

P U B L I C H E A R I N G

before

AUTONOMOUS AUTHORITIES STUDY COMMISSION

[Created under Assembly Concurrent Resolution No. 9, 1968
Reconstituted under Assembly Concurrent Resolution No. 15, 1969]

Held:
March 3, 1969
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMISSION PRESENT:

Assemblyman Kenneth T. Wilson [Chairman]

Senator Matthew J. Rinaldo

Senator Richard J. Coffee

Senator Willard B. Knowlton

Assemblyman John J. Fekety

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ASSEMBLYMAN KENNETH T. WILSON [Chairman]: I would like to call to order the meeting of the Autonomous Authorities Study Commission, created under ACR 9 (1968 Legislature), reconstituted under ACR 15 (1969).

I would like the record to show that Senator Coffee is present and also representatives from H. W. Wolkstein and Company, Mr. Bertram Gittler and Mr. Sam Westeman.

The first witness I would like to call is Commissioner John Clancy.

J O H N J. C L A N C Y: I would like with the permission of the Chairman and the Commission to read a short statement which I think might be helpful in that it will give some historical background and perhaps avoid or eliminate the necessity for perhaps inconsequential questions.

ASSEMBLYMAN WILSON: Mr. Clancy, we are going to swear in all the witnesses that appear before this Study Commission. Do you have any objection?

COMM'R CLANCY: None whatever.

[Commissioner John J. Clancy sworn as
a witness.]

ASSEMBLYMAN WILSON: Will you continue and state your name and your position as far as the Port of New York Authority is concerned.

COMM'R CLANCY: My name is John J. Clancy. I am a member of the Board of Commissioners of the Port of New York Authority. I was appointed in May of 1958 and have served ever since. I am a member of the Operations Committee of the Authority and I am Chairman of the Construction Committee. I am a lawyer

by profession.

As a member of the Board of Commissioners of the Port of New York Authority, it is my privilege to appear before you today on behalf of the Port Authority. The Chairman of the Port Authority, James C. Kellogg, III, of Elizabeth, has asked me to extend his apologies for his inability to appear here today as you requested in your telegram to him dated February 19th. Chairman Kellogg, who is now out of the country, has informed your Chairman that he would, of course, be available for any future hearings the Commission might hold beginning in April.

I speak for my colleagues on the Board when I emphasize to you that we were proud and delighted to be selected by the Governors to serve on the Port Authority Board. In that office, we have the opportunity to serve the public in the work of the Port Authority. That work has resulted in 24 the statement says -- but there are actually, I think, 25 because we have since this information was prepared another facility. The work has resulted in 25 terminal, transportation and other facilities of commerce which have contributed beyond measure to the present unparalleled health and vigor of the economy of the Port of New York.

As the representative here today of the Board, I feel it would be helpful to the Commission to describe the organization and function of the Board itself and the extent to which all of the activities of the Port Authority are subject to executive and legislative control on the State level, and the reasons why the Port Authority projects almost invariably require municipal consent and cooperation for their effectuation.

The Port Compact of 1921 which created the Port Authority as

a "body corporate and politic" identifies the Port Authority as consisting of twelve Commissioners -- six from each State. The Commissioners are appointed by our respective Governors with the advice and consent of the State Senates. Their terms overlap and run for six years. The Commissioners of the Port Authority, of course, receive no compensation or fees whatsoever for their services.

With regard to executive control, every action of the Board must be taken at a meeting and recorded in Minutes of the meeting. These Minutes must be "forthwith transmitted" to the Governors and either of them has ten days from the receipt of the Minutes in which to approve or veto any items set forth in the Minutes.

A further executive control lies in the power of the Chief Fiscal Officer of each State to audit the books and accounts of the Port Authority, including receipts, disbursements, contracts, leases, sinking fund, investments and "such other items referring to their financial standing and receipts and disbursements as such ('chief fiscal officer') may deem proper."

And, of course, the Port Compact of 1921 which created the Port Authority is State legislation which is the Port Authority's basic charter. It and the subsequent implementing legislation enacted by the two State Legislatures down through the years represents the most important legislative control over the Port Authority. There has been legislation relating to the Port Authority before the Legislatures of the two States in every year since its creation and in 39 of those 47 years, statutes or resolutions specifically affecting the Port Authority

have been enacted or approved. Specific enabling statutes were passed by the two states before the Port Authority embarked on any of its major programs. There have been 42 separate amendments and supplements to the Port Compact adopted by the two State Legislatures in the history of the Port Authority. I need not belabor that this legislative history establishes that the activities and programs of the Port Authority have been subjected to constant legislative surveillance and review, and that the two states have taken an active part in effectuating every major Port Authority program.

In addition, as you know, every year the Port Authority submits, as required by the Compact, an annual report to each member of the Legislature of both States, including operational data and financial statements.

When it is considered that the Port Authority is powerless to acquire municipally-owned property and cannot connect its vehicular facilities with local streets unless the locality or other designee of the Legislature consents, it is apparent that municipalities in the Port District have a very real control and a vital role in practically every Port Authority project. These statutory restrictions make it mandatory for the Port Authority to reach voluntary agreements with municipalities in order for its programs to proceed.

In our judgment, while the Port Authority fortunately has the necessary flexibility to develop, finance and operate the public facilities contemplated and authorized by the Legislatures, our legislative framework embodies as well equally important proper and tight democratic controls.

The flexibility I have mentioned is essential for the Port Authority to carry out its work since it permits the application, in a public agency setting, of the best methods and techniques of modern American business management. As just one example, the Compact vests in the Commissioners the power to appoint a staff and to fix and determine their qualifications and duties. The Commissioners of the Port Authority have always insisted on recruiting and developing a well-qualified and well-compensated career staff, whose selection and advancement is determined by the Board solely on the basis of ability and achievement. It has been a deliberate policy of the Board to pay salaries comparable to the highest salaries paid by public agencies in the United States, but then to demand the same degree of competence from the staff as the Commissioners expect in their own private businesses.

We are proud to work with the fine, able and dedicated staff of career employees we now have. They are led by Austin Tobin, our Executive Director, in whom we have every confidence and for whom we have the greatest respect and admiration.

As this hearing commences, I want to assure the Commission that the Port Authority, as an agency of the States of New Jersey and New York, will cooperate fully with this Commission.

I would like to note that it was in this spirit that we immediately initiated voluntary compliance on February 20 last, when the Port Authority received from the Chairman of this Commission a letter asking for a large body of financial and non-financial data and material to be submitted in twenty-five copies to the Commission's consultants, Harry W. Wolkstein and

Company, prior to March 3rd. We have delivered the available data and material prior to today's hearing, as requested, and copies, I understand, are here.

Over the years, the Legislatures have conducted inquiries into the functions and operations of the Authority. In each instance, the Port Authority gave its full cooperation to, and answered all inquiries of, these legislative investigations. During 1960 and 1961, the Special Senate Investigating Committee created by the New Jersey Senate, undertook a "full and plenary investigation into the activities and functions" of the Port Authority. In its official report dated June 28, 1963, that Committee stated:

"The Committee, throughout its deliberations on the affairs of the Port of New York Authority, received complete cooperation from the officials of that agency . . . The Committee requested and received promptly from the Port Authority numerous financial, operating and other data relative to all aspects of its activities including any records and file material requested. Its top-level officials were readily available and voluntarily appeared at all public hearings held by this Committee. It arranged for an extensive inspection of its transportation and terminal facilities and made its financial, law and administrative department representatives available at all times to the auditors engaged by this Committee. The Committee was, of course, entitled to such cooperation from the Port Authority as an agency of this State as well as of the State of New York. But the Committee nevertheless acknowledges the Port Authority's complete acceptance of its amenability to the Committee's investigative procedures. The Committee feels that it has been able to make a complete and thorough investigation of the Port Authority pursuant to its directive embodied in Senate Resolution No. 7."

As I have noted, the Port Authority and its staff has already responded and will continue to respond to the requests from this Commission in the same spirit as it did to the New Jersey Senate Investigating Committee of 1960-61.

The resolution of the New Jersey Legislature establishing your honorable Commission set forth the statutory purpose. In short, the Commission was established to inquire into the

functions and operations of Authorities in relation to their impact on the public welfare and into their usefulness in providing various public service.

The Port Authority's role in the public service was established by the Port Compact of 1921 in which your predecessors in the New Jersey Legislature set forth the goals, the functions and the responsibilities of the Port Authority. Thus, the New Jersey Legislature of 1921 declared that:

"A better coordination of terminal, transportation and other facilities of commerce in, about and through the Port of New York, will result in great economies, benefitting the nation, as well as the States of New Jersey and New York."

and that:

"The future development of such terminal, transportation and other facilities of commerce will require the expenditure of large sums of money and the cordial cooperation of the States of New York and New Jersey in the encouragement of the investment capital, and in the formulation and execution of the necessary physical plans."

The two states concluded that such a result could best be accomplished through mutual cooperation by establishing the Port Authority as their joint and common agent. The states then pledged themselves to "faithful cooperation in the future planning and development of the Port of New York" and gave the Authority the power to purchase, construct and/or operate, on a permanently self-supporting basis, terminal and transportation facilities within the Port District and directed it to make plans and recommendations from time to time, for development of the Port District and for the better conduct of the commerce in and through the Port of New York, the increase and improvement of transportation and terminal facilities therein, and the more economical and expeditious handling of such commerce.

In a very real sense, the New Jersey Senate Investigating Committee of 1960-61 in its investigation of the Port Authority was concerned, as you are, with the performance and usefulness of the Authority. We were gratified to have the New Jersey Senate Committee conclude in its 1963 report as follows:

"Our Committee has been impressed with the performance and untiring efforts of the Port Authority Commissioners both of New Jersey and New York toward insuring the maintenance and growth of our great Port. The efficiency of the Executive Director, Austin J. Tobin, and members of his staff has made possible our thorough, frank and productive research of an Agency which in its record of performance is excellent."

The final conclusion of that Committee was:

"Over the years the Port Authority has developed and grown into a full-fledged economic entity of proportion and maturity in the fulfillment of programs designed for the progress and development of the States which authorized its existence. While the Authority is a great contributor to progress, at the same time it serves as a barometer portending trends and marking goals for the future. We feel that the Port Authority has been a constructive influence in the economic life of the State and so long as it maintains its traditions and standards of public service, and at the same time continues to manifest a sensitivity and responsiveness to public need and progress, it should be given official encouragement and support in its endeavors."

We are certain the the Port Authority has continued to merit this encouragement and support and that the pledge of the States for "faithful cooperation in the future planning and development of the Port of New York" has indeed been fruitful for them.

Now that is the end of my statement. I have Mr. Lukens to introduce.

ASSEMBLYMAN WILSON: Thank you, Commissioner. As a Commissioner of the Port of New York Authority, I want to thank you as Chairman of this Commission for the cooperation of the

Port of New York Authority and also of Mr. Lukens because there was quite a volume of material that we requested and I want to thank you for compiling what we requested.

I would like the record also to show that Senator Knowlton is present and also Assemblyman Fekety.

MR. CLANCY: Mr. Chairman, I would like to indicate to you that there are here present about 15 members, top-staff members, who will be available now or at any time for any questions this Committee may care to put. Any information they desire is readily available.

ASSEMBLYMAN WILSON: Thank you.

As Commissioner, was there ever a time when you did not have a quorum of Commissioners present at your meetings in your experience?

MR. CLANCY: Not that I recall. It may be that we could not obtain a quorum at one time or another and the meeting was adjourned until we could.

ASSEMBLYMAN WILSON: How many times do you meet during the year?

MR. CLANCY: We meet on the second Thursday of every month for our formal Board meeting. Each Commissioner is a member of two committees. Those committees meet usually on the first and third Wednesday of each month, so that the Commissioner has an average of three meetings a month, except on those occasions when there are matters which might affect two committees and then we have a joint meeting of those two committees at one time.

ASSEMBLYMAN WILSON: Commissioner, I had someone go through your minutes and he came out with these statistics. He said

each Commissioner of the Port of New York Authority spent an average of only eight hours a year at the formal executive meetings, plus an addition 2.4 hours at the meeting of the Board of Directors of PATH Corporation. Would you care to comment on that?

MR. CLANCY: Well, I don't know what the source of that information is. On Board meeting days, I leave Newark at 3:15 - that's the same day I happen to have a Directors' meeting at the First National State Bank - Commissioner Stillman and I go over there. We arrive there about ten minutes of four, sometimes a little earlier, depending upon the length of our bank meeting. We have discussions before we go into the meeting. The meeting can last from four, to five, to six, depending upon the nature of the matters under discussion. Prior to every meeting there is furnished to each Commissioner an advanced agenda of those items scheduled for discussion or action. Other items are added if they come about after the agenda is printed and furnished.

Before a Commissioner goes to a meeting, he is interested, of course, in all the items on the agenda and some more so than others. And it is not unusual - indeed, it is the usual thing - when matters come up in which I have an interest or in which I have some experience or some knowledge that I discuss them with the Chairman over the telephone, I discuss them with my fellow commissioner, Commissioner Stillman, and if I want some further information about a matter, I call up Mr. Tobin or Mr. Lukens - if it is an engineering matter, I call up Mr. Kyle - and I would say so far as I am concerned - and perhaps I spend a

little more time because I am a lawyer - I am interested in the legal aspects of various cases and matters. I am furnished with briefs in important cases or drafts of briefs by our General Counsel. I discuss the legal questions involved with him. Sometimes I make suggestions as to the approach which I think should be taken in an appeal or the presentation of a case. And I would say that I probably spend ten or fifteen hours each week on my duties as a Commissioner of the Port of New York Authority.

To specifically answer your question, I would not say that that is so at all. If you put a time clock on the meeting, the meeting could run an hour, an hour and a half, an hour and three-quarters. But the meeting itself and the time spent on the Board meeting does not represent the time a Commissioner puts in so far as his duties and obligations as he sees them are concerned. Every Commissioner has the same experience generally that I do. Before the meeting, he wants to be informed.

At the meeting, a member of the staff -- for example, if it is a lease on a pier in Port Newark or Port Elizabeth, Mr. Lyle King presents it as the department head. He gives his recommendation which has previously been submitted to a committee of the Board. He is open for questions. He is open for information. And generally speaking, I would say every Commissioner prepares himself from his agenda and his advance inquiries prior to the time he comes to the meeting. So the time spent on the meeting itself doesn't tell the whole story.

ASSEMBLYMAN WILSON: Yes, because as I look over your minutes, I see that the meetings are over in rather quick time, sometimes only an hour.

MR. CLANCY: They can be.

ASSEMBLYMAN WILSON: So you say that most of your work is done beforehand and would most of your work be done as a chairman of a committee?

MR. CLANCY: Most of the work is done, I would think, beforehand, keeping in mind that every matter that comes before a committee of the Board is submitted for action to the Board itself. The committee only recommends. When there is a matter - to use the illustration I did - of a lease for some space at Port Newark, that would come to the Committee on Operations, if you will. It would be presented at that meeting to the four, five or six members of that committee who would consider it and go over all the material that is available. And then the committee only recommends if it concurs in the presentation by the representative of the department. It must then come for action to the full Board.

Now usually half the Board is fully aware of everything that has gone before in the committee meetings. Indeed, I am not restricted in going to the meetings of the committees of which I am a member. I can go to any committee meeting and frequently do. Sometimes when there are meetings of two committees and I am a member of only one of them, of course, I sit through both meetings.

ASSEMBLYMAN WILSON: How many members are there on each committee?

MR. CLANCY: I think five.

ASSEMBLYMAN WILSON: Five. And there are how many committees again - four standing committees?

MR. CLANCY: Four committees.

ASSEMBLYMAN WILSON: Would you repeat them again, please?

MR. CLANCY: There is a Committee on Finance, a Committee on Construction, a Committee on Port Planning, and a Committee on Operations.

ASSEMBLYMAN WILSON: Commissioner, would you say that most of the recommendations that come out of committees are automatically approved by the Board, the total Board?

MR. CLANCY: I would say most of them are because they have had a full discussion, frequently prior to the committee meetings, at the Committee meetings and when they come before the Board. Indeed, on projects that the Port Authority is studying, we frequently have the advice of, say, the Governor's Counsel as to whether or not this would be within the authority granted us by the Port Authority. The Governor, of course, is aware of any major project that we propose to undertake. Our staff and our Commissioners meet with representatives of various State agencies to consult with them for their advice and guidance. So all these things happen frequently before we have a meeting, before there is anything definitive presented to us.

ASSEMBLYMAN WILSON: Commissioner, you mentioned about the Governors of both New York and New Jersey having the right of veto power over the minutes and resolutions of the Port of New York Authority. Has this ever been exerted by either the Governor of the State of New York or the Governor of New Jersey as long

as you have been Commissioner?

MR. CLANCY: As long as I have been Commissioner, I think probably four times. I recall that Governor Hughes vetoed the minutes of a meeting and I know that Governor Meyner vetoed the minutes of a meeting because of some objection that the Governor had in each instance. I think that subsequently the matters were resubmitted to the Board, having in mind the Governor's objection or suggestion or advice, and repassed and not vetoed.

ASSEMBLYMAN WILSON: You don't remember the specific instances?

MR. CLANCY: I think one of the incidents involved some problem we had. I think we forbade the use of Newark Airport by the National Guard jets or something of that sort. There was some controversy we had. And I think Governor Meyner may have vetoed that. Then we had meetings with the Governor and the FAA and the Army or whoever was in control of it. Some accommodation was arranged and my recollection then is that the Air Guard or whatever it was went down to McGuire or some place else. That is my recollection of it.

ASSEMBLYMAN WILSON: Would you send copies of statements in the last 20 years when the Governors of either New York or New Jersey exerted their power of veto? Would you do that?

MR. CLANCY: Yes, sir. I think such material is presently available and it happened on eight occasions I am informed.

ASSEMBLYMAN WILSON: All right. Another law regarding the Port of New York Authority says: "Auditing officials authorized to examine accounts - Notwithstanding the provisions of any general or special statutes, the Director of the Division of Budget and

Accounting of the Department of the Treasury of the State of New Jersey and the Comptroller of the State of New York and their legally authorized representatives are hereby authorized and empowered from time to time to examine the accounts and books of the Port of New York Authority, including their receipts, disbursements, contracts, leases, sinking fund, investments and such other items referring to their financial standing and receipts and disbursements as such auditing official may deem proper. Such examination may be made by either auditing official at any time or by both auditing officials acting together." This was passed in 1950.

Has this ever been done? Has this provision of the examination of accounts ever been used?

MR. CLANCY: I don't recall. I know, of course, that the annual reports are submitted to every member of the Legislature and to the Chief Fiscal Officer of the State.

ASSEMBLYMAN WILSON: But has the State of New York or the State of New Jersey to your knowledge ever exercised its power of auditing?

MR. CLANCY: The State of New York has. Mr. Lukens could answer that.

ASSEMBLYMAN WILSON: Maybe Mr. Lukens could comment on that later on.

Does any member of the Commission have any questions they would like to ask? I have a lot of questions. Senator Coffee?

SENATOR COFFEE: Not right now.

ASSEMBLYMAN WILSON: Do you have any, Senator Knowlton?

SENATOR KNOWLTON: Go right ahead.

ASSEMBLYMAN WILSON: Assemblyman Fekety?

ASSEMBLYMAN FEKETY: Just one question: You have talked about the last investigation of 1961.

MR. CLANCY: '60 - 1963 report, sir.

ASSEMBLYMAN FEKETY: And at that time, I believe Mr. Tobin had given this Senate Investigating Committee some encouraging news and that was the purchase of the H & M Tubes, right?

MR. CLANCY: Yes, sir.

ASSEMBLYMAN FEKETY: Do you feel that you can give this Investigating Committee some encouraging news at this time?

MR. CLANCY: Well, encouragement in the sense that we have, I think, already invested over \$100 million - \$130 or more million in the H & M Tubes. We spent \$18 or \$20 million in new modern cars. We had to completely do over the trackage, the signal system, and we are not finished yet. We are operating it at a fare that is not compensable. It incurred last year a deficit of approximately \$10 million and this year the deficit will be about \$12 million. We are doing the best we can with modern techniques, with the finest advice we can obtain. We are handling probably 150,000 passengers a day. But historically, I know that you are all aware of the plight of all the commuter railroads. It is a lost leader. It will never pay for itself. It will have increasing deficits and we will do our best to minimize them.

ASSEMBLYMAN FEKETY: In other words, then you don't combine all your revenues of all your facilities; you can actually

say that the railroad is losing money?

MR. CLANCY: We have a pooling of revenue concept. But in trying to figure out the investment we have here, the return that we get, we know that this is a deficit operation which is supported by our other facilities and it can never be otherwise.

MR. LUKENS: Assemblyman, under the statute, we are required to make a calculation every year on a certain basis and the Commissioner was referring to that basis which determines how much it loses.

ASSEMBLYMAN FEKETTY: Just a calculation.

MR. LUKENS: It is just a calculation. But it is pretty near what we are losing actually. If you take the amount of debt we have incurred and if you make an assumption like the Farley Commission did on a 30-year bond basis at normal interest rates, it runs \$10 and \$11 million a year and there is only one place for it to go and that is up.

SENATOR KNOWLTON: I apologize for being late, but I am working on a \$1.2 billion budget which is about the same size as yours here.

ASSEMBLYMAN WILSON: What is that for? Is that for the State of New Jersey?

SENATOR KNOWLTON: That is for the whole State of New Jersey. I think that is why we are interested in certain aspects of the operation of the Authority. For instance, you mentioned before the pooling of revenue concept, Commissioner, and that seems to be a bit of a problem as far as the Legislature here is concerned because the auditors back in 1963 who represented the

Senate Investigating Committee then reported that the Authority's financial structure is based on a single enterprise pooling of revenues concept. Individual facilities are not financed independent of the rest of the Authority.

Now here in this State when we make up our budget, every department not only must break down its operating expenses, its salaries and other items, but also if it is an income-producing agency, those revenues from that agency must be segregated and line-itemed as being derived from a specific agency.

MR. CLANCY: There may be a distinction, sir. When you, generally speaking - and I don't attempt to speak as a legislator - when you set up a budget, you also, I think, are required to find out where the money is coming from so you know how you are going to pay for it. Now if we did not pool our revenues from the other facilities, there would not have been any Port Newark or Port Elizabeth.

ASSEMBLYMAN WILSON: Do you have any further questions, Senator?

SENATOR KNOWLTON: Not at this time, Mr. Chairman.
Excuse me, Mr. Chairman, I have something I would like to add.

Mr. Commissioner, our accountants report to us - and I quote from their report: "As is the case in the operation of many other governmental agencies, it is impossible to calculate the actual debt service for each of the individual facilities that go to make up the pooled and coordinated terminal and transportation complex of the Port Authority." I think that is

part of the problem.

MR. CLANCY: Yes. There are many problems involved in conducting the accounting on another basis. This is a rhetorical question and I am not asking you to give me the answer: How do you figure the depreciation on the George Washington Bridge? What is its life? Fifty, seventy-five, one hundred years? So those are factors that must be considered.

Then as I said before, you can't start a third tube of the Lincoln Tunnel for \$200 million unless you know how you are going to pay for it. We have no power of taxation; it must come from our revenues. So in order to sell you \$200 million worth of bonds so we might construct that tunnel, we must also tell you that we will have sufficient revenues from that as it develops and from our other facilities to meet our obligation to the bondholder who put up the money. He is in quite a different position because he has no security for his money. If you give me a mortgage, you have the security of my house and you can foreclose it and take over the house. No lender of money or purchaser of bonds has any equity in these facilities. He must depend upon our credit.

SENATOR KNOWLTON: Well, Mr. Commissioner, I don't want you to take my statements as in any way being critical of this part of the operation of the Authority because I understand that this is governed by a statutory provision so, therefore, you don't have any alternative. But nevertheless, times have changed and perhaps one of the things that might change is a different approach to the pooling concept or financing concept, I don't know.

MR. CLANCY: That is a field in which I do not enjoy the expertise that some of the men here do and I am just giving you my superficial knowledge of the financial end and the accounting detail. I certainly do not speak as an expert nor make any representation in that area.

ASSEMBLYMAN WILSON: Mr. Clancy, along the same line, many people have stated that the Port of New York Authority is an extremely profitable operation and many of its facilities have paid for themselves many times over with the result that tolls and charges could drastically be reduced and eliminated altogether on some and that some of these facilities could be ceded back to the State. Do you care to comment on this assertion or statement?

MR. CLANCY: All I can say, when people talk about a 50 cent toll, that is a general toll. However, a commuter toll is 25 cents. A man buys a monthly ticket, 40 trips - that's 10 a week over and back - that's 25 cents. Then there is another long term - I think it is a two-year basis - and you can buy trip tickets for 40 cents. So the average toll over our facilities is 42 1/2 cents.

Now so far as abandoning the tolls, just let me pose another question. If you are going to build a \$200 million tunnel, we must borrow that money. We have no power, as you know, to tax. The repayment must come from the revenue from our facilities. Now if we didn't have the Holland Tunnel and the Lincoln Tunnel, we could not have built the third tube of the Lincoln Tunnel. I am speaking in generalities. The George Washington Bridge, involving an expenditure of several hundred million dollars,

could not have been built unless the investing public had confidence in the continuance of the general revenues which are pledged to repay our bonds to permit us to borrow that money to build a bridge.

So consequently, spending as we are now \$238 million for the improvement and enlargement of Newark Airport, we can't borrow that money unless the buyer of our bonds knows that the charges from the tunnels and bridges are going into this pool to pay off some of that indebtedness and to pay off the interest on his bond.

ASSEMBLYMAN WILSON: Let me ask this question: Take a person that is a daily commuter between New Jersey and New York, do you think it is fair that that commuter who is paying his money for tolls is actually paying for the development of the Newark Airport?

MR. CLANCY: Yes, I do. Let me illustrate it this way. When we established the 50 cent toll, bread was 5, 6 or 7 cents a loaf, a Chevrolet automobile was \$600, and this inflationary process, of course, has cut back the usability, the spendability and worth of that 50 cents that we get. We have reduced tolls - never raised them. Subway fare was 5 cents in New York. It is now 20 cents. We never increased the tolls. And if there be an inflationary spiral, that 50 cents is going to thin out more and more. And to say that a man is penalized by paying 50 cents for New York - I don't know how much the bus fare is or the train fare on other trains - but the train fare on the H & M tubes is the cheapest buy there is in commuting. Secondly, that man is getting the benefit of our activities in Port Newark and Port

Elizabeth where we will employ 10, 12, 15 thousand people ultimately. We make work for those people in the area. We improve the economy. We improve the business of the area. We help every conceivable kind of business and the man indirectly gets the benefit of that spendable income in his community and the improvements that are made by virtue of State facilities that are provided. So I don't think a man paying -- my recollection is the fare on the H & M is about 30 cents. When I was a young fellow, I think it was 40 cents. It is a good ride for 30 cents.

ASSEMBLYMAN WILSON: Along the same line, you have overseas offices - you have what are referred to as Port of New York trade development offices, one in New York; one in Cleveland; one in Chicago; one in Washington, D. C.; in Pittsburgh; one in San Juan, Porto Rico which handles Latin America; also one that handles the Far East Pacific area in Tokyo, Japan; and one in London, England; and another one in Switzerland.

MR. CLANDY: Zurich. That's right.

ASSEMBLYMAN WILSON: Could it conceivably be with the pooling of the revenues that these tolls that are paid on the two tunnels and the bridges and so forth actually could be paying for the upkeep of these overseas offices?

MR. CLANCY: No, not so, sir. These offices, these trade development offices, are most important for the economy of the Port area and they help to serve the purpose for which this Authority was created. Now if you stop to realize that directly or indirectly one out of every four persons in the Port of New York area depends in some measure for his livelihood and economic

benefit on the trade of the Port of New York, you will realize the importance of trade coming to New York. The competition between other ports, New Orleans, Jacksonville, Charleston, Philadelphia, Baltimore and Boston is tremendous. They all have agencies all over the country and all over the world. Our purpose is to funnel and channel as much of the commerce from all over the world as we can to this area because it affects the well-being of the people of the community.

Let me just take a homely illustration. A shipment comes into New York or Port Newark - and incidentally Port Newark and Port Elizabeth in the next three or four or five years will handle 60 per cent of the Port commerce of this entire Port area - now a shipment comes in and it is taken by a New Jersey truckman. He has an automobile. He buys tires; he buys gasoline; he has insurance on his truck. He takes it to your plant where it is handled by your employees. You insure the shipment and you have truckmen. And then it is taken to another factory. It may be in a raw state. It is manufactured into something. It is assembled into something. Then it is delivered to a customer in a store and he sells it to somebody else. So if you follow that chain, you will see the direct relationship there is so far as the individuals in the Port District are concerned with the commerce which is a vital thing.

We, I think, were the innovators on a large scale of the concept of container operation in the United States and perhaps in the world. We have the finest and largest - and will have the finest and largest container port operation in the entire world when we complete Port Newark and Port Elizabeth.

And between Port Newark and Port Elizabeth and Newark Airport, we will have by the time we are finished \$500 million invested. Now that affects the economy of this area. With 18,000 people on the payroll - multiply that by ten thousand, if you will, and you get the amount of income in this area and you can take any percentage you want of spendable income for meat and potatoes and groceries and rent and automobiles and gas and electric and everything else. So these trade offices are tremendously important and they are so important that they gave rise to the concept of this World Trade Center, to channel as much of the world trade as we can possibly channel into the Port of New York and Ports of New Jersey. It has a tremendous economic impact and I think is well worthwhile.

ASSEMBLYMAN WILSON: Commissioner, my question was: Would not you say that some of the revenues derived from tolls could be used for supporting these offices where you have your pool concept of revenues?

MR. CLANCY: They are.

ASSEMBLYMAN WILSON: That's the question.

MR. CLANCY: They are. And, of course, when you rent a pier to a man, that goes into the pool too. If you get a half million dollars rent from a man who occupied a pier there, that goes in the pool and that comes out, in part, of our trade development endeavor.

ASSEMBLYMAN WILSON: Commissioner, the reason I am asking this is because I was amazed when I got this one piece of information concerning the amount of revenues derived from each facility and, for example, the Lincoln Tunnel, with gross

revenues - now these figures were in 1967 - \$16,529,000 was the gross revenue and it really is recorded as a net deficit of \$2,294,000. How is this arrived at? They take in over \$16 million and they end up with a deficit of \$2,294,000.

MR. CLANCY: I'll get the figures for you in a moment. Let me see the page first, before I answer this.

MR. LUKENS: Mr. Chairman, may I respond to that?

ASSEMBLYMAN WILSON: O.K., Mr. Lukens.

MR. LUKENS: In accordance with your question, we made an assumption as to debt service.

ASSEMBLYMAN WILSON: Let me swear you in now.

MR. CLANCY: Are you finished with my testimony?

ASSEMBLYMAN WILSON: No.

MR. CLANCY: Can you let me go through mine and finish mine. I would like to go back and see who is minding the store.

ASSEMBLYMAN WILSON: All right. Well, we will call on you a little later then, Mr. Lukens.

You don't want to answer that; you want to leave that for Mr. Lukens?

MR. CLANCY: I do not have the statistical or accounting experience to give you the reason for it.

ASSEMBLYMAN WILSON: Another question I would like to ask you, Commissioner: What is the Port of New York Authority doing now about the abominable pollution problems that exist in the New York and New Jersey harbors. According to the Compact of 1921, the responsibility was the whole Port of New York area. What has the Port of New York Authority done along those lines?

MR. CLANCY: Specifically, of course, that is not so. The

harbors generally come within the jurisdiction of the Corps of Army Engineers. If the effort we put in to rid the harbor of the flotsam and jetsam and all the debris from the broken-down piers were 5 per cent fruitful, you would have a much cleaner harbor. To clean that harbor depends upon appropriations at the Federal level. We have made studies, recommendations - we have been to Washington, we have met with the Corps of Army Engineers, and to me it seems easier, for example, to get an appropriation for a dredging operation out in Buxahude than it is to get an appropriation commensurate with the need for that operation in New York harbor.

ASSEMBLYMAN WILSON: Well, if you get a Federal appropriation, how much would the Port of New York Authority be putting towards the solving of this problem?

MR. CLANCY: That I don't know.

ASSEMBLYMAN WILSON: Or would it be based strictly on what they could get from the government, the two states, and also the Federal government?

MR. CLANCY: I think that we have furnished the know-how. We have furnished the studies that indicate how this could be implemented and it is a matter of appropriation at the Federal level to the Corps of Army Engineers so that that work can be done, the same as with dredging.

ASSEMBLYMAN WILSON: Commissioner, do you feel that the Port of New York Authority should bear some of the financial burden in this operation? What is your thought on this?

MR. CLANCY: I don't know whether that is the function of the Port of New York Authority or the State of New Jersey or the

City of New York, or Jersey City, Weehawken, Edgewater, Union City. I don't know. It is a navigable stream. It comes within the jurisdiction of the Federal government and I think it is their problem in which we are only too happy to assist.

ASSEMBLYMAN WILSON: I would like the record to show that Senator Matthew Rinaldo is now present.

Do you have a question, Senator Knowlton?

SENATOR KNOWLTON: Mr. Commissioner, in the preparation of your budget, do you use a line item system or a planning, programming, budgeting system?

MR. CLANCY: To answer you specifically, I don't know. I know that in our budget, of course, the requirements and the hopes of every department are outlined for every project. They are departmentalized. They would like to do this and they would like to do that and they tell us what their projections are, what their expenses are going to be, how much money they will need, what the facility will throw off by way of revenue. The budget is submitted to every committee of the Port Authority. It is discussed with every committee and then submitted to the Commissioners. Every department head and every fiscal officer at the top level in the Port Authority are there to explain every item in the proposed budget before it is adopted.

I have familiarity with every item that is discussed, but in the aggregate, it would be like, I suppose, asking a Senator or an Assemblyman to pick out the specific appropriation for the Department of Institutions and Agencies. I just don't

have the facility.

SENATOR KNOWLTON: My question was directed more at the methodology employed in the budget --

MR. CLANCY: The latter is true.

SENATOR KNOWLTON -- the process, cost effectiveness and so on --

MR. CLANCY: It is departmentalized.

SENATOR KNOWLTON: -- and the projections into the future.

MR. CLANCY: We have here, of course, our Director of Finance, who is knowledgeable in the mechanics of the preparation of the budget, which I am not.

ASSEMBLYMAN WILSON: Assemblyman Fekety?

ASSEMBLYMAN FEKETY: Commissioner, our state highways leading to the tunnels at times become the greatest parking lot that the State of New Jersey pays for because of the tunnel facilities and granted that there are times when the Holland Tunnel will have a peak load versus a low load for the Lincoln Tunnel. What is the Port Authority doing to help relieve this situation rather than relying on the State to provide the feeder facilities there?

MR. CLANCY: There have been discussions by the Port Authority and the Port Authority engineers and our transportation people with the State authority. Having made studies of the origin and destination of traffic, maybe 15 per cent, if you will, of the traffic through the tunnels has its destination in downtown or mid-town New York. A great deal of the traffic that goes through those tunnels could use other means, for example, the Tappan Zee or the George Washington Bridge. Much

of that traffic coming from the south would go north out through New England and we have tried, as I understand it, to work in conjunction with the State of New Jersey and the State of New York so that there are adequate by-pass roads. Indeed, the traffic at the tunnel has fallen off. And a great many former users of the tunnel, now use the George Washington Bridge and the Tappan Zee Bridge from the New Jersey highways to go to New England and never touch New York City any more. Similarly in Long Island, you have Throgs Neck and other methods. You have the Verrazana Bridge now which diverts traffic and then Throgs Neck on up to New England. And there are many, many proposals for roads in New York City and Long Island and Westchester to by-pass New York City. It is a situation such as you have on your trains. You have a peak load from 7:00 to 9:30 in the morning and 4:30 to 6:30 in the afternoon. Your railroad facility, of course, lies fallow in between and you have two crews to run them and you have 8 hours' work out of 24 that you could use a train. But that is one of the facts of life and it is the same with the tunnels. I am in the same predicament, of course, as you all are in going to a meeting; I say some unkind words about the Port Authority when I am trying to get over to a meeting. But I don't know - now we are going to have eight lanes on the Turnpike. That's going to be a problem to squeeze them through the tunnels. It is bad enough now with four. I don't know what it's going to be with eight or twelve.

ASSEMBLYMAN WILSON: Along the same line, when I was reading your official statement concerning your new issue of bonds -- Oh, by the way, the Port Authority will now be indebted to the

year 2003 with this new issue of bonds.

MR. CLANCY: Yes.

ASSEMBLYMAN WILSON: While I am mentioning the bonds, why are these bonds to mature in 35 years; the other bonds were 30? Why the difference, the extra five years?

MR. CLANCY: That is a matter of fiscal and financial judgment, taking into consideration the life of the facility, the projection of the use of the facility, the revenue it will spin off, the other bond issues that are maturing at that time, the need for money for these improvements. We used to borrow money at 1 1/4 per cent. Now we pay 5 1/4. But those are matters that are figured out financially, statistically and on an accounting basis by the people who are knowledgeable. We, of course, have financial advisors; we have bond consultants. Those are some of the reasons that I can think of why they are done in that fashion because the revenues are projected serially over these years.

ASSEMBLYMAN WILSON: Along the same line of questioning as Assemblyman Fekety, when I was reading your official statement, I notice it said, "The Authority has agreed with the City of New York that upon the city's request, the Authority will construct certain additional approaches estimated to cost about \$9 1/2 million in the event the City of New York has acquired the necessary real estate for such approaches." With the expansion of the Turnpike, we may need more assistance in helping with our approaches to, say, the Lincoln Tunnel and to the Holland Tunnel. Do you think the Port of New York Authority would be willing to maybe help us out in the construction of approaches?

MR. CLANCY: I can't speak for them. Of course, we will consider the problem as it arises. What you speak of was an effort being made at that time by us through Mayor Wagner and subsequent mayors and prior mayors to eliminate the choking of traffic as it comes out of the tunnel downtown. Now for years they have been fighting as to whether or not they should have a downtown cross-highway to the other outlets from the city. Apparently those in power in New York City for the last ten years could not decide on the feasibility of it. Mr. Moses recommended certain roads be put in; others have recommended cross-town roads. It was with that in view, if, as and when the City of New York - and this may go back ten years - if, as and when the City of New York provided the outlets for this spill from the tunnel, we would construct the necessary approaches to make the traffic flow more smoothly. That was the purpose of that, as I recall it.

ASSEMBLYMAN WILSON: Well, if we have a bottleneck in the State of New Jersey around the tunnels, would it be possible that we as a State, the Department of Transportation, the Governor's office and so forth, could look for maybe some help along the same lines from the Port of New York Authority?

MR. CLANCY: Well, now, in that connection we have expended approximately \$25 million in Bergen County for the approaches to the George Washington Bridge to insure, if we could, a steady flow of traffic to relieve congestion. That has already been spent - \$25 million - for the upper and lower decks of the George Washington Bridge to facilitate the handling of traffic. If a similar problem arose ---

MR. LUKENS: On the Bergen Expressway.

ASSEMBLYMAN WILSON: But I am saying as far as the Turnpike is concerned, you mentioned the fact they are going to increase the number of lanes and in the process of doing so, this may create another bottleneck. If it does that, as far as the tunnels are concerned, we could maybe look to the Port of New York Authority for help?

MR. CLANCY: I am sure that the Port of New York Authority has already consulted with Mr. Flanagan and his staff. The Port Authority and the Turnpike Authority are both aware of the impact, I am sure, that twelve lanes is going to have on the flow of traffic to and from the tunnels and over the road. I know that we have had many meetings with them. Personally I could see some problems with twelve lanes. It is just like paving five lanes on Commerce Street in Newark and trying to channel them into Academy Street which is two lanes wide and only one if some fellow is waiting for his girl alongside the Prudential Building. That is what it might be - I don't know.

ASSEMBLYMAN WILSON: Senator Coffee, do you have any questions?

SENATOR COFFEE: No.

ASSEMBLYMAN WILSON: Senator Rinaldo, do you have any questions of the Commissioner?

SENATOR RINALDO: Perhaps I would like to ask a question.

Am I correct in assuming that the discount rates offered by the Port of New York Authority on all tunnels and bridges range from 20 to 50 percent?

MR. CLANCY: Well I didn't figure it in percentages. The commuter rider gets 40 tickets for \$10.00, that's 25 cents a ticket. It enables him to go for four weeks over and back. Another man who buys the long term one, he pays 40 cents.

SENATOR RINALDO: What has been the experience of the Port of New York Authority as far as offering commuters reduced rate tickets?

MR. CLANCY: Well they have them now. If I recall the figures correctly, 36 percent of our traffic is commuter traffic at reduced rates.

SENATOR RINALDO: Regular commuters.

MR. CLANCY: Well, regular commuters and sporadic commuters.

SENATOR RINALDO: Who use the tickets --

MR. CLANCY: At the reduced rate. I think it comes to about 36 percent.

SENATOR RINALDO: Does the Port Authority feel that the use of reduced rate commutation tickets is a good policy, one that they will continue in the future?

MR. CLANCY: I don't know how they feel about it. I think it's an advantage to a commuter who lives in New Jersey or New York and works in another state and comes to his work daily.

SENATOR RINALDO: What are the advantages to the Port of New York Authority?

MR. CLANCY: One of the advantages might be that you have a steady customer.

SENATOR RINALDO: Would you say another advantage is the fact that you have a certain amount of capital in advance that you can use for various specific purposes?

MR. CLANCY: That might be a factor, I suppose, relatively, if you have an extra million dollars in your coffers it might make a difference, but I don't know whether in fact that goes under the rule of operation, really.

SENATOR RINALDO: All right. That's all. Thank you.

ASSEMBLYMAN WILSON: Commissioner, in 1967, the State of New York passed a law extending the jurisdiction of the Port of New York Authority. Would you like to comment on that law for us, please?

MR. CLANCY: You mean to the end that they would authorize an airport in New York City beyond the limits of the Port Authority as presently constituted?

ASSEMBLYMAN WILSON: Yes.

MR. CLANCY: Well, I think it probably would be a good thing for New York. I would like to see another airport in New Jersey, myself. And the State of New Jersey, of course, has not passed such companion legislation so it is not possible, as you are aware of the fact that we can do nothing without the authority of the Legislature so far as an airport is concerned.

ASSEMBLYMAN WILSON: Well this law was passed in 1967 by the State of New York and it wouldn't go into effect until New Jersey passes a like law.

MR. CLANCY: Right. And I think that it was done because of the fact that there had been an interminable delay in getting an airport over here and New York thought that it might be to its advantage and it would like to have an airport over there that might employ ten or fifteen or twenty thousand people and involve an expenditure of six or seven and eight hundred million dollars. That's my judgment that they would like to have the airport. I would like to have it here.

ASSEMBLYMAN WILSON: As a Commissioner since 1958, I think, --

MR. CLANCY: Yes, sir.

ASSEMBLYMAN WILSON: -- you have had experience with authorities and I was just wondering if you would comment on the idea of the New Jersey Turnpike and its offer to build the jetport.

MR. CLANCY: The only way I can comment on that is to say what I have just said. We have no authority to build another airport without enabling legislation from the Senate and Assembly of the State of New Jersey and the concurrence of the Governor of the State of New Jersey. We have, up to this time, carried out, I believe, what our function is, to study and advise. We have reported to the Legislature what our opinion is as to the location of the jetport, and that's as far as we can go. That represents our considered study judgment, it's combined with the opinion of the FAA, it's

combined with the opinion of the airlines. Our recommendations contain our best thinking on the subject and the best thinking of the experts we have employed. That is as far as we can go. We can't build an airport until we're authorized to do it.

Now so far as the Turnpike Authority is concerned, if the Legislature, in its wisdom deems that the Turnpike Authority is the appropriate agency to build it, if it has or does not have the power to tax, if it must or must not depend upon its revenues, if such a project is economically feasible, if the airline companies will use it, if it is in an area where there are passengers to use it, and you, the Legislators, in your wisdom think that's the thing to do, I have no objection to it. I feel, personally and perhaps pridefully and egotistically, that we're the most experienced airport builders and operators in the world. And I think the State of New Jersey should take advantage of that experience and expertise. But, personally and as a Commissioner of the Port Authority, the exercise of that judgment is one for elected representatives of the people and if they deem in their wisdom that that's the proper course, I have no complaint, I am a member of the body politic the same as everybody else.

ASSEMBLYMAN WILSON: Well, if you did build the jetport in New Jersey the revenue from this would also go into your pooling fund, wouldn't it, as the other facilities do?

MR. CLANCY: So far as we're concerned, we couldn't get off the ground unless we had those pooling of revenues

because you can pick any figure you want for the construction of an airport. We think six hundred or seven hundred million and Mr. Blomquist, the Advisor for the Airport Authority, came up with a figure of \$600 million and in that, as I recall it, he didn't include the cost of the buildings on there, the roads and access roads. His projection alone might come to a billion dollars. That is the way I read his report. Now, if anybody is equipped to undertake a venture involving an expenditure of \$600 million up, that is a matter for legislative examination. I wouldn't quarrel with it.

SENATOR RINALDO: I have one question. You said that the Port Authority of New York would be interested in building the fourth jetport in New Jersey. As you know and as was mentioned here, the New Jersey Turnpike Authority has indicated its interest, we have the New Jersey Highway Authority, we have a number of other statewide authorities in the State of New Jersey, and in your expert opinion, as a Commissioner, do you see any need for the creation of a new authority in this State to select the site and build and operate the fourth major jetport?

MR. CLANCY: I will answer your question with one correction. I am not an expert. You incorporated in your question my expertise, as an expert, --

SENATOR RINALDO: Well, as an member of --

MR. CLANCY: -- I don't enjoy that expertise.

SENATOR RINALDO: Well, as a member of an authority, the largest in this area, by all means, as a Commissioner, since, I believe it's 1958, do you see any need for the

creation of another authority with all the attendant powers that go with it?

MR. CLANCY: I think it would be presumptuous of me to say that I do or do not feel or find the necessity for another authority.

To me, that's a matter of legislative judgment. The Legislature can call to its aid all the experts it wants in aviation, in aviation building, management, in revenue, it can call upon people, such as yourselves, to anticipate the possible revenues and things of that sort. Whether that could be done by an independent authority better than by the Turnpike Authority, I would not presume to say. After all, the Legislature, in its wisdom, entrusted these various matters of commerce and transportation in the Port of New York Authority and I say, pridefully, we've done very well. Maybe, possibly, and perhaps certainly any other agency, so constructed, run on a businesslike basis, with career people -- we don't have all the knowledge in the world, there are other agencies, other authorities that run airports, and I wouldn't presume really to say whether an authority could do it better than the Turnpike or the Highway, I don't know.

SENATOR RINALDO: Well, based on your experience in the field, as a Commissioner, do you think a new authority is needed, do you think a new authority can do a better job than the Port of New York Authority? I would like your opinion in this regard. How many authorities do you think we really need?

MR. CLANCY: It would be immodest of me to say, I

suppose, that I don't think anybody can do the job as well as the Port Authority but, frankly, I don't know. I don't know what kind of an authority anyone has in mind. Is it to be rather a semi-autonomous agency, such as we are, - and basically, we are not autonomous because we are not free of control. Is it to be an agency such as ours? Is it to be limited to the operation of a single airport? Does it have boundaries within which it must operate? Does it have the right of condemnation any place in the State? Can it go anywhere it wants or will its limits be circumscribed, as ours are? What would be the determination of a Legislature? I don't know.

There are men in the Legislature who think, perhaps, - some that I've talked to that think perhaps an independent agency might be a good thing. There are others who think the Turnpike Authority, having a staff of engineers, having familiarity with construction of road, that they might be able to do the job; or the Highway Department. I frankly don't know and I wouldn't presume to give you an opinion because I just don't know how to do it, I don't think I'm competent to do it.

SENATOR RINALDO: All right, thank you.

SENATOR COFFEE: Commissioner Clancy, since 1959 the New York Port Authority has been surveying the possibility of a location for, let's call it, a new jetport.

MR. CLANCY: Yes, sir.

SENATOR COFFEE: And I know that you've looked in New York State and you've looked in New Jersey. Is the

Port Authority in a position to say at this time that their final determination is that the Solberg area should be the designated site?

MR. CLANCY: I think that the Port Authority, through its Executive Director, has already expressed the view of the Port Authority, that the Solberg location is the most desirable location, absent the Great Swamp area; that it offers more by way of accessibility; that the airlines would go there; and that the Commissioners, I feel, could make a judgment that it's economically feasible, which they must make before they borrow any money.

SENATOR COFFEE: That would be my next question.

Has an economic feasibility study been made with reference to Solberg?

MR. CLANCY: I would say, perhaps, if it hasn't been done definitively, it is the opinion of the staff and the Commissioners of the Port Authority that the erection, construction and operation of a jetport at Solberg would be economically feasible.

SENATOR COFFEE: Are we again talking about a capital investment of anywhere from six hundred to seven hundred million dollars?

MR. CLANCY: I would say so.

SENATOR COFFEE: Would you expect that any percentage or portion of that figure would be reimbursement or in Federal aid from the United States Government?

MR. CLANCY: It might be. But my recollection, historically, of the aids from the Federal Government is that

they are rather minimal compared to the over-all outlay.

SENATOR COFFEE: Thank you.

MR. CLANCY: I am informed that out of \$600 million or \$650 million the Federal aid would amount to \$26 million.

ASSEMBLYMAN WILSON: Commissioner, you made a statement that a jetport in New Jersey if located in an area other than Solberg the airlines might not be willing to go there. What did you mean by that statement?

MR. CLANCY: Well, I read a statement by Mr. Keck - I think he's President of United Airlines - that the airlines would not use, for example, the McGuire site. Now, that's as recently as four months ago, a public declaration or statement by Mr. Keck, and I think or I know that he was the spokesman for the other airlines. That not only presents economic problems but presents others.

ASSEMBLYMAN WILSON: Do you recall some of the reasons that he gave?

MR. CLANCY: Well, of course, there's the military use at McGuire Air Base. There is some question of whether it's compatible for civilian and military use. The military, apparently, from what I have read and heard, feels that civilian-military use would not be a compatible arrangement.

Second, it's in the busiest airplane in the world, from Boston to Washington; and, thirdly, it's probably nearer to Philadelphia and other places than it is to the metropolitan New Jersey area. The time factor is involved. People would find it, perhaps, more convenient to go to Philadelphia, people in that area, in the southern Jersey area, than they

would to go someplace else. And Philadelphia Airport, as I'm informed, is not used to capacity now. And when you consider the users of the airport would be Essex, Hudson, Bergen, Passaic, Middlesex and Morris, it would be much more convenient.

ASSEMBLYMAN WILSON: Well, Commissioner, when we talk about a jetport, we're talking about 1975, 1980, 1985. We're building a jetport for the future because we know it won't be ready within a relatively short period of time. So won't our modes of transportation by that time change tremendously, so that really our State is so small that it could be located in many areas.

MR. CLANCY: They might. We recommended, of course, the construction of an airport in 1958, 1959 and 1960. It would have been finished, perhaps, by now. But the recent bond issue with \$235 million available for new roads or completion of existing roads, with your Federal 90-10 program, an airport at Solberg could serve New York City, with those new roads, in forty to forty-five minutes to the mouth of the Lincoln Tunnel. There's the line of the old Central Railroad, I think, that runs as far as Raritan that might be extended. It has many advantages.

ASSEMBLYMAN WILSON: Also the same thing could be said about a site located at Allentown because of the fact that we just passed a bond issue to bring about better transportation in the State of New Jersey and that we can also, more or less, make lines or spurs from the Pennsylvanian Central. So we could actually go down into the southern part of the State and have quick access as far as transportation

is concerned; also the Turnpike Authority is opening up another exit and entrance which could also be readily accessible for people from New York. This is what I mean. I'm just saying that transportation is changing so rapidly and finally maybe the State is catching up and maybe the United States is catching up with the rest of the world as far as transportation is concerned so that this jetport could almost be located in several places.

MR. CLANCY: Well, of course, in considering the availability of railroads, if you have to construct a new railroad for any distance you're talking about \$3.3 million dollars a mile to construct a railroad, right-of-way land acquisitions and things of that sort.

But the basic problem that I see is the change in the travel habits of the public. If I want to go to New York, I walk 150 feet to my garage, get in my car and I go over Garden State, S-3. I don't take the train. I don't even take the train from Newark. I take a Public Service Bus, right around the corner, and it has me over in midtown in 25 minutes. I bring a five-passenger car into the City and park there all day long. No one could convince me that I ought to go in my car and park my car, for example, at Market Street Station of the Pennsylvania Railroad and off-hours wait 15 minutes or a half hour to get a train down to Newark Airport, and I don't have a baggage rack and I have my golf clubs and everything imaginable with me and I'm going to just try to find a rack to throw them on? I think the basic problem is with the public.

Now people can get into New York over the H&M, if they want to use it, from Market Street to Cortland Street, but they elect to drive and they choke the tunnels. But that's not due to the Port Authority building a tunnel, that's due to the demand by the public for a facility to get them in there in the quickest possible time.

So there are so many factors to be considered - transportation, availability, need. For example, if I were in Newark and I wanted to go to Denver, I could be in Denver by the time you got down to McGuire. So there are things of that nature that must be considered. The convenience of the public, the desires of the public, accessibility, use of the automobile, all have to be considered. Now people can go, if they want to - if they want to travel and avoid Kennedy, they can go to Teterboro and check their luggage through to Europe and take a helicopter over to Pan-Am. You don't have to fight traffic. But you've got to educate the public and change the travel habits of the public to some extent to alleviate this horrible traffic condition.

ASSEMBLYMAN WILSON: These you call STOL ports?

MR. CLANCY: STOL ports are one thing. We're studying those all the time. And you must remember that by 1975, or sooner, Kennedy will be 40 to 60 percent beyond its capacity. When you have a landing and takeoff every minute, it's a very frightening thing for the Commissioners and the staff of the Port Authority to think of these 25,000 planes overhead every day from Boston to Washington, flying in lanes ten miles apart, a thousand feet apart up and

down. It doesn't make for a quiet sleep.

SENATOR COFFEE: Commissioner, I've heard aviation people offer projections with regard to reaching a saturation point at the three existing major airports, Kennedy, LaGuardia and Newark. I think most of us agree that we are behind schedule now with the fourth airport, wherever it is to be located.

Can you tell us anything about the projected saturation point and, in doing so, can you tell us at the same time whether the Port Authority, through its planning people, project beyond the next airport, whether it be Great Swamp, Solberg or someplace else, including New York State - do you project the need for a second metropolitan jetport?

MR. CLANCY: Let me say this to you. I understand from information from the Port Authority and other sources, that the FAA now is making studies to cut back the number of landings and takeoffs at our airports because of the crowded, congested conditions of the air. Last summer, in July, we had some crucial experiences with two hour delays for landing.

We have projections, I'm sure, through 1980 and maybe longer. What changes will be made, that I know nothing about, in landings and takeoffs or the usability of air space, is something else again. I don't know how many planes you can crowd into the air with safety, which is always a most important factor.

Coming up from Florida, Friday night, the Captain announced that we had to slow our speed by 70 miles an hour

because of the heavy air traffic coming up, and this was off Jacksonville on a Friday night. It was a clear night, cloudy at the lower level. It is a frightening situation. And everyone, I think, agrees that another major jetport is necessary, and has agreed for some time, no matter on which side of the coin you look. Where to put it is the problem.

SENATOR COFFEE: Is there a projection for more than one new metropolitan jetport?

MR. CLANCY: Perhaps in the study and thinking of our Department there is. Nothing has been projected officially to the Commission. We're having trouble enough with the 4th jetport and I suppose they don't want to compound our troubles by even mentioning a 5th one at this time. But with the population growth studies we've made, and I don't want to be dogmatic about it, but Middlesex County, by 1975 or 1980, is going to grow 40 percent; Ocean, Somerset, and what-not. And if you consider that megalopolis metropolitan northern New Jersey, the population growth itself in that segment of our State may jump ten, fifteen, twenty, forty percent in twenty years or more.

Now they're going to be users of automobiles and roads, airplanes, and something must be done. We felt that it was urgent in 1959, shortly after I first came on the Commission; it is more urgent now; it's a necessity.

SENATOR COFFEE: One last question. Are there any plans for additional roads of access between northern New Jersey and Manhattan, meaning additional tubes, additional

bridge structures, to alleviate this congestion that we've all experienced?

MR. CLANCY: We are making studies of another crossing, and have been for some time. A consideration is the fact that traffic studies have indicated, as I said, the point of destination of a great deal of the automobile traffic, 15 or 20 percent of the people that use the roads, is midtown and downtown Manhattan. And that would be perhaps a tremendous relief, if there were another crossing. Now that's only in the study stage.

SENATOR KNOWLTON: In other words, Commissioner, that would take care of the traffic which now has to go to New York City to pick up the Connecticut Turnpike, Merritt Parkway, or the Massachusetts Turnpike.

MR. CLANCY: As does Tappan Zee and George Washington, to some extent.

SENATOR KNOWLTON: That's probably the reason why some state parkways are patterned to skirt around west of Newark, around the northern part of the State.

MR. CLANCY: It's traffic that goes through the tunnels which needn't go through the tunnel to arrive at its ultimate destination that makes a great deal of the congestion.

SENATOR RINALDO: Commissioner, to the best of your knowledge, has any representative of the Port of New York Authority communicated with the Governor of this State recently in regard to the Solberg site?

MR. CLANCY: Yes, I am sure that there is available correspondence between the Port Authority and the Governor, I think as recently as the last month or so, when the Governor asked the Port Authority to comment on the report of this Aviation Commission and the recommendations of Mr. Blomquist, as his expert and advisor. And I know that the Chairman sent to the Governor a definitive analysis of the recommendations of that Commission and the feeling of the Port of New York Authority as to the logic of locating an airport in the area recommended by that Commission.

Indeed, I might say, the Port Authority, for every major project, confers with the Governor and his staff and with Mr. Goldberg, the Transportation Commissioner. And these things have had a great deal of study before they ever come before the Commissioners for official action, which accounts for the absence, if you will, of details.

SENATOR RINALDO: Well the Governor has made, as you know, or had made in the past, a campaign pledge against the use of Solberg. Are you familiar with Commissioner Goldberg's opinion in this regard?

MR. CLANCY: Well, I'm familiar with a number of Commissioner Goldberg's opinion. If you will point one out to me, I'll tell you.

SENATOR RINALDO: In regard to the Solberg site, specifically. Is he for it or against it, in your opinion. In other words, you said, and from what I've read here in one of your reports, apparently this is what you consider a prime site, and when I say "you" I mean

the Port of New York Authority. Is that correct?

MR. CLANCY: Yes, we do.

SENATOR RINALDO: That is a prime site. Now, for some reason, some of which I'm familiar with, it seems to me that the Legislature, and I include myself here, - we seem to be pussyfooting. In other words, we're not picking a site. There's a bill in to form a jetport authority. This matter has been bounced back and forth for ten years and I was wondering, in your opinion, do you think that at least with the Executive Department that the pledge of the Governor is about the only obstacle against the selection of Solberg?

MR. CLANCY: Oh, there are many obstacles, just as there were with the Great Swamp. You get an organized group against it and the same old story, everybody wants a new road but he doesn't want it in his back yard. It's as simple as that.

I wouldn't presume to speak for Commissioner Goldberg. I know him and I entertain the highest regard for his ability and competence, and I would suggest, not being flippant about it, that Commissioner Goldberg is able to express his own views to the Legislature.

SENATOR RINALDO: All right, another question.

In an editorial that appeared on March 1 in the New York Times, discussing the fact that a site hasn't been selected, they concluded by stating that if New York and New Jersey cannot solve the problem, the Federal Government may have to do so in the national interest. Could you

comment on that and, more specifically, do you know of any plan by the Federal Government perhaps to select a site and maybe impose their will on the people of this State?

MR. CLANCY: I know of no such plans by the Federal Government to do that. All I can say is, somebody better do it soon.

SENATOR RINALDO: All right, thank you.

ASSEMBLYMAN WILSON: Any other questions?

ASSEMBLYMAN FEKETY: Commissioner, we talk about this jetport in South Jersey and we talk so freely about railroad spurs for connecting, yet we find it awfully difficult to get a railroad spur from Newark Airport to the City of Newark.

MR. CLANCY: Yes, that's an economic problem. We have made a study of the feasibility of extending the train service to Newark Airport and our studies have shown us that the destination, by passengers, from the airlines to the City of Newark approximates 312 people a day. Now I have ridden those high-speed rail lines, particularly the one in Japan, and it is not doing too well. You come out of the airport in Japan, you get a porter and he takes your bag and takes them over to the railroad and he'll put them on the train and the train stops somewhere in the City of Tokyo and then you get your bag or get a porter to carry your bag and take it down to a taxi and then you go to a hotel.

Now it was started as a high-speed line, high-speed service from the airport to the City. There are intermediate stops now to help make it pay. It is not paying.

Now you have about - let me charge my memory, if I can.

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there may be 15,000 or more people using the airport, about 8,000 come from New Jersey. A big user of the airport is Bergen County, Morris County, Union County, the suburban Essex County, and with 300 people, as evidenced by their tickets and by surveys that we have made 300 to 325 people coming from Newark. To make it pay, and we, you know, must depend upon our revenues to pay for our facilities, it would seem to me we would have to get something like six or seven dollars a ticket to carry you from Newark Airport to Newark, if it were done strictly on a purely economic basis.

Now is it convenient for me in East Orange now to drive my car down to Pennsylvania Station in Newark, park for \$1.50 or whatever the going rate is there, and take my baggage from a parking lot to the Pennsylvania Station and put it on the train which now is not equipped to carry baggage, and then take my baggage off the rack or off the floor or off my lap, carry it from the train, which will have to go, if it's going to be practical at all, to the three new terminal buildings on a loop, and then get my baggage there and look for a porter to take it to TWA, United or Eastern?

There are many elements to be considered in addition to the fact that you're going to use part of the Pennsylvania tracks, part of the Central tracks, you're going to build five or six bridges or overpasses and you're going to build a bridge to go over, if you will, that network of roads, if you've ever seen them as they will be in the final stages, around Newark Airport; you've either got to go over them or under them. The cost of construction has

been variously estimated from \$60 million down. I think the Advisory Committee, this Commission, has indicated it could be done for \$44 million. Now whose interest would it serve? How many people would be served by the investment of public funds to the extent of \$44 million, using their figure.

ASSEMBLYMAN FEKETY: Excuse me. Originally you had said that we have to change the travel patterns of the traveling public.

MR. CLANCY: That's right.

ASSEMBLYMAN FEKETY: But yet, we use this as an excuse not to build a spur.

MR. CLANCY: Well, let me point this out to you. We had limousine service up to Newark. The average use was 65 persons per day in limousines.

ASSEMBLYMAN WILSON: What was the cost?

MR. CLANCY: I wouldn't know.

MR. LUKENS: \$1.00

MR. CLANCY: \$1.00 and it was \$1.25 or \$1.50 into New York with the Carey Bus.

ASSEMBLYMAN FEKETY: Commissioner, with the amount of employment we are talking about at the Newark Airport and the Port - we're talking about thousands of people.

MR. CLANCY: That's right.

ASSEMBLYMAN FEKETY: You're just talking about commuters that use the airlines. I'm talking about the employees.

MR. CLANCY: Yes, I am too.

ASSEMBLYMAN FEKETY: These aren't the fellows that

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carry the golf clubs or the bag, these are the working men, the daily commuters, who are left in the position of taking a car. Here we try to help the public.

MR. CLANCY: Well now, people who work at Newark Airport live in Newark, Jersey City, Elizabeth, Scotch Plains, Cranford, and when you have people who are working at Port Elizabeth, which is probably a mile or more from the airport itself, that man isn't going to come from Cranford to take the Jersey Central into the Market Street Station, when he can drive his car in in 20 minutes to Port Elizabeth or Port Newark, and keep out of the airport altogether. He can use the Turnpike and drop off. He can drop off the Turnpike and use the feeder roads which will be supplied there. You get men who go to work down there, they ride four and five in a car, they pool. They come down there and they're in their working clothes, they get in a car, they bring their lunches with them, and they go to work. When the whistle blows they're in their car in three minutes and on their way home. Now you can't induce a man who works down near the Elizabeth City line to get some kind of transportation on that seaport complex and go to a terminal building at Newark Airport to get a train for a 15 or 20 minute ride to Market Street, Newark, where he will have to find other transportation to his home.

Those are some of the problems involved. If you have people who are going from here to here. They've done it in Cleveland now but they have 8 different stops and the people who live beyond the airport drive their cars to the airport

and take up the spaces that the airport people should have for parking. Then they ride into town to work. To come home at night then they use this so-called high-speed line which runs in the suburbs. It's not an airport to city, it extends far beyond that.

ASSEMBLYMAN FEKETY: All right, Commissioner, now tell me, when the Authority took over the Hudson & Manhattan tubes what was the provision there, in the contract, about extending the business of the railroad.

MR. CLANCY: The agreement was made, finally, for the integration of that phase of the Central operation, the Aldine Plan, which, it was thought, might take some more or bring some more people in, due to its convenience and the number of cars available for transport to Jersey City, Hoboken and New York, that they would help feed the line in the hope that at least, while it would never be a profitable operation, it might serve to diminish the deficit. That was the only purpose. And 150,000 people today use that line.

ASSEMBLYMAN FEKETY: What about extending PATH into other areas?

MR. CLANCY: Well, that again depends upon the studies of the need of how many people. When you have a line that lays fallow sixteen hours a day, you have equipment alone which costs, oh, let me say, a hundred and ten or a hundred and twenty thousand dollars a car, modern, airconditioned car, silent, we hope, when we get all the roadbeds finished, and you use that from seven to nine-thirty, at its peak, and four-thirty to six-thirty, at its peak, and you have nothing, generally speaking, but a woman shopper or people

going to the matinee, and yet you have work limitations on how many hours a man can work - all railroads have the same experience and they have to have two complete crews to operate that line. Yet, for 16 hours a day that equipment lays there and it is not productive, really. It's just like having a machine in your factory, if you can use it 16 hours a day you can get the highest and best use of it.

MR. LUKENS: Mr. Chairman, could I speak specifically on that. There is a statutory limit. We could discuss that later on, if it's all right with you.

ASSEMBLYMAN FEKETY: All right, I'll refer to that question.

MR. CLANCY: What Mr. Lukens is referring to is the legislation which made the acquisition which imposes a statutory limitation on our involvement in other railraod transportation facilities.

ASSEMBLYMAN FEKETY: In other words, you just couldn't make that spur to Newark Airport now.

MR. CLANCY: I would not think without - well, we might, I don't know. That's a legal question and we have our General Counsel here and I'm only a Commissioner, now. I never act as a Lawyer on the Board.

ASSEMBLYMAN FEKETY: I just have two more questions, one is a million dollar one and the other is a ten cent one.

MR. CLANCY: The million dollar one will probably be the easier.

ASSEMBLYMAN FEKETY: Have you made a feasibility study on a connector between the Lincoln and the Holland Tunnels?

MR. CLANCY: Not to my knowledge.

ASSEMBLYMAN FEKETY: None whatsoever.

MR. CLANCY: None whatsoever. You mean a road connection.

ASSEMBLYMAN FEKETY: Right.

MR. CLANCY: We have not. I think the State has but we haven't. The State has made a study.

ASSEMBLYMAN FEKETY: The ten cent one. Why do we charge the youngsters ten cents to go up to the observation tower? There are turnstiles there at Newark Airport.

MR. CLANCY: I suppose it's a custom. It's a revenue producer and, of course, there's a maintenance problem involved and those machines or stereopticon viewers, I suppose, from time to time are mutilated. Only over 12, I'm informed, do we make the charge.

ASSEMBLYMAN FEKETY: Let's put it this way. Why do we have that in the first place. We're talking about millions of dollars at one point and at the next point we talk about charging ten cents to go upstairs.

MR. CLANCY: No, it's a question of maintenance and supervision and the cost of the maintenance and supervision. It's not a public facility or private facility, for example, like the Empire State where you pay \$1.50, but you have kindred maintenance problems. You have to keep the floor clean, you have to pick up all the candy wrappers, scrape the chewing gum, you have to see that there's no vandalism. It requires some supervision that must be paid for.

ASSEMBLYMAN FEKETY: Couldn't we write that off under public relations?

MR. CLANCY: I'll discuss it at the next meeting.

ASSEMBLYMAN WILSON: I have some questions concerning PATH and the link between Newark and the Airport. First of all, I read that the Tristate Planning Agency said that this link would be used by at least 400,000 people per year.

MR. CLANCY: We don't agree with that view or that projection at all.

ASSEMBLYMAN WILSON: Well, see, this is what it's all boiling down to, your survey versus some other individual's survey. For example, you say about the number of employees. I happen to know many people who do work for the Airport as mechanics or ticket sellers, stewardesses, and so forth, and they are from Essex County and East Orange, particularly. There are a lot of people in East Orange that work at the Airport.

MR. CLANCY: I know many of them. I was born and brought up in Newark and lived there for 28 years. I know many people who work down at the Airport.

ASSEMBLYMAN WILSON: Well, it seems to me that if we encourage many of these employees to leave their cars home and take a bus down to Newark, that there is a PATH link between the City of Newark and the Airport, that we would be doing a service not only to the State of New Jersey, as far as transportation is concerned, but also to the Airport because you have a bottleneck as far as the airport is concerned. I'm sure that you would agree with that, wouldn't you?

MR. CLANCY: It's an educational process and unless

you can change the travel habits of the public, it's never going to come about.

ASSEMBLYMAN WILSON: Well you mentioned about people who drive to the Airport themselves.

MR. CLANCY: Yes, I did.

ASSEMBLYMAN WILSON: I actually think that if they had another means, and a quick means, of getting to the Airport they would make themselves available to this particular mode of transportation.

MR. CLANCY: Well, Mr. Chairman, you're a resident of the suburbs, as I am, are you not?

ASSEMBLYMAN WILSON: West Orange, yes.

MR. CLANCY: West Orange. How would you go to the Airport? Would you take your car or a taxi to get to the Pennsylvania Station in Newark; would you take the DL&W and have somebody carry your bags over to your nearby station, get off at Broad Street in Newark and take a cab or two busses down to Pennsylvania Station with these bags and then get on the train, or would you --

ASSEMBLYMAN FEKETY: Who is asking the questions?

MR. CLANCY: That's a rhetorical question. I have the same problem and I'm citing my experience, which is the same as the Chairman's might be.

ASSEMBLYMAN WILSON: That's all right. Well, what I would do, if there was a link, I would have someone drive me to Newark and then take the link from the City of Newark to Newark Airport, because I don't particularly care to go to Newark Airport, as far as driving myself. And I think

there are many people that feel this way. There are many, many passengers, for example, who are driven to the Airport and let out. They can't even find a place to park there.

MR. CLANCY: Well, when you drive to Newark then you're dependent upon the schedule, the train schedule. Now the traffic would be heavy, as it is everywhere, in the morning and evening hours, but at ten o'clock or eleven o'clock in the morning or 1 o'clock in the afternoon - I'm not a railroad man but I would imagine that you would have service better than a half hour at a time, trains a half hour apart, but you may only have 20 passengers. Now, if you got out of your car, took your baggage upstairs and got on the train or waited for the train - you might have to wait a half hour, yet if you continued on in your car you'd be down there in ten or twelve minutes.

ASSEMBLYMAN WILSON: Yes but the 20 passengers, that's according to your survey which happens to differ with the Tristate Planning Agency's of 400,000.

MR. CLANCY: That's right.

ASSEMBLYMAN WILSON: Let me ask you this question. The Governor, with the Department of Transportation Commissioner Goldberg, has proposed a bus shuttle and to work it out with the Port of New York Authority to actually see if there are enough people to use the PATH link, if there was to be one. Do you think that this bus shuttle will actually show the correct number of people that would use a PATH link between the City of Newark and the Airport?

MR. CLANCY: I don't know. That is a matter - we

are, of course, cooperating with Commissioner Goldberg in that study and we are meeting with him in the immediate future to discuss it. And the only way they can find out or we can find out is to try this with the assistance of Public Service. There is bus service to the Airport now, not used --

ASSEMBLYMAN WILSON: That's 21-West Orange.

MR. CLANCY: Yes, 21-West Orange used it. And we'd be delighted to find out the result of this experiment.

ASSEMBLYMAN WILSON: The only thing is, would it be a true experiment or a true judge of actually how many people would use a quicker link, such as the link of PATH between Newark and the Airport, because how many people like to use busses when they are going on a long trip and have suitcases and so forth. Would you really think that that would be a true judge of how many people would use this link?

MR. CLANCY: I don't know. We will only know when we try. I don't think I would use it.

ASSEMBLYMAN WILSON: I think what it's going to do, I think the bus shuttle is going to support your survey because I don't think that it will be that successful because I don't think the average person who is going to take an airplane out of Newark Airport would be too interested in riding a bus from Newark to the Airport.

MR. CLANCY: I think the purpose of the study is to find out if there is a need for it and if it would be patronized. And if it would and I suppose if the Public

Service is willing to do it, and probably under some form of subsidy from the State, such as the railroads get, maybe Public Service would find it was something that should be done, or the Port Authority would find that it's something that should be done. But we certainly won't know anything about it until we try it, and I think it's a step in the right direction to try everything you can to find out what the facts are.

ASSEMBLYMAN WILSON: Does anyone have any other questions?

Well, Commissioner, we want to thank you very much for being a very cooperative witness and we may call you in later on, after we've had more time to study the material which we have just received. We have volumes and volumes of material.

We will have a recess now for lunch until 2 o'clock.

MR. CLANCY: Mr. Chairman, I will be very happy to come back. I would suggest that it not be between the 14th and 28th of March.

ASSEMBLYMAN WILSON: All right, fine.

(Recess for lunch)

Afternoon Session

ASSEMBLYMAN WILSON: All right. The hearing is now open. Mr. Lukens who is Deputy Executive Director of the Port of New York Authority will now testify.

Do you have any objection to being sworn, Mr. Lukens?

MR. LUKENS: None at all.

M A T T H I A S E. L U K E N S, being duly sworn as a witness, testified as follows:

ASSEMBLYMAN WILSON: Will you state your name, please, and your position with the Authority?

MR. LUKENS: My name is Matthias E. Lukens and I am Deputy Executive Director of the Port of New York Authority.

ASSEMBLYMAN WILSON: Do you have a statement that you would like to present to the Commission?

MR. LUKENS: Yes, Mr. Chairman, I have a statement and may I suggest in the interest of time that I just skim through some of the highlights and put the full text into the record.

ASSEMBLYMAN WILSON: Yes. Do you have copies that you can give to members of the Commission?

MR. LUKENS: Yes. Let me say at the outset, Mr. Chairman and members of the Commission, that like Commissioner Clancy may I reiterate that the Port Authority welcomes this opportunity to appear before the Commission and we will do our utmost to cooperate with the Commission and provide it with the information it desires.

One of the things we particularly wanted to urge you to do is we do hope that in your deliberations you will find the time to come and visit the Port Authority and some of its

operations. I think it might be very helpful to you if, for example, you would come and ride on our new PATH cars in rush hours and see some of the conditions that exist there and how we are handling them, or you might go to the bus terminal, for example, at the peak of its traffic where it is handling a greater volume than Grand Central or Penn Station, or go over to Port Elizabeth or Port Newark where we think some of the most exciting things in the marine world are occurring, or the World Trade Center construction which is unique anywhere. I think it would be very interesting and very helpful to the Commission if you could do this and we, of course, would be very glad to make the arrangements and do everything we can to make this a fruitful visit.

To get on with my statement, let me say that at the outset, starting with your Governor, Walter Edge, a very great man and a great statesman, he was the man who really sounded the keynote for the establishment of the Port Authority and, together with Al Smith, was most instrumental in establishing it when he talked about the need for cooperation between the two states in the development of the Harbor, and I have a quote from here which he delivered on the eve of the meeting of the Commission which met to decide and to consider what was needed to bring about the cooperation between the two states. The keynote of that statement was: We must have cooperation in the development of this great Harbor.

One of the reasons for this was that if you look at the history of the whole Port, you will find that for more than a hundred years, before 1921, when the two states and their

legislatures entered into a compact to create the Port Authority, they really had some very ruinous conflicts and arguments which were economic, which were physical, and which took almost every form, so the whole history of the two states up to 1921 was that the two states did not get along together; on the contrary, they had nothing but very serious conflict. So the compact itself was an instrument which symbolized the desire of the two states to work together and to cooperate in the development of the Harbor, so this was the watchword and the hallmark of the compact and of the Port Authority as it was created, and this is what the two states really intended when they set up the organization and that's what this organization was to do. It was to be the symbol of cooperation between the two states and the instrument through which they could cooperate.

I might say that in 1940, the New Jersey Legislature set up a legislative committee to examine the Port Authority and its activities and what it was doing in relation to the charge that the two states had given it and the legislation they had passed from the beginning to cause it to undertake its activities.

I quote from that Committee when the conclusion of that study and the report by this Committee was that "It does not and cannot subscribe to the concept that no further developments in the Port District will be desirable or necessary in the future."

Now, mind you, this is 1940.

"The Committee therefore has adopted the dynamic concept of the New York Port of Authority, a concept which contemplates further development of the facilities in the Port District as the need for such facilities is indicated from time to time. The adoption of this concept is more truly in line with the fundamental purpose for which the Port of Authority was created, namely, for the continuous development of the Port facilities."

So that was the conclusion of this Committee somewhat like yours in 1940 that studied the Port Authority.

Now I realize that in your charge which the Legislature gave you, you are to look at the purposes of Authorities and also what they have accomplished. I would like to point out that today the Port, where we have our primary responsibilities and the facilities of the Port, supports one out of four people in terms of their livelihood. Or, looking at it another way, the air and marine cargo that passes through the Port of New York today on an annual basis has a value of 16 billion dollars in 1967 and over 70 per cent of that cargo was handled at Port Authority facilities; or of the 375 million people who crossed the Hudson in 1968, 96.3 per cent of them crossed the Hudson by a Port Authority facility. So these are some of the things we have done in terms of the activities that we have accomplished in connection with the charge that the two states have given us.

Looking at it by individual groups of facilities since the 1920's, the Port Authority has actually developed and invested \$520 million in bridges and tunnels to link the two states across the Hudson River and the Arthur Kill, and this is really the greatest transportation system anywhere in the world today. So actually this year alone, 140 million vehicles in 1968 will have crossed the Hudson River via these facilities,

which indicates the volume which these facilities now handle. Of course, if you want to take a look at any kind of an indicator - as to an economic indicator or otherwise - there is no question but that these facilities have been a great factor and a great influence in the economic development of the two states.

Also, we have talked a little bit about the H & M Railroad this morning. As you know, on September 1, 1962, at the direction of the New Jersey Legislature in this hall, the Port Authority acquired the Hudson & Manhattan Railroad. It was in bankruptcy and was almost ready to be liquidated, and at that juncture the Port Authority acquired it and since then we have spent \$122 million dollars to rehabilitate it, and I think we have provided a very modern system that does provide good, convenient, reliable service to 130 to 150 thousand people a day - New Jersey residents between New Jersey and Manhattan - and generally speaking I think you will find those people are very happy with what we have provided for them in the way of service.

I might say that, despite this deficit that Commissioner Clancy referred to today - and it depends on how you figure it, Mr. Chairman - there is a report we give to the ICC which does indicate the 10 million dollar deficit which was figured under the statute I referred to - it amounts to over 11 million dollars - it's in that range of deficit - and despite that deficit we still have plans to spend some \$70 million more in additional facilities at Journal Square

which, of course, we are very proud of as a facility, and this will have a tremendous effect in the center of Jersey City and the redevelopment in Jersey City. We are going to provide a new terminal in downtown Manhattan and we still have, unfortunately, signal work and track work and electrical work that remain to be done, which is a most difficult thing to do when that railroad is still running and you try to do this kind of rehabilitation or actually renew and replace the old system that was just run-down.

Of course, in the field of aviation, again our activities in that field relate directly to the statutes which this body in this room authorized us in 1947 to undertake, to provide a regional system of airports, which we have done, and, when you recall that in 1948 some 3-1/2 million passengers passed through the airports which we then had responsibility for, and now, 20 years later, 37 million passengers will pass through those airports today, and the forecasts are for 71 million passengers in 1975, and 91 million passengers in 1980, if, in fact, they can get through our airports. That's the demand and we don't think we can actually meet the demand, as a matter of fact, because we do not have the capacity. We have spent in all something like \$670 million in these airports, including Teterboro, to provide modern facilities and, of course, we built LaGuardia; we built Kennedy from a cinder-block building to what it is today - the most modern air terminal in the world, and although it is severely congested, it still is - and, of course, we are now embarked on a \$200 million program at Newark

which is a complete rebuilding of that airport. Unfortunately, that's not enough and, although it will provide increased capacity in several instances, like Newark, where it will increase capacity by 50 per cent, the fact of life is that is not going to be enough, even with all the things that we believe should be done, like encouraging STOL aircraft and STOL developments, including STOL ports and heliport somewhere in Manhattan and encouraging the high-speed train from Washington to Boston; the plain fact of life is that even with all that, a fourth airport is desperately needed and, in fact, beyond that, a fifth airport will sometime be needed in the foreseeable future.

Turning to the bus terminal, which is really a New Jersey facility, since a very high majority of the people today use that facility - 220,000 people use that facility and 8,000 buses use it - and it performs a very essential service to these people, and we have been so successful in that sense that actually we now have the planning underway to build an annex to that facility which will add to the capacity of that facility by another 50 per cent, in order to handle just the commuters and the long-haul bus riders who come to that facility, because it handles all the long-haul buses that come into Manhattan as well as all the New Jersey commuters who come in by bus, except those who come across the George Washington Bridge and it even handles some of those.

Beyond that, I have a little note which says that of course New Jersey is known as the Garden State and it might just as well be known as the Export State. It is the eighth

largest state in exports in the country and you don't really realize the size of this operation to the State of New Jersey, but let me give you a couple of numbers: 85 per cent of the manufactured products in the State of New Jersey goes outside the State, for example. If you take all those firms that do \$25,000 in business, over 500 of them, for example, export goods overseas and employ some 300,000 people, so that New Jersey is very heavily in export trade, more so than many other states, so that the whole question of trade in terms of its relation to Elizabeth and Port Newark and The World Trade Center is vitally important to the State of New Jersey.

Of course, Port Newark and Elizabeth, as Commissioner Clancy mentioned today, with the plans we have ahead of us, will ultimately handle over 60 per cent of the cargoes through the Port of New York. Today they handle a little less than 50 per cent, handling a total of around 14 million tons of cargo.

At Port Newark, where we spent about \$120,000 in capital developments there in modernizing that Port, there are 31 deep-sea vessel berths to handle modern shipping. You may not realize it, but that's as large as the ports of Amsterdam, Marseilles or LeHavre. So Port Newark is a major port of major importance, not only here alone, but in the world. And, of course, as the Commissioner mentioned to you, they employ 5,000 people there today in the very active port.

SENATOR KNOWLTON: May I just interrupt, Mr. Lukens. Pardon me for interrupting, but I understand or I read in the newspapers that there is a development that is going to be

started in Staten Island by private enterprise for container operation.

MR. LUKENS: Yes, sir.

SENATOR KNOWLTON: What effect if any, will that have on Port Newark and Elizabeth?

MR. LUKENS: We do not think it will have any effect on it. According to our engineers, the maximum number of berths that could be developed at that facility would be about three berths, so that our plans, just to give you the size of our operation, for example, at Elizabeth - we have 13 container berths at Elizabeth alone, plus 31 at Newark of combination berths, and together we have plans to build another 17 berths in Newark and Elizabeth, so this is against the three that are being developed on Staten Island and should not have any real effect on the operations at Port Elizabeth and Port Newark. So today we have \$200 million in those facilities at Port Newark and Port Elizabeth, and I think our plans are to spend something like \$125 to \$150 million in further developing those facilities. As Commissioner Clancy indicated, Port Elizabeth is really the container capital of the world. There are not that many container berths in all of Europe today as there are in Elizabeth. All the steamship lines that have container ships in the United States, except the west coast, are operating out of Port Elizabeth, and all those who will be getting container ships are going to come to Port Elizabeth and are in discussions and negotiations with us for facilities, so it is the container capital really of the United States, and it has been a very wonderful development from the standpoint not only of New Jersey

but the future of the Port, because this does assure the future of the Port of New York. This is the way of the future and it's a revolution in marine shipping and it's so revolutionary that some of the people who have taken the leadership initially to develop container ships have made such inroads in the markets that all the other ship lines, who were somewhat reluctant to convert, are now converting to container ships because they have to, in order to compete.

So that's the marine terminal picture, and I think one of the Assemblyman this morning, Assemblyman Fekety, was asking - can you tell us some encouraging news? Well, certainly I think the story at Port Newark and Elizabeth is one of the most encouraging pictures that any city in the world has in terms of its future in any port in the world - and the State of New Jersey.

One final thing that I think I should talk about just for the moment is The World Trade Center which is now under construction, and I won't dwell at length on it except to say that when that legislation was passed in this chamber right here, the New Jersey Legislature found:

. . . that in order to preserve and protect the Port of New York as the nation's leading gateway for world commerce it is incumbent on the States of New York and New Jersey to make every effort to insure that their port receive its rightful share of the oceanborne cargo volumes generated by the economy of the nation.

. . . that the servicing functions and activities connected with the oceanborne and overseas airborne trade and commerce of the Port of New York District, including customs clearance, shipping negotiations, cargo routing, freight forwarding, financing, insurance arrangements and other similar transactions which are presently performed in various,

scattered locations in the City of New York, State of New York, should be centralized to provide for more efficient and economical transportation of persons and more efficient and economical facilities for the exchange and buying, selling and transportation of commodities and other property in world trade and commerce . . .

This now is coming to fruition. The space in the Center now is 88 per cent committed. We have all these people who are mentioned in here, the majority of them in the Center, like the Customs Brokers, the Customs Agent and the Customs House and the major import-export companies that are keyed to this activity. We have made rentals to all these people and they are coming into the Center, as well as a number of international insurance companies, 25 banks, 25 or more foreign companies have committed themselves to take space and show the products of their business in there; some 15 States have taken space, and New Jersey will announce its intention in the next several days as to what it intends to show by way of New Jersey industry in The World Trade Center, so what is stated in the preamble of the legislation is really coming to fruition, so it's beginning to fulfill its mission, it is well under construction, and we hope to open the first building in August of 1970 and then the remainder by 1972. So that project is, we think, a great project which will revolutionize the handling of trade all over the world and particularly here and we think it will increase the trade and commerce of the Port District and of New Jersey specifically.

Now all these things, as Mr. Clancy indicated before, have been done under the authorization of this body in this room and we literally have had the compact amended 42 times by specific pieces of legislation which have directed and

authorized us to undertake certain activities, and we, as a matter of fact, have a list and a reference to those which we would like to submit for the record and for your reference, to indicate where our basic authorities derive from.

I will take about two minutes more, and let me conclude by saying that Commissioner Clancy did make reference to the Special Investigating Committee of the Senate which operated from 1961 in New Jersey and issued a report in 1963 and, as well, they employed the firm of Peat, Marwick, Mitchell & Co. to make a review of our finances, and they worked at that for several months. Mr. Morrison, incidentally, one of the partners, I see is in the room, and in that report they made a number of findings; for example, the Committee said:

"...We retained outside professional auditors to make a complete and disinterested audit of the Port Authority. On the basis of their report we have concluded that the Port Authority employs good business techniques and follows sound and prudent management policies and practices to the end that the Public is best served, and that the policies employed by the Port Authority operate to minimize its construction and operating costs, to develop fully its revenues other than bridge and tunnel tolls and to avoid favoritism in any of its business transactions."

Also in terms of our financial structure, about which the Committee did have some questions this morning, again to paraphrase what they have said, the auditors did determine what we have said here and we have submitted, in answer to Question 9 of your letter, Mr. Chairman, a comment on our debt, and the fact of the matter is that in the 1931 statutes which this body passed at that time with the State of New York, it directed us to pool our revenues and to set up a general reserve fund. And so it is impossible to identify debt service per se that relates to

particular facilities because of this pooling, and we do operate as a single enterprise. The Peat, Marwick and Mitchell auditors reviewed that statement and attested to its accuracy and again we submitted that statement to this Committee in answer to one of your questions.

Also, another interesting thing which you were asking about this morning was the question of toll reduction and our toll structure. They pointed out, the auditors - Well, first of all let me read one other thing. The auditors said:

"The published reports of the Authority are a fair presentation of the results of operation of the various funds and reserves . . . such reports are not, and are not intended to be, a reflection of the profitability of the Authority. There are strong arguments that the concept of profitability is not even applicable to a governmental body such as the Port Authority."

Then in its February 20th letter, this Commission indicated it is interested, as well, in Port Authority tolls and charges. The auditors, in 1961 and 1962, that examined Port Authority revenues and investment in facilities determined "that the rate of growth of earnings has not quite kept pace with the increase in the investment in facilities" and at the same time "the average rate paid on new issues of bonds has been increasing." And they concluded: "If this trend continues indefinitely, the Authority's ability to expand its facilities will decrease." So that has a very direct bearing on the interest you had in the toll question.

They point out in this connection:

"One of the most important factors affecting the rate of return on the Authority's investment is inflation. The toll rates paid by the bridge and tunnel users have either remained constant or have been decreased since the start of the ten-year period under review. For some time the effects of traffic growth have more than offset the combined effects of inflation on costs and lower toll rates. However, the traffic growth factor is eliminated when the facility reaches its capacity. Only an additional or expanded facility will permit continued traffic growth . . . Although in the past the vehicular crossings have been the backbone of the Authority's earning power, unless inflation is stopped it would appear that without increases in the tolls they will slowly lose that position. Needless to say, increasing tolls would not prove very popular and its likelihood in the near future would seem remote."

The auditors for the Senate Investigating Committee examined other areas of activity at the request of the Senate Investigating Committee. With respect to purchases and maintenance and construction contracts, they concluded that the Port Authority's policies and practices "are reasonable, prudent and in accord with good business practice" and they determined that Port Authority employees were following the Authority's policies and procedures with respect to bidding and awarding of purchase orders and maintenance contracts.

These conclusions embodied in the basic report of the Senate Committee came only after two years of work by that Committee and also after several months of work by the auditing staff of the firm of Peat, Marwick & Mitchell, so for your convenience and the Committee's work, we would like to submit copies of that report and, of course, we are looking forward to working with the Committee.

Thank you very much.

ASSEMBLYMAN WILSON: Senator Knowlton, you have some questions pertaining to the financial aspects?

SENATOR KNOWLTON: Yes, I do, Mr. Chairman, thank you.

Mr. Lukens, is each facility, such as the George Washington Bridge or Port Elizabeth or Port Newark, headed by an officer in charge?

MR. LUKENS: Yes, they are. We have a Manager.

SENATOR KNOWLTON: Each one is headed by a Manager.

MR. LUKENS: Yes, we have what we call a Line Department like the Marine Terminals Department, and it is headed by a Director, and then he supervises the Managers of Port Elizabeth - we have a Joint Manager for Port Elizabeth and Port Newark; we have a Manager for the Brooklyn and Erie Basin Piers, and we have a Manager for the Hoboken Piers, for example.

SENATOR KNOWLTON: Well, each one of these facilities, each Manager's Office, let's put it that way, have a staff which could be divided, say, into personnel, payroll, revenue reports, planning, and so on and so forth?

MR. LUKENS: No, they do not. We have a very highly-centralized organization; we have an advantage that many others do not have that would have the number of facilities that we have. We are within a reasonably closely-confined physical area so that we find we can operate much more efficiently by having many of those things in one place in the Port Authority, for example. So the Manager of the Lincoln Tunnel or the Holland Tunnel, for example, mostly his

operations are maintenance and police and he has an administrative office with an administrative clerk that provides the payroll information and the traffic information. As a matter of fact, the traffic information is mostly by computer today. So these two or three clerical people do some of those routine functions with the traffic data, but he does not have a personnel person and he doesn't have a payroll person, and he doesn't need a staff and he has a small administrative unit, but the personnel work in the Port Authority is all handled by the Personnel Department, the public affairs work is all handled by the Public Affairs Department, so that none of these facilities except Kennedy has anybody from Public Affairs; they don't have a Legal Officer; they don't have any of the other kind of staff departments represented at these different facilities.

SENATOR KNOWLTON: He has no Planning Department or Planning Officer?

MR. LUKENS: No, he does not - not at the facility; no, he does not. We have a Centralized Planning Department called the Planning and Development Department under Roger Gilman who has been with the Port Authority for thirty years and lives in Plainfield, New Jersey, and is an outstanding man in this field.

SENATOR KNOWLTON: Now when you come to make up your budget, do these Managers come in and assist in the budget making?

MR. LUKENS: Oh, they most certainly do. It starts there.

SENATOR KNOWLTON: Is your budget a line item budget?

MR. LUKENS: It is a line item budget but it's also a program budget. We pioneered before anybody heard of the PTBS program budgeting. We started this 13 or 12 years ago. So we have tried as best we can to define all of our activities in terms of units and things to be handled and people to be served in every one of our activities, in order to build up the background of what you need in the way of a budget to service those people.

SENATOR KNOWLTON: Now as each Manager requires money for operating expenses, does he submit a voucher to you or some kind of a statement of his request?

MR. LUKENS: Oh, yes, he does.

SENATOR KNOWLTON: Is there a pre-audit of those requests?

MR. LUKENS: Yes.. It would all go to the Finance Department, the Comptroller's Department, except for petty cash. He has a petty cash fund, but anything beyond the petty cash fund, which is a very nominal sum, must go through the regular procedure with a requisition or a voucher, and they ultimately go to the Comptroller's Department where they are pre-audited and then paid from there.

SENATOR KNOWLTON: And then there is a follow-up as to a post-audit to see whether the money has been spent correctly?

MR. LUKENS: We have a very interesting system again of auditing where we have our own internal audit staff that actually sets up auditing procedures to be followed by everybody in the Port Authority, and then they have a team that goes

out and spot-audits at our various facilities against those procedures and against the accounts and records, but in addition to that, of course at our various facilities we do have leases with a number of tenants in which we have an interest, so these men do the same thing externally where they may audit accounts of the people with whom we do business, and we retain the right in most instances to do that. On top of that, the Commissioners every year and the Finance Committee recommends to the Board the hiring of outside auditors, and I think we have had about eight in the last twenty some years, - Price, Waterhouse is our present external auditor - and they audit our accounts and they audit the work of our internal auditors.

SENATOR KNOWLTON: Are these audits and your financial reports submitted to New Jersey and to New York?

MR. LUKENS: Yes, sir, they are.

SENATOR KNOWLTON: And could you tell us how they are handled by the two States - what department -

MR. LUKENS: They go to the finance person - I think the Budget Director in New Jersey and the State Comptroller in New York.

SENATOR KNOWLTON: I note that under the reimbursed expenses of the Executive Director and Deputy, there is an amount of about \$6.3 million. Could you tell us what these reimbursed expenses are? Can you describe them to us?

MR. LUKENS: Pardon me, Senator, I don't understand that number.

SENATOR KNOWLTON: On page - I guess you don't have that.

MR. LUKENS: I have all the exhibits here with me.

SENATOR KNOWLTON: On page - this comes after the salaries of the officers of the Authority and there is a schedule entitled "Reimbursed Expenses" of the various staffs; for instance, the Public Affairs staff, the Executive Director and the Deputy, and then "Reimbursed Expenses" of the 25 next most-highly remunerated employees.

MR. LUKENS: On Page 5?

SENATOR KNOWLTON: On Page 7 is what I have here.

MR. LUKENS: Page 7.

SENATOR KNOWLTON: I don't know whether you have the same thing I have.

MR. LUKENS: Yes, sir. I have the exact same thing.

SENATOR KNOWLTON: Could you explain to us what is meant by "Reimbursed Expenses"?

MR. LUKENS: You said something about six million dollars, and I was worried about that.

SENATOR KNOWLTON: It's really - Excuse me. It's Executive Director approximately \$5300. What's that for?

MR. LUKENS: That is reimbursed expenses as defined; in other words, he spent that money and he is reimbursed.

SENATOR KNOWLTON: What would he spend that money for?

MR. LUKENS: I would prefer to have Mr. Tobin speak for himself, but in his position as you appreciate, just like in my position, we are both very active in other organizations in terms of professional organizations. Let me give you an example of my own: I am very active in the Airport Operators Council, International. I am First Vice President of that

organization. I also have been active in the American Society for Public Administration. I have also been active in the Society for Administrative Management, SAM. I do go to their meetings. Some of them are in New York; some are in Washington; some of them are elsewhere, depending on where the President and the Executive Board call them. As a member of the Board I am obligated to attend. The Port Authority has a very direct interest in their affairs, and the Airport Operators Council has a program that is very instrumental in the Federal Government's thinking in regard to financial aid to airports, for example, and what should be done about congestion at the airports. So I am participating as a board member in the policy discussions of those matters that will then be taken up with the Federal Government. I also go to Washington, I would say, once or twice a month to meet with the officials of the FAA on matters that concern the Port Authority. I usually go once a year to the West Coast to visit all of the major aircraft manufacturers to get the preview, together with maybe 20 or 30 other key people from the airport side, on the equipment they are talking about in terms of their development in the noise problem, how it will affect our airports, and other things like that. So that's the kind of thing that is involved there.

SENATOR KNOWLTON: Now do I understand correctly that, so far as your budget-making process is concerned, you do not consider depreciation of a facility?

MR. LUKENS: We are legally unable to do so.

SENATOR KNOWLTON: Even of a building which you might own?

MR. LUKENS: No, sir. Legally, we may not do so.

It is in the 1931 General Reserve Fund Statute. The State

forbad us to take depreciation on our facilities or to set up an account for it.

SENATOR KNOWLTON: Could you tell us the reason for that?

MR. LUKENS: I do not know what was in the minds of the legislators at that time.

MR. GOLDSTEIN: Would this help you? I would call your attention to the footnote in the statement by the outside auditors contained in Port of New York Authority 1967 Annual Report at page 60, reading as follows:

"Note A - Accounting Principle
The Port of New York Authority, created in 1921 by compact between the States of New York and New Jersey with the consent of Congress, has no stockholders or equity holdings. All revenues or other cash received must be disbursed for specific purposes in accordance with the provisions of various statutes and agreements with holders of its bonds and others.

"The accounts of the Authority are maintained in accordance with generally accepted accounting principles appropriate in the circumstances."

And that rules out the question of depreciation.

MR. LUKENS: Incidentally, Senator, this report is in the hands of the Committee and you may wish to examine those footnotes.

SENATOR KNOWLTON: Mr. Lukens, aside from the statute, would it make for more meaningful budget procedures and the projection of future budgets if you did have the authority to allocate certain depreciation allowances for those facilities which are susceptible to that kind of treatment? I realize that for the George Washington Bridge you might have some difficulty because that could last 50 years, 75 years, or 150 years and this depends upon engineering expertise to tell you

how long that bridge is going to stand the strain and stress of traffic. But in the case of a building, would it not be more meaningful for you if you were permitted to make depreciation allowances?

MR. LUKENS: May we have our General Counsel reply to that again?

MR. GOLDSTEIN: I just want to read the second footnote to the outside auditor's report which perhaps may clear up what you are addressing yourself to, Senator:

"The Authority's bond resolutions provide that operating expenses shall not include any allowance for depreciation. However, recovery of facility costs is accomplished through deductions from revenues and reserves of amounts equal to payments to sinking funds and other principal payments on funded debt. These deductions are credited at par to the account 'debt retired through income.'"

Now our Director of Finance can discuss that with you better than Mr. Lukens or I can do.

SENATOR KNOWLTON: Then would I be correct in assuming that we are just calling a rose by a different name? In other words, that you do in effect somehow figure in something for depreciation only you call it something else?

MR. LUKENS: Well, whenever we say, and we say it quite frequently, that, for example, whenever our Commissioners have to determine whether or not they should go forward in a facility - like Commissioner Clancy was saying today, "Is it economically feasible"? - they have got to make a certification "Will this facility impair the credit of the Port Authority?" That's under the covenant with the bondholders and I guess several statutes now. They must make that certification. So one of the things

we always do is make an economic analysis of every project we undertake, not facilities, but every individual project like a hangar, for example. And so we do make an economic analysis and usually we use a "rule of thumb" that relates to our financing, that if you make the assumption, which is not always the case, that we would finance it on a 30-year basis, we take the present interest rate that we would be paying then and a 30-year write-off, and we use that as a test to determine for our purposes, is this going to impair the credit and is it "self-supporting", and will it meet its debt service one time and also one-point-three times because, again, under our covenant with our bondholders we may not issue any bonds if we don't meet the one-point-three test. So this we use for management purposes and it is most helpful, because even though it may not be the best figure, and who's to know what is? - it is a guide and they are all measured against that guide, so we do use that in our management assessment of what is a proper project to undertake.

SENATOR KNOWLTON: Would it be to correct to state, Mr. Lukens, that by use of the sinking fund device upon the end of usefulness of a building, through the sinking fund device, you now have a fund to replace a building or a facility that perishes, unlike a tube or a bridge or something of that sort?

MR. LUKENS: Under our financing, and we did furnish a debt schedule, and Number 8, I think it was requested by the Committee that we furnish a complete list of all the bonds we ever issued and the status of those bonds, and you will notice in that schedule that we have issued both serial bonds and

sinking fund bonds so that in the case of serial bonds, we must meet the serial payments as they come due. In the case of sinking fund bonds, we must put a certain amount in the sinking fund for those bonds.

SENATOR KNOWLTON: My point is this: Through the use of this sinking fund procedure, at the end of a certain number of years where a building has become old and is no longer suited for the purpose for which it was originally intended, you do have a fund to reconstruct a facility?

MR. LUKENS: No, those are to pay off the bonds, so we will have to start all over again where a new facility is constructed to finance it anew.

SENATOR KNOWLTON: I would like to address myself to another problem here. I am sure that very few people would quarrel with the proposition that in certain areas of governmental activity it is necessary to hand that activity over to an autonomous agency. After all, the Legislature can't be fooling around with the New Jersey side of the Hudson River, and so on, or we would never get anything done. However, one of the fears of this Legislature - I don't know about New York State - is that sometimes these Authorities are so autonomous that they are not amenable to legislative suggestions, and so on and so forth, and it's awfully hard, it seems to me, in a practical sense to amend the bi-state compact which brought the Authority into being. For instance, let me give you a specific: In a number of towns where the Port Authority owns facilities, they claim that their tax ratables are being eaten up; in other words, they are not getting back payment in lieu of taxes to replace a sufficient amount of the ratables which they would ordinarily have

had it not been for the fact that the Port Authority is in there with its facility. That's one point.

Another point is the conflict of authority with the private sector, and we had an example of that up in Teterboro not so long ago. I'm sure you remember that. For instance, I understand that the Busch Terminal in Brooklyn is closing up. Is that because of dock construction activity of the Authority or -

MR. LUKENS: It's an obsolescent facility and, if it were to stay in use, it would mean that the Port of New York would be suffering an economic penalty against other ports that have more modern facilities. The reason it is going out of business is that it's a multi-level warehouse facility the operating costs of which are out of this world, and, from the standpoint of piers and docks, they are obsolescent and the cost of operating them there can no longer be borne by the steamship companies and in fact they cannot handle any container operation there. So this is what happens in any business and in any large facility like that. It is obsolescent. And that's what has happened to Busch Terminal.

SENATOR KNOWLTON: Let's get back to this payment in-lieu-of-taxes question here, or problem. Those of us from Bergen and Hudson Counties especially get letters from Mayors and Councilmen and Boards of Freeholders galore about this subject and, if you will pardon my ignorance, I must ask this question: Do you make the payments in lieu of taxes to any of these communities affected by your operations?

MR. LUKENS: Yes, we do. We make payments in lieu of taxes to every municipality where we have authority to do so.

The only exclusion of that are bridges and tunnels, which are State highways by definition. Everything else which are terminal facilities, we make payment in lieu of taxes on, except Newark Airport and Seaport, because there we have a different arrangement. As you know, the city owns those facilities and we are the lessee, we're the tenant, and in those instances, as you may remember reading, initially we had a lease that ran for 50 years, and over the years the city was unhappy with the amount of rental that we were paying.

Parenthetically, I might say that around the United States and around the world, there are few airports and few seaports that are self-supporting. I can think of maybe three seaports in the United States that are self-supporting, and maybe about five or six airports. I don't know any of them that make any payments to localities in lieu of taxes or anything like it. On the contrary, they uniformly are subsidized in some way or another, even if it's only furnishing the fire crew or snow removal crew or other things like that.

The same situation exists in Europe where, notoriously, the airports over there have never been self-supporting; they always have been subsidized by the municipality and, like the Port of Rotterdam, about which you have heard so much - the City of Rotterdam has put millions into that Port because they realize it is the economic base of the City.

Now, to answer your question directly, we do make those payments. We make them to the maximum extent the Legislature allowed us to do and basically those are the taxes last paid to the private holder, except Newark Airport. And we renegotiated

that lease and I must have spent personally six years trying to renegotiate that lease with the city officials of the City of Newark, and Mr. Goldstein was my partner in that effort and we finally were successful in renegotiating that lease in 1965 and, under that lease today, the City of Newark receives a minimum payment of a million dollars a year for the Seaport and Airport and, in addition to that, we removed the number of disputes we had and they had about the way we were accounting for certain items in our receipts and disbursements, so they also now will get 50 per cent of the net revenue under our complicated definitions in the lease up through, like 1985 and thereafter, 75 per cent, and the chances are that, in not too many years, they will start sharing and receive more than a million dollars a year.

Now that is basically the picture in New Jersey and the same is true in New York.

ASSEMBLYMAN WILSON: Mr. Lukens, will you send a list to the Commission of all the municipalities that have received payment in lieu of taxes on each particular facility and how much the total given to each municipality is.

MR. LUKENS: In New Jersey.

ASSEMBLYMAN WILSON: In New Jersey. And also New York. New York and New Jersey.

MR. LUKENS: Right.

ASSEMBLYMAN WILSON: I want to put on Mr. Morrison.

SENATOR RINALDO: I would like to ask a question directly related to what he just said.

ASSEMBLYMAN WILSON: All right, go ahead.

SENATOR RINALDO: On the point you just made regarding the arrangement with the City of Newark, does that same arrangement or a similar arrangement exist with the City of Elizabeth which also owns some of that property to the best of my knowledge?

MR. LUKENS: We make payments in lieu of taxes and we own the property there.

ASSEMBLYMAN RINALDO: Oh, you own the property.

MR. LUKENS: We own the property in Elizabeth.

SENATOR RINALDO: You own all the property.

MR. LUKENS: Yes, sir, we do.

SENATOR RINALDO: And payments are made in lieu of taxes.

MR. LUKENS: Yes, sir. But you see, we do not own Newark Airport or Seaport. The title of the property and all the structures are in the City of Newark.

SENATOR KNOWLTON: In other words, Mr. Lukens, getting back to this payment in lieu of taxes question, this is controlled by statute?

MR. LUKENS: Yes, sir, it is.

MR. GOLDSTEIN: May I give you the citation?

ASSEMBLYMAN WILSON: Mr. Goldstein, since you are testifying, let me swear you in, do you mind?

MR. GOLDSTEIN: No, sir.

S I D N E Y G O L D S T E I N, being duly sworn, testified as follows:

ASSEMBLYMAN WILSON: Will you give you full name and how long you have been General Counsel to the Port of New York

Authority so we will have it in the record, please.

MR. GOLDSTEIN: My name is Sidney Goldstein and I have been with the Port Authority for almost 35 years, and I have been General Counsel since 1952.

ASSEMBLYMAN WILSON: Will you tell the Commission, what is your salary, please, per year?

MR. GOLDSTEIN: My salary is \$49,500 per year.

ASSEMBLYMAN WILSON: Are you also reimbursed for expenses?

MR. GOLDSTEIN: Yes, for any cash expenditures I make on behalf of Port Authority work, which is similar to what Mr. Lukens has described, which includes work at the White House. the Noise Committee in connection with aircraft, the Department of Commerce Noise Committee in connection with all kinds of noise, Chairman of the Aeronautics Committee of the American Bar Association, and various other agencies and organizations.

ASSEMBLYMAN WILSON: All right. Will you continue?

MR. GOLDSTEIN: I just wanted to advise Senator Knowlton, which he probably could find out very easily himself if he had the time.

SENATOR KNOWLTON: I'm not so sure about the Index of the Revised Statutes. You could spend hours finding something.

MR. GOLDSTEIN: Let me say that I believe this to be true, Senator, that we are the first agency in either State - certainly, I think, in New Jersey - which voluntarily requested the Legislature to enact a statute which would permit us to make payments in lieu of taxes. The statute in New Jersey is Chapter 69 of the Laws of New Jersey 1931, and, if you will bear with me, I will give you that Revised Statute which is very difficult to find. Well, I'm having trouble with my own index -

SENATOR KNOWLTON: We all do, sir.

MR. LUKENS: It proves your point, Senator.

MR. GOLDSTEIN: Here it is. No, it isn't.

SENATOR KNOWLTON: That's all right. I can look it up.

MR. GOLDSTEIN: A companion statute was enacted in New York as well and, pursuant to that, we make payments to the municipality in which the facility which is owned by the Authority is located, as well as the county, for the county's share of taxes which were assessed against the property at the time we acquired the property.

SENATOR KNOWLTON: This goes for the Holland Tunnel and the Lincoln Tunnel?

MR. GOLDSTEIN: Yes, the Holland Tunnel and the Lincoln Tunnel, as Mr. Lukens explained, are extensions of highways and nobody in the State of New Jersey makes payments in lieu of taxes on highways nor anywhere else, I think, in the United States.

ASSEMBLYMAN WILSON: Mr. Lukens, I have one question: Concerning payment in lieu of taxes, I was reading an article last week in one of our daily papers and it had to do with Newark. As you know, Newark has a problem as far as their tax rate is sky-rocketing, etc. -

MR. LUKENS: They are not alone. Most cities have that problem.

ASSEMBLYMAN WILSON: Yes, without question. I think theirs is one of the highest in the country as far as their tax rate is concerned. An old truck terminal was built by the Port Authority in 1945, on Delancy Street, and transformed over the years and used by a number of concerns - Alcoa, Bell & Howe, Emory Air Freight,

a cafeteria, an auto claims agency, and various offices. In 1967, this property brought in about \$4,800 in lieu of taxes, but they actually think the value of this property is about \$439,000. And it brought in \$4,800. Now, you compare this with a homeowner in Newark, a \$25,000 home, they are paying \$1,875 in taxes a year. I think the Port Authority comes out real good in that deal and maybe we should re-evaluate this.

MR. LUKENS: How much does the State pay on the State building in the City of Newark and how much does the county pay for the Court House in taxes in Newark - a rhetorical question. They pay nothing. In other words, we are performing a governmental function. We are a State agency, and most of the things we do, you couldn't possibly provide them if you had to pay full taxes.

ASSEMBLYMAN WILSON: But also you operate at a profit. Don't you operate a year at a profit? What was your profit last year?

MR. LUKENS: We don't have any profit. As Mr. Morrison, of Peat, Marwick & Mitchell, wrote in his report - and he is sitting right over there - and you cannot talk about profit in terms of a public agency.

ASSEMBLYMAN WILSON: Well, how much do you figure you have after paying expenses and operating costs?

MR. LUKENS: As I remember, we put \$31 million in our reserves, most of which was required to cover our bond requirements.

ASSEMBLYMAN WILSON: I refer back to 1967 operations and you had \$333 million in cash, did you not?

MR. LUKENS: I wouldn't be surprised at how much money we have in cash because that has no relation to how much surplus we have as such, or what is needed. For example, we have a very limited market in which we can finance, being a non-tax-supported body. It's easy enough when you have tax support to sell bonds, when you can go to market pretty much when you want to, depending on the market rate. But as a revenue bond financing agency, we have a very limited market, and also as to the volume that we can sell in any one year. So we do have a difficult time of making sure that we can sell our bonds. So the Commissioners have followed the policy for some time that they will always try to have, for example, at least a year's money in advance of what will be required for construction work, for example.

Last year, for example, we constructed \$200 million worth of projects, so that they would try to keep anywhere from \$100 million to \$200 million available because of the problem of selling our bonds. Now, as well, we have a reserve fund which we cannot touch by law, with our covenant to our bondholders, under the statute that Mr. Goldstein referred to, the 1931 statute. We must keep 10 per cent of our outstanding bonds, that amount, in a general reserve fund. Today that amounts to \$120 million. That cannot be touched. It cannot be used for anything. You can't borrow against it. So it is cash; it is invested. If you take that plus the construction funds, we easily have three, four, or five hundred million dollars which we have at any one time invested.

ASSEMBLYMAN WILSON: Well, I'm just referring to this

article which said: "The Port of New York Authority operated in 1967 with \$333 million on hand, according to statistics made available today in the Agency's Annual Report."

MR. LUKENS: That was the Guy Savino article, and he did exactly what I'm talking about. He picked up the construction funds, he picked up the general reserve fund, and a few other things like that, and said, "Gee, there's three hundred and some odd million dollars that could be used for something." You know, it can't be, except for the purposes that the statutes allow us to use them, and except what our bond covenants allow us to use that money for. And, as a matter of fact, at least half of it is probably borrowed funds.

ASSEMBLYMAN WILSON: Well you compared the State of New Jersey, for example, with our payment in lieu of taxes - we don't seem to have that amount of money around in cash like the Port of New York Authority.

MR. LUKENS: You can't compare us with the State because the State can raise taxes. I know that's a very delicate subject in this chamber and particularly at this time, but the State has taxing powers to raise money, and we don't.

ASSEMBLYMAN WILSON: Well, really if you analyze it, though, you have a monopoly as far as the tolls are concerned on your bridges between New York and New Jersey, etc.

MR. LUKENS: The State of New Jersey and the State of New York gave that monopoly to the Port Authority many years ago to provide for all the bridges and tunnels and be responsible for them in the Port District. And, incidentally, you were talking before about how many times the bridges and tunnels were paid

for; it is a literal fact that any tunnel we build from now on, with a 50-cent toll, can never be self-supporting, and, depending on the price of the bridge, it probably may not be self-supporting.

ASSEMBLYMAN FEKETY: What did you decide on, a bridge or another tunnel?

MR. LUKENS: There has been no decision on that. As the Commissioner indicated, this is something we have under study. Under Mr. Gilman's department, we have continuously like a six-man team out that makes random samples of what is happening to traffic and finding out what's going on with traffic flow. We furnish this to the two States and we use it for our own planning purposes, and we use that data to say what in the future is going to be needed in the way of facilities to cross the Hudson and also arterial facilities to go with them, so we are reviewing the question of additional capacity across the Hudson. I think we stated publicly that we don't see the need for an additional crossing of the Hudson until some time in 1975 or later. And we have also said it will probably be north of the George Washington Bridge. If you look at the terrain up there, we would be crazy to build a tunnel in the light of the economics of the tunnel and the light of the terrain - it would probably have to be a bridge.

ASSEMBLYMAN FEKETY: North of the George Washington Bridge?

MR. LUKENS: Yes.

ASSEMBLYMAN FEKETY: But still within New Jersey?

MR. LUKENS: I didn't say that.

ASSEMBLYMAN FEKETY: I'm asking you.

MR. LUKENS: I don't know. And nobody in our organization knows that because no decision has been made. All Roger's people are doing is looking at this. We have talked with Commissioner Goldberg and his staff; we are continuously talking with him and the same way with the Department of Transportation in New York, because we do plan these things together.

ASSEMBLYMAN WILSON: When you actually arrive at your decision as to how much you are going to pay on various properties, payment in lieu of taxes, what do you take into consideration?

MR. LUKENS: We take the maximum that we are allowed to take.

ASSEMBLYMAN WILSON: And what is that?

MR. LUKENS: The taxes last paid by the private holder. On the contrary, in the Newark Airport situation, that was a sheer question of negotiation in terms of what we thought we could still pay and the facility would be self-supporting and also would make a sufficient contribution to help us build another bridge, another airport, or what have you.

ASSEMBLYMAN WILSON: Well, you take into consideration just the value of the last private owner; you don't have to take into consideration anything as far as improvements to the facility; say, for example, we have one facility for 20 years. You don't take into consideration that, say, 20 years from the date you acquired the property, the value may improve tremendously, and that actually you, as an Authority with a conscience to both the citizens of New Jersey and New York, might be able to

pay more of your fair share to that municipality, whichever it may be?

MR. LUKENS: The law does not provide that, Assemblyman, that we operate under today. It provides that the taxes will be measured by the taxes last paid by the private holder. And that is measured at the time we would undertake the project and then that amount is fixed.

ASSEMBLYMAN WILSON: If that law were changed, would it affect the bondholders or the outstanding bonds? Would your Counsel be able to comment on that? Mr. Goldstein?

MR. GOLDSTEIN: I don't know how you are going to change it. I would have to see that first.

Mr. Chairman, directly with respect to your question, the bondholders have contracted with the Port Authority, with the two States, with respect to the flow of revenues coming from the facilities for which they have lent their money, and they have contracted with respect to the statutes on the books. The statute that I referred to in my colloquy with Senator Knowlton, which I think is the first and for a long time may very well have been the only statute on the books which authorized a State agency to pay sums in lieu of taxes, reads as follows:

"To the end that counties, cities, boroughs, villages, towns, townships and other municipalities in the Port of New York District may not suffer undue losses in taxes and assessments by reason of the acquisition and ownership of property therein by the Port of New York Authority, hereinafter called the Port Authority, the Port Authority is hereby authorized and empowered in its discretion to enter into a voluntary agreement or agreements with any county, city, borough, village, town, township or other municipality in said Port District, whereby it

will undertake to pay a fair and reasonable sum or sums annually in connection with any marine or inland terminal property owned by it, not in excess of the sum last paid as taxes on such property prior to the time of its acquisition by the Port Authority."

Then it goes on to indicate how it shall be disbursed.

I think what your question perhaps unintentionally ignores, Mr. Chairman, is that these facilities constructed by the Port Authority are not private facilities but are facilities owned by the two States. Although administered by the Port of New York Authority, they contribute to the general welfare of the two States and, consequently, when this payment in lieu of taxes is made - and that statute is alluded to, Senator Knowlton, in the Teterboro case to which you have reference - they authorized us to make this contribution which is over and above the major contribution which the improvements make to both States.

ASSEMBLYMAN WILSON: Well, I was questioning along those lines because of the tremendous assets of the Port of New York Authority, it might be possible they would be able to help out in some of the financial plights of both the States of New York and New Jersey. As you know, the Governor of the State of New York is very perplexed; they had a march on Albany when they cut back on welfare. It's not just New Jersey, it's both States that are strapped as far as finances are concerned, and this is why I am questioning payments in lieu of taxes, particularly with respect to a municipality like Newark with a tremendous financial burden and high real estate taxes, etc.

MR. LUKENS: Well, Assemblyman, the Port of New York Authority is not going to solve the tax problems in municipalities. We don't have such resources and not only are we

performing a public function, but if you take a look at the economics of the activities we perform, they do not lend themselves to paying taxes. Let's take the Marine Terminal. One of the reasons we developed the Brooklyn waterfront is because the tax burden was so heavy on the private operator of the facilities over in the Brooklyn area from the Brooklyn Bridge south. He couldn't pay his taxes any longer, and yet here was a fine mile and a half of Brooklyn waterfront that was crucial in those days to the Port of New York and was about to go out of business. They had three piers burn down and they just took the money and put it somewhere else. So we went in there and we reconstructed the whole Brooklyn waterfront at a cost of \$100 million and made that another viable on-going modern port facility that contributed to the whole strength of the Port of New York and, if we had had to pay taxes of a private owner on the whole improvement, it could never have been done; it would have been impossible economically.

So that's one of the difficulties of the business we're in. We are performing a public function and we are providing facilities that are public facilities and they just don't lend themselves generally speaking to paying taxes. The airports are the same way. As I have indicated, around the world no airport operator that I know of pays full, normal kind of real estate taxes. Hardly any of them make any contribution to the locality in which they are located. On the contrary, I would say that 80 or 90 per cent of them are subsidized by the Government. These are the real facts of life.

ASSEMBLYMAN FEKETY: Well, you are subsidized by not paying taxes, right?

MR. LUKENS: Well, if you want to look at it that way, Assemblyman, that's correct, and the same thing is true about the State of New York, and the county has facilities in the City of Newark.

ASSEMBLYMAN WILSON: Well, not only that, but you do not take into consideration, for example, improvements. And also in your payments in lieu of taxes, you do not take into consideration the tremendous growth of inflation either, like I cited in that one example.

MR. LUKENS: That is correct. But also, if you don't have any Newark Airport or you don't have a Newark Seaport or you don't have an Elizabeth Seaport, then you are going to lose all the employment that is there for the people of Essex and Union and other counties, you are going to lose all the commerce that they bring there, so it's self-defeating in the end.

ASSEMBLYMAN WILSON: Senator Coffee, do you have a question?

SENATOR COFFEE: Going back to the river frontage you just spoke of in Brooklyn, you indicate that this river frontage was under private ownership.

MR. LUKENS: Yes, sir.

SENATOR COFFEE: And the private owners just couldn't carry it any longer and the Port Authority stepped in and redeveloped the river frontage.

MR. LUKENS: Yes, sir.

SENATOR COFFEE: Was this river frontage used for the same purpose prior to the Port Authority's taking over?

MR. LUKENS: Yes, In the olden days, this was one of the prime areas in the Port for marine shipping, and they had some, I think, 40 piers and docks in that area, berths, and what happened was that they began just like Busch Terminal to be obsolescent, and they had to face the reality of modernizing them and if they modernize them they are going to have to pay taxes on those facilities, and they decided they couldn't afford to do so. So, as I said, they had three piers burn down and instead of deciding to build new piers, they took the money and put it in another business as an investment.

Our Commissioners - for years they have been after our Board - at least 10 years. I came with the Port of New York Authority in 1946 and they had been after them for ten years before that, because they could see the handwriting on the wall, the private owners, and they wanted the Port Authority to take it over. Our Commissioners said, no. as long as private enterprise can run it, that's not our business. And then as we could see what was happening, that traffic was leaving, and three piers had burned down, our Board finally made the decision and they were encouraged by both the State of New York and New Jersey to do so; they acquired that property for like twelve million dollars, I think, and we then proceeded to put a hundred million dollars in building brand new piers with 22 berths along a mile and a half of the Brooklyn waterfront.

Now we have paid the taxes last paid by the private holders but we did not pay - we couldn't be charged for taxes on the improvements. We have the highest rent in the entire United States, if not the world, on our marine terminals today.

SENATOR COFFEE: Am I to understand that the taxes paid today on that river frontage would be the same as paid by the private owners years ago -

MR. LUKENS: Absolutely.

SENATOR COFFEE: With no increase.

MR. LUKENS: That is correct, sir.

SENATOR COFFEE: All right. Now last summer I had the opportunity to tour some of your port facilities - and I think it's a good idea, by the way, particularly for the new legislators - and I remember that we congregated at Port Elizabeth or Port Newark, I'm not certain which. But anyway it was in the Grace Terminal, Grace Line Terminal.

MR. LUKENS: That is correct.

SENATOR COFFEE: Can you tell me if that particular terminal building belongs to the Port Authority or was it constructed by Grace?

MR. LUKENS: As I remember it, we provided the basic structure and Grace provided some of the interior decorations.

SENATOR COFFEE: That leads me to my next question: Does the Port Authority pay any taxes on that property or the improvements?

MR. LUKENS: Well, that is a situation where we have a lease with the City of Newark for the full area so that when you determine as I mentioned - we pay a minimum rental of a million dollars a year for the Seaport, which includes the seaport where Grace Terminal is, so the revenue that Grace pays us ends up in the calculation of the net revenue from which Newark will get 50 per cent when you pass that minimum.

SENATOR COFFEE: Theoretically, if that terminal were to be located in Elizabeth, would you pay taxes?

MR. LUKENS: No, we would not.

SENATOR COFFEE: Would Grace Line pay taxes?

MR. LUKENS: I do not know the answer to that question. They would not pay any taxes on the basic terminal itself. They might pay some personal property taxes.

SENATOR COFFEE: Let's talk about Kennedy Airport. I have been in many of the airline terminals there. I assume that those airline terminals are built or constructed by the airlines.

MR. LUKENS: Some were and some weren't.

SENATOR COFFEE: Let's talk about some that were - Pan American.

MR. LUKENS: Pan American was built by Pan American. It was financed by the Port Authority.

SENATOR COFFEE: And Pan American owns it?

MR. LUKENS: No, sir, the City of New York owns it. Every building at Kennedy is owned by the City of New York.

SENATOR COFFEE: Let me approach it in a different way. I am trying to reach a point or I am attempting to find out whether or not on any of your installations, whether it be marine or airport, private corporations have constructed buildings, hangars, warehousing, office buildings, etc. I am attempting to find out whether in any instance these private corporations or companies pay taxes to the municipalities involved.

MR. LUKENS: Well, Senator, in the case of the Screen Door Company at Teterboro, there are taxes paid on that

structure which I think are being paid by the tenant, because of the court's ruling in that matter. There is presently a tax case pending before the Supreme Court of New Jersey which involves a number of structures at Port Newark and there may be a similar case involving structures at Port Elizabeth. So I am unable to discuss that subject further on advice of counsel.

SENATOR RINALDO: I just want to go to a different topic for a minute. You mention that the Port Authority is investigating the possibility of building either a new bridge or a tunnel, and I believe you also stated that studies are almost continuously taking place involving traffic patterns. Who authorized these studies and investigations into the planning of a possible bridge or tunnel, because I am certain they cost quite a bit of money.

MR. LUKENS: The State Legislature of New Jersey as well as New York has authorized us, and the language is very specific, to make that study on a continuing basis.

SENATOR RINALDO: Would you say that the statute also includes any form of mass transit in addition to vehicular traffic?

MR. LUKES: Yes.

SENATOR RINALDO: Which studies have you made involving a mass transit plan that would be applicable to the northern part of the State?

MR. LUKENS: Well, this is the primary responsibility at this point of the Director of Transportation in New Jersey and, as you know, it's part of the bond issue - I think \$240

million is allocated to mass transit, and our people have been working very closely with Commissioner Goldberg's people, our planning people, in terms of their thoughts and plans about the different transit developments in Northern New Jersey and their relation to our facilities.

So this is a continuing dialogue and meeting between his department and our people, and Mr. Gilman has a date next week with some of Commissioner Goldberg's people to talk about the question of rail facilities at Newark Airport, as well as other matters.

SENATOR RINALDO: Well, let me reframe my question: Does the Port Authority currently possess a mass transit plan that would be applicable to the northern part of this State that you feel you would favor as far as actual implementation goes?

MR. LUKENS: It does not, no, sir.

SENATOR RINALDO: Thank you.

ASSEMBLYMAN WILSON: Mr. Lukens, we would like to bring Mr. Morrison on from Peat, Marwick & Mitchell for just about 15 minutes to give you a little break and then you can come back.

MR. LUKENS: Thank you. You are very considerate.

ASSEMBLYMAN WILSON: Mr. Morrison?

Mr. Morrison, we have been swearing in the witnesses; do you have objection to being sworn?

MR. MORRISON: No, sir.

W I L L I A M G . M O R R I S O N , J R . , being
duly sworn, testified as follows:

ASSEMBLYMAN WILSON: Will you state your name and
your position and why you were requested to testify?

MR. MORRISON: My name is William G. Morrison, Jr.
I am a partner in the firm of Peat, Marwick, Mitchell & Co.,
Certified Public Accountants, who have an office in Newark,
and I am assigned to the New York Office. I was asked by
Mr. Fekety to come and answer any questions that you all might
have regarding a review of the Port Authority's finances and
operations that was made in 1961.

ASSEMBLYMAN WILSON: Do you have a statement?

MR. MORRISON: I have no particular statement. I don't
know if you have read the report. There have been references
to it, the comments on the single enterprise concept, the comments
on depreciation, and the comments on profitability. All of these
things are touched upon and hopefully are covered in this report.
I will be glad to answer any questions you might have about them
or about statements that Mr. Lukens has made concerning what we
said in our report or other people.

ASSEMBLYMAN WILSON: I am pretty concerned with one area
of pooling all your resources into one particular fund, and
you say that a lot of facilities would not have been built if
this was not done. Will you comment on that, please?

MR. MORRISON: Well, in essence, what you have is a roll-
over situation. The "profitable" facilities pay for the new
facilities and, over a period of time, this pooling concept
allows the Port Authority to go ahead and finance facilities

that might be questionable on their merits by themselves as far as economics are concerned. The Hudson and Manhattan PATH operation certainly is not economic, but the pooling of revenue allows the Port Authority to go out and sell bonds to finance such an undertaking and establishes a credit base which is used to build new facilities.

Historically, I think the money paid in tolls in the crossings which was the original backbone of the Authority may, in turn, help provide funds for other assets or other facilities - piers and you might say airports. I haven't seen the most recent Authority's statement on airport earnings. My guess is they now contribute a substantial amount to the gross of the Authority.

ASSEMBLYMAN WILSON: Rather than pooling them, why couldn't they have divided them into four facility classifications; for example, your air terminals, your marine terminals, inland terminals, and your tunnels and bridges, and your tunnels and bridges tolls could also finance PATH. Why does everything have to be lumped into one particular thing? Why not classifications rather than one particular conglomerate of revenues?

MR. MORRISON: I am not an expert on finance to that extent, but I can give you a little hindsight on it. In 1957, I believe, the New York Legislature had a study made of its Authorities, - a study similar to yours, and they put out a document which I found to be very comprehensive and a very good document on the subject. It pointed out that not one Public Authority in the State of New York started without either a subsidy in some form or another, a direct grant, or taking over a successful commercial operation. Do you follow me? In other words,

take it over or condemn it and then sell tax free bonds to buy it.

Now, I will back up from my experience working with airports, which is considerable, that it would be impossible to build an airport from scratch, just about, with maybe one or two exceptions, without some form of base earning power to start with.

ASSEMBLYMAN WILSON: You mean to say, if we wanted to create a Jetport Authority, we couldn't do it in our State? It wouldn't be financially solvent?

MR. MORRISON: I cannot make a forecast.

ASSEMBLYMAN WILSON: Well, your own personal opinion.

MR. MORRISON: It would be a first.

ASSEMBLYMAN WILSON: What is the name of this report in New York that you made reference to? Do you have the name of it? I'd like to get it.

MR. MORRISON: No, but I would be glad to send you a copy. It's a joint legislative report. It's the most comprehensive document that I know on many aspects of public benefit corporation operations, and these benefit corporations, by the way, are not that much different from the rest of the country, and it goes into many things as to why they are good, why they are bad, what they do or do not do. And I would recommend that you read it.

ASSEMBLYMAN FEKETTY: Mr. Morrison, this report of the Senate Investigating Committee was for 1961 to 1963, and the findings of your firm there in the philosophy and the pooling

of the revenue, do you feel that in this time and age this is still the best philosophy to use in the business sense of the Port Authority?

MR. MORRISON: I don't want to comment on the political aspects, do you want a Port Authority or not. But from the economic aspect, a multi-purpose Authority such as this gains strength from its adding together and the various spreading of risk over various types of operation. Airports are very risky business because of technical obsolescence and your marine operations and your tunnel operation, and you have a spread of risk which gives you much greater financial strength. If each of these had to stand on its own, I would say many of them could not stand on their own if they had to.

I think the statements that were produced for us by the Farley Committee back in 1961 would support this. Many of them, if not profitable, certainly are very marginal economically.

ASSEMBLYMAN WILSON: Mr. Morrison, the impression given by Mr. Lukens is that you approve the pooling concept in your report. Is that correct?

MR. MORRISON: We agree this is what the law states.

ASSEMBLYMAN WILSON: Do you approve. Did your firm approve this. This was the conception I arrived at as Chairman of the Commission, as Mr. Lukens was just testifying.

MR. MORRISON: We cannot approve or disapprove. The Legislature in 1931 made the decision to pool and we approve financially of the law; in other words, they are in conformance

with that law. We do not as a firm recommend or approve the Port Authority or any governmental body. That's a political matter.

ASSEMBLYMAN WILSON: You also referred to the report by the State Legislature of New York and you said that this report more or less backed up what the Port of New York Authority did as far as the fact you just can't start an Authority from scratch, etc. If you were in charge of the finances of the Port of New York Authority, you would more or less operate the same way as far as pooling is concerned of all your resources in one lump treasury?

MR. MORRISON: They have no choice.

ASSEMBLYMAN WILSON: Forget the law. Suppose the law didn't exist. In your own personal opinion -

MR. MORRISON: It's a matter of financial strength; it lends to the financial strength of the Port Authority to have the pooling.

ASSEMBLYMAN WILSON: So you are saying this is the best way that you would operate it yourself.

MR. MORRISON: If you are going to operate a multi-purpose Authority, this is the best way to operate the multi-purpose Authority. It is the closest to a business approach for a quasi-government operation.

ASSEMBLYMAN WILSON: Well, we have a conglomerate type of approach. Should you have separate accounting for each facility?

MR. MORRISON: I think the Port Authority does have separate internal accounting for each facility.

ASSEMBLYMAN WILSON: But you don't say that you should have separate financing though.

MR. MORRISON: No. You mentioned conglomerate. I think that's a very good point because there is some -

ASSEMBLYMAN WILSON: Well, that's what it is.

MR. MORRISON: It is conglomerate in the sense of various types of operation. The trend to-day is to have separate reporting and separate accounting for each facility but that cannot overcome the law; in other words, the accounting will have to be somewhat artificial. If you were to add in debt service or the equivalent, depreciation, or what have you, you would have to make artificial assumptions because legally it is one entity.

ASSEMBLYMAN WILSON: Do you think, if this law didn't exist, that maybe, if they had developed, say, classifications, as I mentioned before -- air terminals, marine terminals, inland terminals, tunnels and bridges, etc. - that you would have maybe better accounting procedures, better financial structure, and you would be able to have close at hand exactly which facility is losing money, which is gaining, etc., which is being run soundly.

MR. MORRISON: I'm sorry. I didn't follow that, the beginning of your statement.

ASSEMBLYMAN WILSON: Well, if you had classifications, as I said, your tunnels and bridges, inland terminals, marine terminals, and airport terminals, you would have a better structure financially and could see where the finances of the Authority are being used, where they are losing or where they are gaining, rather than having a conglomerate type of situation.

MR. MORRISON: Well, they do have classifications and they can prepare for you, and I think have - I could give you

1961. They do prepare a performance report showing the earning power of the various facilities. That's all they can do. In other words, legally they are still one conglomerate. And even a conglomerate - General Motors and the General Electric Corporation operate many different subdivisions. Still any reporting that they do, any piece of that, is somewhat artificial because it's only one company. Do you follow me? You can make calculations. They have made them here, but these calculations are to some extent theoretical. The only thing that has a basis as a legal fact is, in my opinion, the total picture because by law it must be treated in totality. The problem, of course, is in the debt service. The revenues are easily identified by facilities, certain direct operating expenses are easily identified by facilities; certain overhead expenses are allocated to facilities. However, when you get to debt service, you must make an arbitrary judgment, or what have you, as to how you will divide it between facilities, because it is pooled and because the law setting up the Authority says that it will be pooled for debt service purposes.

In our report we tried to high-light this fact on Page 2. You haven't got it in front of you. If you look at Page 2 here, you will see that facilities and bonds have a first lien on their net revenue. Then it lists a group of facilities and it shows investments of \$97 million, and bonds outstanding of \$486 million; in other words, apparently they have borrowed \$486 million on an investment of only \$97 million.

That is not really the fact. The fact is that \$486 million was borrowed, based on the credit of the Authority as a whole, not on each particular facility.

I don't know if you have a copy of this or not.

ASSEMBLYMAN WILSON: No. What report is that?

MR. MORRISON: This is a report we prepared for the Farley Committee in January of 1962.

ASSEMBLYMAN WILSON: Make a note of that, will you please.

MR. MORRISON: It goes into many of the titles you touched on. There is a statement on depreciation here; there is even a statement on profitability.

MR. LUKENS: Mr. Chairman, we have an extra copy of them we will let you have.

ASSEMBLYMAN WILSON: All right, fine. Thank you.

MR. MORRISON: It has payments in lieu of taxes at that point by cities. Many of the points that you raised today were raised before. That's why I think it might be of interest to you as a starting point.

ASSEMBLYMAN FEKETY: This was one of the reasons why I asked you to come down here, because, as you know, some of the members here have been with the Port Authority for years and this is nothing new for them to come down here. But we all agree that the State Legislature should review the Port Authority and they have shown their cooperation.

We also would like to have you talk about the Port Authority has been the first in this line of business, and maybe now they ought to change some of their practices and

we will have to change our laws. Now if they have double bookkeeping in a sense right now, it wouldn't be too much of a problem to convert. What we would like to see is what are the pros and cons on it.

Now the question I would like to ask you is pertaining to self-insurance. To what extent?

MR. MORRISON: That is touched on in the report. I don't know what their practice is now. This is a very small item but there is a section on self-insurance in here. We took issue slightly with self-insurance accountingwise; we did not believe it was proper accounting to set up a reserve for self-insurance, and we so stated. I don't think the amount was particularly significant but it is definitely touched on here.

One other point that you've raised and I might refer you to: On page 4, 2 of the Report, we made a statement regarding "earning power or profit." We have no profit, but this statement may be of interest to you: "The relationship between net revenues available for debt service and the amount of serial maturity and sinking fund retirement is probably the best indication of relative financial strength. This was the closest thing they have to a net profit. They do not have a net profit - the difference between these two things.

We touched on such subjects and if you have your accountants read the report, I think you might find the answers, at least our opinion on certain matters that were brought up today.

We touched on the question of depreciation. We pointed out it can be calculated. We believe, as Mr. Goldstein

pointed out, that they can't do anything with it; they can't fund it but it can be calculated. Now whether this is useful or not, we did not take a position.

ASSEMBLYMAN WILSON: Are there any questions by the Committee? (No question)

Thank you very much.

Senator Coffee has a question of Mr. Lukens.

SENATOR COFFEE: Mr. Lukens, frankly, I have to admit that you stopped me before. I know that at various airports around the country they are very unique and quite often not in similar circumstances; as you mentioned before, some cities will provide fire-fighting and safety services and give them to the airport.

MR. LUKENS: Do you know of any that are self-supporting outside of Los Angeles and New York?

SENATOR COFFEE: No.

MR. LUKENS: I don't, except maybe Oakland because they've got oil wells.

SENATOR COFFEE: I want to find out more about the Pan American building. You lent the money to Pan American - Pan American no doubt designed the building with your approval.

MR. LUKENS: Yes.

SENATOR COFFEE: And constructed it.

MR. LUKENS: Yes, sir.

SENATOR COFFEE: But it belongs to the City of New York.

MR. LUKENS: Yes, sir.

SENATOR COFFEE: Now what advantage does this create for the City of New York presently, or in the future?

MR. LUKENS: Well, because they get a minimum rental for

the whole airport from us, and they will share in 50 per cent of the net that comes from that airport in the future over and above the minimum amount. And they also have the benefit of 45,000 people who work in Kennedy and the six or seven thousand who work in LaGuardia. I think that is the largest single employment force in the Borough of Queens.

SENATOR COFFEE: Let's take a hypothetical situation. Maybe you can answer this and maybe you can't. It has to do with taxes.

MR. LUKENS: I'll do my best.

SENATOR COFFEE: If I wanted to build a warehouse as a private company or corporation at Kennedy or elsewhere, and you permitted me to do so because it would serve the purposes of that airport, would I not be required to pay taxes - and on the other hand would I be required to do something in lieu of taxes for the City of New York?

MR. LUKENS: There is no such facility at Kennedy Airport today.

SENATOR COFFEE: How about if you permitted one?

MR. LUKENS: There isn't enough space left to do it on.

SENATOR COFFEE: How about if there were enough space?

MR. LUKENS: We wouldn't allow it; we need it for direct aviation usage.

SENATOR COFFEE: You are not answering my question, Mr. Lukens. I would to know what you would do.

MR. LUKENS: The answer is, under the assumptions you make, I would think it would be tax exempt. However, the gross revenue that that man would pay to have such a facility would go into the computation upon which we would then pay rent

to the City of New York, so the City of New York would get something from the fact that that man was there, if we allowed him to be there.

SENATOR COFFEE: Well now, we are going to build a new airport in New Jersey.

MR. LUKENS: Yes, sir.

SENATOR COFFEE: The Port Authority is going to construct it.

MR. LUKENS: Oh, I didn't know that.

SENATOR COFFEE: That's hypothetical.

MR. LUKENS: I didn't know that. [Laughter] We're the first to know -

SENATOR COFFEE: And we're going to build it at Solberg, and the Port Authority is going to purchase the land. You are going to have a much different situation than you have had at Newark, because that is unique. And I would assume the situation would be different than you have at Kennedy and perhaps at LaGuardia too. I don't know. What advantages other than those you have mentioned would you create for that community, because, after all, initially you are going to take all this land off of the tax rolls, and there should be something direct - there should be some direct remuneration to that municipality if they suffer this loss as a community. I am wondering what will happen if the Port Authority builds a new airport in New Jersey, with all the terminal buildings and the hangars and the various structures that will have to be erected. Why couldn't they be included as ratables for the local municipality?

MR. LUKENS: Because you could never build an airport

and make it self-supporting; you could never finance it. There isn't an airport in the world that's been able to do that.

ASSEMBLYMAN FEKETY: How about if we just assess the buildings and not the land?

MR. LUKENS: I would think that the same thing would hold true, Assemblyman. The economics of airport development and marine development are such that you just cannot provide and pay full taxes on those structures.

SENATOR COFFEE: What you are saying, in other words, Mr. Lukens, is that if you build in New Jersey and if you come in and take 10,000 acres or more from a given municipality or a group of municipalities, other than the fringe benefits that the entire area and that section of the State will receive, as far as direct benefits to that municipality, there will be none?

MR. LUKENS: Well, I wouldn't make that statement today except that under the existing law we would make payments in taxes that the municipality presently receives on that property, so that they would be held harmless from the loss of taxes.

ASSEMBLYMAN WILSON: Well, we already pointed out when we were talking about in-lieu payments as far as improvement to the facilities and inflation, the payments in lieu of taxes do not really take that into account. So really the municipality eventually, say in ten years, would suffer.

MR. LUKENS: In what way?

ASSEMBLYMAN WILSON: Well, as far as these properties would be taken off the tax rolls.

MR. LUKENS: We would make the same payment that the private owner would be paying at the time it was acquired for an airport.

ASSEMBLYMAN WILSON: That's the same. That payment does not change, does it?

MR. LUKENS: That's correct.

ASSEMBLYMAN WILSON: That's what I'm saying. That payment you made initially stays the same even though inflation increases, the property taxes increase throughout the municipality, the county, etc., where what you pay in lieu of taxes would not increase proportionately as the other taxes would.

MR. LUKENS: That is correct. In Newark there is a different arrangement and it has been possible to work out an arrangement under which more is being paid than the in-lieu-of-tax payments that might have been paid otherwise, but it isn't anywhere near what you might consider full taxes to be. So there may be some middle ground somewhere.

ASSEMBLYMAN WILSON: Some of this land you would take would be farmland, wouldn't it?

MR. LUKENS: Yes, it would be.

ASSEMBLYMAN WILSON: And what would be the taxes on farmland which in the future could be industrial?

MR. LUKENS: I don't know. I don't have that information.

SENATOR COFFEE: Mr. Lukens, I am very happy to hear you say there may be some middle ground somewhere, because I'm certain that if the Port Authority eventually is successful, which I hope it is, in building a fourth jetport, no matter

where it may be located, I think that you are going to have to reconsider your remuneration program to the local government agencies. You see you have had a very unique situation in Newark and you do pay them a minimum or more, and you evidently have the same situation at Kennedy and perhaps at LaGuardia too. But coming into New Jersey in a fourth situation, it would seem to me that there is going to have to be some consideration given, and where you do not, for commercial rented buildings, pay full taxes, in some way to derive or arrive at a formula whereby some moneys could be paid to the local government involved.

MR. LUKENS: That's very good advice and we'll take it to heart.

I would like to make one other suggestion to you. I don't know the numbers on the airports but I think they would be somewhat comparable. Let's take, for example, Port Elizabeth and Port Newark, where some of that property was purchased by us for \$3,000 an acre, for example. The City of Newark paid substantially less than that for the land at Port Newark. That property today, I know the sale that's just been announced at \$45,000 an acre right on the perimeter of Port Elizabeth, and I heard another one rumored at like \$75,000 an acre. Now that isn't just because it happens to be there. It's because it happens to be right adjacent to Port Elizabeth and Port Newark and the Airport. We had a study made sometime ago of land values around airports in terms of - does noise affect land values? - because some of the people over in the Queens area who were

concerned about some of the noise problems there, which we would hope not to have with a new airport if it was designed properly, were concerned about property values. We had a man who was serving on this, and it was inevitably found that the property values around the airports not only held up but actually, if I remember correctly, accelerated more than property values away from the airport. So this is another indication that the community might gain some benefit in that regard from a development such as an airport because they would have increased tax ratables more than they would otherwise have.

Mr. Chairman, you made a statement before, if I might try to clarify - when I was talking about Mr. Morrison, I don't think I said that he approved the pool concept in his report, but rather he said that you could not have an unpooled concept in the Authority; in other words, you could not identify the debt service for individual facilities and also that we were following the law in that we do account on a pool concept basis and, in fact, we do pool our revenues as required by law. But his concern in no way exercised any judgment, as he said, in saying that they affirmed or approved or encouraged this to be done. To the point, though, he did point out in his report by saying that a number of our facilities could never have been built if the Legislature in 1931 had not directed that we pool our revenues, that they could not stand on their own two feet. And to the point you were inquiring about before, in all sincerity, I am hard put to think of almost any category in the Port Authority today that could stand on its own two feet on a revenue bond basis where you

could finance them solely on revenue bonds as a group, be it marine terminals, be it airports - bridges and tunnels might, except if you build another bridge and tunnel, it is going to be, as I indicated, a very marginal effort. So there is real strength, and one of the greatest things that the Legislature did in the history of its existence so far as this area of transportation was concerned, was to understand that and direct that there be a pooling of revenues. And if you look at what has happened in Boston, in Philadelphia, in San Francisco, and in a lot of other places in the countryside, one of the real problems is that they don't have an organization like you created to provide such a variety of facilities under one roof.

ASSEMBLYMAN WILSON: As I look at your revenues, your airports and your tunnels and bridges are actually carrying or supporting the other things. Wouldn't you say that? Most of your revenue comes from those two areas.

MR. LUKENS: May I start by saying that to begin with, these figures, as Mr. Morrison quite aptly pointed out, are constructive figures. They are assumed; they are not real, because the debt service is a constructive figure, and this debt service as it is listed here does not exist. It's a calculation. If you take this calculation, then, to paraphrase what you said, there is no question that the airports and the bridge and tunnels contribute more than any other facility. On the other hand, if you want to take this, you can also say, and it is quite correct, that each group does contribute today to our general reserve fund. So they all have a part to play. But on the basis of our marine terminal performance today, we

could not, in my judgment - and I think our Director of Finance would concur in this - we could not finance the next 120 or 150 million dollars as needed for Elizabeth and Newark solely on credit of the marine terminals. I don't think we could build a fourth airport and also the \$250 million we have left to do in the other part of the aviation picture - we could not finance it solely on the airports.

ASSEMBLYMAN WILSON: Let me ask you a question, and this I asked the Commissioner and he didn't answer it. It had to do with the Lincoln Tunnel where you have an assumed debt of \$9,930,000, which leaves the Lincoln Tunnel account, and this was already said -"constructive"- \$2,294,000. This is on Page 2 of your gross revenue. Why was such a tremendous amount of assumed debt given to the Lincoln Tunnel in this case?

MR. LUKENS: We have almost \$200 million in the Lincoln Tunnel today, and the Third Tube is going to lose money from here on out. It can't produce enough revenue at 50¢. Now if you would allow us to raise our tolls maybe we could make it self-supporting, but it will never be self-supporting - that is, the third tube alone - on the revenues it produces.

ASSEMBLYMAN FEKETTY: Who approved of the third tube?

MR. LUKENS: Assemblyman, if you read the legislation, the legislation says, in 1932: "The Port Authority is hereby authorized to construct, operate, own a tunnel or tunnels under the Hudson River (Midtown Tunnel)." Now our Law Department and our General Counsels over the years have interpreted that to mean, "Tunnels," meaning more than one tunnel. The Supreme Court of New Jersey thought otherwise. I rest my case. And

when the Supreme Court of New Jersey determined in their judgment that the third tube of the Lincoln Tunnel was not authorized by the legislation, despite the language I just quoted, I am delighted to say that the State of New Jersey Legislature and New York passed legislation authorizing the Port Authority to continue and to construct the third tube of the Lincoln Tunnel.

ASSEMBLYMAN FEKETY: That was almost after we cut the ribbon, wasn't it?

MR. LUKENS: No, sir, not quite. It's the one case in our history where that kind of thing has occurred.

ASSEMBLYMAN FEKETY: You know, it's amazing, you mentioned that the two port facilities are losing money, yet the Port Authority is going full speed ahead in increasing the terminals. This morning we talked about the Hudson-Manhattan PATH tube losing money and that you don't want to expand those. I don't see any continuity here whatsoever. We don't want to expand the PATH facilities because we are losing \$10 million, and we are doing the same thing with the port facilities, aren't we? We're losing money but we're expanding.

MR. LUKENS: Well, Assemblyman, the PATH tubes we never could have undertaken, we never could have financed those facilities, we never could have sold the bonds if the State of New Jersey and the Legislature had not passed that legislation in 1961 which said that we were permitted to acquire PATH with certain restrictions, and one of those restrictions was the physical restriction that we would not extend it

beyond that, provided two things: One, if we could provide an extension that was self-supporting and the Commissioners would certify to that, then we could do it; or, secondly, if such an addition, together with our losses on the PATH at that time did not exceed 10 per cent of our general reserve fund, we could do it. If it did not meet that test, then we could not. The plain fact of life is, we could never have sold our bonds if those restrictions had not been in that legislation, and I can only tell you this, that the people in the street who sell our bonds are worried more about PATH than almost any other activity we are engaged in, because we are going to continue to lose money in PATH and there are going to be more losses in the future just running it as it is. We are going to another 70 or 80 million dollars in the system, but beyond that it's going to cost - we subsidize every passenger today 30¢, and it's going to be more because of labor costs and other similar costs.

ASSEMBLYMAN FEKETY: Well, we didn't legislate the Authority to take over PATH to make money, right?

MR. LUKENS: Of course, not, absolutely not, and don't misunderstand me. As the Port Authority, really if you look at it in the broadest terms, it was the right thing for us to have had happen, and the people in our organization get a great deal of satisfaction in what we are trying to do with PATH as a railroad, and we have some very able people who look at it as a challenge to try to do a better job. But the plain fact of life is that it does lose ten to eleven million dollars a year, and the plain fact of life is that

there is only one way for that deficit to go and that is to go up. Also, another thing you may not have realized is that until this year, PATH, despite what we were doing, was losing passengers. The unhappy part about it is that in 1920, let's say, PATH handled three times the number of passengers it did last year, three times. But we handle more passengers in the peak hour today than they did in 1920, and that's where you lose your money. The only people we have left are the people who ride in the peak hours, both peaks in the morning and at night, and you've got all that equipment and all that system and two crews and everything that goes with it just for two peaks in the day. So part of the problem is, it doesn't help you to get more passengers in the peak periods. All that does is to compound your problem, and nobody else wants to ride on it in the middle of the day or on week ends; they have other conveniences.

And this is not peculiar to PATH. It is almost characteristic of most transit systems in the world today. But this is a fact of life.

ASSEMBLYMAN FEKETY: You say you paid the City of Newark one million dollars rent?

MR. LUKENS: Yes, sir.

ASSEMBLYMAN FEKETY: How much to Essex County?

MR. LUKENS: I am advised we pay nothing on our airport there.

ASSEMBLYMAN FEKETY: When do you pay this rent?

MR. LUKENS: The first of the year, January 15th or thereabouts.

ASSEMBLYMAN FEKETY: Do you pay it on a yearly basis?

MR. LUKENS: Yes, sir, correct. And then there's a calculation as to the net and any adjustment beyond the one million will be made thereafter.

ASSEMBLYMAN FEKETY: Then in January of each calendar year you make a payment of one million dollars to the City of Newark for the Newark Airport facilities.

MR. LUKENS: Correct. And more than that, if our calculations of the year before, under the formula in the lease, would indicate that there is a 50 per cent of net will go beyond the million dollars, which may very well occur in the next several years ahead. Oh, I'm sorry. The Director of Finance sitting back here says no, because he reminds me that we still have \$173 million to spend at Newark Airport in terms of doubling its size practically, and the lump of that debt will hang heavy in there until 1975, something like that.

ASSEMBLYMAN FEKETY: O.K. When is the next payment due in the City of Newark?.

MR. LUKENS: On January 15th.

MR. GOLDSTEIN: Thirty-first.

MR. LUKENS: Oh, 31st, I'm sorry.

ASSEMBLYMAN FEKETY: The next question now is, what arrangements have been made with the City of Jersey City for the transportation center at Journal Square in lieu of -

MR. LUKENS: We have an agreement with the City of Jersey City on the transportation center. We will continue to pay in-lieu tax payments on PATH, which amount to some

85 or 90,000 dollars a year. We will not pay any in-lieu-of tax payments on the Journal Square Transportation Center. The reason for that is that, even with the Federal grant, which is substantial, this facility, if we're lucky, may break even without any payment - if we're lucky. Our agreement with the City does not provide for any payments in lieu of taxes on the ones we are presently making today.

ASSEMBLYMAN FEKETY: That is the existing ones. In other words, we are talking about the Journal Square Complex - an acre or two acres of land?

MR. LUKENS: Well, most of that is over an open cut; you know, it's over the tracks; 80 per cent of it is over the tracks, of the site. However, I would like to add one thing to what I have said, and that is that that agreement with the City is subject to being opened by the City in the future.

ASSEMBLYMAN FEKETY: This is a negotiation between the City and the Authority itself?

MR. LUKENS: Yes, it is; that's correct.

ASSEMBLYMAN WILSON: There are a few questions I would like to ask now that I should have asked you before: How long have you been employed by the Port of New York Authority?

MR. LUKENS: 21 years.

ASSEMBLYMAN WILSON: In what capacities?

MR. LUKENS: Well, I came in as Assistant to the Executive Director and at that point I was supervising the personnel department and medical department and several

administrative departments, and then I became Assistant Executive Director six or seven years thereafter, and then we created ultimately a Director of Administration who began to supervise the departments for which I had responsibility and I became ultimately Deputy Executive Director.

ASSEMBLYMAN WILSON: And what are your present duties as Deputy Director?

MR. LUKENS: I am the alter ego of Mr. Tobin.

ASSEMBLYMAN WILSON: And Mr. Tobin now is?

MR. LUKENS: He is Executive Director -

ASSEMBLYMAN WILSON: Mr. Tobin is in Japan?

MR. LUKENS: No, he is in Melbourne, Australia. He was in Japan on the way out there, and I have a very interesting item that appeared in the New York Times this morning, and that is a stamp which was created by Australia which is in commemoration of the International Association of Ports and Harbors Conference which happens every two or four years in various places in the world, and Mr. Tobin is a very prominent member of that organization.

ASSEMBLYMAN WILSON: Is he out of the country now on business or is it -

MR. LUKENS: That is business.

ASSEMBLYMAN WILSON: For the whole trip, he will be out about how long? Until the beginning of April?

MR. LUKENS: This is the longest time he has ever been out in my memory, since I've been there, and it's six weeks.

ASSEMBLYMAN WILSON: Six weeks?

MR. LUKENS: Yes. So part of it will be vacation,

and part of it will be business.

For example, Mr. Chairman, since you asked, he is stopping in India where a team of people made a survey for India connected with World Bank's interest in the development of ports in India. And Mr. Tobin had a lot to do with putting that team together and working with the Bank and the Government to have this done. The Government has not yet seen fit to put some of those recommendations into effect, so he stopped by at their request to discuss some of these projects with them, and also stopped in Thailand where the World Bank similarly used his services when he took leave from the Port Authority to go out there for several weeks with Eugene Black, and he made a study of the ports and certain transportation facilities in Thailand some eight years ago, and they have followed most of the recommendations, but they thought they would like to have Mr. Tobin come out and review some of those with them and talk with some of their key officials. So he has done those two things as well.

ASSEMBLYMAN WILSON: How many people do you have employed by the Port Authority?

MR. LUKENS: 7,604, I think.

ASSEMBLYMAN WILSON: And what is your annual payroll, do you know offhand?

MR. LUKENS: About \$74 million.

ASSEMBLYMAN WILSON: And what was it five years ago, would you happen to know? Would you be able to check that?

MR. LUKENS: We will be able to furnish that to you.

ASSEMBLYMAN WILSON: All right. Will you furnish that?

MR. LUKENS: Yes.

ASSEMBLYMAN WILSON: Between New Yorkers and the residents of New Jersey, who supplies most of the tolls for the Port of New York facilities, say between your bridges and so forth?

MR. LUKENS: I don't think we have any records. You mean as to residents?

ASSEMBLYMAN WILSON: Well, on the New Jersey side or the New York side. Which brings in more toll revenue?

MR. LUKENS: You have New Yorkers coming in -

ASSEMBLYMAN WILSON: Yes, I know. Which brings in more toll revenue?

MR. LUKENS: The New Jersey or the New York side?

ASSEMBLYMAN WILSON: So far as your bridges, etc.

MR. LUKENS: In terms of our traffic surveys, Mr. Gilman informs me that 12 per cent come from out of State and of the balance it's about 50-50.

ASSEMBLYMAN WILSON: By license plate.

MR. LUKENS: By license plate. I was going to add that.

ASSEMBLYMAN WILSON: How many New Jersey residents are employed by the Port Authority and how many New Yorkers? Could you break that down percentagewise?

MR. LUKENS: I would be glad to furnish it to you. About the only comment I can make on that is, generally speaking, the percentage of New Jersey employees in the

Port Authority is higher than the percentage of New Jersey residents vis-a-vis New York.

ASSEMBLYMAN WILSON: How many people are employed in your Public Relations Office, or Public Affairs Department?

MR. LUKENS: Thirty-five. I think that's correct.

ASSEMBLYMAN WILSON: And what is your budget for the Public Affairs Department?

MR. LUKENS: \$750,000 roughly, which is about 300ths of 1 per cent of the gross revenues, or 600ths of 1 per cent of the gross expenditures of the Port Authority, which is not a very large amount of money.

ASSEMBLYMAN WILSON: How is that broken down? Do you have that broken down in, say, sub-topics? If you could send that, will you send that to us?

MR. LUKENS: May I do this, Mr. Chairman? We might send with it several pages of descriptions of what they do, because being the Port Authority and being bi-State, you must appreciate that we do need the services not only of the people in the Port District, of which there might be, like thirteen million, but we do maintain contact at least once a year with all the municipalities and governing bodies of those in the counties, of which there are like 350, and, as well, we've got like 38 newspapers, daily newspapers, some 250 weekly newspapers; we have about 13 television stations, 30 radio stations, and we service all these people and we do our best to keep them informed as to what they want to know, and also provide them with information as

to what we're doing.

ASSEMBLYMAN WILSON: Mr. Lukens, I asked Commissioner Clancy this morning about a law that was passed in 1950 which gave the power of both the State of New York and the State of New Jersey to come in and audit the books if they so desired. Now you have been there 21 years - has this law ever been used?

MR. LUKENS: Yes, sir, it has.

ASSEMBLYMAN WILSON: By which State?

MR. LUKENS: The State of New York. And the State of New Jersey -

ASSEMBLYMAN WILSON: How many times?

MR. LUKENS: I'm not sure . I think two or three times.

You see, what we do - we furnish our annual audits to the two States. From our standpoint, the law is there and if the Comptroller or the Budget Director wishes to act under that and audit our accounts, they are free to do so. There is no problem about that. As I say, we furnish our outside auditors which our Commissioners employ - they have a report every year, and we furnish that to both States so they have that information. To the best of my knowledge, the State of New Jersey has not audited our books in my time, other than -

ASSEMBLYMAN WILSON: Well, that would cover a long time. Since 1950 -

MR. LUKENS: - other than the review that Price, Waterhouse made of our books in 1960-61. Now the City of Newark and the City of New York -

ASSEMBLYMAN WILSON: Excuse me, when you say Price, Waterhouse 1960-61, what was that in reference to.

MR. LUKENS: Oh, I'm sorry - Peat, Marwick.

ASSEMBLYMAN WILSON: Oh, Marwick. That was for this Special Senate Investigating Company, Senator Farley.

MR. LUKENS: Yes, that is correct. The City of New York and the City of Newark both have power to audit our books in regard to the airport agreement, and the City of New York has audited our books like seven times in the last ten years; the City of Newark has audited our books on several occasions in that connection. The Federal Government has a right to audit our books in connection with any funds, which they do fairly regularly on airport aid funds or other federal moneys that come through our books like the federal building at Kennedy. We also have agreements with tenants like the airlines - Kennedy Airport - as one example only. They have the right to audit our books there on like the public aircraft facilities, so every year they have a private accounting firm come in and audit our books in that connection. The same is true to a degree with LaGuardia. So we have a couple of rooms in the Port Authority just for auditors who come in and audit our books.

ASSEMBLYMAN WILSON: You also said at times the Governors of New York and New Jersey used their veto power.

MR. LUKENS: Yes, sir.

ASSEMBLYMAN WILSON: I would like to know the history of the Port of New York Authority on that.

MR. LUKENS: I was very much impressed by Commissioner Goldberg's testimony before this Commission because, if you will recall, he did discuss that particular subject, and the most important thing about that discussion is that he discussed it in the framework that he had been the legal counsel to the Governor of the State of New Jersey for some three to four years and so he, if you remember, was discussing the fact that, although the veto had not been used many times and exercised in terms of being effective, the fact of the matter is that it was one of the most effective tools of government in terms of control by the Governor over an Authority like the Port Authority, because they raised questions about our actions but, more importantly, it causes us, our Commissioners and staff, to go to the State, and we are working with the State Department and the Transportation Department and any other and way in the beginning of our thinking and our planning, so that by the time it reaches our Board for action, that project will have been discussed with all departments in the State that have an interest and the Governor's Office as well, if it's an important matter.

So Dave Goldberg's testimony before this Commission was very much to the point on that, and he spoke exactly as I'm speaking about how it works. He was the man on the other end, you see.

ASSEMBLYMAN WILSON: And if you also read the testimony, the Governor does not have veto power over the Highway Authority. As a person who has been involved with the Port Authority

for 21 years, do you think the Governor of the State of New Jersey should have veto power over the New Jersey Highway Authority?

MR. LUKENS: Well, that certainly is a matter for the Legislature to decide.

ASSEMBLYMAN WILSON: Just your personal opinion.

MR. LUKENS: From the sample of the way the veto has worked with us, I think it has been a very positive force in causing us to have excellent relations with the State government.

ASSEMBLYMAN WILSON: One provision in your enabling legislation says that any Commissioner of the Port Authority of this State may be removed upon charges and after a hearing by the Senate. Do you know of any Commissioner who has ever been removed from either New York or the New Jersey side since the inception of the Port of New York Authority?

MR. LUKENS: I don't think there has been any cause for them to be removed, Mr. Chairman. I don't remember any.

ASSEMBLYMAN WILSON: I thought perhaps there might have been.

MR. LUKENS: May I remark positive to that. If you will look at the record of the Commissioners of the Port Authority, we have been very fortunate. The Governors have appointed some of the leading citizens of the State of New Jersey to our Board and we have been very fortunate as an institution to have the calibre of men on our Board that the Governors have appointed to us.

ASSEMBLYMAN WILSON: Are there any further questions by members of the Commission? [No questions]

We want to thank you, Deputy Director Lukens, for a long day, and I think that we will now adjourn, but we are going to call you back again. We appreciate the information given us and we want to thank you for being so cooperative. You have done a great job so far as compiling all the material, and we have to analyze it and also analyze the testimony. Thank you for being so cooperative.

H E A R I N G A D J O U R N E D

Statement
of
Matthias E. Lukens
Deputy Executive Director
of the Port of New York Authority
before the
Autonomous Authorities Study Commission
of the New Jersey State Legislature
Monday, March 3, 1969

Mr. Chairman and honorable members of this Commission:

We appear here today to present facts about the Port Authority and its work to this Commission of the Legislature in the course of its "investigation into the affairs of the Port Authority." We understand that your Commission is investigating the functions, operations and usefulness of all Authorities serving New Jersey in order to form a judgment as to the advantages and disadvantages of Authorities as they affect the public welfare of the citizens of New Jersey. We will be happy to provide this Commission with all appropriate data aiding its inquiry.

I would like, also, to urge each member of the Commission to devote some time during your investigation to a field inspection of Port Authority facilities. You might find it helpful to your inquiry if you, for example, inspected and rode PATH's new cars, or visited the Bus Terminal during its busy hours; observed the construction and operations at the Elizabeth Marine Terminal and Port Newark; and, as well, the construction going forward at The World Trade Center and at Newark Airport. We would be delighted to make arrangements to facilitate inspections by members of this Commission of any and all Port Authority facilities.

I would like to address myself now to the functions and responsibilities that the two States assigned to the Port Authority and out of which our existing 24 Port facilities grew.

During World War I, a great New Jersey statesman, Governor Walter Edge -- then in his first term as Governor -- recognized the importance of the Port and the continuing need for developing and modernizing regional terminal, transportation and other facilities of commerce in the Port of New York by means of cooperation between New Jersey and New York. At the very opening of the discussions between the two States which led to the creation of the Port Authority, Governor Edge said:

"I want to see industrial New York and industrial New Jersey cooperating, especially located as they are, with the wonderful harbor between them . . . I would like to see a joint commission appointed representing the two States . . . with one thought that their responsibility is to develop the Port of New York." And he said, "We are pressing for cooperation" between the two States.

In the first article of the Port Compact of 1921, therefore, the two States declared that they "agree to and pledge, each to the other, faithful cooperation in the future planning and development of The Port of New York . . ."

This pledge of cooperation to work through their joint agency, the Port Authority, in the future planning and development of the Port was, we think, one of the great achievements in the history of the two States. For more than one hundred years prior to signing the 1921 Port Compact, the two States had fought ruinous battles over their claimed rights in the harbor, over the development of the harbor, and over transportation and terminal facilities of the harbor. Thus, when one assesses the usefulness of the Port Authority, one must first look at it as the instrument for cooperation -- rather than conflict -- between the two States since 1921 and then examine the tangible fruits of that cooperation.

Cooperation under the Compact has been the hallmark of the relationship between the two States on matters affecting the Port, its terminal and transportation facilities. The States have permitted the Port Authority to take positions in transportation route and rate cases that were in the best interests of the Port as a whole; and the States have actively supported and encouraged their joint agency, the Authority, to develop a system of interstate or regional crossings of the Hudson River and of the Kills between New Jersey and Staten Island, and a wide range of other vital Port projects.

The Port philosophy of the States, as well as the basic role of the Port Authority in the Port's future development, was never better expressed than in the report of the New Jersey Joint Legislative Committee of 1940 which concluded that:

"It does not and cannot subscribe to the concept that no further developments in the Port district will be desirable or necessary in the future. The Committee therefore has adopted the dynamic concept of the New York Port of Authority, a concept which contemplates further development of the facilities in the Port District as the need for such facilities is indicated from time to time. The adoption of this concept is more truly in line with the fundamental purpose for which the Port of Authority was created, namely, for the continuous development of the Port facilities."

In measuring the contributions to the public welfare of the Port Authority, we suggest that you consider that the Port, with its countless activities associated with waterborne commerce, supports one out of four people who live and work in this great Port District; consider that in 1968 by sea and by air, cargo valued at \$16.2 billion moved across piers, docks and airports of the bi-state port with nearly 70% of the total value of the Port's overseas trade being handled at Port Authority facilities; consider that one out of four of all of the people in airplanes at this moment

throughout the United States either took off or will land at airports operated by the Port Authority; and consider that of the 375 million people who traveled between the States of New Jersey and New York in 1968, 96.3% traveled via a facility provided by the Port Authority.

Since the mid-1920's, the Port Authority has spent \$520 million for six interstate bridges and tunnels. In that period, commerce between the two States has grown tenfold, facilitated and stimulated, as contemplated by the Port Compact, by Port Authority facilities. Thus, in 1968 the Port Authority's bridges and tunnels handled about 120 million autos, about 4 million buses and 16 million trucks, almost 10 times the 1930 volume. These interstate facilities represent one of the greatest transportation systems linking a metropolitan area in the world. Not only have they facilitated and generated a flow of people and goods between the two States, but they have fostered the economic development of both States.

In 1947, the States of New Jersey and New York acted jointly to authorize the development by the Port Authority of the greatest regional system of airports in the world and one of the largest, most modern and efficient marine terminal complexes in the world.

On September 1, 1962, in fulfillment of a proposal developed by the Authority and a mandate from the two States, the Port Authority assumed responsibility for the operation of the H & M Railroad and assured its long-suffering riders continued and improved service. Since that time, the Port Authority has worked diligently to carry out that mandate. By the end of 1968, it had spent \$122 million to acquire the rail transit system, to provide more than 200 modern air-conditioned cars, to rebuild the railroad's antiquated and inefficient signal and power systems, and generally to provide the 130,000 daily passengers with a more convenient, pleasant and reliable ride. Despite our best efforts, the Port Authority Trans-Hudson (PATH) inexorably loses more than \$10 million a year. And despite this bleak financial picture, the Port Authority is committed to complete its improvements for signal, power, stations and trackage of the former H & M properties, and to make similar improvements for the former Penn Central-PATH joint service between Newark and Jersey City. It will also provide a modern PATH terminal in the World Trade Center to replace the 60-year-old Hudson Terminal in lower Manhattan, and build a new coordinated rail transit-bus Transportation Center at Journal Square in Jersey City. The redevelopment of Jersey City's commercial hub has been stimulated by this Journal Square project; the hopes for a continued renaissance of downtown Newark are fostered by PATH's connection with Manhattan, and the extensive redevelopment of downtown Manhattan has been led by the World Trade Center and the new PATH terminal. The revitalization of PATH is a big factor in all of these favorable trends.

In the dynamic field of aviation, although in 1948 the three metropolitan airports handled 3½ million passengers, today twenty years later, they handle more than ten times that number or 37 million. In the next 12 years, 91 million passengers -- or almost three times the current volume of passengers -- will want to use these three airports! These passengers

are essential to the economy of the Northern New Jersey-New York Metropolitan area. In the last 20 years the Port Authority has spent \$670 million to provide new facilities and capacity at Newark, LaGuardia and Kennedy Airports to meet such traffic demands. In order to meet the demands of the future, we are spending \$200 million more to build virtually a new Newark Airport with three new terminal buildings, and we are spending \$150 million at Kennedy Airport to double the size of the International Arrival Building, add to the taxiways, roadways and parking lots. But this is not enough. There is still a desperate need for a fourth major airport, and the lack of such an airport portends dire economic consequences for the entire Northern New Jersey-New York region. Our views and recommendations as to the location of the fourth airport are the subjects of a separate submission already made to your Commission in response to your letter of February 20.

Another vital regional transportation facility is the Port Authority Bus Terminal. Every day almost 220,000 people on 8,000 buses arrive or depart from this Terminal. More people pass through this Terminal than either Penn Station or Grand Central or any other transportation terminal in the United States. The Terminal affords a real convenience to these daily bus passengers -- of whom 159,000 are commuters from New Jersey -- permitting a speedy journey by means of its excellent direct access to the Lincoln Tunnel. At the same time, nearly 7,000 buses daily are freed of the necessity to fight their way through congested mid-Manhattan streets. The Port Authority is now planning a \$50 million expansion that will increase the capacity by 50% for shorthaul buses and double the longhaul bus capacity.

Although New Jersey is widely known as the Garden State, it could just as well be identified as the Export State. It ranks eighth among the 50 states in its dollar value of exports -- over a billion dollars a year. Twenty per cent of New Jersey's manufactured output goes into foreign markets. There are more than 500 New Jersey firms exporting over \$25,000 worth of goods each year -- and these firms provide jobs for some 300,000 New Jerseyans.

Over the years, the shipping facilities and services of the Port of New York have fostered the healthy growth of export products manufactured in New Jersey. For the past twenty years and for tomorrow, the greatest single factor in this growth is the marine terminal complex of Port Newark and Elizabeth. In 20 years, the Port Authority has spent \$105 million to make Port Newark the premier port area in the world -- with 31 deep-sea vessel berths and 52 cargo distribution and terminal buildings, all of the most modern and efficient design. Handling over 4 million tons of general cargo and employing over 5,000 men, Port Newark alone is the equal of the ports of Amsterdam, Marseilles or Le Havre.

Adjacent to Port Newark is the Elizabeth Marine Terminal. This great facility which was swampland in 1958, today handles the greatest container traffic in the world. The Port Authority has spent \$93 million there, has developed 13 container berths which last year handled 3 million tons of cargo and employed 2,000 persons. On the basis of these developments alone, the New Jersey-New York Port is the container capital of America.

It holds this position only because the Port Authority, more than ten years ago, foresaw the container revolution and began the construction of its Elizabeth facilities. No other American port was so well prepared. Today your bi-state Port faces a bright picture of growth and prosperity while other ports face decline and decay.

Nevertheless, in order to meet the increasing demands and keep the Port Newark-Elizabeth complex ahead of any other in the world, the Port Authority plans to spend at least \$100 million more to provide a minimum of 17 more berths and related facilities in the next six years. With these additions, the two facilities will be handling over 14 million tons of general cargo a year or more than 60 per cent of the Port's entire general cargo. This will occur because now, as then, Port Newark and Elizabeth are fulfilling the goals of the Port Compact "for the better conduct of the commerce of the Port, the increase and improvement of transportation and terminal facilities therein, and the more economical and expeditious handling of such commerce."

And finally, as a State which is vitally dependent upon exports and imports, New Jersey stands to benefit greatly from the World Trade Center, whose single objective is to increase the flow of international commerce through the bi-state Port of New York. In authorizing The World Trade Center in 1962, the New Jersey Legislature found:

. . . that in order to preserve and protect the position of the Port of New York as the nation's leading gateway for world commerce it is incumbent on the States of New York and New Jersey to make every effort to insure that their port receive its rightful share of the oceanborne cargo volumes generated by the economy of the nation;

. . . that the servicing functions and activities connected with the oceanborne and overseas airborne trade and commerce of the Port of New York District, including customs clearance, shipping negotiations, cargo routing, freight forwarding, financing, insurance arrangements and other similar transactions which are presently performed in various, scattered locations in the City of New York, State of New York, should be centralized to provide for more efficient and economical transportation of persons and more efficient and economical facilities for the exchange and buying, selling and transportation of commodities and other property in world trade and commerce . . .

The World Trade Center now under construction will fulfill these objectives. It will be a new international marketplace where buyers and sellers can find increased business opportunities and the financial and other services necessary to handling world commerce; it will be a new international trade information center where governments can encourage trade activities

and where the vast array of essential business information will be easily accessible, and it will be a great document processing center where the interrelated activities of the Bureau of Customs, freight forwarders, customs brokers, banks, governments and steamship lines can be conducted efficiently. It is this processing operation which handles the vast majority of the millions of documents vital to the flow of commerce through Port facilities on both the New York and New Jersey sides of the Port. Other world trade centers now exist -- and more are being built or planned in other cities of the United States and foreign countries. The World Trade Center now under construction here will be an essential factor in continuing the prosperity of the Port.

None of these facilities could have been provided without the active support and involvement of the Legislatures of New Jersey and New York. As Commissioner Clancy stated, it has been necessary for the States to enact supplementary or implementing legislation for these facilities on 42 separate occasions.

The Port Authority's investment of more than \$2 billion in the transportation and trade development facilities authorized by the two Legislatures has been made by an agency which has no power to tax nor recourse to the credit of the States; it must develop appropriate sources of revenue through user charges, or fail.

In Chairman Wilson's letter of February 20 to Austin Tobin a variety of Port financial data, statements and material were requested to be submitted to this Commission together with certain other data on Port Authority debt, debt service, tolls and charges. All this material has been submitted as requested. As you review it, I ask you to keep in mind the following comments concerning the accounts and financial structure of the Port Authority.

Just six years ago your predecessors, the New Jersey Senate Investigating Committee, after two years of investigating the Port Authority concluded:

"We are mindful that in the original Compact of 1921 the 2 States recited that the cooperation of the States was required 'in the encouragement of the investment of capital.' The Authority has in our judgment balanced the public necessities against the needs to attract private capital which can only be attracted by a sound credit and confidence in efficient management.

"In studying the receipts and disbursements of funds we were led to consider the entire internal organization of the Port Authority and its controls to achieve efficiency and economy. We retained outside professional auditors to make a complete and disinterested audit of the Port Authority. On the basis of their report we have

concluded that the Port Authority employs good business techniques and follows sound and prudent management policies and practices to the end that the public is best served, and that the policies employed by the Port Authority operate to minimize its construction and operating costs, to develop fully its revenues other than bridge and tunnel tolls and to avoid favoritism in any of its business transactions."

The accounting practices and management techniques which underlay this conclusion just six years ago have continued to the present.

As to financial structure, the auditors retained by that Committee found, after a two-year study, that the Port Authority's General Reserve Fund and the pooling of revenues are the means selected by the Legislatures of the two States to enable the Authority:

"To finance its operations as a single enterprise rather than having to finance each of its facilities separately relying solely on the merits of that facility alone. The general reserve makes it possible for the Authority to finance new facilities which otherwise could not be financed without resorting to either state or other outside assistance in the form of advances, subsidies, guarantees or the like."

After reviewing the Authority's financial structure, the auditors concluded "that few of its facilities would have been financially feasible without the ability to pool revenues of all facilities."

The auditors for that Committee found also that this single enterprise financial structure of the Authority has an important bearing on the Authority's accounting procedure:

"The Authority's financial structure is based on a single enterprise, pooling of revenues concept. Individual facilities are not financed independent of the rest of the Authority. The facilities contribute their revenues for debt service according to their earning power without regard to the amount of bonds which were issued for their construction. For these reasons any presentation of net revenues after debt service for individual facilities is not based on actual fact. As pointed out by the Authority in submitting its report, such a presentation can only be based on arbitrary assumptions."

After a thorough review of the Authority's financial reports and statements, the auditors concluded that:

"The published reports of the Authority are a fair presentation of the results of operation of the various funds and reserves . . . such reports are not, and are

not intended to be, a reflection of the profitability of the Authority. There are strong arguments that the concept of profitability is not even applicable to a governmental body such as the Port Authority."

In its February 20 letter, this Commission indicated it is interested, as well, in Port Authority tolls and charges. The auditors, in 1961 and 1962, examined Port Authority revenues and investment in facilities and determined "that the rate of growth of earnings has not quite kept pace with the increase in the investment in facilities" and at the same time "the average rate paid on new issues of bonds has been increasing." They concluded: "If this trend continues indefinitely, the Authority's ability to expand its facilities will cease."

In this connection the auditors pointed out:

"One of the most important factors affecting the rate of return on the Authority's investment is inflation. The toll rates paid by the bridge and tunnel users have either remained constant or have been decreased since the start of the ten-year period under review. For some time the effects of traffic growth have more than offset the combined effects of inflation on costs and lower toll rates. However, the traffic growth factor is eliminated when the facility reaches its capacity. Only an additional or expanded facility will permit continued traffic growth . . . Although in the past the vehicular crossings have been the backbone of the Authority's earning power, unless inflation is stopped it would appear that without increases in the tolls they will slowly lose that position. Needless to say, increasing tolls would not prove very popular and its likelihood in the near future would seem remote."

The auditors for the Senate Investigating Committee examined other areas of activity at the request of the Senate Investigating Committee. With respect to purchases and maintenance and construction contracts, they concluded that the Port Authority's policies and practices "are reasonable, prudent and in accord with good business practice" and they determined that Port Authority employees were following the Authority's policies and procedures with respect to bidding and awarding of purchase orders and maintenance contracts.

These conclusions embodied in the basic report of the Senate Committee came only after two years of work by that Committee, assisted by its auditing staff of the firm of Peat, Marwick, Mitchell & Co. For your convenience, we are submitting copies of the reports of this firm and of the Senate Committee itself. We look forward to cooperating fully with this Commission as it, too, looks into the work of the Port Authority.

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