Excerpt From Exhibit C-3

within specific financial limits. Bi-state legislation is now pending which, after its enactment, would exclude obligations to be issued by the Authority from the category of such affected bonds. It may be noted that in connection with the issue of $100,000,000 par value of Consolidated Notes, Series Z, 3.60% due December 17, 1973, referred to above, Chase Manhattan Bank, First National City Bank, Morgan Guaranty Trust Company of New York, Chemical Bank, Manufacturers Hanover Trust Company, Franklin National Bank, Marine Midland Bank (New York), National Newark and Essex Bank, The Bank of New York, Fidelity Union Trust Company, Irving Trust Company, Marine Midland Bank (Western), Peoples Trust of New Jersey, United States Trust Company of New York, The Bank of Tokyo Trust Company and The County Trust Company each consented pursuant to Section 6 of both Chapter 209 of the Laws of New York of 1962 and Chapter 8 of the Laws of New Jersey of 1962 to the application for any railroad purpose authorized by the States of New York and New Jersey of any rentals, tolls, fares, fees, charges, revenues and reserves which have been or shall be pledged as security for such Notes, insofar as such application would otherwise not have been permitted by reason of the limitations imposed by the statutory covenant. In accordance with the policy of the Governors of New York and New Jersey and of the Authority, this consent by these purchasers of Consolidated Notes, Series Z avoided the addition of such Notes to the total amount of outstanding obligations to which the statutory covenant attaches. The need for such consent by the purchasers of future Authority obligations would be obviated by enactment of the pending legislation."

Excerpt from Exhibit C-4

THE PORT AUTHORITY OF
NEW YORK AND NEW JERSEY

1974 ANNUAL REPORT

"PLAINFIELD CORRIDOR SERVICE PROJECT

The Port Authority applied for federal capital funding for the Plainfield Corridor Service Project in April 1974. The project provides for a 17.5 mile extension of PATH from its present terminus at Penn Station, Newark, to Plainfield via stations serving Newark International Airport and Elizabeth.

In October at the request of the Urban Mass Transportation Administration, a joint Task Force composed of members of the Port Authority and the New Jersey Department of Transportation was established to reevaluate the PATH Plainfield project as well as other potential public transportation alternatives for the Plainfield Corridor.

"As the year ended, the Task Force's evaluation was presented to Governor Byrne, who announced his view on February 10, 1975 that the Port Authority should proceed with the PATH extension to Plainfield. Staff work is going forward on the necessary supplement to the Port Authority's Plainfield application for federal funding, revising the project cost estimates and federal aid requirements. The Joint Task Force estimated in its report that $278 million in federal aid is necessary for project work west of Newark, representing 80 percent of its estimated $347 million cost eligible for federal aid. The Port Authority is working with the State of New Jersey to determine how the local share of Plainfield project funding can be structured in keeping with the legal limitations

Excerpt from Exhibit C-4

on Port Authority participation and resolution of how any future operating deficits would be accommodated."

"PENN STATION (N.Y.) DIRECT ACCESS PROJECT

Port Authority staff continued to design and plan direct rail service into Penn Station, New York for commuter trains of the Erie Lackawanna Railway. Test borings were begun in 1974 for track connections between the Penn Central and Erie Lackawanna and for a new high-level fixed-span bridge over the Hackensack River. The Federal Railroad Administration also announced that federally sponsored management studies of Penn Station, New York were to be completed in the spring of 1975."

* * *

"NEW YORK STATE COMMUTER RAILROAD EQUIPMENT PROGRAM

A total of 467 air-conditioned passenger cars and eight diesel-electric locomotives have been purchased for use in commuter service within the State of New York on the Penn Central and Long Island railroads since 1962 under the New York State Commuter Railroad Equipment Program. To date, special state-guaranteed Port Authority bonds in the amount of $106,225,000 have been issued to finance rolling stock for commuter rail service and $86,160,000 are now outstanding."

* * *

"BASIC POLICIES AND FINANCIAL STRUCTURE

The States of New Jersey and New York directed the Port Authority "... to proceed with the development of the Port of New York . . . as rapidly as may be economically practicable . . ." The Authority, however, may not levy taxes, assessments or pledge the credit of either State or

Excerpt from Exhibit C-4

any municipality. In other words, its program of public works was to be supported and financed by the private sector, and to this end the two States pledged their "cordial cooperation . . . in the encouragement of the investment of capital . . ."

In order to finance—on a self-supporting basis and without cost to the general taxpayer—the land, sea and air terminal, transportation and other facilities of commerce as directed by the two State Legislatures, it is necessary for the bi-State agency to conduct its affairs with prudence and to employ sound management practices. Over the years, more than 3.5 billion dollars of Port Authority obligations have been purchased by investors of which 1.7 billion dollars was outstanding at December 31, 1974.

The statutes establishing the General Reserve Fund of the Authority provide for the pooling of revenues to the end that older facilities with established earning power can aid new projects during development periods until they reach their anticipated point of self-support. These statutes provide for the utilization of available net revenues to maintain the General Reserve Fund at the prescribed amount of ten percent of the total par value of the Authority's outstanding bonds.

The Port Authority's long-established policy is to retire debt as rapidly as sound financial management permits and to maintain, at year-end, a combined amount in its reserve funds, including reserve funds in trust, equal to at least the amount of the next two years' mandatory bonded debt service. Acceleration of debt retirement before mandatory dates may be accomplished out of the General Reserve Fund only to the extent that reserve funds exceed the ensuing two years' debt service.

Bonds for an additional facility cannot be issued with a pledge of the General Reserve Fund unless the Port Authority Commissioners certify to investors that the issuance of the bonds or that such pledge will not materially impair the sound credit standing of the Authority, the investment status of the Authority's bonds, or the ability of the Authority to fulfill its commitments and undertakings.

In 1974, the Legislatures of New York and New Jersey repealed a statutory covenant with holders of affected Port Authority bonds which permitted deficit financing of passenger railroad facilities in addition to the Hudson Tubes (Port Authority Trans-Hudson [PATH] System) only within specified financial limits. The covenant was originally adopted in 1962 as part of the statutes authorizing Port Authority acquisition of the inter-state Hudson and Manhattan Railroad. In 1973, the two States had enacted legislation to preclude application of the statutory covenant to the holders of obligations issued by the Authority after May 10, 1973.

In April 1974, the United States Trust Company of New York instituted litigation in New Jersey as Trustee for the 40th and 41st Series of the Authority's Consolidated Bonds, as the holder of a significant amount of outstanding obligations of the Authority, and as a class representative on behalf of the holders of all outstanding bonds of the Authority against the State of New Jersey and its Governor and Attorney General seeking a declaratory judgment that the action taken by the States in 1974 to repeal the 1962 statutory covenant violates the federal and state Constitutions. This action has been consolidated with another pending action in New Jersey which was instituted by private parties seeking to invalidate the statutory covenant. The actions in New Jersey are proceeding while similar actions instituted and pending in New York relating to the covenant and its repeal have not been progressed."

* * *

Exhibit C-5

PORT AUTHORITY OF NEW YORK AND NEW JERSEY

INVESTMENTS & REVENUES

Based on the same assumptions used in a similar compilation submitted as of 12/31/60 to Senator Frank S. Farley, Chairman, New Jersey Senate Committee Created to Investigate the Port Authority of New York and New Jersey

(000 Omitted)

Facility	Total Investment As of 12/31/73	Net Revenues Year 1973	Net Revenues Cumulative Amount	Cumulative Yrs. in Svc.	Years in Deficit Oper.
JFK Intnl. Airport	$ 663,729	$18,347	$171,089	27	7
LaGuardia Airport	178,473	6,740	22,393	27	13
Newark Intnl. Airport	347,532	(1,818)	(5,749)	26	18
Teterboro Airport	11,369	(232)	(9,272)	25	25
Heliports	721	(442)	(3,664)	20	20
Grain Terminals, Grain Elevators, & Columbia St. Pier	4,309	(110)	793	28	10
Port Newark	149,875	(1,205)	11,722	26	5
Erie Basin Piers	12,805	(708)	4,838	16	2
Hoboken Piers	18,113	(256)	3,792	21	6
Brooklyn Piers	95,944	(2,536)	(7,180)	18	15
Elizabeth	190,781	2,149	12,748	12	1
N.Y.C. Pass. Ship Term.	1,299	(604)	(744)	2	2
PA Building	—0—	765	16,290	41	21
N.Y. Truck Terminal	9,945	(262)	(9,940)	24	24
Newark Truck Terminal	8,225	(378)	(7,002)	24	23
P.A. Bus Terminal	60,618	(51)	5,386	24	14
Holland Tunnel	69,339	111	118,359	43	1
Lincoln Tunnel	199,325	(1,607)	5,458	37	20
Geo. Washington Bridge	213,469	17,431	267,000	43	8
Staten Island Bridges	65,606	6,341	48,585	46	22
PATH Corp.	221,026	(28,360)	(153,073)	12	12
World Trade Center	750,410	(16,460)	(36,058)	4	4
Total	$3,272,913	$(3,145)	$455,771		

NOTE: Parentheses denote deficits.

Exhibit C-15

FROM THE OFFICE OF THE GOVERNOR

February 10, 1975

For Immediate Release

For Further Information
Herb Wolfe
Moray Epstein—X7212

Governor Brendan Byrne Monday reiterated his directive to the Port Authority of New York and New Jersey and the Department of Transportation to proceed with the proposal to extend Port Authority Trans-Hudson (PATH) service from Newark to Plainfield.

The Governor issued his instructions after reviewing reports from the Transportation Department and a Joint Task Force of staff of the Port Authority and the Transportation Department.

The reports considered the benefits and costs of improving mass transit service in the Newark-Plainfield corridor either by improving existing operations of the Central Railroad of New Jersey (CNJ) or by extending PATH service from Newark. The possibility of using part of the CNJ right of way for a roadway exclusively for buses was also considered.

The major issue to be resolved between the Department of Transportation and the Port of New York and New Jersey Authority is the financing of the local share of $69.4 million necessary to match the Federal fund application.

In its report, the Joint Task Force estimated that about $278 million in Federal assistance is needed for the PATH project, representing 80 percent of the estimated $347 million total project cost.

Exhibit C-15

This compares to $201.5 million requested in April 1974 by PATH in an application to the Urban Mass Transportation Administration (UMTA) for Federal aid on the basis of total project cost then estimated at $252 million. The cost difference largely is attributed to inflation.

The Governor said, "the economic analysis submitted by the task force indicates that the initial capital expenditure for a PATH extension will be much higher than the initial capital expenditure for simply upgrading and improving the CNJ.

"On the other hand, the analysis also shows that the cost per trip results in an operating cost which is much more favorable for the PATH Extension proposal than for improvement of CNJ service," the Governor pointed out.

"Our operating subsidy program," the Governor continued, "will reach the $72 million level this fiscal year. Minimizing this drain on State and Federal resources is a matter of high priority."

He described the PATH project as "an example where an investment in capital improvements can result in more efficient and less costly operations and maintenance."

Byrne pointed out that the PATH project conforms to his "long standing commitment to insure that the Port Authority of New York and New Jersey fulfills its obligation to provide mass transit facilities for New Jersey by using its own resources to fund public transportation.

He said repeal of the covenant restricting the Port Authority's involvement in public transportation had made the Port Authority "capable of fulfilling its original mandate — to plan and develop a transportation system which contributes to the economic well being of the port district."

"The need for the Port Authority, with its considerable wealth, to contribute to the creation and operation of a

Exhibit C-15

public transportation system and to the reduction of problems stemming from energy shortages and air pollution has long been apparent," said the Governor. He also indicated that the PATH project was only one aspect of the commitment to public transportation which he would expect of the Port Authority.

The Joint Task Force report, which Byrne said "clearly shows the expensive and complex nature of any major rail project in this corridor", stems from a series of meetings in August and September 1974. Those meetings resulted in a request by UMTA for the Port Authority and the Transportation Department to re-evaluate the PATH Extension proposal.

The Governor previously instructed Port Authority and Transportation Department officials to proceed with the PATH project in a meeting last January 15, as the Joint Task Force report was nearing completion.

The Governor also referred to a letter from Transportation Commissioner Alan Sagner replying to UMTA's request. The letter indicated that from a narrow and immediate budgetary perspective, simple upgrading of the existing CNJ commuter service is "cheaper."

However, it notes that, "from the viewpoint of a broader economic analysis, the extension of PATH to Plainfield has other advantages," such as:

— The service will provide a link among five of New Jersey's principal center cities—Newark, Jersey City, Elizabeth, Hoboken and Plainfield—in a manner consistent with the State's policy to sustain and redevelop the State's older cities.

— The PATH project provides for access to Newark Airport.

Exhibit C-15

— The PATH Extension will essentially for the first time provide *intra*state rapid transit service in New Jersey in a highly developed urban corridor at a time when added transit capacity is made increasingly essential by fuel shortages.

The Governor stated that while it was difficult to assign dollars and cents values to these advantages, they "represent the very factors which do and should differentiate a public sector investment decision from one made by the private sector."

The Task Force was co-chaired by Manuel Carballo, Deputy Commissioner of the Department of Transportation, and Louis J. Gambaccini, Director of Rail Transportation of the Port Authority. Staff members of both agencies carried out the technical work.

The request for re-evaluation by UMTA was based on three principal factors:

— The possibilities of purchase of CNJ right of way by the State, thus opening the question of whether an upgrading of CNJ commuter service represented a viable alternative;

— The desire on the part of UMTA to examine the most cost-effective solution in this corridor; and

— The relationship of any alternative in this corridor to the State's total mass transportation program from the point of view of relative priorities of major new transit programs.

The primary mission of the Task Force was to identify the various alternative plans and compare them on the basis of economic and non-economic criteria. Due to sharp

Exhibit C-15

escalation of construction costs and overall inflation, the economics of all alternatives were re-evaluated to reflect present and projected capital costs and future operating results. Selected non-economic factors which were compared and evaluated included service frequency, convenience and comfort, travel time and environmental impact.

As a result of this intensive review of the range of alternatives, five plans were finally selected by the Task Force for detailed consideration. They are:

1. PATH Extension to Plainfield via Newark Airport and Elizabeth. (Proposed in UMTA application April 1974)

2. CNJ expanded and modernized diesel service from Newark to Plainfield via Aldene.

3. CNJ electrification from Newark to Plainfield via Aldene. (Proposed in Transportation Department's 1968 Master Plan.)

4. CNJ diesel service on the mainline via Aldene with minimal upgrading to assure continued, reliable and safe rail service.

5. Development of a Busway on the two northerly tracks of the CNJ from Elizabeth to Plainfield with access provided to the Busway at both ends by local streets and major highways.

Under each alternate, the Task Force investigated the capital costs, operating costs, potential funding and operating and service factors involved to include a commuter service to both Plainfield and Raritan.

The Task Force also reconsidered the basic question of the need for rail access to Newark International Airport,

Exhibit C-15

a prime feature of the PATH Extension alternative.

The two CNJ rail alternatives, diesel and electrification, would not themselves provide a rail access to the airport, since both plans would utilize the existing CNJ alignment (north and west of the airport) via the Lehigh Valley Aldene route to serve the Plainfield Corridor. In that case, an express bus service could be provided between the two railroad stations in Newark and the airport. The CNJ Busway alternative would provide a bus service to the airport.

In the course of the Task Force studies, a detailed analysis was made of present traffic volumes and distribution of passengers utilizing the airport and future projections of airport passage.

Several rail alternative services to and from Newark Airport which had been studied in past years were reexamined to obtain an updated picture of the capital cost and other factors involved in providing such services. The study concluded that an interim express bus service to Newark's Penn Central and Erie-Lackawanna Stations is the most prudent investment at this time, under current economic circumstances.

* * *

Attachments: Joint Task Force Report
Letter to UMTA from Commissioner Sagner

Excerpt from Exhibit C-17

Revision of Toll Rate Schedule for Vehicular Crossings

It was recalled that the Board, at its meeting on April 10, 1975 (appearing at pages 112 et seq. of the Official Minutes of that date), adopted an amendment to the resolution establishing tolls for the use of vehicular crossings.

After reviewing the Commissioners' April 10th modification of the toll rate schedule for vehicular crossings, the Governors met on April 18, 1975. As a result of communications with the Governors following that meeting, the Board has reconsidered its April 10th resolution and agreed upon amendments thereto authorizing the issuance of reduced rate passenger car 20-trip, 30-day ticket books to be sold for $20.00 and adjusting the tolls charged trucks to provide for a uniform increase of 50%. It is believed that these changes adhere to the basic policy of discouraging avoidable automobile usage and still producing additional revenues to facilitate the new mass transportation capital projects described in the April 10th resolution.

* * *

Exhibit C-18

NEWS FROM
THE PORT AUTHORITY OF NY AND NJ
One World Trade Center, New York, N.Y. 10048

PUBLIC AFFAIRS DEPARTMENT
JOHN TILLMAN, DIRECTOR
FOR INFORMATION:
(212) 466-7777
(201) 622-6600 Ext. 7777

FOR IMMEDIATE RELEASE
April 10, 1975

New York, Apr. 10—To increase its ability to finance vital mass transit improvements, the Port Authority will increase tolls by 50 per cent for all vehicles except buses at its six tunnels and bridges, and eliminate the sale of passenger car reduced rate tickets. The changes will go into effect on May 5.

At the same time, as an incentive to the formation of carpools where public transit is not reasonably available, the Port Authority will institute a 66⅔ per cent discount from the new rate for passenger automobiles occupied by three or more persons.

The new cash fare for automobiles will be $1.50 per round trip. The new carpool rate will be $.50 per round trip.

To further encourage the use of mass transportation, the existing bus round trip rate of $1.80 will remain unchanged.

Truck rates will be increased by approximately 50 per cent.

The new toll adjustments will apply at the George Washington Bridge, the Lincoln and Holland Tunnels, the Bayonne and Goethals Bridges, and Outerbridge Crossing.

Exhibit C-18

Announcement of the Port Authority's actions was made today by Chairman Willian J. Ronan, following a meeting of the Board of Commissioners.

Dr. Ronan said the new tolls schedules were further evidence of the Port Authority's deep commitment to mass transit. It is estimated that they will bring in $39 million in additional revenues annually. These funds are expected to be applied to the expansion of the Port Authority Bus Terminal; the extension of PATH to Plainfield via Newark International Airport; the rail access between Kennedy International Airport and Penn Station, Manhattan using Long Island Railroad tracks and high speed MTA cars; and direct rail service from New Jersey into Penn Station, Manhattan for certain trains on the Erie Lackawanna Railway.

The new toll structure is in line with efforts to reduce inefficient and unnecessary automobile usage, highway congestion, air pollution, and to conserve fuel.

It is no longer in the public interest to offer special inducements to motorists who choose to drive to work. On the contrary, there is general agreement on all levels of government that commuters should be encouraged to make maximum use of public transportation or to form carpools where public transit is not reasonably available.

A book of 60 carpool tickets will be valid for six months in addition to the month purchased. The book will be sold for $30, thereby providing a 66⅔ per cent discount from the $1.50 cash toll for automobiles. The carpool reduced rate tickets will be valid for use between 10 P.M. Sunday and 2 A.M. the following Saturday, except certain holidays, and are transferable between vehicles.

Passenger car reduced rate ticket books now outstanding —the 30-day, 20-trip books which sell for $10.00, and the

Exhibit C-18

two-year, 12-trip books, which sell for $9.60—will remain valid until the expiration date shown in the book.

The present automobile cash toll of $1.00 per round trip has been constant since each of the vehicular crossings was first opened to traffic, starting with the Holland Tunnel in 1927. The Port Authority has made available books of reduced rate automobile toll tickets for regular users of these crossings since 1950.

Excerpt from Exhibit C-19

[Letterhead of]
U.S. DEPARTMENT OF TRANSPORTATION
Federal Highway Administration

April 25, 1975

Registered—Return Receipt Requested

Port Authority of New York and New Jersey
One World Trade Center
New York, New York 10048

Gentlemen:

Enclosed are copies of two complaints filed with the Federal Highway Administrator by the Honorable Peter A. Peyser, Member of Congress, and by Mr. Stanley D. Ver Nooy, respectively, alleging that certain proposed increases in the tolls to be charged for transit over the George Washington Bridge, the Bayonne Bridge, the Goethals Bridge, and the Outerbridge Crossing, are unjust and unreasonable within the meaning of section 4 of the Bridge Act of 1906, 33 U.S.C. 494.

These copies of the complaints are sent to you pursuant to the Bridge Toll Procedural Rules, 49 CFR Part 310, a copy of which is enclosed for your convenience. Your attention is invited particularly to § 310.4, requiring a written response within 30 days, and enumerating nine points of information the response should contain.

Upon receipt of your response, or on the expiration of the 30-day response period, the Federal Highway Administrator intends to conduct an investigation as provided in § 310.5. In order to conduct an investigation of the requisite breadth and thoroughness, where four bridges are concerned, it seems necessary to perform it in two stages.

Excerpt from Exhibit C-19

The first, or overview, stage is now contemplated as covering the underlying law authorizing the construction or acquisition of the four bridges, and the charging of tolls thereon. It should also cover the position of the four bridges in your organizational and financial structure, the rights of bondholders, capital investment, and historical rates of depreciation and return on capital, as a minimum.

The second, or audit, stage would cover in detail, on a bridge-by-bridge basis, not only the matters disclosed by the overview stage but specific items of maintenance, operation, improvement, depreciation, revenues, and diversion, if any.

So that the investigation may begin the overview stage promptly, it is requested that you furnish, together with your formal § 310.4 response, a statement of how soon the overview team might visit your offices, and with whom they would meet, to develop the desired information.

Sincerely yours,

David E. Wells
Chief Counsel

Excerpt from Exhibit C-19

[LETTERHEAD OF THE]

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

April 16, 1975

The Honorable Norbert T. Tiemann, Administrator
Federal Highway Administration
400 Seventh Street, S.W.
Washington, D.C. 20590

Dear Mr. Tiemann:

Last week the Port Authority of New York and New Jersey ordered a 50% increase in the toll rate for the bridges and tunnels under its jurisdiction. I believe that these increases are unjust and unreasonable.

Therefore, I am requesting you to exercise the authority vested in you, as Administrator of the Federal Highway Administration, pursuant to the Bridge Act of 1906, as amended (33 U.S.C. 494), to determine that such tolls are unreasonable and unjust, to prescribe what rates may be reasonable and just under the circumstances, and to order a compensatory repayment of any unjust rates which may be paid if the higher rates go into effect in the interim.

The full text of the complaint is attached.

Sincerely,

PETER A. PEYSER
Member of Congress

PAP:W:cj
Enclosure

Excerpt from Exhibit C-19

This complaint is brought pursuant to Title 49, C.F.R., Part 310.

I. Complainant is Peter A. Peyser, U.S. Representative from the twenty-third Congressional District in New York State. His district encompasses much of Westchester County and part of New York City. Many of his constituents, in addition to himself and his family, regularly use the bridges and tunnels of New York City, which will be subject to the proposed rate increase, and they will suffer an unjust and unreasonable financial hardship if this toll scheduled is approved:

II. The bridges affected are the George Washington Bridge, the Bayonne Bridge, the Goethals Bridge, and the Outerbridge Crossing. The George Washington Bridge is located at West 178th Street, crossing the Hudson River to Fort Lee, New Jersey; the Bayonne Bridge extends from Bayonne, N.J., crossing Kill Van Kull to Port Richmond, Staten Island; the Goethals Bridge extends from Elizabeth, N.J., crossing Arthur Kill to Holland Hook, Staten Island, and the Outerbridge Crossing extends from Perth Amboy, N.J., to Tottenville, Staten Island, New York.

III. The agency responsible for establishing and collecting the tolls is the Port Authority of New York and New Jersey, located at 1 World Trade Center, New York, New York 10048.

IV. The rates alleged to be unjust are as follows:

— $1.50 for passenger cars, which represents a 50% increase from the normal rate;

— $.75 for motorcycles, which also represents a 50% increase from the normal rate.

Excerpt from Exhibit C-19

V. Complainant believes that the rates are unreasonable and unjust for the following reasons:

1. The rate increase ordered by the Port Authority is in excess of that necessary to conduct its operations and to assure a fair and reasonable return on capital invested in the Port Authority operations. The 1974 annual report indicated that last year the operating revenues of the Port Authority rose to $156,116,000, a $19,000,000 increase over 1973, despite decreased use of the bridges and tunnels.

2. The rate increase will not result in a shift to mass transit.

   (a) During the gasoline shortage last winter, it became acutely obvious that the great majority of those who do drive in passenger cars do so because there is no mass transit available to them, and those who do not car pool do not because car pooling is very impracticable, and in many cases is impossible. While there is no question that car pooling should be encouraged, this rate increase will not have the desired impact.

   (b) The municipal governments in the metropolitan area have taken no action which would indicate that the area is sufficiently capable of affording adequate mass transportation for those who, because of the proposed rate increase, would be forced to utilize mass transportation. Again, there is no question that mass transportation should be encouraged and emphasis should be placed upon developing an adequate mass transportation network in the area. However, the

Excerpt from Exhibit C-19

proposed increase would not be that emphasis, but instead would be a form of regressive taxation.

(c) The municipal governments in the metropolitan area have taken no action to facilitate car pooling arrangements, in order to make car pooling workable and feasible. In the absence of such actions, it is unreasonable and unjust to impose financial hardship upon those who have no alternative but the private automobile for commuter transportation.

(d) The rate change will have sufficient adverse impact upon Northern Westchester County, which does not have sufficient mass transportation facilities. If the rate increase of the Port Authority is approved, it is certain that the New York State Thruway Authority will raise the toll on the Tappan Zee Bridge between Westchester and Rockland Counties $.50 to make it uniform with the toll on the George Washington Bridge. This will cause severe economic detriment to this area, and cannot result in a significant switch to mass transportation because there is no adequate system of mass transportation in the area.

(3) Commuters cannot afford a 50% increase in the cost of transportation.

The United States is currently in the midst of the deepest economic slump it has experienced since the Great Depression. Currently, the unemployment rate is 8.7%, meaning that 8,000,000 people are out of work. Inflation, although not as severe as last year, is currently running at an

Excerpt from Exhibit C-19

annual level of between 7% and 8%. Thus, the commuting worker is facing the worst economic picture that he has experienced in over 40 years.

The New York Metropolitan Area has been severly hit by this combination of recession and inflation. Workers in this area have seen their real incomes drop approximately 4% in the last year. A 50% increase in tolls for a daily commuter would be an added $125 cost annually for the average commuter, which would virtually eliminate the impact that the recently approved tax rebate would have.

(4) <u>The impact of this will be severest on those who can least afford it.</u>

The gasoline shortgage last winter made it very clear that those who could not car pool and who could not utilize mass transportation were low and middle income commuting workers. These workers do not have viable transportation alternatives, and do not have the economic leverage to sustain the 50% toll increase.

(5) <u>The increase is inflationary.</u>

The rate increase of $.50 is a 50% increase in a major budgetary item for many New York and New Jersey workers. Clearly this can only serve to fuel inflation and thwart real economic recovery in the area.

(6) <u>The increase will drive business away from the New York Metropolitan Area.</u>

Excerpt from Exhibit C-19

> Businesses, already facing a depressed economy, will view this increase as a further incentive to move away from this area. Their workers will demand to be compensated for this cost of living increase. Those that cannot compensate their workers will face the loss of trained workers, or increased worker dissatisfaction over a situation beyond the control of management. Given the current economy, this can only be an incentive to move away from the area.

VI. Complainant has taken no prior action to obtain a change in the rates of toll alleged to be unreasonable and unjust, because no opportunities exist outside of the Federal Highway Administration for a hearing on this issue, and the probability that the Governor of either State will veto this rate hike is remote.

VII. The complainant prays that the Administrator determine that such tolls are unreasonable and unjust and disallow the increase; that the Administrator, if necessary, initiate formal adjudication to determine if any increase would be reasonable under the circumstances, and if a lesser increase would be reasonable, then to prescribe such a lesser increase; that in the event that the increase is determined unreasonable and unjust, the Administrator order a rollback of the increase, and that such rollback be compensatory; and the complainant prays for such other and further relief as the Administrator may deem just and proper.

PETER A. PEYSER

Excerpt from Exhibit C-19

April 15, 1975

Mr. Norbert T. Tiemann
Federal Highway Administrator
400 Seventh St., S.W.
Washington, D.C. 20591

Subject: Complaint against proposed highway bridge/tunnel tolls (interstate) by Port Authority of New York and New Jersey, effective May 5, 1975.

Dear Mr. Tiemann:

As provided in 49 CPR Part 310, as amended in the Federal Register of April 3, 1975, a complaint is hereby lodged by the undersigned private citizen against the subject proposed increase in interstate bridge/tunnel tolls.

(1) The nature of my interest in the reasonableness and justness of the toll schedules is that I am forced to use these facilities every working day to get to and from work. There are no alternative facilities, including mass transit facilities, available between my home in Bogota, N.J. and my office at Kennedy International Airport, Jamaica, N. Y., other than a combination of 6 subway trains and 4 buses (round trip) which would require a minimum of 4 to 5 hours' travel daily.

(2) Name and location of bridge/tunnel: George Washington Bridge, between Fort Lee, N.J. and New York, N.Y., Lincoln Tunnel, between Weehawken, N.J., and New York City; Goethals Bridge, between Bayonne, N.J. and Staten Island, N.Y.

(3) Name of agency responsible for tolls: Port Authority of New York and New Jersey, 1 World Trade Center, New York, N.Y. 10048.

Excerpt from Exhibit C-19

(4) Rates of tolls which are unreasonable and unjust:

Passenger cars: $1.50 per round trip, for vehicle with 1 or 2 occupants.
$0.50 per round trip, for vehicle with 3 or more occupants.

(5) Reasons for belief that the tolls are unjust and unreasonable:

a. They represent the following percentage increases over comparable tolls in effect today:

(i): Regular basic toll: 50%.

(ii): Toll applicable to computer traffic with 1 or 2 persons in car: 200%.

(iii): Toll applicable to vehicles making not more than 12 crossings in a period from 2 years and 1 day to 2 years and 364 days: 87.5%.

b. To the best of my knowledge and belief, the Authority has never made full public disclosure of the shares of its assets, liabilities, revenues and expenses allocated among its various facilities, including those at issue in this matter, so that no publicly available bases are available to make determination whether these tolls, and related return on investment, are fair and reasonable.

c. There has been no submission of economic data or information in support of these new rates.

d. There has been no submission of estimates of the cost of providing service via these facilities, with supporting details and references to sources.

e. There has been no detailed explanation of the basis for estimates of the aggregate effect of the new rates on the Authority's revenues and traffic volume.

Excerpt from Exhibit C-19

f. There is no undertaking on the part of the Authority that the additional revenues will be applied to the improvement of these facilities. Indeed, the Authority has stated that the additional revenues will be used for improvement of other facilities; not the facilities being used as a base for the additional revenues. Furthermore, there is no assurance that the additional funds will not be used to underwrite the losses known to be currently incurred by the operation of the Authority's World Trade Center—an enterprise entirely unrelated to the operation of these bridges and tunnels, and of no concern to those using these facilities.

(6) In light of the foregoing, relief from the imposition of the above tolls is urgently sought, and that the following toll structure for passenger automobiles be substituted:

a. 50¢ round trip for commuters' cars, with no minimum occupancy requirement; 20-trip books freely transferable from one holder to another, and an expiration date of 20 days from date of issue.

b. 75¢ round trip for casual users; 20-trip books freely transferable from one holder to another, and an expiration date of December 31 of the second year following date of issue.

c. $1.00 round trip for other users.

A copy of your transmission of the above to the Authority under 310.4 will be appreciated, as well as a copy of their response.

Cordially,

Stanley D. Ver Nooy

* * *

Excerpt from Exhibit C-20

Modification of Toll Rate Schedule
for Vehicular Crossings

It was reported to the Board that the automobile cash toll of $1 per round trip has been constant since each of the vehicular crossings was first opened to traffic, starting with the Holland Tunnel in 1927. Since 1950, motorists making frequent use of crossings have been able to purchase books of passenger automobile reduced rate tickets. One book provides 20 tickets good for 35 days at 50% discount from the $1 cash toll, and the other provides 12 tickets, good for two years, at a 20% discount. Such reduced rates were instituted at a time when there was unused capacity at Port Authority crossings and toll revenues were rising steadily. However, in recent years toll revenues from Port Authority crossings have not kept pace with the rising costs of capital improvements and operating expenses with the result that the existing toll structure no longer provides adequate revenues to the Port Authority. Furthermore, additional revenues guaranteed by toll adjustments will facilitate the Port Authority's ability to continue to operate and to improve the present PATH system, the Port Authority Bus Terminal and to proceed with its required expansion by 50% of its present capacity and to continue its work on the effectuation of the extension of PATH to Plainfield, New Jersey, the Kennedy International Airport rail service project and the project for providing additional direct rail service to Penn Station, New York for New Jersey commuters. It should be noted as well that the PATH deficit has risen from $5 million annually to $33 million annually in 1974. It is necessary for the Authority as a self-supporting agency, particularly since its role in mass transportation has been expanding,

Excerpt from Exhibit C-20

to adjust the toll structure so as to continue its ability to maintain and finance its facilities and to maintain the sound financial standing of the Authority and its obligations.

Furthermore, in recent years, Federal, state and local governments have sought to reduce inefficient and unnecessary automobile usage because of concerns over highway congestion, deteriorating public transit facilities, air pollution, and most recently, the need to conserve fuel. To this end, public agencies, including the Port Authority, are underwriting substantial subsidies to foster public transportation. It is no longer in the public interest to offer special inducements to individual motorists who choose to drive to work. There is general agreement on all levels of government that commuters should be encouraged to make maximum use of public transportation or to form carpools where public transit is not reasonably available. There is also general agreement in light of energy and environmental considerations to discourage avoidable automobile usage. At the same time the continued operation and development of mass transportation facilities is universally recognized as a key component of programs to ameliorate environmental and energy concerns.

To further encourage the use of mass transportation facilities there would be no increase in bus tolls.

In light of the foregoing, it was recommended that, effective May 5, 1975, passenger automobile tolls be increased by 50% and the sale of existing 50% and 20% reduced rate ticket books be discontinued. Nevertheless, reduced rate ticket books outstanding as of that date would continue to be honored until their expiration dates. It was further recommended that the classification of trucks be modified and the toll schedule applicable thereto be increased. It was also recommended that, effective May 5, 1975, a new

Excerpt from Exhibit C-20

reduced rate toll for carpools, available through the purchase of books of tickets, be instituted for passenger automobiles occupied by three or more persons providing a 66⅔% discount from the $1.50 automobile cash toll. To discourage purchase of tickets for the occasional leisure-oriented crossing and promote purchase for the frequent commute-to-work crossing, the carpool ticket book costing $30 will contain 60 tickets valid only for six months in addition to the month of purchase. The valid period will run from 10:00 p.m. on Sunday to 2:00 a.m. on Saturday which will also accommodate carpoolers on late night shifts. However, the carpool tickets will not be valid between 2:00 a.m. and 10:00 p.m. on the following six holidays: New Year's Day, Memorial Day, July Fourth, Labor Day, Thanksgiving and Christmas, provided such holidays do not fall on a Monday or Friday. If the holiday immediately precedes or follows a Saturday-Sunday weekend, the ticket would not be valid from 2:00 a.m. on the first day of the combined holiday and weekend period until 10:00 p.m. on the last day of the period. The purchase of scrip at 10% discount, including truck scrip, will be continued under the new schedule.

The increase in the passenger automobile and truck tolls and the discontinuance of existing 50% and 20% discounts and provision of the reduced rate for carpools is estimated to produce an increase in revenues of approximately $39 million annually.

* * *

Supreme Court of New Jersey

State's Supplemental Exhibits

ADMITTED INTO EVIDENCE
BY ORDER DATED
SEPTEMBER 2, 1975

State's Supplemental Exhibit A

BARR BROTHERS REPORT
(May or June 1975)

THE REPORTS OF MY DEATH ARE GREATLY EXAGGERATED
(With apologies to Mark Twain)

With the recent court decision concerning deeper involvement of the PORT OF NEW YORK AND NEW JERSEY AUTHORITY in Mass Transit, we thought that it might be appropriate to set some facts straight regarding the basic strengths of the Authority.

(1) Section 3 of the basic bond resolution requires that for a bond issue to be sold the prior year's earnings must equal 1.30 x maximum future debt service (including mandatory sinking fund requirements).

(2) Under Section 7 the Port Authority must certify that bonds issued for any additional facility will not "materially impair the sound credit standing of the Authority".

(3) While not required under the basic bond resolution, the Authority policy has been to maintain reserves equal to the next two years debt service.

(4) The General Reserve Fund is required to be maintained at 10% of outstanding bonded debt. At December

31, 1974, it stood at $173,487,000., the Consolidated Reserve Fund $46,800,000., and reserve funds in trust totaled $34,770,000., which together was more than the next two years debt service.

(5) At December 31, 1974

Total Assets of $3,912,295,000. included $3,477,000,000. in facilities, $262,877,000. in securities (mainly U.S. Treasury and U.S. Agency paper) and $90,812,000. in cash and time deposits.

Gross operating revenues were $410,000,000. with net available for debt service and reserves of $179,200,000.

Whether or not the Port Authority ever gets involved in Mass Transit, we feel it continues to be one of the finest revenue credits in the country, amply protected by the basic bond resolution, excellent management and some highly profitable and monopolistic facilities that can more than carry a reasonable amount of Mass Transit, particularly with the recent toll increases on the Hudson crossings providing additional revenues.

At these depressed levels, we feel these offerings present an outstanding and secure value for the investor.

State's Supplemental Exhibit A

Moody's Rating	S&P	Issue	Cpn.	Mat.	Price	Yield	Current Yield	Average Life Thru Operation Of The Mandatory Sinking Fund	Yield To Average Life
A	A	Port of New York & New Jersey Authority,	3.40	2/1/87	64	8.25	5.31	1983	10.287
A	A	Port of New York & New Jersey Authority,	3 1/4	4/1/93	52 1/4	8.50	6.24	1987	10.323
A	A	Port of New York & New Jersey Authority,	3 3/8	5/1/94	52 1/4	8.50	6.48	1988	10.05
A	A	Port of New York & New Jersey Authority,	3 1/2	6/1/96	51 1/2	8.50	6.80	1990	9.70
A	A	Port of New York & New Jersey Authority,	4	3/1/02	56	8.00	7.14	1993	9.00
A	A	Port of New York & New Jersey Authority,	6 5/8	8/1/05	83	8.14	7.98	1998	8.05
A	A	Port of New York & New Jersey Authority,	5.80	2/1/07	76	7.86	7.63	2000	8.05
A	A	Port of New York & New Jersey Authority,	5 1/2	10/1/08	72 1/2	7.83	7.58	2001	8.02

BARR BROTHERS & CO., INC.

State's Supplemental Exhibit B

DOCUMENTS RE REPEAL, PATH FARE
INCREASE, ENERGY CRISIS, ETC.
(February 1974)

THE STAR-LEDGER

STAR-LEDGER PLAZA, NEWARK, N.J. 07101
Wednesday, February 13, 1974

BYRNE ASKS ICC DENIAL OF PATH FARE INCREASE

Gov. Brendan T. Byrne said yesterday deficits on the PATH rail line could be paid by the Port Authority of New York and New Jersey without a 20-cent fare increase being pushed on commuters by an "unveiled form of blackmail."

Byrne urged the Interstate Commerce Commission (ICC) to deny a petition by the P.A. for an increase of the present 30-cent fare to offset an anticipated $19.7 million operating deficit on the commuter line.

"The figures available to us at this time indicate that even after absorbing the projected loss of PATH, the Port Authority maintains sufficient surplus" to cover the bonds it has issued to finance its facilities, the Governor said in a statement.

* * *

Alan Sagner, state transportation commissioner, read the statement in the second day of ICC hearings in Jersey City on the proposed fare increase on the 145,000 commuter PATH (Port Authority Trans-Hudson) rail line from Manhattan to northern New Jersey.

Sagner said the "implied threat" to abandon plans for a PATH extension to Plainfield, mandated by the Legislatures of both states is "based on specious reasoning and appears to be an unveiled form of blackmail."

P.A. officials have said that a failure of the ICC to approve the fare increase could lead to abandonment of plans to extend PATH service to Plainfield via Newark International Airport.

Sagner said "in view of the present energy crisis," no action should be taken which would encourage commuters to switch to private transport from public facilities.

The P.A. had originally predicted it would lose 7½ per cent of the passengers on the PATH line due to the fare hike, but later revised the figure to 2 per cent.

Francis A. Mulhern, attorney for the Port Authority, said the commissioners of the bistate agency will consider Sagner's petition at their regular monthly meeting tomorrow.

Sagner said Byrne believes that the operation of the PATH line cannot be separated from running other Port Authority facilities, such as the Hudson River tunnels, three metropolitan airports, containerports and office buildings.

The fare increase has been postponed following protests of community leaders and politicians.

State's Supplemental Exhibit B

THE NEW YORK TIMES
WEDNESDAY, FEBRUARY 13, 1974

BYRNE ASSAILS BID FOR 50C PATH FARE

Port Agency, Under Attack, Agrees to Reconsider Its Request for Increase

SPECIAL TO THE NEW YORK TIMES

JERSEY CITY, Feb. 12—Under sharp attack by Governor Byrne, commissioners of the Port Authority of New York and New Jersey agreed today to consider on Thursday whether to withdraw a request for an increase in PATH tube train fares from 30 to 50 cents.

Intervening in the Interstate Commerce Commission hearings here on the proposed fare increase, the Byrne administration denounced it as an "ill-timed request."

Alan Sagner, the State Transportation Commissioner, appeared for the Governor to deliver one of the sharpest rebukes in memory by a state administration against the bi-state authority.

He said that if the commissioners did not withdraw their petition the state would urge the I.C.C. administrative judge in charge of the hearings, Richard McG. Wilkins, to deny it.

In a statement read at the hearing, Mr. Sagner said that Port Authority actions had indicated "a failure to embrace its responsibility to transportation as a part of its mandate for the economical viability of the port area."

Wilson Critical

Governor Wilson of New York, in a brief comment in Albany, said that it would be "injudicious" to raise the fare on the trans-Hudson tube lines above the 35-cent level of the New York City subways.

Each Governor has veto power over actions of the 12 Port Authority commissioners.

On learning of Governor Byrne's toughly worded intervention, one of the commissioners, Jerry Finkelstein of New York, commented: "That certainly lays it low."

Mr. Finkelstein favors a 35-cent PATH fare.

Kenneth S. Levy, deputy attorney general, represented the state in its formal intervention in the proceedings today. Francis A. Mulhern, the port agency's deputy general counsel, then asked for and got permission from Judge Wilkins to continue the hearings today and tomorrow at Jersey City and Thursday and Friday at Newark or until the commissioners have had time to review the Governor's statement at their Thursday meeting.

Commissioner Sagner detailed the following reasons why his department opposed a fare increase.

No action should be taken during the energy crisis to divert traffic from public transportation.

The argument of a deficit in PATH operations ignores the surpluses in other Port Authority operations that could make up the loss.

There may be help from Washington.

The Port Authority's "implied threat" to abandon plans for the PATH extension from Newark to Plainfield is "an unveiled form of blackmail."

PATH carries about 135,000 riders daily between Manhattan and Newark, Jersey City, Hoboken and Harrison, N.J.

State's Supplemental Exhibit B

DAILY NEWS

THURSDAY, FEBRUARY 14, 1974

KHEEL RAILS AT PATH, ASKS RESIGNATIONS

BY DAVID HARDY

Opposition to the 20-cent fare hike proposed by the Port Authority Trans Hudson (PATH) heated up even more yesterday as New York lawyer Theodore (Ted) Kheel, a long-time critic of the bistate agency, called for the resignation of the authority commissioners for "defying the wishes" of New Jersey Gov. Byrne and New York Gov. Wilson.

Byrne and Wilson—both of whom have veto power over the decisions of the commissioners—have already expressed strong opposition to the proposed fare hike from 30 to 50 cents.

"The commissioners, as honorable men, have no choice but to resign," said Kheel in a statement from his Manhattan law office. "If they are honorable men I call on the two governors to ask them to resign."

Andrew C. Axtell, one of three Port Authority commissioners from New Jersey, blasted Kheel's remarks.

"I feel Mr. Kheel talks out of both sides of his mouth. He tells us (the commissioners) one thing and then tells the newspapers something else," Axtell said.

See 27M Deficit

Axtell said he is still firmly in favor of the fare hike which the PA has stated is necessary to meet an estimated $27.4 million operating deficit on its rail lines.

State's Supplemental Exhibit B

"I believe we should continue with the hearings," Axtell said, "and let the ICC (Interstate Commerce Commission) decide whether there should be an increase."

Once the ICC renders a decision, Axtell said, the commissioners would meet "to reassess the financial picture and if after that Gov. Byrne is still opposed to the increase, I will abide by his wishes. The governor has the final word."

State's Supplemental Exhibit B

THE STAR-LEDGER
STAR-LEDGER PLAZA, NEWARK, N.J. 07101
Friday, February 15, 1974

P.A. CALLS OFF ITS REQUEST FOR A PATH HIKE

BY LEONARD J. FISHER

NEW YORK—The Port Authority of New York and New Jersey yesterday withdrew its request for a fare increase to 50 cents on the Port Authority Trans-Hudson (PATH) commuter train system.

The move came two days after Gov. Brendan T. Byrne voiced strong opposition to the proposed 20-cent increase.

New Jersey Transportation Commissioner, Alan Sagner, who aired Byrne's criticism of the proposal at Tuesday's Interstate Commerce Commission (ICC) hearing in Jersey City, was at yesterday's Port Authority meeting as the 10 commissioners attending the session voted unanimously to withdraw the fare increase request from ICC consideration.

* * *

Two P.A. commissioners did not attend the meeting.

"I'm sure the Governor will be as pleased as I am at this decision," said Sagner. Byrne has promised to appoint Sagner to the Port Authority as soon as there is a vacancy.

State's Supplemental Exhibit B

Philip B. Hofmann, a P.A. commissioner from New Jersey, emphasized that it was at Byrne's request the action was taken. He made that clear after P.A. General Counsel Patrick Falvey read the rescinding resolution to the commissioners.

The resolution Falvey read said the PATH fare increase authorized by the P.A. in June, 1973 should be rescinded because the energy crisis is encouraging, rather than discouraging, riders of mass transit, and also because the governors of both New Jersey and New York had expressed their desires to avoid such an increase.

Hofmann quickly pointed out to Falvey that his one-page resolution could be shorter and more precise.

"Governor Byrne doesn't want it, and the commissioners are following his wishes," declared Hofmann, asserting it took only one sentence to describe what the commissioners did yesterday.

"Governor (Malcolm) Wilson (of New York) has said he thought it would be injudicious to have the fare raised above 35 cents (the New York subway fare)", responded Falvey.

"We didn't hear about that at our (executive session) meeting," Hofmann returned.

Later, when the P.A. meeting was officially over, Hofmann, who along with the other five New Jersey commissioners favored the proposed PATH fare increase, told newsmen:

"The Governor (Byrne) asked us to withdraw it, and he's the boss. It took one-tenth of a second, and I made the motion. He's the boss. If that's what he wants, that's what he's entitled to."

* * *

Hofmann added that his position on the proposed fare increase and its connection to the P.A.'s proposed $221 million extension of PATH lines to Newark International Airport and Plainfield had been misunderstood if state officials believe he was threatening to scrap the proposed extension if the fare increase was not approved.

The commissioner said it was not a threat, but merely the fact that he opposes the extension without the fare increase.

Sagner had testified Tuesday in Jersey City before the ICC that "the implied threat to abandon plans for the PATH extension from Newark to Plainfield is based on specious reasoning and it appears to be an unveiled form of blackmail."

"Any position concerning fares on the present PATH facility should have no bearing on the PATH extension," said Sagner.

* * *

On Wednesday, Sen. Harrison A. Williams Jr. (D-N.J.), joined Byrne in opposing the 20-cent fare increase.

The third hearing on the proposed fare increase before the ICC, which must approve any hike, was held in Newark yesterday before the Port Authority withdrew its request.

State's Supplemental Exhibit B

A P.A. spokesman said last night's scheduled continuance of the hearing was canceled in the wake of that action.

At the Newark hearing, conducted in the Essex County Courthouse, opponents of the fare increase contended that PATH cannot be divorced from other Port Authority operations, and that the agency is more than able to make up the PATH deficit.

"The economic realities are that the Port Authority is a thriving and healthy organization," said Newark Mayor Kenneth A. Gibson in a statement read by an aide.

Opponents also contended that if the PATH fare went up, not only would the interstate railway lose passengers, but rail and bus feeder lines operated by the Erie Lackawanna Railway, the Central Railroad of New Jersey, Transport of New Jersey and smaller bus companies, would suffer as well, since most PATH riders use several mass transit systems in conjunction with PATH.

Port Authority figures show that last month 120,000 fares were collected on the PATH system. The P.A. had sought a fare increase because of the large deficit in the PATH lines which the authority agreed to take over in 1962 in exchange for never again having to operate another deficit mass transit line in the Metropolitan area.

However, Byrne has said legislation will be introduced in Trenton today to eliminate that blockade to the authority's running mass transit services in North Jersey. He pointed out that most mass transit operations are in the red.

State's Supplemental Exhibit B

A P.A. spokesman said yesterday the PATH deficit for 1974, without a fare increase, had been projected at $27 million. The deficit was slightly more than $20 million in 1972. No figure has been released on last year's deficit. The authority has absorbed $102 million in deficits from 1962 to 1972, the spokesman noted.

* * *

State's Supplemental Exhibit B

DAILY NEWS
February 15, 1974

PA Bows to 2 Governors, Withdraws Fare-Hike Bid

BY DAVID HARDY

Bowing to pressure from New Jersey Gov. Byrne and New York Gov. Wilson, the Port Authority's 12 commissioners voted yesterday to withdraw their controversial proposal for a 20-cent fare hike on the Port Authority Trans-Hudson (PATH) rail line.

Commission Chairman James C. Kellogg of New Jersey announced the decision to withdraw the proposed fare hike from 30 to 50 cents, citing the current energy crisis as well as the opposition of the governors.

Governors Are Pleased

In a resolution read by PA General Counsel Patrick J. Falvey after their meeting at the PA's World Trade Center headquarters in Manhattan, the commissioners said they were withdrawing the requested increase because "the energy crisis had given impetus to the effort to encourage greater use of public transportation rather than the auto."

The resolution also said the commissioners were reversing themselves because the proposal was not in accord "with the expressed desires of the governors to avoid increasing the fares."

Byrne, in a statement from his Trenton office said "we are pleased that the Port Authority acceded to the wishes of the governors of New York and New Jersey and we anticipate similar cooperation in the future."

The proposed increases—which has been the subject of Interstate Commerce Commission hearings in New Jersey since Monday—has drawn vigorous opposition from many of PATH's estimated 20,000 daily riders as well as from a wide range of environmental and consumer groups.

In recent days, the opposition has reached such a pitch that New York attorney Theodore Kheel, the constant critic of the PA, called for the resignation of the commissioners for "defying the wishes" of the governors of New York and New Jersey.

'Form of Blackmail'

Byrne, who with Wilson has veto power over the decisions of the commissioners had strongly opposed the fare boost and accused the PA of using "an unveiled form of blackmail" by threatening to curb plans for expansion unless the hike was granted.

The commissioners made the request for a fare hike last year, emphasizing that the 67% increase was necessary to meet the 27.4 million operating deficit this year.

He Dampens Extensions

At yesterday's meeting, Commissioner Phillip Hofmann of New Jersey said flatly that the action was being taken "in response to Gov. Byrne." However, Hofmann also said that in view of the commission action, he could not favor going ahead with a $650 million project to construct PATH extensions to Plainfield and to Newark and Kennedy airports.

But New Jersey State Transportation Commissioner Alan Sagner, who was also present at the commission meeting, told newsmen he didn't think the extension was in jeopardy.

Despite the commission action, Kheel, who was reached in Miami, said the commissioners' "total lack of under-standing of the real problems of transportation can justify only one conclusion: They must resign."

FARE ADJUSTMENT—RESCISSION

It was recalled that the Committee on Operations, at its meeting on June 7, 1973, revised the PATH tariff to increase the fare from 30 cents to 50 cents.

The tariff is presently pending before the Interstate Commerce Commission.

In the meantime, the energy crisis has given increased impetus to the efforts to encourage the use of public transportation facilities rather than the private automobile. The Governors of both States have expressed their desire to avoid, to the maximum extent possible, increasing the fares on mass transportation facilities, particularly subway and commuter rail facilities.

There has also emerged federal and local policies designed to discourage commutation by automobile to and from metropolitan business centers.

It does not appear, therefore that at this time an increase in the PATH fare from 30 cents to 50 cents will be in accord with such policies and with the federal, state and local efforts to cope with the energy crisis.

It was therefore recommended that the amendment to the PATH tariff adopted June 7, 1973 be and it is hereby rescinded.

Approved.

Whereupon, the meeting was adjourned.

Vice-President/General Manager

State's Supplemental Exhibit C

Port Authority Press Release
(April 21, 1975)

News from
THE PORT AUTHORITY
OF NY & NJ
One World Trade Center
New York, N. Y. 10048

Public Affairs Department
John Tillman, Director
For Information:
(212) 466-7777
(201) 622-6600 Ext. 7777

For Immediate Release
April 21, 1975

At a special meeting today, the Board of Commissioners of The Port Authority of New York and New Jersey, in accordance with the agreement reached with Governor Carey of New York and Governor Byrne of New Jersey, revised the recently announced increased tolls schedule for its six tunnels and bridges by continuing commuter tickets for passenger cars, but at double the present rate. The previous toll schedule, by eliminating the commuter tickets, had tripled its rate.

Dr. William J. Ronan, Chairman of the Port Authority, said: "We are pleased that this compromise agreement has been achieved. We appreciate the support of Governor Carey and Governor Byrne in this historic revision of the Port Authority revenues to make possible new mass transit projects:

State's Supplemental Exhibit C

—The expansion of the midtown Port Authority Bus Terminal;

—The extension of PATH to Plainfield via Newark International Airport;

—The rail access between Kennedy International Airport and Penn Station, Manhattan using Long Island Railroad tracks and high-speed MTA cars; and

—Direct rail service from New Jersey into Penn Station, Manhattan for certain trains on the Erie Lackawanna Railroad.

"The new toll structure, with its encouragement of carpools reflects the general agreement at all levels of government that commuters should be encouraged to make maximum use of public transportation or to form carpools when public transit is not available.

"The minutes of the April 10 meeting have been amended by agreement with the two Governors and the new tolls schedule will become effective May 5."

The revision leaves unchanged the Port Authority's incentive to the formation of carpools. A 66-⅔ per cent discount from the new $1.50 rate will apply to passenger autos carrying three or more passengers, making the carpool rates only $.50 for a round trip. A book of 60 carpool tickets, good for six months, will be sold for $30.00. These carpool tickets will be valid between 10 P.M. Sunday and 2 A.M. the following Saturday, except certain holidays, and are transferable between vehicles.

To encourage the increased use of mass transportation, the existing bus round-trip rate will remain unchanged.

The new cash fare for automobiles will be $1.50 per round trip as originally proposed.

State's Supplemental Exhibit C

Truck rates will be increased by 50 per cent, with the retention of the 10 per cent scrip discount.

The original package, with elimination of commuter discounts, would have yielded some $39 million. The revised schedule will yield about $33.6 million. This total will approximate the Port Authority share of the cost of providing the capital funds for its four new mass transit projects. The reduction in revenue from the original $39 million eliminates a contingency provision of about $5 million for changes in construction costs, interest rates, and construction schedules.

All reduced rate ticket books now outstanding will remain valid until the expiration date printed on the book.

Supreme Court of New Jersey

Plaintiff's Supplemental Exhibits

ADMITTED INTO EVIDENCE
BY ORDER DATED
SEPTEMBER 2, 1975

Plaintiff's Supplemental Exhibit A

AFFIDAVIT OF LESTER J. MURPHY, JR.

SUPREME COURT OF NEW JERSEY

Docket No. 11498

September Term 1974

UNITED STATES TRUST COMPANY OF NEW YORK, ETC.
Plaintiff-Appellant,

—against—

THE STATE OF NEW JERSEY, *et al.,*
Defendants-Respondents.

STATE OF NEW YORK } ss.:
COUNTY OF NEW YORK }

LESTER V. MURPHY, being duly sworn, says:

1. I am a Vice President of Barr Brothers & Co., Inc., 40 Wall Street, New York, New York. Barr Brothers is a bond trading firm involved in underwriting municipal bond issues and is also a large dealer in municipal bonds in the secondary market, maintaining daily trading positions ranging from $5,000,000 to $18,000,000. I have worked with Barr Brothers in the field of municipal bond trading for 25 years, first as a trainee, then as a junior trader, then in the area of institutional sales, and since 1961, I have been responsible for the trading positions adopted by the firm in dollar bonds and for managing the accounts of institu-

tional investors. My responsibilities require that I keep informed of the conditions of the bond market in general. In this connection, I have daily contact with representatives of banks, trust companies and other institutional investors as well as with other major municipal bond dealers and large stock exchange firms.

2. I have read and am familiar with the special report issued by Barr Brothers entitled the "Port of New York and New Jersey Authority In Mass Transit." I make this affidavit to refute any implication that this report represents a position by Barr Brothers regarding the effect of the retroactive repeal of the 1962 Covenant on the secondary market for Port Authority Consolidated Bonds contrary to my testimony in *United States Trust Company of New York* vs. *State of New Jersey et al.* before the Superior Court, Bergen County, New Jersey, on February 5, 1975. I was presented at trial as an expert in the operation of the secondary market for municipal bonds.

3. Barr Brothers' special report was prepared in May, 1975, shortly following the Superior Court's decision on May 14 upholding the retroactive repeal of the 1962 Statutory Covenant between the States of New Jersey and New York and with holders of Consolidated Bonds of the Port Authority.

4. The Superior Court's decision had a further serious adverse effect on the secondary market for Consolidated Bonds of the Port Authority. As a major holder of, and dealer in, Consolidated Bonds of the Port Authority Barr Brothers issued the Special Report in an attempt to support the market for such Consolidated Bonds and to calm, to the extent possible, investor concern regarding the present credit worthiness of the Port Authority. This investor

concern has been and continues to be reflected in the "depressed levels" referred to in the Report. Such "depressed levels" were caused by and have prevailed since the retroactive repeal of the 1962 Covenant by the States of New Jersey and New York in April and June, 1974.

5. Barr Brothers' effort to support and improve the market for Port Authority Consolidated Bonds had very limited and short-lived success because institutional investors continue to be unwilling to purchase Port Authority Consolidated Bonds given the possibility of substantial involvement of the Port Authority in deficit rail mass transit operations.

6. I have reviewed the transcript of my testimony on February 5, 1975 and can repeat and reaffirm my testimony in general and the following aspects of my testimony in particular:

> (a) Since the retroactive repeal of the 1962 Covenant in 1974 institutional investors who formerly were principal purchasers of Port Authority Bonds no longer consider such bonds an acceptable investment. After the repeal of the 1962 Covenant, and continuing to date, I know of no large institutional investors who are purchasing Port Authority Consolidated Bonds with one exception in a very limited amount.
>
> (b) Since the retroactive repeal of the 1962 Covenant, the secondary market for Port Authority Consolidated Bonds has been extremely thin and sensitive since large investors are no longer willing to purchase such bonds. Since the prevailing bid prices would be severely depressed by a large offering of bonds, large investors have not offered blocks of

Port Authority Bonds as they did in the past because of the market's thinness and sensitivity.

(c) Since the retroactive repeal of the 1962 Covenant, and continuing to date, investors have been unwilling to "swap" other bonds formerly considered comparable in quality and in intrinsic security for Port Authority Bonds because the investor is no longer satisfied with the security standing behind Port Authority Consolidated Bonds.

LESTER V. MURPHY, JR.

Sworn to before me this
27th day of June, 1975.

JUNE H. VENERY

Notary Public
JUNE H. VENERY
Notary Public, State of New York
No. 24-4003560
Qualified in Kings County
Commission Expires March 30, 1977

Plaintiff's Supplemental Exhibit B

Newspaper Articles Explaining Convergence of Mass Port and Port Authority Bonds

THE BOSTON GLOBE
Thursday, March 20, 1975

Bank Would Sue a Dukakis Massport

BY RACHELLE PATTERSON
Globe Staff

The New England Merchants Bank, trustee for the holders of $300 million worth of Massachusetts Port Authority bonds, yesterday said the move to reorganize the Authority by Gov. Michael S. Dukakis would "politicize" the agency. The bank threatened court action and placement of the Authority in receivership if a bill filed by the governor becomes law.

Mark C. Wheeler, chairman of the bank, said at a legislative hearing: "The Trustees' duty to protect the Authority's bondholders leaves it little choice but to challenge the bill in the courts and to seek damages in the amount of $310 million, plus interest and redemption premiums."

Wheeler said that the proposal by Dukakis to replace the present seven-member, policy-making board with a single administrator responsible to the governor and a four-member advisory board would amount to a "breach" of the Authority's contract with the bondholders. This breach, he said, entitles the bank to seek court action, "including, if necessary, petitioning for a receiver and demanding full payment of the outstanding amounts owed to the bondholders."

Frederick Salvucci, Massachusetts secretary of transportation said however that the governor's plan would not impair the obligations of the Authority's bonds. He said there is no provision in the trust agreement to prevent any reorganization.

Plaintiff's Supplemental Exhibit B

A major conflict between the banking and business community and Dukakis has developed over control of the Port Authority which could have long-range financial implications for future Authority revenue bonds.

What started out as a desire by the majority of the Authority's board to remove Edward J. King from his executive director's post in order to bring the independent agency more in line with overall state planning has backfired and is resulting in a battle to remove the policy-making board altogether.

Legislation submitted by the governor to abolish the board and replace it with a single administrator responsible to him and a four-member advisory panel was heard yesterday before the Legislature's Committee on State Administration. The proposal will be discussed by the committee in a public executive session on Monday.

On the one hand, Wheeler argued that the legislation can "only aggravate the Authority's difficulties by making it totally subservient to political considerations and risk ultimate destruction of the Authority's usefulness to the Commonwealth."

On the other side of the issue, Salvucci contends that there is more stability in the establishment of a strong administrator who would serve the same term as the governor and be completely responsible to him.

Others involved in the controversy are the Port Authority board members, three of whom testified yesterday that they wanted to continue the current independent structure, and legislators who still feel bitter about the firing of King last November and want the present members of the board removed.

The move by the governor to assume control over the Port Authority comes at a time when the agency is making plans to develop the seaport which would involve borrowing additional funds. It also comes at a time when tremors are still being felt in the bonding market about all Authority bonds as a result of the recent default of New York's Urban Development Corp., the country's largest public housing developer.

After three hours of testimony, Sen. Alan Sisitsky (D-Springfield), chairman of the State Administration Committee, said: "I support the governor's proposal, but it is likely there will have to be significant modifications in order to achieve a board consensus. The board will probably have more authority than suggested by the governor."

Sisitsky said that if the legislation's constitutionality is challenged and the bank wins, then the state will have to make some dramatic adjustment in the law.

"If the Legislature passes the governor's bill and the legislation is upheld by the courts, then the banks can at the time of any future offerings demand higher interest rates because they can claim a lack of confidence in the new structure," he said.

The present non-paid board makes all decisions of the Port Authority, which controls Logan Airport, the Tobin-Mystic River Bridge, the seaport, and part of the civilian operations at Hanscom Field in Bedford. The members are appointed by the governor for seven-year staggered terms. The executive director, under the current procedure, carries out the decisions of the board. King was paid $58,500 a year.

Chairman of the Port Authority, J. Alan Fay, urged the committee to "give us a chance to meet the challenge before us." He said the authority now given to the board should continue.

Plaintiff's Supplemental Exhibit B

THE BOSTON GLOBE
TUESDAY, MARCH 25, 1975

MASSPORT COMPROMISE BILL
LETS DUKAKIS NAME BOARD

BY RACHELLE PATTERSON
Globe Staff

Gov. Michael S. Dukakis will be able to appoint a single administrator and five members of an advisory board under a bill reorganizing the Massachusetts Port Authority approved by the Legislature's Committee on State Administration yesterday.

The bill, a compromise version, gives Dukakis the appointing power he sought to better control the authority, but the five-member board would have staggered five-year terms.

Dukakis wanted both the board and the administrator to serve coterminous with him. The new version also strengthens the board by giving it approval power on key issues, including revenue bonds, tolls on the Mystic-Tobin Bridge, buying property and issuing contracts.

Mindful of a warning issued last week by the New England Merchants National Bank, trustee for the holders of $300 million in Port Authority bonds, Sen. Alan Sisitsky (D-Springfield), chairman of the State Administration Committee, said the bill is regarded as "litigation-proof."

Secretary of Transportation Frederick P. Salvucci, meanwhile, said he hopes to get Dukakis's reaction today at the weekly cabinet meeting. He said the governor "strongly wanted a coterminous board," but that the measure was "a step in the right direction."

The bill will move to the House and Senate for action. Amendments can be made to the measure reported out of the committee on the floor of either branch.

Gordon Silver, an attorney with the law firm of Choate, Hall and Stewart, which represents Merchants Bank, attended yesterday's session and expressed surprise at the quick action by the committee with no further input from the bank.

Silver said the bill approved by the committee will be "carefully examined by the bank in light of the trustees' concern and feelings."

At a public hearing last week, Mark C. Wheeler, chairman of the bank, threatened the Port Authority with court action and receivership because the move by Dukakis was interpreted by Wheeler as an attempt to "politicize" the authority.

Silver said, that in his opinion, the staggered terms, ranging from one year to five years, made it "less political" but that such reorganization creates a "dangerous precedent." He said: "What is there to stop future governors from changing the structure to suit them?"

The committee's version sets the administrator's salary at $45,000 annually, as requested by the governor. If the administrator wants more money, he would have to petition the Legislature for a raise.

The administrator would serve as chairman of the unpaid board of five members, but would have no vote. The five members would be appointed by the governor for staggered terms ranging from one to five years, and one member would have to be from organized labor, one from administration and finance, and one from the community in which an authority facility exists.

While the board would have control of financing projects, the administrator would be able to initiate study of the need for construction of new facilities and make any necessary studies of new modes of transportation, including mass transit, bus and truck terminals, off-street parking facilities and railroad terminals.

The committee also voted to remove from the legislation the Port Authority's power to take public property by eminent domain. It retained, however, authority to take private property for any new projects it may undertake in the future.

Plaintiff's Supplemental Exhibit B

THE SPRINGFIELD UNION
SPRINGFIELD, MASS., TUESDAY, MARCH 25, 1975

PANEL OKAYS MASSPORT OVERHAUL BILL

By JAMES M. SHANKS
Union Staff

The Legislature's Joint Administration Committee Monday reported out a bill which would completely overhaul the administrative structure of the Massachusetts Port Authority.

Major portions of the bill came from Sen. Alan D. Sisitsky, D-Springfield, Senate chairman of the committee.

The bill essentially ends the previously dictatorial powers of the executive director of Massport and makes the whole authority more responsible to the governor, Sisitsky said.

Impetus for the legislation, which is expected to pass both houses substantially intact, came from the six-year battle between former Gov. Francis W. Sargent and Massport Executive Director Edward King.

The present board of seven members serving staggered seven-year terms would be reduced to five persons serving staggered five-year terms. One member must be a representative of organized labor, one an expert in administration and finance—possibly a representative of Massport bondholders—and one a resident of a community in which a Massport facility exists, such as Logan Airport in East Boston.

The administrator would be appointed directly by the governor—not the board—and serve at the pleasure of the governor. He would be a non-voting ex-officio board member. Presently the board appoints the administrator.

Plaintiff's Supplemental Exhibit B

The salary of the administrator would be reduced from nearly $60,000 to $45,000, the same as the administrator of the Massachusetts Bay Transportation Authority and $5,000 more than the governor.

"The governor wanted a purely advisory board, with every member serving coterminous with the governor. We refused to accept either," Sisitsky said.

The board will have power to restrain the administrator in the key areas of issuing bonds, setting toll rates, purchasing property, exercising eminent domain, and the letting of contracts over $250,000, Sisitsky said.

Massport operates most of the Boston Harbor shipping facilities, Logan Airport, the Mystic River Bridge, and Hanscom Field.

A trustee for Massport bondholders threatened to bring suit against the state—possibly demanding immediate payment of more than $300 million in outstanding revenue bonds, if the Legislature acted to change the structure of the authority, which has not been substantially revised since its inception in 1954.

Sisitsky said the current bill would probably withstand that or any other court challenge.

"We want to make Massport more responsive to the direction of the governor, particularly future governors," Sisitsky said. "At the same time this will protect the bondholders, have no adverse impact on Massport revenues, and withstand any Constitutional attack in the courts."

Gov. Michael S. Dukakis would appoint all five members of the board if the legislation passes, with the next governor appointing one member each year, with the option of appointing the administrator as well. Board members will not be salaried.

Sisitsky said the bill represents a compromise between what Dukakis sought and what he thought would be advisable."

Plaintiff's Supplemental Exhibit B

SPRINGFIELD, MASS., DAILY NEWS,
TUESDAY, MARCH 25, 1975

DUKAKIS GIVEN AUTHORITY OVER MASSPORT

BY RICHARD GAINES

BOSTON (UPI)—The legislature's State Administration Committee has endorsed a bill giving the governor control over the Massachusetts Port Authority.

Under the bill, which was reported Monday for House action, the director of the authority would be chosen by the governor, not the board of directors as is presently done.

The legislation, an amended version of a proposal submitted last week by Gov. Michael S. Dukakis and his transportation secretary, Frederick Salvucci, represents the most serious effort at reorganizing MassPort since its creation.

Sharp Protest

If adopted, the bill is almost certain to bring sharp protests from holders of $310 million in revenue bonds. The New England Merchants National Bank, trustee for the bondholders, warned the legislature any reduction in the independence of the authority might mean law suits.

Mark Wheeler, chairman of the bank's board, told the committee any change in the structure "which erodes the independence and non-partisanship of the port (authority) would impair the bondholders' (investment) and would bring on legal action including the possibility of seeking a bankruptcy ruling."

Plaintiff's Supplemental Exhibit B

The committee proposal makes a number of changes in the Dukakis-Salvucci plan, but concedes their major request—for a Massport administrator serving at the governor's pleasure.

Executive Director

At present, the seven-member Massport board, which consists of gubernatorial appointees serving seven-year staggered terms, picks the executive director.

This structure has insulated Massport from control from Beacon Hill, but at the same time has left the authority from time to time in philosophical conflict with the governor and legislature, especially on issues such as runway expansion.

The committee bill abolishes the Massport board, replacing it with a five-member advisory board, named by the governor to staggered five-year terms. Dukakis suggested creation of a powerless advisory board, but the committee bill gives the board some authority.

Propose Board

Without prior approval of the proposed board, the administrator would be prohibited from issuing bonds, changing tolls, buying property, exercising eminent domain authority, signing arrangements or contracts over $250,000.

Administration sources, however, said those limitations would not inhibit the full integration of Massport as an important cog in the implementation of political and social policy.

The one possible objection from Dukakis is over a provision making Massport subject to the state's collective bargaining laws.

Plaintiff's Supplemental Exhibit B

THE BOSTON GLOBE
THURSDAY, MARCH 27, 1975

COMMITTEE REVERSES ACTION ON MASSPORT CONTROL

BY RACHELLE PATTERSON
Globe Staff

Gov. Michael S. Dukakis persuaded the Legislature's Committee on State Administration yesterday to reverse its previous vote and make the terms of all five members of the advisory board of the Massachusetts Port Authority coterminous with that of the governor.

Dukakis told the committee at an executive session that staggered terms under the proposed reorganization of the agency would make it difficult to carry out state policy.

On Monday the committee approved legislation that would permit the governor to appoint a single administrator and a five-member advisory board which would have five-year staggered terms.

Sen. Alan Sisitsky (D-Springfield), the committee chairman, said the vote yesterday was 9-6 to make the terms coterminous. Sisitsky said it was decided early yesterday to invite the governor to the executive session.

"It was the courteous thing to do," he said. "He appeared and we heard his argument. He convinced members to make both the administrator and board members coterminous."

Sisitsky, who on Monday said the bill agreed upon by the committee was "litigation proof," declined to say what effect making the terms of both the administrator and the board coterminous with the governor's terms would have

Plaintiff's Supplemental Exhibit B

on threatened court action by the New England Merchants Bank, trustee for the Authority's bond holders.

The bank's position is that the reorganization proposal "politicizes" the Port Authority, and may not be in the bondholder's best interests.

* * *

Plaintiff's Supplemental Exhibit B

THE BOSTON GLOBE
WEDNESDAY, APRIL 9, 1975

MASSPORT BONDS IN DOUBT AS TAXES, CHANGES LOOM

BY RACHELLE PATTERSON
Globe Staff

Boston investment counselors said yesterday the Massachusetts Port Authority will not be able to float any new revenue bonds for improvements because of the several moves pending in the Legislature to reorganize and tax the agency.

The controversy over the Authority's operation could adversely affect plans by Gov. Michael S. Dukakis to float general obligation bonds to pay for part of the state's expected $400 million deficit.

Floating new bonds by the Authority while the Legislature is trying to change its structure would be unthinkable, according to Elma Woods, consultant for Shearson Hayden Stone, a Boston investment firm. "It couldn't be done."

Edward T. Hanley, interim executive director of the Authority, said yesterday the Authority improvement fund is committed until 1976 and that requests have been received from the airlines and other lessees for $20 million worth of improvements, for which there is no money.

He said that, if the Authority wanted to borrow the money to improve the seaport or make needed repairs to its properties or for any other purposes, there is no way the bonds would be marketable.

Douglas Lyons, an officer of Weeden & Co., Boston investment firm, said it would be out of the question to float any Authority bonds until the political problems are resolved.

Plaintiff's Supplemental Exhibit B

He said the move by Dukakis to take over control of the agency through his reorganization proposal and the various tax measures have generated a loss of confidence by the investors in the agency and in state government issues generally.

"Call any bank; they'll tell you," he said. "There is no question that the controversy over the Port Authority will lower investor confidence. If the governor decides to float a bond issue to pay for the state's deficit, he will be able to get a bid but will probably have to pay a higher interest rate."

As the investment analysts were commenting on the rippling effect the controversy could have on future bonding, a poll of some members of the Legislative Committee on Taxation was under way to determine whether a bill will be reported out of committee which would impose taxes on the Authority or its lessees.

The committee, after a three-hour session with officials of the Authority, voted, 9-7, to draft a tax bill and report it favorably. The House chairman, however, Vincent Piro (D-Somerville), who opposes all 18 bills which seek to impose taxes on the Authority, moved to poll the entire committee of 21 members in an attempt to kill all the bills.

The results of the poll will be announced at another executive session, scheduled for this morning.

Rep. Michael Connolly (D-Boston), who began lobbying for support for a bill to tax just the private businesses at Logan—such as Hertz Rent-a-Car or the Hilton Hotel—soon after the polling began, predicted victory for his side.

Frederick Salvucci, secretary of transportation, informed the committee that the governor is now in favor of a narrower bill to tax private businesses at the airport rather than the broader measure to tax all the Port Authority property.

After meeting with members of the financial community, Salvucci said advancing such a broad taxing measure "could affect the state when it decides to float bonds." He said he didn't want to "hurt that effort."

The strongest support for taxing the Authority or its lessees comes from Boston legislators who are looking for ways to broaden the city's tax base. The measure to tax private businesses was narrowly defeated last year, despite a ruling from the Supreme Judicial Court that such taxation is legal.

In 1956, when the law establishing the Massachusetts Port Authority was enacted, the commercial airlines industry was still developing. To encourage its growth, a tax-exempt status was given its properties.

Private businesses on Authority-owned property outside the airport peninsula, such as Jimmy's Harborside restaurant, pay $1.4 million in taxes to the city. Airlines pay $5 million in personal property taxes to the city as well.

Profit-making businesses at the airport pay the Authority a certain percentage of their gross revenue in lieu of taxes to the city. Lease contracts between the Authority and the businesses vary, both in percentage of revenue and in length of term.

In turn, the Authority furnishes the businesses with fire, street cleaning, sewage and other services.

In fiscal 1974 the Authority received $8.5 million from rentals at the airport and $9.8 million from concessions. Total gross revenue was $47 million.

Plaintiff's Supplemental Exhibit B

Coopers & Lybrand, a private accounting firm hired by the Authority, told the taxation panel yesterday that the variety of taxation proposals before it could cost the Authority $3 million to $45 million a year in taxes.

They also estimated that the replacement value of all the Boston property of the Authority—Mystic-Tobin Bridge, airport and seaport—was $600 million.

Hanley said the proposal to tax just the private businesses would result in a substantial loss in Authority revenue, because most leases allow the lessee to deduct the tax payment from the rental payment.

Plaintiff's Supplemental Exhibit B

SPRINGFIELD, MASS., DAILY NEWS
Tuesday, May 20, 1975

Senate Will Vote Today
On Mass. Port Takeover

Boston (UPI) — The Senate today was expected to debate and vote on Gov. Michael S. Dukakis' controversial plan to take over the Massachusetts Port Authority.

It was likely the debate will produce a rare confrontation between the two most powerful senators—President Kevin B. Harrington, D-Salem, and Senate Ways and Means Committee Chairman James A. Kelly Jr., D-Oxford.

Control Asked

Harrington, at the request of the governor, was prepared to submit a bill that would give Dukakis—and future governors—firm, personal control of Massport which owns and operates Logan International Airport and the Mystic River Bridge.

But the proposal that will come out of Ways and Means and onto the floor is Kelly's bill which, over Dukakis' objections, falls far short of giving him the kind of control over the Port Authority that he seeks.

Under the Ways and Means Committee concept, the present Massport Board of Directors would be retained and would continue to serve staggered terms but the governor, for the first time, would have a veto over decisions to hire and fire the executive director.

"This plan," said Kelly, "gives him (the governor) a man who represents his interests but insulates the director from political influence."

The Dukakis-Harrington concept, which was endorsed last month by the State Administration Committee, would replace the seven-member board with a five-member board whose terms would coincide with the governor's. But the board would have virtually no authority. That would reside with the director who also would be chosen by the governor.

Relationships

Sen. Alan D. Sisitsky, co-chairman of the State Administration Committee and a Dukakis loyalist, and the governor himself declined last week to speculate on the outcome of the Senate debate over Massport.

"The fate of the bill," Sisitsky predicted cryptically, "will reflect the governor's relationship with the legislature. Actually, its up to Kevin Harrington," he said.

Harrington's Press Secretary John Abbott said Harrington would submit Dukakis' bill but would not exert influence to insure its adoption. "He'll offer it and there'll be a vote," said Abbott. "The president is doing it at the request of the governor."

Dukakis initially said he would sign but not submit legislation reforming the Port Authority structure but eventually decided he would make the issue a priority item in his legislative package.

The governor said he felt the time was right for a change in the agency whose structure has remained the same since it was created in 1956.

Controversial Move

After the election but before Dukakis took office, the directors ousted Executive Director Edward J. King in a highly controversial move. It was alleged but never proved that Dukakis had given the go-ahead for the firing to the

Plaintiff's Supplemental Exhibit B

four Massport board members who were allied with him ideologically.

Dukakis has denied any involvement in the ouster of King—a favorite of the business community but considered an enemy of activists from communities near the airport.

Plaintiff's Supplemental Exhibit B

SPRINGFIELD, MASS., DAILY NEWS
WEDNESDAY, MAY 21, 1975

SENATE DEBATE ON PORT AUTHORITY TO RESUME—
REPUBLICANS SEEK VOTE TO TABLE FOR NOW
BY RICHARD GAINES

BOSTON (UPI)—The Senate debate on whether to give Gov. Michael S. Dukakis control over the Massachusetts Port Authority was scheduled to resume today on a motion to table the matter.

That motion was made Tuesday by Assistant Senate Minority Leader David H. Locke, R-Wellesley, who looked at a series of complex proposed amendments and suggested majority Democrats get their heads together on the issue.

Locke was referring to an apparent dispute between the two most powerful senators, President Kevin B. Harrington, D-Salem, and Ways and Means Committee Chairman James A. Kelly Jr., D-Oxford.

Harrington supports the governor's efforts to take control of Massport and its two major properties—Logan International Airport and the Mystic Tobin Bridge—while Kelly is pushing a compromise position giving the governor only a veto power over the hiring and firing of the Massport director.

Majority Vote

Under the present structure, the seven Massport board members choose a director by majority vote. The directors serve staggered terms which ostensibly insulate them from political influence. However, during the period between the election and Dukasis' ascent to office the board voted 4-3 to fire director Edward J. King.

Plaintiff's Supplemental Exhibit B

Their allegations—never proved—that Dukakis manipulated King's ouster to set up his takeover of the authority. These charges Dukakis has categorically denied.

The Senate was not expected to delay action on the bill. But, after debate opened on the issue Tuesday, Kelly predicted the matter was far from resolved.

"I think this will be on the calendar for a long time yet," said Kelly. "I don't think even Jimmy the Greek would give odds on this one."

But Sen. Alan D. Sisitsky, D-Springfield, who was the leading advocate of giving the governor control over Massport, said "we're going to win in the Senate." He declined to make a similar prediction about House action.

Plaintiff's Supplemental Exhibit B

SPRINGFIELD, MASS., DAILY NEWS,
THURSDAY, MAY 22, 1975

MASSPORT TAKEOVER BACKED BY SENATE
BY RICHARD GAINES

BOSTON (UPI)—Somewhat grudgingly, the Massachusetts Senate has pushed Gov. Michael S. Dukakis one step closer to one of his major goals—to bring the Massachusetts Port Authority under his control.

The 25-10 roll call Wednesday —the first floor test of legislative leanings on the issue—came after only token debate between Sen. Alan D. Sisitsky, D-Springfield, who said the bill would make Massport more accountable, and Sen. John F. Parker, R-Taunton, who complained the move could be disastrous for Logan International Airport, the prime Massport property.

Second Vote

Though the vote was overwhelming, the Senate must give the controversial bill a second vote before it moves to the House. House opponents were expected to marshal their forces to block the Massport takeover.

If the legislation becomes law, the trustee for the stockholders say they will file a federal court suit challenging the change on grounds the move could jeopardize their investment. The trustee is the New England Merchants National Bank.

Under the Senate-approved bill, the governor would choose the director of the Port Authority. Under its present structure, a seven-member board, serving staggered terms, choose the director by majority vote.

Plaintiff's Supplemental Exhibit B

Change of Mind

The governor originally said he would sign—but not submit or push—a bill to make him and his successors directly accountable for the operation of the Port Authority. But after his election and the firing of Executive Director Edward J. King, Dukakis changed his mind and submitted a bill to take control over the authority.

It was approved by the State Administration Committee but the Senate Ways and Means Committee moved to strike a compromise between the status quo and Dukakis' proposal. It would have given the governor only a veto over the selection and firing of the executive director.

However, Dukakis convinced Senate President Kevin B. Harrington, D-Salem, to intervene personally to see that his bill was approved.

Many senators who voted for the governor's bill were not completely pleased with it. One, Sen. Michael J. LoPresti, D-Boston, who lives in East Boston, directly adjacent to the airport, said he was voting with the governor only with misgivings.

Plaintiff's Supplemental Exhibit B

THE BOSTON GLOBE
THURSDAY, MAY 22, 1975

SENATE MOVES TO GIVE GOVERNOR CONTROL OF MASSPORT

BY WILLIAM A. HENRY 3D
Globe Staff

The state Senate approved yesterday a Massachusetts Port Authority reorganization proposal similar to that of Gov. Michael S. Dukakis that he be given direct control of the agency.

The 25-10 vote, on amending an amendment of a twice-rewritten bill, restored Dukakis's plan for an executive director reporting to the governor and a five-member advisory board coterminous with him.

But several members gave notice they would try to introduce amendments—some completely new—on the next round of required approval in the Senate.

The Massport bill will be sent then to the House, where further debate and attempts to amend are expected.

Reorganization of the Port Authority to restore it to the political process is opposed by banks, bondholders and Republicans and has become one of the few partisan issues of the legislative session.

The proposed reorganization has also prompted warnings from the business community that any change hurting bondholders could also lower the state's bonding credit rating and thereby increase its interest costs.

In addition, a consortium of banks representing bondholder interests has pledged a suit to oppose the reorganization, contending that any change in Massport's independence could lead to a siphoning off of revenues that would lessen their chances for steady repayment of interest and principal.

New York and New Jersey won a similar suit against the New York Port Authority bondholders who tried to block that agency's involvement in mass transit.

The Massachusetts Supreme Judicial Court held last year that the state could legally increase taxes on Massport properties, although the move would clearly reduce revenue available to pay bondholders.

Opponents of the reorganization say the present structure—an independent seven-member board, named to staggered terms, and a chief executive answerable only to the board—has been basic to the authority's 19-year evolution from a money loser to a major moneymaker.

"If this (reorganized structure) had been in effect since 1956," Republican floor leader John Parker (Taunton) said, "you wouldn't have been able to land a Piper Cub over there."

Democrats offered mostly partisan arguments for the reorganization, which Gov. Dukakis has made one of his priorities.

The floor leader for the bill, Alan D. Sisitsky (D-Springfield), said senators should support reorganization because it would not hurt bondholders and because it reflects "input" from a range of legislators.

Sisitsky did not explain why he thought bondholders would be protected despite the change, but he cited the New York and Massachusetts court rulings in saying that the state is not obliged to place bondholder interests first in any case.

Dukakis made Massport's unresponsiveness to neighboring communities a campaign issue, and the senator who represents most of them, Michael LoPresti Jr. (D-East Boston), described the proposed reorganization as "slightly more responsive because the governor goes to the people every four years."

LoPresti said however, that he was far from satisfied that the reorganization would mean any benefit for his community.

"This bill does not make anyone more responsive," he said. "It just shifts power from one man to another . . . I am coming to believe we will never see a progressive Massport bill in here that deals with the real issues of soundproofing, planning and curfews."

Several Democratic members broke with the governor on Massport, and others who voted for the bill said in interviews they did so reluctantly.

One Democrat who voted against Dukakis was James A. Kelly Jr. (D-Oxford), chairman of the Senate Ways and and Means Committee and a fiscal adviser to the governor.

Ways and Means wrote a defeated amendment that would have limited the governor to veto power over the selection of the executive director. Kelly's advocacy of that plan marked a rare split between him and Senate President Kevin B. Harrington.

Plaintiff's Supplemental Exhibit B

THE BOSTON GLOBE
TUESDAY, JUNE 3, 1975

SENATE SUPPORTS DUKAKIS BID TO CONTROL MASSPORT

BY WILLIAM A. HENRY 3D
Globe Staff

Gov. Michael S. Dukakis, who has been having trouble winning legislative backing for his budget and fiscal policies, won another round yesterday in his bid to take control of the Massachusetts Port Authority.

The Senate, on a vote of 28-5, approved the governor's proposal with one major change.

The change—added on a voice vote yesterday—was a cut in the salary of the executive director to $39,000, or less than Dukakis's own $40,000 salary. The bill now goes to the House.

Dukakis had proposed the director be paid $45,000. Massport has been without a permanent executive since last Nov. 21, when Edward J. King was ousted by a 4-3 margin of the current board. King was earning $58,500 a year and was the highest paid official in state employ.

Senate Republicans have led the fight against Dukakis's reorganization plan, and after the salary was cut GOP floor leader John Parker (R-Taunton) predicted "there are very few people in the country who will take that job for that kind of money."

The Republicans' major objection to the governor's plan is economic: they claim returning the now-independent Port Authority and more particularly Logan Airport, to political control will destroy the economic and revenue-returning growth it has made since removed from direct supervision in 1956. Then a money loser, Massport is now probably the most successful economic development agency in Massachusetts.

Democratic senators have said privately they see Massport control as a partisan issue, in part because Republicans have chosen to make it one. Democrats are antagonistic, both publicly and privately to GOP concern for the rights of Massport bondholders.

The reorganization bill's floor manager, Senate chairman Alan D. Sisitsky (D-Springfield) of the State Administration Committee, argued that Massport's economic base is solid and that decisions about expansion, operations and use of funds should be made responsive to the public interest rather than to bondholder concerns.

Dukakis has long advocated compelling Massport to involve the communities adjoining the airport and appointed Frederick P. Salvucci, who organized anti-Logan sentiment while East Boston Little City Hall manager, as state Transportation secretary.

But the senator from the airport's neighboring communities, Michael J. LoPresti (D-East Boston), tried unsuccessfully to retain the quasi-independent board. His community would have no recourse under the new plan, he said, if some future governor opted for airport expansion.

Massport is run now by a seven-member board, appointed by the governor to staggered seven-year terms, with full power to hire or fire a chief executive. Dukakis's plan, as amended with his collaboration, would provide for a board whose term coincided with the governor's and would enable him to hire and fire the executive.

The executive, in turn, would have sole power to grant all contracts of less than $250,000—something Parker labeled an invitation to graft and corruption.

Plaintiff's Supplemental Exhibit B

Parker's assistant leader, David H. Locke (R-Wellesley), moved reconsideration of yesterday's approval vote. Debate on Locke's motion is scheduled today. Locke has said he is "exploiting to the fullest" the parliamentary devices for stalling passage of the bill—but his reconsideration move is his last chance.

Should the House vote for a different version of the bill, however, the delaying tactics can start anew. A spokesman for House Speaker David M. Bartley said eventual approval is likely, but could not say when the bill will be debated.

Plaintiff's Supplemental Exhibit B

SPRINGFIELD, MASS., DAILY NEWS

TUESDAY, JUNE 3, 1975

DUKAKIS SCORES VICTORY FOR CONTROL OF MASSPORT

BY JAMES R. DORSEY

BOSTON (UPI)—Gov. Michael S. Dukakis won a major victory in the Senate with overwhelming approval Monday of his plan to control the controversial and powerful Massachusetts Port Authority.

However, the bill faces a more uncertain future in the House where antagonistic feelings are running high against Dukakis because of his budgetary package.

"It's gonzo in the House; they'll croak it," said one senator who fought for the governor's bill. "There's too much antagonism against him."

Priority Items

The Massport reorganization bill was one of a handful of priority items submitted by Dukakis earlier this year. Bringing control and accountability over the port authority had been one of his campaign promises.

Under the bill, the current seven-member Massport board which serves staggered terms would be replaced by a five-member body picked by and serving terms equal to the governor.

The board's executive director would serve at the pleasure of the governor. Currently, the director serves at the pleasure of the board.

Senate approval of the measure came on a 25-8 roll call. The vote was to be reconsidered today but that was seen as a mere formality.

Plaintiff's Supplemental Exhibit B

Banks Opposed

In addition to the eight Senate votes against the bill —most of them coming from Republicans—the bill is opposed vehemently by the state's banking community, which holds a majority of the authority's $310 million worth of bonds.

Mark Wheeler, chairman of the board of New England Merchants National Bank, months ago told the legislature that as trustees for the bondholders they would fight any change in the authority's structure.

"Any change in the structure which erodes the independence and non partisanship of the port (authority) would impair the bondholders' (investment)," Wheeler said.

Amendments Fail

Three amendments were attempted Monday which would have given some independence to the revised authority. They failed handily. Only one, changing the salary of the executive director from $45,000 to $39,000, prevailed.

Senate Minority Leader John Parker, R-Taunton, said giving the governor power over Massport was "a dangerous thing." He and other Senate Republicans warned that the state would be sued by the Massport bondholders.

State Administration Chairman Alan D. Sisitsky, D-Springfield, carrying the bill for the governor, said the reorganization suggested by Dukakis was the only way to make Massport accountable to the public.

Plaintiff's Supplemental Exhibit C

NEWSPAPER ARTICLE ANNOUNCING NEW JERSEY'S DECISION NOT TO FUND LOCAL SHARE OF PLAINFIELD EXTENSION

DAILY NEWS

MONDAY, FEBRUARY 24, 1975

SAGNER DIAGNOSES JERSEY'S TRANSIT MALADIES

Here are highlights of the One-on-One interview with Transportation Commission Alan J. Sagner. He was interviewed by John McLaughlin, Trenton Bureau Chief for The News.

* * *

PAYING FOR PATH-PLAINFIELD

The governor has directed us to proceed with this project. We are now discussing with the Port Authority how we handle the local share. There is about $80 million of funds that are needed to match the federal share.

Q: Are you, in a sense, reneging on the commitment that Gov. Cahill made to put up that local share?

A: I can't renege on a commitment that in my opinion was never made. If it's not funded, it wasn't a commitment—it was an undertaking. First of all, $40 million won't do the job now. Secondly, the $40 million is not here. We made a proposal to the Port Authority on a way the $40 million could be raised on a leased arrangement, but whether that will be acceptable or not I don't know. What I would prefer to see is that the Port Authority would put up the money.

Q: Are you going to insist on that?

A: No, this is nothing I'm going to insist upon—there is no point in insisting like that. The obligation of the state then would be to be concerned with the operating costs. Then the state would just subsidize it like every other line.

Plaintiff's Supplemental Exhibit C

On Holding Costs Down

I think at some point we are going to have to say that we can't continue to pay the price, and that the people who operate the facilities are going to work for wages that are comparable to what other people in the economy are getting, and give productivity in return for that. We probably cannot continue to afford to underwrite public transportation. An example of what I'm talking about is the New York City subway system, where the wages that are paid are sometimes in excess of those for a person with an advanced degree.

I'm suggesting a wage-price freeze—which is contrary to the governor's view. The governor doesn't believe in it because he doesn't believe it would work, but I believe if we continue to chase our tail, we give labor an increase with one hand and we take it away with higher prices with the other hand, and the only person that really gets caught in the squeeze is the person who is on pension or on a fixed income—the farmer, the retired people.

Q: You are suggesting that a bus driver is overpaid?

A: No I'm not saying he is overpaid. We are going to say that if the bus drivers in New Jersey are going to have to receive what the MTA (Metropolitan Transportation Authority) is paying in New York, then the State of New Jersey, with its present resources is not going to be able to meet it.

Environment vs. Economy

I have no argument with environmental groups. I have an argument with the environmental laws that apply ex post facto. In other words, we have a project that has been approved, we've began our planning for it and environmental laws or new regulations are issued and they are applied to that project and then we stop and we try to do studies in accordance with the new regulations. We start the project again, new regulations come out when we are in another stage of development, and we stop again. My position is that once a project has had a public hearing and it has been approved that it be permitted to proceed and that the environmental regulations apply to subsequent projects.

On Public Transportation

I am constantly arguing with people who say we don't need public transportation, and if we can put a man on the moon, we can find another solution to the energy problem. I didn't believe that was true then and I don't believe it now. I also don't believe that we can disregard our highways and move everybody on public transportation. We have to use car pools and we have to use public transportation when it's proper to do so. It might not be convenient, but you have to live with it.

Another Fuel Crisis?

I don't know that we will have a crisis. The fact that we are paying what we are paying for fuel is a crisis. The cost of energy is the crisis, not that you have to line up your car at a pump and wait for it—that's not the crisis. I just received notice today from one of our bus operators that Amoco raised the price of diesel fuel two cents. Now, on the other hand, I read where Saudi Arabia is cutting back in production and tankers are standing around idle because there is an oversupply of fuel. So it's not a crisis that it isn't available but that there is a tight control of the price, and the cost is very high. It's estimated that if we continue to purchase foreign oil at the rate we are doing, within a decade we will have shipped abroad the equivalent value of all the stocks on the New York Stock Exchange.

Plaintiff's Supplemental Exhibit D

NEWSPAPER ARTICLE ANNOUNCING NEW JERSEY'S DECISION NOT TO FUND LOCAL SHARE OF PLAINFIELD EXTENSION

THE COURIER-NEWS,

MONDAY, FEBRUARY 24, 1975

SAGNER OFFERS A PATH DEAL

TRENTON (AP)—State Transportation Commissioner Alan Sagner says the Port Authority of New York and New Jersey should put up the entire local share of the cost to extend the PATH rail line to Plainfield.

After that $80 million bite, Sagner said, New Jersey would agree to subsidize operating deficits on the line.

Sagner's comments in today's New York Daily News continued to cloud the future of the rail project. The state and the port authority have been unable to agree on how the local share should be raised since the project was announced in 1972.

If an agreement ever comes, the rest of the cost of the $347 million project is to be paid with federal aid.

Sagner contended that the state never committed itself to share the $80 million local cost with the port authority. He said the administration of former Gov. William T. Cahill "never appropriated any funds so there was no firm commitment" for the state to put up $40 million.

"We think the port authority should be responsible for capital construction costs and then as far as the state is concerned the obligation should be with operating costs," Sagner said.

Plaintiff's Supplemental Exhibit E

STANDARD & POOR'S REPORT

DATED JUNE 16, 1975

MUNICIPAL ANALYSES AND BRIEFS

PORT AUTHORITY OF NEW YORK AND NEW JERSEY

$100-million Notes Rated "A"

The Port Authority of New York and New Jersey plans to negotiate on June 16, the sale of $50,000,000 Consolidated Notes, Series BB, due June 1, 1978, and $50,000,000 Consolidated Notes, Series CC, due June 1, 1978. The Notes will be callable at par on and after December 1, 1976. Proceeds of the Series BB Notes will be used for various capital expenditures, provided that not more than 10% of such proceeds will be used in connection with the World Trade Center and certain portions of an extension of the Port Authority Bus Terminal. Proceeds of the Series CC Notes will be used for financing the cost of completion of the World Trade Center.

These Consolidated Notes are Consolidated Bonds of the Authority within the meaning of the Consolidated Bond Resolution adopted by the Authority on October 9, 1952. They are direct and general obligations for which the full faith and credit of the Authority are pledged. They are secured equally and ratably with all other Consolidated Bonds and Notes by a pledge of (a) the net revenues of all existing facilities of the Authority (not including cars acquired under the New York State's Commuter Car Program) and any additional facilities financed in the future by Consolidated Bonds, (b) the General Reserve Fund of the Authority equally with other obligations of the Authority secured by that Fund, and (c) the Consolidated Bond Reserve Fund.

Although it is anticipated that these Notes will be refinanced by long term Consolidated Bonds, the Authority does have the resources to retire them without such refinancing, if necessary. For the year ended December 31, 1974, the Authority reported net revenues available for debt service and reserves of $179 million (up from $157 million in 1973 and $140 million in 1972). In addition, it is estimated that recently revised toll schedules for the Authority's six interstate vehicular crossings will result in additional revenues of $33.6 million. These two revenue figures combined total approximately $213 million, nearly equal to the estimated 1978 debt service, on Consolidated Bonds and these $100 million Consolidated Notes, of $216 million. As noted above, the Notes also are secured by the General Reserve Fund, which totaled $173.5 million on December 31, 1974, substantially more than sufficient to retire the Notes, if necessary.

In 1974, the states of New York and New Jersey repealed the statutory covenants adopted in 1962 limiting the Port Authority's ability to apply pledged revenues and reserves to additional deficit passenger railroad facilities. The validity of the 1974 repeal is presently being litigated. We have expressed concern in the past about the possibility of such a repeal and will continue to watch closely the effect of future Authority involvement in mass transit developments on the credit worthiness of the Authority's debt securities.

Despite this concern, we are continuing our "A" rating on the Port Authority's Consolidated Bonds and are also rating the new Consolidated Notes "A" based upon the Authority's strong operating, financial and management record and the prospects for a continuation of this outstanding record.

Plaintiff's Supplemental Exhibit F

MOODY'S REPORT

DATED JUNE 11, 1975

MOODY'S INVESTORS SERVICE, INC.

MUNICIPAL CREDIT REPORT

June 11, 1975
RC

PORT AUTHORITY OF NEW YORK AND NEW JERSEY

Rating: Consolidated Bonds and Notes: A

Offering: $100,000,000 Consolidated Notes comprising $50,000,000 Series BB and $50,000,000 Series CC, for negotiated sale in June 1975

Dated: 6-1-75 Due: 6-1-78 Call: beginning 12-1-76

L.O.: Patrick J. Falvey, Authority General Counsel; Hawkins, Delafield & Wood, N. Y.

Type enterprise: bi-state agency of New York and New Jersey which operates air terminals, toll bridges and tunnels, marine terminal facilities, World Trade Center, PATH rail transit system, other facilities including bus stations, truck terminals, heliports

Pledged revenues: notes are direct and general obligations of the Authority secured equally and ratably with all other Consolidated Bonds and Notes by a pledge of the net revenues of the existing facilities of the Authority, the General Reserve Fund of the Authority, and the Consolidated Bond Reserve Fund of the Authority

Purpose: Series BB notes—capital expenditures for bridges and tunnels, docks and wharves, airport terminal and service buildings, Hudson Tubes portion of PATH, parking and storage facilities directly related to any of these, and World Trade Center. No more than 10% of proceeds are to be used for World Trade Center capital expenditures and those integral portions of an extension to the Port Authority Bus Terminal related to any future construction above the extension

Series CC notes—financing cost of completion of the World Trade Center

Summary and Opinion: This bi-state agency maintains earning capability to meet requirements and to service its Consolidated Bonds within reasonable margins. Net revenues from the airports, marine terminals, and toll bridges and tunnels more than offset deficits of the PATH commuter rail system and the World Trade Center at this time.

The Superior Court in New Jersey has upheld New Jersey legislation that repealed the 1962 covenant restricting Authority involvement in deficit mass transit operations. This decision is a matter of deep concern to bondholders generally, and the decision has been appealed. The effect on the Authority cannot be determined at this time in absence of a definite plan for financing mass transit projects and facilities deemed to be non-self-sustaining. In the meantime, earnings of the present facilities are good, reserves for debt service continue strong, and recent toll increases have further strengthened financial position at this time.

These obligations of the Authority now being offered, while stated as Consolidated Notes, are considered as bonds by the Authority and the A rating on the Authority's Consolidated Bonds that was recently confirmed (see our Review Report dated 5-22-75) is also applicable to the Series BB and CC notes for the reasons stated above as well as the claim on earnings and provisions for retirement. Notes are being issued in conformity with the Consolidated Bond Resolution of 1952. Under provisions of this Resolution for issuance of additional parity debt with the earnings test of 1.30 times maximum prospective debt service by net revenues, it provides that in the computation of this maximum on any short-term bonds, there may at the Authority's option be substituted for the debt service on the short-term bonds the debt service which would be payable if the short-term bonds were refunded by bonds having characteristics of 30 year with amortization to retire the bonds annually by the 30th year, and interest at 1½ times the rate on the short-term bonds. The A rating on the notes.

Current Developments:—Recent Data

(1) On 5-6-75, the Federal Highway Administrator served on the Authority a motion filed with the Administrator by a complainant for an order requiring the Authority to create an escrow account for the receipt of revenue derived from the 5-5-75 toll increases on the bridges and tunnels. The Administrator will decide whether to grant or deny this motion. In addition, the Administrator intends to conduct an investigation in complaints that the 1975 toll increases are unjust and unreasonable;

Plaintiff's Supplemental Exhibit F

(2) estimated total cost of the extension to the Port Authority Bus Terminal and expansion of Lincoln Tunnel approaches, including the cost of land but not the air rights development, is about $137,500,000. Bids for the first contract for the extension were authorized on 5-8-75;

(3) in 1972, PATH and Penn Central entered into a memorandum of intent under which PATH is to rehabilitate Penn Station in Newark. The memorandum and subsequent agreement is subject to approval of the U.S. District Court for the Eastern District of Pennsylvania which is administering the Penn Central reorganization proceedings. Rehabilitation is expected to take about 5 years at an estimated $12,300,000 cost;

(4) regarding the World Trade Center, construction is expected to be completed in stages through 1977, more than 75% of the Center's office space is occupied or under lease for occupancy as construction is completed, the total cost of the Center is now estimated at about $950,000,000 (Authority investment in the facility at 12-31-74 was about $807,789,000), and in addition to the portion of increased costs of the Center to be financed from the Series CC Notes, about $85,000,000 remains to be funded by the Authority in the future;

(5) on 5-14-75, the validity of the 1974 action repealing the 1962 covenant restricting Authority involvement in deficit mass transit operations was upheld by the Superior Court in New Jersey, Bergen County. The United States Trust Company, which began the action in 1974 on its own behalf and as trustee for two

series of Consolidated Bonds, appealed the decision, and the appeal has been certified directly to the New Jersey Supreme Court.

On 6-17-74, United States Trust Company instituted a similar action in New York, in the Supreme Court, New York County, against the State of New York and the Attorney General of the State, which is still pending;

(6) to limit the potential excess marine terminal capacity in the Port of New York, the Authority and New York City entered into an agreement, approved by the Board of Estimate on 3-20-75 and subject to approval of the FMC, under which (a) the Authority and City agree for the 10-year period beginning 1-1-75 not to build container berths in addition to those now existing or under construction or firmly required by lease or other agreement by 1-1-75, except for the Red Hook project in Brooklyn; (b) during the 10-year period, Authority and City would not establish rental or berthing rates to return revenues below those required to meet the costs for the container berthing facilities; and (c) City and Authority shall cooperate in a joint program to create incentives for the attraction of new types of cargoes to the Port and for effective industrial utilization of waterfront property no longer suitable for handling of waterborne cargoes;

(7) the Authority has undertaken preparations to carry out the statutory programs of 1971 and 1974 regarding mass transportation and rail links to Kennedy and Newark International. In May 1975, the Authority filed an application with UMTA of the U.S. Department of Transportation for $277,600,000 to

Plaintiff's Supplemental Exhibit F

pay part of the cost of extending PATH from Newark to Plainfield. Local contribution for this part of the project totals $69,400,000, to be funded by the Authority from proceeds of future bond issues.

It is contemplated that PATH will enter into an agreement with New Jersey or a subsidiary corporation of the State under which PATH would acquire all needed property out of the proceeds of Authority bond sales and UMTA grants, and lease the property to the State or its subsidiary. The amount of rent to be paid by the State would depend mainly on the outcome of the litigation relating to the repeal of the 1962 covenant. This litigation will affect the extent to which the project or the State must cover debt service on the Authority's bonds issued for this project. Under arrangements to be approved by the ICC as needed, PATH's operating responsibility would be limited to managing the operation of the property for so long as the State or its subsidiary paid to PATH any required rental and the annual net operating costs and expenses directly attributable to the Newark-Plainfield line.

Facilities: Authority facilities comprise: (1) air terminals comprising John F. Kennedy International Airport, La Guardia Airport, Newark International Airport, and Teterboro Airport; (2) toll bridge and tunnels comprising the George Washington Bridge, Lincoln Tunnel, Holland Tunnel, Goethals Bridge, Bayonne Bridge, Outerbridge Crossing; (3) marine terminal facilities comprising Port Newark, Elizabeth Marine Terminal, Erie Basin Marine Terminal, Hoboken Marine Terminal, Brooklyn Marine Terminal, Columbia Street Marine Terminal, New York City Passenger Ship Terminal (dedicated 11-23-74); (4)

World Trade Center; (5) PATH rail transit system; (6) other facilities comprising the Bus Terminal, George Washington Bridge Bus Station, Journal Square Transportation Center, Newark Union Motor Truck Terminal, New York Union Motor Truck Terminal, Downtown Heliport, West 30th Street Heliport.

Expansion program: (1) Regarding rail transportation and PATH, the off-street bus terminal at Journal Square Transportation Center in Jersey City opened in spring 1975, the Authority in 1974 applied for Federal funding for a 17.5-mile extension of PATH from its Newark terminus to Plainfield via Newark International and Elizabeth, and continued design and planning for direct rail service to Penn Station for Erie-Lackawanna commuter trains; (2) various air terminal projects at Kennedy International including new air cargo facilities. At Newark International's Terminal C construction originally scheduled for 1976 completion was deferred for 3 years and the north terminal is currently being remodeled for international traffic and Federal inspection. At Kennedy International, basic tenant leases of 1953 expired 9-30-74 and were extended to March 1976 to permit flexibility in lease negotiations; (3) expansion of the Manhattan bus terminal is planned; (4) World Trade Center, continued occupancy is anticipated with Authority reporting a working population of approximately 28,000 by end of 1974; a 20-story and 800-room hotel is expected to be built on the Center's site to be financed by private investors; (5) marine terminals, the new passenger ship terminal is operated by the Authority under 20-year lease agreement with New York City; completion in 1974 of containership facilities at Elizabeth; expansion of container terminals at Port Newark; City-Authority agreement of 1974 provides for Authority construction of a container terminal in Red Hook section of Brooklyn; (6) planning for rail access project to Kennedy International from Manhattan.

Operations: The Authority's transportation facilities are important, and, like comparable facilities elsewhere, are subject to the same factors that can both favorably and unfavorably affect their usage. The commercial airports are important in the nation; FAA data for the 12 months through 6-30-74 reveals that Kennedy International recorded 305,756 air carrier operations, ranking it 4th in the Nation, La Guardia with 265,316 was ranked 6th, and Newark with 150,088 was 16th. Effects of higher air fares, the energy crisis, and recession affected air activity; domestic air passengers of 29.6 million were down 2.6% and international passengers of 10.7 million were down 9.3%. Kennedy International in 1974 accounted for 40.3% of total plant movements and 50.1% of passenger. Toll bridge and tunnel traffic in 1974 was 12.8% commercial, with George Washington Bridge accounting for 47.8% of total and Lincoln Tunnel for 20.7%. Toll revenues in 1974 accounted for 19.6% of total Authority operating revenues. At the marine terminals, those in New Jersey accounted for 58.1% of ship arrivals and 84.2% of general cargo tonnage.

Current Results: Revenues continue to be generated from all facilities sufficient to meet all requirements with a margin to spare. In 1974, current expenses rose at a lower rate than the increase in gross revenues, producing a 14.0% rise in net revenues. Debt service coverage narrowed, due to the inclusion in debt service of $200,000,000 of consolidated bonds issued during 1973. Balance sheet data reflect the growth of fixed assets, the retirement of debt, and the maintenance of reserves at required levels;

reserves included $173.4 million in the general reserve and $46.8 million in the consolidated bond reserve. At the end of 1974, completed construction aggregated almost $3.0 billion, and comprised $1.1 billion for all the airports, $650 million for the Trade Center, $515 million for all the tunnels and bridges, $514 million for all the marine, bus, and truck terminals, and $185 million for rail facilities. Earnings for transportation projects should be aided by the higher bridge and tunnel tolls effective 5-5-75.

Historical key ratios:

	1972	1973	1974
Operating ratio (%)	62.2	63.3	62.0
Net take-down (%)	41.1	39.8	41.3
Interest coverage	3.61	3.16	2.73
Avg. annual debt sv. coverage	1.23	1.36	1.55
Interest safety margin (%)	29.9	27.3	26.2

Bonded Debt: At the end of 1974, the Authority had outstanding a total of $1,700,504,000 bonds, of which $1,668,584,000 represent 40 series of Consolidated Bonds issued since 1952, and the balance of the Authority's General and Refunding, Marine Terminal and Air Terminal bonds for which funds have been held in trust since the end of 1970 for their full and complete payment. Consolidated Bonds are payable from the net revenues of the Authority's facilities. Maximum annual principal and interest on outstanding bonds totals $118,398,000 in 1986, which is covered 1.51 times by net revenues in 1974. Also outstanding at the end of 1974 were $255,000,000 bank loans, due 1975 through 1979 and payable from revenue but subordinate to the payment of the Authority's bonds.