5 CENT FARE AND MUNICIPAL OWNERSHIP PROVIDED IN TRANSIT PLAN

CAR RIDERS TO PAY ONLY FOR SERVICE

Continued from First Page.

ber chosen by vote of the other six. The board of control will constitute the directorate of "A" company, and finally would acquire all the present functions of the Transit Commission except those involving exercise of police power, to which the Public Service Commission would succeed on abolition of the Transit Commission at the end of its usefulness.

Valuation to Be Fixed.

The city will acquire the transit lines, not already owned by it, on a valuation which the commission will fix, and without outlay on the city's part through an arrangement whereby the earnings of the lines will pay for their purchase. The present subway leases are to be reformed or superseded by agreement so as to abolish all preferential payments and place the company and city investments on a parity. The ownership of all subway equipment not already owned by the city would be vested in the city without outlay by the city in return for a new lease.

Under the reformed subway leases the properties comprising the three proposed operating groups would be assigned and transferred to "A" Company in exchange for "A" Company bonds in amount equal to the valuation of the properties fixed by the commission. That is to be achieved "by agreement," if possible, but if not, then "otherwise to be determined by the Transit Commission"—possibly by foreclosure.

The three groups of properties would then be leased to their respective operating companies, "B," "C" and "D."

"A" Company would provide sufficient funds for financing the unified system and to provide working capital for the early period of its operation through the sale of short term securities. The bonds to be exchanged for the properties would be secured by a purchase money mortgage on the properties acquired and the company's interest in the leases to the operating companies.

Water Automatically Squeezed.

The foregoing plan would automatically squeeze the "water" out of present securities by substituting for them new securities based upon the actual value of the properties. Also the plan would eliminate all intercompany leases, such as the Interborough's lease of the Manhattan elevated lines. To all of these proposed changes there is expected to be much objection from transit financial interests. The report indicates that the commission has in mind a way to enforce its decision if it cannot be done by agreement, but does not indicate what that course will be.

In case the city should object to the commission's plan the commission is specific about its course as follows:

"If the city authorities shall oppose immediate municipal ownership of the transit system, with its present opportunity to reform completely the existing situation, the commission is prepared to consider the alternative course of vesting title to all properties not now owned by the city, including the subway leases, in the Consolidated Company ("A" Company), with provision for deferred ownership by the city. Such a course will permit the general features of the plan to be carried out, but will add to the difficulties and will tend to impose a higher fare."

The means whereby the commission proposes that the rate of fare shall fix itself automatically in the future is unique. That is to be accomplished by means of a contingent reserve or "Barometer" fund, which is to be created by the surplus moneys, after the payment of operating expenses and fixed charges. If the available surplus keeps this fund above a specified maximum the fare will be lowered automatically, while if the fund falls below the specified maximum the fare is increased automatically until the reserve is restored. The commission proposes to start with a five cent fare as the basis. For example:

If the normal amount of the "barometer" fund were fixed at $25,000,000, with a fare of five cents, and at the end of the year it were discovered that the surplus had increased the fund to $35,000,000 the fare would decrease. On the other hand, should it appear at the end of that year that the "barometer" fund had fallen to, say, $15,000,000, the fare would automatically go up until the increased revenue had restored the fund to the normal figure of $25,000,000.

Money to Go for Service.

The commission comments:

"In short, the purpose of this is, after fixing the base of proper valuation and determining the operating expenses and fixed charges, to make the decision as to the rate of fare as automatic as is humanly possible. Upon the new basis (including the board of control upon which the city is represented) the public can be assured that all money expended is properly expended for necessary cost, and the rate of fare, therefore, will reflect the actual necessary cost of the transportation that the public gets, uninfluenced by any opportunity of private gain based upon stock ownership."

Another unique feature is provision for an "efficiency" fund to be created after all other payments and equal to 3 per cent. interest on the "A" company bonds. That fund is to be disbursed on a basis of half for the benefit of the operating employees, in cash, pensions or as otherwise determined, and half as additional interest on the outstanding bonds.

Mayor Thrown With Interests.

Although the report proposes a five cent fare until a fair return can be determined on a basis of rock bottom valuation and although it recommends the squeezing out of all the "water" of which the Hylan administration has made a special investigation; recommends the scrapping of useless surface lines and the utilization of buses where serviceable, which has been the Mayor's pet scheme; paves the way for municipal ownership, which the Mayor has advocated, and essays to remedy virtually every condition of which the Mayor has made political thunder or registered justified complaint, it was apparent last night that the Hylan administration was prepared to continue its fight against the commission and reiterate its "eight cent fare plot" charges. That the Mayor will find himself supported by some of the "transit interests" which he has decried was also expected.

The report makes no charge against the Hylan administration, but it does show that in the last three years, while traffic has increased 25 per cent., facilities whose provision were in the hands of the Hylan administration have increased only 5 per cent.; it shows that surface car fares, through abolition of transfer points, have increased 20 per cent. and subway and elevated fares a like percentage through taxation by reason of the city's failure to obtain a return upon its subway investments; that "no plans whatever have been made for the building of additional subways"; that "within the last five months even the completion of the still unfinished parts of the dual system has been blocked at important points through the failure of the Board of Estimate and Apportionment to approve pending contracts or to vote the necessary funds."

Commission Statement in Full.

The full statement and outline of the commission is as follows:

SEPTEMBER 29, 1921.

The Transit Commission, appointed under the provisions of Chapter 134 of the Laws of 1921, has a threefold function. Succeeding to the powers and duties of the former Transit Construction Commissioner, it is charged with the planning and building of rapid transit railways and with the completion of the $50,000,000 of subway work still under construction. As the successor, also, of the Public Service Commission for the First district, it has supervisory and regulatory power over all lines, rapid transit or otherwise, operated within the city limits. Finally, and in particular, it is required, after making the necessary studies and investigation, to prepare a plan for the relief of the present intolerable transit conditions, and for the radical and permanent reorganization of the entire transit system.

The act under which the commission is proceeding sets forth (in Section 106) that the plan of reorganization is to effect the following purposes:

"(1) The combination, rehabilitation, improvement and extension of existing railroads so that service thereon may be increased and improved to the fullest extent possible.

"(2) the receipt, as soon as practicable, by the city, of sufficient returns from the operation of the railroads so that the corporate stock or bonds issued by the city for the construction of rapid transit railroads may be exempted in computing the debt incurring power of the city under the Constitution of the State, and

"(3) the assuring to the people of the city the continued operation of the railroads at the present or lowest possible fares consistent with the just valuations of the railroads and their safe and economical operation."

The act leaves to the discretion of the commission the determination as to which railroad properties shall be brought within a unified system. It provides further that the commission shall determine whether, in including roads not already owned by the city, full title to their properties shall be transferred to the city. In anticipation of such an extension of municipal ownership the commission is required to revalue each of the roads likely to be affected. It is directed to give consideration, in the process of valuation, to certain designated principles; but it is left free to give final weight only to such elements either of cost or valuation as it may deem pertinent—to secure, in short, whatever terms it may deem fairest to the city.

Survey Made Independently.

The process of initial valuation of so vast a group of properties has necessarily proved a lengthy one, especially as the commission determined to secure for its guidance original figures prepared by its own forces, without dependence upon appraisals previously made, whether for the city, the courts or the companies. Rapid progress has, nevertheless, been made. Within a week of taking office the commission organized a bureau of valuations, employing an engineering and accounting staff of some two hundred. Compilations of the cost of the properties comprising the dual system that have been years in arrears have been brought to date, and with the active cooperation of the companies in the preparation of reliable inventories final figures covering all roads will be in hand by the end of the year.

The commission has also, through its bureau of accounts, made a comprehensive analysis of the finances and operating results of each of the roads, giving particular attention to their present ability to maintain adequate operating service.

It has had in conference from time to time the operating officials of each company likely to be included within its plan, including the receivers and representatives of receivers of roads in the custody of the courts. It has conferred also with the various committees and groups representing classes of securities the plan would affect and committees of tort and contract creditors.

Public Hearings to Be Held.

It is proposed to institute a series of public inquiries, the first of which will be set for an early date, at which the several companies will be subjected to further examination in relation to their affairs, and in particular as to their attitude toward the plan, and at which opportunity will be afforded for criticism and constructive suggestion. In conducting these inquiries the Commission, under the law, has all the powers of a committee of the Legislature.

Until these public examinations have been held, bearing, as they will, upon matters of important detail, and until the work of valuation is finished, the Commission will not undertake to present in complete form what might be termed the statutory plan. From the study and investigation already made, however, it has reached certain definite conclusions as to the general form the plan will take, and as to the principles that will underlie it. In its opinion, the public interest will be served, and its own subsequent labors assisted, if the plan, in outline, is presented without delay for open discussion.

There has been no advance presentation of the plan to any of the companies, though their officers were informed shortly after the Commission took office that a reorganization as broad as the act indicated would undoubtedly be undertaken. They were at the same time informed that the Commission was not disposed to use the power the act conferred upon it to raise fares as a measure of temporary relief, or to raise fares, in any event, unless, after full investigation of the situation and the preparation of the plan itself, it became clear that other remedies would not be sufficient.

Divided Control Harmful.

A word with relation to the conditions the Commission finds existing may aid a better understanding of the remedies it proposes to apply:

The transit system in all of its parts still suffers, as it has long suffered, from the various consequences of divided organization and divided control. But the hampering conditions surrounding its operation have been aggravated beyond endurance by more recent development. The companies are not giving the character of service their franchises and contracts with the city require them to give. It is clear that if present conditions are continued they will remain without ability either to reestablish or to maintain such service. There is, of course, no doubt that their plight is attributable in no small degree to incidents of their own selfish and often unsavory history. Revenues that in the past should have gone into better facilities, or into the maintenance of reserves that conservative business practice required, have been paid into private pockets through swollen or forced dividends. Beyond question, many millions of dollars realized from nickel fares have thus been diverted from the purposes to which morally they belonged. This was true ten years or more ago in the case of most of the surface lines, almost none of which has paid any dividends since. It has been exemplified strikingly in the recent policy of the Interborough Company. But no amount of exasperation about the past will help a solution of the present problem. The years of the war, and its aftermath, with the consequent drastic inflation of every element of cost entering into railroad operation, brought to light the inherent financial weaknesses, and put an end to what remained of profit taking. None of the companies has paid a dividend for three years, with the exception of the Manhattan Elevated Railway Company, the stockholders of which are paid a fixed annual dividend in the form of "rentals" secured by the Interborough Company lease of the elevated properties, and two or three others of minor consequence.

Closely following the disappearance of profit payments upon stock, came lapses in the payment of interest on funded debt, failure to pay taxes and other public charges, and rapid growth in the arrears of ordinary current accounts payable. The associated Brooklyn companies, subway, elevated and surface, upon an appeal of creditors to the courts in December, 1918, and shortly afterward the surface lines of the New York Railways in Manhattan, passed into the hands of receivers. The Interborough system has been perilously near receivership on more than one occasion, and the time finally has been reached when none of the companies—with the single exception of the Interborough in its subway division—is earning enough, even with restricted service, to pay costs of operation and the interest on its debt.

In their effort to secure the means of continued operation, the companies were turned toward indirect methods either of increasing revenue or of reducing expense.

Free Transfers Lost.

The findings of the Commission with relation to the results of this policy, and the general conditions now prevailing, may be summarized as folows:

(1) The surface systems, previously unified upon the basis of single fares and the giving of practically universal free transfers, have been broken up. Many of the lines or parts of lines, deemed the least profitable, have been discontinued wholly, while others previously run under unified operation have, for lack of ability to pay rentals, been returned for separate operation to the companies from which they were leased.

(2) Except where required by law, or by special franchise terms, the free transfers between lines have either been cut out altogther, or are now given only upon an additional charge of two cents; with the result that former five cent fares in these instances have been turned into either ten or seven cent fares.

Of the 2,365 free transfer points maintained three years ago on the surface lines, 1,783 have been discontinued, and that 227 of those continued the two cent rate is charged.

In 1918, 309,973,002 free transfers were collected on the surface lines within a total traffic carried of 896,262,667—that is, a transfer was issued to one passenger out of each three. For the corresponding year ended June 30, 1921, 92,683,148 free transfers were collected out of a traffic of 977,600,258, or one to each passenger out of ten.

It is difficult to reach definite estimates of the added net revenue secured by the surface lines either through the dropping of routes or the elimination of transfers, but the accountants of the commission figuring as closely as possible from the data at their command, approximate the total at $9,000,000 annually.

Train Service Reduced.

(3) Both train and car service, upon rapid transit routes as well as upon the surface lines, has, in proportion to the traffic carried, been materially reduced.

In 1918 there were 328,000,000 car miles operated for the accommodation of less than 2,000,000,000 passengers. During the year just past, with 2,500,000,000 passengers carried, the car mileage had risen only to 344,000,000. In other words, the facilities within a period of three years have been increased only 5 per cent., while the traffic increased 25 per cent.

The cuts in service vary with different hours of the day, and approximately full service is still furnished by the subways at least at the peak of the rush hour. Upon many individual lines there has been an actual reduction in the old basis of service. The average of the service, however, is most unsatisfactory.

It would be difficult even to estimate, separately, the amount of expense saved by the companies through service reductions. They admit that it has been large, and continue to protest its necessity. But whatever the saving may be it remains a poor offset to the cost of the time lost to individual passengers in the tedious business of waiting for trains and cars, and of both time and temper lost through the inhuman packing of cars, the congestion of station platforms and the physical wear and tear of daily travelling experience.

4. The physical properties of many of the companies, structures, tracks and cars alike, in the absence of adequate funds for current repair work have become badly run down, and in some instances are unfit for use.

The amount that it will take to bring the postponed repair work to date, with certain rehabilitations, chiefly upon the surface lines, was estimated at the end of the year 1920 by the Public Service Commission for the First District in its report to the Legislature at $10,945,000. Revised figures showing the growth of this item to date are in course of preparation.

5. In addition to the postponement of current repairs to the properties in use there has been a general lack of provision for the new structure, equipment and facilities required to keep up with the phenomenal increase of traffic or to replace obsolete properties.

It is roughly estimated that $25,000,000 will be needed for new properties of this character. Practically none of this has been provided or even contracted for. Some of the rolling stock still in use is over thirty years old.

Burden on Taxpayers.

6. As a further consequence of the failure to develop adequate revenues, the interest upon the city's share of the investment in the dual subways which, by this time, should have been carried from the earnings of the roads is still carried annually in the city budget and paid from taxation. In the budget for 1921 the sum of these charges for interest and sinking fund requirements amounted to over $9,500,000. For 1922 it will be greater.

The continuance of this uneconomic policy serves merely to defer the carrying of the city's share of expense from the revenues of the roads, for which provision must be made before the present problem can be properly solved.

7. Finally, it appears that no plans whatever have been made for the building of additional subways; though the fact that many of the lines of the dual system are already taxed to capacity has been well advertised and the need of providing at once for a system of extensions has been repeatedly made clear.

Within the past five months even the completion of the still unfinished parts of the dual system has been blocked at important points through the failure of the Board of Estimate and Apportionment to approve pending contracts or to vote the necessary funds.

If the existing routes were in first class condition and functioning properly, an intensive programme of new subway building should already be under way. The present rate of increase in the volume of traffic carried is extraordinary, far exceeding in proportion the normal increase in population. During the two years ended June 30, 1921, the number of passengers carried on all the lines, subway, elevated and surface, increased by 419,970,000 over the number carried in 1919, or an average of 576,300 in the number carried daily.

City Unable to Help.

It will be recalled that although in 1900 and 1902 the letting of contracts for the first subways was hailed as a promise of lasting relief, the congestion had become deplorable before the lines of the dual system were contracted for in 1913. Nearly another ten years have passed since these contracts were negotiated and though the warnings of disaster are quite as clear, there is total inaction. In the judgment of the commission, at least $50,000,000 of new subway work should be placed under contract annually for the next five years. The city, however, as matters now stand is unable to devote anything approaching this amount of capital to rapid transit purposes. Its constitutional borrowing capacity, as to the present margin of which there appears to be much uncertainty, is bound to be required during the next few years for schools and a multitude of other city needs, and cannot be drawn upon to any large extent for subway purposes.

The investment of $230,000,000 in the 1913 lines already made by the city is, and will remain, a permanent charge against the debt limit so long as the city fails to take payment of its interest and sinking fund charges from the revenues of the roads. The way is thus blocked to the use of further city credit. If these charges are included, as they should be, among the fixed operating costs of the future system, the city's entire investment of a quarter of a billion dollars in the dual lines will be released, and a like sum may be borrowed to cover the work ahead.

The commission, in one of the separate reports it proposes to publish in the near future, will present a general plan for the building of those new lines that, in its judgment, are immediately required, together with its recommendations as to the order in which they should be undertaken. Before proceeding, however, with anything more than the planning of lines upon paper, it will require the active cooperation of the Board of Estimate and Apportionment, which continues to hold the powers of consent and appropriation in the matter of subway building.

Financial Situation of Companies.

The commission further finds the following facts:

1. That the companies, nothwithstanding their savings through reductions of service, are still failing in an increasing ratio to meet their operating and fixed charges. Statements covering their operations for the three years ended June 30, 1921, show the aggregate deficits of all lines after allowance for fixed charges and operating expense, as follows:

Year ended June 30, 1919....	$8,572,558
Year ended June 30, 1920....	$11,423,936
Year ended June 30, 1921....	$17,122,798

The greater part of the increase of $5,698,862 in the deficit for the fiscal year just ended over that of the year before is attributable to the advance in wage schedules of August, 1920, which in turn will be offset largely during the current year by the wage reduction of 10 per cent. agreed upon a month ago. It will appear clearly, however, under analysis that up to the present time there has been little net change in the volume of loss resulting from ordinary operation.

It is to be borne in mind that the progressive deficits shown are based solely upon operating expense, routine rental charges, taxes and interest on bonds. No doubt there are various charges in the list that can be reduced or that will disappear under a reorganized and more economical plan of operation. The figures as they stand, however, offer a logical starting point in ascertaining the amount of revenue necessary adequately to carry the system in the future.

2. While the so-called preferential allowances of the Interborough and the Brooklyn Rapid Transit Companies under the Dual Contracts had not been earned during the year covered by the statements referred to, they are carried as a cumulative claim, payable from future surplus earnings, before any payments of interest or sinking fund charges may be made on the City's share of the dual investment.

On June 30, 1921, the accumulation of Company unearned and unpaid preferentials of this character amounted to the following:

Interborough Company (subway account).....	$ 6,061,143
Interborough Company (Manhattan Elevated account)....	23,646,548
Brooklyn Rapid Transit Company	11,973,767
A total of.....	$41,681,458

Until an agreement has been reached upon a plan of readjustment these claims will, of course, continue to mount and will be counted by the companies as contingent assets, while the corresponding deficits of the City, paid from taxation as the additional lines to be placed under construction are completed and additional bonds are issued to pay for them, will also continue to mount.

Living by "Hand to Mouth."

3. In order to carry their deficits and at the same time continue to exist and to operate their lines, the companies have been living upon a "hand to mouth" basis, subsisting in the main upon defaults in the payment of interest and taxes and through the putting off as far as they can the payment of their current bills.

On June 30, 1921, the aggregate of current assets of all the companies was $55,908,892, of which $9,248,552 was in current cash funds. Upon the same date the aggregate of current liabilities, many of them of a pressing nature, was $111,044,653. They include the following:

Arrears of taxes due, State and city.....	$13,370,972
Unpaid interest on underlying bonds, &c.....	$6,083,595
Rentals overdue.....	14,557,975
Accounts and bills payable...	14,449,291

It is, of course, true that some of the companies are in a better condition than others and that the figures applying to individual cases vary. The Interborough Company in its Subway Division, for instance, makes a better showing than any of the others.

The Interborough Company, nevertheless, upon its subway operation, showed an operating profit applicable to the carrying of its elevated deficit of $2,630,953 for the year ended June 30, 1920, and of only $1,129,548 for the fiscal year just ended, a decrease of $1,501,405. On the other hand, during the same period the Manhattan surface lines of the New York Railways Company, as constituted before their receivership, while still showing a deficit of $3,151,654, showed a gain of $937,149 over their record of the year before.

City Ought to Have Best.

The public unfortunately has not been fully aware of the serious nature of these conditions. In this recital the Commission has only sketched them. In subsequent statements it will endeavor to give completely informing portrayals of them all. But even a sketch of the situationfi coupled with the knowledge that absolutely no provision has been made for taking care of the conditions of the future, is alarming.

The City of New York upon every consideration, whether of its physical greatness, its wealth, the complexities of its daily commercial and industrial life or its dignity, ought to have the best planned and best equipped and operated street railway system in the world.

The spectacle of the City, on the other hand, dependent on the present embarrassed and generally ill equipped agencies for a service essential to its daily existence, is a sorry one. That the companies are not wholly responsible for their condition does not mend the fact. That there is merit—in some instances the highest degree of efficiency—in their mechanical operation, even within their present means, does not affect the major question. If they were fully restored to-morrow there would be no promise or protection against a recurrence of the conditions of to-day.

In the judgment of the Commission a complete change both in the organization and in the methods of financing the system, as well as its relation to the public, must be effected. To bring about such a change was frankly the purpose of the legislation under which the Commission is acting. That purpose was not only to end the present state of chaos, but to end, so far as possible, the financial and political manipulation to which traditionally the transit system has been subjected—to recreate it, in short, on lines sound both economically and morally.

Plan of Reorganization.

It is the conclusion of the Commission that the plan of reorganization should be based upon the following principles:

1. That all existing lines—subway, elevated and surface—should be unified for purposes of future operation and placed under the control of a single supervisory authority in which the operating companies and the city shall participate upon equal terms.

2. That the railway properties still held in private ownership, whether under direct title, franchises, contracts or leases, should, so far as required for the purposes of the unified system, be transferred to the city; their owners receiving in return new securities, based upon the actual value of the lines for operating purposes.

3. That the continued possession of any of the roads for purposes of operation be conditioned upon the acceptance from the city of new leases, granted for restricted periods, and that the revenue derived from such operation be used only for the payment of actual operating cost and the interest and sinking fund charges upon the new securities—plus certain limited percentages of profit allowed when earned as an incentive to good management.

4. That the new securities be amortized in favor of the city, subject to the right of the city to retake any specified one of the lines upon the payment of any then unamortized proportion of the securities.

5. That provision be also made from the revenue of the roads for payment in each year of the interest and sinking fund charges upon the city's investment in the dual subways; as well as upon all subsequent rapid transit investments of the city.

Preferentials to Be Given Up.

6. That as a condition precedent to participation in the proposed reorganization the preferential allowance of profits granted to any one of the companies as a consideration for rights yielded under previous contracts or leases, as well as any claims based upon the unpaid accumulation of such preferential profits, be given up; and that all inter-company leases or other undertakings covering the use either of lines or equipment be cancelled.

7. That the lines retained in the reorganized system be arranged so as to eliminate gradually all duplication of service so that the rapid transit roads will serve the long hauls and the surface cars—or buses—the local and connecting hauls.

8. That only such lines as in the judgment of the commission are adaptable to such a system be acquired, or accorded any value for purposes of such acquisition.

9. That as rapidly as may be possible financially full and continuous service be restored upon all of the lines, free transfers reestablished and postponed repairs given proper attention.

10. That all train and car schedules be so arranged as to provide adequately for the comfort and convenient service of the travelling public at all hourse of the day.

11. That in order further to relieve present conditions, and to provide for the great increases of traffic certain to develop in the near future, immediate provision be made for the planning and building of additional new subways.

12. That provision be made for winding up the affairs of the present operating companies at the earliest practicable time upon the basis of the adjustment suggested, for the satisfactory settlement by them of their current liabilities before transfer of their lines to the City and for the termination of all receiverships.

13. That in order to preserve a unified rate of fare on all the lines, all surplus earnings be pooled and that a proper fund be estabished, to consist of such surplus earnings and such temporary borrowings as may be necessary, to cover current contingent needs.

14. That the rate of fare shall not be fixed, in any discretionary sense, either by the Commission or by any other authority but that it shall be determined from year to year automatically according to the actual costs of operation.

Five Cent Fare to Stay.

It is the further conclusion of the Commission that until there has been ample demonstration of the general results of operation of the new plan and until the changes and economies the plan has in view are tested fully, there should be no change in the present rate of fare. The Commission will require, therefore, that the rate for the first year following the initiation of the plan shall remain at five cents.

In any consideration of the rate of fare to be charged there should be taken into account the fact that one result of the past three years' policy of inaction has been to hide a substantial increased fare in the present disintegrated and depreciated service. Through the doubling of fares and the elimination of free transfers the net return per ride for each passenger carried on the surface lines in Manhattan and The Bronx has been increased from 3.674 cents in 1918 to 4.342 cents in 1921; in Brooklyn the average of 3.341 cents in 1918 has been increased to 4.415 cents in 1921. In other words, the surface lines in Manhattan, Brooklyn and The Bronx are already receiving a net increase of about one cent per passenger over the net return of 1918.

There has been no such direct increase upon the subway and elevated lines where continuous rides are the rule. There the added cost to the passenger has been in discomfort and loss of time. But even there the payment of the city's deficits through taxation is adding almost exactly one cent to the subway fare.

In short, increased fares have not been avoided. They have been secured through indirection.

The Commission appreciates that if proper and necessary service is to be restored and the revenues gained through charging of double fares and the cutting out of transfers given up, this hidden increase must be first absorbed. In other words, savings must be effected that will offset the hidden rate. The Commission appreciates as well that various fixed charges must be eliminated, and many costs reduced, to offset further burdens placed upon the present system.

List of Deficiencies.

If the present situation were accepted as the basis of fare fixing—a solution the Commission declines to consider—without allowance for profits of any nature, preferential or otherwise, the following deficiencies would have to be overcome:

(a) The gross revenues of the operating companies for the year ended June 30, 1921, was in round numbers $133,000,000, and the costs of operation, taxes, rentals and interest $150,000,000. The deficits, heretofore cited, are therefore	$17,000,000
(b) The deficits in the interest and sinking fund account of the city which in 1921 amounted to $9,500,000 will advance in 1922 to approximately $10,000,000—the total to be provided from revenue for the city's account, therefore, will be.....	10,000,000
(c) The cost of eliminating double fares and of restoring free transfers upon the surface lines will be for each year not less than	9,000,000
(d) And one-third of the cost of neglected repair work and incidental rehabilitation, if this expense can be spread over three years, would add not less than	5,000,000

The total thus required (without allowance for the cost of restoring full train and car service, which cannot be estimated with any exactness, and without provision for the full replacement of worn out and obsolete equipment) would be....$41,000,000

Against this sum there may be counted a reduction of $5,000,000 to be secured through the wage adjustments of a month ago. This will bring the net additional indicated need on the present basis approximately to $36,000,000.

It is true that the foregoing figures are based upon the present accounts and financing of the companies. In a rate case the intensive scrutiny of accounts undoubtedly would result in heavy cuts. But the net figure of $36,000,000 indicates the size of the obstacle to be overcome—after three years' policy of drift—to reestablish and maintain the five cent fare.

It will appear that if the only method of relief was upon the basis of present organization and financial structure the prospect for maintaining the five cent fare would not be hopeful.

But it is the opinion of the commission that if the reorganization plan it presents be adopted, with (*a*) the rearrangement and more effective coordination of the transit system, (*b*) the reduction of rentals and interest charges that it has in view, (*c*) the elimination of taxes and other public charges, from which the municipalized lines naturally would be free, (*d*) the reductions of cost effected through consolidation of power plants and of other facilities used in common, and (*e*) the material savings that will occur in the reduction of overhead and operating charges, the indicated deficiencies may be substantially overcome and the five cent fare continued beyond the year of trial.

While naturally every endeavor will be made to attain this end, but the question finally can be determined only by a demonstration of the results of operation of the consolidated system such as the plan proposes.

Effects of Reorganization.

The enforcement of a plan based upon the principles cited, beyond securing the economies and benefits of consolidation and ending a condition of financial chaos and paralysis, will clean out the separate, special, private interests with their persistent friction and conflicting policies and substitute a new basic organization in which the interests of the city and of private investors would be common.

If these principles be recognized and given effect, it will follow that while opportunities for the making of money through the speculative manipulation of transit securities will cease, bona fide investors, on the other hand, assured of adequate protection, should not hesitate to lend as further funds are required. The advantages that will flow to the travelling public from the plan are obvious. Nor does the Commission see in it any unfairness either to the operating companies or to the present owners of their securities.

In readjusting securities on the basis of honest value the Commission has in view, and will insist upon, the elimination of "water" of every description and the frank recognition of a depreciation that investors have long since discounted. In requiring that existing "preferentials" be given up, as a part of providing at once for a system of extensions has been repeatedly made clear.

Within the past five months even the completion of the still unfinished parts of the dual system has been blocked at important points through the failure of the Board of Estimate and Apportionment to approve pending contracts or to vote the necessary funds.

If the existing routes were in first class condition and functioning properly, an intensive programme of new subway building should already be under way. The present rate of increase in the volume of traffic carried is extraordinary, far exceeding in proportion the normal increase in population. During the two years ended June 30, 1921, the number of passengers carried on all the lines, subway, elevated and surface, increased by 419,970,000 over the number carried in 1919, or an average of 576,300 in the number carried daily.

City Unable to Help.

It will be recalled that although in 1900 and 1902 the letting of contracts for the first subways was hailed as a promise of lasting relief, the congestion had become deplorable before the lines of the dual system were contracted for in 1913. Nearly another ten years have passed since these contracts were negotiated and though the warnings of disaster are quite as clear, there is total inaction. In the judgment of the commission, at least $50,000,000 of new subway work should be placed under contract annually for the next five years. The city, however, as matters now stand is unable to devote anything approaching this amount of capital to rapid transit purposes. Its constitutional borrowing capacity, as to the present margin of which there appears to be much uncertainty, is bound to be required during the next few years for schools and a multitude of other city needs, and cannot be drawn upon to any large extent for subway purposes.

The investment of $230,000,000 in the 1913 lines already made by the city is, and will remain, a permanent charge against the debt limit so long as the city fails to take payment of its interest and sinking fund charges from the revenues of the roads. The way is thus blocked to the use of further city credit. If these charges are included, as they should be, among the fixed operating costs of the future system, the city's entire investment of a quarter of a billion dollars in the dual lines will be released, and a like sum may be borrowed to cover the work ahead.

The commission, in one of the separate reports it proposes to publish in the near future, will present a general plan for the building of those new lines that, in its judgment, are immediately required, together with its recommendations as to the order in which they should be undertaken. Before proceeding, however, with anything more than the planning of lines upon paper, it will require the active cooperation of the Board of Estimate and Apportionment, which continues to hold the powers of consent and appropriation in the matter of subway building.

Financial Situation of Companies.

The commission further finds the following facts:

1. That the companies, nothwithstanding their savings through reductions of service, are still failing in an increasing ratio to meet their operating and fixed charges. Statements covering their operations for the three years ended June 30, 1921, show the aggregate deficits of all lines after allowance for fixed charges and operating expense, as follows:

Year ended June 30, 1919....	$8,572,558
Year ended June 30, 1920....	$11,423,936
Year ended June 30, 1921....	$17,122,798

The greater part of the increase of $5,698,862 in the deficit for the fiscal year just ended over that of the year before is attributable to the advance in wage schedules of August, 1920, which in turn will be offset largely during the current year by the wage reduction of 10 per cent. agreed upon a month ago. It will appear clearly, however, under analysis that up to the present time there has been little net change in the volume of loss resulting from ordinary operation.

It is to be borne in mind that the progressive deficits shown are based solely upon operating expense, routine rental charges, taxes and interest on bonds. No doubt there are various charges in the list that can be reduced or that will disappear under a reorganized and more economical plan of operation. The figures as they stand, however, offer a logical starting point in ascertaining the amount of revenue necessary adequately to carry the system in the future.

2. While the so-called preferential allowances of the Interborough and the Brooklyn Rapid Transit Companies under the Dual Contracts had not been earned during the year covered by the statements referred to, they are carried as a cumulative claim, payable from future surplus earnings, before any payments of interest or sinking fund charges may be made on the City's share of the dual investment.

On June 30, 1921, the accumulation of Company unearned and unpaid preferentials of this character amounted to the following:

Interborough Company (subway account).....	$ 6,061,143
Interborough Company (Manhattan Elevated account)....	23,646,548
Brooklyn Rapid Transit Company	11,973,767
A total of.....	$41,681,458

Until an agreement has been reached upon a plan of readjustment these claims will, of course, continue to mount and will be counted by the companies as contingent assets, while the corresponding deficits of the City, paid from taxation as the additional lines to be placed under construction are completed and additional bonds are issued to pay for them, will also continue to mount.

Living by "Hand to Mouth."

3. In order to carry their deficits and at the same time continue to exist and to operate their lines, the companies have been living upon a "hand to mouth" basis, subsisting in the main upon defaults in the payment of interest and taxes and through the putting off as far as they can the payment of their current bills.

On June 30, 1921, the aggregate of current assets of all the companies was $55,908,892, of which $9,248,552 was in current cash funds. Upon the same date the aggregate of current liabilities, many of them of a pressing nature, was $111,044,653. They include the following:

Arrears of taxes due, State and city.....	$13,370,972
Unpaid interest on underlying bonds, &c.....	$6,083,595
Rentals overdue.....	14,557,975
Accounts and bills payable...	14,449,291

It is, of course, true that some of the companies are in a better condition than others and that the figures applying to individual cases vary. The Interborough Company in its Subway Division, for instance, makes a better showing than any of the others.

The Interborough Company, nevertheless, upon its subway operation, showed an operating profit applicable to the carrying of its elevated deficit of $2,630,953 for the year ended June 30, 1920, and of only $1,129,548 for the fiscal year just ended, a decrease of $1,501,405. On the other hand, during the same period the Manhattan surface lines of the New York Railways Company, as constituted before their receivership, while still showing a deficit of $3,151,654, showed a gain of $937,149 over their record of the year before.

City Ought to Have Best.

The public unfortunately has not been fully aware of the serious nature of these conditions. In this recital the Commission has only sketched them. In subsequent statements it will endeavor to give completely informing portrayals of them all. But even a sketch of the situationfi coupled with the knowledge that absolutely no provision has been made for taking care of the conditions of the future, is alarming.

The City of New York upon every consideration, whether of its physical greatness, its wealth, the complexities of its daily commercial and industrial life or its dignity, ought to have the best planned and best equipped and operated street railway system in the world.

The spectacle of the City, on the other hand, dependent on the present embarrassed and generally ill equipped agencies for a service essential to its daily existence, is a sorry one. That the companies are not wholly responsible for their condition does not mend the fact. That there is merit—in some instances the highest degree of efficiency—in their mechanical operation, even within their present means, does not affect the major question. If they were fully restored to-morrow there would be no promise or protection against a recurrence of the conditions of to-day.

In the judgment of the Commission a complete change both in the organization and in the methods of financing the system, as well as its relation to the public, must be effected. To bring about such a change was frankly the purpose of the legislation under which the Commission is acting. That purpose was not only to end the present state of chaos, but to end, so far as possible, the financial and political manipulation to which traditionally the transit system has been subjected—to recreate it, in short, on lines sound both economically and morally.

Plan of Reorganization.

It is the conclusion of the Commission that the plan of reorganization should be based upon the following principles:

1. That all existing lines—subway, elevated and surface—should be unified for purposes of future operation and placed under the control of a single supervisory authority in which the operating companies and the city shall participate upon equal terms.

2. That the railway properties still held in private ownership, whether under direct title, franchises, contracts or leases, should, so far as required for the purposes of the unified system, be transferred to the city; their owners receiving in return new securities, based upon the actual value of the lines for operating purposes.

3. That the continued possession of any of the roads for purposes of operation be conditioned upon the acceptance from the city of new leases, granted for restricted periods, and that the revenue derived from such operation be used only for the payment of actual operating cost and the interest and sinking fund charges upon the new securities—plus certain limited percentages of profit allowed when earned as an incentive to good management.

4. That the new securities be amortized in favor of the city, subject to the right of the city to retake any specified one of the lines upon the payment of any then unamortized proportion of the securities.

5. That provision be also made from the revenue of the roads for payment in each year of the interest and sinking fund charges upon the city's investment in the dual subways; as well as upon all subsequent rapid transit investments of the city.

Preferentials to Be Given Up.

6. That as a condition precedent to participation in the proposed reorganization the preferential allowance of profits granted to any one of the companies as a consideration for rights yielded under previous contracts or leases, as well as any claims based upon the unpaid accumulation of such preferential profits, be given up; and that all inter-company leases or other undertakings covering the use either of lines or equipment be cancelled.

7. That the lines retained in the reorganized system be arranged so as to eliminate gradually all duplication of service so that the rapid transit roads will serve the long hauls and the surface cars—or buses—the local and connecting hauls.

8. That only such lines as in the judgment of the commission are adaptable to such a system be acquired, or accorded any value for purposes of such acquisition.

9. That as rapidly as may be possible financially full and continuous service be restored upon all of the lines, free transfers reestablished and postponed repairs given proper attention.

10. That all train and car schedules be so arranged as to provide adequately for the comfort and convenient service of the travelling public at all hourse of the day.

11. That in order further to relieve present conditions, and to provide for the great increases of traffic certain to develop in the near future, immediate provision be made for the planning and building of additional new subways.

12. That provision be made for winding up the affairs of the present operating companies at the earliest practicable time upon the basis of the adjustment suggested, for the satisfactory settlement by them of their current liabilities before transfer of their lines to the City and for the termination of all receiverships.

13. That in order to preserve a unified rate of fare on all the lines, all surplus earnings be pooled and that a proper fund be estabished, to consist of such surplus earnings and such temporary borrowings as may be necessary, to cover current contingent needs.

14. That the rate of fare shall not be fixed, in any discretionary sense, either by the Commission or by any other authority but that it shall be determined from year to year automatically according to the actual costs of operation.

Five Cent Fare to Stay.

It is the further conclusion of the Commission that until there has been ample demonstration of the general results of operation of the new plan and until the changes and econom