrimental, as you cite the possibilities, it's a cinch it wouldn't be done.

SENATOR STAMLER: Of course, the people who are paying the commuter fares are the same people who are paying the subsidies, there's no question about that.

COMM'R PALMER: There are a lot of people that are driving that are paying the subsidies and are not getting a thing out of it.

SENATOR STAMLER: Well, they are, partially, they have a few less cars on the road.

COMM'R PALMER: I don't think so. As a matter of fact, to give you a citation of that, when the Port Authority designed the parking place near the Lincoln Tunnel it was felt that that would reduce the number of cars going through the tunnels. Instead of that, more people left the trains.

SENATOR STAMLER: But you like the Port of New York Authority. We all do. You think it's doing a great job.

COMM'R PALMER: I have repeatedly said that.

SENATOR STAMLER: I do. I'm not arguing that.

COMM'R PALMER: And even my judgment as transcended by the Senator's.

SENATOR STAMLER: Do you believe that the Port of New York Authority could run our railroads properly and profitably?

COMM'R PALMER: No. You made a mistake.

SENATOR STAMLER: No, I didn't.

COMM'R PALMER: Yes, you did. You said, "and profitably."

SENATOR STAMLER: I would assume, Commissioner, that they will run it properly as they do everything else but they also have a tremendous surplus from other areas.

COMM'R PALMER: Are you talking about a subsidy then for the railroads?

SENATOR STAMLER: No. I'm talking about the running of the railroads properly and profitably.

COMM'R PALMER: I see. The answer is no, they could not do it.

The situation at the present time between the two states and the Port Authority is that the limit of their losses in mass transportation is \$10 million, anything that exceeds that should be to the account of the state initiating the project. At the present time, as Mr. Tobin has cited, they are running up into five and six and seven and eight million dollars. As a matter of fact, because they are as good as they are is no sign that we should try to undercut them and load them down with some fabulous problem.

SENATOR STAMLER: I agree. On this Senate Bill 2339, the railroad senate bill, do you have any idea what we can expect should this bill be implemented in New Jersey, let's say in the next year or two or three?

COMM'R PALMER: No, sir. My own feeling is

this, that it is our job, the job of the State of New Jersey, the Legislature and the hired help as well, to testify in Washington before senatorial and congressional committees as to the facts of life and point out that the highway business has got to go on but that the railroads have got to go on and that New Jersey, as Senator Ozzard points out, is putting up \$2.57 for each buck that it gets back, and that they've got to do a job to help the railroads as well as helping the air people and the others.

SENATOR STAMLER: Well, according to Senator Williams, who wrote to a friend of mine, he writes and says, "Currently authorizations of federal aid in the state funds for the fiscal year 1968 for the country totals about \$3 billion of which New Jersey's estimated share is \$78 million. The Bureau of Public Roads anticipates that during the next calendar year Congress will approve authorization for federal aid, primary, secondary and urban funds, for the fiscal years 1968 and 1969 at a level of about \$1 billion. New Jersey's share, therefore, would be about \$18 million. Thus New Jersey could expect approximately \$96 million for the fiscal year 1968. This entire amount under the provisions of S 2339 could be transferred to projects for urban mass transportation, which includes railroads."

COMM'R PALMER: Under the guise of that bill. Correct. But, of course, they wouldn't transfer all of it. That's a fallacy.

SENATOR STAMLER: I didn't say it would.

COMM'R PALMER: No, I know.

SENATOR STAMLER: That's all I have.

SENATOR OZZARD: Commissioner, thank you again.

COMM'R PALMER: Thank you very much.

SENATOR OZZARD: We appreciate your coming.

COMM'R PALMER: And I hope that we contributed slightly to your problem but I know it's a big problem and I'm very hopeful, as an individual, that out of all this will come the answer to the maiden's prayer and that is how the commuter business can continue to operate.

SENATOR OZZARD: We'll give you an answer, that may not be the answer.

SENATOR STAMLER: Without raising the fares.

COMM'R PALMER: Without raising the fares in Westfield.

Thank you very much.

SENATOR OZZARD: Thank you, Mr. Thomas.

Commissioner Hyland. We have but one further appearance, that of Commissioner Hyland, and rather than break here for lunch we would like to take the Commissioner now.

Commissioner, we asked you to come to the hearing today for any comment you want to make but principally we want to talk to you about the position of the PUC, your agency, on present matters pending with the railroads and also its position if we go into a State agency, whether or not it should continue to have some regulatory effect, unlike the situation in New York State. This is of concern to me and I think to some of the others.

W I L L I A M F. H Y L A N D: Well, I should say at the outset, Senator, that I think that the consensus here today is that the State of New Jersey cannot afford to let the commuter railroad service die, that it means too much in the way of additional highway construction with all of the expense involved, as well as economic loss of a secondary nature by way of destruction of ratables, etc., for us to think of this.

As all of you know, when the Division of Railroad Transportation was created a few years ago, the Public Utility Commission's supervision over passenger service in large part was transferred to that division, at least to the extent that the division contracted with various carriers to carry on service; in other words, we retained our jurisdiction largely in the absence of such contracts and, if those contracts expire, then under the terms of the statute we would have what I have described in the past as a reversionary jurisdiction that would come back to us.

We have continued to exercise supervision over freight, however, and there are a great number of freight tariffs that are filed in our department and have to be reviewed every day. We hope to retain jurisdiction over grade crossing eliminations and protections at least as they apply to municipal and county roads. We have continued to exercise supervision over such general matters as the operating rules of the railroads, the over-all safety

aspects, and so on. But, as Commissioner Palmer has said, our function has remained largely regulatory and not proprietary, or planning, shall we say, although as time goes on and as the dependence of the public on all kinds of utility services continues to grow, I think we are realizing that there has to be more and more planning and research and forward looking on the part of regulatory agencies than has been true in the past. I cite the electric power situation, for example, as we have recently seen it fail because of the high technology that has been developed in that field.

Now, specifically on the questions that were presented to me in the Committee's letter, we were asked first of all to express an opinion about the possible creation of a public authority to carry on this essential commuter service. And in my own mind, I have concluded that while there are several ways of doing this probably, the reasons that gave birth to the New Jersey Turnpike Authority and the New Jersey Highway Authority probably prevail as well here, and there may be more to be said for the creation of a new state transportation agency to do this rather than attempt to assign that function to one of the existing departments. Now, I am not persuaded absolutely that that is the only way to do it but I have at least one major reason for saying this. I don't see how it is possible, for example, to get the skilled, expert management. And this is not a reflection on anybody in the State service,

certainly not in my department nor in the Highway Department, but I don't see how we can build up the kind of management that we would need to run this sort of an enterprise and still pay in line with the State salary scale that is being paid to all of the other departments. As you know -

SENATOR OZZARD: That's a good pitch, Commissioner, for inadequate salaries.

MR. HYLAND: Well, that would be one way, but probably a more expensive way to correct - that is, by adjusting the salaries in all the other spheres of state government activity upward.

SENATOR STAMLER: Of course, it could be- Excuse me, as long as he interrupted - a good pitch for the high management salaries that are paid by the railroads.

MR. HYLAND: Possibly. But I think that's one of several reasons. Now, since the day that I first entered the Legislature in 1954, I've heard criticism about the complete autonomy of these authorities, the fact that very often they are created to accomplish some special purpose and then their close relationship to the state government seems to cease at that point, and those who run for office and are elected by the people often have very little to say about the functioning of the autonomous agencies. And I think that that problem can be overcome in this instance by assigning to the authority membership those department heads of the state government who are most directly concerned with the function that the authority would perform.

I am thinking of the head of the Highway Department, for example, and I am thinking of the head of the Department of Conservation and Economic Development, and I am thinking of the head of the Public Utility Department. In addition to that, I would suggest that if legislation of this kind were formulated, there should be several public members who are assigned to it as well, but I think we can bridge this gap between state government and the functioning of an autonomous agency by providing some identity of personnel. Now, Governor Hughes has attempted to accomplish this in respect to several authorities. But, more specifically, this is done in Pennsylvania, for example, where under the state laws several of the important state officials automatically hold seats on the Delaware River Port Authority, and this gives a relationship between the responsibilities of the state government and the autonomous agency.

Now, the possibility of assigning this function to the Highway Department is something that I don't rule out, but I don't accept, as someone who has been interested in government for some time, this idea of departmentalizing governmental functions by commodity. Simply because we are concerned with transportation in the highway field, it doesn't necessarily follow that the Highway Department should exercise this complete supervision over buses and rails. We might just as well take the Division of Motor Vehicles and put that in the Highway Department.

I think there is something to be said for the check and the balance that is provided by having separate departments perform their traditional function but with a high degree of coordination among the people who are involved. This can be done either on a sub-cabinet level or can be done by providing this identity of membership that I have suggested as between a state transportation authority and the heads of the various departments.

I was also asked to comment about the role of the Board of Public Utility Commissioners in the preservation and improvement of railroad facilities, and I think I have touched upon that somewhat in the comments that I have just made.

I want to say, in addition to that, that you must bear in mind, as Senator Ozzard has referred to in the course of this hearing, that there are rights of the public involved. I think there should continue to be a forum where, under traditional principles of due process, the public can be heard and those who are operating transportation facilities can be heard, and there can then be an adjudication made.

I don't see how we can coordinate in an absolute sense all of the rail and the autobus operations under one agency if we are talking about proprietary or planning unless we begin to get a parallel between rail and bus, for example. If there is going to be a proprietary agency operating the railroads, then I don't see how bus operations can be coordinated absolutely with rail functions unless that

agency also operates the buses. And I don't think anybody has reached the point where that is being suggested, and yet the bus service is very, very important to maintain.

So I think we should take this step by step. I think it is quite possible that the immediate crisis in the rail transportation field can be met by either the creation of this autonomous agency that I have talked about or by giving additional powers to one of the state agencies and providing them with the necessary contracting powers so that in the first instance the railroads would operate this service and then it may be eventually that the state government would have to step into it and operate the service exclusively by itself. I think these things can be taken step by step and we don't have to do the total job immediately.

The important thing is to jump into the gap as rapidly as we can so that the public can be assured that we are not going to allow commuter service to die.

SENATOR OZZARD: Commissioner, Mr. Tobin expressed an opinion in response to one of my questions - I think it was Mr. Tobin - that since we might be dealing with a public agency anyway there would appear to be no necessity, since it was public, for the PUC to be involved now. I have a slightly different opinion, the one I have expressed and you have just repeated, that of having the established procedures in law for hearings and participation by the public and management. Do you see any conflict here at all? Could your department operate with a public agency and supervise, for

example, rates and types of service, etc., without getting into the total operational function that the other agency would be involved with?

MR. HYLAND: Well, I think that would be possible and I can think of several parallels. In Pennsylvania, for example, it operates in this fashion, but I think what Mr. Tobin meant was that the new legislation in New York has exempted the Transit Authority there from regulation by the New York Public Service Commission, and it may be that this can be done successfully when you are dealing with a public agency. Bear in mind that the Public Utility Commission only regulates the investor-owned, the privately-owned utility services of the State, although in some states they also regulate the municipal water companies and sewer companies. But I think it would be worth while exploring, if a separate agency were created, to see whether it could not function within itself without need for regulation over rates by the Public Utility Commission.

SENATOR OZZARD: You say this should be explored?

MR. HYLAND: Yes. I think it's possible that they could operate properly without bringing the Public Utility Commission into the act.

SENATOR OZZARD: You mean build into the agency procedures, the matters of hearings -

MR. HYLAND: To satisfy the processes and problems that you are concerned about, yes.

SENATOR OZZARD: I gather that the PUC would not be averse to exercising those functions if the Legislature suggested it.

MR. HYLAND: No, I think not, and I don't think they would be too burdensome really. But I am just questioning whether there would be a need for it and I would want to give further study to what kind of an agency was created before coming to a final conclusion.

SENATOR OZZARD: Senator Hillery?

SENATOR HILLERY: No questions.

SENATOR OZZARD: Senator Stamler?

SENATOR STAMLER: I only have one. Presently you have the right to at least defend yourself and oppose increase in public utility rates, do you not, after a hearing?

MR. HYLAND: You say we have the right-

SENATOR STAMLER: I mean the state - where there is an application for an increase of a public utility's rate.

MR. HYLAND: Could the State of New Jersey itself come in and object? Is that your question?

SENATOR STAMLER: Yes.

MR. HYLAND: Yes, in theory at least that is so.

SENATOR STAMLER: In theory?

MR. HYLAND: Yes.

SENATOR STAMLER: And, therefore, if the railroads were under the control, or the agency were under the control of the PUC, you could continue to extend that right should there be a fare increase or a rate increase? It would follow through.

MR. HYLAND: Well, I suppose so. We don't have a situation of that kind now. There isn't anything that the Public Utility Commission supervises that on the other hand comes before us for any kind of rate relief. It would be interesting to explore it. What came immediately to my mind was that there are instances where the State has objected to the final outcome of a Public Utility Commission hearing and taken an appeal, and we also have had the experience of federal agencies coming before us all the time where rate applications are concerned in order to register some particular viewpoint because a rate increase would mean important dollars to the federal government. So there is that kind of a precedent for it but not precisely what you have suggested.

SENATOR STAMLER: How many buses do you now supervise?

MR. HYLAND: Approximately 5,000. About half of these are owned by Public Service Coordinated Transport, and the rest are owned by approximately 300 independent bus companies.

SENATOR STAMLER: Thank you, Commissioner.

SENATOR OZZARD: Senator Woolfenden?

SENATOR WOOLFENDEN: I have no questions.

SENATOR OZZARD: Commissioner, thank you very much. We appreciate your comments and your appearance.

This concludes the hearing. A date will be determined by conference with the members and later announced through the secretary of the Committee.

[A D J O U R N E D]

New Jersey Special Senate Committee  
Established pursuant to Senate Resolution Number 4 of 1965  
Statement on Behalf of The Port of New York Authority

by

Austin J. Tobin, Executive Director

November 30, 1965

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The Port of New York Authority is pleased to have been invited by your Committee to present our views on "the advisability and practicability of providing for the creation of a public authority to acquire and operate passenger and freight railroad facilities" in the State of New Jersey.

I believe that it would be helpful at the outset to review briefly the current status of the commuter problem in the northern New Jersey-New York metropolitan area. The Port Authority's primary concern is, of course, with the problem in the bi-State region of northern New Jersey and New York. While my statement will be confined to the commuter problems in that area, I recognize that your Committee is concerned with commutation in the Camden-Philadelphia area as well.

The Commuter Rail Problem

The commuter railroads serving the metropolitan area have experienced sharply declining passenger volumes since the 1930's with the exception of the World War II period. For example, in 1930, a total

of 170 million railroad passengers crossed the Hudson River. In 1964, the comparable volume had declined to about 50 million passengers, two-thirds of them concentrated in the Monday to Friday morning and afternoon peak periods.

There are many factors which contributed to this rail passenger decline. One obvious reason was the general adoption of the five-day work week after World War II which automatically reduced commuter passenger volumes by one-sixth. Then too, travel in off-peak hours and on weekends and holidays once played a key role in railroad patronage, while today, almost all recreational travel for the family, particularly on weekends and holidays is accommodated by the automobile. As a result, this once-important segment of the rail transportation market - namely, recreational, shopping, family and social journeys - has been drastically cut, particularly in mid-day and evening hours and on weekends. By way of example, over the period from 1948 to 1964, while railroad commuter traffic declined by about 37 per cent, off-peak weekday volumes have dropped by 60 per cent and weekend traffic by nearly 70 per cent.

Other reasons are found in the wide variety of economic and social forces which have shaped the development of the region. In brief, this metropolitan area, and indeed every other metropolis, has experienced a decentralizing trend so that there has been a steady increase in the population living in the outlying suburban areas, as compared with a stabilization or even a decline in the older, more densely developed neighborhoods in the central core areas of large cities. Similarly, employment in business and commercial offices, as well as in industries, has undergone some decentralization from the central core.

Another factor in the railroad problem has been the development

of shopping centers, recreational and amusement facilities in the suburbs. Here again, the fixed railroad trackage is not generally suited to serve conveniently this complex pattern of origins and destinations. The automobile made these suburban and county centers possible. Only the automobile or the bus can serve them.

This pattern of regional development and expansion in the outlying areas has had a crushing impact on the ability of the commuter railroads to maintain patronage. Even if it had been economically justifiable within the framework of private enterprise - which it was not - no program of modernization, no new air-conditioned cars, no public relations programs or publicity gimmicks would, in my opinion, have substantially affected the diminishing patronage of New Jersey's commuter railroads. The social, economic and technological forces of the second half of the Twentieth Century had put our commuter rail services in bondage.

In the face of these changes, however, it is important to keep in mind that total Manhattan employment has remained relatively constant, although its job composition has changed. It is the mode of transportation rather than the numbers that has shifted drastically.

It is significant also, and significant, I might say, to all levels of our economic structure, that these commuters who are able to reside in the New Jersey suburbs carry out responsibilities and activities

vital to the existence of the corporate business headquarters in Manhattan and to the thriving economy of the entire New Jersey-New York metropolitan area. Their managerial skills create and maintain jobs throughout every level of the American economy. And, as a local but nevertheless an important note, I might observe that their purchasing power is obviously of great importance to the State of New Jersey. No less than 60,000 of these daily commuters depend on New Jersey's commuter railroads to get into Manhattan in the morning and return to New Jersey in the evening. It is obvious, therefore, that the maintenance of our existing commuter rail service is important to the State's welfare and economy.

Yet, as we look further into patronage losses of these commuter rail lines, it is apparent that they have been left with what is essentially a peak-hour travel market and a reduced market at that, even in these hours. Their traffic is concentrated into a period of two hours in the morning and two hours in the afternoon, resulting in the economically devastating proposition that commuter railroad equipment is used only 20 out of the 168 hours of the week, i.e., at about 12 per cent of its mechanical availability, and that while railroad workers must be compensated for forty hours of work each week, half that time is economically non-productive.

This necessary public service then, is certainly not a business. It has nothing to do with the American concept of private enterprise. Indeed, it does not even qualify for what I call public enterprise, that is, public projects that can be carried along on a self-supporting basis. Nevertheless, our commuter rail services in New Jersey and in New York, as well as in many other metropolitan areas, are necessary public services that we cannot do without and that we cannot afford to dispense with.

By way of example of the financial problems of the commuter railroads, consider the implementation of the Aldene Plan. This essential public improvement will result in a substantial increase in the already high concentration of PATH traffic in the peak hours. Most of the Jersey Central Railroad passengers transferring to PATH at Newark will be commuters, and in order to serve them PATH will have to buy another 44 modern air-conditioned cars at a cost of over \$5 million. We will have to upgrade substantially the Pennsylvania Railroad's Joint Service trackage, increase the capacity of our traction power system, rebuild the signals between Journal Square and Newark, improve stations and undertake a number of other improvements. The total project cost of this work for the implementation of the Aldene Plan is about \$15 million. We will, of course, also have to provide the extra manpower to operate the additional peak-hour trains.

Most of this investment in physical and staff resources will be unused during the 148 non-peak hours of every week. The costs associated with PATH's participation in the Aldene Plan are therefore estimated to be some \$650,000 a year in excess of the added revenues PATH will receive when the Aldene Plan is put into operation. The net result will be a substantial increase in the already high PATH deficit. Put in another way, it will cost us 29 cents over and above his fare, for every Jersey Central passenger who transfers to PATH in the morning, and it will cost us another 29 cents to get him from Manhattan back to his Jersey Central train at Newark in the evening.

As a result then of these higher costs and lower passenger volumes experienced since World War II, the financial condition of the

New Jersey and New York railroads, other than the Pennsylvania and the New York Central, has steadily deteriorated. This deterioration has been accelerated, particularly in the case of the financially weaker carriers, such as the Jersey Central, New Haven and Long Island, by inadequate earnings from their freight service.

On the basis of the railroads' official reports and estimates of the New Jersey Division of Railroad Transportation and the New York State Office of Transportation, the commuter passenger services of the northern New Jersey and New York railroads in 1964 had a combined total deficit, before application of State financial relief, of about \$35 million a year -- \$21 million for New Jersey carriers and \$14 million for New York carriers. On top of this, the New York City Transit Authority incurred operating deficits in 1964 of \$26.5 million and is reported to be facing an operating deficit of \$62 million in the current fiscal year. In addition, the New York City Subway system requires public support by the taxpayers of the City of New York of more than \$100 million a year to meet the debt service on its capital requirements.

Attempts by the commuter railroads to improve their financial position by raising fares to offset sharply increased operating costs have resulted in little, if any, improvement since revenue increases have been pretty well negated by losses in patronage. The railroads have also attempted to improve their financial positions by curtailment of service and abandonment of some lines. While these moves did reduce some elements of financial loss through operating economies, they also cut patronage.

Witnesses at earlier sessions of these hearings have mentioned both the Chicago and Northwestern Railroad in Chicago and the overall Philadelphia program

as examples of what can be achieved by commuter railroads. About five years ago the Chicago and Northwestern undertook a rather extensive program, in a short period of time, under which new and efficient equipment was provided, and a number of near-in stations within the City of Chicago were closed. At the same time, a competing, parallel railroad went out of business. The railroad, a relatively short and direct line through a densely populated area, now carries 80,000 passengers a day, which is a considerable increase in its patronage both in peak and in off-peak hours. I would emphasize, however, that the Chicago and Northwestern situation is quite different from that of the New Jersey railroads. Specifically, the Illinois State tax situation in regard to railroads is more favorable.

In Philadelphia, the Passenger Service Improvement Corporation has reduced fares and increased service on the commuter railroad lines serving Philadelphia. These subsidies, which now amount to \$2½ million per year, have increased the volume of passengers by 62% over pre-subsidy levels. It is unarguable, of course, that any commuter railroad could progressively increase the number of passengers carried by cutting fares or, indeed, eliminating them altogether. In such an approach, the only question is how large a subsidy the general public is willing to carry. It should be realized also that the average length of ride in Philadelphia is shorter than in the New Jersey area served by the New Jersey commuter railroads, so that more can be accomplished with each dollar of subsidy.

In the light of all these factors, one must conclude that commuter rail service in this area, without substantially increased public financial support, cannot continue to exist within the framework of private enterprise.

The very nature of the commuter rail operation, as well as its present and potential market, points to deficits continuing at high levels, which increasingly are beyond the ability or willingness of the railroads to absorb. Commuter railroads are a necessary public service. They are not a business within the meaning of that term in the field of private enterprise.

Public Support is Essential for Maintaining New Jersey  
Commuter Rail Services

The issue of maintaining the important commuter services which today handle 60,000 New Jersey rail riders to Manhattan and another 17,000 intrastate passengers in the morning peak period, is not a planning or engineering problem, but a financial one. The crucial need is for sufficient funds to accomplish three basic objectives - to acquire new rolling stock, to make essential capital improvements, and then to offset operating deficits.

In January 1964, appearing at a transportation conference of the United States Chamber of Commerce, I expressed this in these terms:

"The problem of meeting today's and tomorrow's urban passenger transportation needs is not primarily a planning problem, nor is it an engineering problem. We could plan and build systems to serve every need, anticipate and shape land use, use new technology and thus meet all the criteria of well designed, functional transit systems. Our only problem is money, money to build, money to modernize, money for desperately needed new rolling stock. Money for the safety of tens of millions of American commuters, for signaling, for maintenance, for repair, for replacement.

"Effective regional and local planning can help. Skilled engineering can make the results better and cheaper. But we all know that the core and kernel of the problem is fiscal - where is the money coming from? That is where we will succeed or fail in meeting the country's mass transportation problem."

Until quite recently, the needs of commuter transportation have not been considered urgent and pressing enough to justify large expenditures, either by the railroads or by government. The railroads have resisted investment in commuter facilities on the ground that it would be a losing proposition and thus worsen their already difficult, and in some cases, critical financial condition. From the standpoint of railroad management and the railroad stockholder, such a business decision is quite understandable. State and local officials have also resisted making expenditures to subsidize commuter rail services, since they have been pressed as never before to provide for a wide range of urgent state and local needs, with limited tax resources. Commuter railroad requirements have, therefore, been deferred.

Various statements by railroad officials before this Committee and elsewhere indicate that the equipment needs of the New Jersey railroads may be conservatively estimated at \$100 million. More than 98% of the total passenger cars in commuter service in New Jersey are over 30 years old. These obsolete cars must be replaced if this public service is to be maintained and improved. On top of this, the commuter railroads in New Jersey will require extensive additional capital expenditures to upgrade their physical plants - money for electrification, station and yard improvements, track and signal work and the like. These capital needs for the Erie-Lackawanna and Jersey Central have been estimated at more than \$30 million.

Some progress, of course, has been made in the last few years. The commuter services have been kept rolling. The H&M has been saved from the scrap heap and is being completely rebuilt and reconstructed. But no way has been found to raise the substantial capital funds that are ever more urgently needed to put the Jersey Central and Erie-Lackawanna equipment and services into decent and dependable condition. As this Committee well knows, since 1960 the State of New Jersey has entered into annual service contracts with the commuter railroads, now totaling about \$7,500,000 a year, to provide specified levels of service at specified fares.

The State and the Port Authority, with the cooperation of the Jersey Central and the Pennsylvania, are also progressing the Aldene Plan which is designed and intended to improve the future operations of the Jersey Central and Pennsylvania Railroads. It is, however, quite apparent that the needs of all of the State's commuter rail services are such that solutions will have to be found which go substantially beyond current State programs.

#### Port Authority Role in Commuter Transportation

The Port Authority, within the limits of its ability, is also providing important assistance in dealing with the commuter railroad problem. Our program has been undertaken, as it must be, within the requirement by the States of New Jersey and New York in their 1921 Port Compact that the Port Authority carry out its total program on a self-supporting basis, without the power of taxation or the ability to pledge the credit of either State. It is being carried forward specifically under the 1962 bi-State statute which authorized the Port Authority to acquire, operate and modernize the Hudson and Manhattan Railroad, since renamed Port Authority Trans-Hudson or PATH.

The interstate PATH system plays an important role in providing mass transportation facilities for the New Jersey-New York region. Each work day, it carries approximately 100,000 passengers - 50,000 in each direction - between Newark, Jersey City and Hoboken and the PATH terminals in lower and mid-Manhattan. In 1964, PATH carried over 28,000,000 passengers. Its importance can best be seen during the morning peak hours between 8 and 9 AM when the line carries about 20,000 New Jersey riders into Manhattan.

When the Port Authority acquired the Hudson Tubes, the system was in a state of advanced decay and disintegration almost beyond description. Its rolling stock, stations, maintenance shops, power and signal systems had suffered and deteriorated from many years of neglect.

Despite the fact that maintenance during the period of bankruptcy was practically nonexistent - indeed, in many areas, the railroad was kept operating by the cannibalization of equipment - the H&M had annual net operating losses from 1955 to 1961 of from \$200 thousand to \$1.1 million each year and overall losses of up to \$2.2 million a year. Its total losses for that 7 year period, including interest on its debt, came to almost \$11 million, even though, as I have noted, practically nothing was being spent for maintenance or capital improvements.

On taking over the responsibility for the operation of the H&M in September 1962, the Port Authority started work immediately to correct the most serious and deplorable of these conditions. An emergency program - completely uneconomic but a public necessity - was initiated to maintain the old rolling stock in service until it could be replaced. Stations were cleaned, repainted, signed and better lighted; signal and power equipment was repaired; and other long-deferred, essential maintenance work was undertaken.

A major step was taken in January 1964, with the purchase at a cost of more than \$18 million of an entirely new fleet of 162 aluminum, air-conditioned rapid transit cars to replace all the old black cars, many of which went into service when the Tubes were opened in 1909. The entire new fleet is now in service and the old cars are being sold for scrap.

I think it may be of interest to this Committee to point out that despite the introduction of a new fleet of modern, comfortable and clean cars, the commuters are not flocking to travel on PATH. Traffic on PATH in 1965 will be five per cent under 1964, even though we have widely publicized "the world's first all air-conditioned transit system."

Other elements of the improvement program are now also under way. These include the rebuilding and modernization of the signaling system at a cost of almost \$2 million; rehabilitation of passenger stations in New Jersey and New York at a cost of almost \$2 million; installation of a new silicon rectifier traction power system at an estimated cost of \$5 million; rehabilitation of the drainage system; and substantial expenditures for other needed improvements.

We are also working on all phases of the PATH program related to the State's Aldene Plan, so that PATH will be fully prepared to accept Aldene traffic when the plan becomes effective. As I have previously noted, the total project cost of our work in connection with the Aldene Plan alone is about \$15 million.

The complete revamping of the PATH system will also include a new PATH terminal to replace the outmoded facilities in the basements of the Hudson Terminal Building at 30-50 Church Street in lower Manhattan. Also planned is a new Transportation Center in Journal Square which will greatly facilitate the flow of bus and PATH passengers at this important hub of Jersey City.

The 1962 bi-State statute, sponsored in New Jersey by a Special Investigating Committee of the New Jersey Senate, clearly established the framework and policy under which this program was to be advanced. Your Committee will recall that the legislation, among other things, specifically dealt with the fundamental question of protecting the credit of the Port Authority so that the Authority could take over, rebuild and operate the old Hudson & Manhattan and at the same time, continue the bi-State program of vital public transportation and terminal facilities on a self-supporting basis. To this end, under the provisions of that legislation, the States themselves entered into a contract with the Port Authority bondholders guaranteeing them against the dilution of revenues and reserves already pledged, as a result of any additional commuter rail deficit beyond those of the basic Hudson Tubes system.

These covenants set a number of protective limits. In general terms, the principal relevant limitations provide that the Port Authority may not use funds for any additional commuter railroad purpose unless the Authority can certify that the new railroad facility to be authorized is self-supporting. If it is not, the Port Authority must

determine that the estimated average annual deficit from the proposed additional facility, as well as from any existing Port Authority commuter railroad facilities, (such as PATH), would not, in total, exceed 10 per cent of the Port Authority's General Reserve Fund at the end of the previous year.

This legislation provides the only legal means by which the Port Authority may participate or become financially involved in additional deficit commuter railroad operations. Existing contracts with Port Authority bondholders also require that projects will not be undertaken which will materially impair the sound credit standing of the Authority or the investment status of its bonds.

Under the protection of the credit which was available as a result of these agreements between the two States and the Authority's bondholders, the Authority acquired the bankrupt and dilapidated interstate Hudson and Manhattan Railroad in 1962. In addition to a current annual deficit of over \$6 million on PATH, the Port Authority faces additional costs for debt service on the very large amounts of capital required to modernize and improve the railroad and to acquire the properties.

It is clear to us that this required PATH program will push to the limit the Port Authority's capacity, as established in 1962 by the two States in their joint legislation, to participate in the region's commuter transportation problem.

You will recall, Mr. Chairman, that the Special Senate Investigating Committee of which Senator Farley was Chairman and you and Senators Lynch and Kelly were members, unanimously came to this same conclusion in 1963. Quoting from the Committee's Report:

"This Committee was convinced that the credit problem which had been pointed out by The Port of New York Authority was a valid and real one and that the Port Authority could not assume responsibility for the complete burden of the deficit-ridden commuter railroad problem in the area of northern New Jersey and New York. If the Port Authority were to receive such unrestricted responsibility, there is no question but that its sound credit position would be seriously impaired, if not destroyed, and it would become impossible for the Authority to continue to move forward either with such a rail program or with other vital transportation and terminal facilities and other facilities of commerce desired by the two States in continuing the Port Authority's tradition as a public agency."

New York State Program to Maintain and Improve Commuter Railroads

I believe it would be helpful to this Committee to review briefly the public programs that have been adopted in the State of New York, faced as it is with problems similar to New Jersey's problems with its faltering commuter railroads.

In 1959, legislation was enacted, granting substantial tax relief to New York State's railroads and bus companies. This program was expanded in 1961 to provide additional relief to the commuter railroads. As a result, the railroads with essential commuter

services are now virtually free of taxes on the real properties used in this service. The current state-wide commuter railroad tax relief in New York amounts to about \$25 million a year, of which about \$12 million has been applied to commuter railroads serving New York City. To assist the local communities in providing this tax relief, the State appropriates about one-half of this amount to the affected communities in the form of additional State aid.

Since 1959, bus companies in New York State have been granted a total tax relief in franchise and motor fuel taxes of approximately \$20 million and the railroads about \$84 million.

The State of New York also passed legislation in 1961 to authorize suburban counties and the City of New York to contribute to meeting the cost of the operation and maintenance of commuter railroad stations. Several local governments are now participating in this program.

In addition the State of New York is assisting the New York Central and Long Island Railroads to acquire new equipment on long-term lease at very favorable interest rates. In accordance with concurrent enabling legislation enacted by New Jersey and New York in 1959, the Port Authority is serving as an agent of the State of New York in this program. It involves the purchase of commuter cars by the Port Authority which then leases the equipment to the railroads. The railroads are thus able to obtain urgently-needed new equipment at low interest rates. The program is financed by special Port Authority bonds which are guaranteed by the State of New York. The bonds do not involve the credit of the

Port Authority nor are they in any way an encumbrance against the Port Authority's revenues or reserve funds. The statute provides that either State may ask the Port Authority to administer such a State railroad equipment program when the State provides the necessary means of financing.

Eighty-seven new air-conditioned cars have been acquired for lease to the New York Central Railroad at a total estimated cost of over \$14 million. These cars have a capacity of approximately 11,400 passengers. In addition, 30 new air-conditioned commuter cars are leased to the Long Island Rail Road under the same program. These cars cost about \$5,300,000 and can carry about 4,000 passengers. All cars in this program are constructed according to specifications prepared by the user railroad with Port Authority assistance. The contracts with the car builders are awarded by the Port Authority. It is anticipated that a public assistance project by the states of Connecticut and New York, with the assistance of Federal funds, will also make it possible to provide modern equipment for the New Haven Railroad car fleet.

Under the 1959 statute, the State of New Jersey could also utilize the services of the Port Authority to act as its agent for

acquisition of new commuter cars. The State would have to guarantee the special bonds for this equipment, as the State of New York has done.

New York State Metropolitan Commuter Transportation Authority

The action completed this past Spring by the Legislature and the Governor of the State of New York in the establishment of a New York State Metropolitan Commuter Transportation Authority represents a further major step forward in meeting that State's long-term needs in the rail commutation field.

The New York State legislation (Chapter 324, Laws of New York, 1965) was designed primarily to achieve a solution to the Long Island Rail Road problem. Such a solution must be found in advance of August 1966, when that railroad's present status as a New York State Redevelopment Corporation will cease to exist. However, the bill goes considerably further than simply a measure to solve the Long Island Rail Road's critical situation. In granting the new Commuter Transportation Authority the power to enter into contracts with other agencies and common carriers, the State of

New York has made it possible also for the Commuter Transportation Authority to administer, by contract or otherwise, the commuter operations of the New Haven Railroad within the State of New York. The Authority can also coordinate its services by contract with the New York City Transit Authority for their mutual benefit.

The New York State statute grants the Commuter Transportation Authority far-reaching and flexible powers which are needed, in the opinion of the Governor and the Legislature of that State, if commuter operations there are to survive. The Authority and its property are exempt from all state and local taxation. Such exemption also applies in the case of the Authority's use of other property for transportation purposes. The Authority has the power to establish fares, rates, charges and other fees and to determine levels of service to be provided. It is exempt from regulation by the Public Service Commission.

The five member agency has the power to finance its expenditures by issuance of tax-exempt bonds, and these may be secured by mortgages of its property or pledges of its revenues or reserve funds. In this connection, it is specifically empowered to establish debt service reserve funds available only for debt service and to maintain such funds at a level sufficient to pay any two years' principal and interest on the bonds secured thereby. If unable to maintain such funds in the amounts required by agreements with the bondholders, the Authority must notify the Governor and the State Budget Director, and the statute provides that in such case the amount necessary to restore the debt service funds to the required level shall be apportioned and paid to the Authority. In addition the law specifies that cost of operation, maintenance and use of all passenger stations will generally be paid by the city or county in which they are located, although the Authority, if its revenues are adequate, may itself bear part of this cost.

As you know, New York's new Commuter Authority recently has reached an agreement with the Pennsylvania Railroad under which the State of New York will purchase the Long Island Rail Road outright from the Pennsylvania for \$65 million, which sum was appropriated for this purpose during the 1965 Legislative session. After the Authority takes over the operation of the railroad, it will finance a modernization program estimated to cost \$200 million, by the issuance of revenue bonds.

#### Financing the Program

It is clear that the creation of such a commuter agency in New Jersey with sufficient powers to carry out essential improvements in commuter transportation, would have to be similarly supported by the financial resources of the State of New Jersey. However, we believe the State must face this issue squarely if existing vital commuter services are to be preserved and are to continue to serve the travelling public.

It is certainly not within the purview of the Port Authority to recommend to this Committee the means by which such a program should be financed. Nevertheless, we believe it is important to point out that in several of the large metropolitan areas in this country, various tax measures have been adopted which promise public funds in sufficient magnitude to meet their own difficult and burdensome mass transit problems.

I am sure, Mr. Chairman, that your Committee is reviewing the rail commuter programs in such major metropolitan areas as Philadelphia and Southeastern Pennsylvania, Boston, San Francisco, the States of Connecticut, New York and others, and particularly the sources of financing which have been utilized in those areas. These include a supplementary multi-county real estate tax, a special cigarette tax, an allocation of public utility taxes, and others.

Our staff closely follows transit developments in those areas. If we can assist the Committee by providing background information, we would be delighted to do so.

Railroad Freight Operations Within the State of New Jersey

The Senate Resolution creating your Committee stated that the Committee should determine the advisability and practicability of providing for the creation of a public authority with power to acquire and operate freight as well as passenger railroad facilities. In our opinion it would be both unwise and impracticable for the State of New Jersey to acquire and operate freight facilities within the State.

First, it must be recognized that the three major commuter railroads operating in the State of New Jersey - the Jersey Central, the Pennsylvania and the Erie-Lackawanna - are in fact railroad systems with extensive operations far beyond the boundaries of this State, extending to Chicago in the case of the last two roads. The Pennsylvania is one of the largest railroads in the United States involving operations in 13 States and including nearly 10,000 miles of trackage, of which only 388 route miles or 4 per cent of the total are located within the State of New Jersey. Similarly, the Erie-Lackawanna, serving the eastern part of the United States, has a total of 3,143 miles, of which 339 miles of track or 11 per cent are located in this State. The Jersey Central, while much more local in character, still has over 31 per cent of its total track mileage outside of the State of New Jersey.

As a practical matter, State acquisition and operation of railroad freight facilities, even if the operation were undertaken by contract with the carriers involved, would seriously conflict with the total freight operations of these carriers. It is difficult to see realistically how these freight systems could be severed at the New Jersey-Pennsylvania and the New Jersey-New York State lines, with the State of New Jersey assuming responsibility within its boundaries.

Moreover, in contrast to passenger service, which may be operated with a relatively small administrative staff, a vast organization must be set up if the freight operations are to be conducted on an efficient basis. Aside from the physical operations of through trains, the operation of the railroads' extensive yards and terminals, and of local trains serving industrial sidings, it would be necessary for the State to have a staff of promotional and sales specialists to actively solicit freight. Other experts qualified to determine and fulfill the specialized needs of hundreds of shippers, including the supplying of specific car requirements would be required; so too, tariff and rate experts to work with industry and other railroads; and specialists in the handling of import and export traffic including the highly-specialized lighterage service. While the State agency could undoubtedly contract with the carriers for such services, we would seriously question whether the State would wish to assume this responsibility in a fiercely competitive situation. This would involve the State in competition with privately owned railroads for port and industrial business.

The commuter operations of the three major New Jersey carriers in 1964 resulted in annual deficits in excess of \$21 million. While the system-wide freight operations of the three carriers produced a combined net revenue of \$83.7 million, these revenues were derived largely from the line-haul operations of these extensive railroad systems. The line-haul within the State of New Jersey is, of course, a very significant element in the freight movement to the Port of New York. At the same time, it is a small proportion of the total run, particularly for the Pennsylvania and Erie-Lackawanna Railroads. It is doubtful that the freight revenues of these carriers within the State of New Jersey would be sufficient to cover fully the costs of operation within this heavily urbanized State.

Freight operations in the State of New Jersey involve extensive terminal operations, particularly in the northern New Jersey-New York metropolitan and Philadelphia-Camden areas. Terminal operations of all of the nation's major railroads are the most costly part of the total system. New Jersey is no exception to this national pattern. This is perhaps best illustrated by the Jersey Central. In 1964, that railroad, with its short line-haul and thus proportionately heavier terminal operations, actually incurred a deficit of \$1,525,000 in its freight operations. On this score, it is significant that the witness for the Pennsylvania Railroad appearing before this Committee in July, reported that this railroad could not realize a profit from either passenger traffic or freight operations within the State of New Jersey.

We do not believe it is possible to document fully the total costs of freight operations for these carriers within the State of New Jersey. It is our belief, however, that the freight operations within the State would be marginal at best, and certainly would not produce net revenues of any great significance to balance the deficits of the commuter railroad operations. It would, therefore, appear to be totally impracticable and inadvisable for the State to assume these responsibilities.

#### Vital Importance of Railroad Mergers to New Jersey Railroads

This difficult public problem cannot be adequately dealt with, in our opinion, without full consideration of the current railroad merger situation. As this Committee well knows, a system of three or possibly two major merged railroads is being vigorously proposed for the northeastern part of the United States. These include the merger of the Pennsylvania and

the New York Central upon which the ICC Examiners have recommended approval; a second major eastern system centered around the Norfolk & Western Railway, approved by the ICC in 1964; and a third major system which includes the Chesapeake and Ohio and the Baltimore and Ohio, approved by the ICC in 1962. Most recently, an application for a giant merger of the latter two systems has been submitted to the ICC.

Of major concern to the States of New Jersey and New York, the communities in the bi-State area and their invaluable natural asset, the great harbor which is shared by the two States, is the future status of the Erie-Lackawanna and the Jersey Central Railroads in these merged systems. These two carriers, which are of great economic importance to the State of New Jersey, not only from the standpoint of commuter transportation but in the handling of freight as well, must each be included in one or the other of these emerging financially-strong eastern railroad systems if they are to survive. The States of New Jersey and New York, the City of New York and the Port Authority have taken a strong and concerted position that the ICC must provide for prompt inclusion of the Erie-Lackawanna in the present Norfolk & Western system. The Jersey Central, already under corporate control of the Reading Railroad, which is in turn controlled by the B&O, is the logical Port of New York outlet of a merged C&O-B&O system. Its survival depends on being merged into that railroad family, just as the survival of the Erie-Lackawanna depends on its affiliation with the Norfolk and Western.

If these mergers can be accomplished, both the Erie-Lackawanna and the Jersey Central, by affiliation with financially-strong

railroads, will have an excellent opportunity to survive and to be improved so that they may continue to serve the industrial economy of northern New Jersey and New York.

The loss or indeed any impairment of the freight services now rendered by the Erie-Lackawanna would have a disastrous impact upon Northern New Jersey and the Port District. The significant role played by Erie-Lackawanna in fostering the movement of foreign freight through the Port District has long been recognized. With merger of the heretofore Port of New York-oriented New York Central into the proposed Pennsylvania-New York Central System, the Erie-Lackawanna would constitute the only remaining active and independent railroad proponent of the Port services in our district. It is, therefore, essential that the Erie-Lackawanna be included in the new N&W merged system.

The significance of the freight services of Erie-Lackawanna is, in my honest opinion, of even greater importance to the future economy of New Jersey and the importance of its commuter services. In recent years, measured by general cargo, the Erie-Lackawanna has handled more traffic to and from the New Jersey-New York metropolitan area than any carrier other than the Pennsylvania; and the latter's traffic has been only slightly in excess of that of the Erie. On import-export traffic alone, the Erie-Lackawanna is the predominant carrier in this area.

Railroad freight services, dependent as they are upon continued improvements in car types and supply and operating practices, can only be provided adequately by a financially sound carrier. The preservation of the Erie-Lackawanna as a healthy railroad operation, therefore, is essential to the continuation of vigorous rail competition in this area. Lacking such competition, it is obvious that rail services to this port, dominated by an all-powerful, monopolistic Pennsylvania-New York Central combine,

must inevitably be expected to decline while at the same time the pressure to maintain reasonable rate levels that comes from healthy railroad competition would be removed. Under these circumstances, the shipping public in the area would be adversely affected. Those choosing plant sites for new operations would decide to seek locations offering the benefits of vigorous railroad competition by strong and progressive systems.

While these rail mergers or affiliations can save these financially weak carriers so far as their freight operations are concerned, they cannot be looked to as affording a solution to New Jersey's commuter railroad problem. On the contrary, the heavy financial losses involved in the continued operation of commuter services is one of the most serious obstacles to their mergers into railroad systems that would assure the Port of healthy, competitive railroad freight service. You will recall that the spokesmen for the Norfolk & Western and the C&O, in their appearance before your Committee in September, stated firmly that there was no prospect whatsoever that their stockholders would be willing to assume the financial deficits of the commuter services, and that the assumption of these deficits by the State was an absolute requirement of a viable merger or affiliation.

On the other hand, a State agency could contract with the carriers involved for the continued operation of the State's commuter services. In any event, whether the State's commuter transit agency proceeded by way of an operating contract with the carriers or undertook the operation of the commuter trains themselves, the merger of the Jersey Central and the Erie-Lackawanna into stronger national railroad systems would assure the

sound maintenance of the basic commuter rights of way and trackage. The losses involved in the necessary continuance of commuter service will unquestionably be lessened if these railroads are merged into stronger systems.

In summary, we would respectfully submit that it is in the best interests of New Jersey to establish a State commuter agency with sufficient financial support to contract with the railroads involved, for the provision of the commuter services the State agency deems essential or for the use of their rights of way. It is also of major economic importance that the State continue to insist on the inclusion of the Erie-Lackawanna and the Jersey Central in one or another of the new strong merged systems, in order to be assured of vitally needed freight routes and services for the area and to benefit from the commuter service economies resulting from their mergers.

#### Federal Aid Prospects

In these discussions of the commuter railroad situation, the availability of Federal funds under the Urban Mass Transportation Act of 1964 is an important consideration. It must be recognized, however, that Federal funds, by law, are not available for meeting operating losses under the existing Urban Mass Transportation Act. While we believe that the State of New Jersey can look to substantial Federal help in solving its commuter railroad problem, Federal programs do not in any way provide the complete answer. A way must be found for the State to meet the operating losses through various combinations of programs outlined above. Federal funds, the maximum extent possible under the law, should be sought and

obtained for the essential capital improvements in equipment and other facilities that will be required.

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To sum up, it appears to us that in considering the establishment of a State commuter agency, it is of paramount importance that the agency be armed with the necessary financial resources to carry forward a program of transit improvement. That financial support must come largely from additional State funds or guarantees. This, together with appropriate tax exemption on the facilities employed in the agency's operations and the ability to use Federal funds as they may be available for capital improvements, could well provide the only workable solution to New Jersey's commuter railroad problem.

I should like to thank this Committee for the opportunity to present these views and comments by the Port Authority on what is clearly a vital public problem affecting the entire area of northern New Jersey and New York. We hope that they will be helpful in your consideration of this important public matter.

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