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STATE OF NEW JERSEY
LAW REVISION AND LEGISLATIVE SERVICES

Volume IV

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PUBLIC HEARING

before

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

Held:
September 17, 1965
Court House Annex
Elizabeth, New Jersey

MEMBERS OF COMMITTEE PRESENT:

- Senator William E. Ozzard [Chairman]
- Senator Thomas J. Hillery
- Senator William F. Kelly, Jr.
- Senator John A. Lynch
- Senator C. Robert Sarcone
- Senator Nelson F. Stamler
- Senator Milton Woolfenden, Jr.

Also:

Samuel A. Alito, Secretary

* * *

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SENATOR WILLIAM E. OZZARD [Chairman]: We will now open the hearing. I am Senator Ozzard, Chairman of the Committee. This is Senator Thomas Hillery of Morris County; Senator Stamler of Union County and Senator Woolfenden from Sussex will be here shortly and I understand that Senator Sarcone is on his way. Rather than wait for them, I think we will proceed.

I would like to call first before us for the opportunity to present a prepared statement Mr. Edward H. Tiller of the Inter-Municipal Group.

E D W A R D H. T I L L E R: Senator Ozzard, Senator Hillery and my good friend, Senator Stamler: I appear here today as a former mayor of the Borough of Garwood along the Central Railroad line, also as Chairman of the Executive Committee for the Inter-Municipal Group for Better Rail Service, which represents eighteen municipalities on the main line of the Jersey Central between Branchburg and Elizabeth. I am also the commuter railroad representative of the Union County Board of Chosen Freeholders.

I know there are a lot of witnesses and, Senator Ozzard, rather than read this detailed statement, with your permission I would like to submit this and you and the other members of the Committee can read it at your leisure. If any future time, you should have any questions, we would be more than happy to answer them.

SENATOR OZZARD: All right, Mr. Tiller. Thank you. I would request that the statement be made completely a part of

the record, as though presented fully.

MR. TILLER: Thank you, Senator and gentlemen.

SENATOR STAMLER: Thank you for saving us some time.

[Following is the complete statement filed by Mr. Tiller]

Inter-Municipal Group for Better Rail Service

The Inter-Municipal Group for Better Rail Service is an official organization whose membership consists of the mayor, one councilman or committeeman, municipal attorney and a lay member from each of eighteen municipalities on the main line of the Jersey Central between Branchburg and Elizabeth and one representative from the Boards of Freeholders of Union and Somerset Counties.

The Group was formed on December 21, 1945 for the purpose of assisting in the finding of the solution to the problem of mass transportation at reasonable rates in the New York metropolitan area. Early in 1946, the Group concluded that one of the keys to the long-range solution of the problem was the consolidation of the wasteful and expensive duplicating terminal facilities of the competing railroads.

After years of study, the Group arrived at the conclusion that there is a simple, low cost and expeditious solution of the rail transit problem, which is not to be found in more time consuming and costly studies but by directing the Port Authority to solve the rail problem in accordance with existing statutes, Chapter 244, Laws of New Jersey 1930. For many years the Group has recommended to the Governor and Legislature that the Port Authority do the job for which it was created.

It has also been the Group's long standing position that:

1. A State Department of Transportation, consisting of four divisions - Highway, Rail, Waterway and Airway, be created to insure an efficient, integrated transportation system.
2. The Port Authority sponsored Metropolitan Rapid Transit Commission's recommended "Independent Loop" Plan should be adopted by the State as the long-range solution to the rail transit problem.
3. Existing rail and ferry services should be maintained and improved as provided by statute until the long-range solution is completed. However, in recent years the Group was forced to accept the Palmer "Aldene Plan", with all its many shortcomings, technical defects and high cost for the maintenance of existing rail service because of the rapid financial deterioration of the Jersey Central and political intrigue.

State of New Jersey

The State of New Jersey has been studying the rail transit problem in northern New Jersey for forty-five years, and continuously with one or more study groups

since 1950. Presently, in addition to the Port Authority, the following State agencies are currently studying the rail transit problem:

1. State Highway Department (D.R.G. Palmer, Commissioner), since 1959.
2. New Jersey Transportation Commission, Governor Hughes' personal transportation agency, since 1964.
3. New Jersey-New York Transportation Agency (New Jersey's member, D.R.G. Palmer), since 1959.
4. Tri-State Transportation Commission, formerly Tri-State Transportation Committee (State's members include D.R.G. Palmer, H.A. Thomas and James R. Schuyler of the Highway Department and R.A. Roe of the Department of Conservation & Economic Development), since 1961,

but to date no recommendation has been submitted by these agencies for the solution of the problem. During the last five years, costs of subsidies and studies have averaged \$10 million per year.

The most comprehensive study to date, completed in 1958 by the Port Authority sponsored Metropolitan Rapid Transit Commission at a cost of over \$1½ million, did recommend a long-range solution, but the package included an unreasonable financial plan unacceptable to the State. The engineering plan, however, was accepted by both transit experts and the Inter-Municipal Group as the long-range solution of the rail transit problem in the northern New Jersey-New York metropolitan area. For some unexplainable reason the State persists in continuing studies of the rail problem, contrary to the recommendations of the Inter-Municipal Group.

The State, in addition to its studies of the rail transit problem, has transferred control of railroad operations from the Public Utility Commission to the Highway Department and has been subsidizing rail transit operations since 1960, currently at the rate of \$7.2 million per year. The State has also reduced railroad taxes by \$2.4 million per year effective January 1966 by abolishing taxes on rolling stock and mainline real estate.

State Highway Department

The Group is deeply concerned with the failure of the State Highway Department to maintain rail passenger service as required by the railroad passenger act. This act not only provides for the maintenance of rail and ferry services, but also for improvement on a contractual basis.

Contrary to the Legislative intent in creating the Railroad Division in the Highway Department, we find that during the period of Highway Department control of the railroads:

1. LVRR passenger service has been abandoned.
2. Reading passenger service has almost disappeared.
3. CNJ passenger service has dropped below that of 1902 in number of trains and speed, with commuter rates 3.5 times those of 1946 for one third the number of trains. In addition, many miles of mainline track have been removed and ferry boats have been abandoned, resulting in poor on-time performance.

Currently, the Jersey Central is being subsidized at the rate of \$2.9 million per year for a continuously degraded service, i.e. number of trains and ferries, on-time performance, dirty coaches, etc. In fact, four mainline trains have already been abandoned this year and more are proposed for abandonment, contrary to statutory requirements and contrary to the contract for the subsidy payment which provides that the Railroad will continue all passenger service shown in public timetables and at fares, both in effect prior to entering into the contract, during the period of the contract. Subsidies are not granted on the basis of performance standards to provide the public with adequate, safe, fast, clean, on-time service.

The failure of the Highway Department to maintain and improve rail passenger service as required by statute may be due to the philosophy of the Department as expressed by its Commissioner in his address of 5/10/63 before the Institute for Rapid Transit in Washington, D. C., "In short, therefore, the New Jersey situation can be summed up like this: Only continued use of the rail commuter lines provides the possibility of keeping our present highway congestion within reasonable limits until we can catch up with the demands ***State Highway Systems. They are the backbone of all transportation, not only in our State, but in the entire nation. All other modes of transportation today are supplemental. ***surgery is sometimes necessary with a complicated ailment (rail problem) which has been allowed to go unattended for too long a period. We are attempting to perform that surgery in New Jersey by means of certain consolidations and reroutings. We have eliminated trains which are not essential. In short we are taking every constructive step to cut operating costs."

Palmer "Aldene Plan"

The Highway Department proposes the Palmer Plan (more recently also called the Aldene Plan) for the maintenance of rail service, without any determination of the long-range solution.

1. The Palmer Plan, submitted April 4, 1960 by Highway Commissioner D.R.G. Palmer, to the Governor and Legislature of the State of New Jersey was presented as a stop-gap measure to maintain service pending a long-term solution. It has now become doubtful whether or not the Palmer "stop-gap" Plan is to be temporary or permanent. There has been no determination of a long-term plan and Herbert A. Thomas, Director of the Highway Department's Railroad Division said at the Jersey Central's contract hearing March 19, 1963 in Newark, "I would not characterize the Plan as temporary but how long it may be permanent I cannot say."
2. The Palmer Plan will require two trains and two crews for service to and from New York where one train and one crew is not now self-sustaining.
3. At the request of Commissioner Palmer, the State approved millions of dollars for one-track connections to the Lehigh Valley and Pennsylvania Railroad tracks and associated terminal facilities (State funds for capital improvements of private enterprise).
4. The Palmer Plan requires additional millions of dollars of State funds for five grade crossing eliminations.

5. The Palmer Plan involves additional time in transit and increased discomfort, inconvenience and hardship for the majority of the commuters.
6. Use of PATH (Hudson & Manhattan) to downtown Manhattan would be contrary to the opinion expressed in the 1958 Report of the Port Authority sponsored Metropolitan Rapid Transit Commission which said: "***job of transporting railroad passengers to Manhattan could not be adequately handled by the H & M alone or in combination with rail-bus transfer service***".
7. A natural consequence of the Palmer Plan will be the abandonment of tracks and rights-of-way between Elizabethport and Newark and between Aldene and Jersey City. This would eliminate these valuable facilities irrevocably from any potential permanent solution.
8. The Palmer Plan involves operating passenger trains over several inter-connecting rights-of-way. Railroad unions' demands for changes of crew over each railroad's separate right-of-way may impose heavy costs in terms of money and time in transit. The cost must be borne by the passengers and/or the State.

Central Railroad of New Jersey

The C&O, one of the most profitable and wealthiest carriers in the nation, controls the CNJ through stock ownership of the B&O and CNJ. The CNJ, however, is reported to be in the poorest financial condition of any railroad in New Jersey.

CNJ passenger service has dropped below that of 1902, relative to number of trains, speed, on-time performance, cleanliness and comfort, during Highway Department operation of the railroads. In addition, ferry boats have been abandoned and many miles of mainline track have been removed during this period, with more abandonments in process.

Reported current losses and State subsidy include:

<u>Year</u>	<u>Psgr. Losses, Excl. Subsidy</u>	<u>Total Losses, Excl. Subsidy</u>	<u>State Subsidy</u>	
			<u>\$</u>	<u>% of Psgr. Losses</u>
1964	\$6.5 Mill. (1)	\$8.5 Mill. (2)	\$2.9 Mill.	44.5
"	\$5.9 Mill. (3)		\$2.9 Mill.	48.3

(1) CNJ Commuter's Almanac of 5/18/65

(2) Wall Street Journal of 12/9/64 reported: "Perry Shoemaker, president, told the annual meeting that the 1964 deficit will be about \$8,500,000---'unprecedented deficit due to higher wage costs and a decline in freight revenue.'"

(3) Passenger losses in New Jersey as reported by Highway Department in 1965 Contract Hearing Data.

Note: The Railroad is now demanding a subsidy of \$5.6 million or claims it will be forced to abandon passenger service.

The reported losses are based on the ICC's famous full-cost formula, which charges passenger service with a portion of all costs for maintaining tracks, signals, yards and other physical properties which have to be continued even if all passenger service ended.

A study of fully-allocated losses in accordance with the ICC formula vs. out-of-costs or direct-costs by the University of Michigan Graduate School of Business Administration early this year stated, "This ICC formula continues in effect today and still produces a huge deficit, although many railroads operate trains at a profit on an out-of-pocket cost basis. Back in 1963, the ICC fully-allocated cost formula showed a deficit of \$670 million while the direct-cost loss was only \$1 million. ***Standard & Poor's Corporation shows the New York Central with a net of \$8,991,000 on a direct-cost basis vs. an ICC formula deficit of \$14,265,000. ***There's much that rail management must do. ***Railroads offering a service that isn't top quality help drive passengers off trains.***vast improvement in 'on-time' performance is needed, particularly in peak periods of travel. ***rail management must show more aggressiveness in improving and selling passenger service ***Thus the lowest fares plus a comfortable, on-time ride and courteous treatment become vital."

Port of New York Authority

The Group has long contended that the existing and experienced Port Authority should be directed to solve the rail transit problem by the development, construction and operation of a modern railroad terminal facility on the same basis as their present bus, truck, water and air terminals, in accordance with existing statutes, Chapter 244 Laws of New Jersey 1930: "The Port Authority shall constitute a body corporate and politic, with full power and authority to purchase, construct, lease, and/or operate any terminal or transportation facility within said district and to make charges for the use thereof; and for any such purposes to own, hold, lease, and/or operate real or personal property, to borrow money and secure the same by bonds or by mortgages upon any property held or to be held by it. - - - Transportation facility shall include railroads, - - - ferries, - - - for the transportation or carriage of persons or property."

That the Port Authority should assume this task is supported by the following:

1. New York-New Jersey Port and Harbor Development Commission (Now Port of New York Authority) Report of 1920: "Our port problem is primarily a railroad problem, * * * therefore, the comprehensive plan to evolve for which this Commission was created is essentially a railroad plan. * * * The most pressing element of the entire port problem is that of railroad service to and from Manhattan."
2. Chapter JR6, Laws of New Jersey, 1936 : "The increasing concentration of industry and population within the portion of the Port of New York District lying within the territorial limits of the State of New Jersey has created and to an increasing degree will continue to create a demand for more adequate interstate and suburban transportation facilities for passengers travelling within said district between the two States and between different communities within said district; - - - The Port of New York Authority is a governmental instrumentality of the States of New Jersey and New York created for the purpose, among other things, of coordinating and developing transportation facilities within the Port of New York District;."

3. New York Regional Plan Association, Commuter Survey Report of July 1951: Solution of the rail problem is the "responsibility of the Port Authority and is its duty under existing statutes."
4. Alexander H. Elder, retired General Counsel of the Central Railroad of New Jersey and former member of the MRTA, said in his 1952 report to the N. J. Department of Conservation and Economic Development that the primary purpose in the creation of the Port Authority was to solve the rail transportation problem in the New York metropolitan area. He said that New Jersey was induced to enter the Compact to realize the benefits of the Comprehensive Plan--the unification of railroad terminal facilities, which the Port Authority abandoned, shifting instead to vehicular tunnels, bridges, air-ports, etc., which instead of promoting the original plan have had the opposite effect. Mr. Elder recommended that New Jersey insist that the Port Authority return to the real purpose and intent of the Compact.
5. 17 N. J. Super., 328, 85 A. 2d 815. "The Port of New York Authority is a bi-state agency of the States of New York and New Jersey, created in 1921 by compact, approved by Congress on August 23, 1921, and in the interests of the public performs governmental functions projecting beyond state lines." (R.S.32:1-4)

An adequate and efficient rail transit system - part of an integrated transportation system - is indispensable for the metropolitan area of New York. The issue remaining is whether the Port Authority will be directed to do the job in accordance with existing law.

An integrated transportation system requires rail rapid transit as an integral part, as well as economic integration of the several parts. Pricing must be complementary, not competitive. Only a single authority - the Port Authority - can do this.

Rail transit is but an alternate to tunnels and bridges where profitable facilities subsidize the unprofitable facilities. All Port Authority facilities, with the exception of the Holland Tunnel, have been or still are deficit operations and operate on a pooled revenues basis. Therefore, it is more reasonable to charge a toll to the user of an auto tunnel to make up, in part, the loss on the rail operations--which he prefers not to use--than to charge him a toll to help cover the deficit on an airport or a world trade center which offers no alternative to his travel from home to work.

The question of Port Authority responsibility in this matter is answered by the New York Times editorial of March 28, 1960, "Those who from time to time complain that the Port Authority has too much power should remember that its growth has been voted every step of the way by elected representatives of the people. The States, their Legislators, their Governors have made the Port Authority what it is today---." This is substantiated by the statement of the Executive Director of the Port Authority, who said on March 26, 1953 at Rutgers University, "---the authority like any other governmental form in a democracy, is the servant of the people and it must conform to the overall public policies of the State which creates it."

Conclusion

It is not necessary to dwell on the effects of dwindling rail passenger service on the municipality, county or area - we all know. Therefore, I will conclude with the recent New York Times editorial which stated, "Ten years ago New York and its neighbor states were told by an official study (made by the Port Authority sponsored Metropolitan Rapid Transit Commission) that 'debate must be replaced with action.' But it never was. ***Government at various levels has poured billions into highways, bridges, tunnels and airports to subsidize competition against the railroads. As a dividend, the city and its suburbs are now suffocated by slow-moving, fume-generating automobile, truck and bus traffic. Since government has done this, why then, should government not undo it?---If tolls for automobile drivers were raised sharply, the result would be to encourage more people to leave their cars at home and take the train. We do not underestimate the complexity of this transition, with Port Authority and Tri-borough Authority bondholders to protect. But radically serious difficulties demand radical solution."

The Inter-Municipal Group strongly urges the Governor and Legislature of the State of New Jersey to

1. Create a State Department of Transportation, consisting of four divisions - Highway, Rail, Waterway and Airway,
2. Direct the Port of New York Authority to take immediate steps toward the implementation of their sponsored Metropolitan Rapid Transit Commission's recommended Independent Loop Plan,
3. Maintain existing rail and ferry services until the Independent Loop Plan is in operation,
4. Abolish existing State rail study agencies,
5. Return regulation of the railroads to the Public Utility Commission.

SENATOR OZZARD: Mr. Owen Clarke, please, of the

C & O.

O W E N C L A R K E; Mr. Chairman, Mr. Redman of the N & W and myself have a joint statement.

SENATOR OZZARD: Fine. Now you are Mr. Redman of the Norfolk and Western. Is that correct, sir?

MR. REDMAN: Vice President of Finance of the Norfolk and Western Railway Company.

SENATOR OZZARD: And, Mr. Clarke, what is your position?

MR. CLARKE: Vice President of the Chesapeake and Ohio and the Baltimore and Ohio.

SENATOR OZZARD: You say this is a joint statement?

MR. CLARKE: That is correct.

SENATOR OZZARD: Who will present it?

MR. CLARKE: Mr. Redman.

MR. REDMAN: May I proceed?

SENATOR OZZARD: Yes, please.

H A M I L T O N M. R E D M A N: Mr. Chairman and Members of the Special Senate Committee: My name is Hamilton M. Redman, and I am Vice President-Finance of the Norfolk and Western Railway Company of Roanoke, Virginia. With me is Mr. Owen Clarke, Vice President of the Chesapeake and Ohio Railway Company and the Baltimore and Ohio Railroad Company and former Chairman of the Interstate Commerce Commission. In response to the invitation of Senator Ozzard, we are glad to appear before you and discuss the proposed merger of Norfolk and Western and Chesapeake and Ohio, including our plans to include within our system five other major Eastern railroads, namely, Erie Lackawanna, Central of New Jersey, Reading, Delaware and Hudson and Boston and Maine. This new system, when consummated, would be substantially the same size as the proposed Pennsylvania Railroad-New York Central system and would be of tremendous economic benefit to the State of New Jersey. Our proposal would, in short, insure that New Jersey's three weak railroads, the Erie Lackawanna, the Central of New Jersey and the Reading, would become integral parts of a sound, strong and viable railroad system.

Before reviewing with you some of the details of our

plan, I would like to comment briefly on New Jersey railroads and, in particular, the three lines which I have just mentioned. Without question, the railroad industry is a vital part of the economy of this State. At the end of 1964, there were approximately 1,853 miles of main line railroad trackage in New Jersey. During that year, New Jersey railroads employed an average of 16,094 persons, with an annual payroll of over \$114 million. Taxes paid during 1964 to the State of New Jersey by its railroads totaled almost \$16 million. But despite the importance of railroads to New Jersey, the hard fact is that a substantial segment of this industry is in deep financial difficulty. If New Jersey is to prosper and continue to attract and hold industry in competition with other states, a way must be found to assure New Jersey shippers that they will be served by sound, strong and efficient rail carriers.

The plan which I would like to outline briefly to you now does just that. We have proposed a merger of the Chesapeake and Ohio into Norfolk and Western and have offered to include the five smaller railroads which I have mentioned. This proposal is designed to save four railroads, three of which are vitally important to the economy of New Jersey.

The Erie Lackawanna is a large railroad and employs a total of 16,385 people, but since 1958 it has lost approximately \$100 million. In 1964, its operating revenues were \$212.5 million, yet it had a net loss of \$8.3 million. As of December 31, 1964, its current liabilities, including long-term debt due within one year, exceeded current assets by about \$5.5 million, and its long-term debt totaled \$327 million. This is not a very

attractive financial picture.

The Reading in 1964 had railway operating revenues of \$97.1 million, yet suffered a net loss of \$5.4 million. As of the end of the year, its current liabilities, including long-term debt due within one year, exceeded current assets by about \$10 million, and its long-term debt totaled \$132.1 million. In addition, the Pennsylvania-Reading Seashore Lines had a deficit of \$5.2 million in 1964, and the Reading's share of this was approximately one-third, or \$1.7 million. Again, this is not a very attractive picture.

The Central of New Jersey has lost money for the last seven years, totaling approximately \$38 million. In 1964, its operating revenues were \$50.8 million, yet it had a net loss of \$8.3 million. Its current liabilities, including long-term debt due within one year, exceeded current assets by about \$3 million, and its long-term debt totaled \$67.2 million. In fact, the Central of New Jersey barely avoided bankruptcy a few months ago as the result of prepayment by the State of New Jersey of amounts committed to help offset commuter losses. The railroad faces a serious threat of bankruptcy next year. We hope that some way may be found to keep this road out of bankruptcy until we can obtain ICC approval and put our plan into effect. For obviously we are limited as to what we can do to help the Central of New Jersey until we can obtain control.

It is plain that not only the Central Railroad of New Jersey, but also the Erie Lackawanna and Reading, are financially weak companies. Obviously increases in wages have offset any cost reductions they may have been able to effect. They have

not been able to generate enough business during peak periods to carry them through periods when revenues were depressed. They have had to cannibalize their properties, resorting to such temporary measures as selling off real estate and failing properly to maintain their properties. Their continuing deficits severely restrict investments in modern facilities and equipment which would enable them to cut their operating and maintenance costs, with a resulting over-all improvement in their financial condition.

Each of these railroads has secured government-guaranteed loans because their credit was exhausted in the public market. Now that the government-guaranteed loan program is at a halt, long-term credit will become almost impossible to obtain.

As you know, Erie Lackawanna has been interested in inclusion in the new Norfolk and Western system for some time. In its decision in the recent case involving the Norfolk and Western-Nickel Plate-Wabash merger, the ICC recognized the impracticability, if not impossibility, of forcing Norfolk and Western to include Erie Lackawanna in its new system. After discussing the financial condition of Erie Lackawanna, the Commission said, and I quote:

"With this financial picture in mind, even assuming that the Erie-Lackawanna inclusion would in all other respects be consistent with the public interest, it is clear that equitable and realistic terms for such inclusion under the present circumstances would be extremely difficult to formulate. . . . We shall not impose conditions for inclusion which, in view of the prospective affiliate's uncertain financial future, might prove to be so impractical as to imperil the entire consolidation scheme."

This statement by the Commission is bottomed on the

incontrovertible fact that in view of Erie Lackawanna's financial plight, there is simply no way short of bankruptcy or a substantial modification of its outstanding indebtedness whereby Norfolk and Western acting alone can acquire an interest in the Erie Lackawanna which would be fair to the Norfolk and Western security holders and give reasonable assurance of Erie Lackawanna's viability. Even a company as financially sound as ours cannot assume such a load.

By the same token, the Chesapeake and Ohio, which has a substantial investment in the stock of both Reading and Central of New Jersey, and which has no obligation whatsoever to include these railroads in its system, could not, acting alone, work out any practical plan for inclusion which would be equitable to Chesapeake and Ohio security holders and which would assure the viability of these lines.

Norfolk and Western and Chesapeake and Ohio are proposing to join hands, and with the cooperation of the federal government and interested state and local governments, to do together what neither could do alone. It is proposed that the merged N&W-C&O would form a new subsidiary company, tentatively called "Dereco," that this subsidiary in turn would form five new wholly owned railroad subsidiaries having names substantially similar to the five railroads to be acquired into which the five railroads [that is, Erie Lackawanna, Central of New Jersey, Reading, Delaware and Hudson and Boston and Maine] would be merged.

Our plan contemplates an ultimate investment of over \$170 million in the securities of these five companies. We are

willing to make this substantial investment in the hope and belief that we can make each of these five companies viable and ultimately profitable. To accomplish this, however, will require many millions of additional funds to improve the roadways and facilities of these four indigent railroads and equip them with an adequate supply of locomotives and special types of freight cars which are demanded by shippers today. As a part of the N&W-C&O system, these railroads would have a much better chance to generate or otherwise obtain the necessary funds.

In addition, we will have to assume very substantial obligations to railway labor. Obligations to Erie Lackawanna employees alone have been estimated by that railroad at more than \$354 million under minimum conditions imposed by the Interstate Commerce Commission in cases of this type.

In short, our proposal is the only one which has been advanced so far which will include in a strong railroad system the four railroads in the East which are in serious financial difficulties, three of which operate in New Jersey. To do this, we are willing to make very heavy financial commitments. At the same time, we want to make it clear that neither the N&W nor C&O nor the two railroads acting together can provide a satisfactory solution to all of the financial and other problems of these railroads. We must have the cooperation of the federal government and other governmental agencies involved. Therefore, our proposal to include these railroads in our system on the terms which we have announced is contingent upon:

- (1) The present federal tax law being modified to

permit the N&W-C&O to obtain the benefit of the tax carry-forward losses of the four loss companies [Erie Lackawanna, Boston and Maine, Reading and Central of New Jersey]. A bill has been introduced into Congress by Representative Keogh of New York [H.R. 10542] to achieve this purpose.

(2) A permanent solution being found to the commuter problem of the Central of New Jersey, Reading and Erie Lackawanna which would relieve these railroads of any losses of performing this service.

(3) There being no substantial adverse change in the financial position of any of the five subsidiaries.

Knowing this Committee's interest in the commuter problem in New Jersey, I believe some comment on that matter is in order. We, of course, realize the importance of commuter service and the fact that the economy of large sections of this State is dependent on fast, efficient and economical transportation of commuters. But, as Mr. William White, Chairman of the Erie Lackawanna, told you a few weeks ago, losses from commuter services are staggering. Railroad shippers and security owners can no longer be expected to carry this intolerable burden. Increasingly, state and local governments are recognizing that this is a problem they must face. We stand ready to work closely with the State of New Jersey to find a permanent solution to the Commuter problems of the Central of New Jersey, Reading and Erie Lackawanna, based on recognition of the fact that private industry is no longer able and cannot be expected to assume the overwhelming losses in the field of mass transportation.

We think the best way to accomplish this is to set up an authority which would take over responsibility for commuter service in the State of New Jersey. We would then be willing to contract with the authority to provide such commuter service as the authority determines to be required by the public. The authority would pay us the cost of our operation and would bear whatever losses are sustained and be entitled to any profit realized.

We believe this plan would reduce the cost to the public of providing commuter service. So long as the Central of New Jersey and the Erie Lackawanna remain independent railroads, New Jersey will have to continue to subsidize the commuter in substantial sums annually, and the expectations are that the amount of subsidy will increase from year to year. If we acquire control of these railroads, however, we can operate them as a part of a larger system. We believe we can provide better commuter service at lower cost to the State than would be provided by the present railroads in their present financial condition.

Now I would like to tell you something about our proposed system. While we cannot offer to underwrite New Jersey commuter losses, we can and do offer to New Jersey the opportunity to have within its borders a substantial mileage of the largest railroad system in the United States. Based on 1964 figures, the new N&W-C&O system would operate 26,460 miles of road and have gross revenues of \$1,822,000,000 and total assets of \$5.9 billion. This new system would be strikingly comparable to the proposed Pennsylvania Railroad-New York Central system which would have

23,271 miles of road and would have gross revenues of \$1.806 billion and total assets of \$6.041 billion.

It is our considered judgment that this two-party plan for rationalization of railroads in the East would provide a better competitive balance than the so-called three-system plan and would be more consistent with the public interest. Our plan would establish two systems with almost exactly equal gross revenues and almost exactly equal total assets.

To the State of New Jersey, our proposed system would mean that in lieu of having three weak railroads tottering on the brink of financial disaster, the State would be served by a strong and expanding new system extending from the Atlantic Seaboard to Kansas City, Missouri, and Omaha, Nebraska. It would be served by a system able to compete effectively with the Pennsylvania-Railroad-New York Central system. It would be served by a system which would be dedicated to attracting new industries and new business to the State of New Jersey.

In the latter connection, I would like to emphasize that it is seldom that a large and profitable industry is willing to locate a new or expanded plant on a weak or financially insecure railroad. Moreover, even apart from that factor, competition for new industry is exceptionally keen, and railroads such as the Norfolk and Western and Chesapeake and Ohio, with large and active industrial development departments, have been much more successful in attracting industry to their lines than those railroads which are unable or unwilling to sponsor such programs. Industry needs assistance in determining new locations and demands assurance of adequate service and adequate car supply.

Moreover, many industries need expensive specialized equipment which only large and financially sound railroads are in a position to supply.

In summary, we believe that our plan for the creation of a new rail system as I have outlined will be of tremendous advantage to the State of New Jersey. All of our system freight traffic moving to and from the great Port of New York will move via our New Jersey terminals and via our New Jersey lines. Our proposal contemplates not the downgrading of New Jersey lines or the curtailment of New Jersey freight service, but just the opposite. The Norfolk and Western-Chesapeake and Ohio system promises to open a new era of rail transportation in the State of New Jersey. Thank you.

SENATOR OZZARD: Was there any further statement to be made by Mr. Clarke?

MR. CLARKE: No, sir, on behalf of the C&O we concur fully in the statement presented by Mr. Redman.

SENATOR OZZARD: Since you started your statement, Mr. Redman, Senator Lynch of Middlesex County has arrived and Senator Sarcone of Essex County.

I would like to open this to questioning and I would request Senator Stamler to start if there are any questions he has.

SENATOR STAMLER: Mr. Clarke, I note that you were a former Chairman of the Interstate Commerce Commission. When did you leave that and go with the railroad?

MR. CLARKE: In 1958, Senator.

SENATOR STAMLER: In 1958. On page 2 of your statement,

Mr. Redman, you say that the Erie Lackawanna employs 16,385 people. How many of those are employed in the passenger service in New Jersey, in the commuter service, which is our problem?

MR. REDMAN: Senator, I am unable to answer that question.

SENATOR STAMLER: Well, most of these could be in Ohio too.

MR. REDMAN: Yes. I won't say that most of them - but that they would be spread over the line of railroad, which is from Chicago.

SENATOR STAMLER: Could we get the figures?

MR. REDMAN: We can develop them and supply them.

SENATOR STAMLER: At page 3 of your statement, you say, "For obviously we are limited as to what we can do to help the Central of New Jersey until we can obtain control."

Now, as I understand it - maybe I am wrong about this - I recall the testimony - the C&O owns the B&O.

MR. CLARKE: We have a 90 per cent interest.

SENATOR STAMLER: Ninety per cent. Well, that is pretty well owning it. The B&O owns the Reading.

MR. CLARKE: They are the largest individual stockholder, but they own less than half of the stock of the Reading, about 38 per cent.

SENATOR STAMLER: And the Reading owns the Central.

MR. CLARKE: Yes, they have almost half of the stock of the Central of New Jersey.

SENATOR STAMLER: Well then, apparently you can obtain control rather easily of the Central by way of this C&O to B&O to Reading to Central. You can obtain control very easily.

MR. CLARKE: From a legal standpoint we could probably obtain authorization to control the Central of New Jersey. However, from a financial standpoint, we could never convince our shareholders that it would be a prudent thing to do.

SENATOR STAMLER: Well, would you not, as I think I know the law, have to apply to the Interstate Commerce Commission before you could take over another railroad?

MR. CLARKE: We do indeed, yes.

SENATOR STAMLER: You do. Therefore, you have to apply to your shareholders first.

MR. CLARKE: We would have to have the consent of our shareholders before we could file an application.

SENATOR STAMLER: A majority of the shareholders?

MR. CLARKE: No. We are a Virginia corporation. We are required to have two-thirds.

SENATOR STAMLER: Two-thirds.

MR. CLARKE: Yes.

SENATOR STAMLER: Well now, how much consent would you have to have to take over the Central today - the C&O today?

MR. CLARKE: First of all, we would need the consent of two-thirds of the stockholders of the C&O. Then we would have to go to the Interstate Commerce Commission and obtain authorization there.

SENATOR STAMLER: And would you have to go by way of the B&O and the Reading?

MR. CLARKE: Yes.

SENATOR STAMLER: So in other words you would have to --

MR. CLARKE: We would also have to obtain a consent of

the majority of the stockholders of those companies. Of course, we wouldn't have any problem with the B&O, but as I say the B&O does not have a majority interest in the Reading, only 38 per cent.

SENATOR STAMLER: Thirty-eight per cent. Do you know who owns the rest of it?

MR. CLARKE: Well, it is fairly well scattered - the public.

SENATOR STAMLER: There is no other big block though?

MR. CLARKE: There is one block - I am not sure what their percentage interest is - but perhaps 20 per cent.

SENATOR STAMLER: Do you know who they are?

MR. CLARKE: Yes, we do. They are new investors. They have representation on the Reading board, three of the eleven directors.

SENATOR STAMLER: But they are not a railroad?

MR. CLARKE: No.

SENATOR STAMLER: In other words, they are not railroad men.

MR. CLARKE: No, they are investors.

SENATOR STAMLER: Just investors.

MR. CLARKE: It's a syndicate.

SENATOR STAMLER: You say, "It is plain that not only the Central of New Jersey but also the Erie Lackawanna and Reading are financially weak companies." Now we have had testimony before that the stock, let's say, in the Erie has maintained a pretty even keel over the years. How does this tie in?

MR. CLARKE: Mr. Redman ought to answer that. He is a

financial man. But there is no particular relationship between the two, what the stock is selling for and the financial condition of the company, because of the speculation that goes on.

SENATOR STAMLER: Well, I understand that. But there has been a maintenance of the sale. It has been pretty average; it hasn't sharply dropped.

MR. CLARKE: Yes.

SENATOR STAMLER: So that this would portend to say that the Erie Lackawanna is not financially weak.

MR. CLARKE: The Erie Lackawanna has deficits.

SENATOR STAMLER: I am not a stock man, so I don't know anything about it.

MR. REDMAN: The Erie Lackawanna lost over one hundred million dollars since 1958. It has a debt of between \$325 and \$330 million. The market value of the bonds of the company - that is, as bondholders in the market appraise the worth of the company - the last time I checked it the market value of the bonds over all was between 50 and 60 cents on the dollar. And as far as the stability of price or lack thereof of the stock of the Erie Lackawanna, in 1963, for example, the Erie Lackawanna stock was traded on the New York Stock Exchange between a high of 4 1/4 and a low of 2 1/4.

SENATOR STAMLER: What is it today?

MR. REDMAN: It is about 8 1/8.

SENATOR STAMLER: In two years.

MR. REDMAN: Yes. So that's --

SENATOR STAMLER: -- about 100 per cent.

MR. REDMAN: Well, from the low of 4 1/4, it is 300 per cent. Then if you go back to 1959, the high was 15 1/2; in 1958, 13; and 1957, 20. This is a pretty volatile stock, Senator.

SENATOR STAMLER: In other words, the investors play with it.

MR. REDMAN: We would judge from the action of the stock this year, quite a bit of speculative interest in it.

SENATOR STAMLER: Could that be because of this merger?

SENATOR HILLERY: What else?

MR. REDMAN: I think it could be a reflection of hope that the Erie Lackawanna will find a place to go in this merger scheme in the East, yes.

SENATOR STAMLER: Not only the East. The Erie Lackawanna is going to go to Omaha, Nebraska, according to your statement.

MR. REDMAN: If it becomes part of this proposed Norfolk and Western system.

SENATOR STAMLER: At page 4 of your statement, you said that the railroads, the Erie, the Central and the Reading, being financially weak, have been taking temporary measures of selling off real estate. Do you have any idea how much real estate each of those three lines have sold off in New Jersey?

MR. REDMAN: No, I do not. But we have in discussions been told this by just two of them.

SENATOR STAMLER: Well, I just meant this, Mr. Redman - I am not trying to hassle with you - but when a statement such as this is made, it would seem to me you would have some support for it.

MR. REDMAN: We do have the support in that we have been told by the officials.

SENATOR STAMLER: And doesn't the ICC or somebody have to give the authority to a railroad to sell off its real estate?

MR. CLARKE: Not if it is non-operated property and I believe most of what they have sold is not necessary for the operation of the railroad.

SENATOR STAMLER: This is side real estate that you are talking about that might run along your tracks?

MR. CLARKE: Yes.

SENATOR STAMLER: Not your tracks, but the others.

MR. CLARKE: Yes.

SENATOR STAMLER: Now you say the ICC recognized the impracticability of a merger with reference to the Norfolk and Western and the Nickel Plate on page 4.

MR. REDMAN: We think they have recognized the immediate impracticability because of the condition of the Erie Lackawanna.

SENATOR STAMLER: Incidentally, is the Erie Lackawanna tied in any way with the Delaware and Hudson?

MR. REDMAN: To my knowledge there is no cross ownership of stock, one company by the other.

SENATOR STAMLER: That is what I meant.

MR. REDMAN: No. To my knowledge, there is not.

SENATOR STAMLER: At page 5 of your statement, you say, by the same token, the C&O, which has a substantial investment in the stock of both the Reading and the Central -- now you have pinpointed the investment in the Central.

MR. CLARKE: Yes.

SENATOR STAMLER: Do you know how much commuter service the Reading is now rendering in New Jersey?

MR. CLARKE: No, I don't. But it is a small part of their total commuter service. Most of it is in the Philadelphia area.

SENATOR STAMLER: Most of it is in the Philadelphia area?

MR. CLARKE: That's right.

SENATOR STAMLER: So this wouldn't necessarily apply in this merger, that the Reading would not be necessarily part of this commuter plan that I am talking about.

MR. CLARKE: No. Philadelphia is well on the way to a solution of their problem.

SENATOR STAMLER: We have had testimony on that.

At page 7 you say part of the requirement, the contingency upon which this merger can be worked out, is: "A permanent solution being found to the commuter problem of the Central of New Jersey, Reading and Erie Lackawanna which would relieve these railroads of any losses of performing this service."

I think if either one of you gentlemen can answer this, you may have solved the whole problem. Can you answer that question? What is the permanent solution in your opinion?

MR. CLARKE: Creation of a public authority to assume the responsibility for the commuter service.

SENATOR STAMLER: Just the commuter service?

MR. CLARKE: Yes.

SENATOR STAMLER: And nothing else?

MR. CLARKE: That's as far as our proposal goes.

SENATOR STAMLER: In other words, not the real estate and not the freight service?

MR. CLARKE: That's correct.

SENATOR STAMLER: You say in the statement too, Mr. Redman: "So long as the Central of New Jersey and Erie Lackawanna remain independent railroads. . ." Are they really independent railroads? Is the Central Railroad an independent railroad?

MR. CLARKE: Yes, sir.

SENATOR STAMLER: In other words, you with the C&O have no control over their operation at all.

MR. CLARKE: None whatsoever.

SENATOR STAMLER: Do you through the B&O and through the Reading?

MR. CLARKE: No, we do not.

SENATOR STAMLER: In other words, if the Central desires to pay its president \$100,000 a year, you as one of the huge stockholders can do nothing about it?

MR. CLARKE: It is up to the Board of Directors and we don't control the Board of Directors.

SENATOR STAMLER: You don't touch them.

MR. CLARKE: No.

SENATOR STAMLER: So all of these lines, the C&O, the B&O, the Reading and the Central - all of them are completely independent of each other.

MR. CLARKE: No, sir. The C&O does control the B&O.

SENATOR STAMLER: Ninety per cent.

MR. CLARKE: Ninety per cent. We have controlling

interest on the Board as authorized by the ICC. There has never been any authorization by the ICC for the B&O to control the Reading or for the Reading to control the Central of New Jersey. Now each in turn has an equitable interest.

SENATOR STAMLER: Now why is there that difference between the C&O and the B&O or the association and the difference between the B&O and the Reading and the Reading and the Central?

MR. CLARKE: The difference is merely the fact that the ICC has not authorized control and one railroad cannot control another without express approval and authorization from the ICC.

SENATOR STAMLER: Thank you, Senator.

SENATOR OZZARD: Two other Senators have arrived, Senator Woolfenden of Sussex and Senator Kelly of Hudson County. That completes the Committee other than Senator Grossi who is unfortunately in the hospital at the moment.

Senator Hillery, do you have any questions?

SENATOR HILLERY: Yes, I have.

Mr. Clarke, under this merger proposal and the bill introduced by Congressman Keogh of New York, this would permit the railroads to take advantage of the tax carry-back. Is that right? In what amounts under the merger? That would be for a five-year period. I think that's the present law.

MR. REDMAN: The proposal, Senator, is to extend from seven to ten years the period.

SENATOR HILLERY: You are going to extend it from seven to ten years.

MR. REDMAN: Extend from seven to ten years the period which the tax loss carries forward.

SENATOR HILLERY: How much is involved?

MR. REDMAN: There is a figure in total for these loss companies of about \$200 million. But under the proposed Keogh bill, this could only be taken into the accounts of the new affiliated company at the rate of 20 per cent a year.

SENATOR HILLERY: Does this include the \$200 million or is it a smaller amount than that?

MR. REDMAN: This would include the \$200 million.

SENATOR HILLERY: That's the limit of it, the tax carry-back?

MR. REDMAN: No. The limit of it would be the maximum that any of these indigent companies --

SENATOR HILLERY: That is what I am trying to find out. Have you any idea what this total amount would be under this tax carry-back? It can't be \$200 million. It ought to be a lot more than that according to these losses that we have been presented with at all these hearings.

MR. REDMAN: Will you excuse me just a second.

[Mr. Redman confers with one of his colleagues.] The maximum figure, Senator, would be in the neighborhood of \$200 million, but it may be as little as \$125 million because of a technicality in the bill which involves the impact of the 7 per cent investment tax credit on the treatment of this in its relation to the affiliated company.

SENATOR HILLERY: Is this bill a general law that would permit other corporations to do the same thing or is it solely

limited to the railroads.

MR. REDMAN: The latter.

SENATOR HILLERY: Is that constitutional in your opinion? Do you think that is constitutional to select the railroads for this benefit and not give it to other corporations who might be in the same position, who might like to consolidate to save their face?

MR. REDMAN: I am not an attorney, Senator, I can't answer that.

SENATOR HILLERY: I am not either, but ---

MR. CLARKE: Our tax lawyers and also constitutional lawyers have given us an opinion that it would be constitutional.

SENATOR HILLERY: They say it is?

SENATOR OZZARD: At least you are going to try it?

MR. CLARKE: Yes, we are going to try it.

SENATOR HILLERY: It may be one of those special decisions.

MR. CLARKE: It could be.

MR. REDMAN: May I say the original sponsorship for this Keogh bill was not the Norfolk and Western and the C&O.

SENATOR HILLERY: I understand.

MR. REDMAN: It was primarily the Erie Lackawanna and some other loss railroads.

SENATOR HILLERY: Under this merger and this authority that you are talking about, solely for commuter service to rent facilities, tracks or whatever it is, from the railroad, how much do you think it would cost to run a commuter service under the merger system in New Jersey and who will pick up

that bill? Do you have any estimate of what it will take to run a commuter service alone?

MR. CLARKE: No, sir, because that would depend entirely upon the kind and amount of commuter service the State wanted.

SENATOR HILLERY: That is easy enough to figure. You have so many people you have to carry back and forth to the Metropolitan district and give them a decent ride.

MR. CLARKE: That depends on the frequency of the service and I understand a subsequent witness today will discuss additional runs - some new runs - going over his statement.

SENATOR HILLERY: But you have no figure on what that cost would be?

MR. CLARKE: We would expect the State agency to write the ticket - tell us what they wanted in the way of service, as much or as little as the State agency felt the public required.

SENATOR HILLERY: Without any plan to induce more people to use the service and stay off the roads, stay off the highways?

MR. CLARKE: We believe that the public would be induced to use the service if the State agency found itself able to purchase new equipment.

SENATOR HILLERY: Now on this railroad property that you have brought into your document here - in other words, you had to sell railroad property in order to stay alive or to cut down the losses - this is property that was not in use, right?

MR. CLARKE: Not in use for railroad purposes.

SENATOR HILLERY: What was it being held for, future

investment - I mean, speculation?

MR. CLARKE: For industrial sites primarily.

SENATOR HILLERY: For industrial sites.

MR. REDMAN: I would not believe, Senator, that there was any speculative element in it. The railroads try to acquire --

SENATOR HILLERY: Anybody who holds property today is in speculation I would think; even farmers out in Sussex County hold onto property because it is increasing in value every day.

MR. REDMAN: This may be so, but the purpose of the railroads, the desire of the railroads, is to furnish freight service and property is often acquired for its future potential value as an industrial site.

MR. CLARKE: It may be that there was some property sold that had at one time been used for railroad purposes. I don't believe that Mr. Redman or I would have that information. But I am sure that the Erie Lackawanna and Jersey Central witnesses could furnish that for you.

SENATOR HILLERY: I would like to compliment you on your statement on page 7: "We, of course, realize the importance of commuter service and the fact that the economy of large sections of this State is dependent on fast, efficient and economical transportation of commuters." This is about one of the only statements that I have heard - and I think my colleagues will agree - since we started these hearings to this effect. The railroads have been telling us pointblank they just want to get out of this service; they don't want any part of it. Their history all the way back for years has been that

they have done nothing to promote commuter service or help in any way to try and solve this problem. That is all.

SENATOR OZZARD: I have some questions of Mr. Redman and Mr. Clarke. However, I am interested in the comment just made by Senator Hillery. I gather from everything I have read in the press and even what I read in your statement today, your attitude toward passenger service is no different than that of the existing railroads in New Jersey. You don't intend to do anything about it either, do you?

MR. REDMAN: We intend, Senator, if we can put this New York Central-C&O merger through, to develop a strong, vigorous railroad and railroad system, which would be --

SENATOR OZZARD: -- freight.

MR. REDMAN: [Continuing] -- a great asset to the State of New Jersey and that by reason of doing this, we would have a property which could also be used for the commuter business.

SENATOR OZZARD: Yes, but when you say you are interested in developing a strong, vigorous railroad entity in New Jersey, you are talking about a freight line solely, are you not? You are not going to do anything about passenger service, are you?

MR. CLARKE: Well, we offer to operate whatever passenger service you want at cost with the rolling stock.

SENATOR OZZARD: Other than to be an agent for the State, you don't intend to do anything yourself, do you? Do you intend to buy any new equipment for passenger service under the merger?

MR. REDMAN: No.

SENATOR OZZARD: Do you intend to add any additional service with any existing equipment you have? Do you even intend to operate the passenger lines if you merge?

MR. REDMAN: One of the conditions is that we will operate it, but that the expense of it must be taken care of by the State or the Federal government or some combination of State government and local government.

SENATOR OZZARD: But you, yourself, other than if you get paid to do it so that you lose nothing, have no intention of doing anything for passenger service in the State of New Jersey, isn't that correct? Unless the State steps in with an authority and operates under your conditions, there will be no passenger service in New Jersey under the merger, is that right?

MR. CLARKE: There would be no merger.

SENATOR OZZARD: All right. That clears up a question I was going to ask you then. In other words, unless the existing railroads either get the State to take over the passenger service or they get rid of the passenger service, there will be no merger, is that correct?

MR. CLARKE: That's right.

SENATOR OZZARD: You are not interested then in building a railroad system for anything but freight in the State of New Jersey. Is that correct?

MR. REDMAN: Yes, that is correct, except a by-product of a good railway system would be the ability to supply the commuter service as may be required by an agency or authority.

SENATOR OZZARD: This is one of the reasons we were so anxious to have you as representatives of the proposed plan come before us today because this has not been the picture in New Jersey up to this moment or up until your announced merger. We had presented to us in our prior hearings two positions. One was Mr. White's position that the Erie Lackawanna was going to get out of the passenger service come hell or high water. He was out. Either we would take over his service or there would be no service. This was his position. He intended to start the necessary applications the end of this year. But as far as Jersey Central was concerned and Pennsylvania - we will deal only with Jersey Central here because this is the only road you are interested in other than Erie Lackawanna - Mr. Shoemaker, the president of this line indicated to us that with some tax relief and some further subsidy, he could conceivably operate a passenger line in the State of New Jersey as they have been operating it. Any improvements, we would have to work out special deals with them and special arrangements for equipment and so forth. But at least there was one railroad in this State that was still willing to try to keep the passenger service.

Now the merger, if it is going to become a fact, precludes that. Now we are dealing with a total situation as presented by Mr. White; that is, the railroads are going to get out of the passenger service unless the State steps in and gets into some contractual basis with them. Is that correct?

MR. REDMAN: One of our conditions is that there will be no losses from the operation of the passenger service.

SENATOR OZZARD: I would ask you another question. I have asked some of the other railroad people, those who have suggested that the State set up an agency, be it an authority or whatever it may be, to set the plan and operate it and possibly do the administration of a passenger system in New Jersey and contract with the railroads to run the railroads, in other words, to run the passenger service. And I would like to ask you on what basis you think the present railroads should be permitted to operate a passenger service when they have been totally unsuccessful in doing so in the past? Where do they qualify even to run a passenger service? How do you justify this?

MR. CLARKE: Well, they are professional railroad men.

SENATOR OZZARD: And they have failed, haven't they, even as professional railroad men?

MR. CLARKE: -- for the lack of finances.

MR. REDMAN: Also for the lack of being able to compete. There have been highways and automobiles have become a tremendous factor in commuting - buses. There have been a good many general subsidies involved in mass transportation.

SENATOR OZZARD: Do you think under your merger plan, varying your suggestion here which is on page 8, that you would then be willing to contract with the authority to provide such commuter service and so forth, that if this Committee - and I don't know what it is going to recommend - but if the recommendation were made that an authority be set up which would do nothing more than contract to pay you so much per mile for the use of your lines and have that authority with its own

specialists and its own agents, employed directly by it, to run the commuter service and hire the employees on the trains and buy its own equipment, would this be attractive to the C&O and the N&W in a merger plan so that you would get nothing but mileage cost out of the use and those on a cost basis?

MR. CLARKE: It seems to me that that is a detail that holds out a possibility as one way to handle it. There are a variety of ways it can be done under a contractual arrangement. We would be willing to consider any such suggestion.

SENATOR OZZARD: Just so you don't have losses, right?

MR. CLARKE: Precisely.

MR. REDMAN: And so commuter service can be provided because if we are going to become corporate residents of New Jersey, we recognize the need for commuter service.

SENATOR OZZARD: We do too and this is our problem.

MR. REDMAN: This is a matter of public policy and public requirement.

SENATOR OZZARD: We agree with you totally. There is just one point on which the railroads and the Legislature disagree and that is, we don't intend for the commuter service to stop and the railroads are not too interested whether it does or doesn't just as long as they don't have any losses. So there is a little difference. We have, I think, a greater interest at the moment, which is the reflection of the public interest that we are trying to serve.

Now I am interested in the setup of the five subsidiary companies. I don't quite understand just how this is going to

work and why it is necessary, why it is not just one road operation in New Jersey. Could you explain this to me? You state there will be this primary company and it will set up five subsidiaries which will be the five present railroads or the three in New Jersey. How will this work?

MR. REDMAN: We have to face up, Senator, I think, to the fact that four of these five railroads are deficit railroads in very poor financial condition. Even strong companies such as the Chesapeake and Ohio and Norfolk and Western, acting alone or together, cannot step in and assume and merge those companies into the top company and assume the debt that these companies have. At the end of 1964, these five companies we are talking about had a debt of \$653 million and over all no earnings in a package.

SENATOR OZZARD: Yes.

MR. REDMAN: These things can be accomplished not only just with the approval of the Interstate Commerce Commission, you have to have the approval of the shareholders, the security owners.

SENATOR OZZARD: Now are they going to be five separate companies?

MR. REDMAN: Yes. What we are proposing to do is to set up five separate companies through a holding company which we have tentatively called "Dereco," which will supply the overall, top supervision.

SENATOR OZZARD: Now would these five companies be identical in structure to the companies we have today? In other words, would there be a company with a valuation and

assets of Jersey Central, another of the Delaware and Hudson, and so forth?

MR. REDMAN: Yes, they would to begin with. What we would intend to do, Senator, is to approach this in the same manner in which the Chesapeake and Ohio has approached the Baltimore and Ohio situation, which was a financially-poor situation when they first began to acquire stock, and then they got the right to control. But they did not assume the debt of the Baltimore and Ohio, but they have worked with the Baltimore and Ohio to get it rehabilitated, to begin an orderly process of building up their car fleet, but accomplishing this through control over a period of time. And they still have a long way to go.

MR. CLARKE: We have already spent over a quarter of a billion dollars in rehabilitating the B&O, primarily in building up their car fleet. After all, you have to have the tools to operate with. In the rather brief period, we have been able to change it from a loss of \$31 million in 1961 to a profit of something in excess of \$10 million this year. But that is what you can do if you have the money to do it.

SENATOR OZZARD: Well, does the parent company lend money to the subsidiary?

MR. CLARKE: We lend our credit primarily.

SENATOR OZZARD: Lend your credit.

MR. CLARKE: Yes.

SENATOR OZZARD: Is this what you would propose here so that, for example, the almost bankrupt Jersey Central would have a strengthened financial position in the market, or could this

railroad still by keeping it separate, by having separate stock and separate owners, could this still become a bankrupt railroad?

MR. CLARKE: No. The merged company would lend its credit to the Central of New Jersey to enable them to buy the type of freight equipment they need.

MR. REDMAN: I think we need to clarify one thing. The Central Railroad of New Jersey presumably structured as we are proposing it, if it had deficits and financial obligations which it could not meet, it could go bankrupt. But what we are hoping to do is - in the first place, we are going to make an investment in this total thing, which as I said would amount to some \$170 million over a period of time, and we are not about to see that lost if we can avoid it. We hope to help supply management and backing and an over-all operating approach to these five railroads so that we can keep them above water and then work out something as Mr. Clarke has said has been done by the C&O with the B&O.

SENATOR OZZARD: Well, doesn't this structure by going into the five separate corporations -- When I first heard of the merger, I was rather delighted. I thought we were going to have a large merged corporation which would have total strength of itself. Doesn't this allow for a bleeding of one line to satisfy another? Doesn't this allow for the Long Island situation that has been rather discredited over the years? Doesn't this allow for the parent company to do things that might not be totally in the best interest of the State and its railroads since you are not part of our system, but most of your

lines and most of your interests are going to be outside of New Jersey? In other words, don't you have an opportunity to do a lot of shifting of profits and placing of costs and everything interchangeably with these smaller corporations to the point where you could ultimately leave them with nothing if this was desired?

MR. REDMAN: Well, I would say we do not have opportunities to shift things around, Senator, because we have very stringent regulations and ground rules prescribed by the Interstate Commerce Commission in the handling of our accounts.

SENATOR OZZARD: Why isn't this a single corporation?

MR. REDMAN: And they are audited. These accounts are audited by examiners from the Commission.

SENATOR OZZARD: Why isn't this going to be a single corporation? What is the idea of all the separate subsidiaries?

MR. CLARKE: Because of the pre-existing debt structure of the various companies.

SENATOR OZZARD: That the parent company doesn't want to absorb, is that right?

MR. REDMAN: We simply cannot do it.

SENATOR OZZARD: You can't do it?

MR. REDMAN: I don't believe our stockholders could be induced to vote for a total merger.

SENATOR OZZARD: Then this leads me to the next area of questioning I wanted to present and that is: You are not going to have a different structure, but you are going to have a different relationship than we have had in the past. Control will now be with the combined C&O and N&W, is that correct?

But the companies will remain separate companies within the State of New Jersey.

MR. CLARKE: Yes, sir.

MR. REDMAN: That's right.

SENATOR OZZARD: With this structure, how is it going to be possible to bring about the considerable savings that you refer to in your statement here that may be to the benefit even of passenger service in New Jersey?

MR. REDMAN: Our approach or our reasoning on this, Senator, is that we can do as we said we would do because we both have substantial, aggressive - by both, I mean the C&O and the Norfolk and Western - industrial development departments and it would be our aim to build a strong railroad system - I am talking about the whole thing - which would benefit the State of New Jersey and we would spend money in the State of New Jersey for development and expansion of industry. And this would in turn result in added business and a strong railroad system, so that the relationship between freight and passenger business would vary from what it is at the present so that the commuter business or the passenger business would have to bear a smaller proportion of the total load which in turn would result in reduced costs for the passenger business.

There are also some other factors about it. Once you get a railroad line in good condition, and I am not an operating man, but I am told that it is less expensive by a regular maintenance cycle to keep it in good shape than it is to work with one which has deteriorated and then try to use that. So this in turn would result in reduction of costs.

SENATOR OZZARD: But you are referring to what there - equipment?

MR. REDMAN: The track structure and the equipment.

SENATOR OZZARD: The track structure as well.

MR. REDMAN: And the equipment and the signalling.

SENATOR OZZARD: As far as the passenger service is concerned, the only area within which we could anticipate any efficiency or any savings would be in track structure, wouldn't it? What you do with your freight equipment, what you do with your freight locomotives and so forth would have no bearing upon the passenger service and thus no savings. I don't see where we can under this merger effect any savings as far as passenger costs are concerned.

MR. CLARKE: Well, the upgrading that we would expect to do to the tracks in order to do a better job of handling our freight service would, of course, inure to the benefit of the passenger operation.

SENATOR OZZARD: And you would charge a percentage of the cost to the passenger operation, wouldn't you?

MR. CLARKE: On some agreeable basis.

MR. REDMAN: But it could very well be a decreasing percentage as the business of the railroads in the State of New Jersey expands.

SENATOR OZZARD: Could this be substantial, a substantial amount, or what are we talking about in the way of savings, projected savings?

MR. REDMAN: Well, we --

SENATOR OZZARD: You don't know.

MR. REDMAN: We are unable to say.

SENATOR OZZARD: And the fact that you can't project would indicate to me that it is not in the immediate future. Even with an immediate merger, it is not in the immediate future that we could effect savings. So this Committee and the State had better be thinking about the costs as they are now. Is that correct?

MR. CLARKE: That would be the safest approach.

SENATOR OZZARD: What is the extent of passenger service presently on the C&O and N&W?

MR. CLARKE: Well, passenger service on the C&O represents something less than 4 per cent of our total gross revenues. However, we too have a passenger loss.

SENATOR OZZARD: You don't operate any commuter service, do you?

MR. CLARKE: No, we do not.

SENATOR OZZARD: How about the N&W?

MR. REDMAN: The N&W last year had passenger revenues - this is for our consolidated system on a pro forma basis - see, we merged on October 16th last year with the Nickel Plate and the Wabash and the Pittsburgh and West Virginia - on a pro forma consolidated basis we had only \$15.4 million of passenger revenues out of \$558 million, so that is about 3 per cent.

SENATOR OZZARD: And this is all over the road; it is not commuter.

MR. REDMAN: Well, we have one commuter run into Chicago in the morning and out in the afternoon. We likewise operate our passenger business at a deficit. Our passenger deficit last

year -- well, \$6,953,000, I believe, is the figure.

SENATOR OZZARD: So that actually the two railroads that are talking merger are principally for all practical purposes your freight railroads.

MR. CLARKE: That's right.

SENATOR OZZARD: That is your interest in the merger in the State, the freight operations, so that you have a total service and a competitive service with the New York Central and Pennsylvania.

MR. CLARKE: Let me add that notwithstanding the fact that there would be a number of different corporations, we would expect to operate as a single system.

SENATOR OZZARD: Last question - How far has the merger progressed?

MR. REDMAN: Senator, it was announced the evening of August 31st after approval by the boards of directors of the two companies. As stated in our press release, we intend to file our application to effect the merger with the Interstate Commerce Commission on or before November 1st. We will also be required to prepare, each company, that is, the C&O and N&W, a proxy statement and have meetings of stockholders in order to obtain a vote for approval of the merger.

SENATOR OZZARD: This application by November 1st is just the C&O and the N&W. Does it include the others?

MR. REDMAN: That is the basic starting point.

SENATOR OZZARD: Will the others have joined in? Will the Erie Lackawanna and Jersey Central have joined in with you by that time or will that come later?

MR. CLARKE: That will come later.

MR. REDMAN: No, this will develop as this thing is progressed and we make arrangements with the Commission at our hearing to make this offer to these five other railroads.

MR. CLARKE: We have to have Commission approval even to make the official offer.

SENATOR OZZARD: I see. If this is granted, how far away if everything works the way you hope it works - how far away is the merger with all those railroads, one year, five years? What are we talking about?

MR. REDMAN: We are unable to answer that question.

MR. CLARKE: It depends on how much help we get from the State of New Jersey and other interested parties.

MR. REDMAN: We think that this is a real solution to the problem, the railroad problem in the East, to create two competitively balanced systems. It is a project to be pushed along as rapidly as it can and we intend to do just that. We hope that we can get backing from all interested parties in order to accomplish this.

SENATOR OZZARD: I don't mean this as a parting shot, but permit me an observation. Since I am the chairman, I will make the observation. It is almost amusing because if there has ever been a symbol of rugged individualism in the United States it has been the railroad man. And to hear the railroads coming before State agencies and asking them to create an authority to take over private business is seriously amusing. Well, that is exactly what the railroads are doing.

MR. CLARKE: We believe it has reached a point where

commuter service is no longer a business in the usual sense of the word, rather it is a public service like the postal service and police and fire protection service.

SENATOR OZZARD: In your railroads, of course, you don't have any broad passenger experience some of these others do. But you see no way of the railroads making the commuter service and passenger service a break-even proposition even, so that it could be part of the over-all railroad system?

MR. CLARKE: No, we do not.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: You suggest in your testimony by answers to the questions that were asked of you that you were not interested in the commuter service in the State of New Jersey, but strictly in the freight operation. May I ask you whether you think that your freight operation on the existing lines in New Jersey would be a profitable operation?

MR. CLARKE: We would hope to make it profitable. In fact, that is our incentive, our reason for making the proposal.

SENATOR LYNCH: And that would entail, I suppose, new equipment, preparing new road beds, etc.?

MR. CLARKE: Yes, sir.

SENATOR LYNCH: And you are prepared to do that?

MR. CLARKE: Yes, sir.

SENATOR LYNCH: But so far as commuter service is concerned, you were looking to a public agency or public authority to provide new equipment for such a proposed line?

MR. CLARKE: Yes. We are hoping that there will be an

agency that will be fully responsible for it. Now we would be willing to serve as a servant of that agency to do the actual physical operating.

SENATOR LYNCH: In the written statement which was filed is a statement that you would be willing to contract with the authority to provide commuter service. Do you have any alternative ideas of what a contract should provide or what kind of a contract it should be?

MR. REDMAN: No.

SENATOR LYNCH: You haven't gone that far yet?

MR. REDMAN: No, we haven't.

SENATOR LYNCH: Have you, sir?

MR. CLARKE: No. There are a number of patterns that have already been set by other public agencies, such as the Massachusetts Bay Transportation.

SENATOR LYNCH: Can you tell us anything about that?

MR. CLARKE: I am not familiar with the details, but it is a negotiable item. We would expect to have a meeting of the minds of the public representatives and ourselves.

SENATOR LYNCH: One railroad has a commuter line to Chicago, which one is that?

MR. REDMAN: That's the old Wabash.

SENATOR LYNCH: And that's a losing proposition?

MR. REDMAN: Oh, yes.

SENATOR LYNCH: Are you appealing to the authorities in Chicago or the State of Illinois for any assistance or help?

MR. REDMAN: Not to my knowledge.

SENATOR LYNCH: You are not losing enough yet.

MR. CLARKE: It's just one train in and one train out.

MR. REDMAN: There is a vast difference between one train and, I think, Mr. White testified 145 trains.

SENATOR LYNCH: No further questions.

SENATOR OZZARD: Senator Woolfenden, I think you came in late. Do you have any questions?

SENATOR WOOLFENDEN: I don't know whether this question has been asked. Do you think with the proper promotion and proper equipment that the State could make this a paying proposition with an agency such as you suggest?

MR. REDMAN: We have no way of knowing that, Senator, but what we envisage is a type of contract or instrument or agreement here which, if it could be done, the benefit would inure to the State or the authority or the agency.

SENATOR WOOLFENDEN: I have always been a little perplexed about this thing because I know your competition in commuter service does a great deal of promotion and advertising. Don't you think a few years back they took a lot of this away from railroads because of this type of promotion work? What bothers me is - why didn't the railroads then try to do something to hold on to what they had?

MR. CLARKE: I might answer that by saying that on the C&O we did spend several millions of dollars on advertising. We bought all new equipment, locomotives and cars, after World War II. We used every conceivable promotional gimmick, such as hostesses on the trains, free meals, no tipping, extensive advertising, reduced fares, one-third off and so forth on certain days, and our passenger business decreased by about

50 per cent.

SENATOR LYNCH: Decreased?

MR. CLARKE: Decreased because of the two factors. First of all, we are primarily an inter-city passenger carrier. We can't compete with the speed of the jets. Secondly, the increased construction of highways, of freeways, lured the short-haul passenger business off the railroads and onto the highways.

MR. REDMAN: Senator, I might add that the Norfolk and Western before our recent merger - our primary experience in the passenger business was with what we call long-haul inter-city. We had exactly the same experience. After the war we spent millions of dollars for new, fine equipment, air conditioned, advertised it, and then ran good schedules at as high speeds as we could, on time. The business simply deteriorated. Airplanes and automobiles --

SENATOR WOOLFENDEN: Thank you.

SENATOR HILLERY: Are there any railroads in the Chicago area breaking even or making any money on commuter service?

MR. CLARKE: The Chicago-Northwestern breaks even - perhaps they make a little - only because they are not including in the accounts the amortization of the new equipment they purchased.

MR. REDMAN: And we understand - at least I have heard figures of \$40 million or more for equipment.

SENATOR HILLERY: Is there an authority - I believe we heard in our testimony - operating in Chicago in the city

for commuter service that is supposed to be doing pretty well?

MR. CLARKE: Not to my knowledge. However, they have an entirely different operating situation. First of all, they have a comparatively long-haul commuter run with infrequent stops and they go into the center of town, not troubled with a river crossing such as you have here. They have had a very favorable regulatory climate which has enabled them to increase fares promptly as they needed to and they have a somewhat different tax situation.

SENATOR HILLERY: But this is an authority running this service?

MR. CLARKE: It is the Illinois Commerce Commission, I believe. I don't know that there is a city authority.

SENATOR HILLERY: They rent the track service and supply the cars?

MR. CLARKE: No, I don't believe so.

MR. REDMAN: This is not our understanding of it.

SENATOR OZZARD: Any questions, Senator Sarcone?

SENATOR SARCONI: No.

SENATOR OZZARD: Senator Kelly?

SENATOR KELLY: No questions.

SENATOR OZZARD: I understand Senator Stamler has one or two more.

SENATOR STAMLER: I have a couple more, Mr. Clarke. You testified before that on occasion you lend your credit to other companies.

MR. CLARKE: To the B&O where we have a 90 per cent

ownership.

SENATOR STAMLER: Well, have you ever lent any of your substantial credit to the Central Railroad of New Jersey?

MR. CLARKE: No, sir.

SENATOR STAMLER: Have they ever asked you for any?

MR. CLARKE: Not to my knowledge. I don't know how we could legally do it.

SENATOR STAMLER: Well, I believe, if I recollect, at Somerville when we had our first hearing, Mr. Frederickson testified that - well, I'll read it to you. It will be easier.

SENATOR OZZARD: Mr. Frederickson could be identified as being with the Jersey Central Railroad.

SENATOR STAMLER: He was with the Jersey Central Railroad. I don't know what his position was. But Senator Lynch was asking him some questions. He said with reference to losing money: "How about the parent company? Are they making money?" Mr. Frederickson said: "The Baltimore and Ohio is making money, yes, sir." Senator Lynch said: "Did you ever try and touch them for a loan?" Mr. Frederickson said: "We certainly did. We also tried the C and O, who as you know controls the B and O." Now it would seem to me from this testimony that some place down the line you could have saved the Central from its untenable position that we are now in with it and isn't that possible that you could have, by either extending credit by way of these companies or doing something to help them?

MR. CLARKE: I am afraid our stockholders, of whom

there are over 100,000 wouldn't sit still very long for that sort of an arrangement.

SENATOR STAMLER: Well, you don't go to your stockholders for everything.

MR. CLARKE: No, but they elect the board of directors and the board is responsible to them, the stockholders.

SENATOR STAMLER: Let me read to you, Mr. Clarke, a statement by Senator Williams, United States Senator Williams: "For example, the proposed mergers, the latest being that of the C&O and the N&W, are usually hammered out in the greatest corporate secrecy, without any indications to outsiders that such far-reaching actions are even being contemplated." That's in the Bergen Record of September 14, 1965. Now that appears to indicate that you don't go to your hundred thousand stockholders.

SENATOR OZZARD: If Senator Williams knows what he is talking about.

SENATOR STAMLER: I am assuming that he does. At least I haven't seen a contradiction.

MR. CLARKE: We went to the stockholders' representative, the board of directors, and it was only after our respective boards had authorized this proposal that we were able to talk to anyone else.

SENATOR STAMLER: One other question too along that line: You are sure you couldn't have saved the Central at any time with your interlocking interests?

MR. CLARKE: I don't know of anything that we could have done for them.

SENATOR STAMLER: Except loan them money.

MR. CLARKE: Again we are talking about our stockholders' money.

SENATOR STAMLER: All right. I'll go along with those hundred thousands.

MR. REDMAN: Senator, the Federal government had a proposal under which they would guarantee loans to indigent railroads. One of the qualifications or ground rules was that there must be a reasonable prospect of repayment. Now anybody that lends must have some kind of a reasonable prospect of repayment. And I am afraid, not being part of the operations of the C&O, that that hardly would be the case in the Central Railroad of New Jersey.

SENATOR STAMLER: Because of its bankrupt state or near bankrupt state?

MR. CLARKE: Yes.

SENATOR STAMLER: All right. Now you said that the five railroads had \$653 million in debt, the five we are now talking about.

MR. REDMAN: That's right.

SENATOR STAMLER: How much do they have in assets, rolling stock, tracks and this real estate, and try and separate the real estate for me - I am interested in that?

MR. REDMAN: Senator, I cannot give you that offhand. I have it here, but it would take quite a while to compile it and I'd have to check out what is real estate. The truth of the matter is in any corporate undertaking, the historical value of the physical assets is not the determining factor,

but the earnings that are generated in order to service the debt; that is, pay the interest and meet the principal as it matures.

SENATOR STAMLER: I would agree with that, sir. I am not a financier. But it could be possible that these five railroads could own \$653 million worth of real estate aside from that, as you pointed out - as Mr. Clarke pointed out - used for the operation of its lines. It could be possible.

MR. REDMAN: At book values, yes. But may I remind you, Senator - and I don't mean to say this to be argumentative --

SENATOR STAMLER: That's all right.

MR. REDMAN: [Continuing] -- but I mentioned that the debt of the Erie Lackawanna, which I now look at - I said it was between \$325 and \$330 million - at the end of 1964, it was \$334.4 million, that the market value at the market place where these bonds are traded or quoted placed at the last valuation I had made of this debt, a value of less than 60 cents on the dollar. So this is some reflection as to what the value of these properties may be, even though they may be on the books at certain sums.

SENATOR STAMLER: While I am not the chairman and therefore not permitted to make a comment, I'll just make this comment: It seems inconceivable to me that if I had an interlocking corporate ownership in a railroad which Mr. Clarke said is a public service, the commuter lines, that I would have done my dog-gonedest to save one, whether it be my brother or my cousin, from going bankrupt. And there was a

direct relationship in this instance between the Central Railroad of New Jersey and the C&O, which is doing pretty well. That's my comment.

MR. CLARKE: In response to that, I will merely refer to the old saying about throwing good money after bad. You can only go so far in that direction.

SENATOR STAMLER: In a public service.

MR. CLARKE: Our primary responsibility is to our stockholders.

SENATOR OZZARD: Aren't you going to be doing exactly the same thing now under your five-company setup?

MR. CLARKE: No, sir, because we are willing to gamble that we can build up the freight business to a point where we can make it profitable.

SENATOR STAMLER: You want an entrance into New York Harbor with this. That's what you want.

MR. CLARKE: We want a strong system in the East to compete with the New York Central-Pennsylvania.

SENATOR STAMLER: Actually you right now do not have an entrance into New York Harbor, either one of your two lines.

MR. CLARKE: No, we don't.

SENATOR STAMLER: This will give it to you and we are giving you quite an asset if we go along with this.

SENATOR OZZARD: Any further questions? [No response.]

Mr. Redman and Mr. Clarke, we want to thank you very much for the real help you have given us this morning. It appears that each time we have one of these sessions we get closer to the reality of the New Jersey Legislature having to

provide what I would call a Medicare system for ailing railroads and this seems to substantiate our earlier thought on this.

Thank you very much. You have been most helpful. We would like to feel free to call upon you later. We have many other witnesses over the next several months that we are going to talk to and there may be questions raised which you can afford us information on and we would like to feel free to call upon you.

MR. CLARKE: We would like to thank the Committee for the opportunity to appear.

MR. REDMAN: Thank you also for your courtesy and your questions.

SENATOR OZZARD: I have Mr. Wood and Mr. Kendler next, but first we will have a five-minute recess.

[Short Recess]

SENATOR OZZARD: Will the hearing come back to order, please.

Mr. Wood, please, of the Brotherhood of Railroad Trainmen. This is Gilbert B. Wood of the Brotherhood of Railroad Trainmen. Is that correct?

MR. WOOD: Yes. I am State Legislative Representative. Do you want my address?

SENATOR OZZARD: For the record, yes, please.

MR. WOOD: I reside at 34-06 Norwood Drive, Fairlawn, New Jersey, and I am not an attorney.

G I L B E R T B . W O O D : This is a brief statement, Senator, that originally was drafted - it might be some of those copies I had wherein only my name was included - but in order to save time of the hearing and in view of the fact that the gentlemen I work with in the other organizations are of the same mind, I changed the statement to include, with their permission, their concurrence, so they won't take up your time.

This is the statement of G. B. Wood, State Legislative Representative, Brotherhood of Railroad Trainmen, before the Senate Committee holding hearings to determine the advisability of creating a transportation agency in the State of New Jersey.

This statement is also made for and with the concurrence of the Brotherhood of Locomotive Firemen and Enginemen, the Brotherhood of Locomotive Engineers, the Brotherhood of Railroad and Steamship Clerks, and the Brotherhood of Maintenance of Way Employees.

For many years there has been appointed committee after committee for the purpose of investigating the needs of the railroads and the commuters of the State relative to essential and adequate transportation and the net results of all these committees, the time, and the money spent down through the years has been wasted effort and money down the drain, as there has been very little accomplished as a direct result of the committee recommendations, and those recommendations that might have been of use would cost the State and the people of New Jersey so much money that they were

not acceptable.

With the advent of the commuter service contracts as a result of the action of the Legislature in 1960, the railroads were given some financial relief which kept the service going through the efforts of the Railroad Division of the New Jersey Highway Department, but each year the funds for this service have had to be increased, and now added to that, we are making efforts through Federal agencies to secure more money in order that the trains will continue to run.

We are in accord with all the assistance that has been granted to the carriers for without that help there is no question that many of our members would not now have employment. And we are equally aware of the needs of the carriers and have at times assisted them in their efforts to secure this aid as well as trying to stop legislation that would cripple their freight income.

There is one thing that we are unable to understand, and that is, as these various committees are appointed year after year, at no time do we have any record of the Railroad Brotherhoods having any representation on them. It is either a large group of industrial presidents, bankers, economists or college professors, and well that should be in view of their great knowledge of business, but never is there a representative of labor.

There is no doubt that all of these men that have been mentioned are well versed in the fields of finance and engineering, but we are of the opinion that there should be representatives of labor on these committees, for they do have many

years of practical experience that would in many instances no doubt be of great help to the committees as well as providing information wherein pitfalls might be encountered from a labor viewpoint that could save valuable time and money in the long run. And in addition thereto, these labor representatives might provide many valuable pages of information relative to the physical characteristics of a particular property that could save millions of dollars in unnecessary costs.

We respectfully urge your Committee to consider placing on any agency that is created within the State for the purpose of handling rail transportation, representatives of some of the classes that we are representative of, in order that the Committee will have the use of the knowledge and the experience heretofore mentioned.

We thank the Senate for the time extended to us at this hearing.

It is signed by myself; William H. Brown, State Legislative Representative for the Brotherhood of Locomotive Firemen and Enginemen; Arthur Coughlin, State Legislative Representative for the Brotherhood of Locomotive Engineers; Henry P. Schmidt, State Legislative Representative for the Brotherhood of Railroad and Steamship Clerks; and Anthony Vincent, State Legislative Representative of the Maintenance of Way Employees.

Mr. Senator, we are vitally interested in the creation of some agency to handle the transportation problems in this State. We are willing to do everything possible to help these agencies. Now, as I stated, down through the years there have

never been any representatives of labor on these committees that have investigated the possibility of creating better service to the public. But in one instance, we did have one just a few years ago who was appointed to work with the Railroad Division of the Highway Department, one of our local representatives, Mr. Harold Kendler. We think he did a very productive job while he was with that department. He left there recently for reasons of his own, which I am sure that he will tell you about when he takes the stand here.

We sincerely hope that you will give consideration to our request to put some of our people on these agencies, to see if they can't help. Perhaps some way, some place or some time, we may have some of the answers that you are looking for that you are not going to get through these masses and volumes of figures that keep piling up before you. That is all we urge, that is all we ask, and we feel we can help. We ask your help.

SENATOR OZZARD: Thank you, Mr. Wood. I am sure that your statement isn't meant to be a criticism of the structure of this Committee.

MR. WOOD: It is not.

SENATOR OZZARD: As you know, unfortunately, you don't have a Senator from the Brotherhood so you couldn't get on this Committee if you wanted to.

MR. WOOD: I think you should know, Senator Ozzard, that we are in favor of an agency of this type.

SENATOR OZZARD: That is what I wanted to ask you, Mr. Wood. You have attended - I think you have been at all of

our hearings so far or most of them.

MR. WOOD: All but one. I missed the first one. I had another hearing that day.

SENATOR OZZARD: You heard the railroad representatives make suggestions that there be an agency created to operate the commuter service in the State of New Jersey. I gathered from one statement in your prepared statement and from what you have just said that the Brotherhood of Railroad Trainmen is in agreement with this proposal?

MR. WOOD: I would say we are in agreement with it because, after all, if the railroads keep running, our people keep working and it all works toward the betterment of the economy of the State as well as probably keeping a happy situation between the people we represent and the people that you represent.

SENATOR OZZARD: Does the Brotherhood have any suggestions - has it given any consideration to methods whereby the railroads in the passenger area could reduce costs, particularly in elimination of some jobs and increasing efficiency in others?

MR. WOOD: I believe, Senator, that when Mr. Kendler takes the stand he will be in a position, based on his experience with the Railroad Division of the Highway Department and the knowledge that he has acquired since that experience started, to answer those questions for you much better than I would.

SENATOR OZZARD: Fine. Are there any other questions of Mr. Wood?

SENATOR STAMLER: I just wanted to find out - if an authority is established, are you suggesting from your testimony that a member of the authority shall represent labor, more particularly labor-connected with the railroad industry?

MR. WOOD: I would suggest and recommend at least one.

SENATOR STAMLER: That is, I think, what you meant by the membership on the commission.

MR. WOOD: I believe we have very capable men in our organization that can do a very capable job if they are given the opportunity. They haven't been given any opportunity heretofore. And, as I say, I mention these committees - if I have one, I must have 20 or 30 books that were compiled through the past 40 years wherein they want to do so many things with these railroads to carry the public. They have just about done everything but take them up in an airplane and bring them down in a train. Then they come out and the cost of doing these things is so much that eventually they are not used. But at all times and never has there been to my knowledge any labor representatives in there for what suggestions, advice or help they might give, and this is what we are trying to do. We think it is a problem that we are all interested in and in order to be interested in it, at least we would like to have a voice in what is going on. Perhaps we can help. If we can't, we haven't lost anything.

SENATOR STAMLER: Which railroad did you work for?

MR. WOOD: I worked for the original Hudson and Manhattan Joint Electric Service with the Pennsylvania Railroad and now, of course, as you know, it is the PATH Corporation and

I hold my rights there since April 26, 1927, and I still hold my rights there.

SENATOR STAMLER: In other words, if you went back to work, you would go back to work for the Port of New York Authority?

MR. WOOD: That's right, as a conductor.

SENATOR STAMLER: Well, that's a promotion.

MR. WOOD: I might have less headaches than I have right now. Nevertheless, they are doing business there and once again you have a situation where it is tying in with what the State is trying to do between the Aldene Plan and everything else and eventually they may have some answers too.

SENATOR STAMLER: Do you know what the Aldene Plan is?

MR. WOOD: Well, I have some knowledge of it.

SENATOR STAMLER: Do you like it?

MR. WOOD: I like it very much because I think it is the only thing that is going to keep the Central Railroad from going out of business. And although many of our members were critical on the other roads because of the fact that - well, you just can't have your cake and eat it - and I am in a position where I am representing people from every property and I just can't help one and let the other one go out of business. I think that the Aldene Plan has very many good points and it is probably, as I said, going to be the only thing to keep the Central from going away.

SENATOR STAMLER: That and the C&O.

MR. WOOD: Well, I am not speaking for the C&O. I

don't know enough about it, Senator.

SENATOR OZZARD: Senator Sarcone, any questions?

SENATOR SARCONE: No.

SENATOR OZZARD: Senator Kelly?

SENATOR KELLY: No questions.

SENATOR HILLERY: I would like to ask Mr. Wood through you, Mr. Chairman: Do you prefer that an authority take over this operation in the State?

MR. WOOD: Yes, I do.

SENATOR HILLERY: You think it is a good idea.

MR. WOOD: I think it is a good idea.

SENATOR HILLERY: Commuter and freight?

MR. WOOD: Especially freight, if they want to make money on freight, to offset the passenger losses. I don't see why it shouldn't all go into the same pot. I don't believe in a separation there.

SENATOR HILLERY: Thank you.

MR. WOOD: Their franchise, I believe, once they start to run - their franchise should cover both aspects. And in doing that, perhaps it won't cost the State as much as it would otherwise.

SENATOR OZZARD: Senator Lynch?

SENATOR LYNCH: No questions.

SENATOR OZZARD: Mr. Wood, thank you very much.

MR. WOOD: Thank you very much.

SENATOR OZZARD: Mr. Harold Kendler, please. You have a longer statement than the 26,000 miles of merged railroads.

MR. KENDLER: Well, Senator, you may need every word of

it.

SENATOR OZZARD: Do you want to present it at length, Mr. Kendler - I don't know the content - or do you want to summarize it? How do you want to handle it?

MR. KENDLER: I have prepared it as briefly as I know how, covering aspects of the subject you now have under consideration and it was designed in its construction for that purpose.

SENATOR OZZARD: Very fine. Do you want to identify yourself fully for the record?

H A R O L D K E N D L E R: I am Harold Kendler, Legislative Representative and Local Chairman, Lodge No. 946, Brotherhood of Railroad Trainmen. I reside at 1599 Oliver Street, Rahway, New Jersey. Our business office for this lodge is located at 254 West 31st Street, New York City.

Mr. Chairman and Members of the Committee: I am Harold Kendler, Legislative Representative and Local Chairman, Lodge No. 946, Brotherhood of Railroad Trainmen. Our membership are passenger train service employees - conductors and trainmen employed by the Pennsylvania Railroad on long-line and suburban passenger service trains operating in the States of New Jersey, Pennsylvania, Delaware, Maryland, New York (Pennsylvania Station) and the District of Columbia. From January, 1962 until May, 1965, I was Operations Chief for the Division of Railroad Transportation, New Jersey State Highway Department. Between 1949 and 1962, I held various Brotherhood offices inclusive of appointment by the Brother-

hood's Chief Executive as Special Representative for the 5 years preceding my service with the aforementioned State agency. I was employed by the Pennsylvania Railroad in March, 1941 and I continue to hold seniority as a passenger conductor and passenger trainman which service was interrupted during World War II when I served with the United States Marine Corps from 1942 to 1946, with principal duties in aviation operations.

I am honored by the privilege of having the opportunity to express to you our interest in the work and planning to preserve and improve mass transportation facilities in New Jersey.

Respective residential, commercial and industrial growth in New Jersey are inextricably linked with each other and with a transportation system that will provide the expeditious movement of people and goods in a convenient, fast and economical manner. As a chain is only as strong as its weakest link - the "links" that bind the State's economy, and the general welfare of the people who live and work therein, with our air, highway and rail transportation facilities, must be strong, and strengthened as circumstances require and permit.

The most immediate danger to our transportation "linkage" is no secret; it is our railroad passenger service and, in particular, our railroad commuter service. This Honorable Committee has received testimony from officers of the principal railroads engaged with providing commuter services in New Jersey and they have all attested to the fiscal point of view

that the short haul, twice-a-day rail carriage of passengers has been a deficit generating operation of critical proportions, and continues to remain critical. It is most clear the railroads would prefer to divest themselves of commuter service under these circumstances.

There can be little doubt that if New Jersey's passenger-carrying railroads had been left to their own devices, there would have been little relationship between the amount of commuter services they would have continued to operate and the passenger train service they now provide under the Highway Department's "Passenger Service Contract Program."

The Transportation Act of 1958 permitted the Interstate Commerce Commission to act favorably on applications from railroads to eliminate passenger trains by reason of deficits, as represented by the carrier petitioners, incurred by their passenger service operations. As a result of this Act the needs and convenience of the public were no longer a principal criteria for the Federal Agency to render judgment. It was precisely this Federal Act that led to the total discontinuance of passenger service on the West Shore Division of the New York Central Railroad which forced some 4,000 daily commuters, principally from Bergen County, onto our roads and highways which were already supporting vehicular traffic in excess of designed capacity.

However, this rail service elimination served to alert the Executive and Legislative Branches of our State government to the fact that all rail commuter services would

probably soon follow the path of the West Shore Division unless the State acted to halt this service erosion in a quick positive manner. Legislation was promptly adopted which resulted in the creation of the State agency that now administers financial support of railroad commuter services as a "stop-gap" measure intended to preserve and improve service while a more permanent solution to the problem was being developed.

If there is agreement on nothing else, there remains one indisputable fact - the State's subsidy of commuter service stopped the railroads' flood of applications to eliminate passenger trains. Essentially, from 1960 to 1965, passenger service, per se, was preserved and commutation fares were not increased.

By examination of other governmental interest in commuter transportation, we find the City of New York owns and operates its subways and bus routes. The State of New York involved with the Long Island Railroad since 1954, appears committed to the purchase and operation of this line which carries more commuters than any other railroad in the country. The City of Philadelphia, and adjacent counties, contracts for service with the Reading Company and the Pennsylvania Railroad which also includes financing arrangements that have provided its service areas with the newest and most modern coaches operating in commuter service today. The State of Massachusetts organized its Bay Authority to provide rail and bus transportation deemed essential. The San Francisco Bay Area Rapid Transit will provide a 75-mile

long transit service. The administration of Federal funds by the Housing and Home Finance Agency as grants for transportation projects, the Mass Transit Act and the resultant work of the Department of Commerce on the proposed Boston-New York-Washington high-speed railroad are some of the more prominent efforts of government in public transportation.

In New Jersey, it was joint State and Federal funds that implemented the successful Park and Ride Station on the Pennsylvania Railroad in New Brunswick. I take some personal pride in this venture in that I was a principal in its creation, design and service. Five hundred to six hundred passenger trips per work day are recorded using the facility, and the parking area for 300 cars has experienced capacity use several times.

The Aldene Plan involving the re-routing of Central Railroad of New Jersey trains from its main line near Cranford and its North Jersey Shore service to Pennsylvania Station, Newark, will be a basic improvement in service of a permanent character made possible only through the availability of State and Federal funds. However, there are aspects of the Aldene Plan, in my opinion, that should be refined. In particular, at Newark, until the Port Authority Trans-Hudson Corporation demonstrates its ability to carry the added patronage between Newark and Hudson Terminal during the peak commuter period, provisions should be made, when the plan is initially implemented, for four Jersey Central peak-hour commuter trains, two off the main line and two from the Jersey Shore, to be operated through Newark via the

Pennsylvania Railroad's Jersey City Branch, by-passing Journal Square, be diverted over existing cross-over tracks to the freight route through Harsimous Cove into a presently unused area that can support at least three storage tracks adjacent to Exchange Place, Jersey City, which would be three minutes via the "tubes" from Hudson Terminal and from which point the trains would have available capacity for passengers from these Jersey Central trains. The evening peak period should support the same operations in reverse.

Returning to our subject, on the Erie Lackawanna Railroad the integration of the Boonton Line and Greenwood Lake Branch, inclusive of the re-routing of former Erie Railroad main line trains at Paterson to the grade-separated former D L & W Railroad route to Hoboken (which also permitted the tracks at-grade that bisected the business section of the City of Passaic to be removed), were also betterments made possible only with public funds.

The means to preserve and improve public transportation appears most clear. It can be done and will be done only with public funds administered by governmental agencies.

There is little point to review the circumstances that led to the deterioration of commuter service and the railroads' representation of their inability to support this necessary public service. A comprehensive report would require volumes that would cover over a 100 years of our country's history and the corporate history of the railroads. Our enlightenment would not change our present problem one iota.

The railroad carriers of commuters will not and/or cannot continue to operate commuter trains without subsidy. These railroads will not and/or cannot continue to operate commuter services much longer under the present State passenger service contract program which they profess does not satisfy their needs to continue the service. The railroads have made these positions evident and there is every reason to believe that unless there is quick governmental action they will terminate these services as quickly as they can.

The question is: Does this Honorable Committee have any idea just how fast these railroads can terminate their commuter trains? Let the Committee be aware of the possibility that it can be done within six months, no later than a year. Just examine the commuter service equipment of any railroad in New Jersey. Their coaches are anywhere from 30 to 50 years old. They are no longer efficient to operate and not as comfortable to ride in as they should be, but they are maintained for the public to use safely. Less of an effort by the railroads, or their inability to secure replacement parts, and you would soon see coaches that could not be used by the public. A regulatory agency could order a railroad to operate a passenger train, but if there are no engines or coaches available for safe operation, what then? Would the same regulatory agency supply the funds necessary for needed repairs? Could it be done under existing statutes? -- and from this hypothetical impasse the service would start to vanish.

It is respectfully suggested to this Honorable Committee

that time is of the essence in so far as finding a means to resolve the State's transportation problems. Under the circumstances it is recommended for your consideration that a State Department of Transportation be created and endowed with authority to own, operate and/or contract for railroad commuter services necessary to the essential movement of people and goods intra- and inter-state. Such an agency should be provided with adequate appropriations for service operations. Specific capital improvements and acquisition of rolling stock would be financed by revenue bonds which could be satisfied by rail service revenues captured by the new agency. Class I, II, and III railroad taxes were reviewed by the State Tax Policy Commission last year, which resulted in some revisions of the railroads' tax structure. With the creation of the suggested agency, the tax relationship between State, county and municipal government would no doubt require reconstruction to preclude undue hardship upon the local levels of government who can little afford the loss of present railroad ratables, and the Tax Commission would further review the subject in this light. The proposed agency should be headed with personnel of professional railroad experience to comprise no less than a tri-partite commission consisting of a principal with a background of railroad management, another with a background of labor and a third with a legislative background, representative of the State's Legislature. By this organizational construction important facets of mass transportation would be represented in the public interest - operations, planning, fiscal responsibility, and legislative safeguards. It is my

strongest recommendation to this Committee that the Legislature consider adoption of legislation for the creation of a mass transportation agency on a basis that it be headed by a Commission, as suggested, in order to effectuate maximum satisfaction to the public for the service that will be provided and a free flow of information necessary to the judicious exercise of judgment upon the plans and efforts of such a Commission.

Auto-bus common carriage of passengers and commodities are additional areas of mass transportation that should come under the jurisdiction of the proposed agency. However, the Board of Public Utilities Commissioners should not be discarded by any consideration of a new transportation agency. The PUC's regulatory powers will provide added insurance for the adequacy and safety of the mass transit services that will be developed and adopted by the new agency. The retention of the PUC is mandatory and under no circumstances should this Board's functions be lessened except with respect to the scheduling of bus and rail services which could be best coordinated under the new Commission.

It would be well to point out that railroad labor has no designs to impede or harass improvements in the industry, technological or otherwise. All elements of our society should profit by the best system of transportation that can be developed. But the equities of labor are no less important than the objectives of railroad management, governmental agencies or the public who shall patronize the service. Railroad labor does not choose to be a sacrificial lamb in

the development of new transportation systems and there is no reason why any transition from the old to the new cannot be accomplished in an orderly fashion that will offer equally the gains to be derived from transportation improvements - to railroad management, railroad labor and the general public. While many new developments cannot be all things to all people, we believe that with the legislative construction of a new transportation agency and the anticipation of new and improved services, provisions can be made to save all parties from unwarranted and arbitrary harm.

It is also respectfully suggested that there are many areas transportation-wise that merit further exploration and development which the suggested new agency could advance. Some are herewith presented:

Initiate a rail commuter service between Toms River, New Jersey, and Pennsylvania Station, New York, serving Lakehurst, Lakewood, Farmingdale, Eatontown and Newark, where convenient transfer to PATH service is provided. The proposed route is the same now used by Pennsylvania Railroad-North Jersey Coast trains between Pennsylvania Station, New York, and Red Bank, New Jersey. At Red Bank the proposed service would divert to the tracks of the Central Railroad of New Jersey to Lakehurst and Toms River.

Presently the Jersey Central trackage is devoted solely to freight service, but its signal system is Central Traffic Control. Between 1929 and 1941 the route between Red Bank and Lakehurst accommodated high-speed passenger service and only the right of way would require upgrading to provide a

high-speed commuter service for the continual residential and commercial growth being experienced in Monmouth and Ocean Counties. Initially it is proposed that the service be implemented with two morning east-bound trains and two evening west-bound trains on week days, with one round trip on Saturdays, Sundays and holidays. In addition to satisfying commuter demands for a new high-speed service in this periphery, resort communities at Lakewood and Toms River would receive renewed and increased patronage under the proposed schedules. From 1950 to 1960 the population of Lakewood Township increased by 48 per cent, Lakehurst Borough 83 per cent and South Toms River Borough 225 per cent. Surely a demonstration project to test a new commuter service in this territory is in order.

The location of a Jetport in New Jersey will prove of the greatest economic and social benefit to the State of New Jersey.

Suggested sites at Bearfort Mountain-Bowling Green and the Pinelands have been rejected for various reasons inclusive of the lack of adequate ground transportation facilities. Morris County, recommended by the Port of New York Authority, has been permanently rejected by legislative action.

It is suggested that the Jetport be located over the electrified Pennsylvania Railroad within an area bounded by Plainsboro, Monmouth Junction, Dayton and Cranbury, about 15 miles southwest of Raritan Bay. This area is now largely agricultural and would permit land acquisition at a relative minimal cost. Construction costs would also prove relatively

minimal. It is understood that excavation and grading operations could be performed economically and all excavated materials could be used as fill material. No stabilization of the underlying soils would be required. Under high-speed rail schedules the Jetport would be reached from New York in 25 minutes; Newark, 19 minutes; Philadelphia, 25 minutes; and Washington, C. D., 115 minutes. Where air traffic is disrupted by weather or other cause, this arrangement of complementary rail service would allow for the most expeditious and convenient movement of passengers to an alternate airport or to their destinations. Air freight commodities would also be offered services comparable to the handling of passengers. Two existing access roads, State 522 and the Princeton-Plainsboro-Cranbury Road are east-west arteries located north and south of the site, respectively, and would connect with principal north-south routes - New Jersey Turnpike, US 1 and US 130. Ready access to NJ 33 and proposed Interstate 95 are also factors in the surrounding highway complex. The feasibility evaluation of the site relative to airspace should be considered in the light expressed by the Port of New York Authority consultant in support of the Morris County recommendation. Ground transportation services for a major airport is most significant to the potential utilization of the Jetport by the public. This proposed location will allow rail feeder transportation service to supply the fast minimal-time-consuming ground journeys sorely needed by the Metropolitan area's airports now. The proposed joint high-speed railroad and Jetport terminal will satisfy modern air and rail transport

needs in this area for the foreseeable future.

Under this suggestion both the Jetport and the proposed high-speed rail service would be placed in the best possible position regarding the justification of devoting public funds for the development of improved transportation in the public interest. Multiple interest by Federal and State agencies to this suggestion would doubtlessly serve to reduce costs that would otherwise not be possible if the Jetport and the high-speed service were developed as separate entities at unrelated locations.

Enough for the moment of transportation suggestions. There are other matters to be considered.

As State interest grows for the protection and improvement of commuter services, there is another factor to be considered if the State's investment in mass transportation is to be safeguarded. It is suggested that the time is apropos for legislation that will require protection of present rail passenger fares from becoming placed beyond the competitive relationship with the Port of New York Authority Trans-Hudson crossings. Companion legislation is suggested for both the States of New Jersey and New York that would establish a direct relationship with railroad fares for PATH service and tolls for tunnels and bridges. If fares are to be increased, then the tolls should be increased in similar amounts, decreases to be treated similarly. Where the State supports a commuter service, such fares should be likewise geared to Port of New York Authority tolls. Throughout the last three decades when rail passenger fares were increased there was always a

resultant loss of patronage. The fact that the Port of New York Authority's tolls for trans-Hudson crossings have not increased in basic cost per passenger vehicle since the opening of the Holland Tunnel in 1928 has proved a major influence for traffic diversion from the rails under the circumstances aforementioned.

Another sphere of railroad service that should come under the jurisdiction of the proposed State Transportation Commission involves freight service from shippers and to consignees located along railroad right of way. There is reason to believe there are a considerable number of examples where delayed delivery and/or pick up of freight cars from and to industrial sidings have increased production and transportation costs for such customers of the service - that delays are principally caused by supervisory forces of the railroads implementing what they understand to be economics in industrial switching operations. Apparently there is substantial cause to believe this situation has caused rather extensive diversion of tonnage from the railroads to trucks, which in turn adds to the traffic congestion on our roads and highways and materially increases costs of maintenance and repair of our State's vehicular arteries. We suggest that the proposed agency be empowered to assist the industrial and commercial interests in New Jersey who ordinarily prefer to use railroad freight services.

In the public interest, the proposed agency should be authorized to require the railroads to provide industrial switching services and intrastate freight movements unencumbered

by excessive delay and unwarranted cost to shippers and/or consignees.

May I reiterate, a State agency for transportation is regarded as an urgent need. Said agency should be administered by a Commission consisting of no less than a representative of railroad management, labor and the State Legislature, respectively, and for reasons reflected in the aforementioned.

Again, our sincere appreciation for this opportunity to appear before you.

SENATOR OZZARD: Senator Stamler.

SENATOR STAMLER: You were with the Division of Rail Transportation three and one-half years.

MR. KENDLER: Yes, Senator.

SENATOR STAMLER: You have a lot of ideas in here.

MR. KENDLER: Yes.

SENATOR STAMLER: Some of them are new.

MR. KENDLER: -- as far as you are concerned.

SENATOR STAMLER: Well, as far as I am concerned. I can't speak for anybody else.

MR. KENDLER: They have never been publicized if that is what you are asking.

SENATOR STAMLER: That is what I meant. Now in the three and one-half years you worked for the Division of Rail Transportation did you make any of these suggestions to either Commissioner Palmer or Mr. Thomas of the Division of Rail Transportation?

MR. KENDLER: They were prepared while I was with the Division of Railroad Transportation and they were offered

through normal office channels.

SENATOR STAMLER: What does that mean?

MR. KENDLER: Well, to my most immediate superior, to Mr. Thomas.

SENATOR STAMLER: Well, that's Mr. Thomas. Mr. Palmer never discussed these ideas with you, did he?

MR. KENDLER: I never discussed it with him directly.

SENATOR STAMLER: No. I said Mr. Palmer never discussed it with you.

MR. KENDLER: Not that I recall at this time.

SENATOR STAMLER: In the three and one-half years that you were with the Division -- Incidentally, why did you leave?

MR. KENDLER: I think the proper source of such an explanation should come from Trenton rather than from me. I expressed certain views and I do not think that this is the proper circumstances to comment on them, if you don't mind.

SENATOR STAMLER: I don't mind, but I don't understand what you meant. I don't understand that at all.

But in the three and one-half years you were there, did you propose this Cranbury Jetport bit?

MR. KENDLER: Yes, I did.

SENATOR LYNCH: May I ask what that has to do with a rail transportation situation, a Jetport?

SENATOR STAMLER: Well, I can assume, Senator, that it did because he was discussing the operation of a high-speed rail service from that area to the Metropolitan area. I have assumed that.

For instance, what other rail improvements, other than

these you have now mentioned, did you discuss with Mr. Thomas?

MR. KENDLER: Well, I have already expressed the view with respect to South Jersey.

SENATOR STAMLER: Well, let's get up here. Let's come closer.

MR. KENDLER: Well, actually, it was during the period where after authority was given for the elimination of the Jersey City Branch on the Pennsylvania, I thought that the Jersey City Branch which was elevated through Jersey City and terminated at Exchange Place should have been retained in service to assure the public of a good transportation alternative in the event there was any problem with the main line operating to Pennsylvania Station New York. I also felt that it was a good artery for other railroad operations, such as from the North Jersey territory, such as the Northern Branch of the Erie Lackawanna or the New York, Susquehanna and Western, to extend their routes so they would have a good trans-Hudson crossing from Exchange Place. They could extend those routes through the West Shore route to National Junction that formerly existed onto the Jersey City Branch at Jersey City and into Exchange Place, where the public then would have a three-minute trans-Hudson crossing. But the order had been given and service had been discontinued and there was no inclination to alter that position.

SENATOR STAMLER: Did you document this suggestion? By "documenting," I mean putting it in writing and submitting to your superior.

MR. KENDLER: I don't believe that I did that at that

particular time.

SENATOR STAMLER: Have you ever done it?

MR. KENDLER: Not for that particular suggestion.

SENATOR STAMLER: Have there been any other suggestions?

MR. KENDLER: May I take a moment and look at my file?

SENATOR STAMLER: It is all right with me if it is all right with the Chairman.

MR. KENDLER: I prepared a suggestion with respect to the reconstruction of commuter fares so that instead of being limited solely to tickets of a monthly character, that is, of the calendar month, that there would be multiple-ride tickets and people would have the opportunity to alternate their modes of transportation. For example, at New Brunswick, the Suburban Bus Line as well as Public Service offers the public multiple-ride tickets. The railroad only offers a monthly commutation ticket of fixed price. Now that means that the public has the advantage of holding onto their bus tickets and using them at their wish without any loss of value. But if they were to do the same with respect to railroad commutation tickets, they would lose the inherent value that exists only if they would use it continuously for the full month.

SENATOR STAMLER: You think that this would have increased commuter travel?

MR. KENDLER: Yes. It would not necessarily have increased round-trip travel by an individual commuter, but I think it would have increased commuter travel because those people from New Jersey who would desire this service in one direction by rail and return by bus would find a relative

component in the opposite direction. I think the over-all effect would have been an increase in commuter travel.

SENATOR STAMLER: Are there any other ideas that you gave to Mr. Thomas?

MR. KENDLER: I am sorry. At this time I can't recall beyond this.

SENATOR STAMLER: About this Aldene Plan - did you participate in the setting up of the Aldene Plan?

MR. KENDLER: I was a party to some of the service requirements, as it got to be understood. In other words, the Aldene Plan, particularly on the Jersey Coast service, which is operated by both the Jersey Central and the Pennsylvania, had to be realigned in a sense or re-evaluated in the light of what the objectives were for the Aldene Plan: number one, to protect the essential service; number two, to maintain or improve the service; and number three, to effect such economies as could be made. In other words, there was a definite thought to eliminate trains that were little patronized. Naturally, while a train may be little patronized, it may be essential for the few people that use such a service. So it had to be evaluated in that sense as well.

At any rate, there was a new rescheduling of a so-called joint operation or a one operator over the North Jersey Coast service. I participated in that work.

SENATOR STAMLER: Well, does the North Jersey Coast service dovetail with the Aldene Plan except at Newark?

MR. KENDLER: That is part of the Aldene Plan because from Perth Amboy the Jersey Central under the Aldene Plan would

no longer divert to its present route as it is now operated to Elizabethport and it is designed that all services coming from the Jersey Coast would operate along the present Pennsylvania route, which operates via Rahway, Elizabeth and Newark.

SENATOR STAMLER: But was the dovetailing necessary at Newark because of the additional trains, let's say?

MR. KENDLER: Are you speaking of dovetailing of trains under a new schedule arrangement?

SENATOR STAMLER: Well, I assume that under the Aldene Plan the trains will eventually get to Penn Station in Newark.

MR. KENDLER: Yes. It required a readjustment of schedules of Pennsylvania Railroad operations and also to include the so-called main line service which was to be diverted at Cranford via the Lehigh Valley Railroad and then diverted to the Pennsylvania at Hunter or "NK" on the Lehigh Valley Railroad and that was added traffic on the Pennsylvania Railroad main line for an area two miles or a mile and a half west of the present Newark Station. So you would have all this additional traffic at Newark Station.

SENATOR STAMLER: You think that eventually when the Aldene Plan is completed, this traffic will flow smoothly from your knowledge?

MR. KENDLER: Operationally speaking - operationally-speaking, as far as the Pennsylvania Railroad is concerned, west of Newark, I believe that - at least the plans as I understand them would flow adequately. There are certain signal adjustments

as I understand it, will have been completed, that is, a double signal system so trains could be operated in two directions on at least one track that now can accommodate only trains in one direction. There would be added utilization of Pennsylvania Station which as you are probably aware of now has six tracks and presently only four of them are in service and this excludes the PATH tracks or the former H&M tracks.

SENATOR STAMLER: Now in the Aldene Plan, did you set up a new fare structure for commuters or for the commutation service or for the riding service?

MR. KENDLER: That was not developed while I was with the Division.

SENATOR STAMLER: There was no discussion of this at all?

MR. KENDLER: There were references made, but the operations was of singular importance and, frankly, that was the first work that was done. Of course, operations was secondary to the engineering and construction work. These were related to each other and these were the first two developments - what operations would be required and what construction would be necessary to accommodate the operations.

SENATOR STAMLER: For the moment leaving the Aldene Plan, in Morristown we had some testimony about a demonstration project. I don't remember what the Erie Lackawanna was going to do with the money, except there was to be some painting of some cars and other physical changes. Were you familiar with that demonstration project?

MR. KENDLER: Not intimately. It was under consideration

and partial development when I left the Department. Of course, I have read the report.

SENATOR STAMLER: No, while you were in the Department.

MR. KENDLER: No, I did not participate in it.

SENATOR STAMLER: At all?

MR. KENDLER: No, I did not participate at all.

SENATOR STAMLER: Incidentally, was there any other railroad man connected with the Department beside yourself - with the Division - I'm sorry?

MR. KENDLER: You mean with --

SENATOR STAMLER: -- with the Division of Railroad Transportation.

MR. KENDLER: [Continuing] -- with railroad experience before they came with the State agency?

SENATOR STAMLER: Yes.

MR. KENDLER: Yes, sir, there was one.

SENATOR STAMLER: Who was that?

MR. KENDLER: Mr. Robert Dey.

SENATOR STAMLER: Mr. Robert Dey?

MR. KENDLER: Yes.

SENATOR STAMLER: At page 11 of your testimony, you make mention of the PUC's regulatory powers. Do you think that the PUC's regulatory powers, if strengthened, would assist the commuter service?

MR. KENDLER: If it were strengthened in probably a more positive manner. Keep in mind that a basic function of the PUC relative to transportation matters is safety and not necessarily the full meaning of the word "adequacy" of service,

particularly since the development of the Division of Railroad Transportation. Now the Division has no authority with respect to implementing requirements upon the railroads relative to the safe operation of a train, except as you would normally judge that a car should have wheels, it should have brakes, etc. These we refer to as common sense. But I am speaking of specifics, such as the Safety Appliance Act - specifics with respect to manner of operation, grade crossings, stations, safety factors. This is a basic function of the PUC and I think it should be retained by them as a singular consideration. I think that would help insure a proper service.

SENATOR STAMLER: The last item you have at page 17 - you talked about raising the tolls in the Holland Tunnel and I assume the other trans-Hudson crossings of the Port of New York Authority.

MR. KENDLER: I didn't say raising them. I said it should be geared --

SENATOR STAMLER: -- equalized. I'm sorry.

MR. KENDLER: The thought there is this: The Port Authority with its tunnels and bridges has had a most diametrical effect against railroad commuter services because their tolls have remained constant. Every time you increased the commuter fares, one of the considerations that a commuter makes is what are his alternative modes of transportation and the costs inherent in such modes. Now here we have the Port Authority now owning and operating PATH. Let's look at that for a moment.

Now if the Port Authority can on its own action increase

fares, again you will wind up with a small operation that will be placed beyond the competitive norm if there isn't some relationship to their trans-Hudson crossings. What will be the guide here? Keep in mind also that the Port Authority has legislative safeguards and if the costs of operating PATH exceed 10 per cent of their general funds, etc. - I am sure you gentlemen are familiar with that relationship - the Port Authority will be empowered to divest themselves of that operation and then what happens? Now how are you going to protect your investment? The State has an investment now in all of this activity and will have a greater investment if this Committee and the Legislature act affirmatively to create some agency to throw financing into commuter services and your fares will have to go up. And if you look at the alternate modes of transportation, which again refers back to the trans-Hudson crossings, this is the only safeguard that we can actually point out.

SENATOR STAMLER: Then aren't you technically really and truly suggesting that with the deplorable situation that the rail lines are in, that part of it is that 50 cent toll - that if it were higher, more people might use - let's say if it were a dollar to cross - more people might use the rail lines rather than driving?

MR. KENDLER: No question about it.

SENATOR STAMLER: Well, you know what the Port of New York Authority surplus is right about now, don't you? - \$400,000,000.

MR. KENDLER: Which bank?

SENATOR STAMLER: Well, I don't know. -- beside the World Trade Center. Then you are suggesting therefore that before we can get this rail situation straightened out, this too is part of the basic problem.

MR. KENDLER: I think it is an essential safeguard for investment of public funds.

SENATOR STAMLER: Thanks very much, Mr. Kendler.

SENATOR OZZARD: Senator Sarcone?

SENATOR SARCONE: No questions.

SENATOR OZZARD: Senator Kelly?

SENATOR KELLY: No questions.

SENATOR OZZARD: Senator Hillery?

SENATOR HILLERY: Mr. Kendler, when the Port Authority acquired the Hudson and Manhattan Railroad, at the hearings that were held, I asked why they were not planning a spur into the center of Bergen County with a mass parking area and nobody would give me an answer. Is this because it would be competitive with the tolls?

MR. KENDLER: It is a matter of statutory limitation. There is no one that could say, "Yes, we can do it and will do it." You would have to change the construction of the statute under which the Port Authority has been created.

SENATOR HILLERY: But at the time I think about 70 per cent of the commuters were coming from that area, that concentrated area, and it seemed to me that this would have been a good idea to plan on that sort of a thing to keep the traffic off the roads.

MR. KENDLER: For that reason, Senator - there is no

question about it. This constant devotion of ratables to new highway construction does have its limitations and it has a detrimental effect upon the economy. This is where the true economy lies for the State's interest in preserving commuter service because you have to examine the alternatives. If the commuter service collapses in New Jersey and the people require transportation --

SENATOR HILLERY: You are not going to be able to --

MR. KENDLER: That's right. -- you are just going to effect the economy and you are just going to overburden your present road facilities.

SENATOR HILLERY: During your time with the Transportation Division, was there any planning for an over-all saving of the situation in New Jersey or was it simply on the basis of allocating the subsidies that were provided by the State?

MR. KENDLER: I would say, Senator, that there was planning to preserve the over-all commuter service within the State. I will certainly pay the highest tribute to Commissioner Palmer because in this regard he recognized that one basic limitation was financing and he was certainly down to see you gentlemen as frequently as possible, trying to secure such financing to advance some of the projects that were under consideration. I would say that one of the reasons why some of the projects considered by the office were not carried out was strictly because of the limitation of financing. You just had so much money to work with. Irrespective of the value of certain considerations, you simply

could not move off dead center.

SENATOR HILLERY: So the limitation for an over-all plan really was the lack of funds, right?

MR. KENDLER: Yes. That was a basic factor.

SENATOR HILLERY: I have another question. You brought out a plan here for a Jetport in South-Central Jersey or Central Jersey which correlated with rapid-transit service to Philadelphia --

MR. KENDLER: The high-speed service.

SENATOR HILLERY: [Continuing] -- the farthestest point being Washington and New York. Was this plan presented to the Division of Railroad Transportation of the State and when was it presented to the State? Was it before the proposals were made for the North Jersey ports?

MR. KENDLER: Yes, it was .

SENATOR HILLERY: It was.

MR. KENDLER: And re-presented after Senator Pell's plans were publicized and started to take formation for consideration.

SENATOR HILLERY: Why didn't you include in your recommendations here the encompassing of freight services too in such a transportation division? Do you have a reason for that?

MR. KENDLER: Yes, sir, I did. It has been brought to my attention that there are a number of industries within the State who are not, as you would generally describe it, heavy shippers or heavy receivers of freight. And it is my understanding that they have been subject to delays in securing cars to load or delays in receiving their commodities, their

freight commodities. The economics that I referred to in my statement was, for example, - an illustration was given to me not three weeks ago - where a number of cars were at a so-called freight yard. The destination was within 20 miles of that yard. But the crew assigned for delivery would have gone on overtime and they were ordered to hold it in the yard, that they could not go on overtime for any reason. So the next day the same situation was duplicated and the car was not delivered until the third day. Also if cars are not picked up from a siding after they are loaded or when they are empty, you have the same situation in reverse.

Another example existed where a consignee normally receives a complement of 15 coal cars. Well, the 15 cars did not come up on schedule and then it was doubled over at a later date so 30 cars were delivered, but he couldn't receive more than 15 and it then required additional switching operations to get the other 15 loads in. He was subject to additional costs.

These are the reasons why I feel there should be some legislative influence, some regulatory influence, upon this type of freight operations. Presently a shipper has one choice, and many of them have exercised it - they have gone to an alternate means of transportation.

SENATOR HILLERY: But you still believe that the freight should be handled by the railroads and the commuter service by a division of the government of the State of New Jersey?

MR. KENDLER: Well, let me clarify that. I believe basically in private enterprise where possible. I do believe

that the railroads fundamentally do a good job of carrying freight, the bigger the shipper, the better the job. It is the small shipper that in effect makes up a great part of the economy of this State that requires attention and there must be some means where an agency can go to a railroad and say, "Now, look here, this shipper or this consignee is having problems and we feel that it is not necessary to ship by truck. It can be handled adequately by freight. We want that service provided and protected."

With respect to passenger service, you are dealing with two areas of thought. Number one, you are dealing with the long-line service. Now you have already heard many representations with respect to long-line passenger service. The airlines are simply doing too good a job. Generally that would be a true statement, except that there are substantial exceptions. I notice Senator Grossi isn't here. That is unfortunate. But the New York-Miami, Florida service runs practically at capacity throughout the year. The limitations to that service are operational, not economic. In other words, the Atlantic Coastline and Seaboard Railroads to my understanding would like to have more trains at the Pennsylvania Station in New York. The Pennsylvania Railroad only captures such revenues as accrue from operations over their lines, which means that the bulk of the passenger revenues between New York and Miami goes to the Seaboard or the Atlantic Coastline. Their interest is limited by what they have to offer. Now they have a substantial position here that must be respected. How many engines can they devote to passenger service? They still have

other trains to move and they have other freight trains to move. Would these additional trains require them to purchase new engines? If that were to be true, then it would make the situation uneconomical.

The question is: Is it true? This I do not know. But it is a question that should be directed to them to determine the facts of the case.

So the point is that there are areas of long-line passenger service that are profitable to certain railroads in certain areas.

The next question arises: Can they be made more profitable, that is, more profitable in more areas? The answer is "yes," and apparently there is substance to it because the State of Pennsylvania has recently created an agency and one of the things that they want developed is to determine the feasibility of a high-speed service throughout the cross section or the middle of the state to Pittsburgh. Perhaps we will have some additional information about that.

But the point is that there is thinking that passenger service can be made profitable.

Now with respect to commuter services we have an entirely different problem. Commuter services on the basis of tariffs have a limited earning capacity because of the mileage involved - high cost of operating terminals - high taxes is another factor. I recall not too many years ago when the Pennsylvania Railroad on their own investment built two escalators at the Trenton Station. They wanted to improve the looks of the station. It cost them, as I recall, something like

\$158,000 and they received a lot of favorable publicity and it turned out to be a very fine thing, except at the end of the year Mr. Tax Assessor came along and said, "You are going to have to pay \$6,000 a year more on Trenton Station because it is an improved property." But with respect to the revenues, it didn't increase them one iota. So the revenues weren't increased - their cost increased. And this is a deterrent to advancing or improving your passenger transportation facilities.

SENATOR OZZARD: That makes sense.

SENATOR HILLERY: I just want to compliment you on your statement. I think it is a very constructive one. It is one of the best ones we have had in my opinion.

MR. KENDLER: Thank you, Senator.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: Speaking of the escalator at Trenton, when I was the mayor of New Brunswick, we forced the railroad to do the same thing in New Brunswick at a cost of \$140,000. Of course, they didn't want to do it. They didn't want to spend the money. The tax man came around and we told the tax man that the railroad didn't do this because it wanted to do it, but did it for you and me and everybody else who use that station and no taxes on it this year and it has never been taxed since, which is a fair thing.

I have a recollection that some time ago, probably while you were with the Department, a report or release came out of the Department indicating that the over-all cost of providing new and proper and efficient equipment for the commuter roads

in New Jersey was roughly estimated about \$80 million.

Do you remember that?

MR. KENDLER: Yes, sir. The over-all cost was \$126 million for the over-all improvement within the State.

SENATOR LYNCH: That would include --

MR. KENDLER: -- right of way.

SENATOR LYNCH: -- new facilities, electrification and signals?

MR. KENDLER: Yes, sir.

SENATOR LYNCH: So the over-all cost of a State agency getting into this business as its first start to restore equipment with new equipment, restore right of way, etc., would roughly be --

MR. KENDLER: -- \$126,000,000. That was estimated back in 1961, as I recall it. But I think, if I may comment, Senator, --

SENATOR LYNCH: Yes.

MR. KENDLER: [Continuing] -- that we should not be stymied by this large amount initially because the program itself, if you were successful in appropriating this amount of money and said to an agency, "Go ahead and go to it," it would take considerable time to implement it.

SENATOR LYNCH: I understand that.

MR. KENDLER: So the amount of money required should be prorated based on a program, a practical program, for implementation. Your most immediate need in commuter service unquestionably is equipment. Now how much equipment? Certainly it has its limitations. But we know to give relief, a percentage

of a fleet - now, for example, on the Pennsylvania Railroad, if memory serves me correctly, they have about 108 what they call multiple-unit red cars, which are the vintage cars, for commuter service operating in the so-called New York-Metropolitan area territory and between New York and Philadelphia. Now to replace them with cars of a new design - well, two cars of a new design will replace three cars of the old design because of larger seating capacity and they would be of modern construction, air conditioned, etc. Now this would cause other rearrangements so that where perhaps at a terminal - take New Brunswick has 35 or 38 cars assigned for storage purposes over night in order to start the service out in the morning - you would need a lesser number of cars. What I am bringing out is the need may not be as drastic to get this thing started. And as a matter of fact, I know that you are all aware that a program is being started because the current passenger service contract with the Pennsylvania Railroad to my understanding will be devoted to the purchase of --

SENATOR LYNCH: Two million dollars with matching funds from the Federal government.

MR. KENDLER: That is correct.

SENATOR LYNCH: One more question about your proposed Jetport site: Do you know that in that area at present there is under construction the Leisure Village World, so-called, which is going to house 40,000 people?

MR. KENDLER: That is the immediate area. But may I direct your attention to one factor. While human beings don't

have control over the direction of winds, the proximity to Raritan Bay, which would mean the minimal amount of time a large aircraft would spend over land areas, is also a primary factor in this suggestion. For example, look at Idlewild or look at LaGuardia in New York. Now where LaGuardia is located, actually requires some of these planes to cover larger land areas than the suggested site in Middlesex County. Now we understand that there are residential areas around this suggested site, but there are residential areas around any site and experience - and you can check this with the FAA people - if they selected a site presently uninhabited, you can rest assured within ten years it would be densely populated. The best example in this area is Idlewild. It was relatively uninhabited.

SENATOR LYNCH: Thank you for your very wonderful statement.

MR. KENDLER: Thank you.

SENATOR OZZARD: Senator Woolfenden?

SENATOR WOOLFENDEN: I have been very pleased with your presentation.

SENATOR OZZARD: Thank you very much for your presentation.

This concludes today's hearing. We will confer in a moment and set a date for our next hearing.

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