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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:
July 22, 1965
Prudential Building
Newark, New Jersey

MEMBERS OF COMMITTEE PRESENT:

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

Also:

Samuel A. Alito, Secretary

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Perry M. Shoemaker President Central Railroad Company of New Jersey	1
J. D. Morris Assistant Vice President, Special Services Pennsylvania Railroad Company)
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James W. Diffenderfer Director, Special Services Pennsylvania Railroad Company)
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)
C. S. Hill Manager, General Accounting Pennsylvania Railroad Company)
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SENATOR WILLIAM E. OZZARD [CHAIRMAN]: Let the meeting come to order.

Gentlemen, I understand that Senator Lynch will be here. Senator Grossi will not be here because of illness and Mr. Kelly has other matters that are pressing upon him at the moment.

Mr. Shoemaker, we would like for you to come forward. I understand that you have a couple of men with you. We would be glad to have them sit at the table at the same time, please.

Mr. Shoemaker, I am sure you have had a report from the men of your company who attended our last meeting. We particularly wanted you as president of the line to be here to sort of sum up the position of the Jersey Central in so far as its future prospects are concerned in the State of New Jersey. We are concerned as you know, as you have been and are, with continuance of commuter service. We want very much to find a simple solution, but there isn't any and we know it. We did learn from your men at the last meeting that there was a real possibility that the Jersey Central with (1) the Aldene Plan, (2) tax relief, and (3) some assistance in the area of capital improvements might find itself in a position in a few years to be free of State subsidies. I wonder if you could review the position of the railroad for us, bring us up to date and tell us what you think the future prospects are as president of the road.

P E R R Y M. S H O E M A K E R: Senator Ozzard and gentlemen: I appreciate the opportunity of appearing before you. For the record, my name is P. M. Shoemaker, President of the Central Railroad Company of New Jersey.

If I may very briefly review the situation, the State of New Jersey has shown considerably more foresight than its neighbors in recognizing that there is a real economic relationship between providing of highways for transportation by rubber and the preservation of rail facilities for the handling of people during the periods of rush-hour transportation necessity.

It is fair to state that New Jersey pioneered in considering the movement of people by whatever mode of transportation, differentiated from the matter of moving vehicles, and the establishment of that principle has been of primary importance to both the government outlook toward transportation and the outlook of the various modes of transportation themselves.

You will recall that Commissioner Palmer's study some five years ago highlighted the dangers to the State's economy if mass transportation were to be allowed to disappear by rail and New Jersey put its dependence upon highways as some other sections of the country have done to their present dismay. I am thinking of Los Angeles in particular.

It was in 1959 that the Legislature accepted the validity of this philosophy and established under S 253 the Rail Transportation Division in the Highway Department and the following year, the Legislature deemed it desirable to establish a special source of funds for transportation programs and out of that came the commuter income tax under which persons working in New Jersey, but living in New York and Pennsylvania, pay an income tax. That has been bringing in, I think, something in the neighborhood of six and one-half million dollars a year.

It was the initial hope of the Commissioner and certainly

of the railroads that the economic support of commutation service would increase over the years during the period that the railroads were having increasing financial difficulty in preserving their service and during the period that the State under its mandate from the Legislature - and when I say the State, I mean the Rail Transportation Division - was required to develop, by study, programs of ultimate betterment in the commutation picture.

Out of that, as you know, has come the Aldene Plan with respect to the Central Railroad, which my associates described at your last meeting and toward which the Legislature has appropriated a total of \$6,100,000. The progress on that has been deliberately slowed a bit in order to facilitate an expansion of the original Aldene Plan through the use of Federal funds. I did not see in the record and that is why I am mentioning it that the HHFA has granted an Aldene Plan grant of some three million six and it may become four million eight if later developments permit it to be on a one-third - two-thirds basis instead of a half and half basis. The application of the State of New Jersey for HHFA funds for the Aldene Plan encompassed its being expanded to include high level station platforms on the main line and parking facilities in the hopes that that might lend itself eventually to the gating of passengers and the mechanized handling of transportation. That money has been granted. It hasn't actually been given to the State as yet. I understand there are a few details to be worked out.

During the past five years of this rail support program, the Rail Transportation Division has not only worked diligently

with us - and I would like to interject that I think we have been fortunate in the State in having a man of Commissioner Palmer's breadth of background and drive to take hold of this mass transportation picture and he has developed a competent group in the Rail Transportation Division under Mr. Thomas. I think that with the maze of detail that is involved in consideration of this on the various railroads, on balance anyone would feel that they have done a highly commendable job.

The Central Railroad's particular interest in this Committee's mandate relates to the objective consideration you are giving to whether or not the State should expand the Rail Transportation Division concept as such into some kind of a rapid transit agency, be it an authority or an agency or a commission or what have you.

The Central Railroad of New Jersey, as I testified before the Transportation Committee of the Senate in connection with S 292 earlier this year, endorses the principle of a state agency having fiscal and supervisory responsibility for suburban rail transportation service.

As the Committee well knows, most New Jersey commutation railroads have exhausted their ability to subsidize commutation service with freight earnings, sales of property and government loans. I would remind you that the Central Railroad Company of New Jersey went into receivership in 1939 for the reason that depression of freight earnings at the time could not support the combination of passenger losses and New Jersey taxes. War-time freight earnings permitted us to clean up the tax picture and nonpayment of bond interest helped in the development of cash.

The railroad was reorganized in 1949 with a modified capital structure and still fifteen years later we find ourselves involved in the pressures of the same forces that created the 1939 receivership, namely, passenger losses and taxes.

During this fifteen-year period, since we came out of receivership, the Central Railroad has had passenger losses of \$112 million on service which we have been required to operate by public authority and in connection with which the fare structure has been under the jurisdiction of either the Interstate Commerce Commission or the Public Utility Commission or the Rail Transportation Division in recent years with respect to our commutation service.

Now as against this \$112 million of loss, the payments by the State under the contract plan that was initiated in 1960 have amounted to 6.9 million dollars in the five-year period.

In the same fifteen years since receivership, the Central has paid \$48 million of taxes to the State of New Jersey. Our tax bill last year, \$2.9 million, would have been half again as much if we had not literally abandoned and turned back, largely to Jersey City and Bayonne, some 862 acres of land with an assessed value of \$18,800,000. Just the passenger proportions of our Class II and Class III taxes last year amounted to more than \$60 per passenger and that is \$60 per passenger more than our competing bus lines have to pay and more per passenger than the private automobiles have to pay for their use of public property that is non-tax producing.

I think you all know that we have paid no dividends since 1931 and that we have sold in this period property and

equipment to assist losses and to make tax payments in the aggregate amount of more than 19 millions of dollars. Even beyond that we have borrowed \$20 million from the Federal government in three loans under the Federal government guarantee program which was a part of the 1958 Transportation Act, which act has now expired, and there are no possibilities of borrowing money with the Federal government guarantee at the present time.

Of course, during this same fifteen-year period, we have seen the greatest expansion of highways and river crossings and not only the building of brand new highways, but the expansion of old ones into multi-lane highways, all of which have had a very real impact upon concentrating our passenger business within the rush hours for the most part and in encouraging the use of these facilities for truck competition and most of this involves out-of-state truckers who are using our highways to compete with our railroads in this State.

It is in the context of this fifteen-year picture, as my associates testified to you at your last meeting, our resources have become exhausted, our credit has disappeared. We have no credit. When you are out of cash and have a continuing deterioration of cash, it is almost difficult to keep any business holding its head above water.

Now in the face of these heavy passenger losses over this period, we have been accused of wanting to go out of the passenger business regardless of the public interest in it. As a citizen of New Jersey personally, and certainly the Central Railroad as a corporate citizen of New Jersey, recognizes and believes that rail passenger transportation is essential to the

economy of this State. We think it would be disastrous for rail service to be permitted to stop. And yet we no longer can subsidize it ourselves. Here is a part of our service that consumes 25 per cent of the expenses of the railroad and yet brings in 14 per cent of the revenue and that will be less next year incidentally because of the loss of our U. S. mail.

Within the means that we have had, we have done what we could with respect to our passenger service. It may surprise you to know that some 8.3 million dollars of capital money from the CNJ itself has gone into the passenger operations during this same fifteen-year period that I mentioned, some of that for new locomotives, some of it for Budd cars, some of it for improved signalling, some of it for improved safety devices, which you will recall were an outgrowth of the disastrous wreck we had in the Bay Bridge across Newark Bay. We dieselized the passenger service completely in 1954 and I might say that the effect of that, which was accomplished with cooperation from the Public Utility Commission at that time in arranging a revised passenger train schedule - had the effect of reducing losses from more than \$9 million a year to just over \$7 million at that time.

Yet during this period, we have seen a slow decline of passengers. We went into extensive advertising off and on. Our public advertising promotion expense today is limited to about \$14,000 a year. Frankly, we haven't much to advertise with the kind of equipment that we are offering the public, non-air conditioned, old and certainly not in either appearance or comfort the kind of equipment we would like to be offering the public. But there has been this steady decrease in mid-day and

evening travel, which is far sharper than the decrease in rush-hour transportation because people are using our highway system mid-day. We put in in 1960 a reduced fare for non-rush hour of a single fare and a cent for a round-trip ticket and you can't find the results of that in increased travel. The effect of the shopping centers, the effect of the availability of the private automobile, is such that mid-day travel has not shown anything but a continuing deterioration and the same thing is true of evening travel.

I might point out to the Committee that mid-day and evening rail transportation is the cheapest thing we can provide. The basic control over our expenses with respect to train service relates to the number of crews and cars and equipment we have for rush-hour service. We have crews available for mid-day service and for evening service that cost us very little to use. Practically for fuel we can run additional mid-day trains, but the patronage is not there.

[Senator Lynch enters the room.]

Good morning, Senator. I was pointing out to the Committee that people have left the railroad in spite of the efforts upon our part to keep them. If we could have given them modern equipment and fast air-conditioned service, I do not think the drop would have been as sharp as it has been during this period.

SENATOR OZZARD: Mr. Shoemaker, what has the railroad done to try to encourage these people to ride the railroads?

MR. SHOEMAKER: I am going back over the years now. We went into radio programs in connection with the reduced fare and

newspaper advertising. It showed no results in improved travel, so that we have come down to the present time, right now today, and our promotion is largely through the public availability of time tables which are placed in public places as well as in our stations, in hotels and that sort of thing.

We have done specific advertising for unusual train service operations such as the race trains to Monmouth Park and we are carrying about 400 passengers a day to and from Monmouth Park during the season and for that we feel that newspaper advertising has been an effective tool.

SENATOR OZZARD: Then am I correct that the Jersey Central at least has reached a point of just throwing up its hands and saying, "We can't do it, the hell with it"? Is this the position we are in today?

MR. SHOEMAKER: No. I wouldn't put it that way, Senator. We are saying that we believe service is important to the economy of this State. We are saying that we cannot operate it economically and on even a break-even basis and we haven't the resources of our own to subsidize it and that that is why we have financially reached the end of the road because the long period of subsidy of passenger losses from freight earnings has become impossible as freight has become so competitive with trucks.

SENATOR OZZARD: When did you first come to the State for assistance, Mr. Shoemaker?

MR. SHOEMAKER: The first contract that we had with the State was in 1960.

SENATOR OZZARD: But had you appealed to the State prior

to that time?

MR. SHOEMAKER: I was not with the Central Railroad until '62, Senator Ozzard, but my recollection is that my predecessor, Mr. Moore, had urged upon the State for several years the development of some program of State participation in passenger losses.

SENATOR OZZARD: What I am getting at is - you state a period from the early '30's until to date when there has been a general deterioration of passenger service and I am just wondering what happened during all those years, what efforts were being made and, if there was apparent continuing loss, why something wasn't done about it then - why it got to the position it is in today? Why are the railroads in the state they are in today? What efforts did they make in between? Whom did they seek help from and what was done to keep it from reaching this total state of deterioration?

MR. SHOEMAKER: Senator, may I say to you that the railroads are a part of our private enterprise system and I think it was with the greatest reluctance that any of us in the East came to the conclusion that there had to be some answer beyond the capabilities of private enterprise with respect to commutation service.

If I may refer to my previous experience with the Lackawanna Railroad, I was Operating Vice President under William White, the then President, and after most careful consideration the Lackawanna made a terrific investment in new coaches, new diners, observation lounge cars and so forth, and established the Phoebe Snow between New York and Buffalo as the

finest passenger train in the East, if not the country, and it was. Our belief was - let's find out once and for all if modern equipment and good service, extensive advertising, will bring passengers back to the railroad and make the passenger service profitable. All we did with that great investment and the work that was put into it was to slow down the continued drift of passengers to the highways. That investment as an investment of private enterprise was a failure.

Now when you come down to what causes this sort of thing, we are in a social period where the convenience of the automobile is taking a substantial part of everything except rush-hour commutation travel. And if there were parking facilities and more tunnels and bridges and what have you, we probably would have less rail service than we have now - less rail patronage than we have now between New Jersey points and New York. The freedom of the automobile brings with it an acceptance of a lot of inconvenience with respect to travel delay. But it acts into a bind when the working man is involved and he has the obligation to be at work at a certain hour and so on. So then they come back to public transportation, which is so important to industry and to individuals alike.

SENATOR OZZARD: Mr. Shoemaker, I find this difficult to accept because there is certainly no convenience, none whatsoever, in driving an automobile into New York City because you can't drive to the various department stores and the theaters and park in front of them as you can out in my little country town. You have to take your car, leave it some place and then go to some other form of transportation just as you

do if you ride the railroad. It seems to me that private enterprise here has just plain failed. This is incidentally the heart of the resolution. If it has failed, are we now on the brink of going into public operation of the railroads? It is not convenient for the housewife today to drive Highway 22 at even ten o'clock in the morning. It was 9:30 or 10:00 when Mr. Ross and I came down. It is a hell of a road. It was difficult driving. It was tense. It wasn't pleasant at all. And a decent piece of equipment on the railroad would have brought us down on the railroad if we could have gotten into Newark. I can't get to Newark from Somerville on the railroad. I know the Aldene Plan will solve part of this. But it just strikes me that the automobile today in congested North Jersey and in Manhattan is no longer a convenience. It is a necessity because there is nothing else other than the bus transportation. And I find that buses coming from my area, at least, are packed. They, I know from the smaller companies such as Somerset Bus Lines and so forth, went heavily in debt to provide good transportation with good equipment and it has paid off. The buses are loaded. I know buses are your competition. But are they your competition because they moved ahead with the needs of the people and the times? At least, this is the way it impresses me. I am just wondering if it is possible, with proper investment and equipment, to get the railroads back to a point of public appeal.

MR. SHOEMAKER: As I stated earlier, we would have a far more salable product to offer people if we could give them decent equipment, modern equipment, that could be operated on a

good, fast schedule.

You come down to a basic question of economics here. With sufficient capital investment - and it has got to be large - as my associates told the Committee at its previous meeting, there is a real possibility that the passenger losses of the Central Railroad will be brought down at least under manageable proportions and, if it attracts additional traffic at reasonable fares, you can envision a break-even point. But as I have told Governor Hughes and Commissioner Palmer, when we are talking about that kind of a situation, we are talking about a capital investment of something in the neighborhood of fifty million dollars for electrification, for new equipment, for modern station facilities, for automatic train control, for improved signalling, all of these things, and grade crossing elimination, I might add, which is a particular problem for us, an expensive one, on the New York and Long Branch. Grade crossing protection down there costs us very close to \$600,000 a year - the New York and Long Branch. These things will take great sums, you see, of capital money.

Once that has been done, then the operation without debt service may well come very close to breaking even. But private enterprise, Senator, just hasn't the credit, let alone the funds, to go into this kind of an investment.

SENATOR OZZARD: At least as to capital investment, that would indicate that State operation or State intervention is necessary. Is that right?

MR. SHOEMAKER: If we feel that commutation service by rail is essential, I see no other alternative to it. That is

why I have endorsed a State agency of some sort that can at least take fiscal responsibility for this.

SENATOR OZZARD: Senator Stamler.

SENATOR STAMLER: Yes, I have a couple of questions.

Mr. Shoemaker, in line with Senator Ozzard's questions about your appealing to the commuters for continued riding, I have one of your Almanacs which you put out June of '65. Do you think that a commuter has any desire to ride on a railroad which you tell him is going to be bankrupt? Don't you think you chase more people away than you ask to ride your trains?

MR. SHOEMAKER: We don't think so, Senator. We have a policy of being completely frank with our commuters as to our financial situation.

SENATOR STAMLER: Are you as frank with the Legislature?

MR. SHOEMAKER: Absolutely.

SENATOR STAMLER: Well now, you said before that you were talking about bankruptcy. In this bulletin, this Almanac, you say, "I am glad to tell you that we are continuing to work with State officials in an endeavor to find a better answer or an answer better than early bankruptcy." So you are giving the commuter, because that's the fellow who reads this, the suggestion that you are on your way. As a matter of fact, the Central isn't going to last very long from your own Almanac.

MR. SHOEMAKER: We have told our commuters that and we have told the Legislature that, Senator, and it is unfortunately exceedingly true.

SENATOR STAMLER: All right.

MR. SHOEMAKER: We were very close to bankruptcy July 1st.

SENATOR STAMLER: Can you tell us what it costs New Jersey by way of subsidy per your commuter to the Central Railroad? Do you have any idea per commuter what it costs us, the State of New Jersey?

MR. SHOEMAKER: Well, on the basis of what? - fully meeting our passenger losses?

SENATOR STAMLER: Fully meeting your expenses because the reason I raise this question is that you asked the Union County delegation, of which I am a member, by way of a news release to do something with Commissioner Palmer and to get you more money.

MR. SHOEMAKER: Correct.

SENATOR STAMLER: Commissioner Palmer says that if we, meaning Palmer, went along with the request, it would cost the State of New Jersey \$533 per commuter or \$4 each per day per normal workweek for the balance of this year. Now what does it cost New Jersey, taking Mr. Palmer's figures, to subsidize that commuter's going to and from work?

MR. SHOEMAKER: If the State of New Jersey were to fully meet our passenger losses so that we are on a break-even basis with the present type of operation - we have 12,000 passengers a day - we have a \$7 million loss - taking 12,000 as our week-day carrying, forgetting for a moment Saturday and Sunday travel, which isn't very heavy - we are talking about a cost in excess of \$500 per passenger per year.

SENATOR STAMLER: Per year?

MR. SHOEMAKER: Yes, sir.

SENATOR STAMLER: More or less \$10 a week.

MR. SHOEMAKER: Yes.

SENATOR STAMLER: Through the year.

Now in line with that, on May the 20th, you put out a release which I kept and read many times and your release said: [Reading] "I have repeatedly over the last six months pointed out to the Governor and to his administration that without a minimum of \$5.6 million in passenger contracts, the Central Railroad will not be able to survive the year." Now have you got that \$5.6 million?

MR. SHOEMAKER: Where we stand at the moment, Senator - the blunt answer to your question is "no." The encouraging answer to your question is that we have been given two and one-half million dollars --

SENATOR STAMLER: No. Go ahead. I'm sorry.

MR. SHOEMAKER: [Continuing] -- of the \$5.6 million. That has been paid to us in July. With the help of the Governor, the Interstate Commerce Commission and the financial community at New York, a million-dollar obligation due July 1st has been postponed for one year, which cashwise since we didn't have to repay this million dollars which involved our first government loan, it is the same as getting another million dollars.

SENATOR STAMLER: All right.

MR. SHOEMAKER: That's --

SENATOR STAMLER: -- 3.3.

MR. SHOEMAKER: [Continuing] -- 3.3. We have had 2.5 and we have postponed a million dollars so that's 3.5, sir.

SENATOR STAMLER: Go ahead, sir.

MR. SHOEMAKER: The Governor has indicated that he has

discussed with the Legislature, the members of it at least, and it has been so reported in the press, that at least a million and a half more will be recommended by him in November --

SENATOR STAMLER: Now we have five.

MR. SHOEMAKER: [Continuing] -- which brings us up to five, leaving us a shortage of the \$600,000 that I felt was necessary at that time. So far as I can see right now today that is still necessary, sir.

SENATOR STAMLER: In other words, unless you get this \$600,000 you will not survive the year?

MR. SHOEMAKER: I would never say that for \$600,000 alone, Senator Stamler. Certainly we are going to try and overcome this through forced property sales or deferrals of work to next year or what have you, if we can.

SENATOR STAMLER: Well now, in line again with this statement that you made, you said that until a few days ago - this statement was made on May 20th - that the Central Railroad or the CNJ was reasonably satisfied through informal, but direct assurances, that enough State contract aid would be forthcoming in '65-'66 to enable you to continue commuter service and to permit the implementation of the Aldene Plan. Then you later go on and you say, "However, information received over the weekend makes it appear that no such assurance now exists." Now can you tell us who gave you the original direct assurance and who cancelled it out?

MR. SHOEMAKER: The original assurance with respect to this - you will recall that when the Governor's budget message came out, I wrote the Governor and advised each member of the

Legislature that the money in prospect in the recommended appropriation for passenger contract money, as far as I could see, would not be adequate to keep the Central Railroad going. We continued to work with Commissioner Palmer on the needs of the railroad, what could be done about it with respect to service changes and what have you.

SENATOR STAMLER: Well, did he give you the assurances?

MR. SHOEMAKER: And eventually it looked encouraging to him.

SENATOR STAMLER: Did he give you the assurances?

MR. SHOEMAKER: Informally, yes.

SENATOR STAMLER: -- the direct. Then they were cancelled. Now who cancelled them?

MR. SHOEMAKER: Well, the cancellation came about through the medium of the public hearing with respect to the Central Railroad's 1965-1966 contract, in connection with which the Rail Transportation Division made public, as they properly should, information as to what kind of a contract they proposed to make and how much money they would expect to provide to the Central Railroad and it was in that release to the public that the lesser amount of money was publicly confirmed.

SENATOR STAMLER: Now in line again with that statement, you said, "There is no further possibility of government-guaranteed loans." You pressed further that even if you are able to cut your '64 deficit appreciably, you would still be unable to avoid a cash drain severe enough to leave you without any money - without year-end money for working capital. Now is this all part of this \$600,000 that you are going to need?

MR. SHOEMAKER: Yes, sir.

SENATOR STAMLER: Further in your statement you said: "I have been informed by the Housing and Home Finance Agency administrator responsible for transportation that there is little or no prospect of Federal funds for the CNJ under the Mass Transportation Act." Now yesterday the papers say you got it.

MR. SHOEMAKER: No. You are mistaken. If I may explain this, sir --

SENATOR STAMLER: Go ahead.

MR. SHOEMAKER: In connection with our contract with the State, we are talking about receiving assistance in meeting cash passenger losses.

SENATOR STAMLER: Yes.

MR. SHOEMAKER: The Mass Transportation Act does not permit money to be allocated for passenger losses as such. The grant which the State has from the Federal government through HHFA is to provide capital funds for an expansion of the Aldene Plan. It does not add one cent to the State's funds available to participate in passenger losses. That is the distinction, sir.

SENATOR STAMLER: May I just read this Associated Press story out of Washington: [Reading] "The Federal government has allocated \$3.6 million to aid the Jersey Central Railroad and is studying a request for \$4 million more to combat commuter problems in northern New Jersey." Now there is no question about that, is there? I'm reading this.

MR. SHOEMAKER: Yes, I know what they said, sir. But it

is not clear from that release. The \$4 million related to the Erie Lackawanna, of course.

SENATOR STAMLER: Well, it doesn't say that, but part of it is apparently going to be. But you are not going to get any part of that \$4 million?

MR. SHOEMAKER: No, sir. Nor will we get any part of the \$3.6 million or whatever it may be.

SENATOR STAMLER: Who will get that?

MR. SHOEMAKER: Insofar as meeting operating expenses is concerned, no Mass Transportation money, Senator, can come directly to an individual railroad. It must come to a state or an authority or something of that sort.

SENATOR STAMLER: I understand that.

MR. SHOEMAKER: Now through the State, these funds will be used for the expansion of the Aldene Plan which I discussed earlier. But it doesn't change the continuing passenger loss situation one iota.

SENATOR STAMLER: Well, what will, except getting the commuter back?

MR. SHOEMAKER: What will? It is the matter of the State taking over responsibility for passenger losses for service which it feels is essential, if it does, and requires us to operate.

SENATOR STAMLER: Or the State setting up an authority to take over the commuter and freight transportation and the bus lines in the area.

MR. SHOEMAKER: It is the same thing whether you handle it through an authority or whether you handle it through the individual railroads. It is going to cost so much money to

operate this passenger service. The losses are there until these heavy capital expenditures are made.

SENATOR STAMLER: Do you believe that a State authority, properly operated, whether it be an interstate authority or a State authority, could operate your commuter service without the loss that it is presently being operated?

MR. SHOEMAKER: I do not until such a time as massive capital expenditures are made.

SENATOR STAMLER: Last week I asked Mr. Frederickson this question and he asked me to refer it to you: Do you think that it would assist the State of New Jersey at all if there were to be public members of your board of directors in order to make public reports as some corporations do, and incidentally our host here today has a couple of public members, the Prudential Insurance Company? Would this be an assistance in giving the Legislature and the public information as to what is wrong with the railroads and how they are being operated?

MR. SHOEMAKER: I would think not.

SENATOR STAMLER: You don't think the public membership would be?

MR. SHOEMAKER: No, sir. There are no secrets in our business, Senator, and the State of New Jersey today is policing our operations in detail through the Board of Public Utility Commissioners and its general mandate and through the Rail Transportation Division of the Highway Department with its specific mandate. Our books are completely open to these people. The operations are followed closely by these people. It isn't clear to me that a public member on the board would add

anything to the State's helpfulness or to our ability to operate.

SENATOR STAMLER: Well, do you believe that the Port of New York Authority could handle the operation of the commuter service - forget the freight service for the moment - since it is now in commuter service? Do you think that the Port could operate it?

MR. SHOEMAKER: I think the Port of New York Authority could be a vehicle to assume financial responsibility for the commuter service in New Jersey.

SENATOR STAMLER: Assume financial responsibility?

MR. SHOEMAKER: Yes, sir.

SENATOR STAMLER: Well, they have the money. How? How about the operational responsibility?

MR. SHOEMAKER: The operational responsibility can go to them. In the background of my mind, Senator, is the matter of property complications and ownerships, conflict with freight operations, long-standing employee relationships. I think that a contractual arrangement, whether it be the Port of New York Authority or a State agency or what have you, is a far more practical solution to this than envisioning an agency, whatever it may be, operating the commuter service. Now it can be done. It will have complications to it, very real ones.

SENATOR STAMLER: Now forgive me for the moment for being provincial because this applies directly to my county. What is going to happen with the service between Cranford and Bayonne - with the passenger service between Cranford and Bayonne?

MR. SHOEMAKER: Under the Aldene Plan?

SENATOR STAMLER: Yes, sir. I am assuming that we are going to complete that. I would hope so.

MR. SHOEMAKER: I do too and that should be next spring as far as I can find out now.

SENATOR STAMLER: From that date on, what is going to happen?

MR. SHOEMAKER: When the Aldene Plan is implemented, Senator Stamler, the through trains from Raritan and Hampton, the two from Philadelphia, will go directly into Newark by Aldene, the Lehigh Valley Railroad, Hunter, and the Pennsylvania Railroad. The passengers for our present Roselle station area for Elizabeth, Elizabethport, Bayonne and down to 22nd Street will be handled by connecting train service from Cranford which will operate hourly from six o'clock in the morning until Midnight and which will operate at fifteen-minute intervals during the rush-hour periods. I am correct on that fifteen minutes, am I not, Mr. Frederickson?

MR. FREDERICKSON: Yes.

SENATOR STAMLER: There is no thought of discontinuing that line?

MR. SHOEMAKER: Not the slightest. We have agreed to operate this service. There are a lot of people working in Bayonne --

SENATOR STAMLER: I know there are.

MR. SHOEMAKER: [Continuing] -- Senator, including at the Naval Base, which live out along the railroad. We at no time have had any other thoughts than to operate this service

and we are in agreement with the State of New Jersey to that effect.

SENATOR STAMLER: Now are we going to subsidize part of that service?

MR. SHOEMAKER: It will be a part of our over-all passenger service. It is not a segregated part at all.

SENATOR STAMLER: You are going to continue to run freight on those lines.

MR. SHOEMAKER: Yes, sir.

SENATOR STAMLER: Now just one or two last questions - How many outstanding bonds are there of the Central Railroad now - about?

MR. SHOEMAKER: About \$42 million of general mortgage bonds.

SENATOR STAMLER: Well, can you account for the fact that today they are selling at 42 or 43 if your railroad is in such horrible shape?

MR. SHOEMAKER: I don't attempt to evaluate the bond market or the stock market, Senator.

SENATOR STAMLER: I am serious. I don't understand this.

MR. SHOEMAKER: I never have understood these markets and don't pretend to do so now. I think one of the things - I am giving you a surmise entirely - one of the things that has held up CNJ bonds over the years has been the general public impression that we have a tremendous - that the bondholders have a tremendous asset available to them should the railroad go into bankruptcy in the meadowland between Elizabeth and Newark of which we have about 650 acres.

SENATOR STAMLER: But not \$42 million worth.

MR. SHOEMAKER: Heavens no, and, of course, that whole meadowland picture is very foggy now because of this riparian right question.

SENATOR STAMLER: Foggy is a good word for the area. I just don't understand that 650 acres could be the collateral, the financial collateral, for a \$42 million debt. There must be another asset which the bondholders deem that you have. It is either the freight service --

MR. SHOEMAKER: Well, the general mortgage bonds, Senator Stampler, are secured by the entire physical property of the railroad --

SENATOR STAMLER: Of course.

MR. SHOEMAKER: [Continuing] -- and its equipment. I merely pointed out that this particular piece of physical property has generally been regarded over the years as one of the prime assets of the Central Railroad.

SENATOR STAMLER: Well, could it not be possible that there is some substance in the strength of your freight service as part of this physical asset under the \$42 million - that some day you are going to pay this thing off?

MR. SHOEMAKER: Well, I am sure that the bondholders hope that they will be paid off. This is indebtedness which becomes due in 1987.

SENATOR STAMLER: You haven't defaulted on these?

MR. SHOEMAKER: No, sir. We have paid interest, but there has been no amortization.

SENATOR STAMLER: Thank you, sir.

SENATOR OZZARD: Senator Hillery.

SENATOR HILLERY: Mr. Shoemaker, I was one of the co-sponsors of the bill that set up the Rail Transportation Division about five years ago. Senator Lance was the chief sponsor. And at that time we insisted that we have a separate Rail Transportation Division for New Jersey and Governor Meyner insisted that it had to be put in the Highway Department or he would not sign the bill. This is no reflection on Mr. Palmer. I know he has worked very hard and I don't know how a man can carry all the responsibilities that he carries dealing with the railroads and the highway needs of the State. Do you think that probably it would have been better if we had a separate Rail Division - Transportation Division for New Jersey rather than having it incorporated in the Highway Department?

MR. SHOEMAKER: At the time this was established, Senator Hillery, I too leaned toward a separate organization. I have got to concede that the coordination in planning as between rail service and highway service under the one Commissioner has been an asset to the program. And I cannot honestly state that I think the thing was wrong. Whether we continue it indefinitely as an arm of the Highway Department or not becomes an important question of good government.

SENATOR HILLERY: Well, I can tell you that just before the Senate adjourned for the summer recess there was a terrific feeling of frustration among the Senators about the reports that they were getting from the railroads and from the Division about any future plans to save commuter services for New Jersey and all we were hearing about were additional subsidies. I

was the chairman of the Appropriations Committee and I heard the appeals made there. And we were just wondering at that point and we are hoping that there was some future plan to preserve commuter service for New Jersey and there didn't seem to be any. I think my colleagues will bear me out in this because I know that Senator Sarcone was one of the ones who came to me and asked me if we weren't going to call a special meeting to find out if there were any specific plans for the future to save the railroads because the commuters in our areas were appealing to us to find out what their status was and we couldn't tell them.

MR. SHOEMAKER: Senator, I think we have all hoped that there was some answer to this commuter problem that involved less dollars than are actually in the picture. The progress which had been envisioned by the Rail Transportation Division with the railroads has been impeded by the lack of funds to keep the railroads, themselves, afloat. And we finally have come to a situation where losses alone on the three major railroads handling passenger service, I think are something between \$15 and \$20 million a year. That is losses in just doing what we are doing.

The first improvement, betterment, out of this that has been in prospect is the Aldene Plan on the one hand and the new equipment for the Pennsylvania under this year's contract on the other. Those are the first two steps of improvement out of this effort that are coming into reality. But it is going to take a great deal of money.

SENATOR HILLERY: To me this program has left the

impression on my mind, it's like supporting poor relatives. You can keep on supporting them all of your life. But at one point if you get tired of it, you ought to have some plan to get them back on their feet so they can take care of themselves or else you will be saddled with them until the day you die and somebody else will take care of them.

Now this problem, as you explain here, has probably been going on with the railroads over a period of fifteen years, is that right? I mean, there has been a decline in the commuter service prospects over a fifteen-year period?

MR. SHOEMAKER: I am sure there has been a steady increase in losses and a decrease in suburban passenger carryings in the area generally since the end of the war, sir.

SENATOR HILLERY: This is private enterprise and I don't think any big corporation would sit by for fifteen years and see a thing like this happen without trying to do something about it or trying to reorganize or trying to solve the problem. You have endeavored to place a great deal of stress on the private car here this morning. I happen to know that what robbed you people of most of your gravy up in Morris County and those areas were the bus lines that came into being and picked up all the people and took them into the city. It wasn't the private cars as much as it was the bus lines. I can't understand - I mean, in private industry when you have a competitor like that you either get in that business yourself or you do something about it.

MR. SHOEMAKER: Senator, we can't go in the bus business.

SENATOR HILLERY: Well, if there was some way that you

could compete with the bus lines --

MR. SHOEMAKER: One of the things nationally that has been frustrating to us is that the railroad industry cannot go into the public trucking business, we cannot go into the bus business, we cannot go into the air lines business.

SENATOR HILLERY: There are a lot of changes made in Trenton every day with legislators who provide ways and means of doing things. Did you ever make any attempt to try to go into the bus business?

MR. SHOEMAKER: This is a national thing under the Interstate Commerce Act.

SENATOR HILLERY: I know that, but I am still telling you things can be done through the Congress and the Legislature. Plenty of changes are made.

MR. SHOEMAKER: Some things can be done through the Legislature. All I am suggesting is that this is more than an intrastate problem, sir.

SENATOR HILLERY: Now there is another item here, the last one that I wanted to talk about. You are suggesting that it is going to need \$50 million of capital money coming from the State of New Jersey, I presume.

MR. SHOEMAKER: Or some place.

SENATOR HILLERY: Well, the State will probably be the "some place" in the eventual end of it if it is done. Do you think it is fair to ask the people in New Jersey, if they are the ones who are going to put up the money, to provide \$50 million for capital improvements for a facility that has been deteriorating over fifteen years without having them

participate in the management of the facility when they give the \$50 million?

MR. SHOEMAKER: Let's take this apart just a little bit, Senator. First of all, we are talking about a public service and, if it is essential, money has got to come from some place, either the public or private interest. We can't provide it from the private sector to meet this kind of a need.

Now the State of New Jersey has been participating in the management of every railroad ever since I have been in the railroad business through the Board of Public Utility Commissioners. It is participating in the management of commutation service today through the Rail Transportation Division and would certainly continue to do so through whatever agency might be involved in supervising operations. I think there is a participation in management.

SENATOR HILLERY: Well, you indicated here that you are not very receptive to having public members on the board of your railroad management.

MR. SHOEMAKER: I just don't think it would add anything for the protection of the State or the benefit of the railroads, sir.

SENATOR HILLERY: I think the people would like a better guarantee than that if they are going to put up \$50 million for a facility that has deteriorated over a fifteen-year period, to know that if they are putting this money in there, they are going to have something to say about how it is going to be spent and how it is going to be managed - the promotional end of it and the rest of it.

MR. SHOEMAKER: I think if the Legislature, Senator, under these conditions has misgivings as to policing what is done with this money and that sort of thing, the safeguards ought to be through State agencies that are rigidly required to supervise us in every reasonable particular. What I am suggesting is: It isn't in the board of directors that you get the detailed control of management.

SENATOR HILLERY: Well, the only thing I can tell you is that the legislators were completely frustrated as to the future of this problem when they left there at the start of the recess, having been guaranteed that these helps and aids were going to improve the situation. It is almost like the water situation today. They are the two worst problems we have in New Jersey.

MR. SHOEMAKER: Well, the aid so far until the Aldene Plan becomes a reality has been only a holding situation and it has not been in sufficient quantity to really be a holding situation and that is why we have had to be on your door step.

SENATOR HILLERY: There has been no general plan placed before the Legislature to say "Look, we are moving in this direction and now we are going to have eventually this problem settled to this extent." There has been nothing of that nature. It has all been appeals for additional money. They are going on today even with the Legislature out of session. We are being told that we are going to go back and give so many more million dollars. But nobody has a plan laid out as to what the future of this situation is going to be.

MR. SHOEMAKER: Well, I was under the impression that the

Highway Commissioner had presented in his series of reports a plan of what he envisioned being done over the years. Now I think he has gotten into some revision of that through the Mass Transportation Act and the possible supplementation of State efforts with Federal money.

SENATOR HILLERY: That's all I have.

SENATOR OZZARD: Mr. Shoemaker, you personally seriously believe that a management that has brought or allowed or be under its control, whatever it may be - headed up an activity that is per your statement bordering on bankruptcy should be allowed to continue absolute separate control when some other outside body, be it the State or private lenders, want to put money into it and revitalize it - that that management should continue to operate that when it has proved in the past that it couldn't?

MR. SHOEMAKER: No. That isn't the point at all, Senator Ozzard. The whole principle of our private enterprise system in this country involves operations hopefully for profit. Any normal business that had an operation that lost money, as our passenger service loses money, would stop manufacturing that and he would diversify and go into something else. We haven't been permitted in this kind of a public business to go out of the passenger business. So in the light of that we have been doing the best we can with it.

Now as to the general operations of the company, the company is owned by stockholders. The stockholders at their meeting elect a board of directors and the board of directors elect or appoint, as the case may be, a management. If we have incompetent management as such, that management ought to

be fired. And that is the pattern in private business from one end of this country to the other. Competency has to be a part of good business operations. The addition of a watchdog, if you will, type of philosophy from the State in connection with what is an interstate business and in connection with which the State has no stock interest is a departure from anything that I have been exposed to. I think the State if it feels - and I have told Governor Hughes this -- if the State feels that our administration of the Central Railroad is incompetent and the State has an interest because of its participation in our passenger losses, it ought to say to the CNJ's board of directors, "Here are the facts. We think it's incompetent. We recommend you get another management." The board of directors are the ones that have the personal responsibility with respect to the management they have. That is the pattern of American business generally.

SENATOR OZZARD: I know this and the next question is not meant to reduce this to a personal level, but I have to know to condition my thinking. What was the status of the Erie Lackawanna in '62 when you left, Mr. Shoemaker, financial status?

MR. SHOEMAKER: The Lackawanna was merged into the Erie - it became Erie Lackawanna - in October 1960. During the late '50's the Lackawanna was having difficulties with changes in freight business, dropping of anthracite and so on. The passenger losses were real. The merger with the Erie seemed to be a desirable thing. After the merger took place, I was no longer a part of active management of the Erie Lackawanna. I became vice chairman of the board and then the chairman of

the board, but was not in the active management of the railroad.

SENATOR OZZARD: Wasn't it in rather serious financial difficulty in 1962?

MR. SHOEMAKER: In '62, the answer is yes. It was operating at a loss and has operated at a loss every year since the merger.

SENATOR OZZARD: Thank you.

Senator Sarcone.

SENATOR SARCONE: Mr. Shoemaker, in connection with the question that Senator Hillery raised, you indicated earlier that there has been a great deal of cooperation with the Highway Commissioner as head of the Rail Transportation Division and there has been coordination. Senator Hillery reminded me of what occurred at about the time that the Appropriations Committee was in session. You recall you appeared and related a great deal of information in connection with the plight of the railroad and at that time we learned - and I recall I questioned Mr. Palmer directly - that the Alcene Plan wasn't going to be a reality when we expected it would be and now you have indicated that there is a holding action for reasons which you have outlined. We were told at that time by Mr. Palmer - I believe it was the first time we learned of it - about this demonstration project with Erie and from the press we learned at that time from I believe Mr. Cole who was the head of the agency that would disperse this money that this appeared to be a subsidy and might not qualify for Federal funds. It was then that I communicated with Senator Hillery because we had listened to you and others and we had listened

to the Commissioner. But the Committee at that time felt that there was not any information forthcoming where we were going anywhere nor was there any direction given to this entire problem. Now you are very close to this situation and I think this is what Senator Hillery was driving at - as of today do you know of any direction that we are going in connection with this over-all problem other than meeting the crisis on a day in and day out basis? Has anything been made known to you by any member of the Executive as to where we are going - in what direction?

MR. SHOEMAKER: Senator, I don't think I am saying anything that hasn't been made public. As to improvement in the Central Railroad's picture, we have the Aldene Plan coming into being next year. After job severence is taken care of, which will take the best part of two years, the effect of the Aldene Plan will be to reduce our losses in excess of one and one-half million dollars. Now that is the Aldene Plan as initially proposed and worked out by the Rail Transportation Division.

The second step of improvement in this thing relates to the plan of the State to expand the Aldene Plan to provide improved parking facilities, high-level platforms at stations, mechanized ticket handling and hopefully some concentration of stations into important park and ride centers. The effect of that will be a second improvement in the economics.

A third program of the State which I think has been discussed in a very brief fashion relates to an additional application to HHFA for money to electrify our main line and

carries with it the need for replacing equipment. That will be a third step in the State's program so far as the Central Railroad is concerned.

A fourth step affecting both the Pennsylvania and ourselves because we jointly own the New York and Long Branch Railroad involves the extension of the electrification on the Long Branch, the matter of grade crossing elimination or at least change to electronic protection and the providing of modern equipment down there with a fully electrified operation.

So we really have four steps in State planning already involved so far as our own railroad is concerned. Now I can't talk with respect to this on behalf of the Pennsylvania Railroad or the Erie Lackawanna Railroad because I don't know the details of what may be involved with them. But so far as the Central is concerned, there is in prospect with the help of Federal money a plan over the next few years - at least a plan which offers very substantial possibilities for more economical operations and above all a much improved service to the public.

SENATOR SARCONE: Mr. Shoemaker, I am limiting it to your railroad. It would be unfair to question you beyond that. I know you were disappointed - we were all disappointed that the Aldene Plan won't be completed when it was expected to have been. You have indicated this is a plan generally in stages. But when? You said several years. When could this become a reality? Wouldn't we have to continue, if we are going as we are now, to subsidize until this becomes a reality?

MR. SHOEMAKER: Without any question, sir. I see no

other answer to it.

SENATOR SARCONE: I should probably ask this question of Mr. Palmer - but when is the expected completion date of Aldene now?

MR. SHOEMAKER: The Spring of 1966.

SENATOR SARCONE: Spring of '66. Now the other improvements - the other programs you mentioned - the other three steps - this would take a number of years?

MR. SHOEMAKER: No. I would think that the high-level platform matter and the improved parking areas could be substantially completed in 1966. I think the third program involving electrification, if applications are made and Federal funds are available and the State's participating funds are made available, that that could readily be a 1967 project.

SENATOR SARCONE: And if these are completed, these three programs, do you think then that you would be able to operate passenger service at a break-even point?

MR. SHOEMAKER: I think that our passenger losses will be substantially reduced. I think that the answer to your question with respect to break even goes to a hope upon our part that we can't substantiate, namely, that the improved equipment and improved service will bring back a substantial number of people to the railroad, thus increasing our revenue picture.

SENATOR SARCONE: Mr. Shoemaker, I read in the press - and all I know is what I read in the press - in connection with the application that I referred to earlier - something reported yesterday having to do with this demonstration project with the

Erie - what I read about it included the use of buses.

MR. SHOEMAKER: I read that too, Senator.

SENATOR SARCONE: I believe one run was eliminated and buses were replacing it. From what you are telling us and, at least, in response to a question put to you by Senator Hillery, you indicate you can't go into the bus business. Would this come into being by coordinating the use of buses which would not be part of a railroad?

MR. SHOEMAKER: I would think so.

SENATOR SARCONE: From what you are saying, it would have to be.

MR. SHOEMAKER: The Central Railroad of New Jersey published in its time tables a bus service to Flemington after rail service between Somerville and Flemington was discontinued. We did not operate the service. We arranged with a private bus operator who had authorized rights to perform the service.

SENATOR SARCONE: Then what you are telling us, again in view of the prohibition, is that this would have to be accomplished by coordinating or cooperating with a private bus company?

MR. SHOEMAKER: Yes, I would think so.

SENATOR SARCONE: Now one more question - it may take one or two questions to get it over though. If a public agency is created or a public authority, in view of the entire mass transportation problem, particularly in our metropolitan area when you consider highways and transportation on rubber, would it be best, if one were created, to have an agency operating one phase or would the agency of necessity have to operate all

phases so that there would be coordination and cooperation?

MR. SHOEMAKER: When you say "phases," you mean as between bus and rail service?

SENATOR SARCONE: Yes, bus and rail.

MR. SHOEMAKER: I would surely think that it would be highly desirable that the agency would have coordinating authority as between bus and rail. Now the facts of life are that, as Senator Hillery pointed out in Morris County, bus lines operating on free highways, untaxed highway, if you will, can perform and provide a very real competition. When the Garden State Parkway was opened up - and it parallels the New York and Long Branch - the passenger carryings of the Pennsylvania and the CNJ over that railroad, and we both operate over it, were sharply reduced.

Now a bus line in order to go into business has to have a certificate of convenience and necessity approved by the Public Utility Commission for intrastate service. I think there should be a very real coordination under mass transportation supervision of the quantity of bus service and the quality of it, the extent of it, as to where it goes and what it does, or it can be self defeating with respect to a rail support program.

SENATOR SARCONE: I have no further questions.

MR. SHOEMAKER: One of the weaknesses of the Rail Transportation Division now is that they have no authority whatsoever under the statute with respect to bus operations or bus franchises. That responsibility is still with the Board of Public Utility Commissioners.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: I got here too late to ask any questions. I missed too much.

SENATOR OZZARD: One last question, Mr. Shoemaker, and then I think we can let you go if you wish. We note that your railroad lost money in freight operations last year - not as much as it did in passenger, of course. In spite of this, we further note that you have invested in twelve new high-power freight locomotives. You didn't have enough for down payments so you traded in some of the old equipment.

MR. SHOEMAKER: Right.

SENATOR OZZARD: You have some sort of a committee or commission that is actively seeking to expand freight facilities or develop them. You have done a great deal of work in improving the freight service into the mid-west so that you can capture back some of the lost freight traffic and so forth. We also understand you haven't done anything other than the \$14,000 you spend each year in advertising to improve or develop a greater interest on the part of the public in passenger service. Could you tell me why?

MR. SHOEMAKER: We go back to a picture, I think, Senator, of a private business hopefully operating for profit. Now the loss last year in freight operations on the Central Railroad was in part occasioned by the tug boat strike in New York City which affected our coal business very substantially and very adversely and the De Angelis bankruptcy which took some 10,000 cars a year away from us of vegetable oil and so on. We had something of a temporary situation so far as last year's

loss is concerned. The hope of continuing the Central Railroad is in having a profitable freight service. Now the railroad has side-track connections with just under six hundred industries in the State of New Jersey. It serves some two thousand industries in the fifteen counties in which the railroad operates.

The freight service offers some hope of a profit potential, some hope of carrying the railroad, some hope of paying off our bonds, some hope of paying the conditional sales contracts and equipment costs on equipment in which we have invested. The passenger service to the contrary - it is now very apparent that there is no possible hope for profit in it and in the absence of it making a contribution to the company, in the reality of it being a detriment to the company in so far as freight operations to New Jersey industry are concerned, if we had a very comfortable cash position, if we were in good financial shape, I think we would hesitate to make heavy investments in commutation passenger equipment because the possibility for profit is just not there with the characteristics of the business that obtain.

SENATOR OZZARD: So that the Jersey Central at least sees no possibility of revitalizing passenger service. It means that you want out or you want the public in. Is that right?

MR. SHOEMAKER: I see no possibility as a private company of operating our passenger service profitably.

SENATOR OZZARD: This means that the State must come into the picture.

MR. SHOEMAKER: If the service is regarded as essential to the public?

SENATOR OZZARD: Yes, we are taking that as a presumption.

MR. SHOEMAKER: Yes.

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

SENATOR STAMLER: Could I ask Mr. Shoemaker just a couple of question in line with his testimony?

SENATOR OZZARD: Surely.

SENATOR STAMLER: You said that since the Parkway was opened this damaged your commuter position or at least your passenger transportation position to the shore area.

MR. SHOEMAKER: Yes, sir.

SENATOR STAMLER: Now didn't you at one time - of course, I am going to date myself now - didn't you at one time have another line down there that hasn't been used in years that almost parallels the other line, the New York-Long Branch Line? I think it was called the Blue Comet area.

MR. SHOEMAKER: The geographical picture on the railroads, Senator Stamler, is that our passenger service goes down along the shore on the New York and Long Branch Railroad from Perth Amboy, South Amboy, Matawan, Red Bank and Asbury Park and so on. At Red Bank we have a line which turns off to the south and goes down through the middle of the State to Winslow Junction and Bridgeton and Mauricetown.

SENATOR STAMLER: Does that carry passengers?

MR. SHOEMAKER: And that carries no passengers at all.

SENATOR STAMLER: Just freight.

MR. SHOEMAKER: At one time that carried passengers. Barneget Branch has a connection on it through Toms River. At one time that carried passengers. The Blue Comet to which you refer went down over this line. The development of highways simply took the patronage away from these trains and they were eventually discontinued.

SENATOR STAMLER: Couldn't that some day be a high-speed line since you have the rails and since the freight is using it?

MR. SHOEMAKER: It is still an active freight railroad. It could be rehabilitated into a passenger line. Of course, it would take some money.

SENATOR STAMLER: Now one other thing in line with the fact that we are a legislative committee - you said that since the Public Utilities Commission controls the bus authority --

MR. SHOEMAKER: The Public Utility Commission is the --

SENATOR STAMLER: -- controlling authority of all buses.

MR. SHOEMAKER: -- intrastate buses.

SENATOR STAMLER: Do you suggest then that legislation be introduced to take away from the Public Utility Commission the authority on buses as it has on railroads?

MR. SHOEMAKER: Senator Stamler, we have had considerable discussion in the State with respect to the establishment of a Department of Transportation, if you will, and there has been similar discussion at the Federal level. I am not one who believes that the promotional aspects of transportation and the regulatory aspects of transportation should be put in the same ball of wax. I think that they are distinctly separate. I think the public requires the protection of regulatory aspects

being separate.

Now with respect to the promotional aspects that we are talking about here, namely, the coordination, the potentiality of the coordination between rail and bus operations, the damages which can occur if they are not coordinated - there we get into a promotional side of the deal that fits pretty closely into the regulatory side of the Utility Commission.

SENATOR STAMLER: I meant particularly, Mr. Shoemaker - we not too long ago passed legislation which took from the Public Utility Commission certain authorities that it had had with railroads.

MR. SHOEMAKER: Only over passenger fares and passenger schedules.

SENATOR STAMLER: Right - exactly that. Would that same thing apply with buses? In other words, would legislation introduced applying to buses alone and taking that away from the Public Utility Commission and giving that to the Highway Department --

MR. SHOEMAKER: I think that is one way of effecting a better coordination than we have today, sir.

SENATOR STAMLER: Now one last question: Has merger ever been considered - discussed - as the possible last source private enterprisewise of saving our commuter lines - merger of the three big lines in New Jersey?

MR. SHOEMAKER: The answer to your question, Senator, is no. But I am at a loss to understand how the merger of the three lines would change the economic facts of life one iota with respect to the commutation business.

SENATOR STAMLER: I have no idea. I am trying to find out so that possibly some legislation could be considered. Since we now have the position, good, bad or indifferent, of having subsidized all three railroads in New Jersey, possibly the strengthening of the executive head of the three railroads by making it a railroad might cure the constant deficit that we are going to run into. And in answer to Senator Sarcone's question, it appears as though subsidy is going to be here for a long while.

MR. SHOEMAKER: Well, of course, this is completely impracticable at the State level and I mean it in this sense.

SENATOR STAMLER: It's possible. I don't know. I'm not a railroad man.

MR. SHOEMAKER: We are talking about three interstate railroads, the Pennsylvania having operations to Washington, Chicago and St. Louis; the Erie Lackawanna to Chicago; and ourselves into Pennsylvania.

SENATOR STAMLER: And St. Louis.

MR. SHOEMAKER: The CNJ into Pennsylvania only. These are interstate railroads. They are in competition with each other to a considerable degree on freight traffic. They are owned by the public. It is not clear how a merger could be accomplished other than through some mandatory means through the Interstate Commerce Commission and through the alleviation of such injustices as might be done to investors. But after all that is done, we haven't changed the characteristics - the economic characteristics - of the commuter service at all. We still have the rush-hour travel, the poor utilization of

manpower and equipment. You would get some standardization of equipment, but that can be done by the State today if it puts money into this field.

SENATOR STAMLER: Thanks very much.

SENATOR OZZARD: Mr. Shoemaker, thank you very much for appearing. We appreciate all you have given us. We may have to call upon you again, but this helps.

MR. SHOEMAKER: I would be more than happy to appear again and I very much appreciate the courtesy, Mr. Chairman, of you and the Committee and I am glad to have been here.

SENATOR OZZARD: Thank you.

We will take a five-minute break.

[Short Recess]

SENATOR OZZARD: I will call the meeting back to order now. For the purposes of the record I would appreciate the three gentlemen from the Pennsylvania Railroad identifying themselves so that it can be on the record.

MR. MORRIS: My name is J. D. Morris. I am Assistant Vice President, Special Services.

MR. DIFFENDERFER: James W. Diffenderfer - Director of Special Services.

MR. HILL: C. S. Hill, Manager, General Accounting.

SENATOR OZZARD: Gentlemen, I think you may know all the Committee by now - Senator Hillery, Senator Stamler, Senator Sarcone, Senator Lynch and myself, Senator Ozzard.

I believe you are aware of the function of this Committee and I think it is well stated in one paragraph of the rather short resolution, and that is "to make a study of

passenger and freight railroad operations within this State and the advisability and practicability of providing for the creation of a public authority with power to acquire and operate passenger and freight railroad facilities."

We would like, first of all, for you men as spokesmen of the Pennsylvania - you may select the one you wish to speak first - to give us a financial picture of the railroad, both freight and passenger, as it presently stands.

J. D. MORRIS: I don't have a prepared statement. In fact, my indications were that you didn't particularly care for one.

SENATOR OZZARD: That's right.

MR. MORRIS: I will in the time we have make references maybe to figures. We do have a pretty good sized company. We have something like \$2,400,000,000 assets. That is a lot of money, but it's a lot of rails, a lot of property and so forth.

The Pennsylvania Railroad reported income last year of \$29.1 million in net income. It sounds like a lot of money to a lot of people because a million dollars sounds like a lot to me. However, on revenues of nearly a billion dollars, this is not anything to feel proud about when you consider that of that money something over \$29 million came from dividends and so forth from other companies not Pennsylvania Railroad connected. The evidence is that the Pennsylvania Railroad itself lost nearly a million dollars last year on railroad operations.

SENATOR OZZARD: This is in over-all operations?

MR. MORRIS: Yes, sir. Our loss in passenger alone was 34 plus million dollars.

SENATOR OZZARD: And that's all passenger?

MR. MORRIS: That's all passenger. Of that, 17 1/2 million was commuter, and of that 9.3 million the State of New Jersey.

SENATOR LYNCH: What was that last figure?

MR. MORRIS: 9.3 million. You have raised the question - we have something like 522 million dollars of debt coming due from 1966 on to the year 2000.

SENATOR OZZARD: How do you make a determination that 9.3 million was State of New Jersey? Where do you make this break?

MR. DIFFENDERFER: This is made in the annual report to the Division of Railroad Transportation based on an accounting formula developed in cooperation with the Division in an effort to determine the passenger results in suburban service operations in the State of New Jersey of all the railroads. This is done by each of the railroads reporting to the Division of Railroad Transportation and this report has been made each of the years that the Division has been in operation. As Mr. Morris pointed out, last year it was \$9,374,000.

SENATOR OZZARD: No, that is not quite what I mean, Mr. Diffenderfer. How do you arrive at an allocation of 9.3 million to charge to passenger losses in the State of New Jersey? What formula do you use?

MR. DIFFENDERFER: As I point out, this was done through

a formula and accounting procedures set up by the Division of Railroad Transportation to pinpoint costs specifically for the operation of suburban service in New Jersey, the cost of crews, the cost of power consumption, the cost of operating stations in New Jersey, the cost of the cars that were used - everything like that.

SENATOR OZZARD: Well, you operate a rather heavy interstate traffic, do you not?

MR. DIFFENDERFER: Yes. Those costs are excluded from this.

SENATOR OZZARD: Are you talking now of only the passenger service that is contained within the State - nothing that comes from without the State?

MR. DIFFENDERFER: The passenger service that is covered under contract with the Division of Railroad Transportation, which is only the service operated for the benefit of New Jersey commuters and residents.

SENATOR OZZARD: And what do you charge to this? What specific areas of expenses are charged?

MR. DIFFENDERFER: Every area of expense that is connected with the railroad operations, such as the cost of the crews, the cost of power, locomotive repairs, the cost of maintaining equipment, station agents, the cost of stations, the heavy taxes we pay in New Jersey - things like that.

SENATOR STAMLER: May I interpose one question in order to straighten this out? Do you charge on this item any cost of the delivery of the passenger - I think this is what Senator Ozzard means - from let's say Newark to the Pennsylvania

Station in New York?

MR. DIFFENDERFER: Oh, yes.

SENATOR STAMLER: That is out of the State.

MR. DIFFENDERFER: Well, for about a mile.

SENATOR STAMLER: Well, New York is out of our State.

MR. DIFFENDERFER: Well, just the same as the ferry service is related to the operations of the other railroads.

SENATOR STAMLER: That's what you meant, didn't you?

MR. DIFFENDERFER: In other words, it is a New Jersey passenger that is going over into --

SENATOR OZZARD: Let me be very blunt about this. There have been repeated suggestions - Is that the right word? - that the railroads have a very easy bookkeeping system within which to transfer expenses from one activity to another. In other words, by upping the percentages of the cost of maintenance of the main trackage, they can load this upon passengers and avoid charging the full share to freight, for example - in other words, a convenient bookkeeping system. What I am trying to find out is just what approach do you use to determine the passenger losses for the State of New Jersey? You keep telling me that this is a report. I am trying to get behind the report.

MR. HILL: Perhaps, Senator, I can dispose of part of this concern. The accounting procedures that are employed, that is, the initial recording of transactions, whether they are labor, material usage or other kinds of detailed transactions, are booked in accordance with a very rigid identification classification of items prescribed by the Interstate Commerce

Commission. The Interstate Commerce Commission belabors us frankly very heavily that we observe specifically the rules that are set up. They assure themselves of this observance with periodic and very intensive examination of the accounts. So we begin with a record that is established under regulation where the conformance with regulation is verified.

The second problem that is posed with the record is ascertaining what part of a total is identified with parts of service. Some of the items which we recognize as either passenger or more specifically commuter-passenger work are clearly identified by their nature as being exactly those items. Crew costs for handling a commuter train, for example, supplies or materials consumed on a commuter train, the cost of maintaining the commuter equipment, have no area of overlap. These are specifically identified with the operation that we are dealing with here, the commuter.

There are some costs, that is, those costs which are used in common either with other passenger service or with freight and passenger service, that do require allocation - that do require division. Now the divisions of these costs are made according to rules first established by the Interstate Commerce Commission, separating between freight and passenger service. Secondly, within the passenger service, those costs are then assigned to commuter or through traffic on the basis of both the State's required formula and that formula in harmony with frankly the over-all accounting approach dictated by the ICC. But what this boils down to is that there is a convention - there is a proration - that is

observed of costs. But these conventions or prorations are rigidly enforced both by your State and by the Interstate Commerce Commission.

SENATOR OZZARD: That is more directly what I was trying to seek. There is then a public record which at a later date, if we get some money and hire some accountants, we can examine to make a determination as to the allocation of these costs?

MR. HILL: That is correct.

MR. DIFFENDERFER: May I say that your people have been doing that. This is one of the activities --

SENATOR OZZARD: Not our people, maybe somebody from the Executive Branch.

MR. DIFFENDERFER: From the Division of Railroad Transportation.

SENATOR OZZARD: But we have our own ways of asking questions and seeking things that the Executive might take a different view of, the Executive Branch itself.

The Pennsylvania has a subsidy program which I understand at the moment is directed toward new equipment.

MR. MORRIS: May I interject my interpretation of a subsidy and I'd like to ask yours in return. If you and I are standing over in the Newark Station and I am not employed by the railroad in this case and we want to go to Uptown New York and the fare is 55 cents and you only have a quarter and I advance you the 30 cents, who is being subsidized, you or the Pennsylvania Railroad?

SENATOR OZZARD: It is a good question - the subsidy of

passenger.

MR. MORRIS -- of the commuter. That's right. Yes, we have as well as the other railroads, of course, had a contract for service, we will say, with the State of New Jersey and I'd like to compliment the State of New Jersey on having such foresight.

Last Spring in one of my many meetings with Commissioner Palmer in endeavoring to get a fare increase which he is very rigid about and will not bend an ear at all - he just looks at me and laughs and I threaten taking off service and he says, "You will not," and so forth --

SENATOR OZZARD: Not right before a gubernatorial election.

MR. MORRIS: I don't get into politics. Anyway that's the way I am faced with the facts. So I said to him, "This amount of money" - I was speaking of State money particularly and he is the administrator - "is not coming anywheres near our losses. It could be cut if we had better equipment." I said, "Why don't you buy us 80 cars - buy the commuters 80 cars - and we would agree to maintain commuter service for x number of years." I used 10 or 15 to be specific and he heard the 15 and I only heard the 10 and I told him we could waive at least that \$1,799,000 that we received for this past fiscal year. And the Commissioner, whom I consider a most able business man, took this as a pretty good situation and made a study of it and we are now in the process of negotiation on that score.

SENATOR OZZARD: This is not a one-year proposition, is it?

MR. MORRIS: Naturally we would hope -- although this is where we are depending on you gentlemen. He couldn't commit you people even for a year as far as that goes. If, for example, you agree that we could have two million dollars in round figures, we will say, then he could buy cars and get two million dollars from the government in mass transit, which makes 16 cars of the 80. But he couldn't say to me, "I can make a contract with you for the following year or the next year." But this would be the intent.

SENATOR OZZARD: One thing here - I am interested in the Pennsylvania's attitude and position, which is considerably different from that of the other railroads incidentally. Is it your belief or is it the belief of your railroad that by giving assistance to whomever it may be given in the line of new equipment, better equipment, you are going to not only maintain but improve the passenger service and keep these people from going back to the highways and possibly bring this thing to closer to an even balance?

MR. MORRIS: I can answer that, sir, in one word, yes, but I would like to amplify it if I could. We have seen in the City of Philadelphia what has been done by new equipment, by more frequent schedules, by faster service, and I might add by reduced fares.

Now I would also like to point out that the city on two small branch lines, one twelve miles in length, the other seven miles in length, they contribute \$1,054,000 annually to those two branches. They purchased 38 new cars, which on the Levittown run which comes into Trenton from Philadelphia I

might add, the volume of traffic has increased from 1959 - well, it was 300,000 plus and it is now one million two or over three times as great. So right away we feel that this will certainly do a better job for the public and the public will use it.

In answer to the other part, I can't quite agree that we could ever be entirely free of your helping your commuter if you are going to make demands beyond a certain point. I can foresee at the present date on the Pennsylvania Railroad which hauls over 30,000 commuters a day in Jersey that there would be a nominal deficit at the present. Now if there were certain fare increases possibly or certain services cut out, that gap could get much narrower, sir. We are, I would say, not overly optimistic. We look at it sort of hard-headedly

SENATOR OZZARD: Well, since yours is a railroad which doesn't put out Almanacs pleading bankruptcy within the next fifteen minutes, I would have to look upon it as being a successful railroad at the moment. It shows a profit. And as a profitably run railroad over all, you see some hope then for recovering the passenger service by giving passengers something to want to ride on. Is that correct?

MR. MORRIS: Yes, sir. Again though the capital for these cars and these other things has got to come at all points. As I told you, at the very best the deficit would be small. We can't put twenty million dollars into something that is not going to return a nickel. In fact, it is going to cost us money.

SENATOR OZZARD: Senator Hillery, you wanted to ask

something.

SENATOR HILLERY: There are several members of the Appropriations Committee here. This plan to give you people money to buy new cars was not very popular with the members of the Appropriations Committee. It brought a great deal of criticism from some of the areas where the commuter lines were being threatened to be removed and they said, "Why are you giving two million dollars to the Pennsylvania Railroad when they are already showing substantial profits in their operations." We were told at the last minute that if we didn't give the two million dollars, you people could come in anyway and get your million seven under a subsidy program. Is this substantially true?

MR. MORRIS: Well, we not only hope to get the one million seven, but we are going to the best of our fighting ability to demand that we get treated equally with the Central of New Jersey with its two and one-half million and the Erie Lackawanna. Our deficit is greater than either the Erie Lackawanna or the Central of New Jersey, sir.

SENATOR HILLERY: Well, I am trying to get across to you that we were told it was one or the other. If you don't give it, they are going to come in and get the million seven anyway.

MR. MORRIS: We are sure going to try, Senator.

SENATOR HILLERY: And we were also told that these new cars were going to be used within New Jersey and they were going to improve the service and be a great asset to the commuter service in New Jersey. Are the cars used solely in New Jersey, these new cars?

MR. MORRIS: We intend to do that. I would like to say this: In the City of Philadelphia, for example, we must first protect all service within the city with the new cars that they purchased. Then we may use them, and we do, even to New York, particularly for World's Fair travel and so forth, which has a name "non-contract service." And we paid at one time 20 cents a mile. It has been adjusted down to a more realistic figure. I don't even have the cost per mile with me at the moment. But we pay for this non-contract service to the city. Now if these 80 cars could be run to Washington on weekends when not in use, we would attempt to work out an agreement with the State of New Jersey that for the mileage out of the State, you would be paid x cents per mile or something of that nature. [Addressing Mr. Diffenderfer] Do you agree with that?

MR. DIFFENDERFER: No.

MR. MORRIS: Why not? Well, Mr. Diffenderfer has a good point.

MR. DIFFENDERFER: We have changed our agreement with Philadelphia in acquisition of cars. We are making lump-sum payments.

MR. MORRIS: It is non-contract service.

MR. DIFFENDERFER: It is non-contract service and what it has actually done - it has reduced the cost. The more we use the cars outside of Philadelphia, it has reduced the repair costs to the city and we are sharing costs that way.

MR. MORRIS: But we also pay them a lump sum for the use of the cars.

MR. DIFFENDERFER: That's right and it is a benefit to the city. By the same token with getting cars in New Jersey, you would get the benefit of interchange of city cars from Philadelphia. In fact, we are running cars up here now in local service in New Jersey where operations make it more efficient to run them right through to Trenton, New York and back down again. You are getting an ancillary benefit.

SENATOR HILLERY: I understand that there is a possibility that these cars that are being purchased under this subsidy program could run to Washington, D. C.

MR. MORRIS: Well, if the State would agree. You'd have to agree to it. There would have to be some settlement. I don't want to do it, but I again would be restricted if they were your cars in that respect, to whatever the terms of the agreement.

SENATOR HILLERY: At the hearing several weeks back and it was brought out here again today that the State had set up an auditing program for commuter service that was used in conjunction with getting subsidies from the State. Was that set up by the Department of Transportation in New Jersey, this formula for allocating costs? Was that devised by the Transportation Division of New Jersey?

MR. DIFFENDERFER: The formula that Mr. Hill explained?

SENATOR HILLERY: Right.

MR. DIFFENDERFER: That was devised by them together with accounting consultants, Peat, Marwick and Mitchell Company.

SENATOR HILLERY: Well, we were told that there were

two separate auditing companies that audited the commuter service accounts of all the railroads in New Jersey, but that they did not audit the freight accounts - they stayed strictly on the commuter accounts. Is this right?

MR. DIFFENDERFER: I don't know about the two companies.

MR. HILL: There is no audit of which I know by a public concern of the freight accounts. So that answers literally the question, that there is no introduction into the freight accounts.

SENATOR HILLERY: In other words, it was a separation of services. It was strictly the commuter service that was audited in order to agree that certain railroads should get so much subsidy from the taxpayers in New Jersey.

MR. HILL: That's correct, sir. But the base that was being audited was the base established under ICC rules. That was audited by ICC.

SENATOR HILLERY: For the subsidies from New Jersey?

MR. HILL: No, for the accounts of the railroads as a whole.

SENATOR HILLERY: But we were told that there were two separate auditing firms that checked the commuter service costs of all the railroads in New Jersey so that they could comply for subsidies from New Jersey.

MR. DIFFENDERFER: There was a firm hired by the name of Edwards and Peabody to make some specific studies. I think they made a cost study of the Jersey Central. They made another type of study on the Pennsylvania and I don't know what other railroads. But this was only a one-time study.

SENATOR HILLERY: You have to comply with a formula that is set up by the Transportation Division of New Jersey in order to get subsidy money from the State. Is that right?

MR. DIFFENDERFER: It is one of the requirements of their contract, yes, sir.

SENATOR OZZARD: Senator Sarcone, you have five minutes and then we are going to break for lunch and continue after the break.

SENATOR SARCONE: May I just ask one question and then I think it would be an appropriate time to break. Where do you plan to use the 16 cars in New Jersey?

SENATOR HILLERY: Well, it would be the New York - Philadelphia line.

MR. MORRIS: I would say literally the first would be from the New Brunswick area into -- of course, they do awful good on long hauls from Trenton - we have two locals that run all the way to Trenton - but this would have to be worked out by expert operating people to get maximum utilization of them. We wouldn't want those babies sitting still because they are a wonderful car, really they are, sir - air conditioned.

SENATOR HILLERY: How long does it take to wear them out? I think that's a fair question.

MR. MORRIS: We are running a number of cars, sir, that were purchased in the year 1915 in the City of Philadelphia.

SENATOR LYNCH: I see them every day.

MR. MORRIS: New Jersey, sir, has ones that are only 30 or 35 years old.

SENATOR STAMLER: That's nice.

MR. MORRIS: We discriminate in your favor, sir.

SENATOR SARCONE: Then today, as I understand it, you are going to use them to the maximum.

MR. MORRIS: Oh, yes, sir.

SENATOR SARCONE: But you can't say exactly where at the moment.

SENATOR HILLERY: You don't get any subsidies from the State of Pennsylvania, do you?

MR. MORRIS: The Mass Transit Act of 1965 in the next two years should enrich the Pennsylvania Railroad or lessen the Pennsylvania Railroad's deficit by 4.8 million dollars.

SENATOR HILLERY: That would be a direct subsidy.

MR. MORRIS: That can be a direct subsidy. There is also 6 million dollars for capital expenditures and the like, which will be probably parlayed into new cars for Harrisburg service. They have finally caught on.

SENATOR HILLERY: So in New Jersey with this program that we have been running, we are 30 million dollars ahead of the other states.

MR. MORRIS: Ahead of the State of Pennsylvania, but the City of Philadelphia has really had the big jump on this.

SENATOR OZZARD: Mr. Morris and gentlemen, I'd like to break for lunch. I'd like to ask you to come back at 1:30, if you would, in one hour, and we will start promptly at 1:30 and get this thing cleaned up as quickly as we can.

MR. MORRIS: Very well, sir.

SENATOR OZZARD: Thank you.

[Recess for lunch.]

Afternoon Session

SENATOR OZZARD: Mr. Morris, I would like to reopen the hearing and I would like to turn it over to Senator Sarcone for the moment.

SENATOR SARCONE: As I asked Mr. Shoemaker representing the Jersey Central, I will ask you, Mr. Morris, in your discussions with our Rail Transportation Division has any plan been made known to you in so far as possible development of facilities of your railroad to the extent that they affect New Jersey commuters?

MR. MORRIS: We have received a copy of what Commissioner Palmer presented to the Governor,- it must be an inch thick or better - which, of course, included all railroads. We of the Pennsylvania on March 1st addressed a communication to Governor Hughes, Mr. Palmer and you gentlemen of the Legislature and spelled out our suggestions. I should say too that Mr. Shoemaker and Mr. Greenough signed the letter. I happen to have it here. But we think, thought then and still think strongly it is a good plan to help the commuter and at the same time reduce the deficit or reduce the amount of money that the State would have to put into this.

SENATOR SARCONE: Now in so far as the purposes of this, that is, the general purposes of this study, the consideration of a public authority with power to acquire and operate passenger and freight railroad facilities, have you any thoughts in so far as an agency is concerned here in the State of New Jersey?

MR. MORRIS: Well, I might belabor the point and read

from our letter of March 1st. [Reading] "We have in mind a basic public service which finally can and should be provided by a public agency which would own the necessary equipment, be responsible for major capital expenditures, and either contract with the railroads for physical operations or, in lieu thereof, use railroad-owned tracks, station and yard facilities under suitable lease with such common usage arrangements as may be necessary." Now we have said that and we will stand by it. It does not appear to us to be too practical to try to have someone come on your property and operate a certain segment because particularly in the Pennsylvania Railroad our freight volume is rather substantial and you would have certainly a conflict there as to how to do it. But we certainly are in favor of a public agency asking us to do this sort of a thing and, let us say, dictating the terms of just what they want done and when they want it done and we would have to carry it out in conformance with their wishes.

SENATOR SARCONE: As I understand it then, an agency that you would recommend would be one which would own the equipment --

MR. MORRIS: Right.

SENATOR SARCONE: [Continuing] -- furnish that equipment to you under an arrangement between the agency and the railroad to run that equipment over your tracks --

MR. MORRIS: That's right.

SENATOR SARCONE: [Continuing] -- under mutual arrangements.

MR. MORRIS: We have almost a similar situation in Philadelphia with the Passenger Service Improvement Corporation. They have purchased the equipment and they pay us for the services. They tell us what trains they want, when they want them run, and they set the fares - the whole kit and caboodle. They police it very carefully. They check to see the cars are properly cleaned, that the schedules are maintained. It is working rather satisfactorily, but they, of course, don't come on and dispatch the train.

SENATOR SARCONE: You manage and operate it.

MR. MORRIS: We manage it to that extent, but we must do what they ask us to do.

SENATOR HILLERY: Do they own the equipment?

MR. MORRIS: They own the equipment.

SENATOR SARCONE: I believe you indicated earlier that this commenced - not commenced - but the new equipment went on in 1959.

MR. MORRIS: No. The new equipment was actually received in 1963.

SENATOR SARCONE: 1963?

MR. MORRIS: Yes. We had a contract with them before with our red cars, but they went for these others and, of course, the new cars - the last jump was bigger than the rest of them. When we get the air-conditioned commuter cars, it is quite a luxury.

SENATOR SARCONE: When was that beginning point? I believe you said it tripled.

MR. MORRIS: 1959 was the first year prior to the

inception of the Passenger Service Improvement Corporation with these operations Northwest, as they call them, Operation Manayunk and the like, and from that year up to the year 1964 it was one million two plus increase or a little over three times, a 300 per cent increase.

SENATOR SARCONE: This operates in the manner in which you have described the agency. And other than furnishing new equipment in the way of cars, was anything else done to improve the facilities?

MR. MORRIS: Well, you have more frequent service. Parking at stations was part of the package deal.

SENATOR SARCONE: Facilities for automobiles to park?

MR. MORRIS: Yes, sir. The station maintenance, of course, was part of this job. The service was a more frequent service, a faster service, a modern car and actually a case of reduced fares.

SENATOR HILLERY: How many cars do they own?

MR. MORRIS: Thirty-eight, sir. Well, Mr. Diffenderfer is reminding me they also furnished the Reading seventeen, making a total of fifty-five. But speaking only for the Pennsylvania, thirty-eight cars are involved. And I might add that they have now let out a contract for twenty additional cars.

SENATOR HILLERY: In other words, their service is increasing?

MR. MORRIS: That's right and they have to have more equipment and they have seen the light.

SENATOR SARCONE: Mr. Morris, the Philadelphia facilities,

are the tracks primarily within the city?

MR. MORRIS: All of the contract services that we speak of is within the City of Philadelphia. Of course, there is a joint piece that runs to Trenton that we call Operation Levittown, but the city ends that around Torresdale - the Holmesburg Prison. Between the city and the HHFA and Bucks County, they have made enough of a package deal - the city pays what you might say for what is in the city. The cars and the service continues on and that is picked up by the HHFA and Bucks County.

SENATOR SARCONE: I am not familiar with the facilities, Mr. Morris. I haven't seen it. I haven't ridden on it.

MR. MORRIS: The Chestnut Hill Branch and the Manayunk are entirely within the city.

SENATOR SARCONE: Would you compare this type of an operation to our general commuter problem in say northern New Jersey or is it more comparable to a facility such as you have in New York City, a subway?

MR. MORRIS: No, I would say not. It is quite comparable. The difference, if any, is your hauls are a little longer in the main.

SENATOR SARCONE: These facilities are not such where there are short stops within the city?

MR. MORRIS: Well, they are fairly short stops. This is true. On the Chestnut Hill Branch, about twelve miles in length, there are about ten or twelve stations. About every mile there is a stop. But nevertheless those cars accelerate. They get up even as high as 50 miles an hour within a mile

of the station. I mean, they are fast. Our running time has been reduced. We come in in about twenty some minutes with all these stops even because the acceleration and braking of the new car has speeded up the service and the passengers really go for it in a big way.

SENATOR SARCONE: You feel then that the nature of the facility would be comparable then, that is, the appeal to the commuter here in New Jersey?

MR. MORRIS: I certainly think so.

SENATOR SARCONE: And this kind of an agency you feel would be successful?

MR. MORRIS: It certainly has worked out very well, sir, for the last six years in the City of Philadelphia.

SENATOR SARCONE: Other than Philadelphia, do you know of any other area -- I am sorry. Do you want to say something?

MR. DIFFENDERFER: No. I was just saying it is successful, but you have to recognize that they are putting money into it. It takes money to do this.

MR. MORRIS: Yes. For example, we just about broke even on the Chestnut Hill Branch. But again the reason we broke even was because the city contributed about \$700,000 to the commuter.

SENATOR SARCONE: Let me put my question another way. Let me relate the success to the appeal - what appeared to be an appeal to passengers in that you went from 300,000 to one million, was it?

MR. MORRIS: One million two.

SENATOR SARCONE: [Continuing] -- one million two in several years because this is one of the areas that I believe Mr. Shoemaker indicated would be necessary to attract more passengers. Particularly in so far as our metropolitan area is concerned, if an agency is created of this kind, of necessity it would be limited -- I withdraw that; it wouldn't. But it would be primarily the function of this agency to own and purchase equipment. Now what about coordinating with other types of transportation such as buses?

MR. MORRIS: Well, for example, again in Philadelphia, a man can get on a train at any point on the Chestnut Hill Branch and he can buy a ticket that will give him a transfer to a bus. The ticket costs - and correct me if I am wrong - thirty cents if you don't use a bus and forty cents if you do.

MR. DIFFENDERFER: Yes. He can buy a straight-through ticket that will give him for forty cents a thirty-cent rail ride plus a twenty-five-cent ride on a bus and he gets the bus ride for ten cents.

SENATOR SARCONE: Who operates the buses?

MR. MOORE: The Philadelphia Transportation Company.

SENATOR SARCONE: Is that a private company?

MR. MOORE: Yes.

SENATOR SARCONE: And contracts are entered into?

MR. MOORE: The city and the PTC have their own contract. We are not a part of it, but the schedules do coincide.

SENATOR SARCONE: No further questions.

SENATOR OZZARD: Senator Lynch.

SENATOR LYNCH: Mr. Morris, I believe in the past fifteen years the railroads, the Pennsylvania in particular, has lost a lot of its passenger riders to other forms of commutation. Is that so?

MR. MORRIS: That's true, sir.

SENATOR LYNCH: Do you think that one of the reasons why you have lost these passengers is because of the lack of decent facilities for the passengers?

MR. MORRIS: You mean, a station?

SENATOR LYNCH: Equipment.

MR. MORRIS: No, sir. We spent ten million dollars for new stainless steel cars in 1953. We spent another ten million in 1963-64. All our trains are air conditioned. The MU trains are not, but all the through trains are air conditioned. We have electrification. We have dieselization. On the PRSL we bought twelve new RDC's to take care of those. I hear these things. I ride the trains at least twice a week and sometimes ten round trips - five times a week. I don't see these horrible conditions that people throw at me and I ride the coach, sir. I don't ride a parlor car because I prefer the coach.

SENATOR LYNCH: Well, these new cars that you talk about - aren't they used on your through runs?

MR. MORRIS: This is true.

SENATOR LYNCH: What have you purchased by way of equipment for commuter service?

MR. MORRIS: We purchased six cars some years back which were a prototype car, which cost us something like a million

eight. The New York-Long Branch cars were upgraded Mr. Diffenderfer points out to me.

SENATOR LYNCH: Are any of these new cars you just mentioned used in commuter transportation in New Jersey?

MR. MORRIS: No, sir.

MR. DIFFENDERFER: I would say they are where the through trains are serving.

MR. MORRIS: Well, this is true. Let us say a part of our contract with the State calls for trains that stop at Trenton, at New Brunswick, Princeton Junction and the like and those new cars are on those trains, yes, sir, but not the multiple-unit train that goes out of Rahway or out of New Brunswick.

SENATOR LYNCH: I am referring now to the trains that leave in the morning to take people to New York in the rush hour and that bring them back. You don't have that new equipment on those runs, do you?

MR. MORRIS: This is true - we do not, not on those that would be making a few stops, such as Newark, New Brunswick, Princeton Junction.

SENATOR LYNCH: Don't you think if the railroad were in a position to obtain new cars for commuter services, that there would be an increase in the number of people using the trains?

MR. MORRIS: Yes, but the cars are filled now. You take more cars and it is sort of like the more you take in, the more you lose, because you are only using the equipment four hours out of twenty-four. This is very simple arithmetic, sir.

SENATOR LYNCH: Now with the proposed plan that is entered into between the railroad and the State, we expect to get two million dollars to be applied toward the purchase of new cars with an equal amount coming from the Federal government. Is that correct?

MR. MORRIS: Correct, sir.

SENATOR LYNCH: That will enable you to purchase sixteen cars?

MR. MORRIS: Correct.

SENATOR LYNCH: And those cars would be used on passenger service in New Jersey?

MR. MORRIS: They would be exclusively used because sixteen - you couldn't spare them at all. I mean, there is no question about them. They will be as busy as can be right in the commuter service in the State of New Jersey excepting they would terminate in New York State, but that takes New Jersey people in and brings New Jersey people out.

SENATOR LYNCH: Now you told us that the Pennsylvania Railroad lost in passenger service in New Jersey in 1964 nine million three.

MR. MORRIS: In commuter service only.

SENATOR LYNCH: That is only in commuter service?

MR. MORRIS: That's right.

SENATOR LYNCH: Do you have any breakdown of the revenues or gains or losses on through service over the tracks in New Jersey between New York and Philadelphia?

MR. MORRIS: No, sir, I do not.

SENATOR LYNCH: Is that a profitable run?

MR. MORRIS: No, sir, it is not. The losses are minimal compared to the rest of the operation. We think there is hope in the New York-Washington run, sir - New York-Philadelphia. When the Federal government goes through with what they are planning to do, we might be able to break even on that.

SENATOR LYNCH: You mean the fast speed --

MR. MORRIS: It isn't so much the fast speed, sir; it is frequent service and a reduced time between terminals with high platforms and all the amenities that go along with that sort of a thing. We have high hopes for that.

SENATOR LYNCH: As I understand it, this nine million three loss is strictly commuter loss.

MR. MORRIS: That's correct, sir.

SENATOR LYNCH: That has nothing to do with your over-all service of other passengers going through New Jersey?

MR. MORRIS: This is true, sir.

SENATOR LYNCH: That is all.

SENATOR OZZARD: Senator Stampler.

SENATOR STAMLER: Mr. Morris, I am trying to get something straight and I want to boil it down because you used the name of Rahway - the Town of Rahway. Will any of this new equipment be used to attract new riders, let's say, on a short run from Rahway to New York with that stop at Newark? These are commuters.

MR. DIFFENDERFER: With the contemplation that we would replace the fleet of MU cars, recognizing that sixteen won't take you very far - the hope is that we would replace all of the fleet over these few years - you would be able to have these cars in the service out of Rahway, out of South Amboy,

New Brunswick and Trenton into New York and this would cover all of the electrified, multiple-unit car operations in the State of New Jersey. So it would be of benefit to all the people in New Jersey in that respect.

SENATOR STAMLER: Well, to boil it down to the commuter, to the daily commuter, is there some way of your telling this Committee when the commuter gets on the train at New Brunswick - now I'm talking not about the train that comes through from Trenton or Philadelphia --

MR. MOORE: You mean right out of County Line Yard.

SENATOR STAMLER: Yes. Can you tell us - and you should be able to - how many of those people get off at Newark and how many of them don't get off at Newark and go on to New York?

MR. MOORE: We can get you that information, sir. We don't have it with us. Do you have it? Maybe you have it.

MR. DIFFENDERFER: I can tell you how many get on at New Brunswick. We have about 2200 people a day getting on at New Brunswick itself plus another almost 300 at Jersey Avenue just below New Brunswick - over 2500 a day.

SENATOR STAMLER: Now of that 2500, how many commute as far as Newark? You should be able to tell that.

MR. DIFFENDERFER: We don't have those specific details. No, that involves a lot of work.

SENATOR STAMLER: Can't you tell by the tickets that are sold?

MR. DIFFENDERFER: Those tickets aren't all lifted -- I mean, if you want to make a special study - we made one

about five years ago. It cost us \$300,000.

SENATOR STAMLER: I don't want any studies.

MR. DIFFENDERFER: No, I can't give you that in accurate detail.

SENATOR STAMLER: You mean if passengers get on the train - let's come closer - let's get out of Middlesex County and come back to Rahway - if a train starts at Rahway and you do have some that start there --

MR. DIFFENDERFER: Yes, sir.

SENATOR STAMLER: Now if a train starts at Rahway, do you mean to tell me you can't tell how many people continue on to New York or get off at Elizabeth and Newark stops?

MR. MOORE: We can tell, but we don't tell. I mean, it is something that we could have people on the train to count these people that are on and off and so forth and once a year we do that.

SENATOR STAMLER: Well, Mr. Morris, what I am trying to find out - if I get on the train at Rahway and buy a ticket to Elizabeth, doesn't the Rahway agent know how many tickets have been sold on a daily basis from Rahway to Elizabeth or Newark and how many have been sold to New York, Uptown and Downtown?

MR. MOORE: Yes.

SENATOR STAMLER: It would seem to me that he would be the man who could tell us.

MR. MOORE: He could tell us his, but you have fellows that buy their tickets at Elizabeth, you have people who buy their tickets in New York and you have people who buy their

tickets on the train.

SENATOR STAMLER: Oh, I see.

MR. MORRIS: It is quite involved. It is a pretty big job.

MR. DIFFENDERFER: It is complex.

MR. MOORE: If you want a pretty good approximation, Senator, we will surely dig one for you. It will be as accurate as we can get without spending a lot of money.

SENATOR STAMLER: All right, now take that train, either the train out of New Brunswick or the train out of Rahway. How do you then allocate the cost of operating that train, that commuter train?

MR. HILL: That is based on a car-mile study, the number of miles between stations operated by the number of cars traversing between the stations. We do have full detail available on the car count.

SENATOR STAMLER: Passenger miles, you are talking about.

MR. HILL: No, passenger car miles.

SENATOR STAMLER: I see.

MR. HILL: Not the passengers occupying the cars, but rather the number of cars themselves.

SENATOR STAMLER: Oh, I see.

MR. HILL: Whether there is one passenger or seventy passengers, this distinction is not made, but the number of cars as a unit are counted.

SENATOR STAMLER: Well, do you know how many cars PATH is carrying - not cars - how many passengers PATH is carrying

out of Newark into New York at this point?

MR. DIFFENDERFER: Yes, we do. Of course, PATH knows it too. It is basically a PATH figure.

SENATOR STAMLER: Yes, but it will be easier to get it out of you than out of the Port of New York Authority.

MR. DIFFENDERFER: Thank you. We have a record of that. In fact, PATH has to give us an accounting and we make a tabulation also because there has to be an accounting settlement with them on a division of ---

SENATOR STAMLER: Could you give us some idea?

MR. DIFFENDERFER: Somewhere I have in mind a figure of about 9,000 right now.

SENATOR STAMLER: Daily?

MR. DIFFENDERFER: Yes, sir. It is 9,000 in each direction. Let's see here. No, I'm sorry. It's 6,000, 6,000 in each direction.

SENATOR STAMLER: And your present contract is to allow PATH to use some of your rail.

MR. MORRIS: They use our railroad through to Journal Square.

SENATOR STAMLER: -- to Journal Square. And they pay you per mile?

MR. MORRIS: No.

SENATOR STAMLER: How do they pay you?

MR. MORRIS: They don't.

SENATOR STAMLER: You mean you do this for nothing?

MR. MORRIS: We get six per cent of their revenue.

SENATOR STAMLER: Of PATH's?

MR. MORRIS: Yes.

SENATOR STAMLER: Well then, they are paying you.

MR. MORRIS: But there is still a big deficit.

SENATOR STAMLER: All right. Now I want to get back just temporarily, at least for one moment, to your corporate structure. Does your railroad - does the Pennsylvania - I'm sorry - have any financial interest in either the Central Railroad of New Jersey, the Reading Railroad, the B and O or the C and O?

MR. MORRIS: Absolutely none.

SENATOR STAMLER: None at all?

MR. MORRIS: No, sir.

SENATOR STAMLER: Do you own any other railroads in New Jersey or do you have an interest in any?

MR. MORRIS: We own two-thirds of the Pennsylvania-Reading Seashore Lines, the Reading owning the other third. How about the P and A?

MR. HILL: The P and A, the Pennsylvania and Atlantic --

SENATOR STAMLER: We know who owns that. Incidentally, are these passenger lines?

MR. MORRIS: No. The PRSL is the only one that carries passengers.

SENATOR STAMLER: I see. So that these are not passenger lines. Then it's unimportant.

Now in line with your contract and back to PATH for the moment, is this a long-term contract or a short-term contract?

MR. MORRIS: It is a long-term contract.

SENATOR STAMLER: How long?

MR. MORRIS: I believe in perpetuity is about the best way I could put it. I don't believe there is any termination clause.

SENATOR STAMLER: Well, is it in writing?

MR. MORRIS: Yes.

SENATOR STAMLER: Again a provincial question - one of the big problems with your high-speed transit system between Trenton - we will forget Philadelphia for the moment - and New York is that so-called curb at Elizabeth.

MR. MORRIS: Yes.

SENATOR STAMLER: Will the passenger service be improved were that curve removed?

MR. MORRIS: Well --

SENATOR STAMLER: The commuter service.

MR. MORRIS: In the commuter service you are stopping at Elizabeth. You can hardly get by Elizabeth with anything because it is a pretty good feeder. So if you eliminated the curve, you could possibly take two minutes off of a train that didn't stop, but I would say not a second off a train that does stop.

SENATOR STAMLER: I see. Again back to the question I raised about Rahway and New Brunswick, would you consider that if a separate authority of some sort or transit agency were set up to run the commuter service - wouldn't you consider it fair that we be permitted to run the freight service along those same lines?

MR. MORRIS: I think I'd be glad, if you take me just a

little facetiously, to give you our Jersey operations.

SENATOR STAMLER: You don't mean me personally.

MR. MORRIS: You, sir, or the State, because it is the sword of Damocles, you might say, hanging over us. We do not make any money in the State of New Jersey, sir.

SENATOR STAMLER: You mean on either one?

MR. MORRIS: That's true, sir.

SENATOR STAMLER: On freight or --

MR. MORRIS: The cost of the terminals is what ruins the railroad. If I might digress, that is why the Santa Fe and railroads of that nature that run for 2,000 miles without any terminals where we have Washington, Baltimore, Philadelphia, New York, Jersey City and so on and so forth -- It wrecks us. It really does, sir. I am being very serious about that. In view of the fact that we are bringing freight in from the Potomac Yards, Cincinnati, Buffalo, St. Louis, Detroit, Chicago, ad infinitum, I don't really see how it could quite work. But I do not close my mind to it entirely.

SENATOR STAMLER: You said you travel each day by train. I assume you are a commuter.

MR. MORRIS: I commute, yes, sir.

SENATOR STAMLER: From where?

MR. MORRIS: Bryn Mawr to Philadelphia is my actual commuting right now.

SENATOR STAMLER: That is kind of a short haul.

MR. MORRIS: It is very short - this is true - but I'd like to say this: You will probably say, "Well, you are a pass rider." I am.

SENATOR STAMLER: So are we.

MR. MORRIS: But when I was general manager of the Western Union at Chicago, I was very happy, sir, and I say this with all sincerity, that I could go down and buy a ticket from the Chicago-Northwestern to haul me from Wilmette to downtown Chicago. I was happy to be able to buy it. Now that sounds kind of silly maybe, but after you drove the other way a couple of times - like our freeway at Philadelphia - if my company said to me tomorrow, "Mr. Morris, you are paying your fare from Bryn Mawr," I'd say, "Let me write out a check for a year's time." So help me - I am a confirmed commuter and I just can't understand these people that get on these freeways and just stand. It's beyond me. I guess I'm getting a little old or something of that nature. I ride between New York, sir - I have an awful lot to do with the New York Central people and naturally the New Haven and that sort of thing in my particular job. Special services means anything nobody else wants, I get. But I do commute to New York and I have commuted to New York actually on a daily basis for months at a time.

SENATOR STAMLER: I notice in a number of your trains, particularly in your short-haul trains from Elizabeth, let's say, into New York, you are constantly selling the passenger service - constantly.

MR. MORRIS: Yes, sir.

SENATOR STAMLER: Is this a common practice with your company?

MR. MORRIS: Yes, except, of course, our passenger service is principally between New York and Washington. The long haul

is dead, sir. Three years ago we were hauling 200 people a day on the Broadway Limited and we advertise that train fairly well and now we are hauling an average of about 50 to 60.

SENATOR STAMLER: I am talking about short haul.

MR. MORRIS: I know. But so we do that. We tried advertising at Baltimore where I was one time regional manager. We put on a terrific campaign. It didn't bring a thing back. But it has some effect in the Philadelphia-New York area. A good effect has been made.

SENATOR STAMLER: In other words, you think that if more pressure were put on by way of public relations by the companies that they could increase their passenger service whether by commuter or not?

MR. MORRIS: No, I don't believe you could do much more than we are doing. Of course, advertising is expensive and we have found in most cases, as far as the increased business is concerned, it hardly pays the bill. By the same token, we still have got a good service. You may question that, but we think we have. At least, it is frequent in the whole area and we want to keep this in front of the public. Certainly the World's Fair advertising has brought results. But we run these in off-peak periods when the equipment is free. Again you get back to the same trouble, Senator. Suppose you brought down to Rahway and New Brunswick twice as many people as you are bringing down now. Where would we put them? We would have to have more cars. Then where we have one car laying idle, we would have two cars laying idle for 20 hours a day.

SENATOR STAMLER: Yes, but we are buying you cars.

MR. MORRIS: You haven't yet, sir.

SENATOR STAMLER: Well, we appropriated the money. We don't know what has happened to them.

MR. MORRIS: We hope this works out. I really believe it is a good thing, sir.

SENATOR STAMLER: Do you think it will increase the passenger service?

MR. MORRIS: I think it will help reduce the deficit. I know it will improve the State as far as the commuters are concerned. It will take some people off the highways and maybe if we don't take anybody off, it may keep it from getting any worse.

SENATOR STAMLER: Thank you very much.

SENATOR OZZARD: Senator Hillery.

SENATOR HILLERY: Mr. Morris, this successful operation in the Philadelphia area - this successful commuter operation - is run by an authority, I believe --

MR. MORRIS: Passenger Service Improvement Corporation is the name of it - PSIC.

SENATOR HILLERY: Is that strictly run by the City of Philadelphia or is the county involved?

MR. MORRIS: This is a city operation.

SENATOR HILLERY: Where do they get the money to buy the cars? the sale of bonds?

MR. MORRIS: That's right.

SENATOR HILLERY: I have a bill in the Legislature which provides that the Counties of Bergen, Passaic, Morris, Essex and Somerset should run such an operation with county contributions to buy the equipment and run it into the Newark area

or New York area. Do you think that thing might be worked out and be a successful operation?

MR. MORRIS: Well, the only reason I can't answer that, we don't have any service in that area, the Pennsylvania Railroad, and I think it would be a little presumptuous for me to say so. But anywheres on the Pennsylvania Railroad where we have this, we are confident it will work. I can't help but say I don't know why it wouldn't work in your area.

SENATOR HILLERY: Thank you.

SENATOR STAMLER: You are not bankrupt, are you?

MR. MORRIS: No, sir.

SENATOR STAMLER: You'll get to my point in a minute. And your bonds are now selling at about 92, aren't they?

MR. MORRIS: I don't know, sir.

SENATOR STAMLER: The New York Times said so this morning.

MR. MORRIS: It's in the paper every day - the Wall Street Journal and the Philadelphia Inquirer.

MR. HILL: The near maturities have sold above par, above face value.

SENATOR STAMLER: This is again, as I asked Mr. Shoemaker the question, relying on your physical assets.

MR. MORRIS: That is true. Of course, we still own about \$400,000 worth of stock of the Norfolk and Western and the Wabash and that is a pretty good asset.

SENATOR STAMLER: Thank you.

SENATOR OZZARD: Mr. Morris, some of the western roads appear to be making money even on passenger service. I presume

part of your function is to determine why other companies are doing certain things.

MR. MORRIS: Well, the western roads - most of them do not have commuter service. The Southern Pacific is going to endeavor to go entirely out of it and they are probably one of the best companies in the United States and in the world as far as I am concerned. Now you come to the Chicago and Northwestern where Mr. Hieman claims he makes about a million dollars a year in his commuter service. He doesn't take into consideration the amortization of his new equipment that he bought which doesn't show up the way these accountants work - it's in another column or something of that nature. He probably does break even.

SENATOR OZZARD: You mean this is railroad accounting that we are getting into?

MR. MORRIS: It is official accounting; it is proper. He has to do it that way. I mean, the ICC says it. But you don't show as an operating expense your amortization of your equipment. Another thing he has - he has a much longer commuting distance. If you give me a passenger in every seat for 20 miles, I won't be sitting here in the position I am, let us say, begging almost that you fellows do get into the act. If you'd want me to tell you how we do it, I'd say to you, "We've got a passenger in every seat for 20 miles." But when you get down below that 20 miles, then you start to lose money.

MR. DIFFENDERFER: I think there are several other factors to point out too: One is that they are not faced with a heavy tax situation that we have here. Another thing

is that they do not have the high-cost facility problem of putting people under the Hudson River and into the heart of a very complex city. While they go into the city, they have no major river crossings, no tunnels or anything like that. And in addition to the long haul, they have only until just two or three years ago not been faced with any major expressway or highway development such as we have very extensively throughout New Jersey.

MR. MORRIS: And the fact the North Shore went out of business right alongside of them and threw about 10,000 passengers a day onto them. They cut out their short stops and they were allowed about a 40 per cent fare increase. I mean, all these things going for you makes a difference. Mr. Hieman is a good railroad man. I am not depreciating him in any way, shape or form. I am sure we would be glad to hire him if he could make our passenger service pay.

MR. DIFFENDERFER: Another thing, they have very effectively eliminated all of their other passenger services, intercity and short haul, throughout practically the rest of the system. They are out of the passenger business other than in this long-haul commuter area on just three lines.

SENATOR OZZARD: Of course, I understood you to say before that even your long haul is not productive any more.

MR. MORRIS: That is long haul other than commuter. No use kidding ourselves, we can't compete with -- you can go over here to the air port and be in Chicago in an hour and a half. So you are not going to get our Broadway that will take you there in 15 hours and 45 minutes.

SENATOR OZZARD: Does the Seaboard do pretty well to Florida?

MR. MORRIS: It is still a vacation travel sort of a thing. They do pretty well on that. There is no question about it. If you would see -- I don't mean to bring in any idea of class or anything of that nature - but the people that ride that train in the main don't have snob appeal, if you know what I mean. They are visitors from the South or visitors from the North going South for that. Either they are scared, like I am, of flying or they don't have the snob appeal. But we participate to some extent in that, although not too much because they unload pretty heavily at Washington, those trains do. But their earnings are going down slowly, but going down.

MR. HILL: One more on this area - there is an interesting parallel with the Santa Fe Railroad that has considerably less volume of passenger traffic operating in the West than we do in the East. Their passenger deficit is essentially the same as ours reported last year, about \$33 million for the Santa Fe.

SENATOR OZZARD: You said before - I believe it was you, Mr. Morris - that the cost of terminals ruins the railroads.

MR. MORRIS: That's right.

SENATOR OZZARD: Now you have no New Jersey terminals as such, do you?

MR. MORRIS: Oh, yes. You mean from a passenger standpoint?

SENATOR OZZARD: Yes.

MR. MORRIS: No, not as -- well, New York is your terminal, sir. Whether it is a mile or two miles or ten miles that is the New Jersey terminal at Penn Station, Sunnyside, New York. We have Greenville and Waverly and Meadows and Hartsmouth Cove, and so forth. It is a burden that the rest of the railroad has to carry.

SENATOR OZZARD: What is your tax picture in the New York terminal versus the tax picture here in New Jersey?

MR. MORRIS: I don't know that exactly, although we do get relief under the commuter act that was passed in New York State.

SENATOR OZZARD: What I am getting at is - your tax picture is not the same as Jersey Central and Erie Lackawanna and so forth here in New Jersey with the heavy state taxes we impose and the heavy local property taxes imposed by Hudson County.

MR. DIFFENDERFER: We are the heaviest taxpayer around.

SENATOR OZZARD: I know that because of the volume of your --

MR. DIFFENDERFER: It's the same rate.

SENATOR OZZARD: I mean, you don't have a New Jersey terminal comparable to those in Hudson County which are burdened with heavy taxes.

MR. MORRIS: We dwarf anything they have.

SENATOR OZZARD: How do you dwarf them?

MR. MORRIS: I'll point out to you. We have a large yard at Waverly. We have a large yard at Greenville. We have a yard

that covers half of the meadows and we call it Meadows Yard.

SENATOR OZZARD: But this is freight.

MR. MORRIS: Yes, sir, but that's a terminal.

SENATOR OZZARD: You are not losing money in that area either. I am talking about passenger service now. Where are your passenger terminals that cause you heavy costs in New Jersey?

MR. MORRIS: Newark Station - we pay an awful lot of taxes on Newark Station. I shudder to think of it.

SENATOR STAMLER: Pay us taxes on the New York Station.

SENATOR SARCONE: No, Newark.

SENATOR STAMLER: Oh, I am sorry. I thought you said New York.

MR. MORRIS: N-E-W-A-R-K this is. My so-called long-time southern drawl I guess got you mixed up between New York and Newark.

SENATOR STAMLER: It is hard for us to tell the difference sometimes.

MR. MORRIS: We do pay a nice bundle of money to you people for our Newark terminal. You must consider that Uptown New York is your terminal as such.

SENATOR STAMLER: How do you figure that?

MR. MORRIS: New Jersey patrons riding into there - that's the end of the line for them.

SENATOR OZZARD: It's the end of the line from Philadelphia, Washington and what not too.

MR. MORRIS: That's right.

SENATOR OZZARD: How do you, Mr. Hill, allocate costs

of the New York terminal to the New Jersey commuter?

What part of your formula breaks down on that one?

SENATOR STAMLER: That was what I was trying to get before, Senator Ozzard, out of Rahway and out of New Brunswick.

MR. HILL: There is a total of something over a million dollars that has been allocated out of all tax accounts, whether they are Federal or State tax accounts. The basis of the allocation I do not have on record here. That would have been incorporated in the plan for accounting that we discussed earlier this morning.

SENATOR STAMLER: Set up by the Division of Rail Transportation.

MR. HILL: Right.

SENATOR STAMLER: In other words, they would know how much you charge us against the cost of the terminal on 33rd Street or whatever it is.

MR. HILL: They will know that part of the total costs which are allocated. I am trying to capture a thread here to see whether or not we could find a way of determining what part of the Penn Station, New York taxes are included. I do not have that thread at hand.

SENATOR STAMLER: I want to get back to the point that I was talking to Mr. Morris about. You remember I asked him about the local from New Brunswick and Rahway into New York and then the PATH which does not involve at all your terminal in New York. Am I right there?

MR. MORRIS: That's right.

SENATOR STAMLER: So that the only passengers from

New Jersey, the commuters, would be those who commute daily to New York. Am I right?

MR. MORRIS: Yes.

SENATOR STAMLER: In other words, the charge that New Jersey makes against a man who commutes from New Brunswick to Newark - and there are considerable - is also applied against the cost in New York on the terminal. It must be from what you have said. In other words, some portion of that subsidy or fare has to be applied to that cost in New York. Am I right?

MR. MORRIS: I think you are right.

MR. DIFFENDERFER: You are not covering all of the costs right now. Out of a \$9 million loss, we are getting \$1,799,000.

SENATOR STAMLER: Yes. I recognize that.

MR. DIFFENDERFER: So that we could hardly say that any of it is being applied to New York right now.

SENATOR LYNCH: Out of the nine million three loss, how much of the cost of operating the terminal in New York is part of that nine million three?

MR. HILL: I haven't been able to pin that down because it is included in a lump-sum figure and it will be relatively a small part of the total. The base for any such allocation would necessarily be over all of the traffic being handled, not only passenger-commuter, but passenger through traffic, dead-end traffic, mail services and so forth.

SENATOR STAMLER: Well maybe Mr. Palmer or Mr. Thomas can give us that answer.

SENATOR OZZARD: On another line here, Mr. Morris, I am still at a loss about something that you and I discussed here earlier. You state that there is a 9.3 million dollar loss for the State of New Jersey. That was last year.

MR. MORRIS: Yes, sir.

SENATOR OZZARD: You stated that the idea of subsidy is one that seems to be a continuing thing, but apparently can be avoided for the moment if instead of a direct contract for service approach, the State applies the money, the two million dollars, toward the purchase of equipment. Is that correct?

MR. MORRIS: It would be reduced. It will not wipe it out, sir.

SENATOR OZZARD: That is what I am wondering. For example, if two million dollars in equipment goes on the road, who then picks up the loss? Do you continue to pick up this loss?

MR. MORRIS: What we would hope is that you'd get not 16 cars, but 80, because, although 16 will make some reduction, the cost of maintenance is a big factor. There should be other capital improvements, such as, the new cars and certain stations, and grade crossings - we don't have any on our main line, but there are a number of them on the Long Branch - and electrification of the Long Branch. We should have elimination of any taxes that have to do with this service. And when the laboring people get an increase in wages, there should be adjustment in the fares to take that and we should eliminate any non-essential service where there is no real market for it. Certainly the communities would be smart to pick up

the maintenance of most of the stations and use them for other reasons if they want to. I mean by that, all we need is maybe a place ten by twelve to sell tickets in and the building could be used for any reason whatsoever but to relieve us of that and eliminate some of the space in such a place like Deans where there are very few people get on. All those, Senator Ozzard, will tend to bring this deficit down to what I would even almost call workable.

SENATOR OZZARD: That is not happening in 1965-66.

MR. MORRIS: No, sir.

SENATOR OZZARD: And yet in 1965-66 the railroad has suggested that instead of direct aid in reduction of this that they receive two million dollars worth of equipment.

MR. MORRIS: As I said before, I suggested 80 cars right now in a whole ball of wax, ten million from you, ten million from the government. And I thought for a minute I had Mr. Palmer on the ropes, but he recovered. He said, "No, I can't do that. The best I can do would be two million."

MR. DIFFENDERFER: All he needs is more money.

MR. MORRIS: Actually he had his pencil and paper out and the interest and all that sort of thing and it looked like a pretty good deal from a businessman's standpoint. But until we can get these cars, this cannot be resolved. But this is our thought. Now what I said to him was - "I don't like and the Pennsylvania Railroad doesn't like - no private enterprise with any guts likes a so-called subsidy whether it is subsidizing the passenger or the company." What has been going on is somebody uses a holding operation sort of a thing. Now if you

do something like this where you spend some capital money for cars - for example, these 80 cars will replace 125 cars - what a difference that makes in your maintenance right off the deal on that sort of a thing.

MR. DIFFENDERFER: If the Commissioner had the money to do this job today, we could have the new cars and be giving the people better service before election time next year.

SENATOR HILLERY: That's not a crucial year.

MR. DIFFENDERFER: O.K., before November of 1966.

MR. MORRIS: I want to answer your question, Senator, if at all possible.

SENATOR OZZARD: We have a basic interest, a mutual interest.

MR. MORRIS: Yes, sir.

SENATOR OZZARD: Well, maybe the railroad doesn't, I'm not quite sure.

MR. MORRIS: We are citizens.

SENATOR OZZARD: We have an interest in keeping the railroads operating in the passenger business or keeping somebody - I don't care whether it is the railroads or an authority or who the hell does it - but somebody has to keep the passenger service going. At least, that is our present attitude. Now what concerns me is this: If you get two million dollars in equipment, you still haven't done anything with this 9.3 million dollar deficit. How long are you willing to continue to live with this deficit?

MR. MORRIS: Well, we aren't going to keep living with it forever, sir. This is ture. I can't say how long, but we

have been pretty patient about it. I'll go back to Philadelphia. I guess you fellows are getting damn sick and tired of me talking about Philadelphia. But they started with \$100,000 and it is now two million five hundred. We get a million and thirty-four and the Reading gets a million and seventy-nine and the rest of it is -- well, in fact, they turn back every year a little bit of money. But this grew into proportions that really meant something and Jersey - I feel sure they must have increased --

MR. DIFFENDERFER: They have been cutting our pile.

MR. MORRIS: Well, I know they give it all to these other railroads. But in the main, seriously speaking, I believe you are giving more money now than you did five years ago.

SENATOR HILLERY: That's right.

MR. MORRIS: You have made some increase. So if this thing would go together, this increase plus this new equipment, sooner or later that is going to level off and then maybe we could start bringing down the part that the State would have to take out of the general fund.

SENATOR OZZARD: With this approach, you feel that the Pennsylvania can stay in the passenger business?

MR. MORRIS: Yes, sir.

SENATOR OZZARD: This is indefinite?

MR. MORRIS: Well, it's indefinite to the stand point it doesn't mean a long, indefinite period. If, for example, you give us a shoddy treatment - say, you give us two million dollars and you give the Jersey Central four or five million and you

give the Erie Lackawanna three, four or five million - we have the greatest deficit - we haul the most passengers - we are going to have to come and fight to remove the service. I don't say this as a threat, sir. This is just a business proposition. The railroad is operating on too narrow a margin. A ten per cent drop in the economy and, boom, our 29 million bucks becomes as it was --

MR. HILL: Three million four in '64.

MR. MORRIS: A deficit I am speaking about. -- in 1962, three million two - in 1960, a deficit of seven million eight. I am serious, Senator. I am not trying to pull your leg or use a crying towel or anything of that nature. These are facts.

SENATOR OZZARD: I realize the facts. What I don't quite comprehend is these abstractions of how this railroad can stay in business with small allocations. Now to be very frank with you, the tune of some of the railroad men has changed since we started about freight and passenger service. I can tell you personally my attitude is that if we have to run railroads, we are going to run the whole railroad - we are not going to take the bad apple and leave the good apples to somebody else. We are going to do all of it. At least this is my personal opinion. Now you make profit in freight. You don't make it in passengers.

MR. DIFFENDERFER: Not in New Jersey.

SENATOR OZZARD: -- over all.

MR. MORRIS: We do fairly well in freight, yes, sir, but not in New Jersey.

SENATOR OZZARD: What do you do in freight in New Jersey?

MR. MORRIS: I don't have that breakdown.

SENATOR OZZARD: Mr. Diffenderfer might have it because he just shook his head and said you don't make it in New Jersey.

MR. MORRIS: Back several years ago - I don't know how many years ago - we did make a pretty good study of this and it did show a deficit. Now it would be something that possibly could be subject to rigid cross examination by someone because of this, that or the other. There were certain approximations. I am not trying to wheedle out of it. We could produce that for you, but not with the thought that we could go back and produce all the backup that went into it. It definitely showed a deficit operation.

MR. HILL: Mr. Morris, I might repeat a point basically that you made earlier. We did report a total income in 1964 of slightly in excess of \$29 million, but of that \$22 million - in excess of \$22 million - was dividend income from financial interests, not from railroad operations at all.

SENATOR OZZARD: You mean you'd do better if you were in the investment business and got out of railroading?

MR. HILL: We did considerably better in the investment business.

MR. MORRIS: We took in a total of \$34 million in rents and dividends and so forth in 1964.

SENATOR STAMLER: In other words, what you are now saying is that you would prefer to cut us off at the river

down at Trenton and say, "We don't want to go any further than that. We'll be much happier. We want to get out of the railroading business in New Jersey"?

MR. MORRIS: Don't tempt us too strongly, Senator.

SENATOR STAMLER: Well, tell me.

MR. MORRIS: Well, you understand, I am just one person talking. If you were dealing with me, I'd say yes.

SENATOR STAMLER: That's your opinion.

MR. MORRIS: Yes.

SENATOR STAMLER: And this would include some of your investments, would it not?

MR. MORRIS: Well, you see, that's the United Railroad of New Jersey Canal Company of which we only own 51 per cent.

SENATOR STAMLER: Well, that's a pretty good percentage.

MR. MORRIS: We pay 10 per cent on that, I might add.

SENATOR STAMLER: And you have the Seashore Line, whether you make money or not.

MR. MORRIS: I'll give you that right now.

MR. DIFFENDERFER: You can have that one.

SENATOR STAMLER: That's the second railroad you have given me.

SENATOR OZZARD: We will give that to Mr. Shoemaker.

SENATOR STAMLER: The point I make is this, that apparently there is some desire to stay in business here.

MR. MORRIS: Well, it is part of the over-all picture. I cannot be anything but honest with you, sir, on that.

SENATOR STAMLER: And you are going to have to get to New York too with your freight.

MR. MORRIS: That's important. But we would love to be relieved of the cost of it, sir. I'll tell you that.

SENATOR STAMLER: I don't blame you. But the point I make is that you have to get to New York.

MR. MORRIS: If we want to stay in business --

MR. DIFFENDERFER: We don't have to get to Penn Station in New York. That's the high-cost part of the passenger business.

SENATOR STAMLER: I recognize that and we are paying for some portion of it.

MR. MORRIS: A small portion. We will concede that.

SENATOR STAMLER: We are paying for some portion of getting the freight to New York.

MR. MORRIS: No, sir.

SENATOR STAMLER: It's the same line.

MR. MORRIS: But you are not paying for the passengers - only one-fourth of the commuters only. You still have a million dollars or so in the through passengers that we have to worry about.

MR. DIFFENDERFER: This is where I would say you have a distinct advantage in having a freight line that will help carry part of the passenger facilities; otherwise you couldn't be getting passenger service in New Jersey like we are rendering as economically as we are.

SENATOR STAMLER: I am not arguing. I might agree with this, except this, that it is important for you to maintain this.

MR. MORRIS: I say yes again. I don't quarrel.

SENATOR OZZARD: In other words, if this Committee, after what will be many more months of hearings, comes in with a recommendation along the lines of the resolution, to create a public authority with power to acquire and operate passenger and freight railroad facilities, you might find some area of cooperation on the part of the Pennsylvania Railroad.

MR. MORRIS: I am certainly sure we would cooperate to the extent that we could any way justify it.

SENATOR OZZARD: One other area of questions before we wrap this thing up this afternoon - We have heard a great deal over the years, the recent years at least, of the high labor costs which are involved in and with the railroads. We have heard of unnecessary work, featherbedding, and this sort of thing. To what extent does this exist on the Pennsylvania Railroad and what cost factor is involved here?

MR. MORRIS: I can't give you the cost factor. It exists on the Pennsylvania Railroad to literally the same extent as it does on all railroads. Now there has been considerable improvement in working with the brotherhoods, the engineers and the trainmen, particularly. We had to go to Congress to get help from the fireman situation. But there is still a large field of endeavor. On the Pennsylvania we have interdivisional runs; a great many railroads don't. This is in our favor. In other things we have certain restrictions that maybe another company doesn't. But it will average out. It is about the same all over. But the factor,

itself, I can't put a dollars and cents figure on it.

SENATOR OZZARD: Is it considerable?

MR. MORRIS: It is a big factor, yes, sir, no question about that. You take in the State of New York where they require extra people on trains that are absolutely unnecessary. Mr. Diffenderfer has a note here the train in any group costs 30 per cent of our New Jersey suburban passenger revenues, but you were asking about the fact of the excess costs or featherbedding costs and I am not in position to give you that. You don't have any figures on that, do you?

MR. HILL: No.

MR. MORRIS: For example, on the Pennsylvania Railroad, the firemen meant \$27 million a year to us. So you can see what it means. That was the largest, I'll have to say, but that's a pretty good sized factor.

SENATOR OZZARD: Am I correct, that because of the peak load of commuter travel that there are times during the day when you have employees that are on the payroll, but not actively engaged in work?

MR. MORRIS: Oh, yes, sir, hundreds of them.

SENATOR OZZARD: Is it not then a basic problem to your railroad success or the success of running a railroad passengerwise to find ways of getting people on the trains during those in-between hours?

MR. MORRIS: Yes, sir, that is the key, the real key.

SENATOR OZZARD: What has the Pennsylvania done to encourage mid-day travel by business people and shoppers and

others in and out of New York or through New Jersey?

MR. MORRIS: Well, we have the Ladies Day Excursions. We have thrift tickets. We have weekend reduced fares. We have gone out just as far as we know how and, if anybody has any ideas, sir, - I am serious - pass them along.

SENATOR OZZARD: You do make this effort - you advertise - you promote?

MR. MORRIS: Yes, sir.

SENATOR OZZARD: You see, we learned from Jersey Central at our previous meeting, not today, that there was little, if any, activity in that direction.

MR. MORRIS: We have done, I'd say, a lot. It has helped some, but it is still woefully weak. The results, I meant, are weak.

SENATOR OZZARD: We have an over-all problem. You know, we keep talking about people riding the railroads - to either keep them from going onto the highways or getting them off the highways. We have another problem here and that is an industry employing thousands of people whom we can't allow to be dumped back on the labor market. It is a factor that nobody bothers to discuss. They talk about the commuter. I think of the numerous employees whose jobs depend on keeping this service running and I have been a little shocked, at least at the previous hearing, of the lack of effort to keep these jobs and to get people back on the railroads to see that the trains are running and employees keep their work. Apparently the Pennsylvania is doing more of this than the others and your picture as I could sum it up

here today is one of with those efforts plus decent equipment, increased numbers of good cars, and so forth, you think the picture is a better one than it presently appears. Is that correct?

MR. MORRIS: Just don't forget the taxes.

SENATOR OZZARD: We never forget the taxes.

MR. MORRIS: I know you don't. But you are right - if you will add an item like that to your reasoning, I couldn't agree with you more wholeheartedly.

SENATOR OZZARD: Any other questions?

SENATOR STAMLER: Just two I had along this featherbedding line. You said that in New York it costs you more.

MR. MORRIS: Well, they require one more man on every crew than, for example, the State of Pennsylvania or the State of New Jersey.

SENATOR STAMLER: Are we chargeable with that?

MR. MORRIS: No. I was speaking principally of freight operations.

SENATOR STAMLER: I am talking passenger right now.

MR. MORRIS: No.

SENATOR STAMLER: Do we have any featherbedding on that?

MR. MORRIS: No.

SENATOR STAMLER: Because the Central Railroad says there is none.

MR. MORRIS: No. I would say featherbedding, as we think of it, there is none. It is unfortunate that we should have people on -- We can't expect a trainman or an engineman -

and they are human beings the same as I hope I am and you are - to only be paid for the two hours in the morning and the two hours at night. He has to be paid his eight-hour day - of course, he gets a lot more than eight hours - but he is entitled to a minimum of eight hours. I would fight for this no matter how high in management I got or if I were a king or what have you. But that isn't featherbedding in that sense of the word. What we have to do is what the Senator here said, try to get some people riding those trains in the off-peak periods because the trainmen don't cost us anything more to have them do that up to a certain mileage - 150 miles a day for him.

SENATOR STAMLER: Well, that was the point. I misunderstood your answer. I thought you said there was some. But I must assume that when you put a man on a train at New Brunswick and send him on to New York, he is going to want to ride a train back and a full train just as much as you want a full train coming back in the morning.

MR. MORRIS: Yes.

SENATOR STAMLER: Isn't he?

MR. MORRIS: I hope so, yes, sir.

SENATOR STAMLER: So that this is what is featherbedding if he lays over or you have to put additional help on.

MR. MORRIS: If he would only run that one run, then this would be featherbedding of the first water.

SENATOR STAMLER: Exactly.

MR. MORRIS: We can bring him back and forth with

no extra cost up until he has run 150 miles.

SENATOR STAMLER: Because there could be an equal amount of featherbedding for that matter in management as well as there could in the other end.

MR. MORRIS: I don't know. The old story about work hard and be a boss and get to work sixteen hours a day works pretty good in my case at least.

SENATOR OZZARD: So that Mr. Morris doesn't have to work sixteen hours today, are there any more questions?

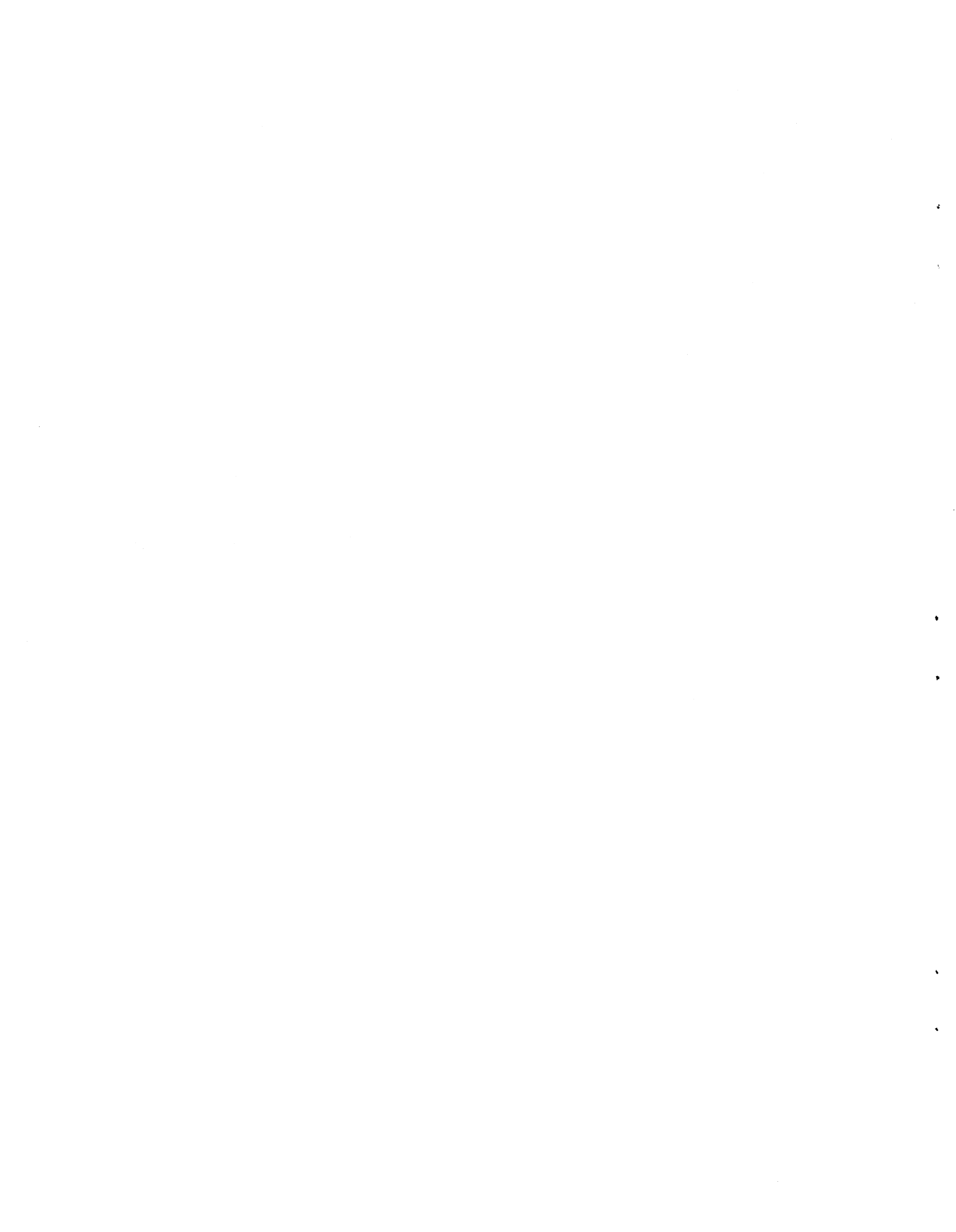
[No response.]

Mr. Morris, Mr. Hill and Mr. Diffenderfer, thank you very, very much for coming. We will probably be calling on your company later on in the hearings. We hope to conclude these hearings by the end of December.

MR. MORRIS: We will be available and I can't be more sincere in thanking you for your courtesy to all of us.

SENATOR OZZARD: I would then like to close today's hearing.

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