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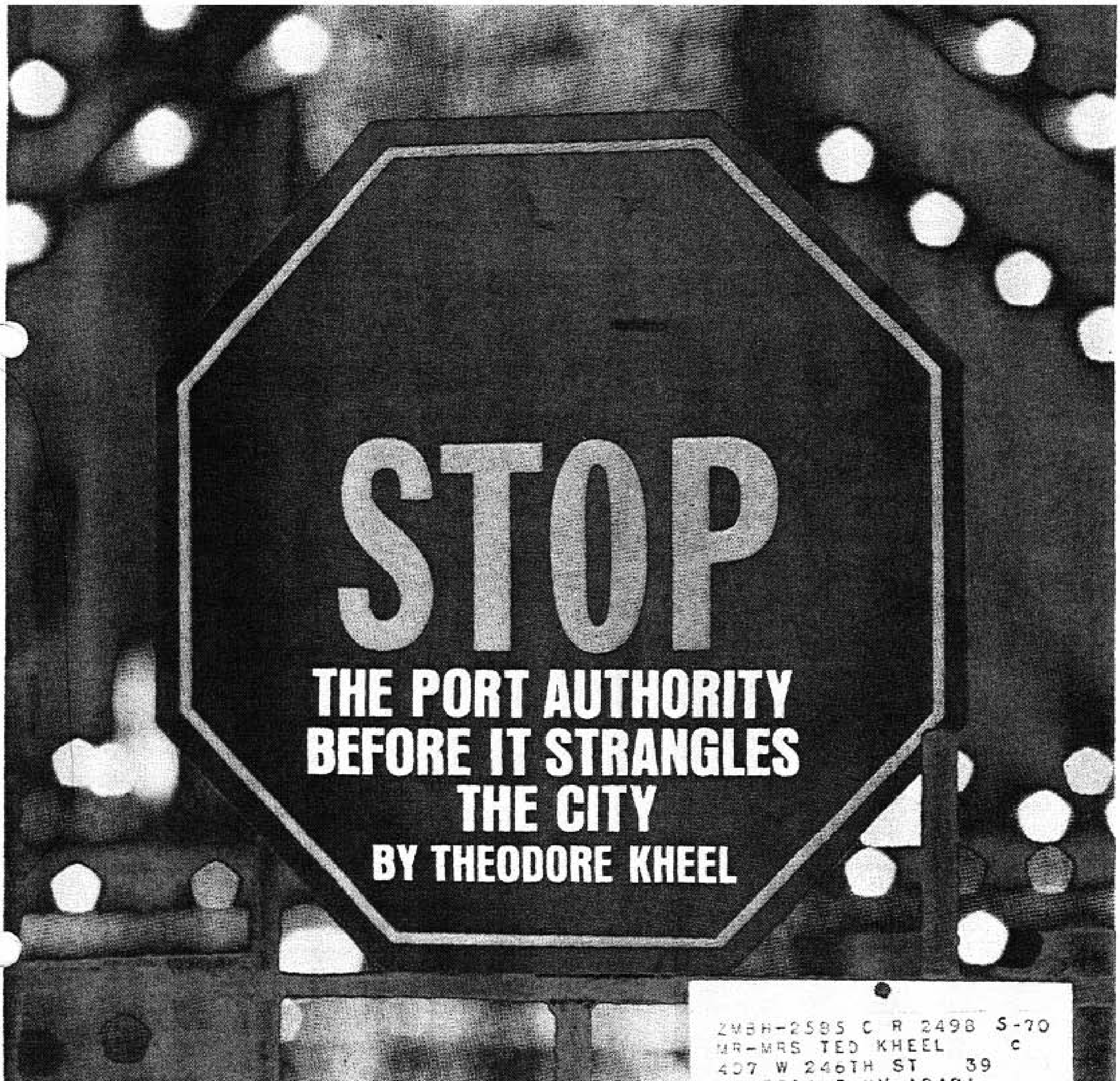

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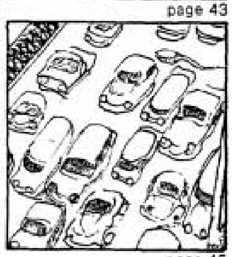

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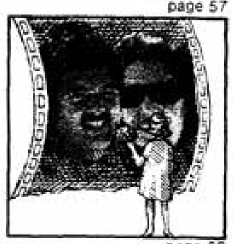

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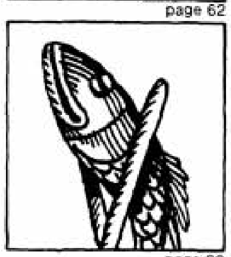

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Next Week: The Coming of Age of New York's Puerto Ricans, by Pete Hamill

How the Port Authority Is Strangling New York

By Theodore W. Kheel

"The Port Authority is a dangerously short-sighted and rigidly conservative money machine harnessed to serve, not the public interest, but the private vision of an opportunistic management."

A few weeks ago State Controller Arthur Levitt released the results of an audit he had made of the diverse operations of the Port of New York Authority, the huge para-governmental agency that runs all the major airports, many of the bridges and tunnels, and much of the sprawling network of marine and motor terminals that serve New York, the busiest port in the world. The Port Authority, Levitt reported, made a lot of money on five of its facilities, lost money on 14 others, and did little more than break even on another six. On total revenues of $208 million in 1967, according to Levitt's analysis, the Port Authority was able to show a surplus of just $6 million after meeting all its obligations. This 3 per cent cushion, one was allowed to infer from the *New York Times'* account of the Levitt audit, was a commendably small margin, a tribute to the Port Authority's disinterested labors on behalf of all of us.

This view of the Port Authority's operations is, to put it charitably, naïve nonsense. In 1967 the authority actually showed a surplus of nearly $82 million. The difference between the money it showed and the money it really made results from a bookkeeping gambit, the purpose of which was to mask the Port Authority's true moneymaking power. Newspaper reports of the Levitt audit were grossly misleading. The Port Authority's willingness to let them stand, uncorrected, was unpardonable chutzpah. But that is what we have been taught to expect of the agency.

Far from being the far-seeing, creative enterprise it was meant to be, the Port Authority today is a dangerously short-sighted and rigidly conservative money machine harnessed to serve, not the broad public interest, but the private visions of an astonishingly narrow, relentlessly opportunistic management. The citizens of New York and New Jersey, acting through their respective legislatures, created the Port Authority in 1921 to coordinate the building of a balanced transportation system to meet the needs of the burgeoning port and the metropolitan area around it. Instead, the Port Authority has betrayed its mandate and has contributed greatly to the massive *imbalance* in ground transportation that is surely strangling Greater New York. It has all but totally ignored commuter railroads. It has preferred to grow huge—and hugely profitable—by catering to motorists. Without even the flimsy justification of acting in the interest of its stockholders —it has none—the Port Authority pursues money, not service, with the arrogance, indifference and contempt for the public welfare characteristic of 19th-century robber barons.

An enormous gap exists between what the Port Authority professes to be and what it really is. Its financial data is reported in such a way as to suggest that the Port Authority is walking—prudently, to be sure—a financial tightrope. In fact, the Port Authority is awesomely profitable; last year the money left over after paying its expenses, as most accountants understand the word, was not 3 per cent, but more like 37 per cent, of its combined revenues.

The Port Authority began life with high purpose, a little seed money, but no power to levy taxes or pledge state revenues. It was supposed to pay its own way. Indeed it has. In the past 48 years it has spent nearly $2 billion on facilities (worth several times that amount today) and has repaid long-term loans of nearly $1 billion. It has about $1 billion in bonds outstanding today, but it could add another $1 billion to that debt load with ease. Last year it had revenues of $226 million and cleared $89 million after paying operating expenses and debt interest. Operating profit was more than triple its $25 million in amortization charges last year.

Nowhere in its charter or in any state law is it said that everything the Port Authority does must be self-supporting. Nor is it written that the Port Authority must possess the *finest* credit rating in the bond market. Austin J. Tobin, its executive director for 27 years, once said, "Above all else, the people expect their officials to give them prudent and conservative management of public funds." This is disingenuous. Public servants are expected to manage public funds as prudently and conservatively *as their essential purpose permits*. A seemingly unprofitable venture, such as helping mass transportation, might be more genuinely productive than any seemingly self-supporting service the Port Authority has yet turned its hand to—and ultimately could cost us far less.

But we were not aware, during the 1950s and 1960s, of what the Port Authority was up to. We did not see that it had substituted for the will of the people, as expressed in the bi-state compact that created it, the will of the bond market as expressed by the price moneylenders charge for their loans. Today, the Port Authority's transpor-

"The strangulating traffic its bridges and tunnels bring, the cost of air pollution, are dismissed as someone else's problems."

tation policies are made, not by civic planners responding to the needs of the people, but by the bond market.

Because it is a bi-state agency, the Port Authority has been able to play one state against the other and forestall effective control by either. The Port Authority likes to brag that its board of 12 commissioners are accountable to the governors and the state legislatures of New York and New Jersey. In fact, the organization they are entrusted to run seems to run itself, accountable to no one except its own bondholders. The commissioners themselves are scarcely representative of the people in whose name they act. The current board includes four lawyers with banking interests, three stockbrokers, two bankers, one industrialist, and one certified public accountant. The 12th commissioner, and the only strong advocate of mass transit in the bunch, is Dr. William J. Ronan, chairman of the Metropolitan Transportation Authority.

Not surprisingly, Ronan has had little success in opening the Port Authority's closed mind about mass transportation. When it sold $100 million worth of bonds in the money market late last year, the Port Authority's prospectus contained a statement that reassured the money market but should unsettle the rest of us: "The Commissioners serve without remuneration for six-year overlapping terms. They are engaged in business or professional activities apart from their offices as Commissioners. In some cases these involve business or professional connections or relations with persons, firms, or corporations which do business with or are actual or potential users of the facilities of the Authority." Such men are not likely to upset the bond market or their own interests by involving the Port Authority in such financially risky causes as mass transit. The Port Authority has so repudiated mass transportation that its associate counsel, Daniel B. Goldberg, once referred to mass transit as a "disease" to be kept out of its "financial body."

So, while commuter railroads go bankrupt, the Port Authority brags about its matchless credit rating. While subways amass big deficits, the Port Authority boasts that it is self-supporting. In fact, the Port Authority is the unblushing beneficiary of massive assistance, both direct and indirect, from government, from industry and from just about everyone living within the Port District, roughly the area within a 25-mile radius of the Statue of Liberty. The Port Authority does a brisk business getting cars and trucks into and out of the metropolitan area. The strangulating traffic its bridges and tunnels bring, the cost of air pollution, street and road maintenance, crowded courts and hospitals, zooming insurance rates, demands on police and sanitation services—these are someone else's problems, not the Port Authority's.The Port Authority complains that riders on the Hudson tubes, now operated by the authority, receive a subsidy of 31 cents per ride. But a man who drives his own car to work in Manhattan for 50 cents via the Port Authority's Lincoln Tunnel may be indirectly subsidized by as much as five dollars per ride. That is a rough estimate of what it may now be costing, in municipal services and lost time to industry, to cope with New York City's traffic problem.

In its youth the Port Authority thought differently. It considered itself, as it said in its annual report for 1924, the "guide and guardian of the port," seeking to produce "the greatest cooperation of existing agencies, the utmost efficiency and the minimum of cost." In that role, it observed then, "it should not be expected to be self-supporting."

In those days the Port Authority thought highly of rapid transit. In its annual report for 1927, when the George Washington Bridge was being designed, the Port Authority said: "There will also be added later, when needed, a lower deck which will provide for two, four or six lines of rapid transit tracks or bus traffic, as may be required." The Port Authority envissioned rapid transit tracks on its Bayonne and Arthur Kill bridges as well. It was ready to put some of its hard cash into this. In its annual report for 1927 the Port Authority observed that while no provision had been made to finance these bridge transit facilities, "sufficient funds will be available from surplus tolls and charges to provide for this improvement." A disease? No, a prime reason for the Port Authority's existence.

The Port Authority once sounded positively evangelical in talking about the need for an integrated policy and program of transportation for the entire metropolitan area. This is the Port Authority speaking, again in 1927:

> *The problem of providing adequate passenger transportation for the thousands of daily riders from and within the suburban districts centering about the City of New York is becoming acute. The situation is intensified by the fact that nearly half of these commuters travel within limited rush hour periods, morning and evening, and these daily, periodic surges of humanity must flow through channels that have other intensive transportation demands . . .*
>
> *Local transit agencies have been coping with this problem for several years in the respective districts . . . There has existed, until this time, however, no concerted attempt to coordinate the interstate and regional phases of a problem whose solution can only be attained by the most comprehensive study and the broadest lines of planning. It is the lack of interstate consideration that has been in no small measure responsible for the unbalanced development of residential areas in the different sectors of the port. It is the cause of congested terminals and crowded trains of the New York carriers. General relief can be obtained only through regional planning of a comprehensive suburban transit system.* (*Emphasis added.*)

The very next year, however, the Port Authority began to discover the money to be made in serving automobiles. In 1928 it earned its first operating profit, a modest $250,000, when the Outerbridge Crossing and the Goethals Bridge, connecting Staten Island with New Jersey, were opened to traffic. In 1931 it bought the Holland Tunnel at cost from New York and New Jersey, which had jointly built it. The authority opened the George Washington Bridge in 1931, and the Bayonne Bridge later the same year. Six years later, it opened the first tube of the Lincoln Tunnel.

With these, the Port Authority had the main assets that would in time make it rich. Drawing a bead on the booming use of private cars and trucks, on air and marine traffic—on everything but rapid transit—the Port Authority has substantially increased its gross revenues and net profits every year since the end of the World War II. Its gross revenues have roughly doubled every 10 years since 1939. Its net revenues have grown proportionately.

The Port Authority, it now seems clear, began to repudiate its vision of a comprehensive, coordinated system of transportation when it began counting its bridge and tunnel tolls. Once it got going it stopped emphasizing the advantages of true mass transportation in its annual reports. Instead, it concerned itself with its borrowing capacity and enhancing its appeal to moneylenders.

The big money began to flow in during the postwar years as more and more people turned away from mass transportation and began using cars not merely for holidays but to get to work. Providentially in place by then as executive director of the Port Authority was Austin Tobin. By its own special lights, Tobin was the ideal executive to drive the Port Authority into the motor age and drive advocates of mass transit into despair.

Tobin joined the legal staff of the Port Authority upon graduation from Fordham Law School in 1927 and has been with the Port Authority ever since. For the last 27 years he has been the boss, setting policy and making decisions. "My own executive office," Tobin has said, "has the same normal responsibilities as those of the president of a private corporation."

Unlike Robert Moses, who had control of a comparable organization—the Triborough Bridge and Tunnel Authority—Austin Tobin has shunned personal publicity. Were it not for his indifference to celebrity, Tobin might remind one of J. Edgar Hoover, or perhaps Air Force General Curtis LeMay—stocky, decisive, and not easily distracted from what he presumes to be his job.

What makes Austin Tobin tick? What induces a man with clear gifts and great energy to put blinders on, to narrow his choices rather than to expand them? Mere personal ambition cannot explain it. His annual salary of $70,000 makes him one of the best-paid public servants in the country, to be sure, but Tobin would doubtless have done well anywhere. Perhaps it is the sense of power his position gives him—enormous resources at his command and, through the indifference of the states, remarkably little restraint on his use of them.

Under Tobin, the Port Authority has gone to great lengths to prevent attempts to involve it in the steadily worsening problems of the commuter railroads that serve New York. In 1961 New Jersey wanted the Port Authority to take over the bankrupt Hudson and Manhattan Railroad. At the time, the authority was already rich and getting richer fast.

The threat of being forced to take over a money-losing railroad really shook up Port Authority officials. "These proposals," Daniel Goldberg, Tobin's associate counsel, later recalled, "made us take a good look at our financial structure to see to what extent, if at all, we were open to this kind of a *financial raid* at the *sacrifice* of the *security* that our *bondholders* had bargained for when they had loaned us hundreds of millions of dollars." (Emphasis added.)

Goldberg's comment is admirably

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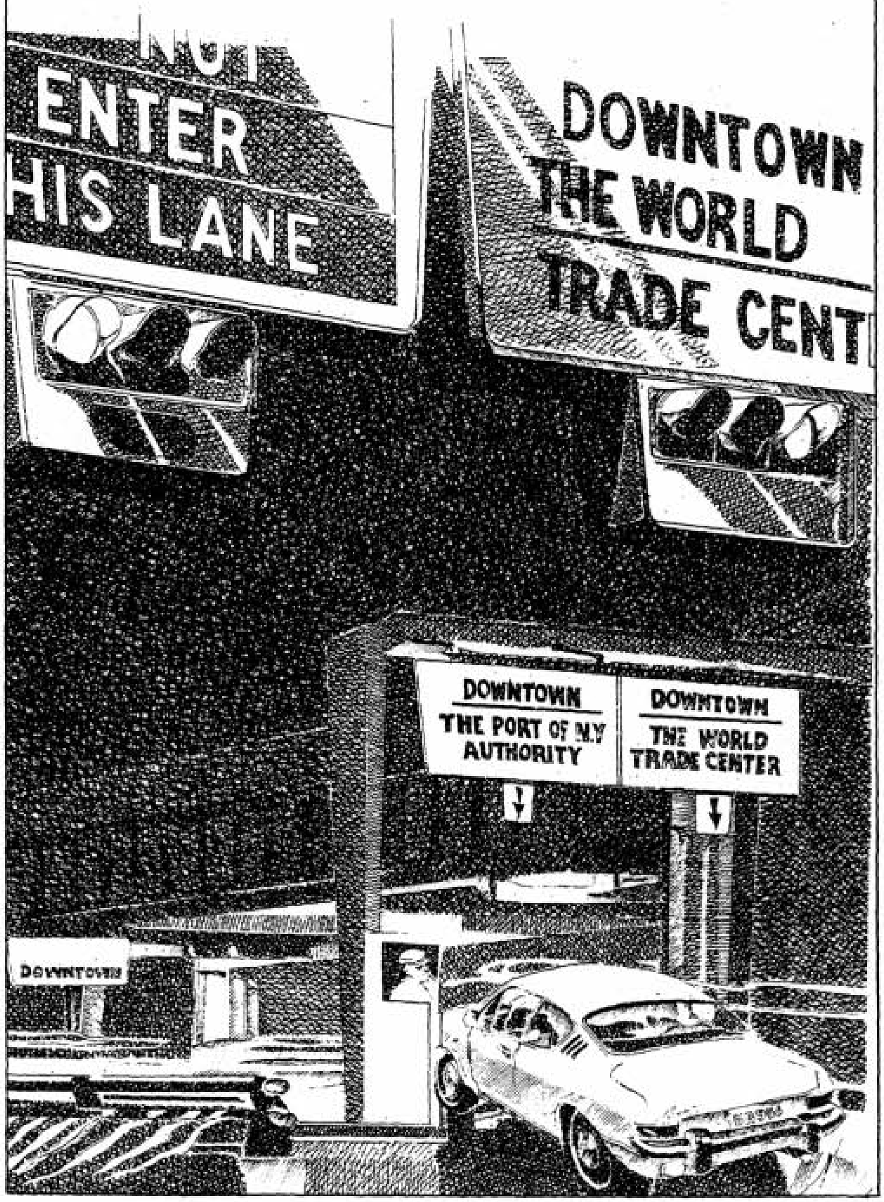
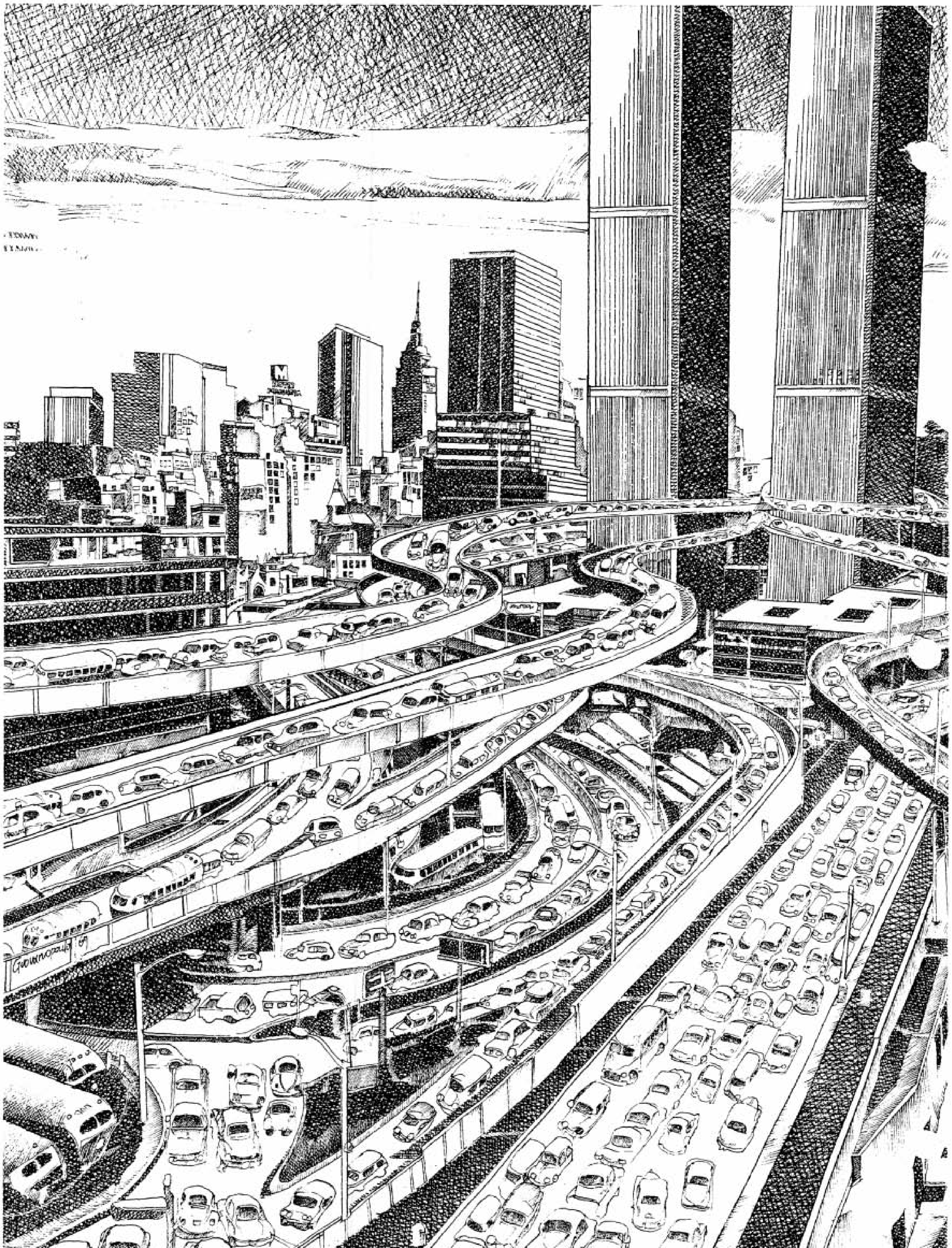


Illustrated by Paul Giovanopoulos



candid. It reveals how very far from its original purpose the Port Authority had strayed. Bondholders had been promised, it appears, that the Port Authority would flatly refuse to take over any "headache," and mass transportation was a headache. Anyone who tried to get the Port Authority to do this was guilty of a "financial raid at the sacrifice of the security that *our* bondholders had bargained for." What about "our" commuters and "our" straphangers? What about the Port Authority's own original bargain to coordinate *all* forms of transportation? They did not matter. Bridges and tunnels for motorists produced huge profits. Mass transportation was a losing proposition. The bondholders favored loans to the former but not the latter.

As any business would, under the circumstances, the Port Authority had already taken some measures to protect itself against a "raid." But it was not really secure. Its own ambition had made it vulnerable. In its formative years the authority had borrowed separately for each facility it built. This limited the use it could make of the profits any one facility generated. But later it set up a General Reserve Fund for all bonds and got the right to use surpluses from each facility for other purposes. This move gave the Port Authority considerably more room to flex its muscles. But in time it sought still more flexibility because, as Goldberg once explained, "we looked forward to the enormous postwar horizons that the Port Authority was facing up to. We needed a new financial device where the purposes would be unlimited, where the dollars would be unlimited, and only legality and financial practicability would impose the limits." The Port Authority got that, precisely, in its Consolidated Bond Resolution of 1952, under which it has sold almost 95 per cent of all its currently outstanding bonds.

But if the purposes and dollars were unlimited, the Port Authority could indeed absorb the Hudson and Manhattan Railroad. And, if that were so, why could it not be forced to take over other commuter railroads as well? How to protect itself from this terrible disease, that was the question.

By way of answer, the Port Authority brought off a daring coup. It had already announced its interest in building a World Trade Center, a gigantic real-estate venture it hoped to launch in lower Manhattan. New York State had posed no objections. Only New Jersey, with its troublesome fussing about the Hudson and Manhattan tubes, stood in the way. To get what it wanted, the Port Authority worked out a clever strategy. It agreed to take over the Hudson and Manhattan Railroad, but in re-

"The World Trade Center is a striking example of socialism at its worst—a state agency needlessly and inefficiently intervening in a market already well served by private capital."

turn it not only got permission to go ahead with the World Trade Center but also extracted covenants from both New York and New Jersey intended to prevent the states from ever again dragging it into the commuter transit business. The Constitution of the United States, no less, is the instrumentality for this ploy. Article IV says that no state shall impair the obligations of a contract. Thus, because appropriate language was written into the contract with the states under which it took over the tubes, the Port Authority believes it can never again be asked to do anything significant for mass transportation.

Reluctant as it was to get involved, the authority has done a first-rate job with the Hudson tubes since it took over in 1962. Renamed PATH (for Port Authority Trans-Hudson system) and overhauled at a cost of $125 million to date, the line is rapidly improving and passenger revenues are climbing. By the Port Authority's reckoning, PATH ran up operating losses of nearly $10 million last year. Beyond question, the community would be spending a great deal more if PATH had been allowed to die.

Under Tobin's leadership the authority has lost all sense of its original purpose. One evidence of this is the second level of the George Washington Bridge it finally completed in 1962—not for rapid transit, as envisioned back in 1927, but for private cars and trucks.

The clearest sign of the Port Authority's intellectual bankruptcy and arrogant indifference to the real needs of this community is the monstrous real-estate venture it has launched in lower Manhattan. The World Trade Center it is now building will have twin towers rising 110 stories high, taller than the Empire State Building. It will hold more space than the Pentagon. It will cost at least $600 million.

The Port Authority has committed this huge sum—enough, say, to build a new East Side subway in New York—despite the fact that Manhattan is at present experiencing the greatest office-building boom in the history of man. The World Trade Center is rising despite the fact that private builders have demonstrated a unique capacity to build office buildings in Manhattan without government assistance. The real needs of the people in the Port District which private industry *cannot* satisfy include housing, education, community services, medical care, parklands, environmental protection, and, of course, transportation. The only possible reason for the Port Authority's going into the office-building field at this time is simply that it is profitable.

The World Trade Center is a striking example of socialism at its worst—a state agency needlessly and inefficiently intervening in a market already well served by private capital.

Unlike the private outfits now constructing office space, the Port Authority will receive a subsidy of many millions from the federal, state, and city governments to build office space in Manhattan. Here is how the subsidy comes about: The interest the Port Authority pays on its bonds is tax-exempt to the lender. The authority will borrow the money it needs at an annual interest cost many millions of dollars *below* the price private borrowers would pay. Where is the difference coming from? From the federal, state and city governments that would otherwise collect that amount in taxes paid by bondholders. In addition, the Port Authority will pay New York City at least $15 million a year less in real estate taxes than private builders would pay for comparable space. When the World Trade Center is completed in 1972, Washington, Albany and New York may be subsidizing it by a sum approaching $50 million *per year*. This for a commodity easily available from others. This at a time when governments are hard-pressed to find funds for needs that private industry cannot supply. In all conscience the Port Authority should sell the trade center to private investors, thereby boosting tax revenues, and get back to its proper business.

The Port Authority makes money from the federal government another way. It borrows money at low rates in the municipal bond market because its interest payments are tax-exempt. It invests a part of this in United States Government securities as reserves for the bondholders—securities which, because they are not tax-exempt, pay the higher interest. The Port Authority pockets the difference, a pure subsidy from the federal government.

The Port Authority boasts that the World Trade Center will include a handsome new terminal for its PATH trains. But apart from that, it is silent on what it will do about the massive traffic congestion the World Trade Center is certain to create. Who will provide the transportation and other facilities needed to accommodate 50,000 tenants and 80,000 visitors *per day* in an area that is already crippled by overloaded transit facilities? That, the Port Authority blithely assumes, is someone else's problem.

The Port Authority has been generous to the states on occasion—but only when it could see something in it for itself. In 1955, for example, it gave New Jersey—*gave*—$24 million to speed construction of highways leading to its own George Washington Bridge. There is no reason, save not giving a damn, why it could not do something for the millions of commuters in New York and New Jersey who depend on the railroads. But nothing of the sort is in prospect. The Port Authority seems determined to go about its business as usual—arrogant, exploitative and oblivious to its larger responsibility. It has succeeded in tying its own hands through restrictions written into its bonds and its contracts with the states. These restrictions, of course, are not nearly so binding as the Port Authority now likes to think. What lawyers do, lawyers can often undo.

But the hard fact is, it will be difficult to get the Port Authority to change its ways. In a report to Mayor Lindsay last September, I stated that by doubling the tolls for vehicular traffic at all Port Authority crossings, the Port Authority would realize at least $70 million of additional revenues without any additional operating expenses; that these additional revenues would more than double the Port Authority's present borrowing capacity, making it possible for the Port Authority to borrow up to two billion dollars more, and that this could be used to help mass transportation in New York and New Jersey without in any way impairing the Port Authority's commitments to its bondholders, its credit standing, its ability to complete projects under way, and its opportunity to invest in new ventures. The Port Authority refused comment on this, as it had refused to comment on other suggestions I had made on ways the Port Authority could help mass transportation.

Can the Port Authority continue to ignore its mandate? Can it continue to remain unresponsive to the needs of the urban communities in New York and New Jersey in the Port District? It seems determined to do just that. After all, who can stop it?