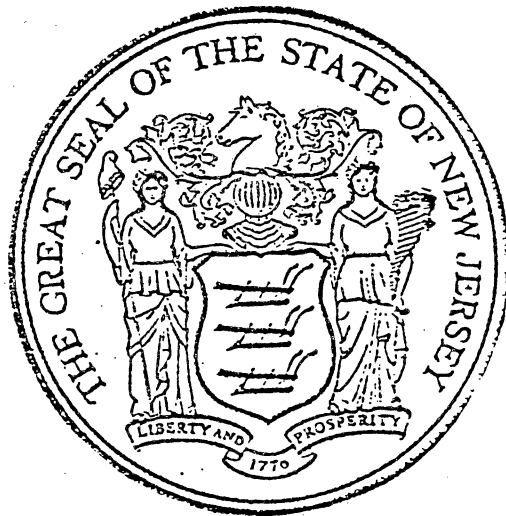


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BUS SUBSIDY PROGRAM

STUDY COMMISSION



STATE OF NEW JERSEY

REPORT TO THE LEGISLATURE

(pursuant to ACR No. 172 of 1976)

January 9, 1978

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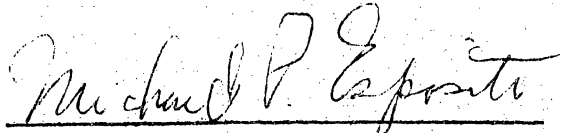
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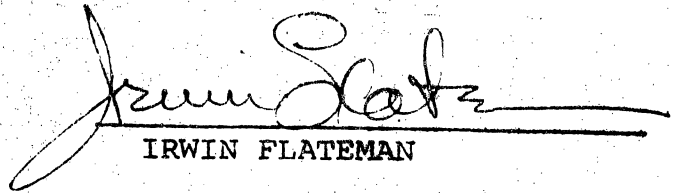
January 9, 1978

THE HONORABLE MEMBERS OF THE SENATE AND GENERAL ASSEMBLY  
OF THE STATE OF NEW JERSEY:

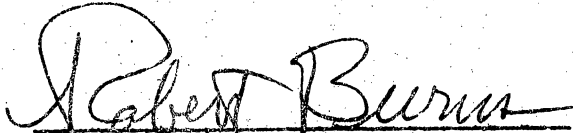
The Bus Subsidy Program Study Commission, created pursuant to Assembly Concurrent Resolution No. 172 of 1976, herewith respectfully submits its report in compliance with the terms of the resolution.



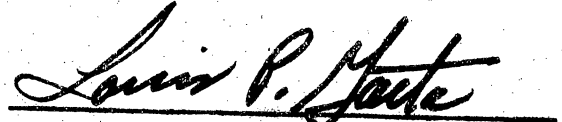
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Chairman



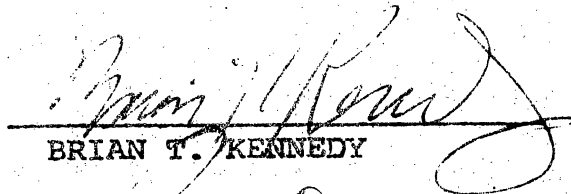
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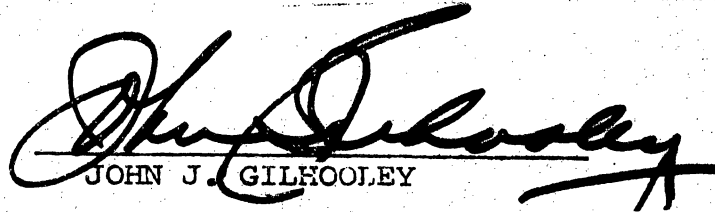
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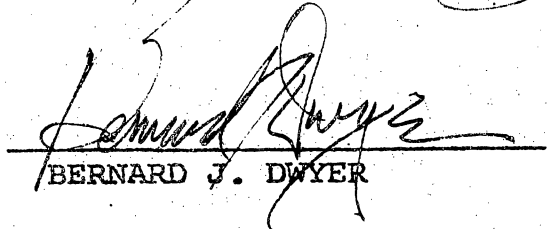
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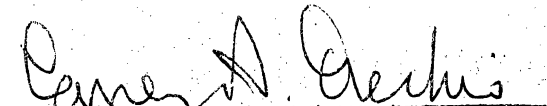


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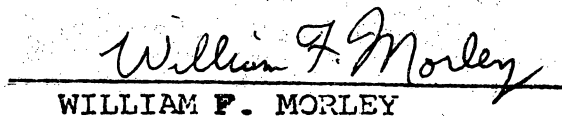


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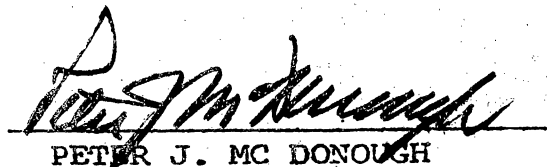
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JAMES LA SALA



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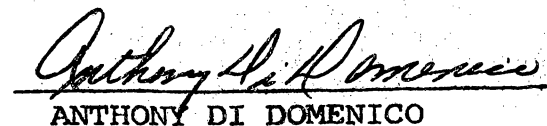
WILLIAM F. MORLEY



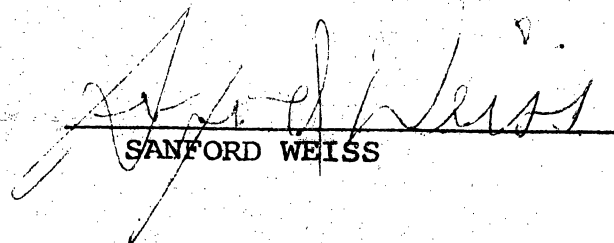
PETER J. MC DONOUGH



PETER STANGL



ANTHONY DI DOMENICO



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BUS SUBSIDY PROGRAM STUDY COMMISSION

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Assemblyman Robert Burns  
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STAFF

Laurence A. Gurman  
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Legislative Services Agency  
Secretary

ASSEMBLY CONCURRENT RESOLUTION No. 172

STATE OF NEW JERSEY

INTRODUCED MAY 20, 1976

By Assemblymen ESPOSITO, CALL, BURNS, DENNIS, RYS, ADUBATO, PERKINS, T. GALLO, JACKMAN, WOODSON, KEAN, HURLEY, CHINNICI, LEFANTE, MARTIN, GREGORIO, HOLLENBECK, PELLECCIA, BAER, KARCHER and SCANLON

(Without Reference)

A CONCURRENT RESOLUTION creating a commission to investigate reported abuses and inadequacies in the bus subsidy program.

1 WHEREAS, Comprehensive, efficient, economical, adequate, reliable  
2 and safe bus services are essential to meet the social and  
3 economic needs of the citizens of this State; to prevent the over-  
4 burdening of our crowded highways by automobiles; and to  
5 conserve our scarce energy resources; and

6 WHEREAS, Despite massive infusions of State aid to private bus  
7 carriers, totaling over \$100 million since the initiation of a  
8 subsidy program in 1969, bus services have continued to decline  
9 and deteriorate while fares have increased at alarming rates,  
10 thereby creating tremendous hardships, inconveniences and dis-  
11 ruptions in the daily lives of many of our citizens; and

12 WHEREAS, It has been asserted that some nonsubsidized bus  
13 companies operate at a profit while offering better service at  
14 lower fares than subsidized carriers; and

15 WHEREAS, It has been alleged that a number of private bus com-  
16 panies claiming large operating losses have used their public  
17 subsidies to help underwrite items such as large executive  
18 salaries, insurance policies for the families of company officers  
19 and expenses related to the operation of profitable associated  
20 firms; and

21 WHEREAS, The present subsidy system, originally designed as a  
22 temporary stop-gap measure, offers no incentives to bus carriers

23 to improve and expand services, and that studies by both the  
24 Office of Fiscal Affairs and a consultant to the Department of  
25 Transportation have found severe deficiencies and inadequacies  
26 in the operation of the subsidy program; now, therefore

1 BE IT RESOLVED *by the General Assembly of the State of New*  
2 *Jersey (the Senate concurring):*

1 1. There is hereby created a commission to be known as the  
2 Bus Subsidy Program Study Commission. The commission shall  
3 consist of 14 members, two to be appointed from the membership  
4 of the Assembly Transportation and Communications Committee,  
5 one to be appointed from the membership of the Assembly Com-  
6 mittee on Appropriations, one representative of the subsidized  
7 bus carriers, one representative of the nonsubsidized bus carriers,  
8 and one public member to be appointed by the Speaker of the  
9 General Assembly, and two to be appointed from the membership  
10 of the Senate Transportation and Communications Committee,  
11 one to be appointed from the membership of the Senate Committee  
12 on Revenue, Finance and Appropriations, one representative of  
13 the subsidized bus carriers, one representative of the nonsubsidized  
14 bus carriers, and one public member to be appointed by the Presi-  
15 dent of the Senate. No more than two Assemblymen and two  
16 Senators to be appointed by the commission shall be members of  
17 the same political party. One member shall be the Commissioner  
18 of Transportation or his designee. One member shall be the  
19 President of the Board of Public Utility Commissioners or his  
20 designee. Vacancies in the membership of the commission shall  
21 be filled in the same manner as the original appointments were  
22 made.

1 2. It shall be the duty of the commission to investigate the  
2 reported abuses and inadequacies in the bus subsidy program.

1 3. The commission shall organize as soon as may be after the  
2 appointment of its members and shall select a chairman from  
3 among its members and a secretary who need not be a member  
4 of the commission.

1 4. The Office of Fiscal Affairs is hereby authorized and directed  
2 to provide the commission with such assistance in the way of  
3 financial accounting, auditing, analysis and evaluation as the com-  
4 mission may require in order to carry out its duties under this  
5 resolution.

1 5. The commission shall be entitled to call to its assistance and  
2 avail itself of the services of any head of any authority or depart-

3 ment of the State of New Jersey, and of such employees of any  
4 State, county or municipal department, board, bureau, commission  
5 or agency as it may require and as may be available to it for said  
6 purpose and to employ such stenographic and clerical assistants  
7 and incur such traveling and other miscellaneous expenses as it  
8 may deem necessary, in order to perform its duties, and as may be  
9 within the limits of funds appropriated or otherwise made available  
10 to it for said purposes.

1 6. The commission shall have all the powers granted pursuant  
2 to chapter 13 of Title 52 of the Revised Statutes.

1 7. The commission may meet and hold hearings at such place  
2 or places as it shall designate during the sessions or recesses of  
3 the Legislature and shall report its findings and recommendations  
4 to the Legislature on or before the ninetieth day following the  
5 adoption of this resolution, accompanying the same with any legis-  
6 lative bills which it may desire to recommend for adoption by the  
7 Legislature.

---

#### STATEMENT

This concurrent resolution establishes a commission to investi-  
gate reported abuses and inadequacies in the bus subsidy program.

## SUMMARY OF RECOMMENDATIONS

Listed below is a summary of the Commission's recommendations which are discussed in detail within this report.

\*\*\* The Commission recommends that jurisdiction over bus and rail carriers be consolidated and placed in the Department of Transportation.

\*\*\* The Commission recommends that the Department of Transportation prepare and update on a regular basis a master plan.

\*\*\* The Commission recommends that the Department of Transportation issue fixed standards, applicable to all subsidized carriers, indicating the criteria of eligibility for receiving subsidy funds with general guidelines as to the limitations on funding.

\*\*\* The Commission recommends that the Department of Transportation undertake a major effort to improve and intensify its marketing techniques to encourage the use of buses in New Jersey.

\*\*\* The Commission recommends that the Department of Transportation require all subsidized carriers to adopt a uniform system of bookkeeping and accounting.

\*\*\* The Commission recommends that determination as to the validity of carrier requests for rate changes, service modifications or discontinuance of service should be made within a reasonable period of time.

\*\*\* The Commission recommends that salaries paid to officers of subsidized bus companies accurately reflect their contribution to the operation of such companies.

\*\*\* The Commission recommends that the bus subsidy program be revised so as to encourage subsidized bus carriers to operate efficiently and in accordance with good business practices.

\*\*\* The Commission recommends that the Department of Transportation end duplicative bus service and discontinue the operation of parallel lines in New Jersey.

\*\*\* The Commission recommends that action be taken to encourage, whenever feasible, the maintenance and integrity of the non-subsidized sector of the bus industry.

\*\*\* The Commission recommends that county and local participation in the planning and monitoring of bus operations be increased significantly.

\*\*\* The Commission recommends that there should be additional legislative oversight over the bus subsidy program and the public transportation system in the future.

## INTRODUCTION

Assembly Concurrent Resolution No. 172 was a response by the Legislature to the mass transportation needs of our citizens and to the findings of audits by the Department of Transportation which exposed severe deficiencies and inadequacies in the operation of the Bus Subsidy Program. It created a Commission to investigate those abuses and inadequacies in the program and to report its findings and recommendations to the Legislature. To that end, this Commission was organized and hearings were conducted on November 3, 1976, February 28, March 1, March 4, and March 11, 1977.

This is a report of that Commission's findings and recommendations.

## FINDINGS

The present Motor Bus Carrier Subsidy Program of the New Jersey Department of Transportation is an extension of that Program as authorized by the New Jersey Legislature in 1969 by an amendment to the Transportation Act of 1966. Under the original amendment the Department of Transportation, through the Commuter Operating Agency, was authorized to contract with those motor bus carriers operating within this State who were in imminent danger of terminating service to continue such service. This authorization was granted for a period of one year.

The Program had been recommended to then Governor Richard Hughes as a crisis measure to permit the threatened carriers to continue essential service to the commuting public. During this initial period it was intended that a more integrated system could be studied, designed and implemented as a permanent system of commuter assistance.

In fiscal year 1970, the COA contracted with eight (8) motor bus carriers for a total cost of \$531,000.00. These figures, of course, could not remain at that low level. At the termination of each successive fiscal year, the bus companies have found the crisis increasing. Fuel costs and ancillary expenses have risen. Collective bargaining has generated increases in wages and benefits. Ridership and receipts have decreased.

However, no improved plan was forthcoming. Therefore, the condition of the industry and the need for continued commuter services forced the Department of Transportation to request an extension as the yearly authorization terminated. The end of each year has found new and increased applications by bus companies for subsidies.

In fiscal years 1971-1975, the Program has grown from its modest appropriation to a program financing some twenty six (26) carriers at approximately \$27,560,972.00

in fiscal year 1975 and \$38,489,668.00 in fiscal year 1976. Not unsurprisingly the administrative structure has not been prepared to cope with this phenomenal growth.

[In 1974] . . . . the Division of Commuter Services had probably less than half the number of people it has right now. It was lacking in leadership. It was lacking in direction. And it was totally understaffed for the responsibilities that were being required of it. That is true across the board in every area of the Division of Commuter Services.

That was compounded by the hysterics, if you will, of whether or not the Commuter Operating Agency in the Department of Transportation was going to get the funds it needed to enter into the contracts with the bus companies.

Testimony by Peter Stangl, Assistant Commissioner for Public Transportation, Department of Transportation, Public Hearing before Bus Subsidy Program Study Commission, IV, March 4, 1977, p. 39A.

This appears to have been the type of crisis atmosphere under which the administration of the Program was compelled to operate.

For this same reason no written guidelines appeared to have been propounded despite the recognized need for such. Contracts with each carrier have been handled in-

dividually with attention to that particular applicant's needs and projections and the needs of the serviced area. Subsidies are based upon projected actual costs for the following fiscal year. In contracting, the subsidized carriers agree to permit the periodic audit of the books and records of their company. This audit has occurred after subsidy and expenditure. If payment has been different than that agreed upon or if funds have been utilized for an inappropriate use, such amounts are marked for recapture.

Such recapture may occur through two separate processes. The first, and most desirable, is an actual cash reimbursement. Although the Department of Transportation was able to collect an overpayment of over \$156,000.00 from one carrier after its officer testified before this Commission, the viability of this method is improbable in light of the fiscal condition of the subsidized carriers.

The second is an accounting set off against future subsidies. But the collection of these over-projections and disallowances are slow and difficult at best. Prior to March 1977, of the approximately \$1.5 million in such funds marked for recapture, only \$28,000.00 had in fact been recouped of the fiscal year 1974 subsidy overestimates. It has been reported, however, by

the Department of Transportation that as of July, 1977, it has effectively recovered almost \$2,200,000.00 of over-payments during all the years the subsidy program has been in existence.

However, as the Program became more firmly entrenched, some systems did develop in an attempt to more accurately trace the allowance given to the companies. Initially, the responsibility for handling the audit controls had been contracted to a public accounting firm. By 1972, however, the Department itself took over audit control. By 1974 an auditing staff under the Department of Transportation's Chief of the Bureau of Auditing began to concern itself not merely with contracted items but with "allowability criteria," distinguishing between "business" allowances and "personal" allowances. The distinction was difficult in light of the absence of specific guidelines.

[T]here are no specific guidelines of the accounting or the allowability variety .... [W]e are proceeding mostly on the criteria of reasonableness .....

Testimony by Donald J. Klimaszewski,  
Chief of the Bureau of Auditing, De-  
partment of Transportation, Public  
Hearing before Bus Subsidy Program  
Study Commission, II, February 28,  
1977, p. 33.

It was, however, the audits of the Bureau of Auditing which initially pinpointed over-projections and improper expenditures by subsidized carriers which were later clarified by the reports of the Office of Fiscal Affairs.

The disallowances found by the Department of Transportation audit were properly delineated into four groups by the Office of Fiscal Affairs: (1) expenses incurred by affiliated companies and charged to the subsidized companies; (2) personal expenses of officers and employees charged to subsidies; (3) officers' compensation; and (4) miscellaneous disallowances.

The relationship between the subsidized carriers and their affiliates was found to be a major problem by the Commission. Over half of the subsidized carriers had disallowances because common expenses between affiliates were improperly charged to the subsidized carriers.

One carrier had charged drivers' wages of an affiliate to the subsidized carrier. Administrative personnel were performing work for affiliates. Mechanics working for affiliates were paid by subsidized carriers. Bus washing machines were rented from affiliates for excessive rates. Blue Cross charges of employees of affiliates were disallowed. Many instances of the improper al-

location of common property and costs were found.

Initially, there had been reference to the effort on the part of the subsidized carriers to reorganize their corporate structures after the adoption of the initial legislation to take maximum advantage of the subsidy program. This would permit these companies to deliberately carry the expenses of affiliates not engaged in commuter bus service. These expenses would become a part of the projected losses for which the subsidy was given. Although these improper allocations were found, inquiry into the existent corporate structures revealed little reorganization subsequent to 1969 which would have achieved this. Almost universally all of the affiliates had existed prior to that time with similar functions to those revealed in the fiscal year 1974 audits.

It was apparent to the Commission, however, that whether through design or accident, the misallocation of expenses between affiliates had resulted in considerable over-projections and thus subsidies in excess of actual, permissible costs.

One of the difficulties incurred in tracing the allocation of such expenditures was the inability of the auditors to examine the books and records of the

affiliates. The contracts authorized the Department of Transportation to examine only the records of the subsidized carrier. No provisions existed to audit other companies. The 1977 contracts have been drawn to include such a provision. This must require careful definition of what constitutes an affiliate and precise delineation of those companies to be audited. However, the continued absence of such authorization would leave too much potential for fiscal error and abuse. The Commission is convinced that it would be in the best interest of the Program and the State to require such contractual authorization through legislation.

The most publicized areas of disallowed expenses were in the next two categories. A number of the subsidized carriers, during fiscal year 1974, were subsidized for personal expenses of principals as business items. In addition, some carriers gave compensation other than salaries to officers in excess to that deemed appropriate by the Department of Transportation.

In one instance a non-union pension fund was used as a conduit for payment of \$2,800.00 a month to officers of the company. These same officers had their leased automobiles paid for by the subsidized company.

In another company a \$60,000.00 no interest loan was made to an officer of the corporation.

In some instances, gas allowances and other expenses of relatives of principals were pinpointed and disallowed. In others, salaries paid to non-employee relatives were disallowed.

The President of one subsidized carrier had been drawing a salary of \$18,900.00 a year while having been observed by the auditor at the site for only ten minutes during a thirty day period. During this time, this same individual was working at a full time job with a local township.

In one other instance, a report by the Office of Fiscal Affairs revealed expense account entries of thousands of dollars for lunches and dinners charged to credit cards in New York, Vermont, Florida and other states. This same subsidized carrier, which was part of a larger transportation conglomerate, carried as employees individuals who were giving only minimal consultant service to the company.

These are merely examples of the extensive over-allocations which were found in the audits and corroborated at the Commission hearings. Many more were discovered and disallowed in almost every carrier audit. Most are similar to the ones cited. The universality of the problem makes it unfair to single out any individual or individual carriers.

That was not the purpose of the Commission and is not necessary to achieve its goal. Certainly some carriers had larger disallowances. But these were those with larger subsidies and larger operating budgets.

It was evident to the Commission that, for the most part, the corporate lifestyles of the carriers underwent minimal change during the years between the initiation of the subsidy and the fiscal year 1974 audits. Salary negotiations did take place between the Department and the carriers with some adjustment, but for the most part prior to fiscal year 1974 the effected changes were minimal. Owners and founders of these companies had been awarded large consultant fees, salaries, and liberal expense accounts for years of prior service and accomplishment and not necessarily for the input they were giving their companies during that particular year. Employee contributions and wages had been arranged for convenience and federal tax purposes, but not necessarily to take advantage of this Program, although that in fact did occur. Some executives had been spending large amounts of money for entertainment as business promotions in various forms and they continued to do so after the company went on subsidy.

No guidelines had been established to check this type of spending prior to the granting of the subsidy. No

criteria had been established for the complex yet flexible contract negotiations to help determine what entries might be acceptable and what might later be disallowed. This fault hindered both the carriers and those members of the Department of Transportation who were forced to administer the program during recent years. Carriers did not gratuitously devoid themselves of such expenses. But there existed no regulations to inform these businessmen that their companies would later have to return these monies.

The Commission has found the Program to be one replete with problems and defects. Initially the design is at fault. It was a stopgap measure designed to cope with a crisis for the period of one year. To that end the design functioned. However, it was not designed as a permanent program to salvage an ailing bus transportation industry in this State. The repeated extensions of the Transportation Act has forced it to attempt to fill this role. In this it fails.

Moreover, the same factors created the problems of administration discussed above. The absence of detailed guidelines and criteria in a one year program involving eight companies in an allocated budget of \$750,000.00 may be justified. But as the program takes on the appearance of a permanent system, the number of companies grow and

the allocation mushrooms. The absence of guidelines, policy, and direction is intolerable.

In reviewing the entire Program, the admonition of the message of the Department of Transportation to Governor Hughes was prophetic:

Once a subsidy program is undertaken, considerable and increasing amounts of public funds will be committed for the preservation of the existing operations, with no perceivable improvements for the benefit of the taxpayer. Subsidies can easily become a crutch for poor management.

New Jersey Department of Transportation,  
Buses: Crises and Response, May 1, 1969,  
p. 5.

However, despite the conceptual and practical problems of a subsidy program, it is obvious to the Commission that without governmental assistance to the commuter bus industry, that industry will not long survive. Major commuter routes would initially be cut with inevitable impact on commerce, employment, and residential development. The Commission recognizes that the preservation and improvement of the commuter bus industry is in the best interest of the people of our State.

The present program rather than achieving this goal has had a contrary effect. The hearings and the reports by the Department of Transportation and the Office of

Fiscal Affairs have made it clear that both immediate and long range improvements in the program, through re-design and administration, are mandatory if the State is going to see a more positive condition in the area of commuter service.

The Commission, therefore, makes the following recommendations.

#### RECOMMENDATIONS

The Commission recommends that the jurisdiction over bus and rail carriers be consolidated and placed in the Department of Transportation.

At present, the Department of Transportation and the Board of Public Utilities share in the jurisdiction over bus carriers. The Department primarily oversees the operations of the subsidized carriers, and the Board primarily regulates the operations of the non-subsidized carriers. In fact, the quasi-judicial procedure used by the Board in determining fare and schedule revisions or requests for abandonment of service on the part of a carrier differ considerably from the procedures exercised by the Commuter Operating Agency in the Department of Transportation as regards its negotiations and formulation of contractual agreements with carriers under subsidy.

In accordance with P.L. 1977, c.146, popularly

known as the "Department of Energy Act," by January, 1978, the Commissioner of the Department of Energy is authorized and directed to submit a report to the Legislature and Governor indicating those functions and duties that should be transferred to other departments that are presently under the jurisdiction of the Department of Energy. It is the view of this Commission that the aforementioned report should include a recommendation that the regulation of buses be placed within the Department of Transportation. This would have the beneficial effect of permitting a uniform and standardized policy concerning the regulation of buses and encourage the development of a rational and coherent system of planning for all public transportation systems in New Jersey.

The Commission recognizes the need for revision in the hearing procedures presently utilized in fare increases and route curtailment and discontinuance proposals. An open adversary hearing would afford greater opportunity for public input into these important areas of concern. It is recommended that legislation be adopted providing for such adversary hearing in accordance with the Administrative Procedure Act (P.L. 1968, c. 410), with the Public Advocate representing the interest of the public at large and the appropriate counsels representing those affected governmental subdivisions.

The Commission recommends that the Department of

Transportation prepare and update on a regular basis a master plan that will provide for the establishment of a comprehensive, coordinated and integrated multi-modal transportation system.

Pursuant to P.L. 1966, c. 301, the Department of Transportation is required by law to prepare a master plan for transportation and update it from time to time. The first master plan, which primarily focused upon projected capital construction needs, was presented in 1968. That plan was subsequently updated in 1972. Although the Department of Transportation has periodically indicated that a revised master plan is to be issued shortly, such a plan has not been forthcoming.

It is the Commission's view that the Department place a high priority upon the updating of a master plan which shall include, as one of its basic considerations, the definition of the goals and priorities that are necessary to provide an efficient, economical, and adequate level of transportation service for the people of New Jersey between now and the year 2000. The master plan should be revised periodically, perhaps every five years, in response to changing economic, environmental, and demographic conditions.

The planning associated with the establishment of

such a master plan would enable the Department to better utilize State and federal funds made available to it. Furthermore, the master plan should include consideration of the various modes of transportation such as automobiles, buses, trains as well as marine and aviation facilities. Testimony presented at the Commission's public hearings indicated that parallel lines exist between buses and railroads and that frequently the railroads are being subsidized per passenger at a much higher rate than the bus carriers. By focusing on the coordination and integration of the resources available from each of the modes of transportation, the Department could remove some of the duplicative service and some of the inequities experienced by bus carriers, for instance, in the subsidy program.

The Commission regards the active participation of representatives of the bus, rail, aviation, and marine industries, government officials, particularly those involved in transportation matters on the local and county levels, and the public as essential in the preparation of a master plan. Although ultimate responsibility for determination of the provisions within the master plan rests with the Department of Transportation, the consultative and public hearing process initiated prior to the formulation of the plan should reflect the knowledge and the sensitivity to the needs of the citizens of New Jersey concerning transportation issues as expressed by the aforementioned groups.

The Commission recommends that the Department of Transportation issue fixed standards, applicable to all subsidized carriers, indicating the criteria of eligibility for receiving subsidy funds with general guidelines as to the limitations on funding.

The legislation establishing the bus subsidy program in 1969, was viewed by its proponents as an emergency measure of temporary duration. Consequently, at the time of the program's inception, the Department of Transportation did not promulgate any rules or regulations nor did it issue any standards as to what expenses were allowable. Since that time laws have been enacted periodically which essentially continued the bus subsidy program without major modifications in its format. Unfortunately, the basic elements of the original bus subsidy program are still in effect and the Department has yet to act on outlining to subsidized carriers in a standardized and uniform fashion what is expected of them regarding subsidies.

There are serious problems with the operation of the present subsidy program. Instead of applying a fixed set of standards to carriers in granting subsidy payments, the Department of Transportation conducts bilateral negotiations between itself and an affected carrier as to the extent to which specific expenses will be eligible for subsidy. When agreement is reached a contract is signed between the two parties.

Without established, uniform guidelines concerning eligibility to receive subsidies, a situation exists where certain carriers may not receive equal terms from the Department. Moreover, in spite of departmental achievements in remaining fair and impartial, the absence of uniform guidelines when negotiating contracts leaves the Department open to potential criticism for unequal treatment.

Attention should necessarily focus upon the condition of the subsidized carriers when they negotiate for subsidy payments. A major subject of the Commission's hearings involved alleged abuses on the part of subsidized operators with the claim that certain operators took personal advantage of available subsidy funds. A major question arises. By what standards should the operators be judged? None have been established. In fact, the amount of subsidy payments received depends upon the agreement reached between the Department and the bus operator.

An additional problem with the subsidy program involves the Department's procedure for auditing the books of subsidized carriers. Often there is a time lapse of a year or more between the actual expenditure of subsidy money granted to a carrier and the auditing of the carrier's records. There have been instances of auditors disallowing expenditures as being eligible for subsidy funds even though

during the contract negotiations the carrier was under the impression that such expenses were viewed as worthy of being subsidized. Again, we note that the absence of standards creates confusion and disparity.

Until such time as major revisions are made in the operation of the bus subsidy system it is imperative that the Department of Transportation undertake a major effort to make clear to bus operators what standards they are to be governed by under the present subsidy system.

The Department of Transportation has acknowledged that the basis of the bus subsidy program should be revised and has drafted and supported legislation introduced during 1977 (A-3257 and S-3220, which are identical bills) to overhaul the program. One of the foremost provisions of this legislation is to contract with private carriers utilizing a subsidy formula that includes a standardized cost basis for determining certain subsidy allotments to all affected carriers. The legislation also develops a mechanism for incentive rewards and penalty deductions. The principles enumerated in the aforementioned provisions are commendable and noteworthy. It is not within the purview of this Commission to analyze and evaluate the specific substantive provisions of A-3257 and S-3220, to make comments thereon, or to take a position with respect thereto. It should be noted, however, that before legislation of this

nature is enacted the Department be required to indicate in a reliable fashion the potential costs of such a revised program and the financial impact it will have upon subsidized and non-subsidized carriers for each of their route operations.

The Commission recommends that the Department of Transportation undertake a major effort to improve and intensify its marketing techniques to encourage the use of buses in New Jersey.

One of the most distressing conditions confronting the bus industry in New Jersey is the marked decrease in bus ridership over the last few years. A noted pattern has developed in recent years. As ridership declines, levels of service continue at their existing rate. The necessity develops to raise rates which causes additional declines in bus usage, reduces levels of service, or increases the bus subsidies to compensate for the additional operating deficits experienced.

There are many potential commuters and occasional bus riders who would take advantage of the State's existing public transportation facilities if they were made aware of them. Advertising and promotional campaigns by the Department of Transportation to familiarize sectors of the population such as senior citizens, handicapped persons,

commuters and shoppers with available service might induce a considerable number of persons who normally drive automobiles to take advantage of bus and rail transportation. The Department of Transportation should provide information to the public as to location of bus stops, bus shelters and parking facilities as well as disseminate schedules and maps of the various bus routes.

The Commission is pleased to note that for fiscal year 1978, the Division of Commuter Services in the Department of Transportation received its first appropriation exclusively for marketing purposes. The Department plans to increase ridership by developing and introducing a public transportation marketing and transit information campaign. In addition, the Department intends to promote measures that will improve access and utilization of public transportation systems.

The Commission recommends that the Department of Transportation require all subsidized carriers to adopt a uniform system of bookkeeping and accounting. It is also recommended that in certain instances additional subsidy funds should be granted to subsidized carriers to enable them to employ qualified professional personnel to maintain their financial records.

During the course of the Commission hearings various

individuals indicated that they kept their records in a disorganized or haphazard fashion or were not granted adequate subsidy funds to hire able accountants and bookkeepers to improve their record keeping. Furthermore, no universally accepted bookkeeping or accounting procedures are required of a carrier to receive a subsidy. Subsidies are given to carriers solely on the basis that they are losing money in their operation.

It would be simpler and more efficient if the auditors evaluating carriers' financial records were able to evaluate well-kept and clearly delineated financial data submitted in accordance with uniformly established business practices. Discrepancies or any questionable requests for subsidy money would be more readily ascertained and defined resulting in greater accountability to the public and a more equitable procedure in the evaluation of all subsidized carriers.

The Commission recommends that determination as to the validity of carrier requests for rate changes, service modifications or discontinuance of service should be made within a reasonable period of time.

Various bus operators noted that considerable delays ensue, quite often for several months, before a decision is made by the Board of Public Utilities or the De-

partment of Transportation as to their requests for increasing fares, altering their regular route runs or responding to a request to discontinue service on a particular route.

The Commission is aware of the complex and detailed work involved with the result being the lapse of a considerable period of time before any such decision is reached. It is the view of the Commission that a very high priority be given to speeding up the decision-making process; to achieve this goal it may be necessary to utilize additional staff.

A speedier decision-making process will result in more flexible, responsible and responsive government that can serve the public and the bus carriers in a timely fashion. There should be no unreasonable delay for implementation if there is good cause for minor modifications in the operation of the bus system in New Jersey. Such a decision might, for instance, involve providing a reasonable fare structure to a carrier so he can operate efficiently or responding to the need for a change in a bus route because of changing market demand. It may be advisable to require that a decision as to requests for fare or service changes or discontinuance of service be made within ninety days of a carrier's petition; if a decision is not forthcoming in that time the carrier should be free to implement the terms of the petition.

The Commission recommends that salaries paid to officers of subsidized bus companies accurately reflect their contribution to the operation of such companies.

In cases involving non-subsidized bus carriers it is clearly within the purview of those who own these businesses to decide what salaries shall be provided to employees. Regarding salaries for executives employed by subsidized bus carriers, it is necessary to point out that, inasmuch as a portion of the operating costs are being borne by the State's taxpayers, the salaries for such executives are a matter of public concern. When enterprises in the private sector of the economy experience economic difficulties it is customary for them to attempt to operate in a more austere financial fashion by cutting expenses including salaries. A similar response should be expected from subsidized bus carriers.

Furthermore, the Commission considers it only fair and reasonable that salaries to executives in the subsidized portion of the bus industry should be commensurate with their level of responsibilities and their contribution to their companies. Individuals who perform only occasional consulting work or who work on a part-time basis for a subsidized bus company do not deserve to be paid a full-time salary by a company subsidized with public funds.

The Commission recommends that the bus subsidy program be revised so as to encourage subsidized bus carriers to operate efficiently and in accordance with good business practices. A revised subsidy program should include incentives to reward a carrier for providing a high quality of service at the lowest possible cost and should establish penalty deductions assessed against inefficient operators.

The present system of bus subsidies provides that in cases where a bus carrier's revenues are less than his operating expenses, the State grants a subsidy to the carrier making up the difference between revenues and expenses, thereby enabling him to continue operations. A major deficiency of the present system is that no financial incentive exists to encourage a subsidized carrier to improve the efficiency of his business. In addition, since the subsidy program does not offer an affected carrier any depreciation allowance, encouragement is lacking for such carrier to invest in capital facilities and thereby maintain or even improve the quality of his service.

An improved subsidy program should reward carriers for offering quality service at the lowest possible price and penalizing less efficient operators. Among the criteria that should be considered as to the performance level of any carrier are the number of passengers serviced, the number

using the service at rush-hour periods, and the number of hours and miles the carrier's buses are in operation during the course of a week or month. Other important facts should include the on-time performance level, the cleanliness of buses, and the courteousness of the bus driver.

It will be necessary for the Department of Transportation to ascertain pertinent information of the performance of each subsidized carrier for each of his routes. The efficiency and quality of service may vary from one route to another due to local conditions, such as market demands, distance from maintenance facilities, and possible sources of competition. Thus an evaluation of each carrier must be done on a route-by-route basis.

A major provision of any subsidy program ought to be an allowance for depreciation to subsidized carriers. Depreciation is a recognized business deduction and subsidized carriers should be entitled to claim it. The long term effect of allowing depreciation will be to better enable bus operators to modernize and maintain their equipment, which will enhance the quality of service offered to the public.

Amelioration of the cash-flow problem for some of the subsidized carriers is advisable. The Commuter Operating

Agency within the Department of Transportation, presently administers the bus subsidy program. It has a policy calling for the distribution of the annual subsidy money allocated to a carrier in 12 equal installments so that a subsidized carrier is to receive a subsidy payment each month. In fact, as was frequently mentioned during the Commission's public hearings, that policy has not been adhered to, causing financial burdens upon various carriers.

We are pleased to note that during fiscal year 1977, a procedure was instituted by the Commuter Operating Agency to review each carrier's quarterly revenue and expense statement. The Commission also recommends that prompt and frequent subsidy payments be made to the subsidized carriers. Moreover, inasmuch as the bus industry is often affected by seasonal fluctuations in business, particularly in resort areas, it may be helpful on occasion to accelerate subsidy payments to a carrier that is experiencing financial difficulties.

The Commission recommends that the Department of Transportation end duplicative bus service and discontinue the operation of parallel lines in New Jersey.

A major objective of the Commission is to ensure that transportation facilities within the State be utilized in as efficient and economical manner as possible. The interests of the State are not well served when competing bus

lines offer service to the same market, quite frequently with different fare structures. The problem is exacerbated when one of the lines is subsidized while the other line is not.

One significant action noted by the Department of Transportation concerned the coordination of schedules on Route 9 between Transport of New Jersey and Lincoln Transit Company, both subsidized carriers. A savings of \$500,000.00 a year has been realized as a result of such coordination.

There are some differences of opinion as to the number of cases where parallel lines exist and as to precisely where the same markets are served by two bus lines. In the same regard there is a question as to how much money, in terms of millions of dollars, would be saved by the elimination of such lines. Although there may be some dispute as to the extensiveness of the problem, the Commission recognizes that significant monetary savings would result from the establishment of a rational and comprehensive public transportation network in the State.

The Commission recommends that action be taken to encourage, whenever feasible, the maintenance and integrity of the non-subsidized sector of the bus industry.

There is a recognized need to continue subsidizing a major portion of the bus industry in order to provide a reasonable level of bus service with realistic fares. Continuation of a subsidy program is necessary to ensure adequate public transportation facilities for the people of New Jersey. It is absolutely essential to consider the problems and needs of the subsidized carriers as well as to determine what revisions should be made in any future subsidy program, particularly inasmuch as approximately 75 percent of the bus riders in New Jersey depend upon bus companies that are being subsidized. There are ever-increasing costs associated with the operation of a bus company in an industry which has been losing part of its market and which does not anticipate major cost savings from technological innovations. As a result of these economic developments, the trend is for more and more bus operators to accept a State subsidy to continue their operations.

At the same time, the Commission believes that the non-subsidized bus carriers are providing service to a significant portion of the population. Moreover, in many instances the non-subsidized carriers are offering a high quality of performance at competitive fares.

It is the view of the Commission that the State should seek to preserve and encourage existing viable non-

subsidized bus operations and thereby lessen the financial burdens to be borne by the taxpayers subsidizing bus transportation in New Jersey. To accomplish this goal, serious consideration should be given to either eliminating certain direct costs for regular route operators from terminal departure fees, taxes, license fees, and highway, tunnel or bridge tolls or providing those operators with financial assistance for such costs.

The Commission recommends that county and local participation in the planning and monitoring of bus operations be increased significantly. In addition, it is essential to recognize the limited financial capability of county governments to fund the essential level of bus service presently in operation within New Jersey.

The Commission recognizes that county and local officials are frequently aware and sensitive to the transportation needs and problems of the people in their area. In the past the views and recommendations of these officials have often not been sufficiently heard or understood by the Department of Transportation. It is suggested that mechanisms be established to provide for regular consultations between local, county and State Department of Transportation officials to discuss public transportation issues concerning fares, schedules, route structures, and possible measures to improve carrier efficiency and standards of service.

Furthermore, a valuable contribution to the monitoring of public transportation operations can result from the utilization of local and county government personnel. For instance, counties such as Bergen and Morris presently do extensive work in checking the performance levels of carriers in their areas. State funds should be made available to all the counties enabling them to undertake additional monitoring of service.

In accordance with R.S. 27:1A-28.5, the counties may be requested by the Commuter Operating Agency to contribute to the bus subsidy program with 25 percent of the costs for operation of the program to be borne by the county and the remainder to be funded by the State. During the years that bus subsidies have been granted, only three or four counties have contributed significant amounts of money. While the Department of Transportation repeatedly requests additional county funds, during 1976 the total county contribution was \$380,000.00 in support of motor bus services for a program costing approximately \$40,000,000.00.

It must be noted that as the costs of the bus subsidy program have increased so dramatically in the last few years, most of the counties have recognized their inability to allocate a considerable amount of funds for the program. The establishment of "caps" on county spending makes it practically impossible for counties to assume additional heavy financial burdens, beyond present commit-

ments, to subsidize the operation of buses in New Jersey.

The Commission recommends that there should be additional legislative oversight over the bus subsidy program and the public transportation system in the future.

Ever since 1975, there have been provisions included in the statutes governing the bus subsidy program (P.L. 1975, c.22, subsequently amended in 1976 by P.L. 1976, c. 119), which require the Department of Transportation to submit a report to a twelve-member joint legislative committee. This consists of legislators from the standing reference committees of the Assembly and Senate with jurisdiction over transportation matters and legislators from the committees of both legislative bodies with responsibility over revenue, finance and appropriations matters. The aforementioned law requires that in the report the Department indicate to the joint committee its plans, both long-range and short-range for improvement of the bus subsidy program, and note the accomplishments already achieved by the Department concerning the program.

It should be noted that during the present legislative session the joint committee has not met. The aforementioned reports have been prepared by the Department of Transportation but have never been considered. Nevertheless, it is quite clear that during this legislative session, there

has been extensive legislative investigation of the bus subsidy system and significant legislative involvement in the consideration of measures to revise the program by which buses operate in New Jersey. The Bus Subsidy Program Study Commission was established by legislative mandate and includes six legislators. Moreover, the members of the Assembly and Senate Transportation and Communications Committees have extensively analyzed A-3257 and S-3220, and have prepared substantial amendments to this identical major legislation to alter and improve bus operations in the State.

The Commission's interest is to ensure that legislative involvement continue on a regular and on-going basis in overseeing the performance of the bus subsidy program and the public transportation system in New Jersey. Any new bus legislation to be enacted should include the policy formulations and priorities of the Legislature. Oversight should involve legislative evaluation of the efficacy of any Department of Transportation rules and regulations concerning bus transportation and determination as to the extent to which they reflect the policies and purposes outlined in the statutes. The performance levels of the State's bus program require constant attention and an active and informed Legislature can provide a valuable service by exercising a vigilant oversight in this area.

These recommendations are not intended to be an exhaustive treatment of the options which presently face the State in the area of commuter bus transportation. They do represent those items which the Commission finds the most prone to past abuse and the most demanding for future action. The Commission is confident that those charged with the oversight of commuter bus transportation will continue to recommend improvements and refinements in our systems in response to the changing needs of our State. However, the Commission is convinced that prompt action, consistent with these recommendations, is necessary.

#### CONCLUSION

The Commission has not seen its function to be an inquiry into potential criminal abuses nor as an organ to initiate prosecution for those at fault. If any such liability exists, that task will be left for those officials charged with that duty. Nor has this Commission served in any attempt to ridicule or castigate those groups or individuals whose bad judgment or poor planning may have contributed to the problems of the Program. In light of the multitude of problems, such isolation would be impossible. Moreover, this Commission recognizes that the resultant condition of the Program was contributed to by numerous factors of which direct human error was one part. Another major factor was the universal state of the economy and technology. The Commission has generally avoided these

types of fault fixing. Such a negative function could only impede the positive goal of this Commission. Moreover, the deficiencies arise from myopia in many areas: design, administration and function. One could argue that the blame could be placed equally on those responsible for all these functions.

However, the purpose of the Commission has been to seek the problems so that positive recommendations could be made. Through these recommendations hopefully government, the industry, and the public have been better served.

NEW JERSEY DEPARTMENT OF TRANSPORTATION

MEMORANDUM

TO Assemblyman M. P. Esposito

FROM Peter E. Stangl

Chairman, Bus Subsidy Program

Assistant Commissioner

Study Commission

Public Transportation

SUBJECT B/Subsidized Carriers

DATE 1/12/78

TELEPHONE NO. 3242

Bus Subsidy Program Study Commission

The following statement is submitted by the Department of Transportation, commenting on the report in accordance with the request of the Commission membership.

The Department continues to support the location of all bus regulation activities within the Department of Transportation. (Page 13)

The Master Plan is now being updated by the Department. (Pages 14 and 15)

A set of guidelines and standards for carriers entering the subsidy program and for allowable expenses of carriers in the program is undergoing departmental review and will be released for comment by the end of January. (Page 17)

The Department will provide to the Transportation Committee of the next Legislature the costs and proposed payments under the Standard Cost procedure for each route of potential subsidized carriers. (Pages 19 and 20)

The Department is completing negotiations with a consultant to develop a marketing program for the transit industry in the State to attract additional ridership. (Page 20)

During the time of the Commission investigation, several carriers in the program were found to have unacceptable accounting and bookkeeping procedures. These carriers have since been removed from the program and all carriers now under subsidy have approved accounting and bookkeeping procedures in place as determined by the Auditing and Accounting Division of the Department. (Page 21)

A program is now underway with consultant assistance to assure that carrier record keeping complies with regulations by the Federal Government in order to receive operating assistance funds. (Page 21)

Carriers are only given subsidy under current procedures if: their routes are essential; they cannot continue as profit-making with fare increases and/or several adjustments; and Auditing has verified that proper accounting and bookkeeping procedures are in place. (Page 21)

On-going liaison between COA, PUC, and ICC staff has been established and maintained in the previous nine months so that no carrier requests for fare changes or service modifications are currently delayed while awaiting action by the COA. (Page 22)

A schedule of allowances for executive salaries has been initiated which is based on the number of peak period buses operated by the company. (Page 24)

The Commission recommends inclusion of ridership as a criteria on which to base subsidy payments. This was not considered under the Department's Standard Cost Program, but will be reviewed and a report made to the next Legislature. The remaining criteria suggested were included. (Pages 25 and 26)

The recommendation for payment of depreciation is included in the Standard Cost payment formula. (Page 26)

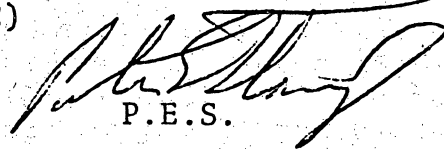
Cash flow problems of carriers have been ameliorated by tailoring payments to their need through review of quarterly reports, and by providing for early payments as necessary. (Pages 26 and 27)

The recommendation that the State end subsidization of lines where parallel service is provided by a non-subsidized carrier raises the issue of the value of operating rights which the Department will gladly explore with the new Legislature. (Page 27)

The Department concurs in the desire to preserve the non-subsidized sector of the bus industry by seriously considering eliminating direct costs for terminal departure fees, taxes, and tolls, or providing financial assistance therefor. A recent legal opinion from the Attorney General states the State cannot pay for the tolls, departure fees, licenses, and taxes for profit-making carriers. However, a continuing effort will be made to resolve the indicated problem. (Pages 29 and 30)

Prior to 1977, the Division of Commuter Services was greatly understaffed and was unable to establish and maintain contacts with county transportation agencies and others interested in public transportation. During the course of the year, sufficient staff has been added to permit consultation between the Division and county transportation units on a regular monthly basis. The suggestion for providing funds for county monitoring of bus service will be taken under advisement by the COA. (Page 30)

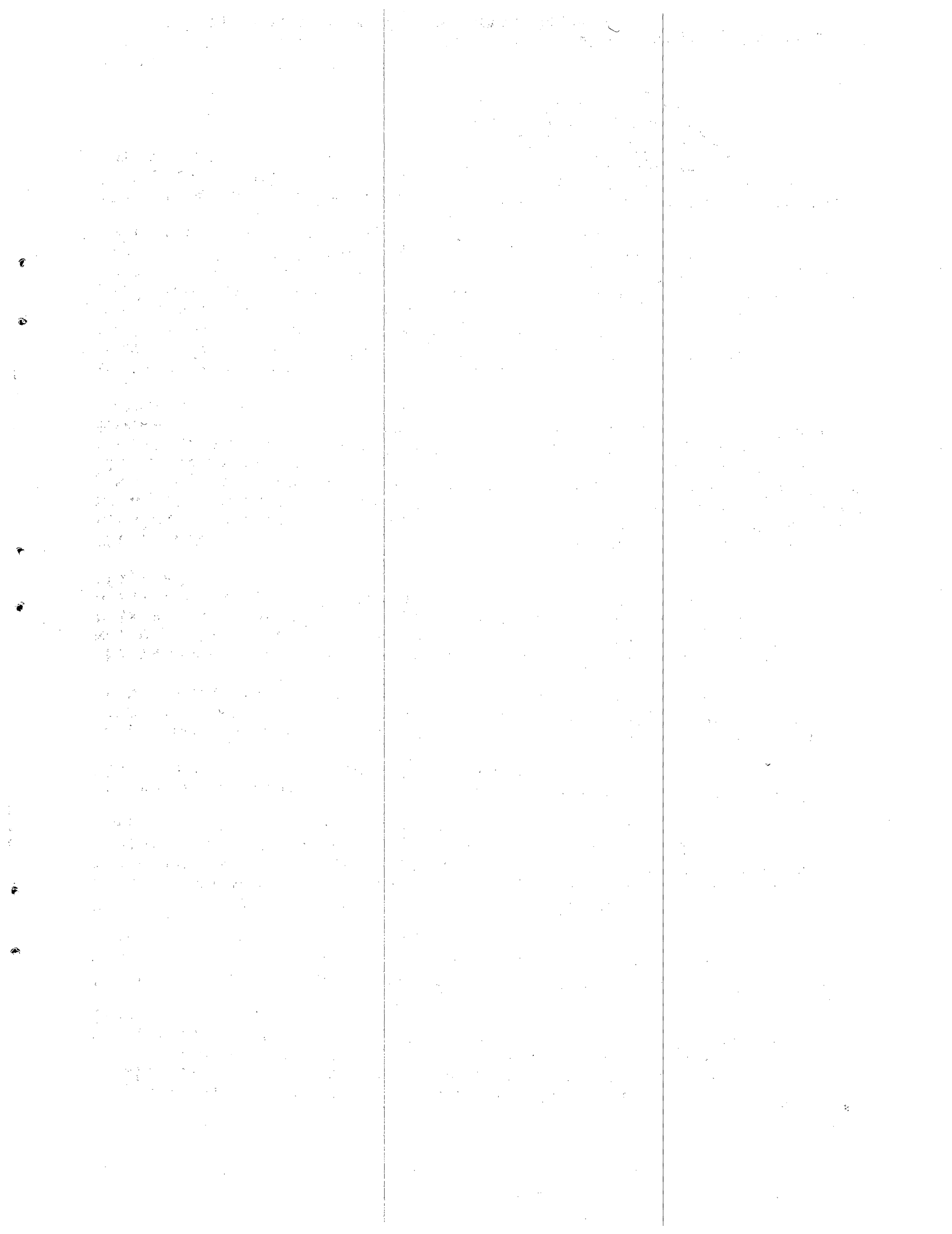
The recommendation for additional legislative oversight is welcomed by the Department and it looks forward to working with the new legislative committees. (Page 32)

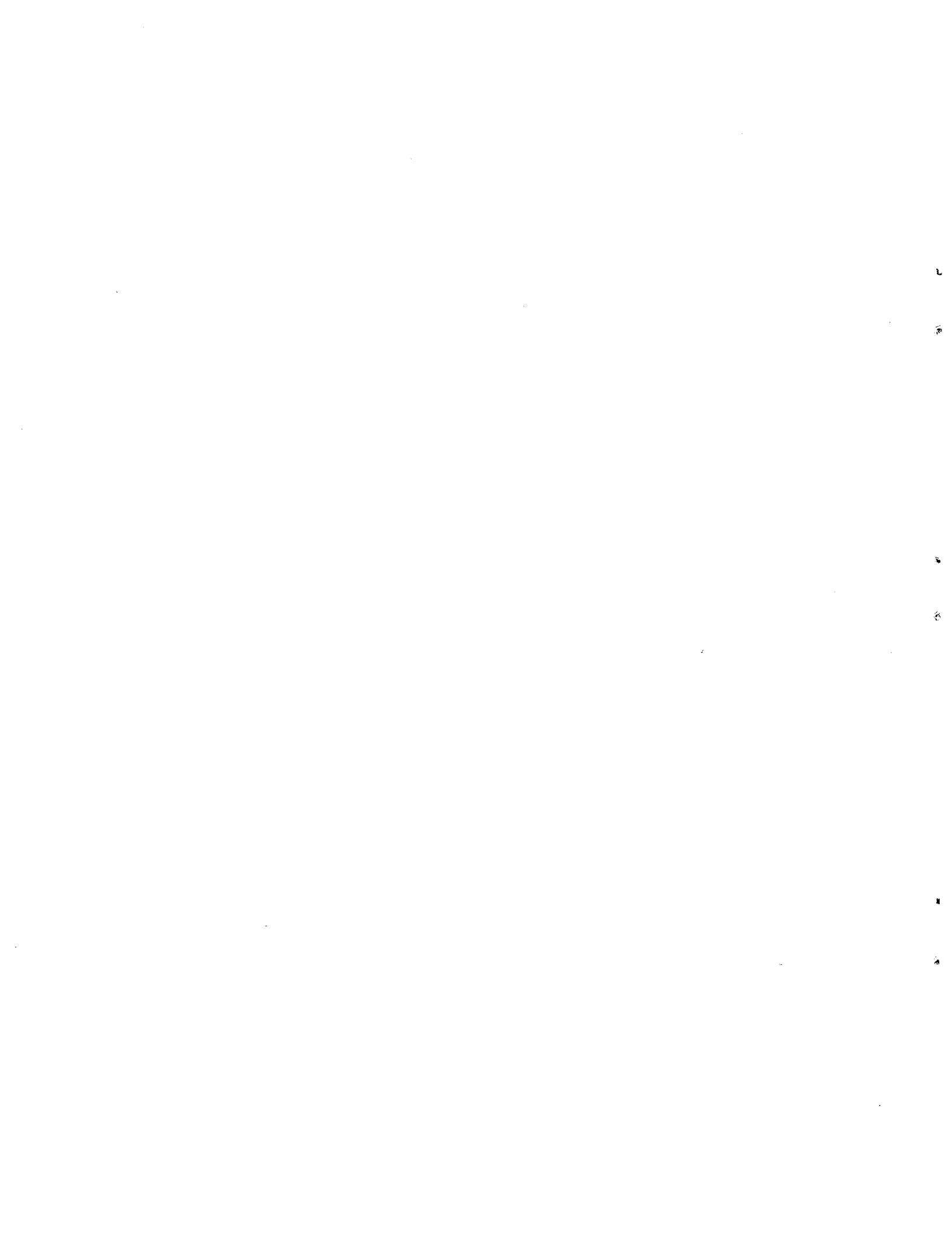


P.E.S.

PES:cmr

cc: Governor Byrne, Acting Commissioner Mullen, Messrs. Anderson, Robins, Colanduoni, Russo, Levy, Reisner





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