

Final Recommendations

Organization and Finance of Public Transportation in New Jersey

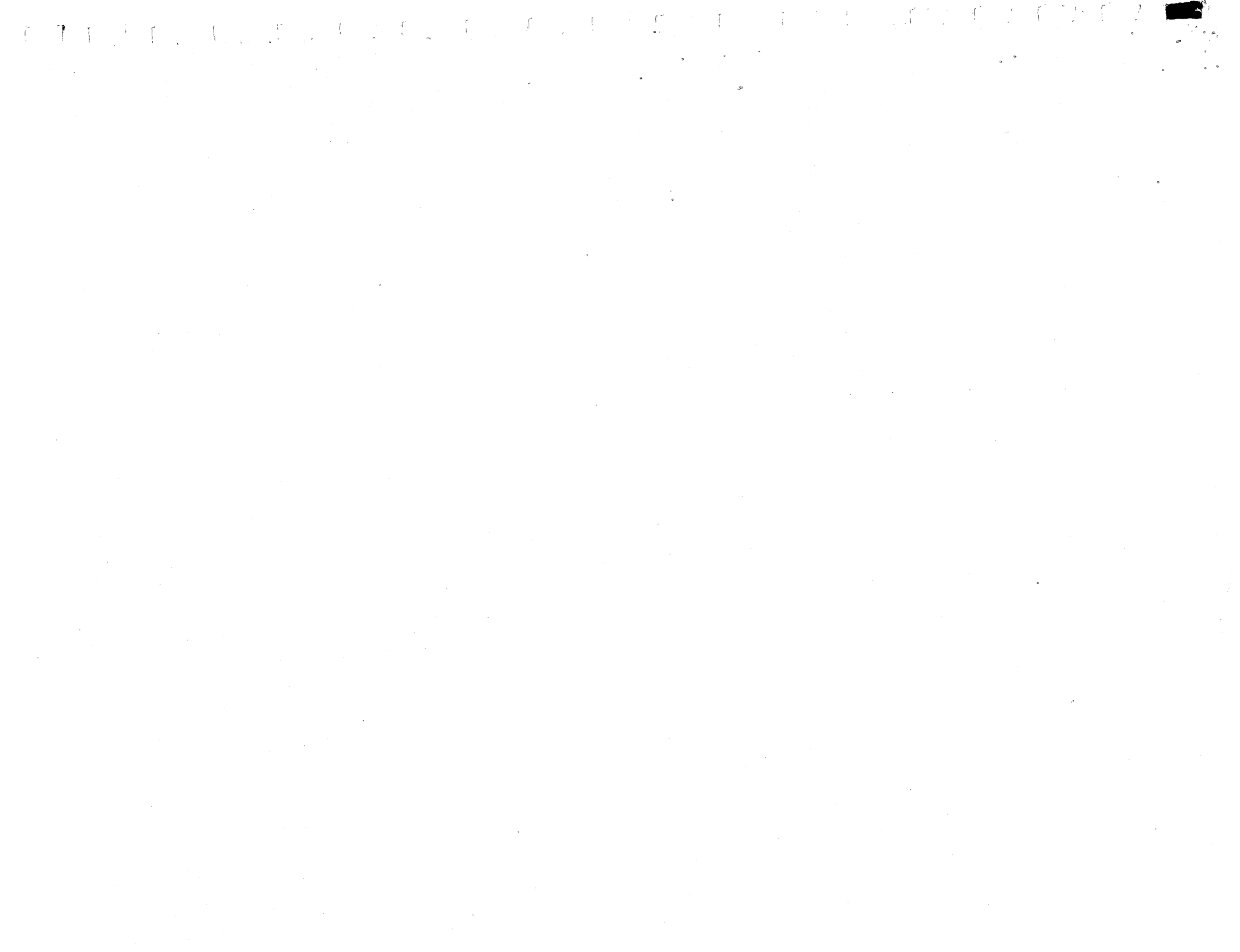
prepared for
New Jersey Department of Transportation

prepared by
System Design Concepts, Inc.

Simpson and Curtin
[Division of Booz, Allen & Hamilton, Inc.]

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October 1976



SYSTEM DESIGN CONCEPTS, INC.

ONE FARRAGUT SQUARE SOUTH • WASHINGTON, D. C. 20006 • (202) 393-5910

October 29, 1976

Mr. Peter Stangl
Assistant Commissioner for
Public Transportation
New Jersey Department of
Transportation
1035 Parkway Avenue
Trenton, New Jersey 08625

Dear Mr. Stangl:

We are pleased to submit to you these Final Recommendations by System Design Concepts, Inc. and Simpson and Curtin (a division of Booz, Allen, Hamilton, Inc.) for the organization and finance of public transportation in the State of New Jersey. These recommendations by the consultant team have been developed as a result of a thorough and detailed examination of all aspects of public transportation in New Jersey, including organization and management, finance, transportation operations, planning, and regulation.

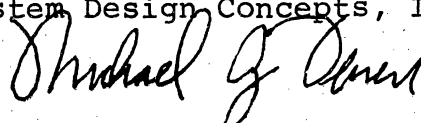
We wish to thank the Department of Transportation, the members of the State Legislature, and the members of our advisory panel for their cooperation with us throughout the course of this study. The findings and conclusions of this document are, of course, solely those of the consultant team.

We will be happy to discuss our recommendations with you, the members of the Legislature, and the advisory panel.

Sincerely,

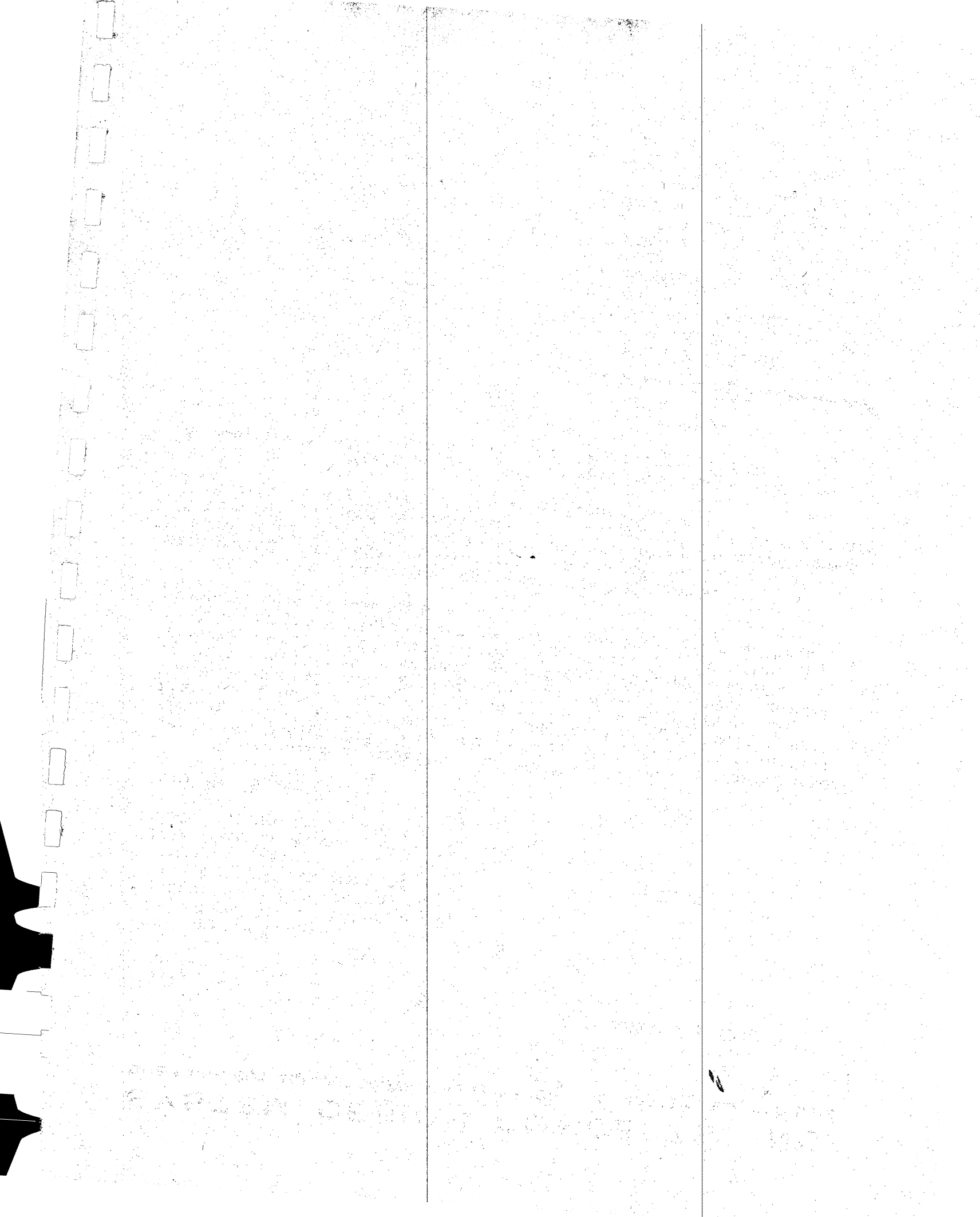


Lowell K. Bridwell
President
System Design Concepts, Inc.



Michael G. Ferreri
President
Simpson and Curtin
(Division of Booz,
Allen, Hamilton, Inc.)

LKB:cs



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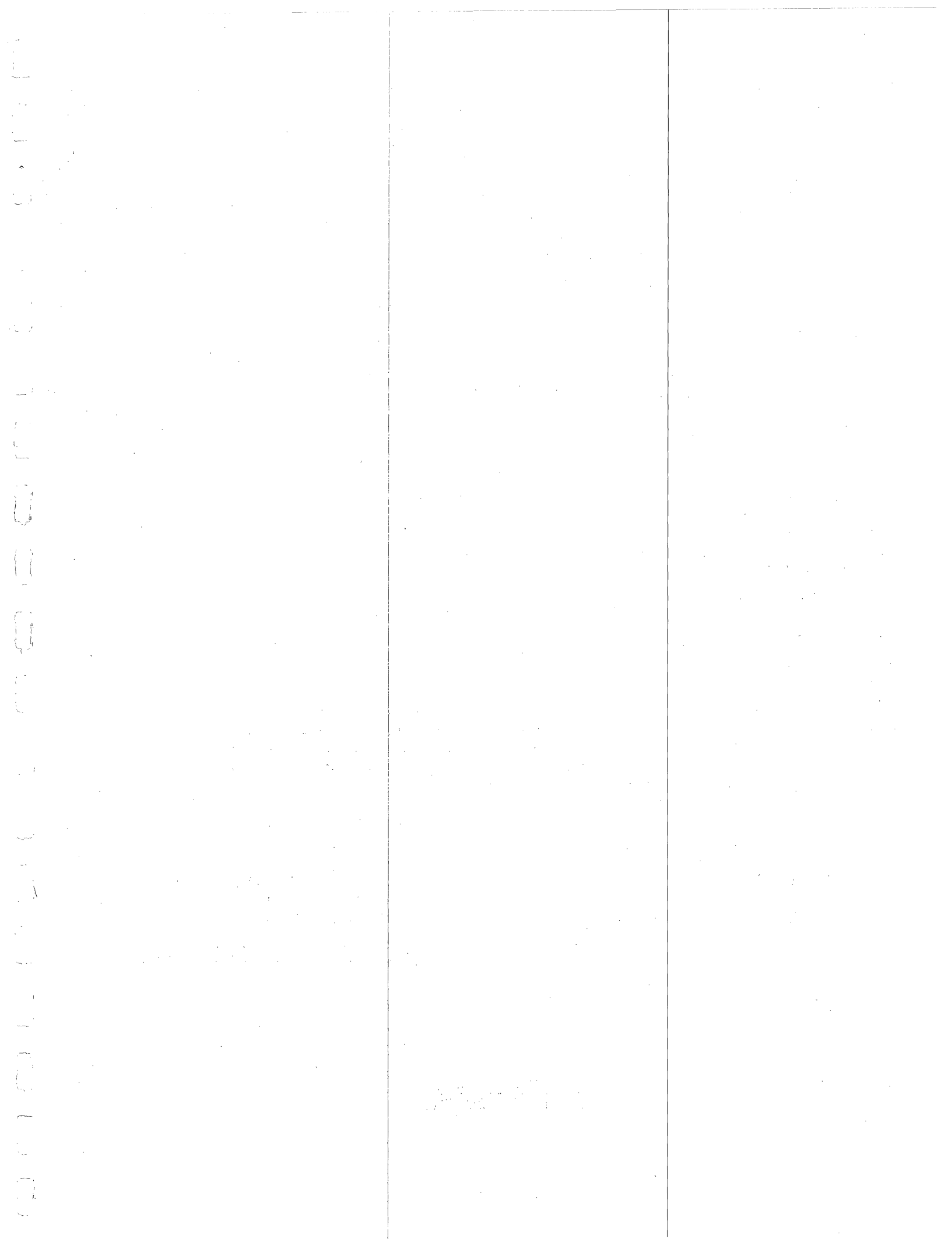
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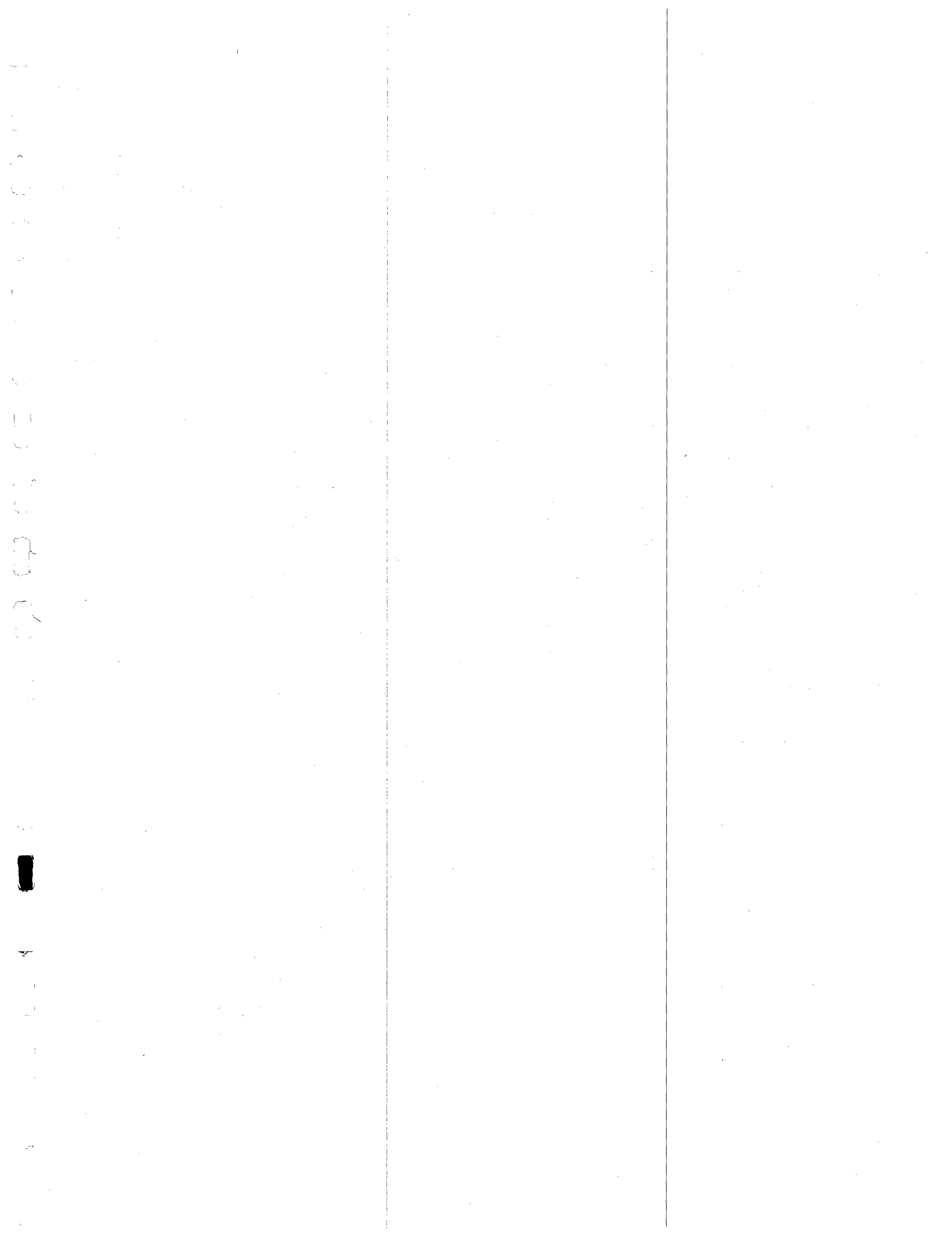
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I. EXECUTIVE SUMMARY

This report presents the consultant's final recommendations to the New Jersey Department of Transportation on the Organization and Finance of Public Transportation in New Jersey.

These recommendations have been developed through a comprehensive study of the possible organizational and financing options, through a series of evaluations and refinements of those options, and through interaction with staff of the New Jersey Department of Transportation, members of the State Legislature, citizens, and an advisory panel of persons with specialized knowledge of transit in New Jersey. Coordination has also occurred with the County and Municipal Government Study Commission.

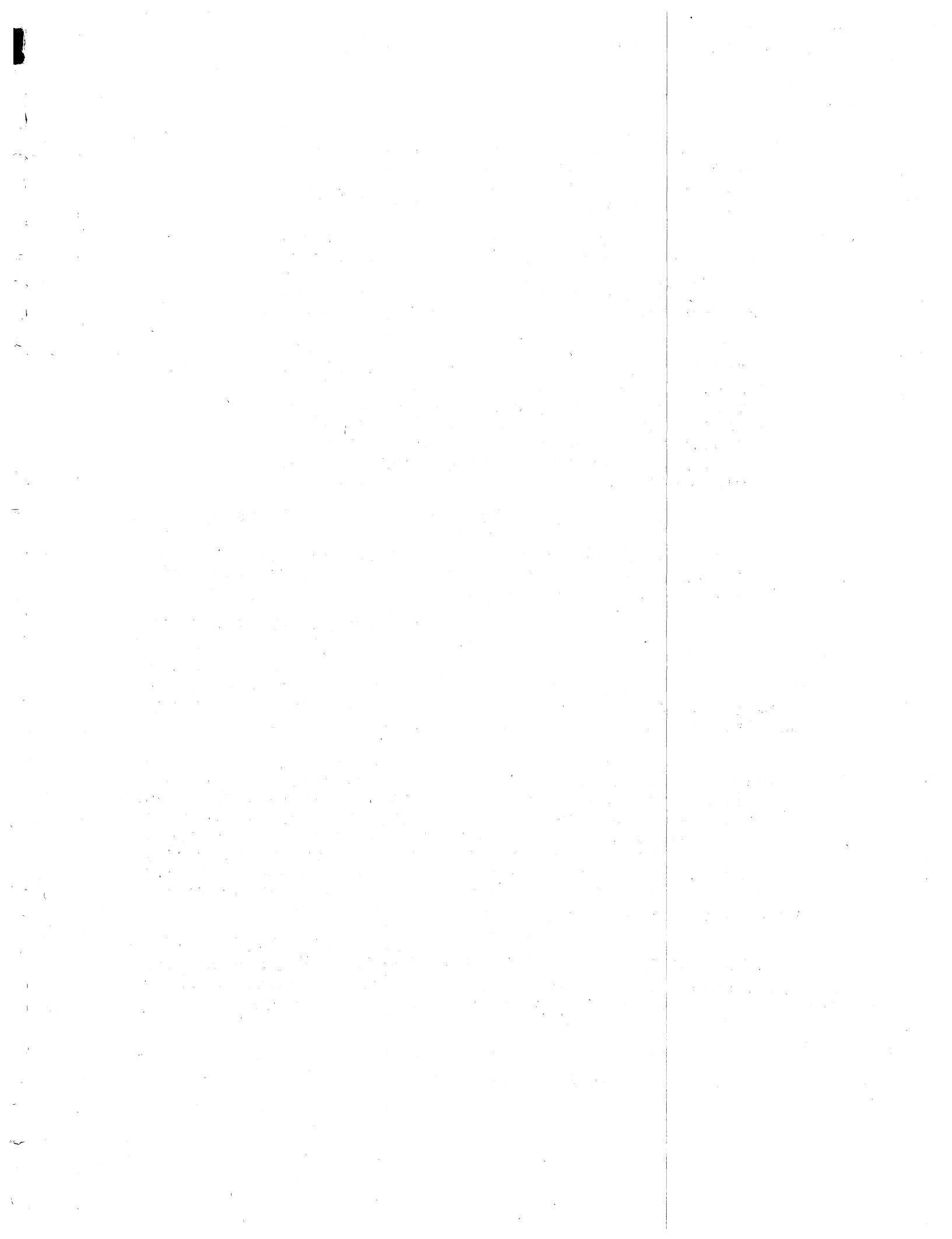
The recommendations presented here are solely the findings of the consultants, System Design Concepts, Inc., and Simpson and Curtin, and do not represent the views of the New Jersey DOT or other groups.

Principal Recommendations

The following recommendations are made for each functional area of Management and Organization, Finance, Transportation Operations, Regulation, and Planning.

Management and Organization

- Create the New Jersey Public Transportation Agency (PTA) within the Department of Transportation; give it the powers and duties of the existing Commuter Operating Agency, plus the power to own bus and rail systems (and to operate them) directly or through contract management; abolish the Commuter Operating Agency.
- Transfer all transit regulatory authority of the Board of Public Utility Commissioners and the Commuter Operating Agency to the PTA; establish operating ratio as the basis for regulation of fares.
- Provide the PTA with all the powers, duties and responsibilities necessary to regulate private carriers; to perform transit operations planning; to acquire, to own and



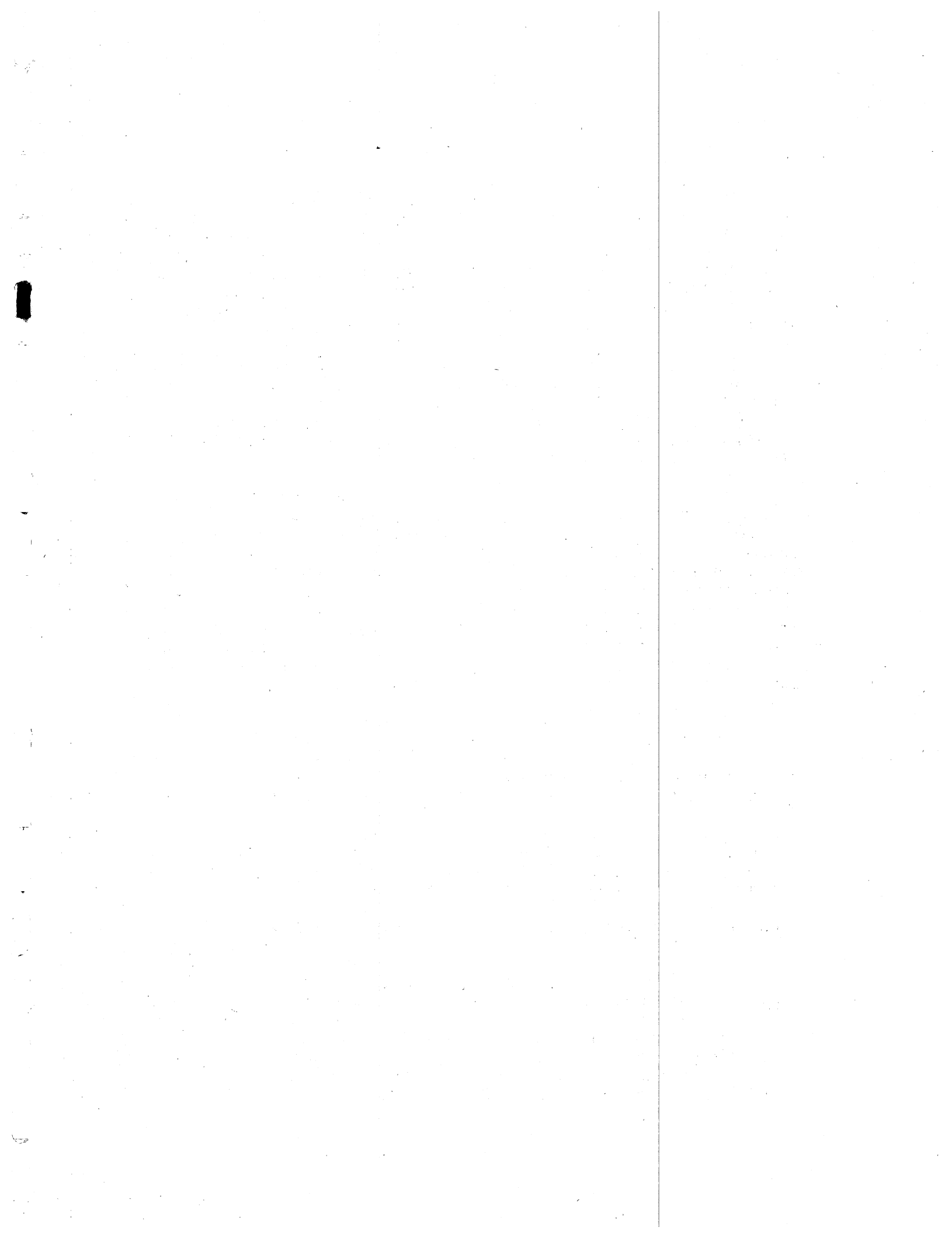
operate rail and bus transit; to provide purchase-of-service subsidies for buses on a temporary basis, and for rail as convenient to the PTA; and to provide management assistance -- such as statewide purchasing, overhead services, and marketing programs -- to public and private carriers, both bus and rail.

- Enable, but do not require, the organization of county or multi-county regional transit agencies at the option of local governments. Give such agencies the power to acquire, own and operate transit services, or to purchase services from the PTA or private carriers.
- Eliminate the existing subsidy program for bus carriers, and provide a new standard cost-based subsidy program for whatever limited bus subsidy agreements might be necessary on an interim basis.

The Public Transportation Agency will manage those bus and rail services it is necessary to acquire and operate to provide essential services, primarily those which are now provided by unprofitable carriers. The decision to acquire a particular carrier will be made on a case-by-case basis, with emphasis on the preservation and development of ridership and the enhancement of remaining profitable carriers. The PTA will provide either direct or contract management from existing management personnel or other sources of skilled transit management, including private transit management companies.

The PTA will support and assist private carriers by improving the regulatory process, changing the rate-setting foundation from rate-of-return to operating ratio, continuing capital assistance, and using the State's new planning, regulatory and operating powers to eliminate overlapping, duplicate and competitive services. ?

The existing carriers whose services are not profitable will be allowed to curtail, discontinue or abandon services, or to increase their fares to a profitable level, or they will be acquired by the PTA, depending on the circumstances. The PTA will be authorized to provide an interim subsidy for a limited period of time until such time as the PTA is able to complete the acquisition and provide for competent management.



It is possible that in the development of the base service plans and the rationalization of the bus transit system, a transit service area may coincide closely with the routes and area presently serviced by a single subsidized private company. In that event, a careful analysis should be made to determine whether it is more cost effective to purchase the private operator or continue subsidizing the private carrier for a period of time subject to regular reassessment.

The PTA will report to and work with the Commissioner of Transportation in carrying out its responsibilities. The Agency's affairs will be directed by a five-member Board of Directors, chaired by the Assistant Commissioner for Public Transportation, who will be the Chief Executive Officer of the Agency. A General Manager will report to the Assistant Commissioner.

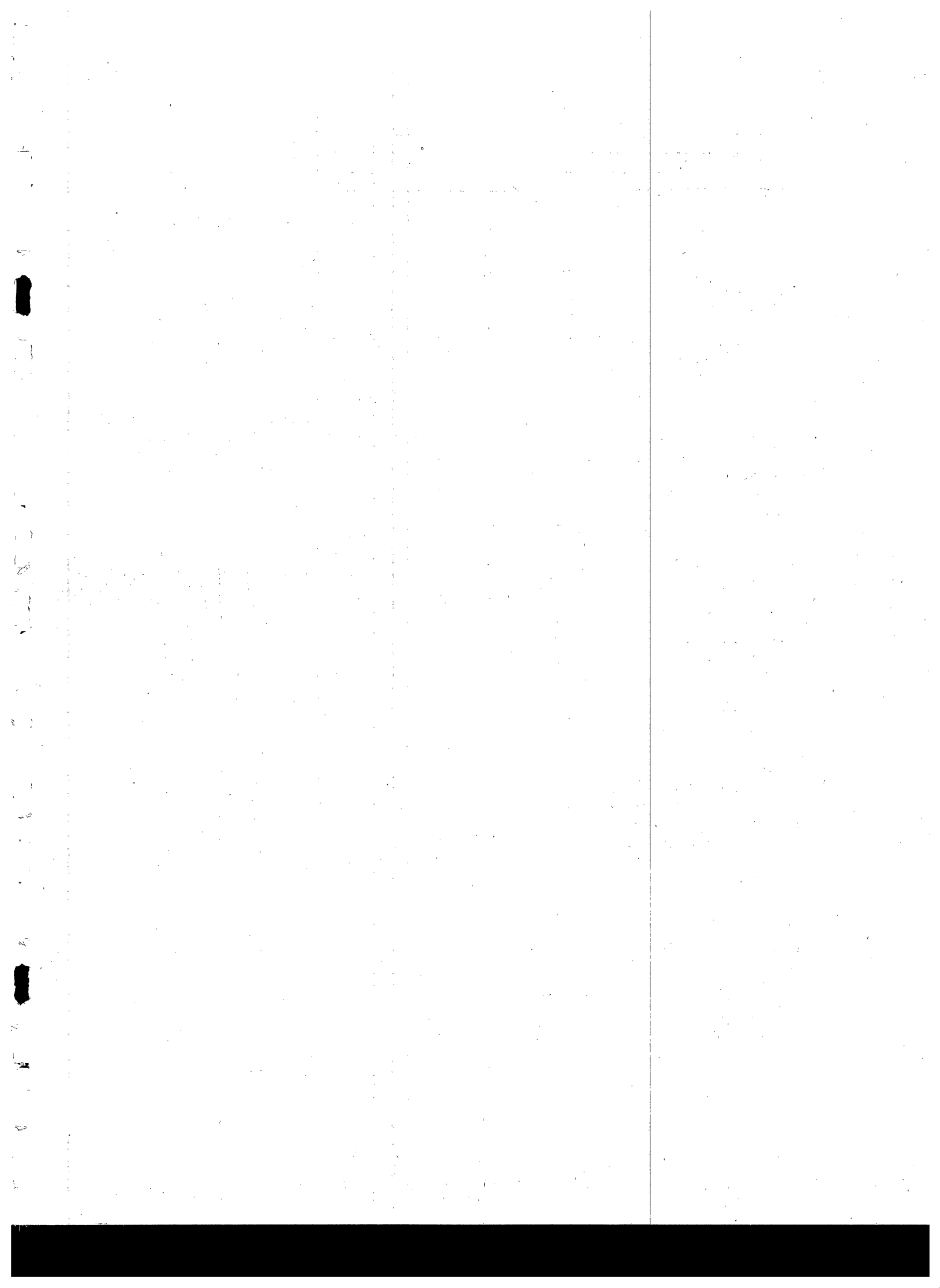
The PTA will function as an integral part of the New Jersey DOT, and the Assistant Commissioner for Public Transportation will continue to have the authority to call on the Director of Engineering and Operations, the Director of Planning and Research and the Director of Administration for support which those divisions currently provide throughout the DOT.

The creation of the PTA and the public acquisition of private carriers must be consistent with Section 13-c of the Urban Mass Transportation Act of 1964, which recognizes and protects the existing rights of workers, including wages, benefits and working conditions. Therefore, employees of the PTA will be exempt from civil service, as has been the case in the public acquisition of other major public transportation systems in the United States subject to 13-c and collective bargaining agreements.

In order to give the PTA the advantage of the skills of some present civil service personnel in the Department of Transportation and the Public Utilities Commission, those persons should be allowed to fill non-civil service positions at the PTA while still retaining their full civil service rights, in case they decide in the future to move to other civil service positions.

Finance

- An excise tax of 5% on motor fuel should be collected at the wholesale level and earmarked for the New Jersey Department of Transportation. This will increase as the price of gasoline



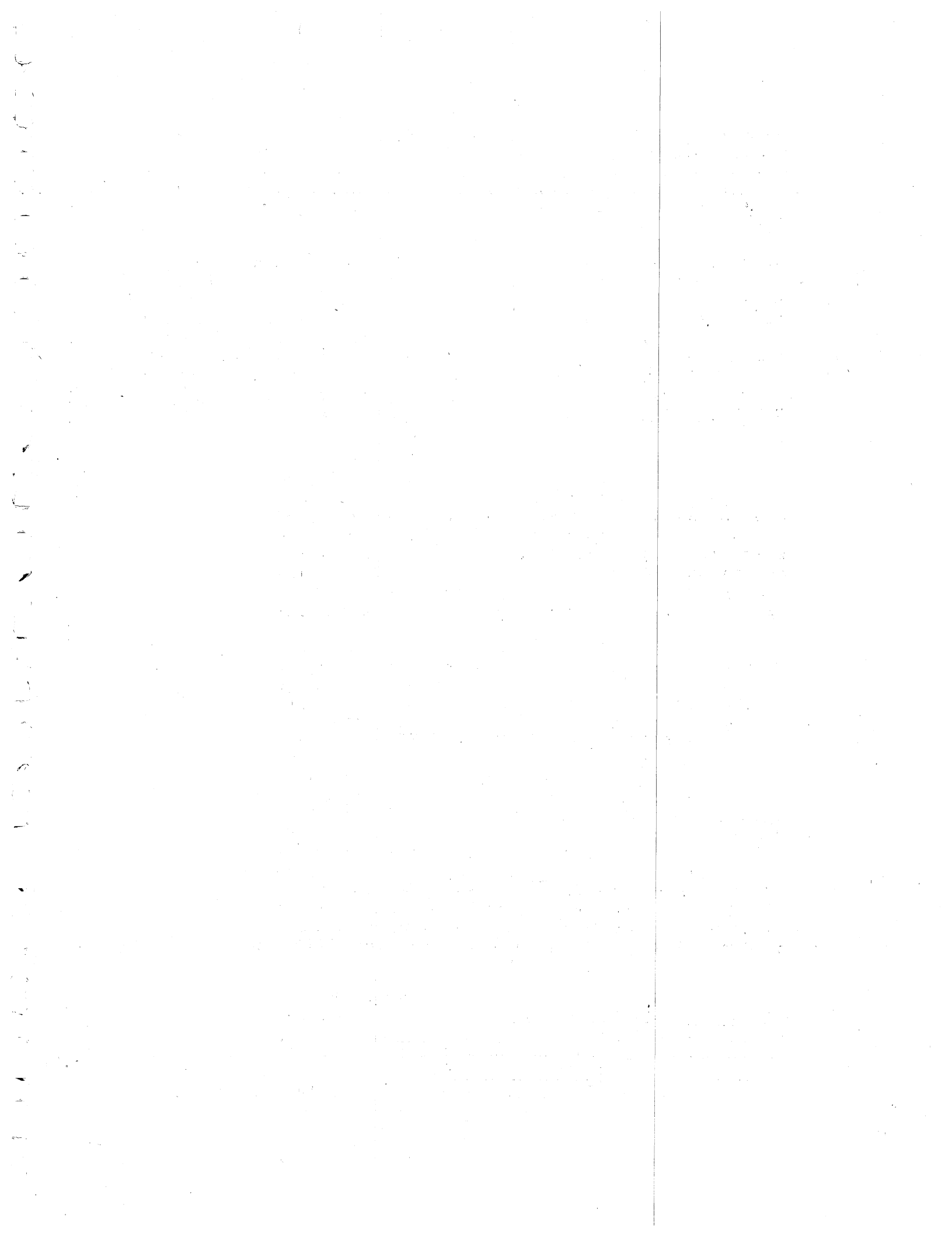
increases. The imposition of this tax should be accompanied by a decrease in the per gallon tax on motor fuel of 1¢ in the first year and 2¢ in succeeding years. The 2¢ per gallon reduction is currently equivalent to the proceeds of the 5% excise tax.

- Excess toll revenues from the highway authorities should be made available to the DOT to use for other highway and transit purposes. This source of funds is too uncertain, however, to be used as the primary stable source for financing public transportation.
- The one-year increase in receipts of about \$33 million from all taxes on motor fuel (because the per gallon tax would be reduced only 1¢ in the first year) would provide funding for the State's 20% share of bus company acquisitions, roughly estimated at \$8 million to \$11 million, and for the State's share of the costs of continuing the bus replacement program and other capital investment projects which have been planned.
- The PTA should aggressively take advantage of the potential operating cost savings made available through the new organizational and financing structure, by moving quickly to rationalize service, to eliminate services which are competitive with adequate service by private carriers, and to consolidate publicly-funded operations wherever possible.

*Other
80% ?
Federal ?*

The stable funding source will allow the PTA and the DOT to plan for and deliver an adequate level of public transportation services to be specified in a Base Level Transit Service Plan, and to improve those services through desired capital improvements. New Jersey will also be more likely to qualify for desired federal financial assistance. New Jersey has succeeded recently in gaining federal assistance for public transportation, and a stable source of non-federal matching funds is critical to continuation of that success.

The financial management activities of the Agency would be carried out under the existing executive department budgetary and appropriation process. The PTA would prepare an annual budget consistent with anticipated receipts from the motor fuel excise tax, excess toll authority revenues



and general revenues if needed, and submit that budget for legislative action. It would receive its funding through annual appropriations based upon that budget. Capital funds to match future federal grants can be provided either through this annual appropriation or from the sale of State general obligation bonds.

In addition to funding its own capital program, the PTA will give equal priority to providing operating assistance to regional transit authorities and capital assistance to regional transit authorities and private carriers. At a minimum it will sponsor the application for federal assistance, with the local matching funds provided by the ultimate user of the assets purchased. While a public agency must retain title to these assets under federal regulations, a private carrier can contract with the PTA or a regional agency to operate buses for a nominal rent. If the authority or carrier is unable to provide the local matching share, the PTA may use its funds, if the investment is in the best interests of the people of New Jersey.

Any service not included in the Base Level Transit Service Plan will not be provided unless the affected local governments, acting on their own or through a regional transit authority, provide the necessary funding.

Transportation Operations

This study has revealed in New Jersey a unique mix of a large number of private carriers, a passive and cumbersome regulatory process, relatively little involvement or financial commitment by local governments, and the State's role as the major public agency. All of the commuter railroads and rail transit systems, and over half of the bus carriers are operating at a loss. A substantial amount of seemingly competitive services is provided, and improvements in coordination and rationalization are severely hampered by the institutional and financial constraints.

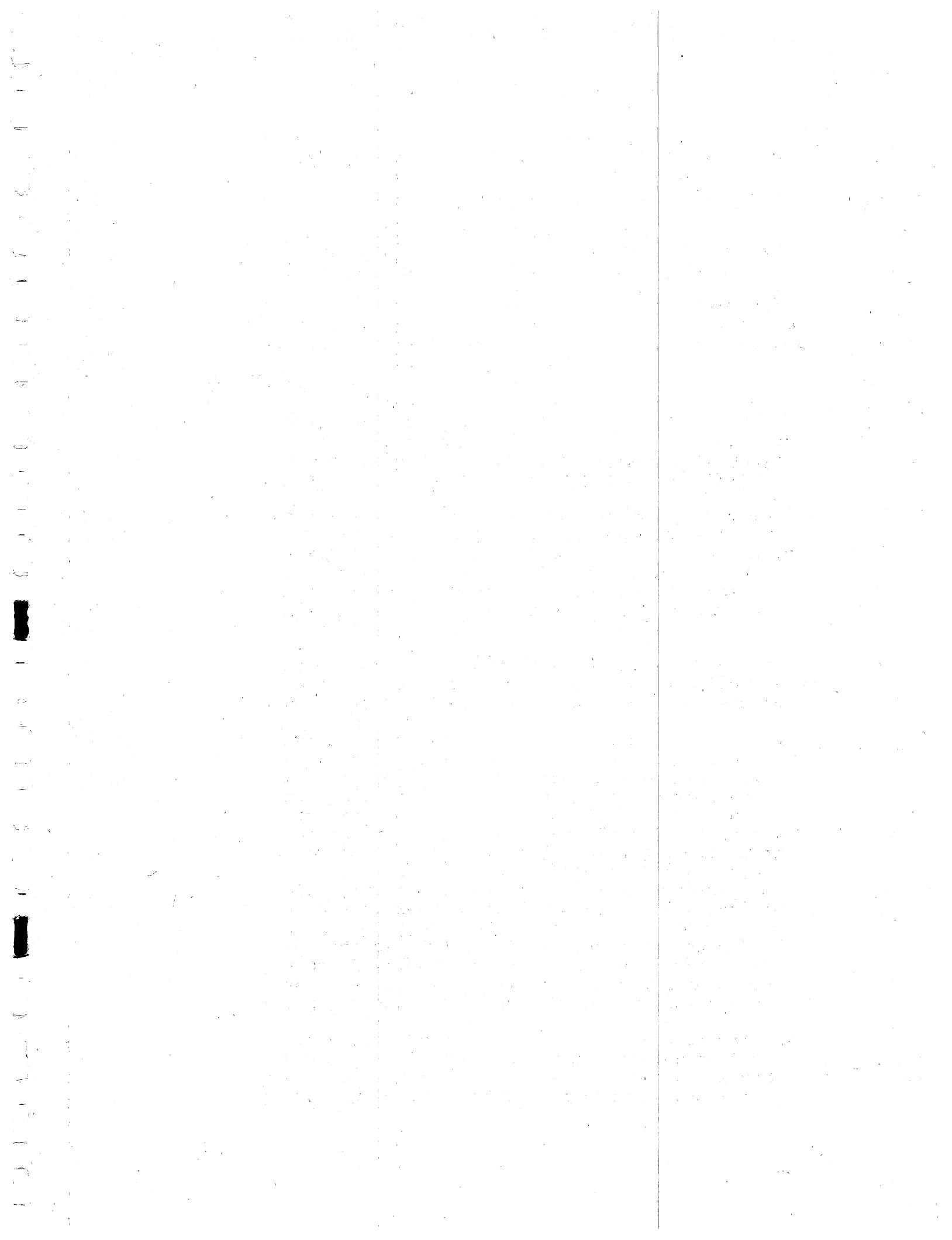
Several recommended changes will enable the necessary operations improvements in the system:

- The PTA should use its regulatory authority and its capital grant programs to assist private carriers whose continued private ownership is economically viable.
- The proposed State Base Level Transit Service Plan should develop a clear service area for each carrier, public and private, rail and bus, and rationalize the operations in order to provide improved, coordinated services and make more efficient use of the existing financial, personnel and equipment resources.

- The PTA should acquire and operate the service of carriers whose fare structure is not adequate to provide a profit without counterproductive reductions in ridership and service.
- The PTA subsidy program should be restricted, and revised as recommended in the work being done by Simpson & Curtin for the Department. The use of subsidies to private carriers should be limited to interim purchase of service agreements with those carriers which are providing essential services, but whose fare structure can no longer produce a favorable operating ratio without eliminating essential service and creating counterproductive ridership losses. Subsidies should be used only in the interim between a clear decision not to provide a fare increase or a service reduction for a private carrier, and the acquisition of that carrier by the PTA.
- Regional agencies which may be created should have the authority to acquire and operate services, or to purchase service from a private carrier or the PTA.
- The PTA should have the authority to act to preserve and improve the commuter railroad services now under the jurisdiction of ConRail, including the authority to contract with ConRail for service, and the authority to acquire and operate the commuter rail system.
- The PTA should have the authority to rationalize bus and rail service, eliminating duplicate services and assuring adequate feeder and distribution systems.

Regulation

- Transfer all transit economic regulatory powers of the Commuter Operating Agency and the Board of Public Utilities Commissioners to the PTA.
- Transfer the regulation of common carrier safety to the Law Enforcement Division of the Department of Law and Public Safety.
- Establish "operating ratio", rather than return on investments, as the rate setting basis in determining fare changes for private carriers.



- Establish within the PTA a Division of Service Improvement and Regulation and vest it with the regulatory responsibilities and the responsibility to actively pursue the implementation of a Base Level Transit Service Plan, including system rationalization.
- The Division of Service Improvement and Regulation should be aggressive and policy-oriented in order to assure that the service provided meets the standards established, and to assure the highest possible degree of viability of the private carriers, consistent with PTA transit service policies and objectives.
- Provide means for adequate public involvement in regulatory decisions, while assuring that the decision process is timely.

Planning

- Short range transit service improvement planning and the regulatory function should be combined in the Division of Service Improvement and Regulation within the PTA. This will provide a short term operations planning capability currently not accomplished in New Jersey, in close cooperation with the new regulatory approach.
- The PTA and the DOT should develop and continue to update a Base Level Transit Service Plan, which specifies the transit services and service levels which the State deems essential, and defines the private or public carriers who will provide those services. The Base Level Transit Service Plan delineates the maximum amount of service for which the State will provide financial support. Any needed financial support for services in addition to those in the Plan will be provided by other agencies or governments.
- The Base Level Transit Service Plan should be developed with full participation by counties and local governments, regional agencies, private carriers, and the public, and should be updated through continued TSM (Transportation System Management) planning at the State, regional, and local levels.



This plan should rationalize transit service in New Jersey, remove competition and duplication of services, and provide for coordination of modes, schedules, fare collection, and marketing programs.

- Additional staff capabilities should be given to the Director of Planning and Research in order to strengthen New Jersey's ability to compete with other states for federal funding, and to better analyze the wide range of possible transit investment programs.

The full implementation of all of the recommended changes will take time. Certain of the particular improvements can be and should be implemented immediately. The Preliminary Implementation sequence on the following page outlines the general sequence of events which should follow the adoption of the recommendations in this report. The "stages" are generally 3 to 6 months each, and many particular items will likely overlap into an earlier or later stage.

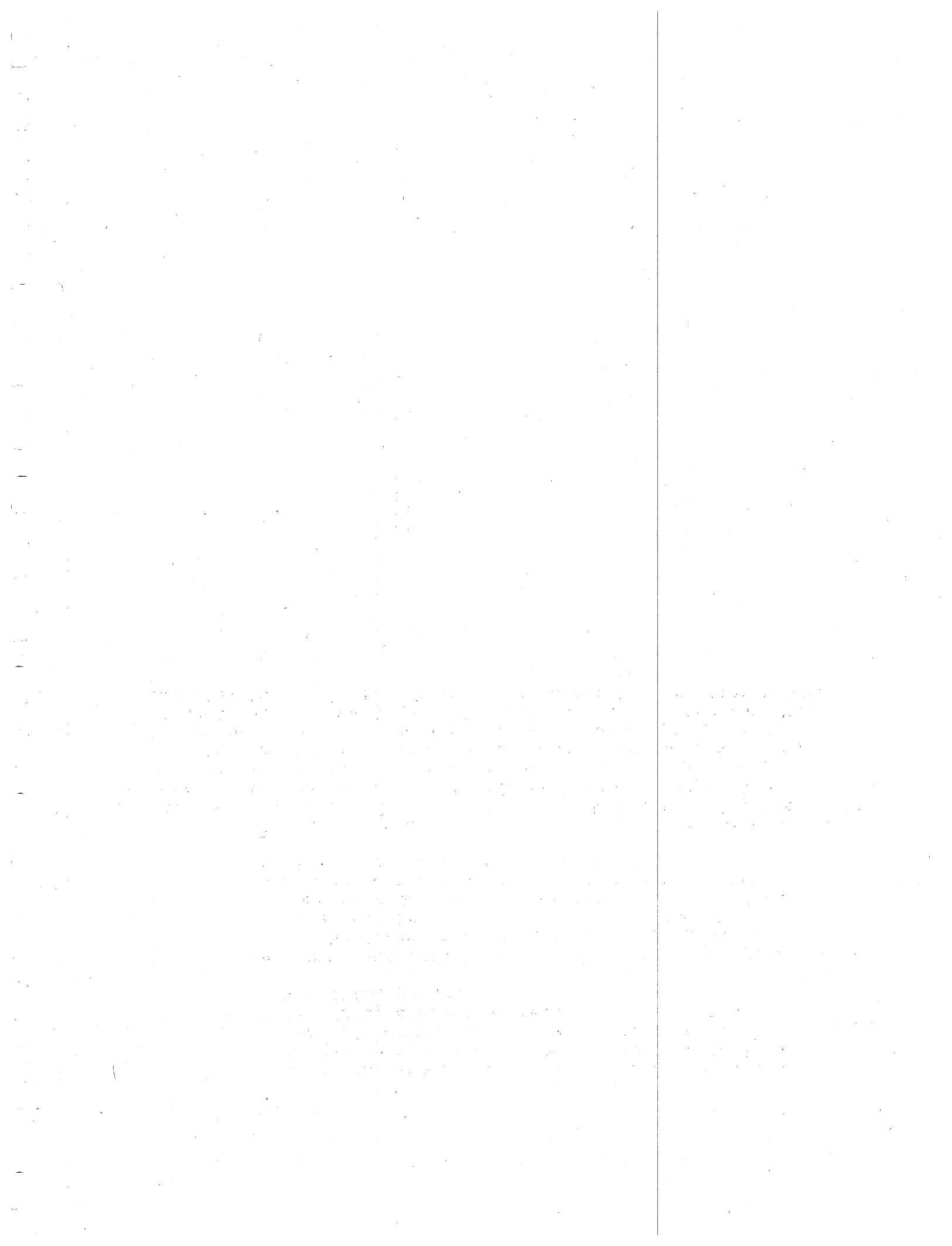


TABLE I-1
PRELIMINARY IMPLEMENTATION SEQUENCE
ORGANIZATION AND FINANCE RECOMMENDATIONS

PUBLIC TRANSPORTATION AGENCY

REGULATORY REVISIONS

SUBSIDY PROGRAM

STAGE ONE^{1/}

- Conduct public meetings, advisory panel meetings, legislative panel meetings on consultant recommendations, formulate department recommendations
- Enact legislation creating PTA, transferring the regulatory function, establishing continuing funding base, authorizing acquisition of failing private carriers and other recommended matters
- Begin preparation of Base Transit Service Plan with involvement of local governments, the public and other interested groups

- Revise statute
- Execute subsidy agreements under new standard cost formula
- Conduct performance evaluations for incentive program

STAGE TWO^{1/}

- Organize PTA, appoint Board, adopt staff plan, classification and compensation plan, priority hires, appoint General Manager, division heads
- PTA establish program priorities
- Assume N.J. DOT public transportation program responsibilities as rapidly as staff capabilities permit
- Complete Base Transit Service Plan, conduct preliminary public meetings, establish discussions with local governments and public interest groups
- Develop plan for management of operations division
- Assume administration of interim subsidy program
- Establish budgetary and administrative procedures
- Determine and implement interim rationalization opportunities
- Evaluate rail ownership and management options as soon as ConRail position is determined

- Transfer regulatory function to PTA, establish operating ratio for rate-base, establish regulatory-planning integration
- Promulgate regulatory rules and establish hearing and decision-making process
- Transfer common carrier safety inspection to Department of Law and Public Safety

- Transfer administration of subsidy agreements to PTA

^{1/} Each stage may require three to six months to accomplish.

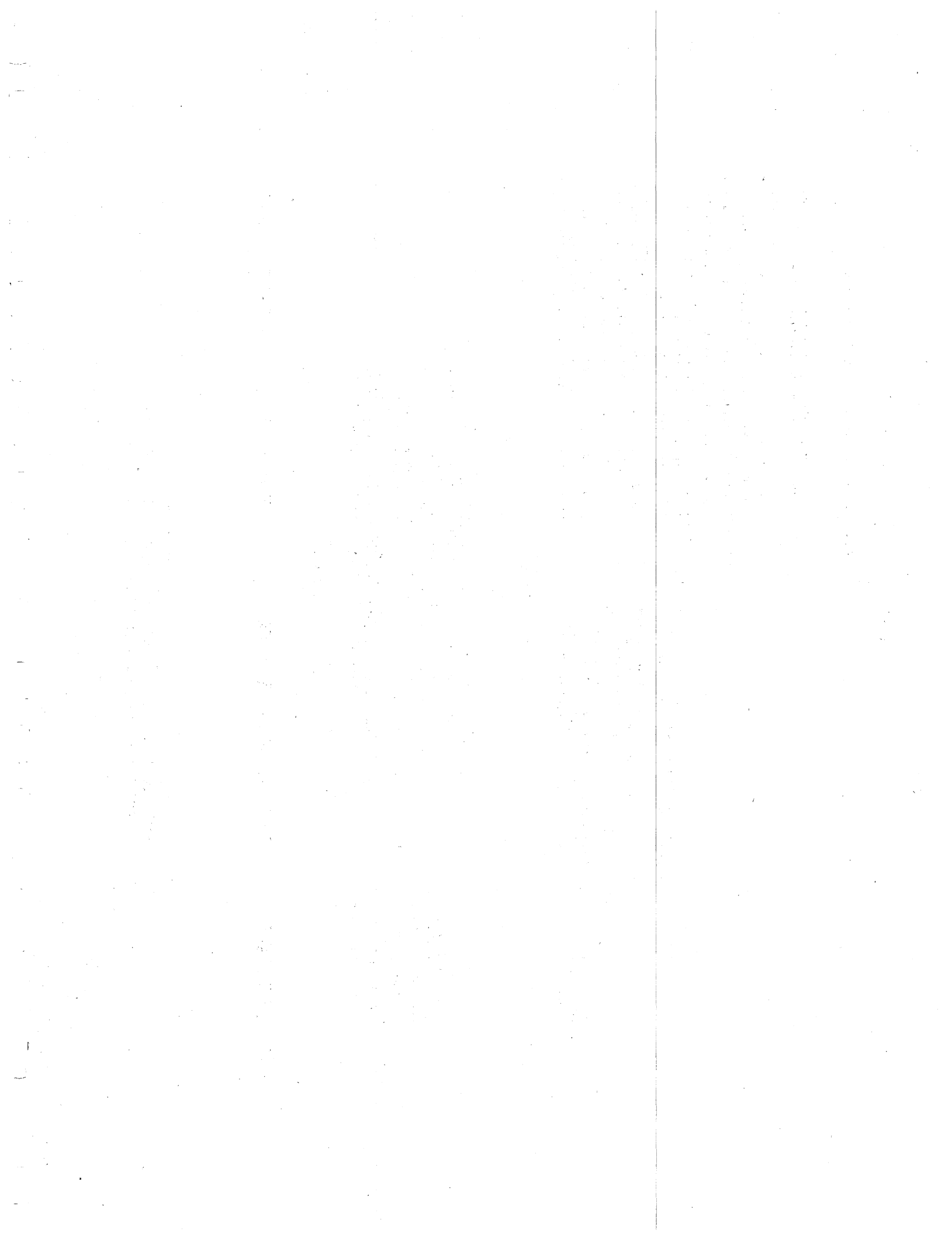


TABLE I-1
PRELIMINARY IMPLEMENTATION SEQUENCE
ORGANIZATION AND FINANCE RECOMMENDATIONS
(CONTINUED)

PUBLIC TRANSPORTATION AGENCY

REGULATORY REVISIONS

SUBSIDY PROGRAM

STAGE THREE^{1/}

- Adopt Base Transit Service Plan, with appropriate public and official review and comment
- Establish mechanism for, and carry out, emergency acquisitions or discontinuances
- Implement management plan for systems to be acquired
- Make commuter rail system decisions on ownership and management, plan for operating and capital assistance
- Implement bus system rationalization opportunities

- Complete transition of regulatory function
- Complete transition of vehicle safety function

- Continue administration of subsidy agreements
- Start acquisition of carriers who decline acceptance of standard cost subsidy contracts, or petition for abandonment of service

STAGE FOUR^{1/}

- Implement Base Transit Service Plan
- Implement systemwide rationalizations, modifications, discontinuances, curtailments of service, expansion of profitable carriers, phase out of subsidy system, acquisition plan
- Make ConRail/Amtrak decisions and implement them

- Continue regulatory responsibilities
- Perform regulatory requirements indicated in Base Service Plan to accomplish rationalization and coordination of services

- Phase out subsidy program

^{1/} Each stage may require three to six months to accomplish.

II. INTRODUCTION

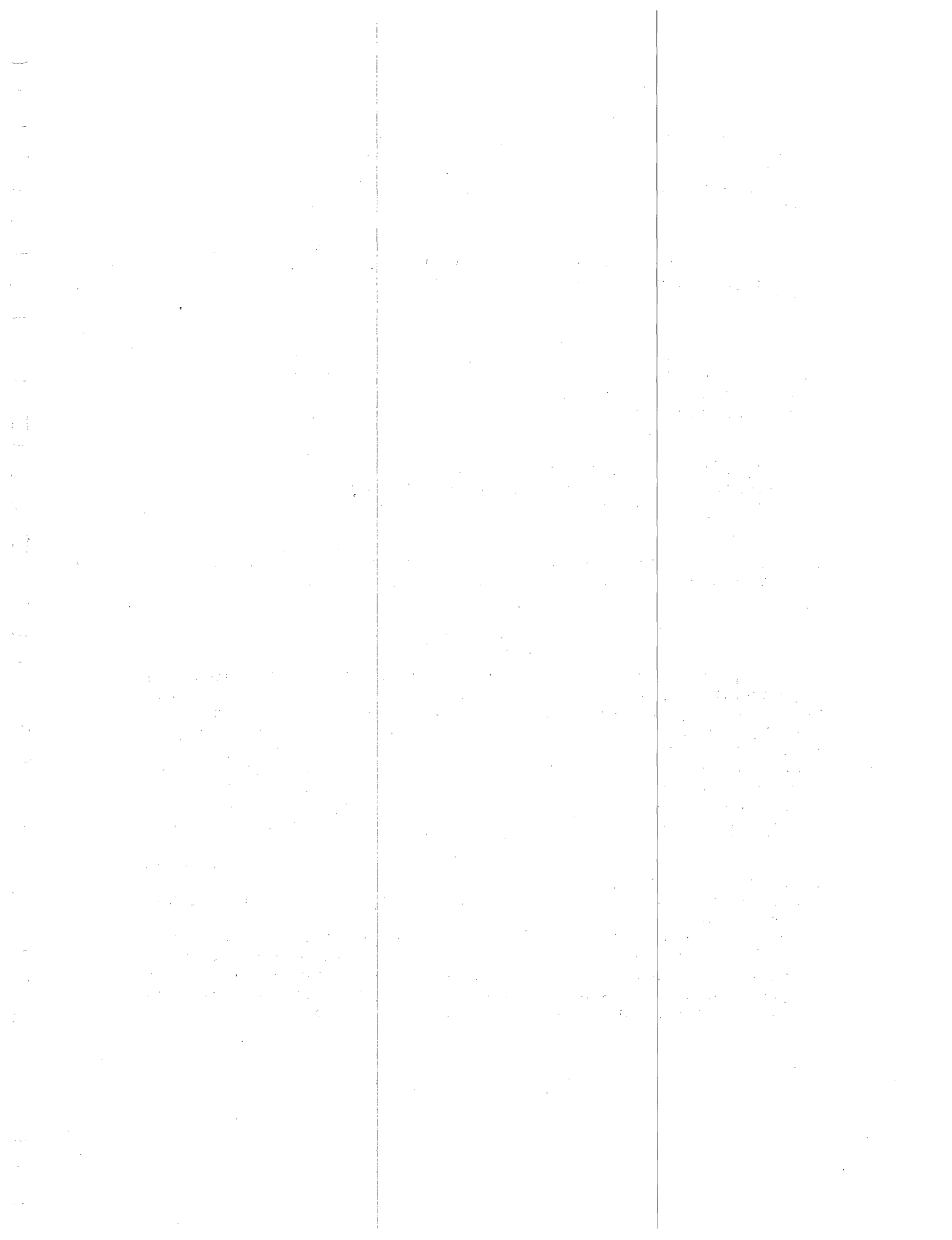
This report presents the consultant team's Final Recommendations to New Jersey DOT on Revised Institutional and Financial Structures for Public Transportation. These final recommendations are the result of a comprehensive study of alternative institutional structures and financing mechanisms through which the consultant team has been assisting the DOT in its efforts to bring about improvements in the means through which New Jersey provides public transportation services.

Throughout this study, interaction has occurred with members of the Legislature, with an advisory panel composed of knowledgeable people with specific transit interests, and with the public at generally advertised meetings in Newark and Camden. The interaction with these groups and individuals has been of great assistance to the consultant team. However, the recommendations presented here are those of System Design Concepts, Inc., and Simpson and Curtin to the Department of Transportation, and do not represent conclusions of the Department itself or of any other group.

Study Process

The major steps in this study all involved the participation of the Department, the advisory panel, and the Legislature, and included:

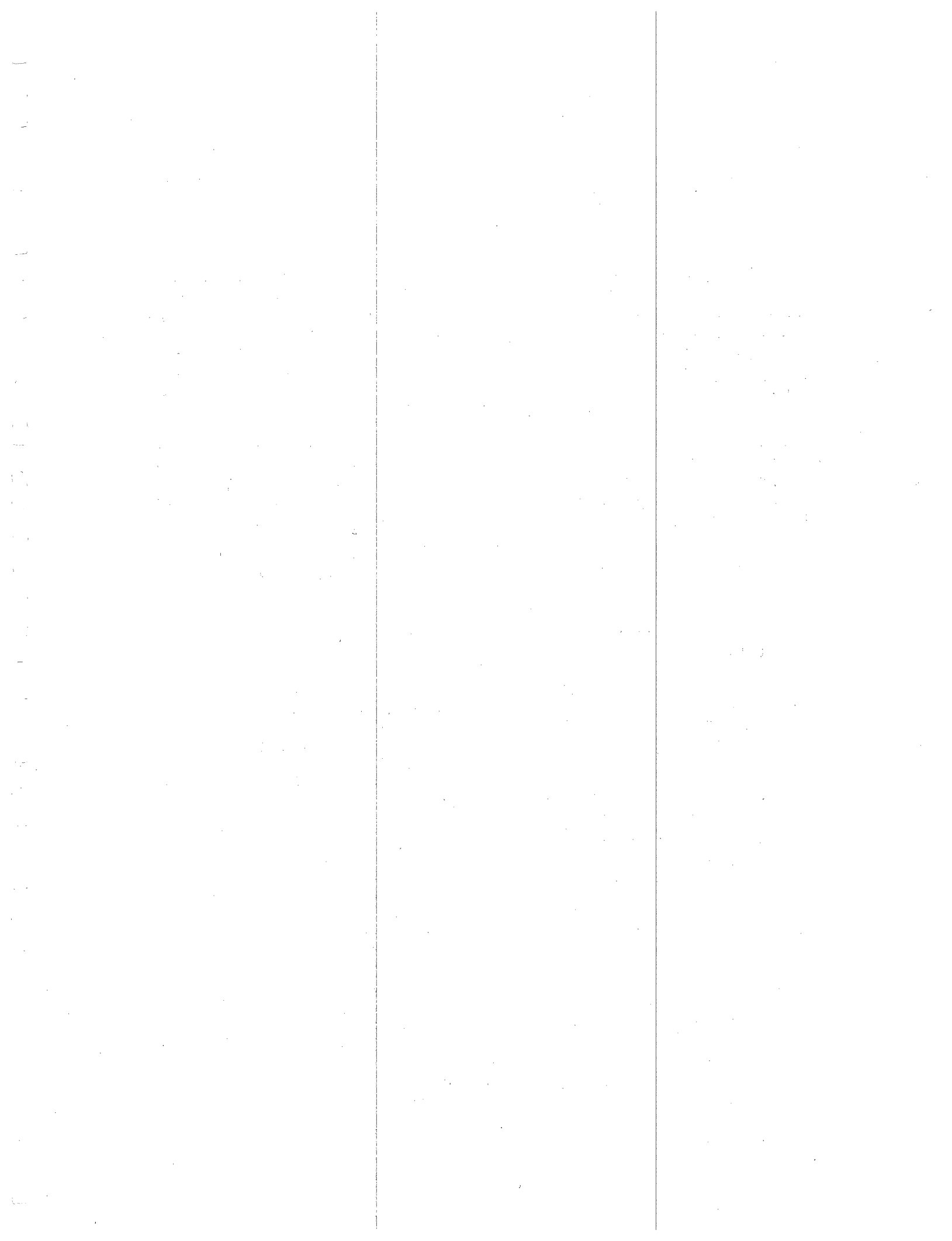
- Detailed review of the present structure for providing public transportation in New Jersey, and of the principal difficulties currently experienced;
- Detailed review of the approaches taken by other states and urban areas towards public transportation, and of approaches taken to provide other public services, and analysis of the applicability of these approaches to New Jersey's situation;
- Analysis of the opportunities and constraints in present and emerging federal laws and programs;
- Identification of the desirable characteristics and criteria which should be met by a revised institutional and financing structure in order to best perform five public transportation functions of organization and management, finance, operation, planning, and regulation;



- Development of eight basic alternatives for organizing public transportation in New Jersey, including two structures for maximum private ownership, three structures for providing complete public ownership, and three more structures allowing mixed public and private ownership;
- Evaluation of the eight basic alternatives with regard to the desirable characteristics and criteria for each function;
- Selection, refinement, and detailed evaluation of three "preferred" alternatives which each represented the most practicable and desirable means for either maximum private, complete public, or mixed public and private ownership and operation;
- Further detailed evaluation of the three alternatives and the consultants selection of one alternative as a preliminary recommendation to the Department;
- Review by the Department, the advisory panel, and state Legislature of the consultant's preliminary recommendations; and
- Preparation by the consultant of these Final Recommendations.

The study process has considered a wide range of alternative organizational and financing structures, and successively narrowed, evaluated, and refined those alternatives until a final recommendation is made on how New Jersey should organize and finance the delivery of public transportation services.

Chapter III of this document, Evaluation of Alternatives, summarizes the results of previous evaluations of all the alternatives considered in this study. Chapters IV through VIII then present detailed recommendations for each of the major functional areas of Organization and Management, Finance, Transportation Operations, Regulation, and Planning. Each of these chapters also discusses the principal reasons for the recommendations.



III. EVALUATION OF ALTERNATIVES

Two major activities of this study have been the identification of options for effective organization and financing, and the evaluation of those alternatives.

Initially, eight alternatives for the structure and financing of public transportation were described in detail in the consultants' report to the New Jersey Department of Transportation of July 23, 1976, entitled "Alternative Structural Approaches for Public Transportation in New Jersey." Concurrently, the consultants prepared, as a tool for evaluation, "Criteria and Measures," dated July 27, 1976, which set out the desirable characteristics, assessment criteria, and specific measurements to be applied in evaluating alternative organizational options. Application of these criteria to the eight alternatives led to definition of three basic organizational structures for final evaluation, reported on in "Preliminary Evaluation and Refinement of Alternative Structural Approaches for Public Transportation in New Jersey," dated September 7, 1976. A final step in evaluation produced a "Preliminary Recommendation for Revised Institutional and Financial Structures for Public Transportation in New Jersey," dated October 4, 1976.

The results of each of these steps in evaluation are described here to summarize the process through which alternatives have been narrowed and refined to a final recommendation.

Preliminary Evaluation and Refinement of Eight Structural Approaches

Eight alternatives were developed to meet, in different ways, the requirements of three policy options:

- Two alternatives were structured to enhance the role and the viability of private transit operating companies;
- Three alternatives were intended to achieve total public agency ownership of all transit systems in the State;
- Three alternatives were structured so as to balance the benefits of public ownership and private ownership.

In addition, the optimal involvement of local, regional, and State governments was analyzed as well as the impact of Federal laws and administrative requirements.

Each of the eight alternatives was described in terms of its provisions for management and organization, finance, transportation operations, regulation, and planning. These eight alternative structures were discussed in detail with the panel, with personnel from the Department and other state agencies, and with legislators. A series of meetings with interested organizations was held as well as two widely advertised meetings open to the general public. Three "preferred alternatives" were derived from the original eight, with changes made according to the results of evaluation and of the various discussions and meetings held to consider the original eight.

The first comparative evaluation of the eight alternatives, using pre-established standards, consisted of determining the extent to which each of the alternatives met certain organizational and financial criteria and measures. The organizational criteria were feasibility, responsiveness to elected officials, administrative efficiency, representativeness, and sensitivity to user needs. The financial criteria were feasibility, cost-effectiveness, equitableness, stability and flexibility of funding source, and eligibility for maximum federal funding.

Among the three preferred alternatives, one represented each of the major policy categories. Each was designed to include the best features of the original eight, considering the suggestions and criticisms of the various participants in the process, and the results of the evaluation.

Certain aspects of the original eight alternatives were not retained in the preferred alternatives:

- The quasi-public corporation option was excluded because of its low feasibility rating and incompatibility with Federal requirements;
- The options which required the creation of regional agencies to the exclusion of all else were deleted because of their lack of support, and the extent to which they excluded participation by State and local governments in the ownership and operation of transit;
- The State-only aspects of the options were modified for similar reasons;

- Independent authorities which are supported by their own revenues were excluded because of their lack of financial feasibility.

Three Alternatives Refined for Further Evaluation

The final three structural alternatives were refined in consonance with the three principal policy options:

- To enhance the role and viability of private transit operating companies;
- To achieve total public ownership and operation of regular route bus transit systems in New Jersey; and
- To balance the benefits of public and private ownership.

The distinguishing characteristics of the three preferred alternatives include:

- Preferred Alternative I. This maximum private ownership option provides that State or regional agencies can allocate subsidies to private companies on an improved basis which will encourage efficiency and private capital investment. No further public ownership was provided for. Regional agencies could be created at local option and could provide additional funding, but not own or operate transit;
- Preferred Alternative II. This all-public ownership option permitted the State or regional agencies to acquire, own, operate, and improve transit systems, both bus and rail. The acquisition program would be conducted in due course with the specific objective of complete public ownership, achieving efficiencies of scale, coordinating services, and eliminating duplication and competitive services. Regional operating agencies could be created at local option;
- Preferred Alternative III. This alternative encouraged the productive co-existence of

public and private systems. State and regional agencies would be permitted, but not required to own and operate. No subsidy for private carriers would be provided. A private system would operate from fares (capital funds for new buses and facilities from the government in some cases) as long as the fares were not unduly inhibiting ridership and contributing to the decline of the system. When a company could no longer operate effectively under those conditions, then the State or regional agency would move to acquire the system and support it with the fare box and public funds.

Each of these options included the same basic provisions for financing, regulation, and planning. A stable, continuing source of funding would be provided by legislation with a means of earmarking those funds adequately to assure continued financial planning and programming on a sound basis. The economic regulation of routes, rates, and schedules would be placed in a single State agency in the Department in order to simplify the current regulatory process and to integrate transit policy and regulation. In all cases, the planning process and responsibilities would be a matter of mutual agreement among the participating agencies under the Federal transportation planning requirements. Each alternative would provide the organization with the power and authority to carry out its responsibility under those requirements.

Evaluation of Three Preferred Alternatives

The consultants' evaluation of the three preferred alternatives, leading to a preliminary recommendation, was conducted on a comparative basis. The alternatives were examined relative to each other in terms of how well they met the requirements of each of the five functional activities necessary to the provision of public transportation services - management and organization, finance, transportation operations, regulation and planning. Weighing each against the others in terms of how well they met policy objectives in these five areas resulted in a comparative statement of their advantages and disadvantages.

Within each functional area, the three preferred alternatives were evaluated with regard to how each performed. The results of this evaluation of the three are described for each of the functional areas of organization and management, finance, transportation operations, planning, and regulation.

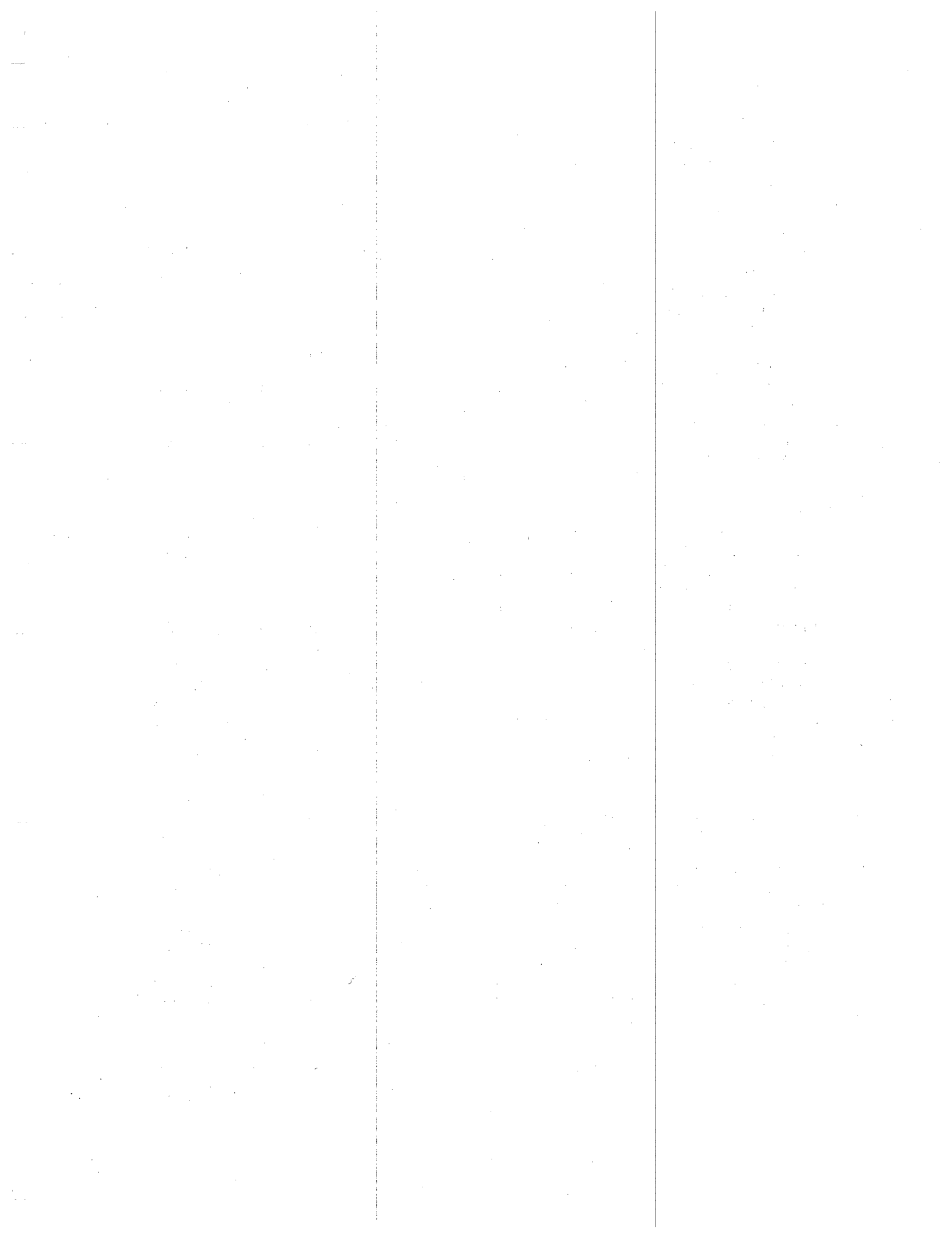
Evaluation of Organization and Management

Several conclusions can be reached about the advantages and disadvantages of the three basic Alternatives in judging their feasibility. Simply put, it is not feasible to rely on a primarily privately owned system. Expansion of private equity in transit is not financially attractive to private investors except in limited instances. At the same time, it is not feasible to press for a completely publicly owned system in the presence of viable private carriers. The advantage of the recommended Alternative is that it provides an improved basis for the reinforcement of existing private carriers, while at the same time revising the powers and duties of the public organizations involved in transit in such a way as to eliminate the major disadvantages of the current organizational structure.

The recommended Alternative has another significant measure of feasibility as well -- it provides a substantial basis for improvement in very important aspects of the existing system, while it recognizes the reasonable interests of the existing participants in the public transportation program in the State. As a practical matter, transit financing, operation, planning and regulation in a State involve the cooperation and involvement of large numbers of private and public organizations, at every level of government. The recommended Alternative encompasses this reality, while eliminating much of the current confusion and providing a focus for policy, a simplified regulatory system, an agency with full powers to provide adequate public transportation, and a financing stability which can serve as the basis for sound and consistent financial planning and budgeting.

The Alternatives differ in terms of responsiveness and representativeness. Private carriers make operating decisions based primarily on business judgments, rather than public policy judgments, and are generally not eager to cooperate with their competition, to keep fares low, to provide essential service which is not financially profitable, or to make capital investments which will not yield a direct economic benefit to their investors. Many private carriers do in fact take a substantial interest in their communities' needs and are responsive to requests for new services and other community projects. By their nature, however, they are more independent and have no mandate to respond or to involve others in their decisions.

Publicly owned systems are generally designed to provide more access to the decision-making process, and are generally more responsive to elected officials and to community interests -- sometimes to a fault. Increasing costs



of transit and increasing requirements for improved operating effectiveness have heightened the interest of many public transit agencies in providing a better balance between operating efficiency and responsiveness. Nevertheless, it is clear that the advantage goes to public transit organizations on the question of responsiveness and representativeness.

One of the principal advantages normally associated with private management, when compared with public agencies, is the higher degree of administrative efficiency. However, the special circumstances of the existing situation need to be taken into account. The unusually large number of individual complements of managerial personnel in New Jersey produces a high overall administrative expense.

It is not likely that these personnel could be "saved" in an all-public organization, since New Jersey's situation will require many more operating locations than a transit agency which just covers one urban area. However, the facts illustrate that the present system of predominant private management is not necessarily administratively efficient.

In addition to the incremental costs imposed by the large number of individual companies, another important administrative efficiency question is the complexity of the administration of the current subsidy program, the capital and operating grant programs, and the splintered regulatory system. A substantial reorganization of these functions does have the potential of improving the quality of administrative performance.

The recommended Alternative has the advantage of unifying all of the public transit contracting and regulatory staffs within one agency in such a way as to allow a more flexible application of their talents. Additionally, as the State acquires the private transit companies, it can also strive for improvement in the use of their administrative resources.

The recommended Alternative provides local governments with the option to organize regional transit systems. This option is founded on the different public reactions to regional organizations which occurred at the public meetings held in northern and southern New Jersey. First, regional agencies are not mandated because there appears to be no public sentiment in the northern part of the State in favor of multi-county regional transit organizations. Second, substantial sentiment and technical merit exist in favor of a regional agency in the New Jersey portion of the Camden-Philadelphia metropolitan area. One of the advantages of the recommended Alternative includes the fact that it recognizes these

differences and the differences among county and local governments to provide the administrative support essential to manage a system effectively. It provides a means for adequately prepared and motivated units of government to make the financial and staff commitment necessary to complement or replace the State or the private carrier.

In summary, analysis of the advantages and disadvantages points clearly to the conclusion that neither the private sector nor the public sector should be excluded from providing public transit services. The recommended structure should encourage and further the development of a sound, unified and consistent policy and plan for maximizing the benefits of private ownership where it is feasible, and moving to public ownership where it is not. Similarly, there appears to be no basis for the exclusion of local and regional agencies from supporting and/or providing public transit services directly, as long as all related services can be adequately coordinated and duplication eliminated. PATH, PATCO and Mercer Metro currently operate publicly owned transit services. When there is substantial local interest and demonstrated ability for other logical regions to do so, such an option should continue to be available. The recommended structure should, however, provide a clear focus for policy decisions and management of public transportation in the State of New Jersey, and that focus should be the Public Transportation Agency of the DOT.

The recommended Alternative includes another important combination of private and public resources. The public operating agencies would be enabled to retain private transit management firms to manage publicly owned systems. This would tend to combine the responsiveness and representativeness of public agencies at the policy level, with the more businesslike aspects of private management in the implementation of those policies. This should help to increase the overall cost effectiveness of the publicly owned segments of the system.

Evaluation of Finance Characteristics

In spite of the major differences among the three preferred Alternatives in the degree of public ownership of New Jersey's transit system, the costs to the State (both operating and capital) do not vary significantly from one Alternative to the next. Our analysis of operating costs shows that for Fiscal Year 1975, using data available from the Public Utilities Commission and from the Simpson & Curtin bus subsidy contract study, the costs to the New Jersey Department of Transportation for operating bus transit services in the State would be essentially the same for Alternatives I, II, and III. If all the opportunities for rationalizing

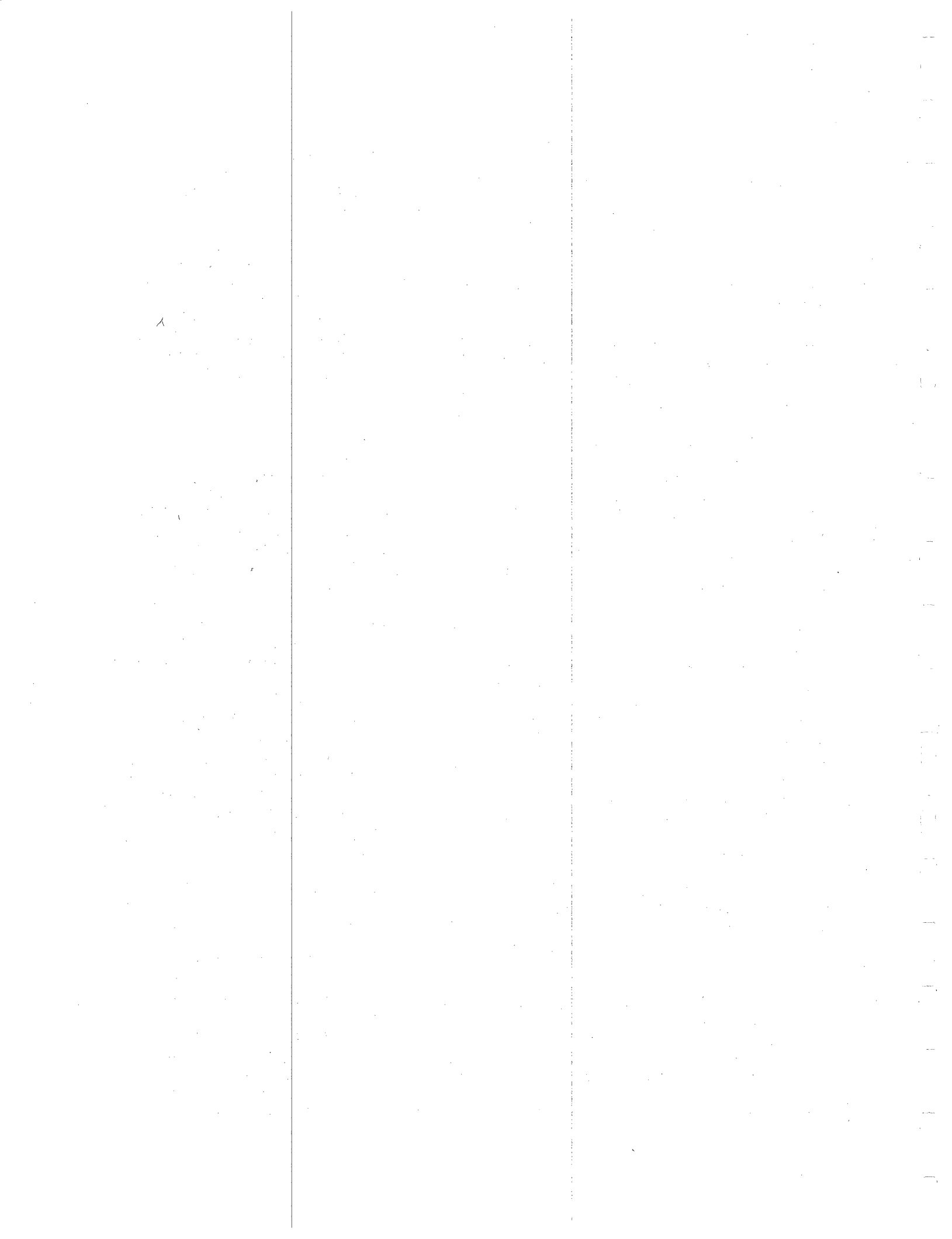
services and avoiding other costs were implemented, Alternative II could be the cheapest for the State followed by Alternative III. However, it must be stressed that some potential cost differences are "opportunities" to save, rather than hard figures.

Comparing the Alternatives on the basis of capital investments results in almost the same conclusion. Under all of the Alternatives, it is assumed that the State will provide the matching share for UMTA capital grants to purchase new equipment and implement major system improvements. Hence, the only difference in capital costs among the Alternatives would be for the acquisition of the current assets of private carriers under Alternative II and III.

Alternative II, encompassing the purchase of the assets of all regular-route bus operators, could cost the State a maximum on the order of \$20 million, assuming that UMTA pays for 80% of acquisition. Alternative III, which allows for the continued operation of the unsubsidized carriers, would involve lower acquisition costs than Alternative II. Alternative I, with no acquisition costs, is therefore the cheapest Alternative in terms of cost to the State for capital investments.

Alternative I would have the advantage of maintaining the profit incentive of the private entrepreneur and may hold down the total cost of wages and benefits slightly longer than Alternatives II and III. On the other hand, with Alternative I, New Jersey will not accrue other cost savings, would have only limited control over operations of the services for which it pays, and would be unable to achieve the maximum economies of management and service rationalization possible under Alternative II and, to a lesser extent, under Alternative III. Alternative I would also enable the private operators to keep the profits including those from charter operations, some of which would undoubtedly accrue to the State with Alternatives II and III.

Alternative I, which involves paying private carriers standard costs rather than the current practice by New Jersey of paying actual costs, will put some of the private carriers with high actual costs in the position of not being able to break even at the new subsidy levels. At least some of these carriers are likely to seek to discontinue or to alter the service they provide, or will request that the State buy them out. The State will be faced with a situation in which the service must cease or deteriorate drastically unless they are able to purchase the private carrier. It might be that some high cost services are not due to company inefficiency but rather to the nature of the route. Even the best of formulas cannot equitably deal with every complex aspect



of the costs of transit operations. Therefore, if the State does not have an ability to purchase private carriers, it may lose the ability under Alternative I to set policy to provide the service levels it wishes.

Alternative II would enable the State to achieve the maximum administrative and management economies and, through the elimination of duplicative services and coordination of remaining services, achieve a more cost-effective transit operation overall. The State would receive profits from some operations to help defray costs, and would be relieved of paying certain taxes currently paid by subsidized carriers and, hence, indirectly by New Jersey DOT. On the other hand, wages and benefits are likely to grow fastest with Alternative II and the cost of acquiring the private operators would be higher than for Alternatives I and III.

Alternative III enables the State to achieve many of the cost savings resulting from more efficient management and operations as in Alternative II; enables the State to make available to the remaining private carriers some formerly subsidized operations along the same routes; delays somewhat the wage and benefits escalation which might occur with Alternative II by maintaining profitable private carriers; has lower capital costs than Alternative II; and could enable the State to operate some charter services for profit. On the negative side, all the carriers acquired by the State would be unprofitable and the maximum operating economies achievable with Alternative II would not be possible under Alternative III.

Turning to the issue of a funding source to support continued public investment in the State's public transportation system, it is clear that rational programmatic control is only possible with a stable, growing source of funds identified and made available to the Department. Our analysis suggests that, of the sources initially considered, the gasoline excise tax appears to be the most appropriate and feasible primary source. Excess revenues from the toll road authorities should also be used for transportation system investments, including both the transit and highway programs, but this source is too unpredictable to be exclusively relied upon.

Evaluation of Transportation Operations

The three preferred Alternatives differ significantly in the extent to which they promote operator responsiveness to State and local government policies and facilitate

citizen input to decisions affecting operations. Similarly, there is considerable variance among the preferred Alternatives in terms of the State's ability to influence improvements in operator productivity and administrative efficiency and to facilitate operational and service rationalization, coordination and integration.

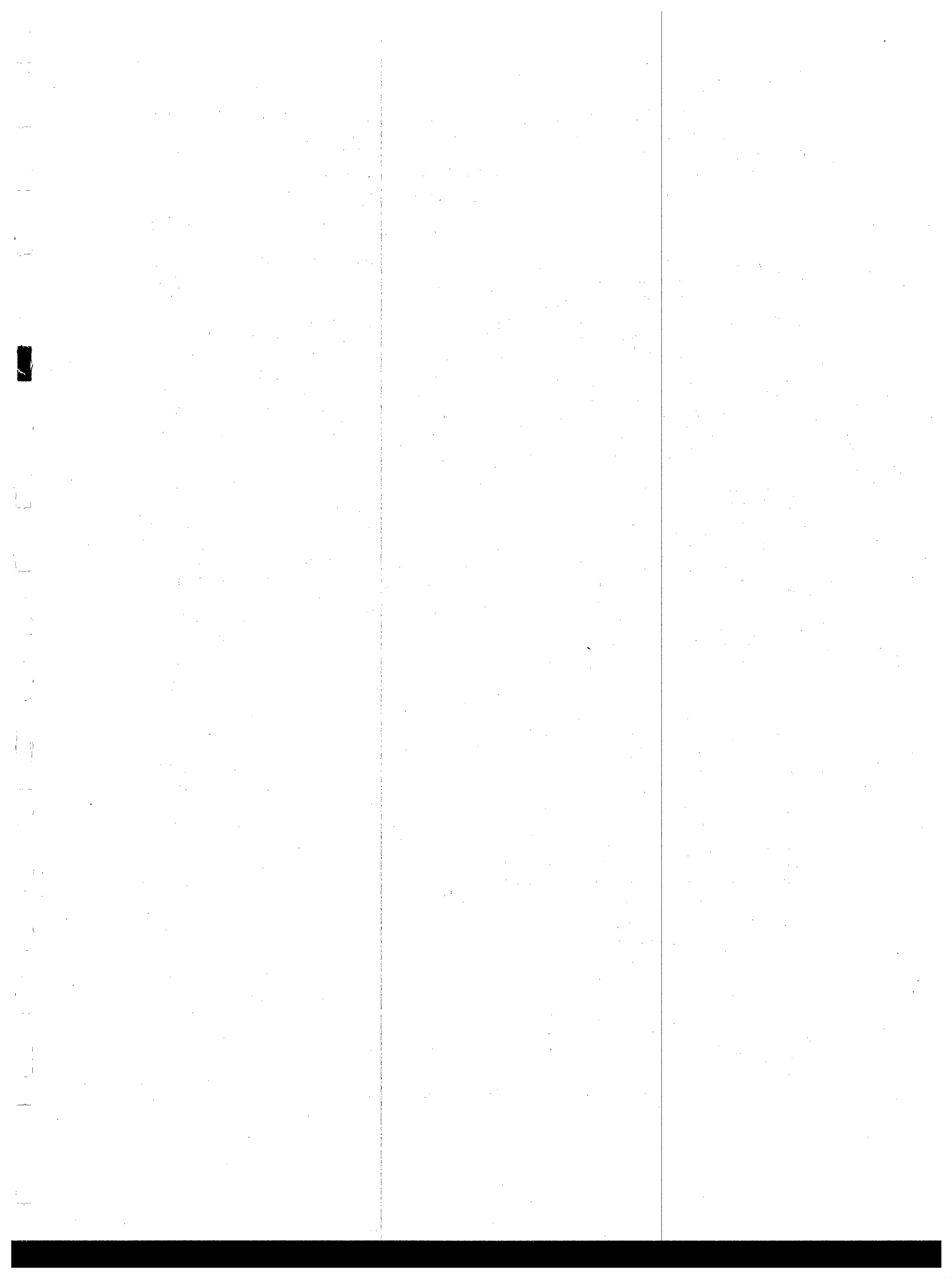
Alternative I, which would incorporate a standard cost formula for allocation of State operating subsidies to private operators, would encourage continued private management of operations while providing incentives for efficient and cost-effective operations. On the negative side, Alternative I would continue the existing problems concerning the distribution of new capital equipment. Also, by maintaining the existence of both subsidized and unsubsidized carriers, Alternative I would be less responsive to service requests made by local governments and private citizens and would make it more difficult to achieve an optimum level of integration and coordination. On balance, Alternative I offers little opportunity to significantly improve transit operations in New Jersey.

Under Alternative II, the State, as the owner/operator of virtually all regular route bus transit service, could move to achieve maximum operational effectiveness. Alternative II should assure responsiveness to the executive and legislative branches of State government. Likewise, responsiveness to local governments and transit-dependent groups would be maximized by this Alternative. It would enable the State to restructure service and more rationally deploy available resources through system modification, fare standardization, joint fare programs and marketing activities.

Alternative III retains many of the advantages associated with all-public ownership, without some of its inherent inflexibilities. Private carriers would have the opportunity to take over some currently subsidized services if they could operate such services efficiently. Efficiencies of scale, service coordination and elimination of duplicative and competitive operations achievable with Alternative II would also be afforded, to a substantial degree, by Alternative III. Yet, through the continuation of private enterprise in fulfilling economically productive service functions, capital and operating cost requirements might be lessened.

Evaluation of Regulation

All of the preferred Alternatives assume an improved basis for analyzing transit costs and revenues and setting fares and service levels. Rather than the outmoded and irrelevant return-on-investment rate-base technique required by statute for public utilities, operating ratio would



be adopted as the foundation for reviewing fare increase requests.

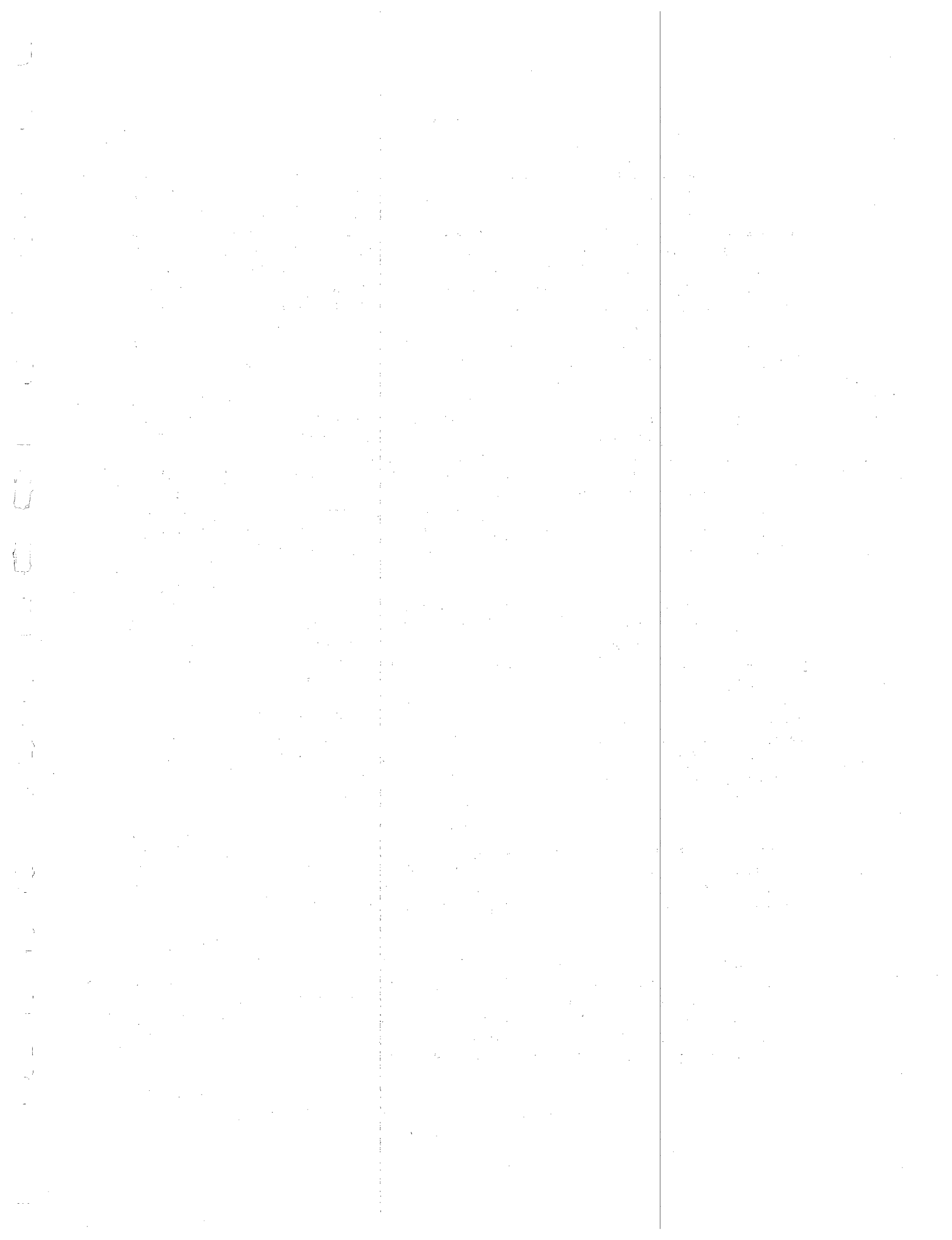
All of the Alternatives recommended that existing economic regulatory authority would be centralized in a new State agency and combined with ongoing planning, monitoring and policy-making activities. To the various extents possible under the Alternatives, this Agency would take the initiative in developing and implementing a coordinated, efficient transit system.

Finally, all of the Alternatives assume that regulatory authority for public transit vehicle safety would be consolidated with existing public safety responsibilities which already exist within the Department of Law and Public Safety.

Significant differences exist among the Alternatives with respect to how, and to what extent, centralized regulatory authority can be utilized. For example, Alternative I would utilize regulatory authority when and where possible to improve operating and economic efficiency of a transit system comprised of many private operators. While procedural improvements would be felt immediately, significant system rationalization would proceed slowly and no unilateral regulatory actions would be taken. Rapid implementation of public policy would be frustrated by continuing negotiations with individual operators concerning changes in existing service.

Alternative II would provide for the relatively short-term, unilateral exercise of regulatory authority to rationalize the existing transit system. Public policy and planning decisions could be implemented uniformly without lengthy legal and administrative entanglements. However, new public participatory mechanisms would have to be created, and some traditional regulatory procedures would have to be maintained indefinitely for private charter and special bus operations.

Alternative III would aggressively utilize regulatory authority in the short term to eliminate unnecessary duplications of service and to strengthen economically viable private operators. Thereafter, an evolutionary system rationalization process would take place which promotes continued operation of profitable private routes, and permits State purchase of unprofitable transit operations. This process would be based on the maintenance of an adequate level of transit service throughout the State. Overall, Alternative III has more flexibility than Alternative I in the utilization of regulatory authority, and greater



leverage for implementing policy decisions than Alternative I, but somewhat less than Alternative II.

Evaluation of Planning

All three preferred Alternatives contain several identical recommendations about how future transit planning should be carried out in New Jersey. All Alternatives respond to the need for a significant increase in the capabilities of New Jersey DOT in transit technical analysis and planning. Similarly, the Alternatives all relocate the regulatory function, placing it in the same organization with the function of service improvement planning. Increased staff resources are needed to carry out that short-range operations planning.

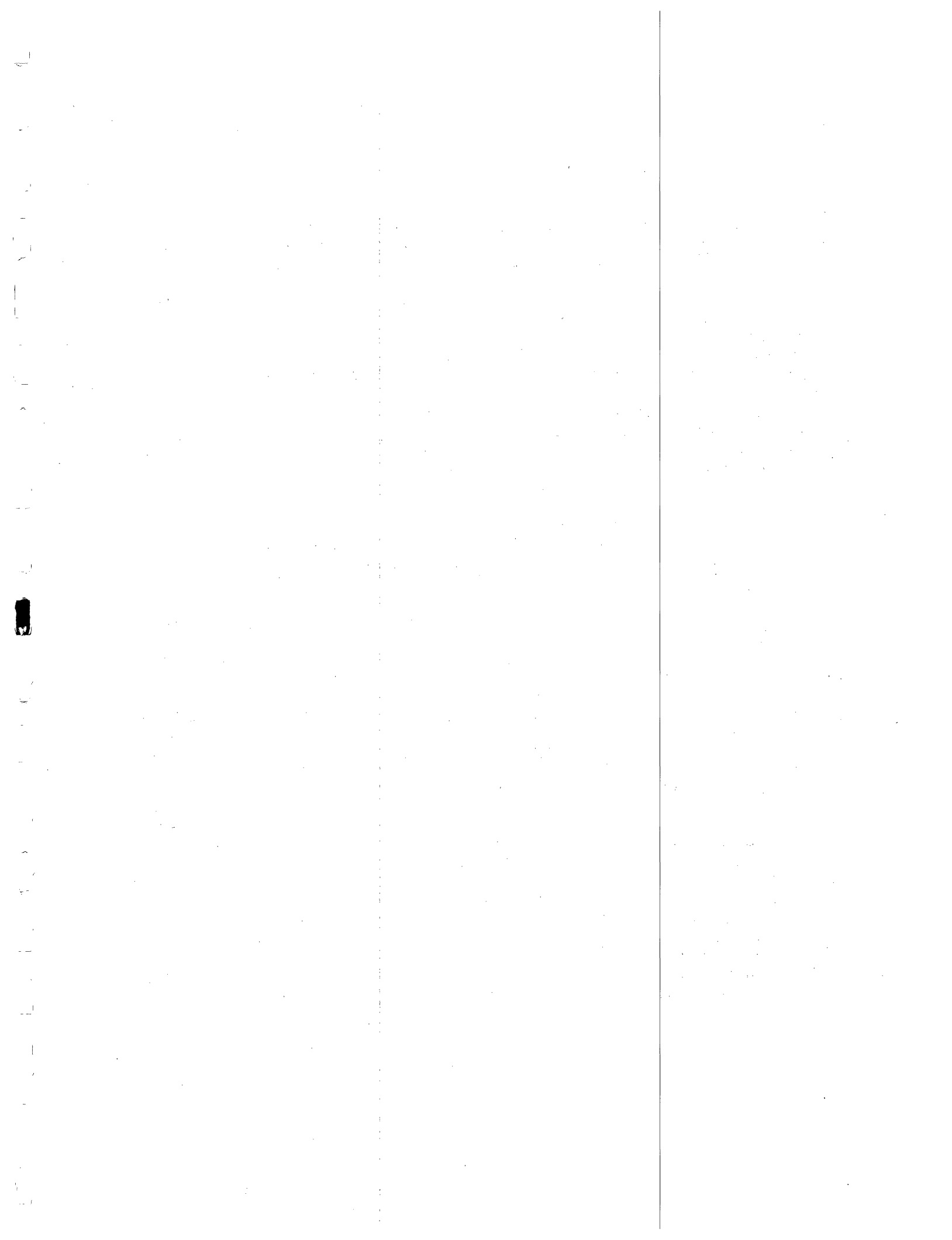
All three preferred Alternatives recommend a much closer tie between service planning and regulatory decisions in order to reorient transit regulation to reflect the current economic characteristics of transit services. New Jersey DOT would thus have the capability to identify service needs throughout the state and assess the relationships among level of service, fare, and ridership for different services. A key result of augmented planning capabilities will be a higher probability of qualifying desired State programs for maximum federal funding and a more cost-effective allocation of State funds.

With respect to planning, the major differences among the three Alternatives are the number of participants in transit planning and the relative roles of New Jersey DOT and the private operators in implementing decisions.

Alternative I, because it retains all private operators, will entail more difficulty for the State in implementing its planning decisions, in increasing system productivity, and in involving private carriers in the planning process.

Alternative II, which concentrates ownership at the State level, is the most desirable Alternative from the standpoint of the State's ability to plan and carry out service improvements and rationalizations with the fewest hurdles to be overcome.

Alternative III is more desirable than Alternative I, but less desirable than Alternative II in terms of the State's control over the implementation of planned transit improvements.



IV. MANAGEMENT AND ORGANIZATION

The consultant recommendation encompasses several changes in the management and organization of the various functions essential to public transportation in the State of New Jersey. Each of these recommendations has been developed after consideration of the strengths and weaknesses of the existing structure for delivering public transportation services in the State, and after evaluating a number of alternatives for improving the delivery of those services. The recommended management and organization changes are as follows:

- Create the New Jersey Public Transportation Agency (PTA) within the Department of Transportation; give it the powers and duties of the existing Commuter Operating Agency, plus the power to own and operate bus and rail systems directly or through contract management; abolish the Commuter Operating Agency;
- Transfer all transit regulatory authority of the Board of Public Utility Commissioners and the Commuter Operating Agency to the PTA; establish operating ratio as the basis for regulation of fares;
- Provide the PTA with all the powers, duties and responsibilities necessary to regulate private carriers; to perform transit operations planning; to acquire, to own and operate rail and bus transit; to provide purchase-of-service subsidies for buses on a temporary basis, and for rail as convenient to the PTA and to provide management assistance -- such as statewide purchasing, overhead services, marketing programs - to public and private carriers, bus and rail;
- Enable, but not require, the organization of county or multi-county regional transit agencies at the option of the participating local governments. Give such agencies the power to acquire, own and operate transit services, or to purchase services from public or private carriers;
- Eliminate the existing subsidy program for bus carriers, and provide a new standard cost based subsidy program for whatever limited bus subsidy agreements might be necessary on an interim basis.

The management of transit services in the State would be provided by the following organizations:

- The Public Transportation Agency
- Profitable bus carriers
- PATH, PATCO, Mercer Metro, and possible future regional transit agencies
- ConRail
- Unprofitable carriers under temporary subsidy agreements with the PTA, pending their discontinuance or acquisition.

The internal organizations of the private carriers will be left to their ownership. Private carriers will be supported and assisted by a number of changes, including improving the regulatory process, changing the rate-setting foundation from rate-of-return to operating ratio, continuing capital assistance, and using the State's new planning, regulatory and operating powers to eliminate overlapping, duplicate and competitive services.

PATH and PATCO will continue to provide the rail transit service which they now provide. Mercer Metro will either continue to operate as a county agency, or may be taken over by the PTA as the State and County may agree. Other counties will be authorized to operate or contract for the operation of service either directly or by creating a single-county or multi-county agency with operating powers.

Commuter railroad services will continue to be provided by ConRail until and unless, at the option of the PTA, such services should be curtailed, revised or taken over by the PTA operating division.

The Public Transportation Agency will manage such bus services and rail services as it chooses to acquire and operate, primarily those which are now provided by unprofitable carriers. The decision to acquire any particular existing carrier will be made on a case-by-case basis with emphasis on the preservation and development of ridership and the enhancement of profitable carriers. The PTA will provide either direct or contract management, from existing management personnel or other sources of skilled transit management, including private transit management companies.

The existing carriers whose services are not profitable will be allowed to curtail, discontinue or abandon services, to increase their fares to a profitable level, or will



be acquired by the PTA depending on the circumstances. The PTA will be authorized to provide an interim subsidy for a limited period until such time as the PTA is able to complete the acquisition and provide for competent management.

It is possible that in the development of a base service plan and the rationalization of the bus transit system, a transit service area may coincide closely with the routes and area presently served by a single subsidized private company. In that event, a careful analysis should be made to determine whether it is more cost effective to purchase the private operator or continue subsidizing the private carrier for a period of time subject to regular re-assessment.

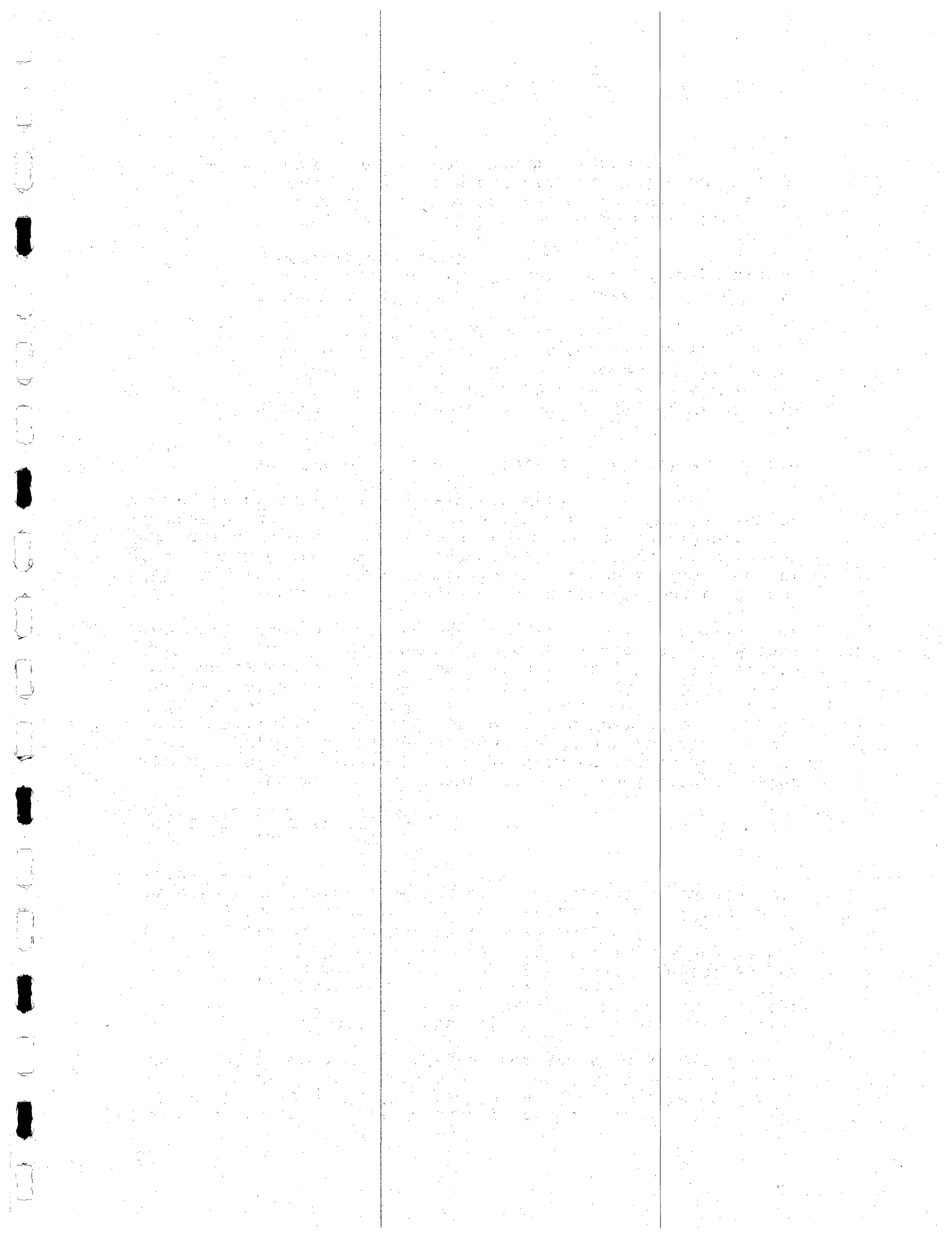
The New Jersey Public Transportation Agency (PTA)

The most significant organizational change is the creation of the New Jersey Public Transportation Agency as a line agency within the Department of Transportation. The agency will report to and work with the Commissioner of Transportation in carrying out its responsibilities. The Agency's affairs will be directed by a Board of Directors, chaired by the Assistant Commissioner for Public Transportation, who will be the Chief Executive Officer of the Agency. A General Manager will report to the Assistant Commissioner.

The PTA will function as an integral part of the DOT, and the Assistant Commissioner for Public Transportation will continue to have the authority to call on the Director of Engineering and Operations, the Director of Planning and Research, and the Director of Administration for the support which those divisions currently provide.

The PTA will have the following principal responsibilities:

- Economic regulation of all public transportation operated within the State, succeeding to the present transit regulatory powers of both the Board of Public Utilities Commissioners and the Commuter Operating Agency;
- Management of the State's commuter railroad activities and the State's relationships with ConRail and AMTRAK;
- Management of the State's responsibilities under the Urban Mass Transportation Administration operating and capital assistance programs, and demonstration programs;



- The power to contract with private carriers or public agencies for transit services;
- Authority to purchase and lease to private operators or public agencies necessary public transit facilities and equipment;
- Authority for the construction, leasing or acquisition by negotiated purchase or eminent domain of necessary public transportation equipment and facilities.

The affairs of the PTA will be directed by a Board of Directors of five (5) persons, chaired by the Assistant Commissioner for Public Transportation. The Board members will be appointed by the Governor, and should serve at the pleasure of the Governor. Members of the Board will be selected so that they reflect a balanced view of the management and policy issues to be dealt with by the Board. Selection for membership should include the following considerations:

- Knowledge and experience in business management and finance;
- Knowledge and experience in public administration and finance;
- Knowledge and experience in public transportation management and planning;
- Sensitivity to user needs and public priorities;
- Knowledge and understanding of public transportation issues at the local community level.

Members should be residents of the State of New Jersey, and should have a geographic spread reasonably close to the incidence of public transportation services and facilities. Besides the Chairman, no more than two should be a member of the same political party.

The organization of the Agency is designed to accomplish several objectives which are essential to the successful implementation of a sound public transportation system for the State. The Agency needs and should have substantial authority to perform its functions. However, very few new powers not now vested in an existing State agency or local agency will be required. The effect of the creation of this Agency then is not to create any new power for a public agency, but rather to vest existing powers in a single agency in



order to use them in pursuit of a single set of clearly articulated policies. The key objectives which have guided the development of this recommendation are:

- Untying the presently complex and confusing regulatory system in which two different State agencies regulate transit with no common policy objectives and on outmoded regulatory grounds. The present system in which the PUC regulates unsubsidized carriers and the COA regulates subsidized carriers is time-consuming, unnecessarily indecisive, and sometimes creates a no-man's-land in which neither or both agencies have jurisdiction;
- Combining regulation, short-range operations planning, operating and capital assistance, and public operating responsibilities under a single agency with a unified transit policy closely coordinated with other State surface transportation policies;
- Providing for an administratively simple, unified organization to perform the Agency's functions, with the fewest possible constraints on internal flexibility and management prerogatives with respect to personnel;
- Conformity with the "desirable characteristics" established in the evaluation of the alternatives considered during the study, including responsiveness, representativeness, feasibility, and administrative and operating efficiency.

Organizing the PTA

The PTA would function through three divisions; Service Improvement and Regulation, Transit Operations and Transit Assistance. Each division would be responsible to the Board through the Chairman and Chief Executive Officer for its particular duties as outlined below:

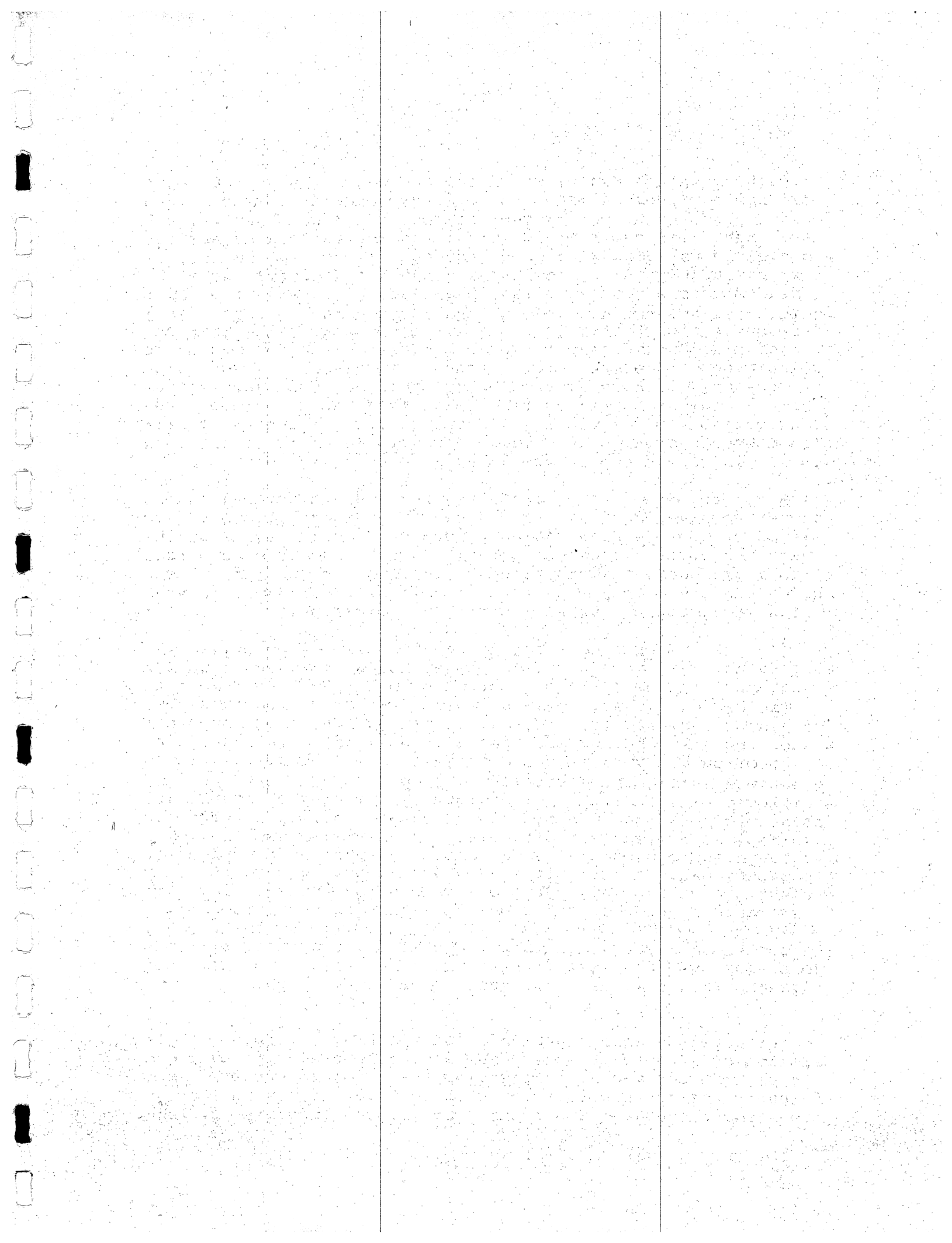
The Division of Service Improvement and Regulation. This Division will have the two sets of responsibilities its name implies. In general, one of the objectives of the regulatory function will be to enhance the profitability of private carriers through improved and more responsive regulatory policies and procedures which provide a balance of public interest and just compensation. Of particular importance is the change in the basis for rate-setting to "operating ratio," a system which provides for a reasonable profit in the pres-

ence of declining capital investment and increasing costs of labor, and the integration of regulation and service planning under one set of policies administered by one agency. This is designed to ensure consistency between the State's actions as a regulator, planner, operator, and source of financial assistance.

The Service Improvement function is a particularly important one. Its key elements will determine the future of specific transit services and individual transit companies. The Service Improvement Division will have responsibility for service planning to assist in the regulatory and operations planning decisions, with specific responsibility to eliminate duplication and unnecessary competition, to improve intermodal coordination, and to develop plans to enhance the viability of private carriers and to improve the quality of service and the cost-effectiveness of private and public expenditures for transit services. In addition, it will be the responsibility of this office to do the analysis to determine whether a particular company's service is essential and can no longer be effectively supported with fare box revenues without counterproductive reductions in ridership. The possible result of such analyses would be a recommendation that the State or another public agency move to acquire the company, that its essential services be performed by another carrier, or that it be allowed to discontinue service altogether.

This division will also have the responsibility for producing a transit service plan for the State, setting forth the quality and quantity of essential public transportation services to be provided by private and public operators within the State. This plan should be produced as soon as possible, and will provide the basis for service-related decisions by the regulating and operating divisions. (See Chapter VIII).

The Division of Transit Operations will have responsibility to operate, directly or through contract management, all of the public transportation services to be acquired by the Agency. In general, this would initially include the essential services included in the transit service plan and which now are provided by unprofitable carriers. The mission of this division is straightforward and simple to describe but will likely become the most difficult to achieve successfully. The Division of Transit Operations has the responsibility to manage the State-owned public transit system providing essential public transit services of a high standard on a cost-effective basis. The obstacles to accomplishing this objective in the eyes of the riding public, who will judge the quality and quantity of service daily, and in the eyes of the public officials and taxpayers, who must appropriate and provide the funds for the necessary subsidies, are substantial.



They include increasing demands for service, increasing costs of fuel, materials, supplies and equipment, and most importantly, the increasing cost of labor of maintenance and operating personnel. In addition, many labor prerogatives are protected by the labor protective provisions of the Urban Mass Transportation Act, Section 13(c), which provides that no "worsening of condition" should result from the use of Federal capital or operating assistance funds. A substantial proportion of the personnel to be employed under this division are potentially under the protection of this provision. Federal assistance is an essential part of the plan for financing the required services and facilities.

On a more positive note, the Division will have the responsibility and opportunity to implement in one unified operation a number of substantial improvements in the existing system which are difficult or impossible to accomplish under diverse private or public ownership. These opportunities include:

- Unified or coordinated fare structures between bus and rail services;
- Elimination of some overhead and general administrative expenses presently incurred by the 76 companies and associations now providing service;
- Elimination of overlapping and competitive services;
- Improvement in intermodal coordination;
- Economies of scale in purchasing, fixed costs, and many major maintenance functions;
- Pooling of management skills and spreading the capabilities of specialists for the entire system;
- Establishment of standards for service, and the rationalization of services within the system by reducing underutilized service, and expanding overloaded services;
- More flexible fleet utilization and replacements for both bus and rail fleets.

None of this is to suggest that costs of service will certainly go down or that out-of-pocket savings will be achieved. This has not been accomplished under private



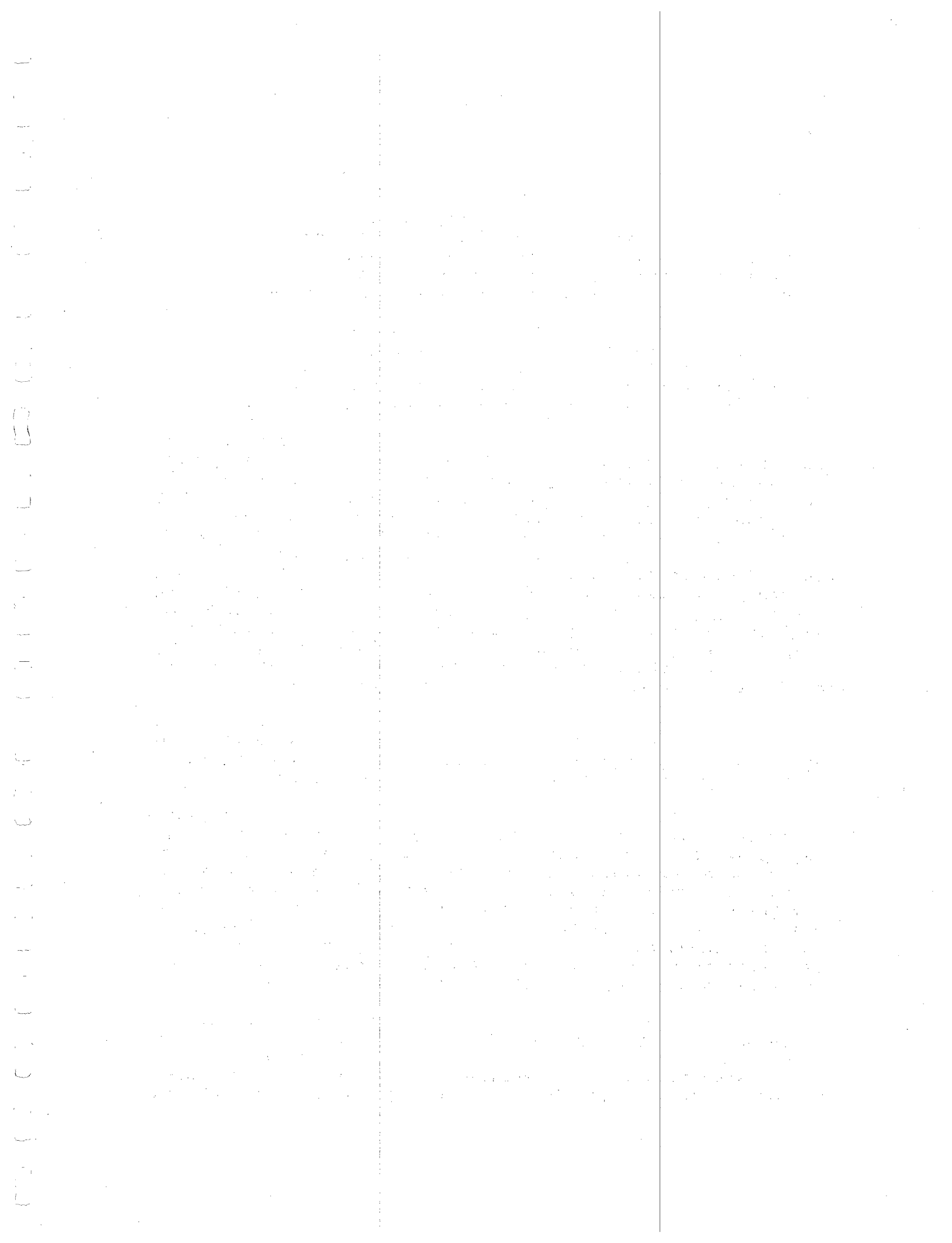
management, and it will not be accomplished under public ownership and management. Improved cost-effectiveness can be achieved however, and future growth in costs can be somewhat offset by productivity improvements, and these should be continually pursued.

An important resource for the Operations Division is the availability of private management organizations which can provide expertise in virtually every management function required to operate the system. In addition, there is a substantial transit management expertise among the existing New Jersey agencies and operators. In setting up the Operations Division, the available operating management resources of the companies operating within the State would be carefully assessed and made use of whenever the opportunity presents itself.

The option of using a private transit management firm, on an interim or permanent basis, should also be a high priority consideration in deciding how to organize the management of the State-owned system.

Firms which provide transit management teams to public agencies have been used by a number of agencies which are faced with the responsibility to operate a newly acquired system with limited transit management resources within their own organizations. Connecticut, Rhode Island and Maryland have all hired such firms to manage their State-owned systems. Many major metropolitan areas, such as Miami, Houston, Minneapolis-St. Paul, Denver, Kansas City, and Rochester have chosen this management option. In some cases, notably in Milwaukee, public agencies have retained local management teams from the previous private operator to continue to manage the system after acquisition. The private management option is usually chosen by public agencies for one or more of the following reasons:

- They provide instant management capability for a public agency which is not able itself to provide direct management and, frequently, feels it must replace the management of the company being acquired;
- They provide a back-up reservoir of management specialists in addition to the resident management team which can be called upon as needed without having to support their costs on a full time basis;



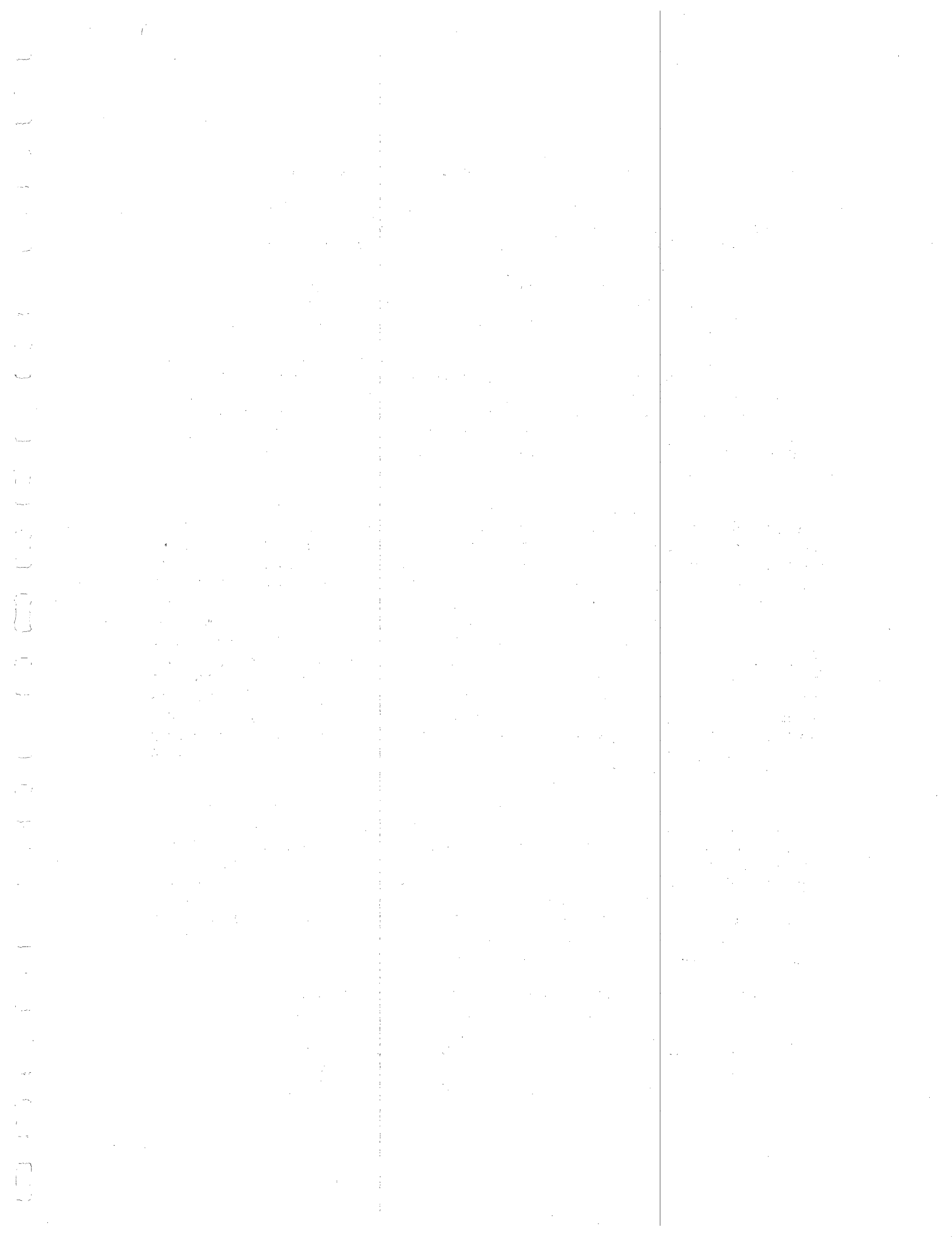
- They provide insulation between organized operating personnel and public agencies not used to (dealing with) collective bargaining;
- They provide insulation between political pressure for jobs and effective cost control.

Some agencies have decided to use management companies on a permanent or indefinite basis. Others have used them during a start-up period of a few years, and then have established their own direct management to succeed the private management companies. Another option is to retain a firm to provide "turn-key" management, in which full-time management personnel are provided to manage the system on a transitional basis, and to hire and train a permanent management team for the agency.

It is clear that the PTA will be faced at an early date with the problem of managing bus services. PATH and PATCO will continue to own and manage their rail transit systems for the foreseeable future. The more difficult circumstance to predict is the possibility that the PTA will have to assume responsibility for management of any of the commuter railroad services now provided by ConRail. The recommendation therefore is that the PTA have substantial authority to deal with all rail matters in order to have as many options as possible and to have as strong a hand as possible in dealing with ConRail. The powers of the PTA should include the authorization to acquire, and operate directly or through contract management, such commuter railroad, rail transit or other exclusive right-of-way system as the PTA may determine is in the public interest, subject to pertinent regulations and laws.

The third division of the PTA is The Transit Assistance Division. This division has a number of responsibilities, the thrust of which are to manage assistance and support of public and private rail and bus systems. The responsibilities of this division are wide-ranging and diverse, and include the following:

- Management of the State's capital program, and management of the acquisition and leasing of equipment and facilities to private carriers;
- Management of operating assistance to rail carriers, and management of the interim subsidy program to non-profitable bus companies;
- Management of the acquisition of unprofitable bus companies;



- Management of a State-wide transit marketing program to encourage the use of transit, for both private and public carriers;
- Management of special projects such as handicapped and elderly transit needs, service demonstrations, rural transit programs, and other special services;
- Provision of special management assistance to private and public systems to improve their cost-effectiveness. Such services might include joint-purchasing, assistance in insurance and claims, pooling of facilities and equipment, productivity analysis, scheduling and route planning assistance, or similar services;
- Management of State-owned facilities not under the direct control of the Operations Division.

The Role of the Board

The Board of Directors will function as the policy body and establish the procedures, rules and regulations under which the Agency will perform its responsibilities. The powers of the Agency will be vested in the Board, and the Board will have the authority to delegate most of its authority, under specified terms and conditions, to the Chairman. Final decisions in all regulatory, financial and contractual commitments will rest with the Board. The activities of the Board will be subject to appropriate civil and administrative procedural requirements, including normal restrictions in conflicts of interest.

Membership in the Board will be a part-time activity, except for the Chairman who shall be full-time. The Chairman should receive no additional compensation over and above his salary as Assistant Commissioner. All members of the Board shall be reimbursed for expenses incurred in the performance of their duties.

There are three approaches to compensating members of public agency boards:

- Payment of fixed sum per year, by law. This amount, if low, tends to be an honorarium, and if high, tends to be a political plum. Arguments for this approach include the fact that adequate compensation will attract highly qualified members;



- Payment of per diem for meetings and Agency business. This approach relates compensations to effort, but also tends to create unproductive effort in order to produce more per diems. This can be controlled by an annual limitation.
- No payment. This tends to be a penalty to some potential board members who might have to give up some income to take the time to work on agency matters. It eliminates the "plum" aspect of membership, and tends to improve the public perception of the Board. It also tends to limit board membership to those who are financially independent, or those who will not lose income from their full-time endeavor due to this obligation, or those whose personal commitment to the problems and mission of the agency is greatest.

On balance, it is recommended that members be paid a per diem for their participation in official meetings of the agency, with an overall annual limit at the level of approximately one-fifth of the annual salary of the Assistant Commissioner. This is based on the assumption that the business of the Board will not consume more than one-fifth, or more than a day a week, of the time of the Board members other than the Chairman, whose full-time efforts will be dedicated to Agency business. The recommended payment is not intended to compensate members fully for all of their time for preparation and for activities associated with responsibilities as board members. It is intended rather as reasonable assurances that no member will be unduly financially penalized for the time involved in Agency meetings. Controls over the abuse of the per diem will include:

- Payment only for attendance at officially convened meetings of the Board;
- Statutory limitations on the annual amount paid;
- Statutory establishment of the amount of the per diem allowance.

Per diem payments would be prohibited for any board members who might be employees of any State, regional or local government agency.

The Board will have the responsibility to conduct its affairs within the general policy review of the Commissioner of Transportation. The Board will not have the authority to direct the Commissioner, or any employee of the

Department outside of the Agency, to take any action. The Board must submit the Agency's budget to the Commissioner and it shall be included in the Department Budget requests. The Commissioner may make whatever changes in the budget of the PTA he determines are warranted, with appropriate explanations to the Agency. The Assistant Commissioner will have the responsibility for representing the Department of Transportation policies to the Board. Agency financial commitments will be subject to review and approval by the Commissioner.

The Chairman and Chief Executive Officer of the Board

The Assistant Commissioner for Public Transportation shall serve ex-officio as Chairman of the Board and Chief Executive Officer of the Agency. He will have three principal responsibilities: 1) to represent the Department and the Commissioner on the Board; 2) to chair the Board, and; 3) to direct the activities of the Staff of the PTA, including coordinating the PTA relationships with other divisions of the Department. As Chief Executive Officer, he will be responsible for carrying out the decisions of the Board. As Chairman, he will be responsible for coordinating Board activities with Department policy, and for assuring that the PTA performs its duties and responsibilities.

The Chairman will maintain certain functions within his own office on a staff basis to support his performance as the key public transportation official in the State. These will include Federal and intergovernmental relations, monitoring and lobbying for legislation, assuring maximum State entitlement and participation in Federal funding, and directing the activities of the three divisions of the PTA. Additionally, he will use his authority as Assistant Commissioner to assure adequate support for the PTA by other divisions of the Department.

Staffing the PTA

Administrative and operating efficiency has been a key criterion in developing management and organizational recommendations. The analysis in the earlier stages of the study has shown that the existing combination of too many individual private carriers, too many overlapping regulatory agencies, cumbersome civil service restrictions, and complex labor protections is placing a severe burden on the administrative and operating efficiency of the system today. The objective of the recommended plan is to reduce the complexity, make the best use of available resources, and achieve whatever savings are possible.

The basic recommendations for staffing the Agency are:

- Exempt all positions under the Agency from the Civil Service System, and require the PTA to adopt a personnel and compensation system based on merit and on the qualifications of individuals;
- Permit those State employees who are currently performing work to be performed by the Agency to be assigned by the Agency to similar work in the Agency personnel system without losing their individual privileges to retain their civil service status and entitlement to compete for civil service jobs in other parts of the State system;
- Permit and encourage those State employees now performing work to be performed by the Agency to compete for jobs under the Agency personnel system on a permanent basis, substituting the Agency system for their civil service entitlements. In such cases, the Agency may credit State service for determining such things as vacation entitlements;
- Do not require the Agency to transfer existing State civil service employees to Agency jobs;
- Consolidate as many as possible of the general and administrative functions of the transit systems to be acquired and reduce the overall expenditures in that category. (Existing general and administrative costs of the presently subsidized carriers are about twice the norm for a randomly selected group of 12 public transit agencies);
- Carefully review the existing middle management personnel in the private carriers to be acquired with the objective of retaining the best local management talent at the operating level;
- Authorize the Agency to bargain collectively with organized employees of the private companies to be acquired and authorize Agency management to promote from within those operating ranks to middle management and supervisory positions in any division of the Agency;

- Provide the Agency with the maximum amount of flexibility and discretion in hiring, firing and promoting its staff.

The existing system has several obstacles to the kind of flexibility and internal consistency which must be established if the desired level of administrative and operating efficiency is to be realized. As many of the obstacles as possible must be removed by the recommended structure. They include present civil service constraints to the DOT hiring specialists at higher levels from outside the system, civil service constraints on attracting qualified junior personnel, lack of adequate training and retraining programs to prepare civil service personnel lacking transit experience for work in this specialized field, and a salary inadequate to compete with other transit agencies for the quality of talent necessary to manage this endeavor.

A more serious constraint on administrative and operating efficiency exists outside the DOT where 76 individual private companies, each with its own management and supervisory personnel, each with its own general and administrative personnel, each with its own non-productive overhead, serve to reduce overall administrative efficiency in the State. Finally, the protections provided to labor by Federal transit law severely limit the discretion which the Department has in dealing with productivity and efficiency in the organized ranks of the transit systems. Changes in work rules require collective bargaining, and are generally subject to the review and approval of the Federal Labor Department and union officers.

The obstacles which the State can remove, it should remove -- principally in the exemption of the Agency from civil service constraints in hiring, salaries, promotion, and firing.

V. FINANCE

Sole reliance on an annual legislative appropriation of general revenues for public support of transit operations and the use of bond financing to fund capital improvements make it difficult for New Jersey to assure a continuation of essential services or the expansion of services which many communities desire. While the existing system of yearly legislative apportionments has the advantage of assuring up-to-date legislative judgments on funding transit improvements versus other public needs, it also makes it difficult for New Jersey DOT to do reliable capital programming, as required by the Urban Mass Transportation Administration (UMTA) as a prerequisite for receiving federal grants.

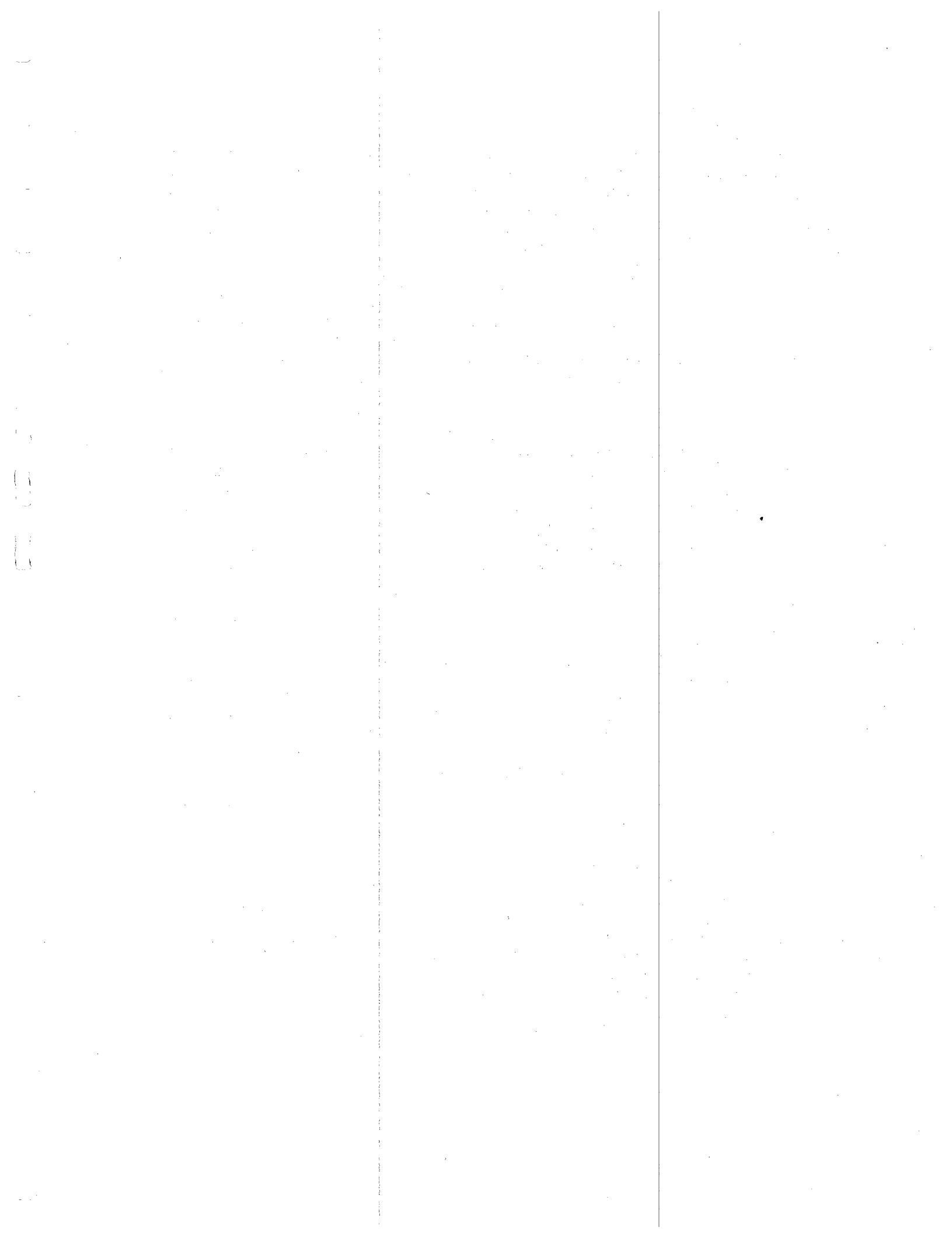
To give New Jersey DOT the capability to plan transit service improvements and program investments to implement them, the State must provide it with a dedicated revenue source that is flexible enough to keep pace with inflation and stable enough to yield predictable amounts annually. The tax source used to fund New Jersey transit should not only provide funds for public transportation but also encourage the public to use the transit services being provided.

Therefore, it is our recommendation that a portion of the tax on gasoline be changed to a percentage of the price so that revenues will grow as the price increases, and that the proceeds of this excise tax on gasoline be dedicated to expenditure for transportation purposes (both highways and public transit). This tax should be applied at the distributor or wholesale level rather than at the retail level because that is how the current gallonage tax is applied and administrative simplicity and efficiency would be maintained by doing so.

A second source of funds that should be made available to the State and dedicated to transportation expenditures is the excess annual revenues of the New Jersey Highway Authority and the New Jersey Turnpike Authority.

Sources For Financing Public Transportation

The amount of State funds annually committed to operating bus and rail transportation services in New Jersey is sizable -- approximately \$70 million in the current fiscal year. And despite all of our recommendations which would increase efficiency, eliminate waste and reduce the tax burden of transit, there is still a need for the same



order of magnitude of State investment in the future if New Jersey wants to continue a basic level of transit services. Consequently, New Jersey should establish a dependable source of public funds to ensure continuation of essential transit operations and to implement additional capital improvements staged over several years into the future.

Because of the growing federal role in support of public transportation, any discussion of funding sources for New Jersey must consider potential federal funding available to New Jersey. Table V-1 shows the amount of federal UMTA Section 5 grant monies authorized by formula for New Jersey over the next four years, to be spent for either operating or capital purposes. If New Jersey chooses to spend these funds to cover operating costs as they have done in the past, the State will have to match each federal dollar with a New Jersey dollar.

Sizable federal support to New Jersey specifically for capital projects is also available. For example, in September, 1976, the federal Department of Transportation committed \$400 million UMTA Section 3 funds to finance the PATH extension from Newark to Plainfield (or a CNJ upgrading), the electrification and upgrading of the Erie Lackawanna Railway's Morris and Essex Division, and electrification and rehabilitation of a portion of the New York and Long Branch Railroad. However, before final engineering and construction on all such projects can be undertaken, New Jersey must continue to comply step-by-step with all UMTA procedures.

Tax Sources

Several sources of revenue for State financing of public transportation in New Jersey were analyzed during the course of this study. Among the specific tax sources that were evaluated are the motor fuel tax, motor vehicle registration fees, an excise tax on gasoline, the general sales tax, the cigarette tax, and a payroll tax similar to one used in Portland, Oregon. In addition, thorough reviews of the annual financial reports of the New Jersey Highway Authority and the New Jersey Turnpike Authority were made to determine the amount, if any, of discretionary or excess revenues available to these Authorities each year. A briefer review was conducted of the finances of the Atlantic City Expressway Authority, the conclusion of which was that the financial possibilities of that agency contributing revenues were inconsequential.

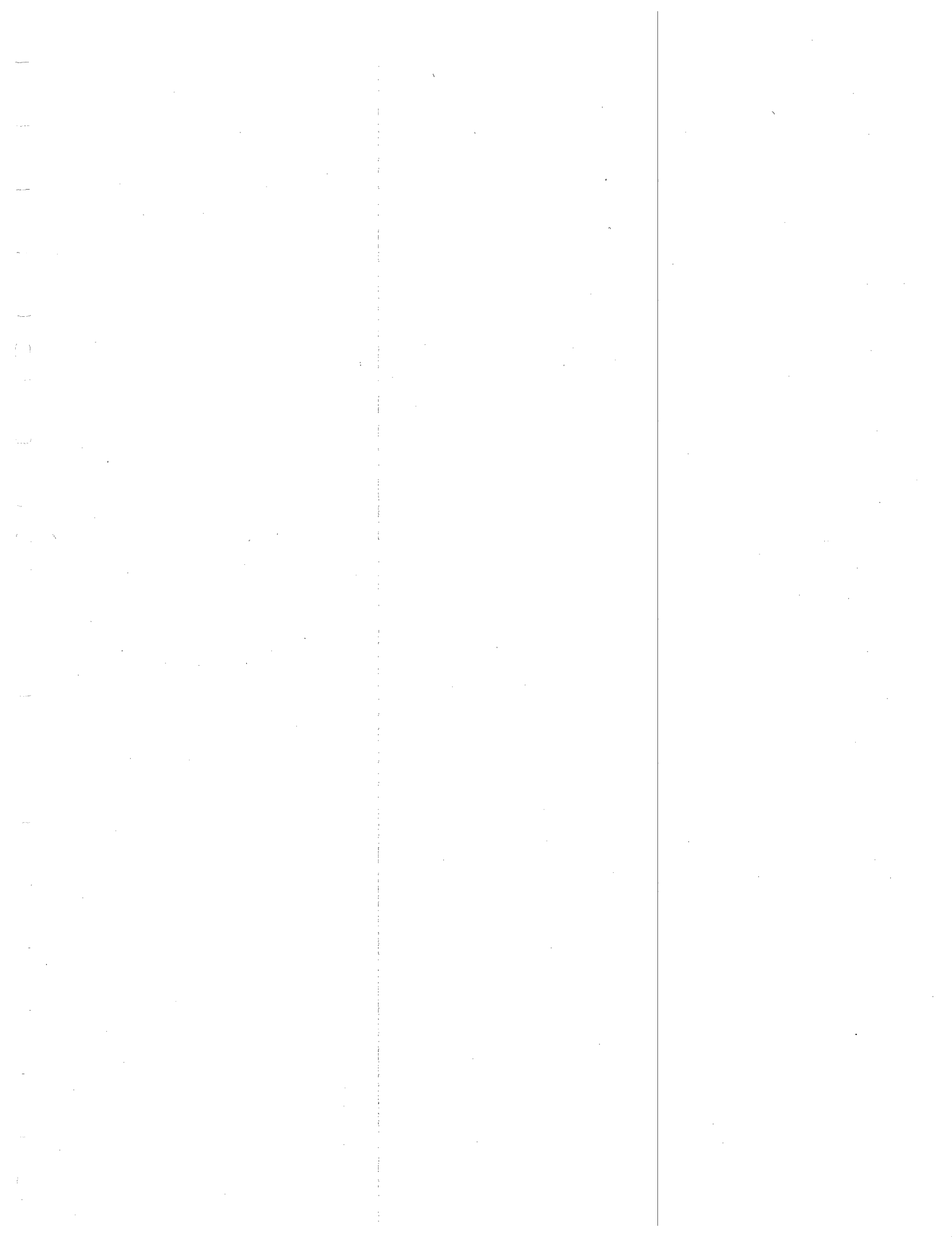


TABLE V-1

UMTA SECTION 5 GRANT MONIES
 AUTHORIZED FOR NEW JERSEY

<u>Fiscal Year</u>	<u>Section 5 Funds Authorized for New Jersey</u>	<u>Required New Jersey Matching Funds</u>	<u>Total Federal plus State</u>
1977	\$ 29,025,118	\$ 29,025,118	\$ 58,050,236
1978	34,606,870	34,606,870	69,213,740
1979	37,955,927	37,955,927	75,911,854
1980	40,188,635	40,188,635	80,377,270
Four-Year Total	\$141,776,550	\$141,776,550	\$283,553,100

NOTE: *The numbers shown above as New Jersey Matching Funds are based on the assumption that New Jersey will use all of its available Section 5 monies for operating subsidies, requiring the State to match the Federal monies on a dollar-for-dollar basis. The State amount cannot decrease in any year.*

In Table V-2 we present the projected revenues that could be raised from the application of additional increments of tax in New Jersey. Three of these taxes can be construed as disincentives for automobile use -- a motor fuel tax increase, an excise tax on gasoline, and an increase in motor vehicle registration fees. From a transit program standpoint, such taxes have the attractiveness of both providing funds for public transportation and increasing the cost of operating an automobile, consequently contributing to increased usage of public transit.

All of the tax rates shown in Table V-2, with the exception of the cigarette tax and the employer payroll tax, could yield sums of money sufficient to cover a sizable portion of the estimated \$70 million costs to New Jersey of operating public transit services this year. For example, an addition of two pennies to the current 8¢ per gallon motor fuel tax would provide the entire amount needed. Almost as productive would be the institution of a 5% excise tax on gasoline. This 5% rate was chosen because of its correspondence to the existing general sales tax rate, from which taxation of retail gasoline sales is excluded. It is labelled an excise tax rather than a sales tax because it would be applied to the wholesale price of gasoline, not to the retail price.

Similarly, increasing the general sales tax from 5% to 5½% and applying it only to the same transactions to which it currently applies would generate \$86 million if applied for the entire 1976-1977 fiscal year. The application of a 25% increase in motor vehicle registration fees would produce enough money to pay for 80 percent of the estimated cost to New Jersey of public transportation operations in the current fiscal year.

In addition to the expected yield or productivity of each tax, six other factors were considered in evaluating the attractiveness of these revenue sources for funding public transportation in New Jersey. As shown in Table V-3, these variables include:

- stability or the rate at which tax revenues could be expected to grow (or decline) each year. A revenue source is stable if the amount of funds it produces does not fluctuate up and down from one year to the next;

TABLE V-2
PROJECTED INCREASED REVENUES DUE TO CHANGES IN TAXES
(Dollars in Millions)

<u>Tax</u>	<u>F i s c a l Y e a r</u>				<u>4-Year Total 1976-1980</u>
	<u>1976-1977</u>	<u>1977-1978</u>	<u>1978-1979</u>	<u>1979-1980</u>	
<u>Motor Fuel</u>					
1¢ increase	\$ 36	\$ 38	\$ 40	\$ 42	\$156
2¢ increase	72	76	80	84	312
3¢ increase	108	113	120	126	467
<u>Sales Tax</u>					
increase to 5.5%	\$ 86	\$ 93	\$101	\$109	\$389
increase to 6.0%	172	186	201	218	777
<u>Excise Tax on Motor Fuel</u>					
5% rate at the distributor level	\$ 68	\$ 75	\$ 82	\$ 91	\$316
<u>Motor Vehicle Registration Fees</u>					
25% rate increase	\$ 56	\$ 59	\$ 63	\$ 67	\$245
50% rate increase	111	118	126	135	490
<u>Cigarette Tax</u>					
increase 5¢ /pack	\$ 8.4	\$ 8.4	\$ 8.4	\$ 8.4	\$ 33
<u>Employer Payroll Tax</u>					
at an average of \$40/year/employee	\$ 30	\$ 30	\$ 31	\$ 31	\$122

NOTE: These projections are based on assumptions about the elasticities of each tax; historical growth rates of the revenues from each tax and an extrapolation of these growth rates into the future; and an estimated wholesale motor fuel price of 40¢ per gallon in 1976.

TABLE V-3

EVALUATION OF POTENTIAL TRANSIT REVENUE SOURCES FOR NEW JERSEY

<u>Revenue Sources</u>	<u>Productivity \$(million) per Unit Increase</u>	<u>Stability</u>	<u>Incidence of Tax Burden</u>	<u>Feasibility</u>	<u>Comparison of Current Rate with Surrounding States</u>	<u>Administration of Revenue Collection and Distribution</u>	<u>Contribution to Maximizing Use of Available Federal Funds</u>
1. Motor Fuel Tax Increase	\$36 per 1¢ increase	has grown at 5% per year	transportation-related; slightly regressive	more clearly related to intended use	now low; same as New York	no change	moderate
2. Sales Tax Increase	\$172 per 1% increase	has grown at 8.25% per year	slightly regressive	may be viewed as excessive in wake of Income Tax	now lower than Pennsylvania and New York	no change	very high
3. Excise Tax on Motor Fuel	\$68 per 5% increase	projected at 10% per year	transportation-related; slightly regressive	more clearly related to intended use	none known	no additional administrative costs	good
4. Increase in Motor Vehicle Registration Fees	\$56 per 25% increase	has grown at 7% per year	transportation-related; slightly regressive	more clearly related to intended use	now comparable with New York and Pennsylvania	no change	medium
5. Cigarette Tax Increase	\$8.4 per 5¢ increase	no growth	tax falls only on smokers	conflicts with proposal to use for cancer research	now higher than all but Connecticut	no change	low
6. Employer Payroll Tax	\$115 at average of \$40 per year per employee	projected at 6% per year	tax is proportional to size of firm	may be viewed as form of income tax	none known	new administrative apparatus required	high

- incidence of tax burden describes the extent to which the relative tax burden increases with an individual's ability to pay and whether or not a particular tax is related to the consumption of transportation;
- feasibility describes the likelihood that the Legislature would agree to the funding mechanism and level of financial support it produced, as well as the relationship of the revenue source to its intended use for public transportation;
- comparison of current rate with surrounding states is important because a New Jersey tax rate that was significantly higher than that of a neighboring state may cause New Jersey residents to purchase goods outside of New Jersey, thus resulting in a loss of tax revenue and business to New Jersey;
- administration of revenue collection and distribution addresses the extent to which collecting and distributing the proceeds of a particular tax would require the State of New Jersey to incur additional costs to set-up and staff an organization that does not now exist; and
- contribution to maximizing use of available federal funds is very important in light of New Jersey's current opportunities to utilize federal funds, which is in contrast to the State's previous failure to obtain federal transit funds consistent with New Jersey's share of total transit service being provided nationwide and with New Jersey's position as the densest, most urban state in the country.

In our opinion, the three most important of the above principles are:

- the source of funding for public transportation in New Jersey should be stable from one year to the next;
- the public transportation program should be supported by a transportation tax closely related to transit and the objectives of promoting transit use; and

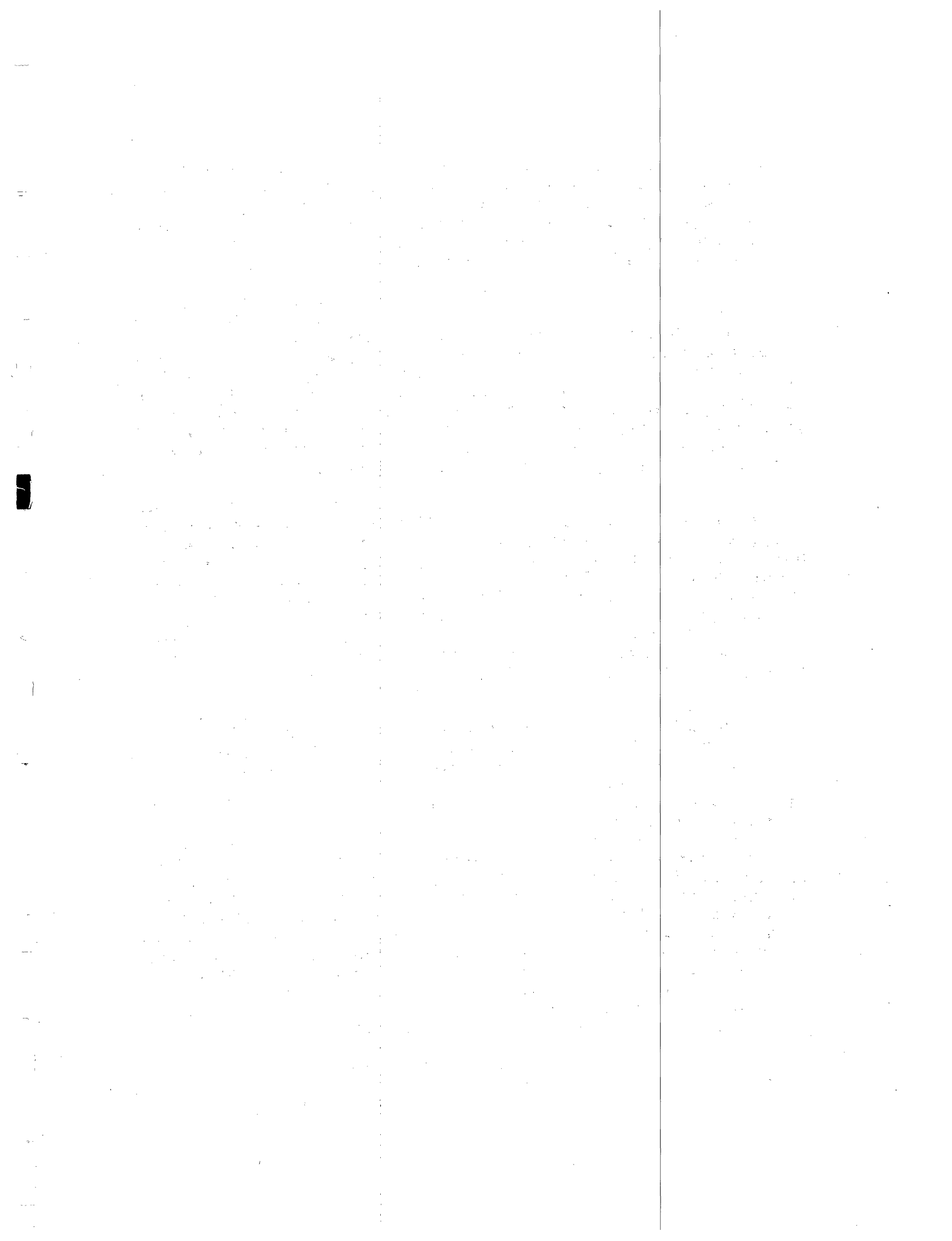
- taxation based on price rather than amount of gallons will create a revenue source that will keep pace with inflation.

The New Jersey Public Transportation Agency would achieve all three of these principles if it were to receive dedicated revenues in an amount sufficient to fund their current operating program (about \$70 million) from an excise tax on the wholesale price of motor fuel. In terms of the evaluation factors described in Table V-3, the 5% excise tax on the wholesale price of motor fuel appears most desirable. This tax would provide sufficient funds for New Jersey public transportation; appears to be potentially more stable than the other taxes considered; is directly related to the use of transportation; would not be apt to cause New Jersey drivers to leave the State to buy gasoline; would be administratively efficient; and would contribute to maximizing New Jersey's use of available federal funds. The estimated 10% growth rate for revenues from this tax is based on an assumed 5% growth rate in consumption of motor fuel and an assumed 5% growth rate in the price of motor fuel.

At least one state, California, has had experience in using a percentage-of-price tax on gasoline for transit purposes. In 1971 the California Legislature extended a portion of the general sales tax to gasoline and made the proceeds available for almost any transportation purpose at local or metropolitan option: transit capital or operating purposes or highway improvements. This mechanism has proved to be politically feasible, widely acceptable and workable, without conflicting in any way with the continuing motor fuel gallonage tax.

It is probably not politically feasible to shift completely from the existing gallonage tax to a percentage based tax at the present time, because New Jersey would need to tax motor fuel at the rate of 20% of the wholesale price (40¢/gallon) to generate the same amount of revenue that the 8¢/gallon tax currently provides. An excise tax of 20% would most likely appear too high to be acceptable to the Legislature or the general public, even though New Jersey drivers are already paying the equivalent of 20% on the present gallonage tax.

Therefore, we recommend that New Jersey institute a 5% excise tax on the sale of motor fuel at the wholesale level and, at the same time, reduce the current gallonage tax from 8¢ to 7¢ per gallon. We also recommend that an additional penny be removed from the gallonage tax one year after enactment of the excise tax reducing that tax to 6¢



per gallon. Furthermore, we recommend that the proceeds of the 5% excise tax on the wholesale price of motor fuel be dedicated for expenditure for transportation purposes -- both transit and highways. The remainder of New Jersey DOT's public transportation expenditures would be covered by annual appropriations from general revenues, and by excess toll road revenues made available for transit and highway purposes. Normally the PTA would be expected to operate within the limits provided by the 5% motor fuel excise tax and any federal aid that could be obtained.

The initiation of the 5% excise tax with a corresponding 1¢ reduction in the gallonage tax will result in a net tax increase for the first year only, since a second penny is to be dropped from the gallonage tax a year later. Table V-4 projects revenues from the current 8¢ tax per gallon and from the revised motor fuel taxation structure, and indicates that both are roughly similar in projected revenues. However, the recommended structure has the advantage that if the price of motor fuel increases, revenues will increase faster than shown in Table V-4. The recommended structure for taxes is slightly more responsive to inflation. The tax increase for the first year is necessary in order that New Jersey DOT will have sufficient funds to acquire the unprofitable private carriers and to continue the bus replacement program and other planned capital improvements.

There is a precedent in New Jersey for the dedication of funds to be spent for transportation purposes. The proceeds of the Transportation Benefits Tax on income derived by Pennsylvania residents from New Jersey sources enter a fund dedicated to improving transportation between Pennsylvania and New Jersey. A similar fund exists for proceeds for the Emergency Transportation Tax applied to net income and capital gains derived by New York residents from New Jersey sources.

Highway Toll Road Excess Revenues

In addition to the proceeds of the 5% gasoline excise tax, we recommend that excess revenues of the New Jersey Highway Authority and the New Jersey Turnpike Authority be made available to the New Jersey DOT for transportation purposes (both highways and public transportation).

Data in Table V-5 indicate that the Highway Authority had an annual average of \$12.2 million remaining after covering their operating expenses and debt service requirements during the six-year period from 1970 through 1975. These funds typically were spent to make capital

U. S. DEPARTMENT OF THE INTERIOR

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TABLE V-4
 COMPARISON OF PROJECTED REVENUES
 UNDER EXISTING AND PROPOSED MOTOR FUEL TAX STRUCTURES
 (Dollars in Millions)

<u>Fiscal Year</u>	<u>Revenues Projected under Present Tax Rate</u>		<u>Revenues Projected under Proposed Tax Structure</u>				<u>Total Proposed Amount</u>
	<u>Rate/Gallon</u>	<u>Amount</u>	<u>Gallongage</u>		<u>Percentage Excise Tax</u>		
			<u>Rate/Gallon</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	
1975-1976	8¢	\$279	8¢	\$279	—	—	\$279
1976-1977	8¢	\$285	7¢	\$249	5%	\$68	\$317
1977-1978	8¢	\$302	6¢	\$226	5%	\$75	\$301
1978-1979	8¢	\$320	6¢	\$240	5%	\$82	\$322
1979-1980	8¢	\$340	6¢	\$256	5%	\$91	\$347

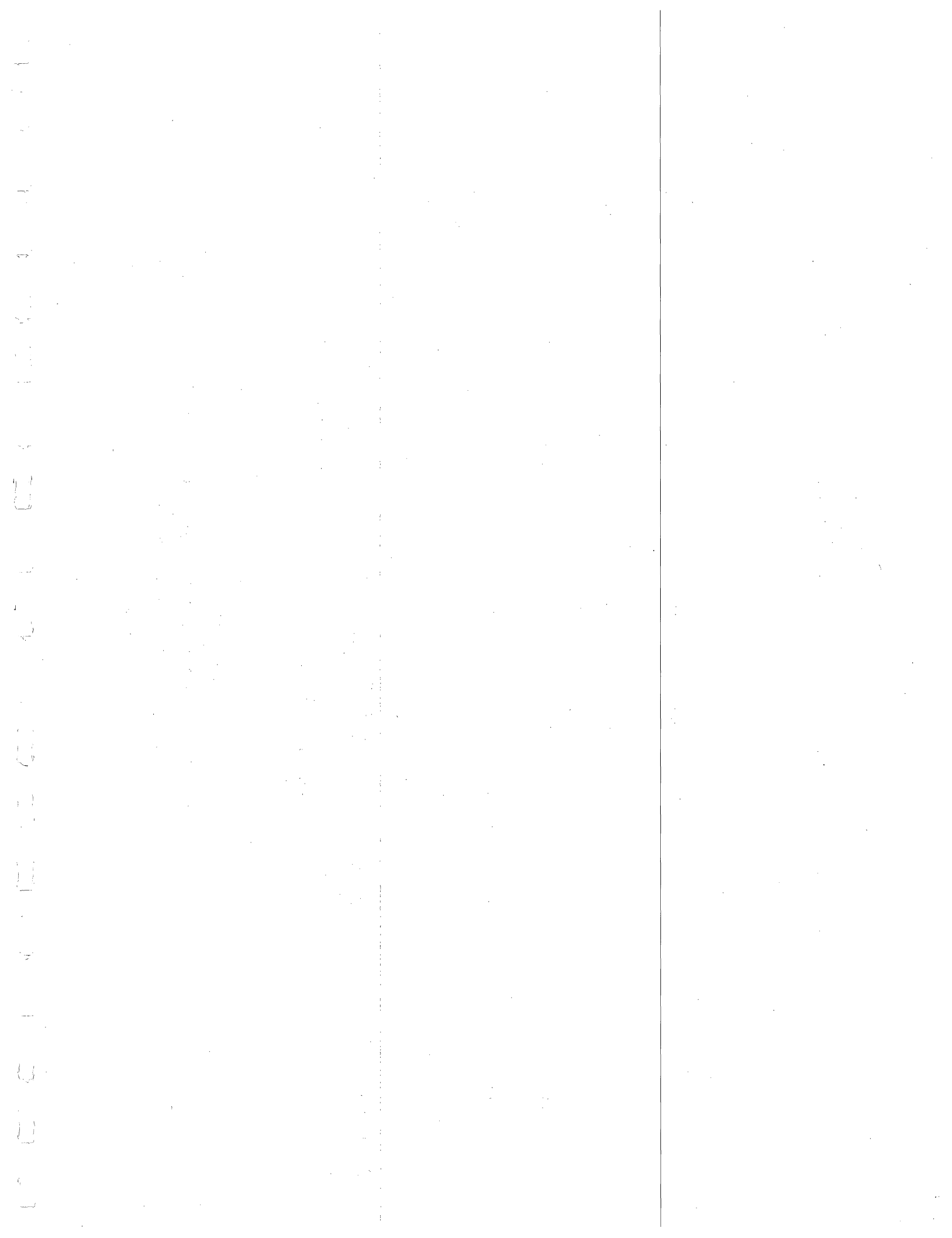


TABLE V-5

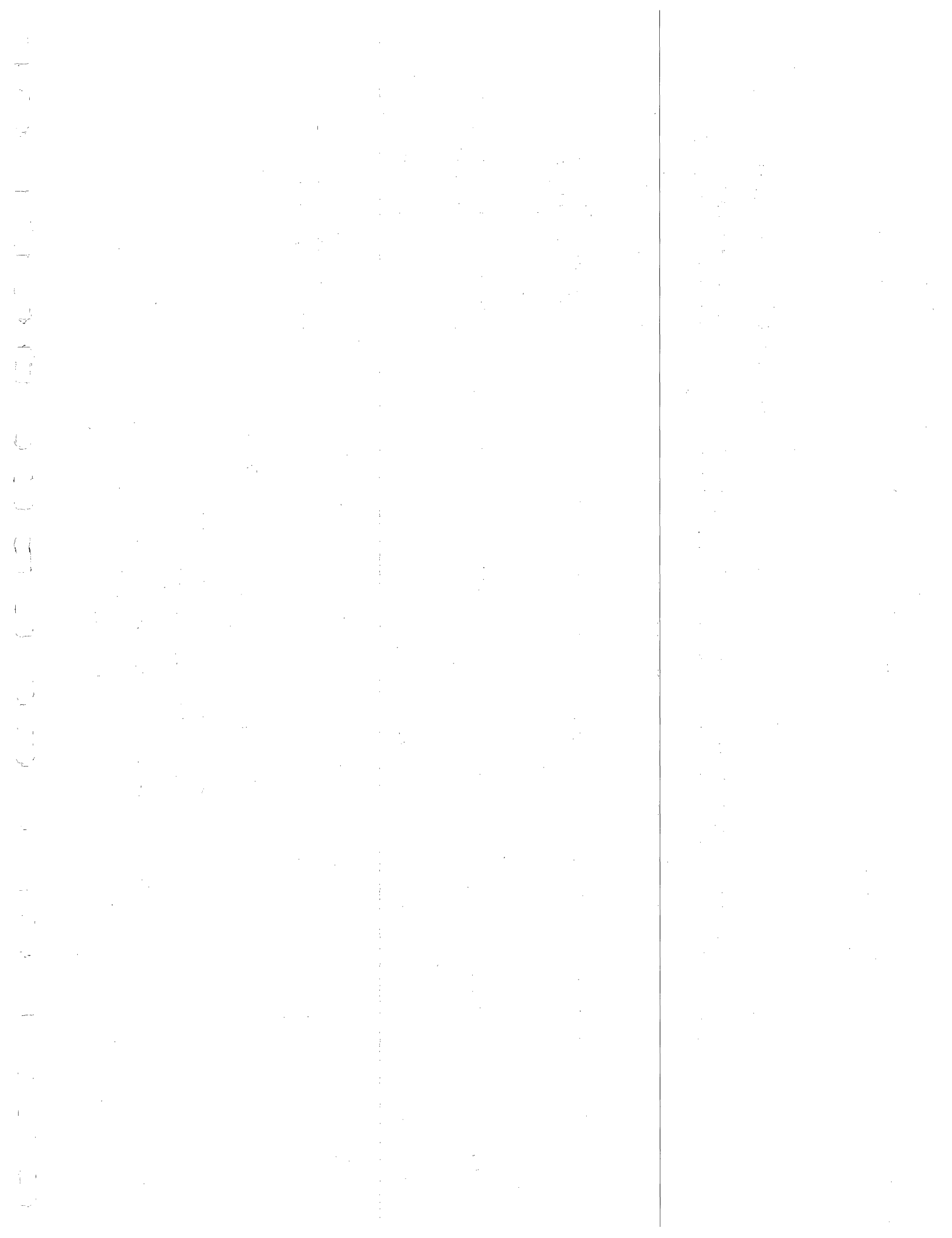
NEW JERSEY HIGHWAY AUTHORITY

USE OF ANNUAL REVENUES

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Gross Revenues Available for Operating Expenses, Debt Service and Reserves	\$63,313,980	\$59,261,050	\$59,404,322	\$56,002,424	\$52,842,487	\$50,316,967
Operating Expenses	26,334,520	23,284,070	20,969,162	20,270,288	17,104,840	16,236,990
Debt Service on Outstanding Bonds	29,402,052	28,863,012	28,370,272	24,776,105	20,286,234	18,059,476
Net Revenues made Available for Parkway Expansion and Improvement ⁽¹⁾	10,369,515	9,167,494	14,748,135	12,987,210	13,401,102	12,521,991

(1) There are certain investment earnings which cannot be used for operating expenses, debt service and reserves (and therefore do not appear in the top row totals), but which can be spent for Parkway improvements and are included in the numbers appearing in this row.

SOURCE: New Jersey Highway Authority Annual Reports.



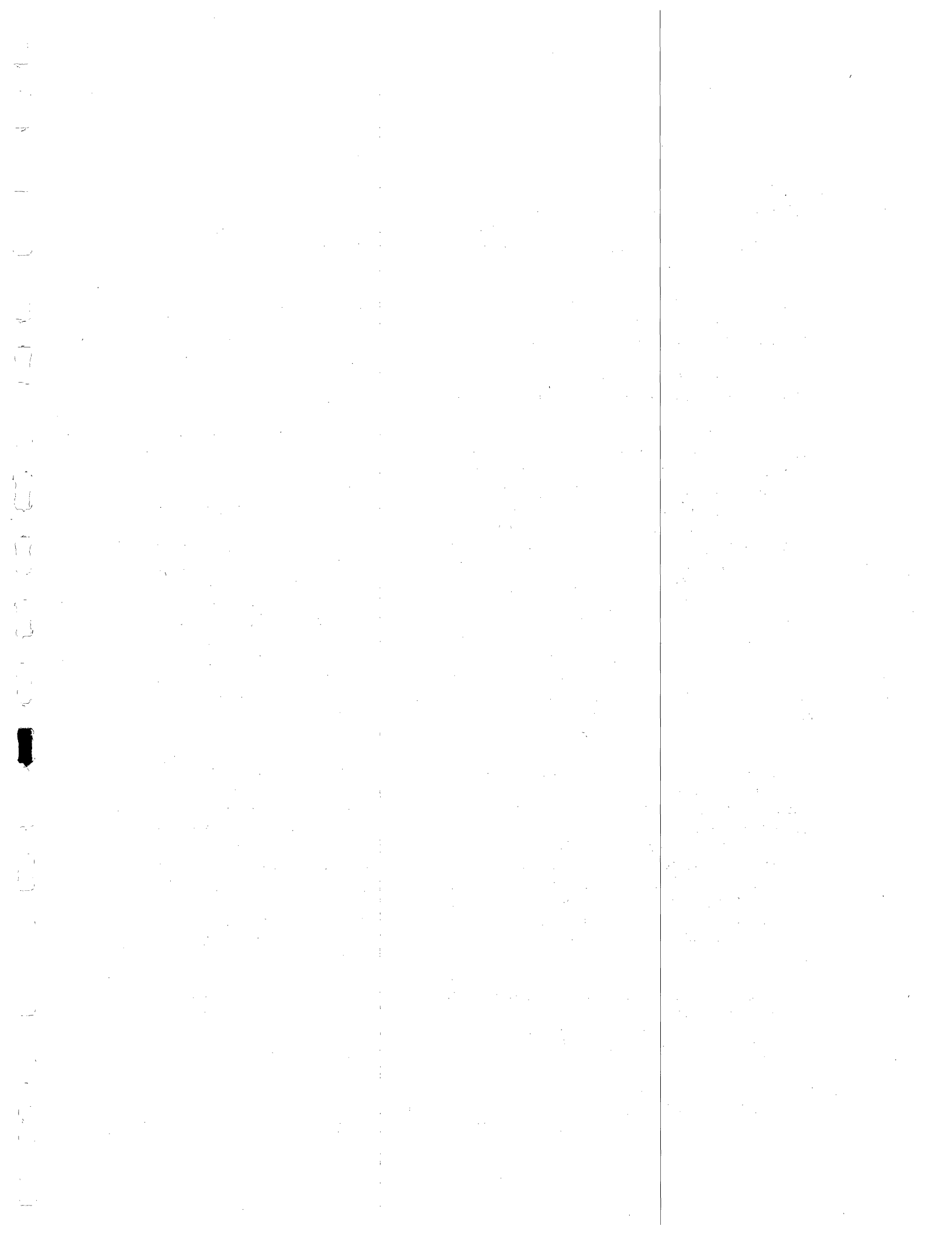
improvements to the Garden State Parkway, because it is more convenient for the Highway Authority to use current revenues than to sell bonds to finance all their capital investments.

The Highway Authority has a planning committee which is actively considering possible improvements to the Garden State Parkway. The Authority has already committed \$1.5 million for preliminary engineering for two additional lanes on the three-mile section of the Parkway between Bergen Plaza and Route 17. This project is to be built with surplus revenues, and the cost is expected to total about \$12 million. Another possible future project is the widening of the Parkway from Asbury Park south to Toms River. In addition, at the Governor's request the Highway Authority has agreed to connect the northern section of New Jersey Rt. 18 in Monmouth County to the Garden State Parkway. A contract for the design of the road has already been signed and it is estimated that the construction costs would total \$8 million for the three-mile segment of unfinished Rt. 18 and an interchange at the Garden State Parkway.

According to their Assistant Comptroller, the Highway Authority will probably not issue any more bonds before their oldest outstanding bonds are paid off in 1984. If this is the case, then unofficial Highway Authority estimates of net revenues and debt service requirements for the next twenty-five years indicate that the Highway Authority can be expected to have about \$11 to \$12.5 million per year in excess of funds needed for operating expenses and debt service from 1976 through 1983. These funds could be applied to the committed capital improvements, to projects now being planned, or potentially could be used for public transportation and for other highway projects. After retiring their senior bonds in 1984, the amount of excess revenues can be expected to increase to about \$22.6 million, according to Highway Authority estimates, and then gradually increase to around \$30 million by the year 2000.

Clearly, there are certain assumptions built into such estimates: continued toll collections after retirement of senior debt; no major event such as a gasoline shortage that would drastically reduce travel on the Garden State Parkway; and no alteration of the Authority's current debt structure, such as a refinancing of the present debt or issuing new bonds.

The New Jersey Highway Authority's experience over the past six years and their expectations for the next twenty-five years indicate that the Authority is financially healthy. However, as noted, the Authority has already planned



improvements to be financed with future revenues, and if the New Jersey DOT is to obtain the use of excess Highway Authority revenues for public transportation, then the DOT should push for legislative action before additional financial commitments are made to Garden State Parkway improvements.

Compared to the Highway Authority, the New Jersey Turnpike Authority has not done nearly as well financially over the past six years. Table V-6 shows that in 1972, 1973, and 1974 the Turnpike Authority invested virtually no net revenues in capital improvements. Moreover, the \$8,369,935 invested in facilities in 1975 came not from net revenues but from money remaining in the required sinking fund after the Turnpike Authority retired all the General Revenue Bonds outstanding from the 1950 and 1951 issues.

The future revenue picture for the Turnpike Authority does not appear to be any more optimistic than the recent past. In 1975 the Turnpike Authority fell \$6 million short of the revenue requirement established by its Traffic Engineers.¹ The Authority's present sinking fund requirement increases substantially in 1979, and the Authority anticipates that another toll increase will be required at that time in order to meet its debt obligations. In addition, the Governor has requested \$12.5 million from the Turnpike Authority for construction of an exit from the New Jersey Turnpike at the southern end of the Newark International Airport.

Excess revenues can vary significantly from year to year due to changes in revenue, debt service requirements or operating expenses. Hence, this source is a potentially unstable one. Provision of a substantial continuing amount of money from the authorities would most likely require a toll increase. In the case of the Turnpike Authority a toll increase over and above that needed to cover the higher debt commitments beginning in 1979 would most likely be required. The use of excess revenues for public transportation will probably result in the deferment of capital improvements to the Garden State Parkway and the New Jersey Turnpike. Several of these improvements already involve strong commitments; others will be difficult to postpone because of traffic congestion and resulting public pressures.

¹ Coverdale and Colpitts, "Revised Certificate and Recommendation of Traffic Engineers Respecting V-12 Higher Schedule of Tolls for New Jersey Turnpike," November 1, 1974, New York.

TABLE V-6
NEW JERSEY TURNPIKE AUTHORITY
USE OF ANNUAL REVENUES

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Total Revenues	\$96,254,316	\$83,229,269	\$85,485,674	\$82,549,072	\$76,451,135	\$70,843,356
Operating Expenses	39,056,647	36,841,752	32,715,081	29,754,756	26,476,743	22,130,231
Interest on Bonds	42,737,195	864,953	1,705,870	3,137,014	4,393,998	5,941,179
Other Charges	2,996,157	9,788,309	8,232,307	6,405,647	4,967,065	3,223,707
Revenues Applied to Bond Reserve Funds	11,464,317	35,734,255	42,832,416	43,251,655	40,613,329	39,548,239
Revenues Invested in Facilities ⁽¹⁾	8,369,935	—	104,311	165,100	2,227,335	4,045,670

(1) After the Turnpike Authority has satisfied all its bond reserve requirements, then it is able to spend remaining revenues for Turnpike capital improvements, major maintenance projects or other related purposes — i.e., to make investment in facilities. The large increase in the amount of revenue invested in facilities in 1975 relative to the years 1970 through 1974 represents a one-time occurrence that must be carefully explained. Sums invested in facilities over the 1970-74 period came from tolls, concessions and earnings on investments — money collected by or accruing to the Turnpike Authority in each of those years. The more than \$8 million used for capital improvements in 1975 came from excess money remaining in the Sinking Fund after the outstanding 1950 and 1951 General Revenue Bonds were retired on January 1, 1975. That Sinking Fund no longer exists, so there will be no similar source for a comparable amount of money for 1976 or the years soon thereafter.

SOURCE: New Jersey Turnpike Authority Annual Reports.

Annual Operating Costs

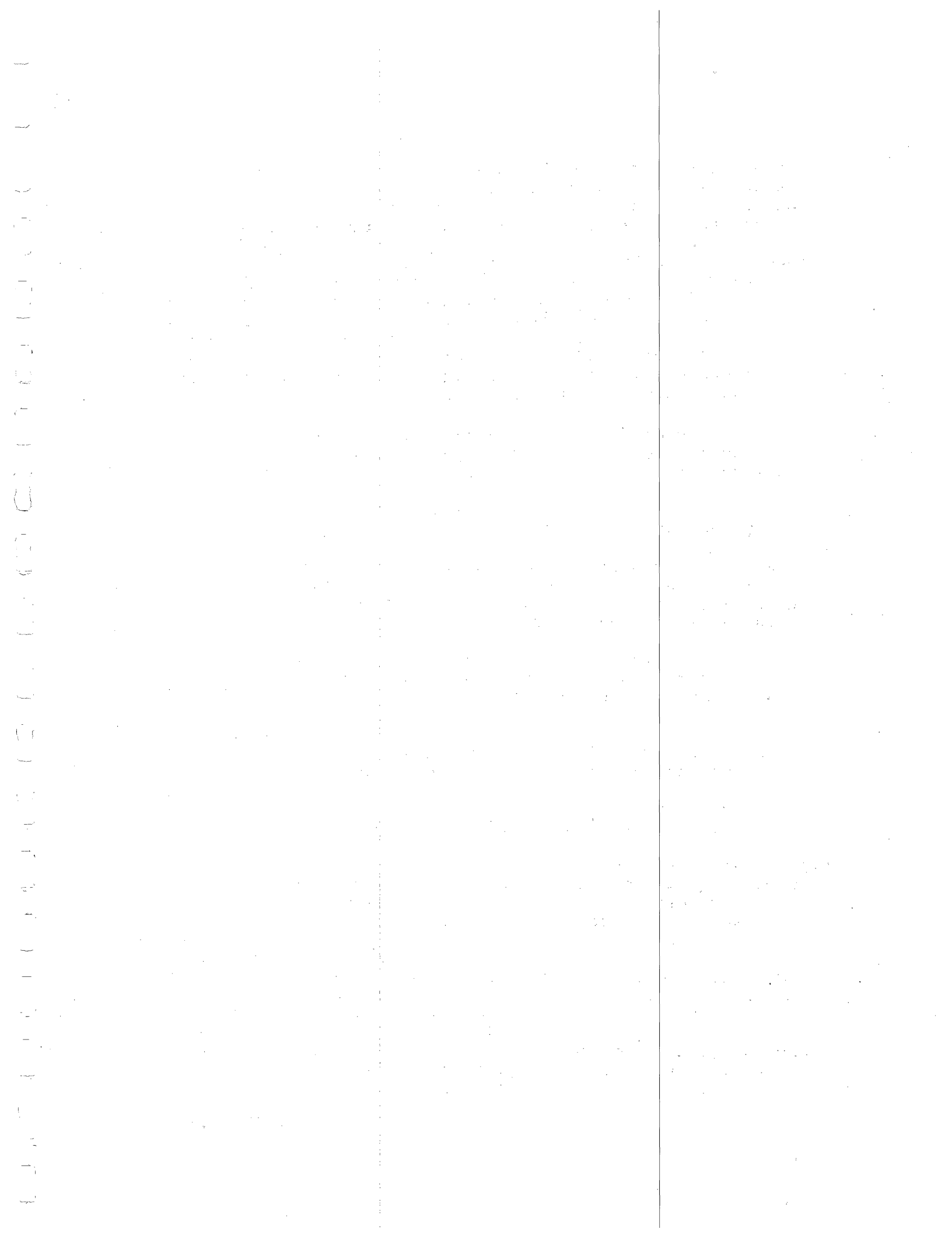
If New Jersey implements this recommendation, purchases the assets of unprofitable private carriers and operates bus transit services under the auspices of the New Jersey Public Transportation Agency, then several important variables could affect the annual cost to the State of public transit operations. For example, increased costs under public ownership as compared with private ownership would be the result of:

- the greater tendencies for wages and benefits to increase absolutely and with respect to equalization at some future time at the levels paid by the largest operator (in this case, TNJ).
- more likelihood of service expansion in response to expressions of community needs.

Several other factors would tend to reduce the costs to the State of operations under public ownership. These include:

- potential service rationalization, including elimination of destructive competition and better integration between modes;
- possibilities to reduce the cost of managing the system by not paying an exceptionally high number of executive salaries and by consolidating administrative and maintenance staffs;
- relief from federal taxes, including gasoline and other excise taxes; and
- the purchase of buses or fixed facilities with 80% federal funds resulting in the elimination of some current rental payments.

Many of these factors potentially affecting the operating costs of the recommended alternative depend to a great extent on how the public transportation system is managed. For example, wage and benefit equalization (between presently higher - and lower-paying carriers) is likely to occur over some period of years under public ownership or public subsidy of private carriers. However, it is quite difficult to predict how much equalization would occur immediately or whether or how soon full equalization would occur. Likewise, there are substantially greater opportunities for rationalization of services under public ownership. However, this doesn't mean that the New Jersey Public Transportation Agency would surely bring about such



rationalizations, since every service change is likely to provoke at least some disapproval. Such cost savings are opportunities rather than certainties.

The most reasonable estimate we can provide of the operating cost difference between continued private operation and our recommendation is for the recent past. Example cost calculations are related to the year 1975, since we know the level of operations and costs for that year. As shown on Table V-7, before accounting for cost changes due to wage and benefit equalization and service rationalization, our recommendation, had it been in place in 1975, would have been \$4.5 million cheaper to operate than the existing private bus system. The savings achievable through our recommendation would increase to \$6.9 million if the potential estimated service rationalizations and wage equalizations had occurred.

Under continued private operation the estimated cost of wage and benefit equalization represents the gradual decrease in cost differences among the subsidized carriers, given the absolute dollar cap on wage increases under the subsidy formula payment program. That dollar cap is based on indices of wages for the rest of the industry.

Cost savings potentially achievable through service rationalization more than offset the increased costs of wage and benefit equalization under our recommended alternative. On the other hand, continued private ownership with its substantial remaining institutional and legal barriers to rationalization, would cause New Jersey to experience a net cost increase since savings accruing from service rationalization would not be as large as the increased costs of wage and benefit equalization.

Capital Costs

Capital investments in transit will continue to be made primarily by the State and the federal government. New Jersey DOT already owns approximately 1,600 buses which are leased to operators throughout the State at a nominal rent. Eighty percent of the cost of purchasing these buses was paid by the federal Urban Mass Transportation Administration (UMTA). In the recent past private operators have, for the most part, either been unwilling or unable to make capital investments in their fleets and fixed facilities. Even under a situation of maximum private ownership, the private operators would be no more willing or able to make capital investments than they are today, since 80% UMTA funding for publicly owned buses is too big an incentive for public ownership of vehicles. Therefore New Jersey DOT in partnership with UMTA will continue to be the predominant supplier

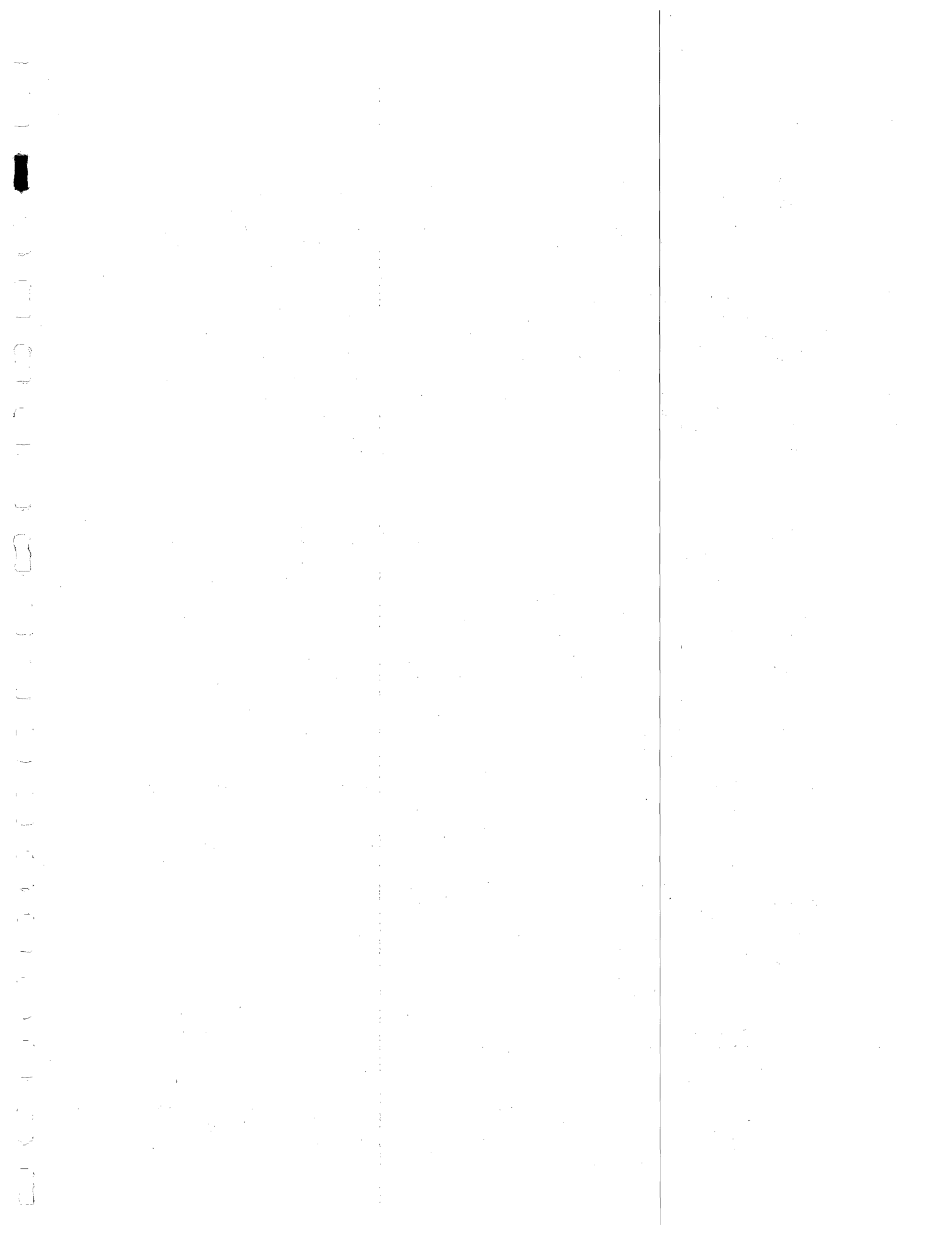


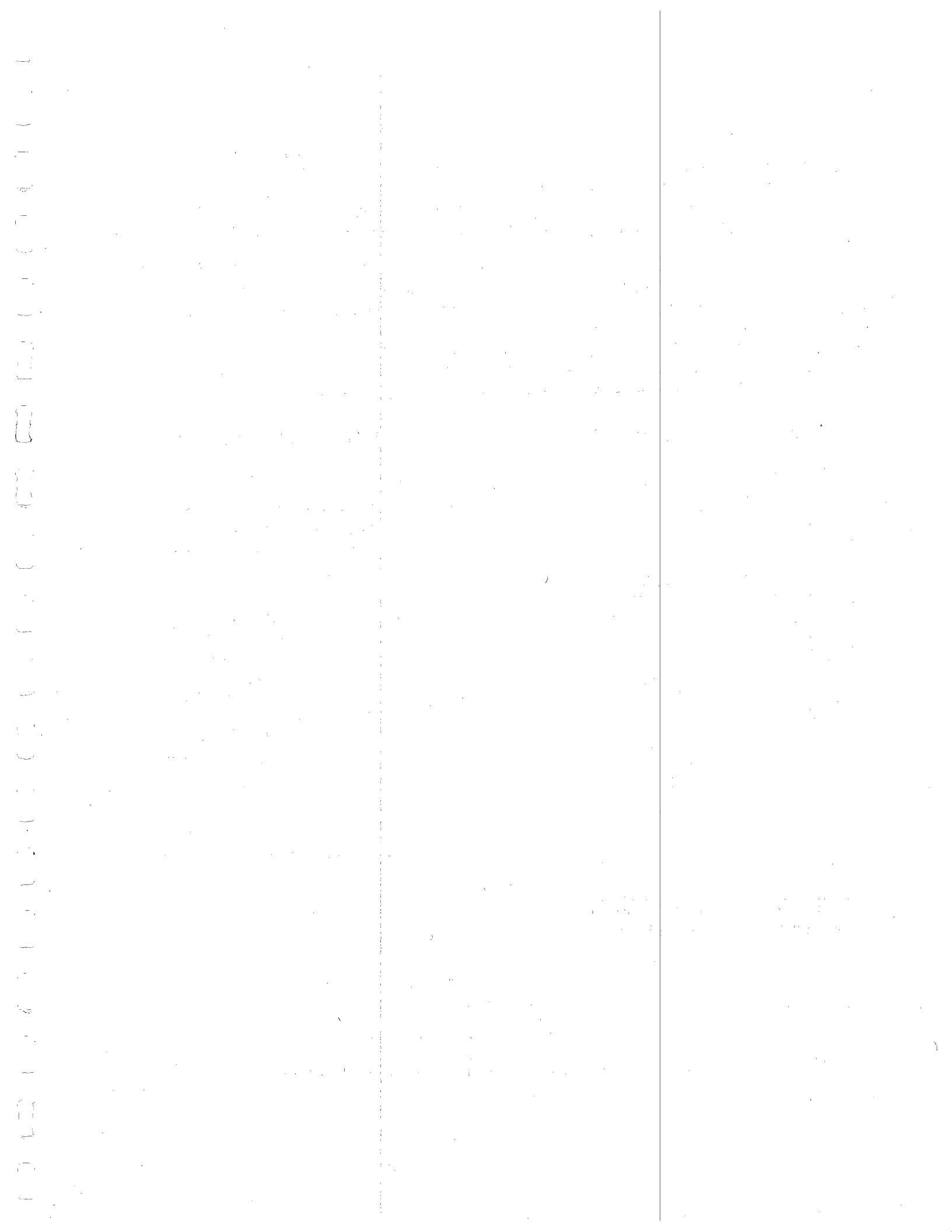
TABLE V-7
 COMPARISON OF ESTIMATED OPERATING COSTS
 BASED ON FISCAL YEAR 1975 RESULTS
 (Dollars in Millions)

	<u>Continued Private Ownership</u>	<u>Recommended System</u>
Total FY 1975 Bus Operating Costs (Entire State)	\$195.6 ⁽¹⁾	
Operating Subsidy or Deficit	\$30.1	\$30.1
Incentive Program	2.0	0.0
Available Cost Reductions ⁽¹⁾		
Profits of Unsubsidized Carriers	0.0	0.0
Depreciation	(3.1)	(3.1)
Federal Fuel Tax	0.0	(0.4)
Income Taxes	0.0	0.0
Equipment Rental Fees	0.0	(1.1)
Property, Sales Franchise Taxes	0.0	(1.0)
Subtotal – Costs to Public	\$29.0	\$24.5
Potential Future Cost Impacts		
Wage and Benefit Equalization ⁽²⁾	\$ 3.5	\$ 5.7
Service Rationalization Opportunities	(3.3)	(7.9)
Subtotal	\$ 0.2	(\$ 2.2)
TOTAL – Costs to Public	\$29.2	\$22.3

NOTE: *These estimates are offered for illustrative purposes only. They depend upon the reliability of reported cost information and upon the validity of certain assumptions about the circumstances which would have been obtained had alternatives been implemented prior to Fiscal Year 1975. While they do show certain cost differences, those differences cannot be extrapolated to predict future requirements for public financial support.*

(1) *Calculated from data reported to the COA and PUC.*

(2) *Calculated by adjusting reported wage and benefit costs of all carriers to the level of the largest carrier in the State – Transport of New Jersey. It is speculative as to whether, to what degree and over what period of time equalization would occur. However, if it had occurred in Fiscal Year 1975 at the then-prevailing levels, the operating cost impact would have been as shown.*



of new buses for New Jersey's fleet.

An additional capital cost that would be borne by the State as a result of our recommendation is the cost of acquiring the assets and operating rights of the unprofitable private bus operators. However, not all of the assets of each of the unprofitable private carriers would necessarily be acquired. The State could be selective and exercise discretion in the purchase of real estate and other assets. Some facilities may be duplicative and unnecessary, in which case the State would prefer to allow private operators to sell such property, particularly real estate, to the highest bidder or would sell those properties after condemnation. In other cases, certain carriers may choose to retain their charter and special bus certificates and the equipment necessary to provide these services, even though they were no longer allowed to operate regular route public transit service.

We have prepared an approximation of the cost of public acquisition of the physical assets of the unprofitable bus carriers in New Jersey. This estimate is based on carrier information reported to the PUC, more detailed inventories and financial data on the presently subsidized carriers developed in the course of Simpson and Curtin's companion study of the bus subsidy program, limited field observations in visits to several of the larger carriers and our background and general experience in bus system valuation studies. The estimate represents a reasonable judgment on the facts available, but cannot be taken as appraised values or recommendations as to prices to be offered. The value of these assets in an acquisition would be determined in negotiations between the parties, supported (as required to obtain federal funding) by objective appraisals made by independent valuation experts.

With these qualifications, our estimate is set out in Table V-8. Values were developed for three general categories of physical assets:

- Revenue equipment - After elimination of all the publicly owned buses in the State, including the coaches now being delivered and distributed, and adjustment for the estimated number of leased and rented buses for which no definitive information was available, a profile of the privately owned fleet by age and model was prepared. Based upon current bus prices and industry standard depreciation practices, a range of probable values was developed.

TABLE V-8

APPROXIMATE COSTS OF ACQUISITION:
PHYSICAL ASSETS OF SUBSIDIZED BUS CARRIERS

(Dollars in Millions)

Revenue Equipment	\$20	—	\$23
Real Estate	18	—	27
Other Assets	4	—	5
TOTAL	\$42	—	\$55
Probable State/Local Funding Required (20%)	\$ 8.4	—	\$11.0

NOTE: *These approximations are offered for planning purposes only. They are based upon limited data and do not represent expert judgments or considered opinions of value which can be relied upon for purchase negotiations, eminent domain litigation or federal grant applications. While the consultant team believes them to be reasonably accurate in terms of the aggregate order of magnitude, they cannot be disaggregated and applied to the assets of any particular carrier.*

- Real estate - Standard construction cost estimating techniques were applied to average building square footage and land areas. These estimates were compared to relative real estate values developed in past appraisals and a range was defined.
- Other assets - The probable range of values for service cars and trucks, shop and garage equipment, furniture and office machines, communications facilities, materials and supplies inventories and fareboxes was developed based upon past experience in appraising similar assets.

Implementing our recommendation with complete acquisition of the assets of every currently subsidized regular route bus carrier in the State could reasonably be expected to cost somewhere in the range of \$42 to \$55 million. The State share of the costs would be between \$8.4 and \$11 million, assuming 80% federal funding participation as is usually the practice. These data are based on the assumption that the State would buy all the assets of the operators currently being subsidized, although this would not necessarily occur. In comparison to the annual cost of operation, this is a modest amount. Furthermore, the cost could be spread over a period of several years, in which case the purchase could be funded from annual appropriations and would not necessarily require a bond issue.

In addition to the value associated with physical assets, the courts have generally held that such "intangible" or "going concern" assets as certificates of public convenience and necessity, operating schedules, established systems, procedures and records also have monetary value. Frequently these values are offset to some degree by intangible liabilities, such as the unfunded liability for company pension plans. Estimating the value of these intangible assets is difficult without detailed analyses of the particular circumstances of each carrier. The history of negotiated sales and condemnation awards shows, however, that these values are usually estimated as a percentage of physical assets and are substantially less than the amounts associated with physical assets. On this basis it appears that the State share of total acquisition costs would not be appreciably higher if it were forced to pay for intangible assets.

Local Funding Participation

Another item of some concern is the financial participation of county and municipal governments in either

capital acquisitions or in operating subsidies. Local governments should be required to participate in funding the operating deficits of any service beyond the base level. The New Jersey PTA would determine the base level of transit service to be provided within the particular geographic areas of the State, and that level of service would be funded entirely by the State, with the exception of the service provided by unsubsidized carriers. Any service above the base level desired by local governments or regional agencies would be purchased by those governments with 100% local funds. It is assumed that regional or local government agencies would not participate in the initial costs of acquiring present private assets, but might contribute to future capital improvements, as desired by these agencies in order to achieve a level of improvement beyond the State's plan and program.

Other Finance Recommendations

The PTA will be the designated recipient of federal grant funds.

The financial management activities of the Agency would be carried out under the existing executive department budgetary and appropriation process. The PTA would prepare an annual budget consistent with anticipated receipts from the gasoline excise tax, excess toll authority revenues, and general revenues, and submit that budget for legislative action. It would receive its funding through annual appropriations based upon that budget.

Capital funds to match federal grants can be provided either through this annual appropriation or from the sale of State general obligation bonds.

In addition to funding its own capital program, the PTA will give equal priority to providing operating assistance to regional transit authorities and capital assistance to regional transit authorities and private carriers. At a minimum it will sponsor the application for federal assistance, with the local matching funds provided by the ultimate user of the assets purchased. While a public agency must retain title to these assets under federal regulations, a private carrier can contract with the PTA or regional agency to operate buses for a nominal rent. If the authority or carrier is unable to provide the local matching share, the PTA may use its funds, if the investment is in the best interests of the people of New Jersey.

Operating assistance, through the mechanism of purchase of service contracts, will continue to be used to



support commuter rail operations. After the initial implementation period during which the PTA will acquire bus carriers and establish its own operating division, the general policy of contract assistance for bus operations will be discontinued. However, the PTA will retain this authority to subsidize bus carriers in emergency situations to continue service pending availability of capital funds and negotiation of the terms of acquisition.

Any service not included in the statewide base level system will not be provided unless the affected local governments, acting on their own or through a regional transit authority, provide the necessary funding.

VI. TRANSPORTATION OPERATIONS

The essential objective of this study is to provide an institutional and financial structure which will support improved public transportation operations. The analysis has revealed the presence in New Jersey of a unique mix of a large number of private carriers, a passive and cumbersome regulatory process, relatively little involvement or financial commitment by local governments, and of the State's role as the major public agency. All of the commuter railroads and rail transit systems, and two thirds of the bus carriers are operating at a loss. A substantial amount of seemingly competitive services are provided, and improvements in coordination and rationalization are severely hampered by the institutional and financial constraints.

Several basic changes are essential to enable the necessary operations improvements in the system:

- The PTA should use its regulatory authority and its capital grant programs to assist private carriers whose continued private ownership is economically viable (see Chapter VII for a full discussion of this issue).
- The proposed State Base Level Transit Service Plan should develop a clear service area for each carrier, public and private, rail and bus, and rationalize the operations in order to provide improved, coordinated services and make more efficient use of the existing financial, personnel and equipment resources.
- The PTA should acquire and operate the service of carriers whose fare structure is not adequate to provide a profit without counterproductive reductions in ridership and service.
- The PTA subsidy program should be restricted, and revised as recommended in the work being done by Simpson & Curtin for the Department. The use of subsidies to private carriers should be limited to interim purchase of service agreements with those carriers which are providing essential services, but whose fare structure can no longer produce a favorable operating ratio without eliminating essential service and creating counterproductive ridership losses. Subsidies should be used only

in the interim between a clear decision not to provide a fare increase or a service reduction for a private carrier, and the acquisition of that carrier by the PTA.

- Regional agencies which may be created should have the authority to acquire and operate services, or to purchase service from a private carrier or the PTA.
- PATH and PATCO should continue to provide the services they now provide.
- The PTA should have the authority to act to preserve and improve the commuter railroad services now under the jurisdiction of Con-Rail, including the authority to contract with Con Rail for service, and the authority to acquire and operate the commuter rail system.
- The PTA should have the authority to rationalize bus and rail service, eliminating duplicate services and assuring adequate feeder and distribution systems.

The Division of Transit Operations of the PTA will become the primary public agency operating transit and will operate those services provided by PTA either directly or through contract management. The Division of Service Improvement and Regulation will have the responsibility for determining which services will be provided by the PTA and the public carriers and which will be provided by the private companies, and for the development of the State base transit service plan. The Division of Transit Assistance will have the responsibility for administering the various assistance programs, including the interim subsidy agreements for bus companies to be acquired, and the subsidy agreements with ConRail.

The Existing System

Aggregate transit operations in the state in 1974 provided more than 305 million annual trips, representing about four percent of the nation's travel on public transportation services. The bus network accounted for approximately 219 million annual rides or about 70 percent of total passenger volume. Bus patrons in New Jersey were carried on some 4,100 vehicles on regular route operations ranging from interstate commuter express to intracommunity local service. Rail service was provided in some 1,600 rail passenger cars.

Rail services are operated by ConRail - which assumed the operations of the bankrupt commuter railroad service in 1976 - PATCO, PATH, and TNJ's Newark subway. All of the rail services operate at a loss. Two-thirds of the bus companies operated at a loss in 1974, and that number increases every year as the costs of labor and materials escalate faster than fares and ridership (see Table VI-1).

Virtually all of the rail transit assets are now owned by public agencies, and about 40% of the urban transit bus fleet is now owned by the State (see Tables VI-2 and VI-3).

The existing pattern of ownership of private bus companies is the most complex in the country. There are 416 bus operators in the State, not including those which are operating with local permits and no PUC operating rights. Of that 416, 228 offer some amount of regular route transit. Of those 228, 163 are small, individual operators who are members of the 14 independent bus owners associations. This brings the total number of bus operators offering regular route service to 79. Joint ownership and other corporate affiliations reduces the number to 75. Table VI-4 shows the membership of the Independent Bus Owners and Operators organizations. Table VI-5 lists the carriers providing regular route transit service.

Operationally, New Jersey differs from the general national example in the following key respects:

- Most of the public transportation carriers continue to be privately owned;
- The State of New Jersey has accepted primary responsibility for financial support of public transportation services. There is relatively little local or regional involvement;
- Significant portions of public transportation services are provided by interstate private companies and public agencies in which New Jersey officials play varying roles but are not the sole decision-maker;
- One carrier, Transport of New Jersey (TNJ), is responsible for approximately 50% of the overall bus service. TNJ carries 55% of the bus passengers intrastate; accounts for 51% of the bus miles operated in the State annually; takes in 42% of the bus transportation revenue; and accounts for 44% of the expenses statewide;

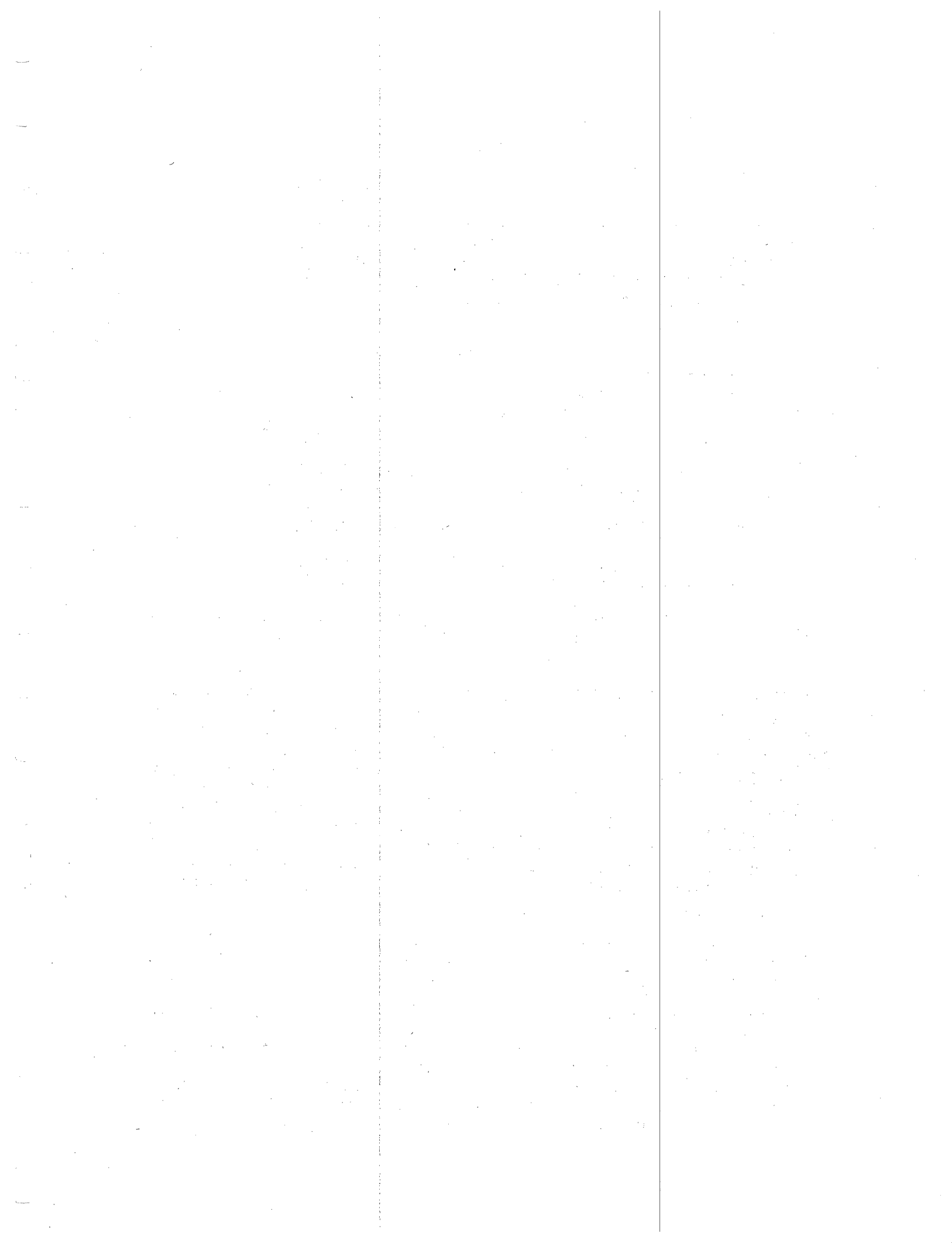


TABLE VI-1
 NEW JERSEY DEPARTMENT OF TRANSPORTATION
 ORGANIZATION AND FINANCE STUDY
 CLASSIFICATION OF SURFACE TRANSIT OPERATIONS
 BY SIZE AND MARGIN (1974)

Buses	Operating Surplus			Operating Deficit					Total ^(a)
	\$0- \$50,000	\$ 50,001- \$100,000	Over \$100,000	\$0- \$10,000	\$ 10,001- \$100,000	\$100,001 \$500,000	\$ 500,001- \$1,000,000	Over \$1,000,000	
0 - 20	9	1	1	10	14	3	-	-	38
21 - 40	6	-	5	1	1	5	-	-	18
41 - 60	2	-	1	-	1	-	1	-	5
61 - 80	-	-	1	-	-	-	-	2	3
81 -100	1	-	-	-	-	-	-	-	1
101 -200	-	-	2	-	-	-	-	-	2
Over 200	-	-	1	-	-	-	-	1	2
TOTAL	18	1	11	11	16	8	1	3	69

SOURCE: Based on 1974 Annual Reports submitted to the Board of Public Utility Commissioners and statistics reported in the Subsidy Assessment Study.

(a) There are a total of 228 individual transit companies in New Jersey. This analysis combines all members of each independent bus operators association into one company for the purpose of this analysis. Treating each association as a single company produces 75 carriers, six of whom did not submit reports adequate to determine profitability.

TABLE VI-2
 NEW JERSEY DEPARTMENT OF TRANSPORTATION
 ORGANIZATION AND FINANCE STUDY
 PUBLIC OWNERSHIP
 OF
 PASSENGER VEHICLES

<u>Commuter Railroad Equipment</u>	<u>O w n e r s</u>				
	<u>N. J. DOT</u>	<u>ConRail</u>	<u>SEPTA</u>	<u>PATH</u>	<u>PATCO</u>
Locomotives:					
Electric		15			
Diesel	77				
Coaches	384				
M. U. — Overhead	391	36	337		
M. U. — Third Rail				302	75
Rail Diesel Cars (RDC)	20	16			
TOTAL	872	67	337	302	75
<u>Transit Coaches</u>	<u>N. J. DOT</u>	<u>Private Companies</u>		<u>Total</u>	
	1,650	2,450		4,100	

TABLE VI-3
 NEW JERSEY DEPARTMENT OF TRANSPORTATION
 ORGANIZATION AND FINANCE STUDY
 PUBLIC OWNERSHIP
 OF
 COMMUTER RAIL AND RAIL TRANSIT RIGHT-OF-WAY

Segments of Line	O w n e r s				
	N. J. DOT	ConRail	Amtrak	PATH	PATCO
Former PCTC:					
Delaware River to Trenton			.6		
Trenton to Pa. Station, New York City			57.1		
Princeton Junction to Princeton	2.7				
Union to Essay		8.1			
Former Reading Company:					
Delaware River to West Trenton		1.5			
West Trenton to Bound Brook		25.9			
Former Pennsylvania-Reading Seashore Line:					
Lindenwold to Cape May		68.0			
Hammonton to Atlantic City		28.0			
Tuckahoe to Ocean City	13.0				
Lindenwold Station	X				
Port Authority Transit Corporation (PATCO)					14.25
Former New York and Long Branch:					
Essay to Bradley Beach		27.9			
Bradley Beach to Bay Head	9.0				
Former CNJ:					
Newark and Jersey City to Phillipsburg		68.2			
Former Erie-Lackawanna:					
Hoboken to Montvale		24.2			
Hoboken to Mahwah		29.1			
Hoboken to Netcong		47.9			
Hoboken to Dover		38.5			
Hoboken to Montclair		13.1			
Summit to Bernardsville		15.0			
Bernardsville to Gladstone	7.0				
Hoboken Terminal	X				
Port Authority Trans-Hudson Corp. (PATH)				14.0	
TOTAL	31.7	395.4	57.7	14.0	14.25



TABLE VI-4
NEW JERSEY PUBLIC TRANSPORTATION SYSTEM
ORGANIZATIONAL AND FINANCING STUDY
INDEPENDENT BUS OWNERS ASSOCIATIONS

ASSOCIATION	MEMBER BUS OPERATORS	TOTAL
Bergen Avenue Independent Bus Owner's Association	AM Bus Co., Baker & Warren Bus Co., Inc., Bryant & Shelton Co., I. Dern, Di Croce & Head, Flemming, Four C's, Grossman, Henry, Holt Enderlein, William H. Jelly, E. J. Kennedy, Maresca, G. H. Merikle, Ben Minotto, Perno, Ru Mor, Selcot, Edward Sweeny, Valeriotte	20
Broadway Bay Independent Bus Owner's Association	A. J. H. Bus Corp., Balgen, Bayonne, Bayshore, Broadway Transport, Chok, Dormar, Grodrud, Ladney, Lee, Lesta, Levender, M & M, Massa, Meltzer, Takrab, Amelia Tomeslewski, Vistar, Edward S. Wernicki, John L. Wernick	20
Central Avenue Independent Bus Owner's Association	A & A, Aben, Academy, Elvio, Joseph Grasso, Helvira, Herv, E. S. Holt, J & M, Jimac, James Kaulker, Kirslo, Pacific, Pierro & Sons, S & G, E. J. Shannon, Storch, Wendt	18
Lafayette & Greenville Independent Bus Owner's Association	Baum, Charner, Claremont, Colapinto, J. Crane, EDJ, E & M, G & F, Goldsmith, Greenville, Harell, H & R, Lefante, L & G 220, Lycal, Maday, Maday & Sons, Nunner, Sands	19
Montgomery & Westside Independent Bus Owner's Association	A & C, L. T. Bannon, Bauman, Cottage, Culver, Fine, Joe Lefanto, Leo Bus Co., M & W, Malley, Montgomery, Pakenham, Picardi, Saks, Edward D. Smith, Terrace, Tuffano	17
Newark Elizabeth Independent Bus Owner's Association	Eva Gershkowitz, Seidler, Leo Transit	3
Newark-West Orange Independent Bus Owner's Association	Martucci Bus, Vanderhoof & Sons, Wohlgemuth	3
North Hudson Boulevard Independent Bus Owner's Association	Baram, Thelma Berns, Costa, Ronald Englehardt, Kenneth Englehardt, Gun-Tal, Joan Heit, North Boulevard Transportation, Rex, Jane E. Silberfein	10
North Newark Independent Bus Owner's Association	Irving Transit, M.A.B., Patsy Palangio, Policastro, Timothy Ryan, Van Buren	6
Route 22-Hillside Independent Bus Owner's Association	McIntyre, M & G, Number 22	3
South Hudson County Boulevard Independent Bus Owner's Association	ACE, Atlantic Bus, B-11, B&M, DiDomenico, B-Six, Drogin, Duco, Empire, Friedman, Peter Gabriel, J. R. M., J. S., Prince, Domenick Raimondo, Ramo, Silver, Standard, Terry, R. J. S. A. L. Z.	20
South Orange Avenue Independent Bus Owner's Association	Cisko, D'Arcangelo, E&A, Elizabeth Bus Co., J&J, J&L, Kaunas, R&W, South Orange Avenue Bus, Superior, Vailsburg, Independent Bus Garage * (* Independent Bus Garage does not operate service)	11*
Springfield Avenue Independent Bus Owner's Association	Browell, Ellmas, Four-Eight-Four, Lincoln Bus	4
Washington St.-Hoboken Independent Bus Owner's Association	Agresta, Carmella, Dee, Del-Elizabeth Jitney, Hoboken Transportation, Maria, Roslyn, Theresa, Leo Winterfield	9
TOTAL - 14 Independent Bus Owner's Associations	163 MEMBER BUS OPERATORS	

NEW JERSEY DEPARTMENT OF TRANSPORTATION
 ORGANIZATION AND FINANCE STUDY
 INDEPENDENT BUS OPERATORS AND BUS OWNERS ASSOCIATIONS ⁽¹⁾

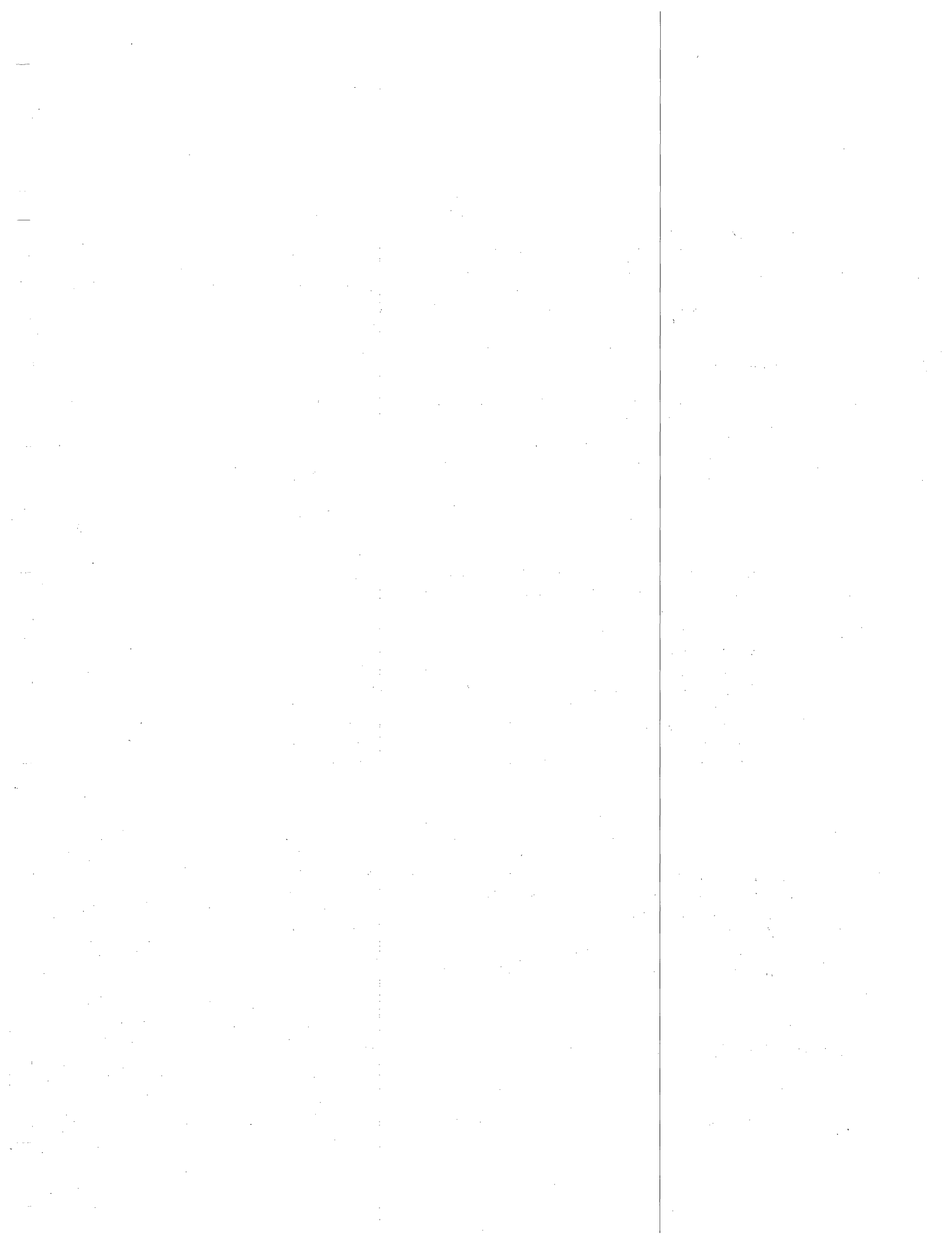
Asbury Park — New York Transit Corporation	Manhattan Transit Company
Associated Bus Company	Maplewood Equipment Corporation
Atlantic City Transportation Company	Mercer Metro
B-125 Bus Company, Incorporated	Middlesex Bus Company
Albert F. Bauer, Incorporated	Mohawk Coach Lines
Bayview Bus Lines	Montgomery & Westside Independent Bus
Bergen Avenue Independent Bus Owner's	Owner's Association*
Association*	Morris Inc., William H.
Beviano Chartered Service	Mountain Coaches, Incorporated
Blue Bus Lines	Newark-Elizabeth Independent Bus Owner's
Blue & White Bus Company	Association*
Boro Busses Company	Newark-West Orange Independent Bus
Broadway Bay Independent Bus Owner's	Owner's Association*
Association*	New York Keansburg-Long Branch Bus Co., Inc.
Central Avenue Independent Bus Owner's	North Hudson Boulevard Independent Bus
Association*	Owner's Association*
Cherry Hill Transit	North Newark Independent Bus Owner's Association
Clinton Avenue Bus Company	Ocean Drive Tours
Coast Cities Coaches, Incorporated	Ocean Grove Belt Line, Inc.
Community Bus Lines, Incorporated	Passaic-Athenia Bus Company
Consolidated Shore Lines	Philboro Coach Corporation
DeCamp Bus Lines	Plainfield Transit, Incorporated
Dean, Incorporated	Prime Bus Company
Domenico-North & South Jersey Bus Company	Rockland Coaches, Incorporated
Dilley, Fred J.	Route 22-Hillside Independent Bus
Dover-Mt. Hope-Picatinny	Owner's Association*
Downtown Bus Company	Real Transit Company
EFF KAY Bus Company	Somerset Bus Company, Incorporated
Elizabeth Transit Corporation	South Hudson County Boulevard
Elizabeth-Union-Hillside-Irvington Lines, Inc.	Independent Bus Owner's Association*
Fairlawn Transportation, Incorporated	South-Orange Avenue Independent Bus
Five Mile Beach Electric Railway	Owner's Association*
Garden State Coachways	Springfield Avenue Independent
Garfield & Passaic Transit Company	Bus Owner's Association*
Graope Transportation Company, Inc.	Starr Transit Company, Incorporated
Hanus Bus Company	Suburban Transit Corporation
Hoboken Municipal Bus Lines	Salem Transportation Company
Hudson Bus Transportation Company, Inc.	of New Jersey
Hudson Transit Lines, Incorporated	South Bergen Avenue
Klyde, Judith	Summit Town Transit Rentals
Lafayette & Greenville Independent Bus	Trackless Transit, Incorporated
Owner's Association*	Transport of New Jersey
Lakeland Bus Lines, Incorporated	Washington St.-Hoboken Independent
Lincoln Transit Company, Incorporated	Bus Owner's Association*
Lippman, Norma	Watchung Mountain Transit, Incorporated

(1) Associations are indicated by asterisk (*).

- Commuter service to the metropolitan centers in other states, New York and Pennsylvania, accounts for 65% of the total state bus mileage.

The diversity of available service is illustrated by looking at the four types of service which are operated and the modes of operation:

- Local Area - Transit service which primarily serves within the boundaries of a municipality or county. The mode of operation is usually conventional bus service operated by TNJ or an individual or an Independent Bus Owner Association which might consist of from two to twenty individual carriers, each operating one basic route. There is one city subway, in Newark, operated by Transport of New Jersey;
- Regional Intrastate - Longer-haul transit service, which provides intermunicipality and inter-county access. The modes of operation include the individual bus operator, IBOAs and intrastate rail lines. There are two rapid rail lines providing intrastate service: Port Authority Trans-Hudson which provides limited intra-community service in the Newark-Jersey City area; and, the Lindenwold High Speed Line which provides local intrastate service in southern New Jersey;
- Regional Interstate - Work trip, commuter-oriented service primarily geared to New York City and Philadelphia. The modes of operation are primarily the larger bus operators (TNJ, Lincoln Transit, etc.) with commuter rail lines and rapid rail facilities provided by ConRail, PATH, PATCO and SEPTA;
- Interstate Corridor - Service between Northeast Corridor metropolitan areas which traverses New Jersey and serves significant numbers of New Jersey residents by providing both regional interstate and regional intrastate service. The modes of operation include long-haul rail service by AMTRAK and interstate bus operators such as Greyhound and Continental Trailways.



Labor Unions

Each of the major national transportation workers' unions is represented in New Jersey's public transit system. The three largest -- the Amalgamated Transit Union (ATU), the Transport Workers' Union (TWU), and the United Transportation Union (UTU) -- represent workers in both bus and rail transit. Other national transit unions in the state include the Teamsters and the Brotherhood of Railroad Trainmen.

The labor unions for the rail carriers and PATH are presented in Table VI-6. These unions might vary somewhat between carriers, but are basically the same. PATCO has one union -- the Teamsters, Local 676 -- representing all hourly employees.

Bus operating employees are represented by a number of both large and small unions. The majority of TNJ's employees are represented by the ATU, while those at Lincoln Transit are represented by the UTU. However, in addition to the national transportation unions, there are a host of small non-affiliated, narrowly defined unions, such as the South Amboy Bus Drivers' Association, the Boro Bus Association and the Middlesex Bus Drivers' Association. The majority of these smaller unions are specifically oriented to a particular bus company or geographical location. The extent of representation by these unions of the employees varies from company to company. In some, all hourly employees are represented. Some include only operators, but not mechanics or clerical personnel.

The collective bargaining agreements and the provision of Section 13.c of the Urban Mass Transportation Act will be a significant constraint on the flexibility of the PTA management as it moves to assure a fully coordinated system of public transportation in the State. The complexity and sensitivity of the labor relations aspects of the PTA dictates that the PTA have as much flexibility in personnel matters as possible. The operating personnel will be the major portion of the employees of the PTA, and these employees will have their wages, benefits, conditions of employment and security established in their collective bargaining agreements protected by Section 13.c and by 13.c agreements. None of the major transit systems which have gone public since federal funds became available have become civil service due to these constraints. This has been a major consideration in the recommendation that the PTA be exempt from Civil Service. It would be virtually impossible to place the organized operating personnel under civil service, and if the remainder of the PTA positions were under Civil Service, the effect would be to burden the PTA with two categories of personnel in the development of a

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TABLE VI-6
NEW JERSEY DEPARTMENT OF TRANSPORTATION
ORGANIZATION AND FINANCE STUDY
PASSENGER RAIL LABOR UNION REPRESENTATION

United Transportation Union	— Conductors, Trainmen, Switchtenders and Firemen
Brotherhood of Locomotive Engineers	— Engineers
American Train Dispatchers Association	— Dispatchers
American Railway Supervisors Association*	— Supervisors and Assistants
Brotherhood of Maintenance of Way Employees	— Trackmen
Brotherhood of Railroad Signalmen	— Signalmen
Railroad Yardmasters of America	— Yardmasters
Brotherhood of Railway, Airline and Steamship Clerks	— Clerks
International Association of Machinists	— Machinists
International Brotherhood of Boilermakers, etc.*	— Boilermakers and Blacksmiths
International Brotherhood of Electrical Workers	— Electricians
International Brotherhood of Firemen and Oilers	— Stationary Engineers
International Brotherhood of Teamsters	— Policemen
International Sheet Metal Workers	— Metal Workers
Transport Workers Union	— Car Repairmen

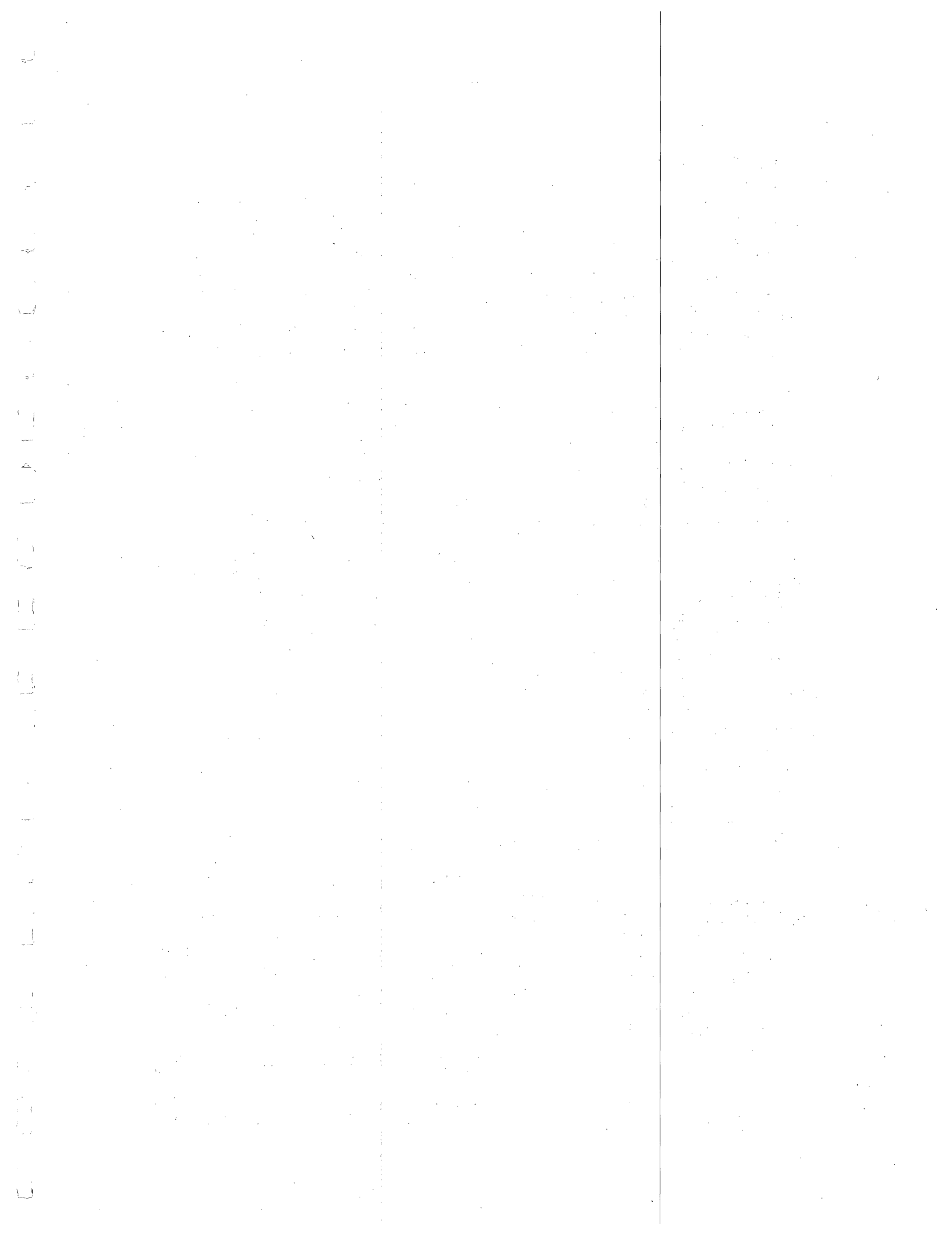
** These two unions have no representation in PATH.*

unified and flexible personnel system. The first critical step is to exempt PTA from the Civil Service system.

Potential for Operations Changes

The fundamental objective of reorganization in the area of transportation operations is to move toward rationalization of the system. The concept includes the elimination of competitive, overlapping or duplicative services, integration of bus and rail modes, institution of shared fare and universal transfer provisions, consolidation of manpower and facilities for the efficient use of systemwide operating and capital resources, and service modifications to routes with high operating ratios.

- System Modification - With a multiplicity of local and commuter bus companies, suburban railroads and rail rapid transit agencies providing service in the most densely developed corridors and communities in New Jersey, it is inevitable to have some duplication in service areas and overlap of operations. To minimize the extent of intra-modal and inter-modal service redundancy, and to improve the utilization of available public transportation resources, development of a base level service plan would result in modifications to the configuration and orientation of present transit services. Such modifications could encompass numerous changes including a more optimal deployment of existing modes, the consolidation of some present operations, improved operations control, and a unified program of service regulation.
- Modal Optimization - In some instances, commuter bus service is operated in parallel with suburban railroad service in major corridors linking portions of the state with New York City. The carrying capacity and productivity of both modes, however, might be further enhanced in some instances by restructuring bus service to provide complementary rather than competitive service.
- Service Consolidation - With the proliferation of bus services in the State, it is understandable that some carriers operate on common thoroughfares or in close proximity to other transit lines, particularly in northern New Jersey. While many services which have short segments of overlap are not truly competitive, it is also not surprising that many services are not operating at optimum capacity or efficiency. For example, peak period loadings on some lines indicate that buses are generally operating at no more than three-quarters of capacity. The quantity and



allocation of service could be rationalized through the development of a series of service standards. These standards, encompassing frequency, loading, etc. would provide for a more equitable distribution of operational resources throughout the state.

- Fare Standardization - The implementation of a unified, comprehensive and coordinated fare structure in New Jersey has effectively been precluded because of the presence of so many separate carriers and different regulatory agencies. Nevertheless, with greater State involvement in the provision of public transportation as called for under the recommended alternative, greater standardization of fares becomes an achievable policy. Among other objectives that it would accomplish, fare standardization would result in a more equitable distribution of costs among transit users as well as the removal of trip cost uncertainty associated with travel on different carriers.
- Joint Fare Programs - Fare structures of mass transit carriers in the State are principally designed to optimize individual carrier revenue and, for this reason, joint fare arrangements among different providers of public transportation have been afforded subsidiary importance. Yet, institution of combination fares under the recommended institutional and financial structure may be viewed as one mechanism for facilitating the linkage among various transportation subsystems which presently function as non-integrated components. The potential ability of joint fare programs to foster rider convenience and hence provide for improved areawide mobility is, however, the ultimate justification for implementation.
- Marketing - The State of New Jersey has recently assumed a more active role in the promotion of its multi-modal and comparatively ubiquitous network of public transportation services to its constituents. Activities include the purchase of new buses and rail cars, the institution of a comprehensive park-and-ride signing program and the creation of a Bureau of Marketing and Analysis. Under the PTA, the Bureau of Marketing and Analysis could prepare a unified, statewide promotional program. The Public Transportation Agency would ensure that informational aids such as public timetables, media advertising, telephone information service and system maps were designed to increase tripmaking by current and prospective users alike.



- Maintenance and Storage Facilities - The extent and condition of maintenance and storage facilities varies significantly among the providers of surface transit service in the State. A substantial portion of the existing bus fleet, for example, does not operate from a tangible maintenance facility; rather, buses are stored on empty lots and repair work is performed out in the open or within small sheds. Somewhat reduced fleet requirements resulting from the introduction of service modifications could be expected to reduce the number of such poorly equipped maintenance and storage facilities, particularly in central and northern New Jersey.

Rationalization of service would directly impact both the quantity and size of operating bases required for bus storage and maintenance. The future surface transit fleet might be maintained and operated from about 16 to 26 modern garages each offering capacity for approximately 150 to 250 vehicles. Consolidation of operations would probably require some new construction, but might also permit a net reduction of an estimated 30 to 40 storage facilities throughout the State.

- Fleet Replacement and Deployment - Currently, bus/rail equipment procurement policies in the state are substantially based upon the availability of funding rather than on complete knowledge of the age and condition of the respective fleets by carrier and mode. The distribution of capital equipment presents a problem since the allocation of new vehicles to certain carriers and not to others is, in itself, a major potential inequity and a prospective barrier in securing continued federal assistance. This problem is especially troublesome if publicly owned buses are used in competition with vehicles purchased solely by private funds.

With the State assuming ownership and/or control over approximately 75% of regular route, surface transit operations under the recommended structural alternative, an opportunity would exist for improved rationalization in the acquisition and distribution of new vehicles in both procurement and allocation. In procurement, an orderly program of fleet renewal could be established in lieu of present policies which result in the purchase of vehicles at irregular intervals and in "lump-sum" quantities. In allocation, criteria should be prepared to provide guidelines for the allocation of new vehicles. As the owner/operator of an appreciable amount of regular

route bus service, the State could utilize such a policy to deploy equipment and attendant capital resources throughout its service territories in order to attain maximum operational effectiveness.

- Lines With Low Operating Revenues - Another set of considerations that might be important in setting service levels is the revenues of particular services in relationship to their costs. Lines which pay very little of their costs from the farebox might be considered to be candidates for fare increases, service cutbacks, or even discontinuance, unless there are countervailing social policy reasons for providing more service along that route rather than anywhere else in the State. It must be kept in mind that every bus which runs on any particular route is not running somewhere else, and therefore a decision to continue a high subsidy level for a particular route is also a decision not to provide another transit service likely to be just as deserving.

The study team has compiled a list of all bus routes ranked by the percentage of costs paid out of the fare box, along with the subsidy paid for each line. Route-by-route costs and subsidy levels were developed from the Simpson and Curtin bus subsidy contract study, using fiscal year 1975 data for the subsidized carriers. The results of the analysis showed that of the approximately \$26 million paid out in subsidies for that year, \$7 million was attributable to bus routes which covered less than 50% of their costs out of the farebox. While not all \$7 million could or should be saved, reallocation of operating resources can give better financial results.

Thus there are potential opportunities for efficiencies of scale, coordination of services and the elimination of duplicative and competitive bus operations under this institutional and financial option. It must be reiterated that total costs and the efficiency of operations will depend very much on the acceptability of operations changes.

Railroad Operations

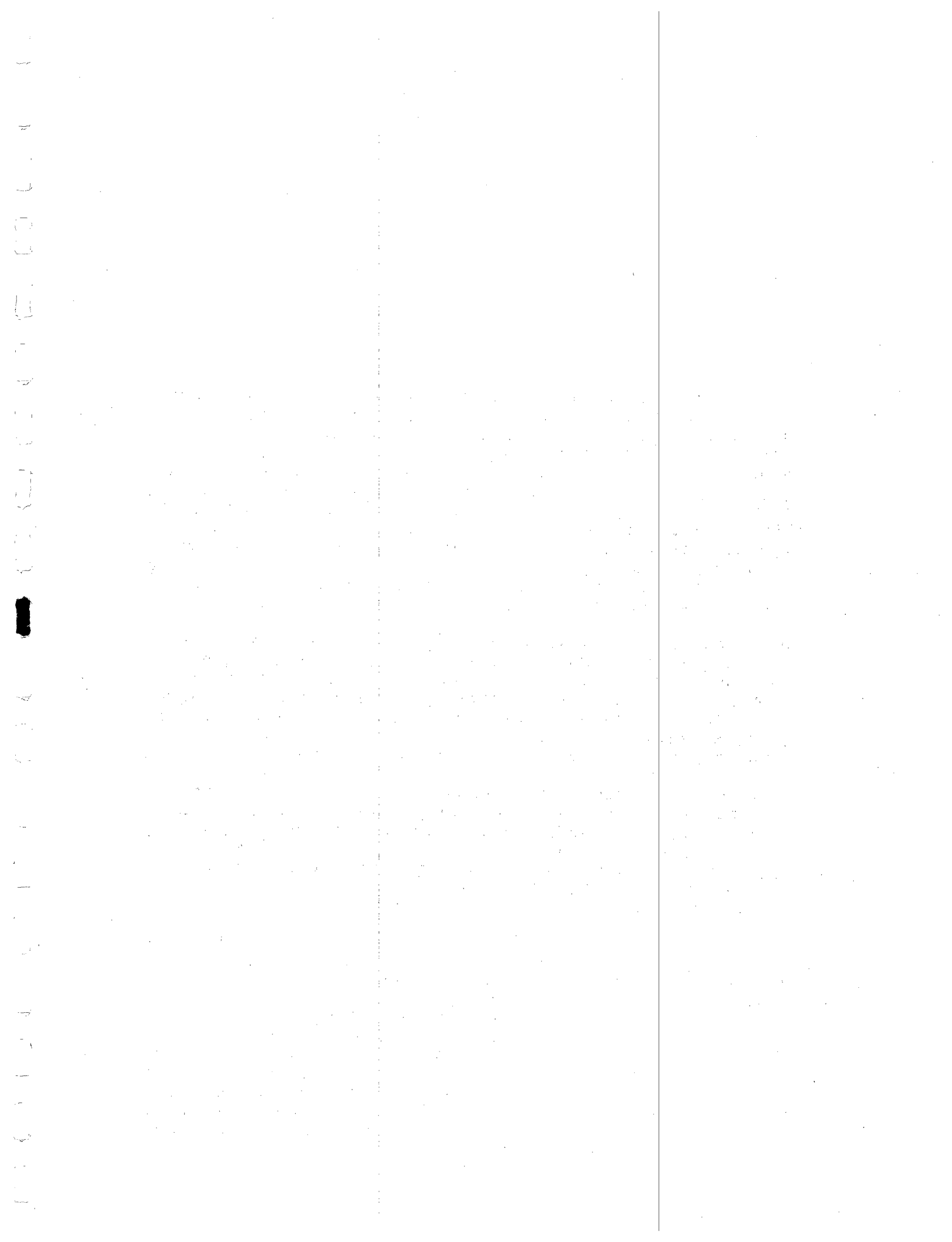
New Jersey has put substantially more resources into subsidies for the operations of the commuter rail lines than it has put into subsidies for the more extensive bus transit system in the State. The New Jersey D.O.T. or other public agencies own virtually all the rail equipment used in commuter operations. Most rail right-of-way is owned by ConRail, but the New Jersey DOT can exercise an

option to purchase some of the rights-of-way at prices related to USRA Final System Plan values. The costs of all such properties which New Jersey might purchase have been calculated from USRA figures at around \$15 million. If the New Jersey DOT wished to make such purchases, they could conceivably seek federal aid or a federal loan for the majority of funding. The sum necessary for these purchases is thus very small in comparison to the basic UMTA agreement to fund about \$400 million worth of rail improvements in New Jersey out of UMTA's existing capital funding authority.

At present, a final determination has yet to be made on how costs will be allocated between freight services and New Jersey subsidized commuter services on tracks which are jointly used for freight and passengers. With its option to purchase, New Jersey can obviously decide whether it wants to be the owner and maintainer or the renter of trackage rights, based on lowest total cost to the State.

Of much greater importance to the State is the cost of operating commuter rail lines, since subsidy levels have been over \$50 million per year. In years past, payments have gone to the individual railroads and now ConRail, which has acquired the relevant properties from the bankrupt carriers. New Jersey is currently negotiating with ConRail over the basis of payment for operating losses.

When the final determination is made as to how ConRail will charge New Jersey for the operation of rail passenger services, the State will also be able to make a judgment on whether to continue to contract with ConRail, or to operate the services itself, or to have another public agency operate the rail services. The decision on whether to purchase service from ConRail or seek another financial arrangement should be made on the basis of least cost to the State for providing the level of reliable and adequate commuter rail services which the State desires. The decision also has to consider the preservation and enhancement of freight services necessary for the State's economic health.



VII. REGULATION OF PUBLIC TRANSPORTATION

A primary requirement for the enhancement of the remaining private carriers able to operate at a profit, and for the rationalization of the services provided by private and public carrier, is to revise extensively the State's regulatory process. The following recommendations will create a regulatory structure, and a new basis for economic regulations, which will better accomplish the State's objectives:

- Transfer all transit economic regulatory powers of the Commuter Operating Agency and the Board of Public Utilities Commissioners to the PTA;
- Transfer the regulation of common carrier safety to the Law Enforcement Division of the Department of Law and Public Safety;
- Establish "operating ratio" as the rate setting basis in determining fare changes for private carriers, rather than return on investments;
- Establish within the PTA a Division of Service Improvement and Regulation (DSIR) and vest it with the regulatory responsibilities and the responsibility to actively pursue the implementation of a Base Level Transit Service Plan including system rationalization;
- The regulatory division should be aggressive and policy oriented in order to assure that the service provided meets the standards established, and to assure the highest degree of viability of the private carriers possible, consistent with PTA transit service policies and objectives. Adequate public involvement should be provided.

Economic Regulation

The two most important changes in the regulatory functions are the recommendation to place all transit economic regulatory functions under a single agency - the PTA - and the recommendation to change the rate base from return-on-investment to operating ratio. Both of these recommendations are intended to be primary means of improving the viability of private carriers, by eliminating a redundant and confusing bureaucracy and eliminating an out-moded rate setting system.

At the present time, the Commuter Operating Agency regulates all services provided by private carriers operating under the subsidy program and to a large extent, PUC defers to COA decisions. The PUC regulates all other private common carriers in intra-state service and the COA neither has nor attempts to exert any responsibility or influence over the unsubsidized carriers. Policy coordination occurs through the PUC Chairman, who is a member of the COA. A number of efforts have been made to improve coordination of the two agencies, without notable success. The existing regulatory system is unduly complicated and confusing to the carriers and to the public and officials who are interested in and affected by the regulatory system. The major considerations complicating the existing circumstances, and contributing to the need for the recommended changes, are:

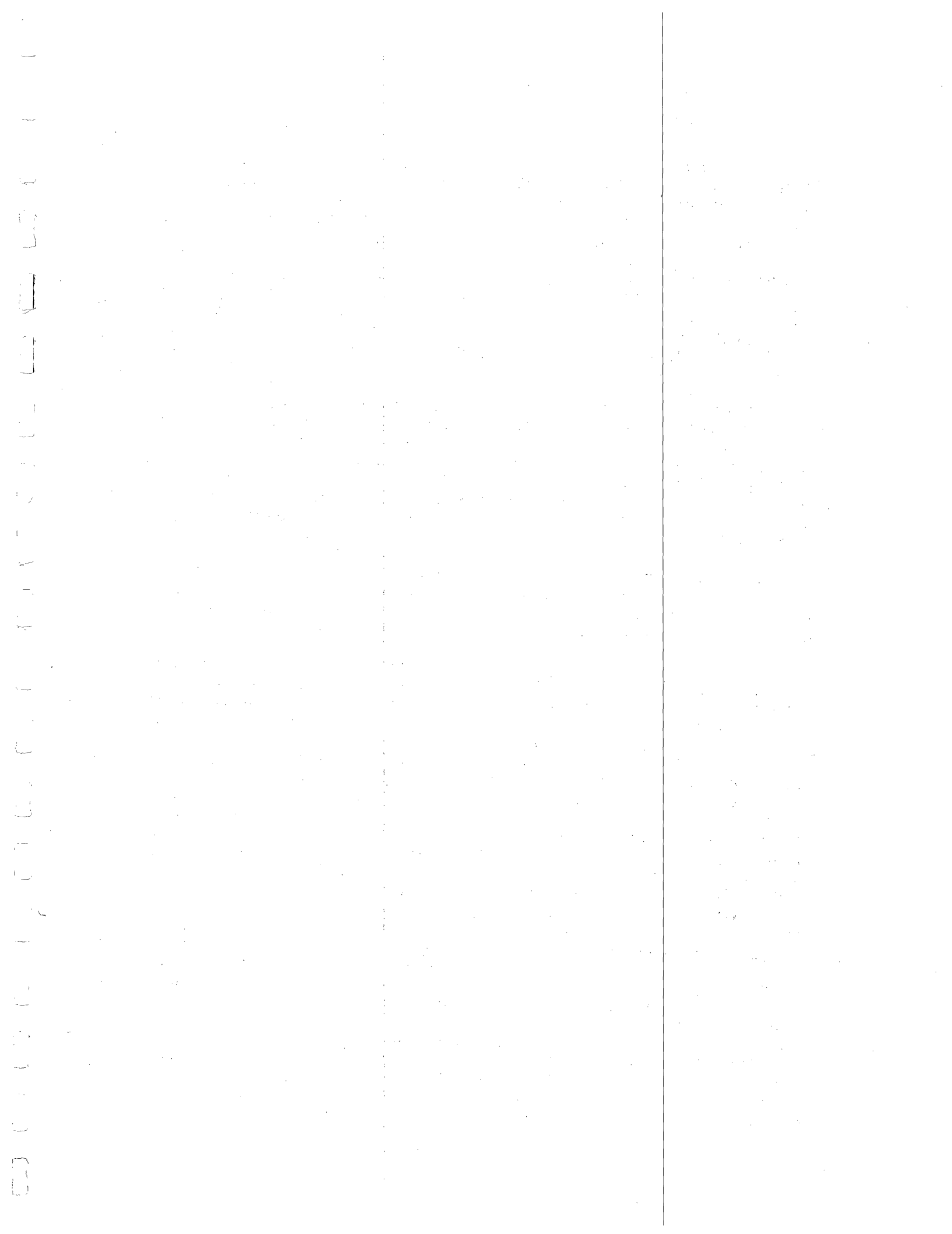
- Transit regulation is a relatively minor part of the PUC's overall regulatory role, and does not get significant staff or policy attention. There is no active or aggressive use of the regulatory function to sustain the financial condition of the carriers, nor to assure the quality performance of their services.
- Regulatory issues relating to services which are the subject of subsidy negotiations fall in a no-man's-land between the two agencies.
- Some regulatory issues involve both agencies unnecessarily, as when a subsidized and an unsubsidized carrier are in dispute over an operating right or a service area.
- Some of the powers of the COA are confusing to some of the parties, such as the COA's authority to permit the discontinuance and abandonment of services which had been subsidized but which are not now carrying enough riders to justify their continuation.

The system is unduly time-consuming in part because of the ambiguity of the overlapping authority. Additionally, the two-agency system has created a curious kind of vacuum, in which neither agency has taken an assertive position in regulation, and has not used the regulatory function as an active policy tool for improving the system. The recommendations will provide very significant benefits by removing the ambiguity, making the authority and responsibility clear, and combining transit regulation, planning and policy in a single agency whose sole responsibility is public transportation. Regulatory decisions would be based on a specific single set of policies on service levels and fares.

The rate-setting recommendations are particularly significant to the future viability of the private carriers in the State. As was discussed in the Transportation Operations chapter, fewer than 30 carriers of the 75 operating in the State were profitable in 1974. (Many more very likely enjoyed a positive cash flow without subsidies in 1974, and still do so today if officers' salaries, depreciation expenses, and rental agreements are considered). Also, the State has become the primary investor in the public transit system. This has come about because of the shortage of investment capital among private carriers, and perhaps more importantly because of the fact that the State and other public agencies can get federal assistance for 80% of the cost of transit investments, enabling public agencies to buy equipment and improve or construct facilities at 20¢ on the dollar. In the absence of the private carriers' willingness or ability to make investments, the State has gradually become the owner of almost 40% of the bus fleet operating transit in New Jersey. At the same time, labor and materials expenses have risen as a percentage of total costs of transit, with the result that, even where private investment has been maintained, the percentage of total cost represented by that investment is relatively low, and the fares necessary to provide a profitable return on investment have tended to be consumed by rising operating expenses.

To accommodate these financial realities, many regulating agencies have abandoned the use of return-on-investments as a basis for acting on carrier petitions for fare increases, in favor of using the "operating ratio" approach.

Operating ratio is the proportion which operating expenses represent of total operating revenue. It measures the current financial status of a company in terms of a break-even point (1.00), and responds to fare, ridership and service changes over time. For example, if a carrier had total expenses of \$105 and total revenue of \$100, his operating ratio would be 1.05. A carrier whose operating expenses are \$95 and whose operating revenues are \$100 has an operating ratio of 0.95. These ratios include cost of investment (debt service) and depreciations as an operating expense, where they occur, but the technique does not rely solely on return-on-investment. It is recommended that the PTA establish .95 as the standard operating rate, including all revenues and all expenses from services provided under rights provided by the PTA or predecessor State regulating agencies. Appropriate rules and regulations should be established for determining the base period for the ratio, and the frequency with which changes in fares or service can be sought or acted upon. The remedies available to the carrier, or for use by the PTA, in accomplishing the standard operating ratio include asking for or directing changes in fares, routes, or schedules for



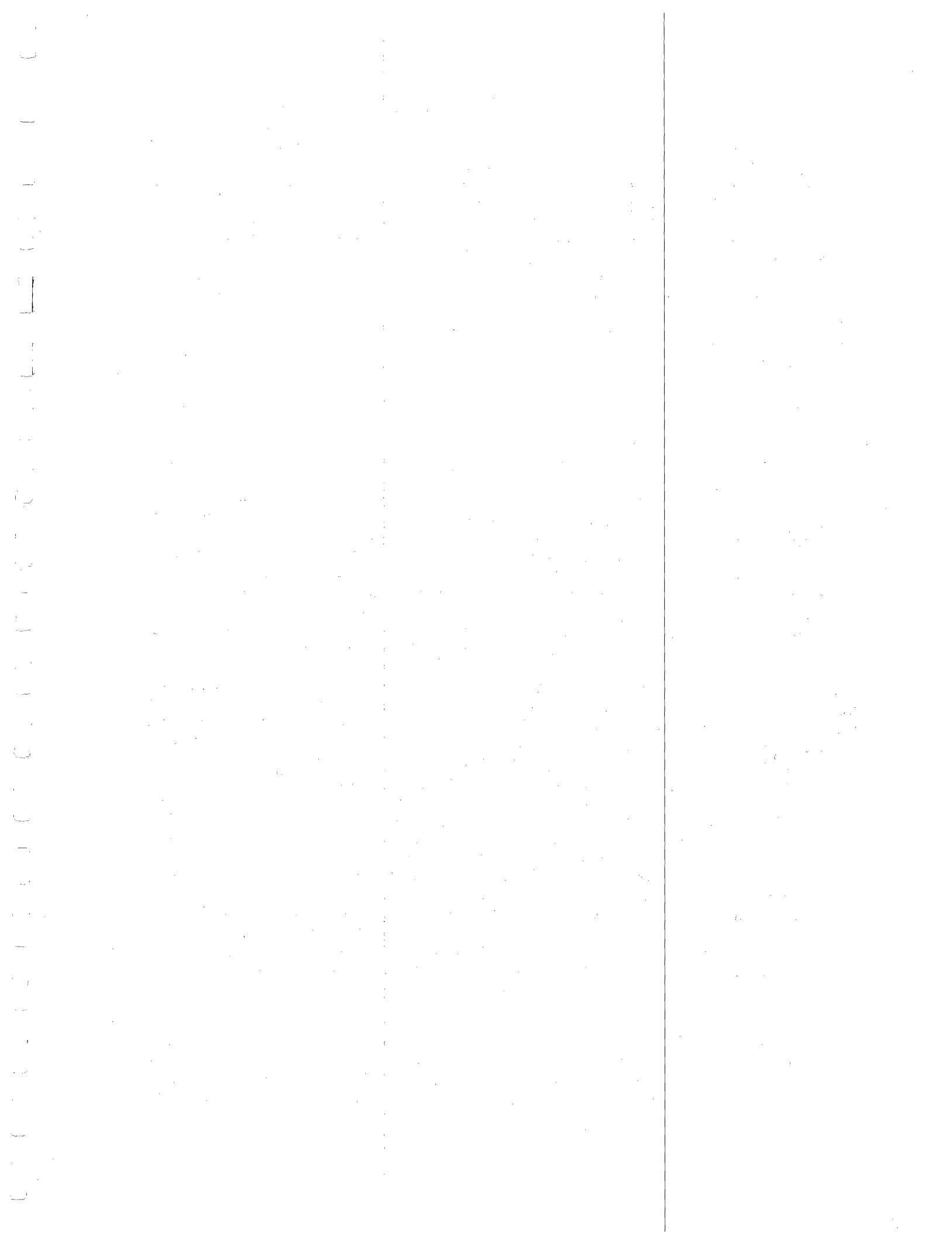
service. In addition, consideration should be given to the extent to which the petitioning carrier has taken advantage of the capital, management and marketing assistance programs available to the private carriers through the Division of Transit Assistance.

The regulatory division will have the continuing responsibility for resolving disputes between the private carriers, and between private and public operators. In addition, the regulating division will have the responsibility to identify for the PTA those carriers whose fare structures and service levels have reached the point at which no further increases in fares or decreases in service can be approved without unacceptable results in lower ridership and sub-standard service. At this point the carrier in question would be permitted to discontinue if the service were deemed not to be essential or if a qualified profitable carrier were able to provide adequate substitute service. If the service is deemed essential to the Base Level Transit Service Plan, and if no alternative carrier is able or available to provide the service, the regulating division would recommend acquisition of the carrier and, if necessary, negotiate with the carrier for interim use of the standard cost subsidy agreement.

The practice of issuing certificates of public convenience and necessity as the basis for authorizing new transit routes would be revised in order for the State to retain control over the cancellation or reassignment of those rights. When new transit routes become essential to maintain a prescribed level of service, or if regional transit agencies request additional services above this level, the PTA would determine which carrier would provide the service on the advice of the Division of Service Improvement and Regulation (DSIR). If a private carrier is to provide the service, then it would petition the DSIR to establish the appropriate route, rates and schedules to assure the proper operating ratio for that carrier overall. If a public agency is to provide the service, then the DSIR would consider any opposition or complaints from private carriers.

Staffing

The functions of the Division of Service Improvement and Regulation will be managed by a Division Director, reporting to the General Manager. Regulatory decisions will be acted upon by the Board, except for whatever emergency authority the Board may delegate. Employees for the Division's regulatory function will come from four sources including the PUC staff, the DOT staff, the private carriers to be acquired by the PTA, and new hires. All existing PUC and DOT civil service employees will be dealt with in the manner described in the chapter in Management and Organization. Individual civil service employees of the PUC and DOT who might



be assigned to DSIR jobs will retain their individual civil service rights with respect to their individual wages and benefits, and with respect to their entitlement to promotion or transfer to other jobs in the Civil Service System. They may also be appointed to positions in the PTA employee system, which shall not be a part of the Civil Service System.

Safety Regulation

We recommend the transfer of PUC responsibility for bus transit system safety regulation to the Law Enforcement Division of the Department of Law and Public Safety. It is essential to maintain a separation of safety regulation from the operational control which will reside with the PTA. Operating managers should not have the opportunity, whether through inadvertence or design, to sacrifice passenger safety to the exigencies of operational or financial considerations. The assurance of safety should be in the hands of someone, other than the operator, who has the technical capability and independence necessary for such a critical function. This principle has been recognized and adhered to in all other states where the consultant team has previous experience or personal knowledge.

The current PUC authority extends only to the safety inspection of a portion of the State's public transportation system. Most of the rail responsibilities and some of the bus responsibility are in the hands of the interstate regulators -- the Federal Railroad Administration and the Interstate Commerce Commission. The Department of Law and Public Safety now has general responsibility for the regulation of motor vehicles including the inspection of all licensed buses for their mechanical operating safety. Extending that authority to encompass all aspects of safety of public transportation carriers is a logical and reasonable extension of that agency's existing functions and management responsibilities.

A new unit within the Law Enforcement Division would be established to assume responsibility for common carrier vehicle inspection, and personnel from the PUC would be transferred to it. Responsibilities would include inspection of all public transportation vehicles and facilities for conformance with all State safety standards.

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VIII. PLANNING

We recommend a significant increase in the resources and capabilities of New Jersey DOT for technical analysis of transit alternatives and transit operations planning. We also recommend relocating the regulatory function to the PTA, were it can be more closely integrated with the service planning functions. Recognition of the close interrelationship required among the planning, regulation and funding of public transit in New Jersey is critical if New Jersey DOT's investments of public funds are to be economically and politically credible.

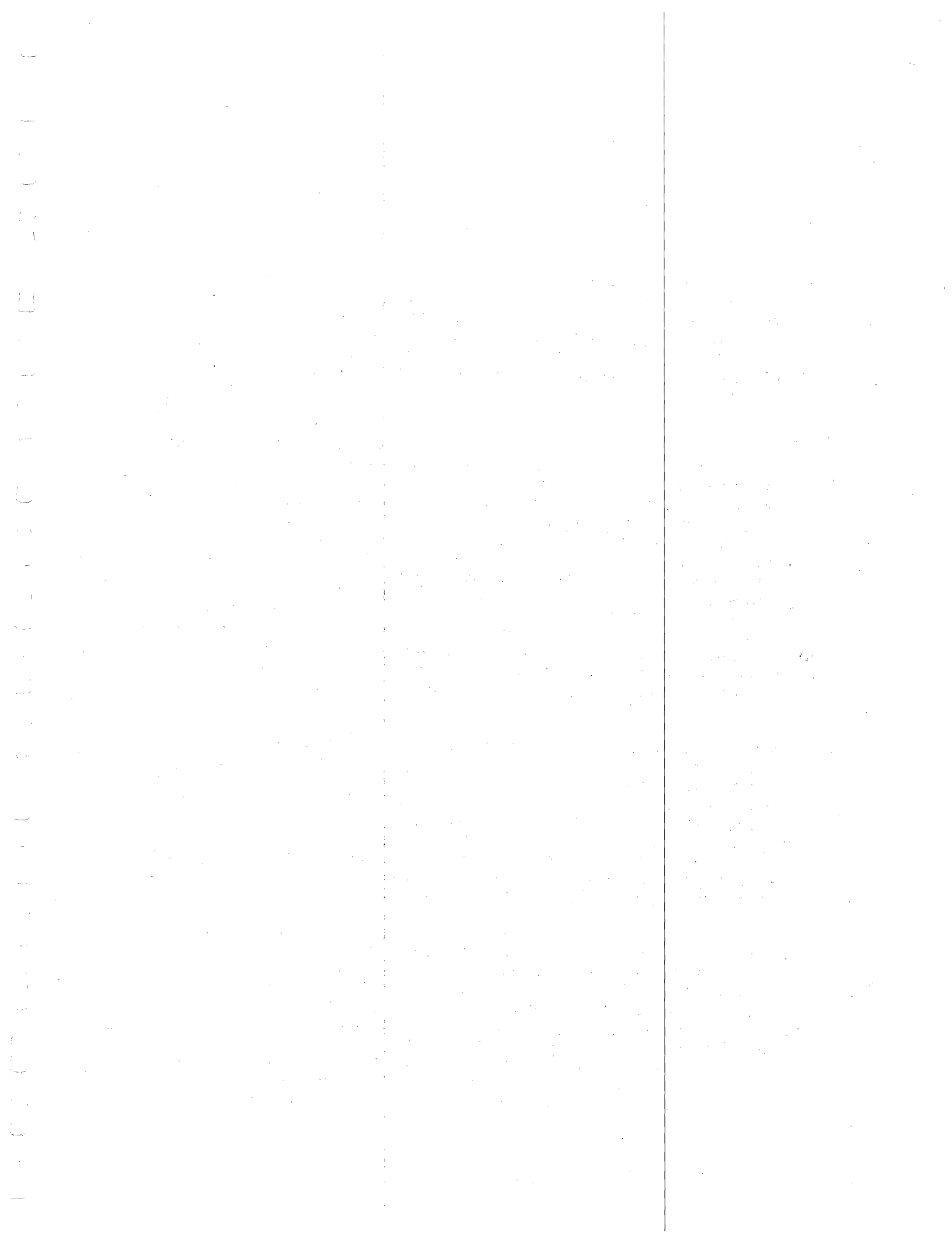
The ability to formulate a program of capital and operating investments over a period of from two to five years into the future is essential if New Jersey DOT is to receive the funding support from the Legislature needed to maximize federal funding of desired New Jersey programs. Expanded capabilities should be added to New Jersey DOT rather than to any other agency, since the DOT already has a solid base of planning expertise on which to build and can easily make available its resources on priority issues anywhere in the State.

The only major additional planning requirement necessitated by this reorganization is to define and regularly update the State's base level public transportation system. This is the primary planning responsibility of the Director of Service Improvement and Regulation in consultation with the Director of Planning and Research. It should be a process of specifying standards of service governing such considerations as levels of fare, geographic availability of service in terms of frequency and span and the definition of appropriate roles for the various modes. This defined minimum essential level of service can then be used in determining the essentiality of any carrier or route and in the formula allocation of State funds to any regional transit agencies formed.

The Base Service Plan

As soon as possible, the PTA should develop a Base Service Plan which will define the State's public transit policies and objectives, establish standards for service and fares, and define the revisions in service necessary to assure the most cost-effective use of private and public resources in providing the services necessary to meet the standards established.

The basic elements of the base service plan will include:



- Modifications of the existing system to eliminate any redundancy and overlapping between carriers and between modes;
- Modification of the existing system to achieve the best use of each mode and carrier for each service area and corridor;
- Development of new services for areas not served but meeting the standards for new service;
- Elimination or reduction of service in some areas where service is not meeting minimum financial performance standards;
- A standard fare system establishing a common basis for fares for similar services, including a system for fare-splitting among carriers which service various segments of a particular trip (e.g., bus feeders to rail transit stations);
- Standards for equipment conditions;
- Standards for defining essentiality of service.

The plan will describe the services and service levels which the state is committed to support. The plan will be updated annually as public policies, desires, and ridership levels change.

The recommended reorganization would resolve one of the planning deficiencies inherent in the current organizational structure. Because of the conflicting regulatory authority, the multiplicity of operating agencies and the separation of planning and operations, short-range operational planning for service improvements is very difficult to do and, therefore, is generally neglected. With both the PTA and the statewide transportation planning function within the Department, the integration of planning and operations will be facilitated. And, as the major bus operator and the financier for most rail operations, the PTA can readily implement operational changes emerging from the planning process.

Role of Counties and Local Communities

As suggested by the staff of the County and Municipal Government Study Commission, the planning process "should be structured so that proposals can be developed from

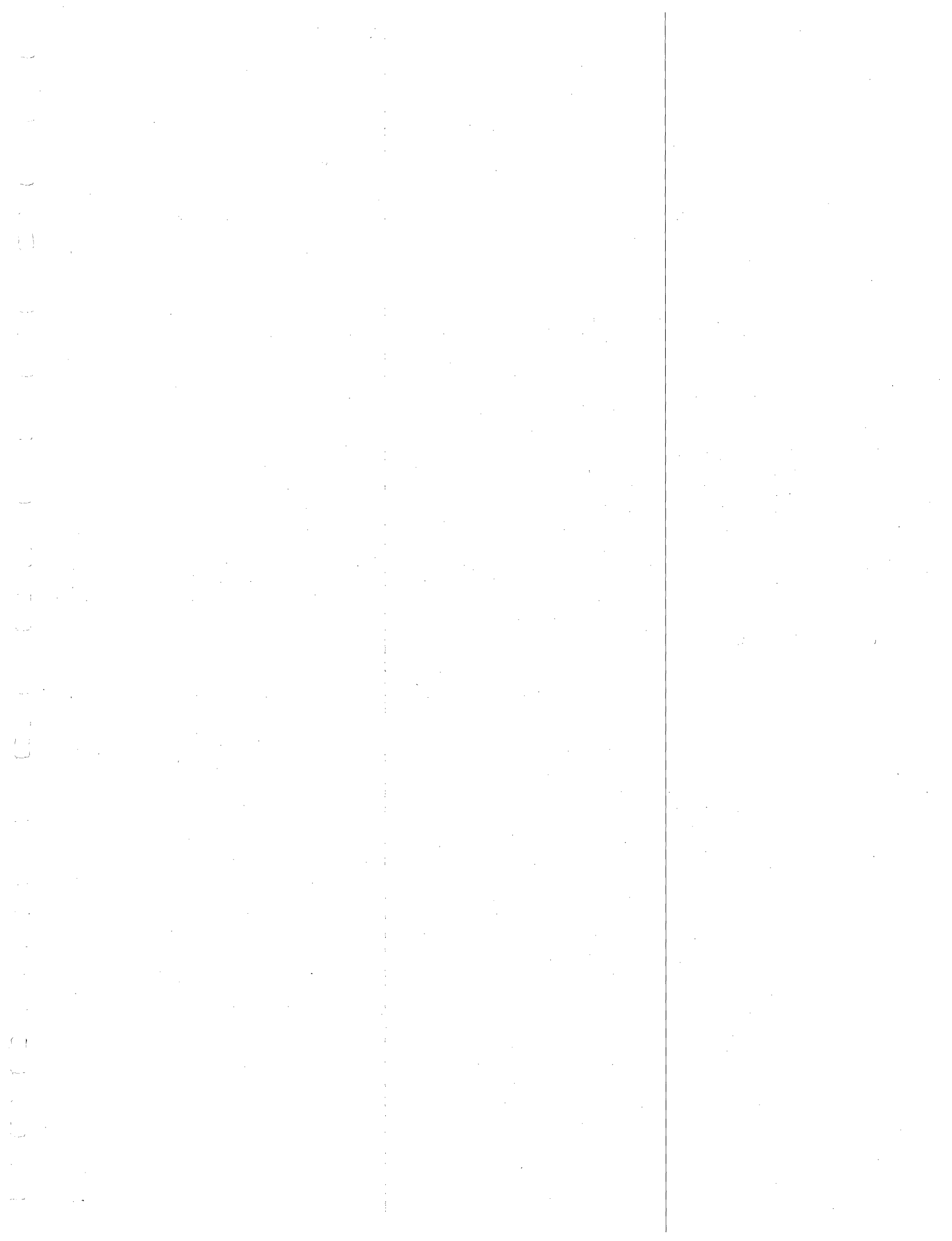
the bottom up, with county-local government being the initiator, as well as from the top down to assure proper adherence to policy priorities and funding constraints."^{1/} We agree with this suggestion, which also corresponds to the thrust of federal law and regulations governing transportation planning in urban areas. A cooperative state-county-local partnership should exist no matter what the pattern of ownership and operation of public transportation. In fact, institutional mechanisms for the coordination of the planning function already exist and have worked more effectively in the past than has state-county-local cooperation on either transit operations or regulation.

No one would assert that the State and each county and local government are always in agreement on every planning issue. However, the existing institutional structure for planning coordination can be built upon to encompass state-county-local interaction on transit operations and regulation. Our recommendation would enhance these cooperative possibilities by integrating the planning, regulatory, and operations functions at the State level.

At present, counties and local governments must coordinate their suggestions for improvements with New Jersey DOT, the PUC and private carriers. It is no wonder that local officials have difficulty implementing desired improvements. Important decisions on transit services must take account of planning and operations and regulation and finance together. Under the recommended structure county and local governments will have a more direct, clearly defined link to the appropriate State level decision-makers.

New Jersey's counties have many varied levels of interest in public transit. The State's organization for planning should recognize these differences, and offer each county a level of involvement commensurate with its interest. Some counties will desire involvement in detailed planning for capital and operations improvements, and the State should provide for their intensive involvement. On the other hand, if a particular county does not want to participate intensively at all times, it should be offered other mechanisms, such as reviews of ongoing operations, regulatory or planning activities at regular county meetings of transportation coordinating committees. To ensure consistency

^{1/}Summary Assessment and Policy Recommendations of County Government Role in Bus Transportation - Draft Statement, (Memorandum from James Westwater, County and Municipal Government Study Commission, to Peter Stangl and Ron Reisner, Sept. 21, 1976).



throughout the decision-making process, the same county staff should be responsible for working with State officials on planning, regulatory, and operations issues.

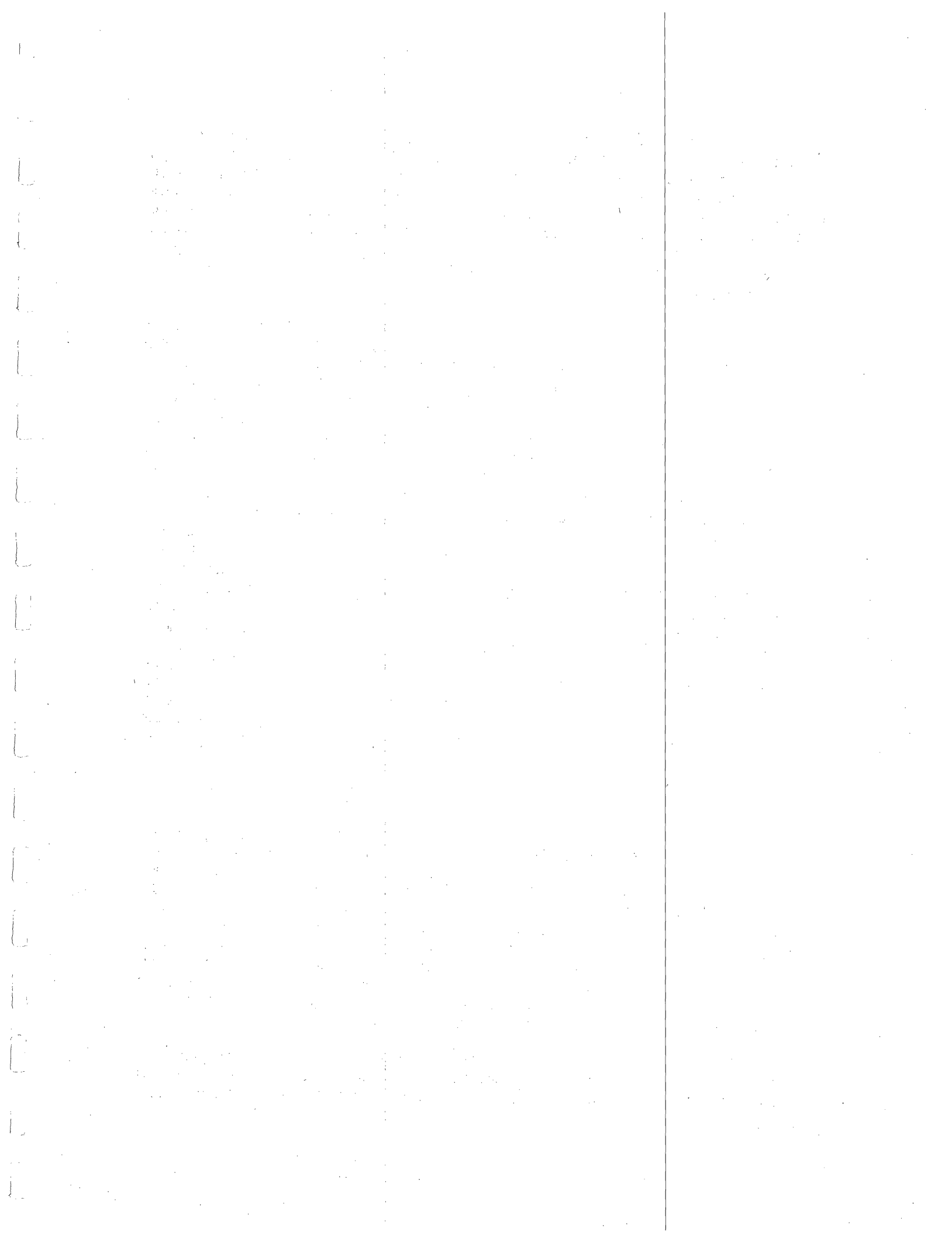
Some counties might consider public transportation to be so important that they wish to take over ownership and operation from the State. They would then presumably also acquire more planning capability and cooperate with the State in developing projects and programs. Similarly, some counties might want lesser involvement in public transportation, either because its operation is not an important issue in their area, or because they are very pleased with the status quo. If such counties do not want to maintain consistent involvement in transit planning, the State should not penalize them.

Service Planning and Regulation

The recommendation to relocate the regulatory function within the Public Transportation Agency is thoroughly discussed in Chapter VII, Regulation. The addition of a regulatory staff familiar with the existing services and capabilities of the private operators and experienced in analyzing the private carriers' costs and finances will be a necessary supplement to an expanded planning role for New Jersey DOT. The establishment of a service improvement planning capability in conjunction with this regulatory activity will fill a gap in the existing structure - a gap which must be filled to permit the rational application of regulatory power. In the future, the distinction between planning and regulation will blur, as the determination of levels of service, operating costs, fares, route structures and related factors becomes routine to New Jersey DOT.

The reasons for recommending the transfer of PUC transit regulatory responsibilities to New Jersey DOT are to more closely integrate planning and regulatory decisions and to reorient transit regulation to reflect the current economic characteristics of transit services. Operating ratios and levels of service, as determined through planning policies, should replace return on investment as the primary basis for regulatory decisions.

A key responsibility of New Jersey DOT transit planners will be to provide the service levels, fare level, and ridership information needed to guide and support planning/regulatory decisions. Important components of the planning function will be the identification of service needs throughout the State, and the assessment of relationships among level of service, fare, and ridership for various kinds of transit service. Such information provides a basis for analyzing alternatives for transit improvements and for



developing transit capital improvement programs, and can guide policy decisions on the amount of transit service the State will support financially.

Other advantages of a strengthened planning function include:

- better coordination of transit and other urban area transportation planning, with an increased opportunity to plan and implement low-cost transportation system management (TSM) types of improvements;
- improved capabilities for analyzing State expenditures to guide financial planning for capital improvements and for the operating expense program;
- development of a more useful data base, including ridership by route and data on efficiency, productivity and competition among services; and
- increased capability to efficiently monitor services being delivered and to correct service deficiencies.

The metropolitan planning organizations in the State's urbanized areas will continue their current responsibilities, including preparation of local Transportation Improvement Programs with transportation system management (TSM) components, and will be strengthened over time through the continuation of New Jersey DOT's technical assistance programs and through interaction with State planners on both short- and long-range transit programs.

New Jersey DOT will continue to prepare applications for federal transit assistance. However, increased staffing and efforts will improve the Department's capabilities to effectively spend State funds and to compete with other states for federal aid and will strengthen liaison with the federal agencies which administer these programs.

Multi-Modal Planning and Transit Services Planning

An integrated operations planning and regulatory staff is necessary to achieve rationalization of service and well informed decisions on fares, routes, and service levels.

There are two potential locations for this kind of staff within New Jersey. Either they could be put with the existing multi-modal planning group, assuring the closest relationship among short term and long term planning, or the new service improvement planning and regulatory staff could be integrated with the operating agency. The latter course would assure a more direct service improvement and regulatory input to the management of daily operations.

On balance, we think it is more critical to assure direct input to the general manager operating the system, so that such analytic skills and expertise are an intrinsic part of the operator's staff. This provides for more direct application of such analyses than would occur if recommendations came to the PTA only through the policy level of the Commissioner.

In other transit operating agencies in the country, it is almost universally the case that operators are more likely to implement improvements that they have developed themselves. When detailed recommendations come from outside an operating agency, the tendency has been for the operator to look for reasons not to make changes rather than to implement the outsider's recommendations.

The need is also great however, for coordination of long term multi-modal planning and short term operations planning. Within the recommended structure, this coordination will come about through interaction among the working level management personnel responsible for each planning function. The DOT units responsible for coordinating multi-modal planning will also be responsible for coordinating short and long term planning carried out in the various parts of the DOT, the PTA, and other agencies. The Director of Planning and Research in the DOT would chair a staff group responsible for New Jersey's transit program expenditures, and would work directly with the PTA in this capacity.

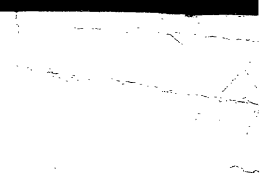
Some added technical planning skills necessary for developing and analyzing transit improvements should be located in the unit responsible for multi-modal planning in the State under the Director of Planning and Research. These include capabilities in travel and transit forecasting and analysis of alternatives, and an augmented environmental analysis unit with specific emphasis on enhanced State capabilities to meet UMTA capital grant requirements.

Additional positions will be required in the DOT to carry out these responsibilities. The needed staff skills do not depend on the recommended organizational structure, but should be added to the DOT to assure a basic

level of skills necessary to serve the interests of New Jersey in developing transit projects.

An additional advantage of the recommendation is that New Jersey DOT will no longer have to rely on the Port Authority of New York and New Jersey or on specific project consultants for analysis and computer services for forecasting transit usage. No comparability and consistency of analysis is possible without a State capability available for all areas and projects.

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