

# What was Conrail Plan? For NJ Transit?

Jim Blaze notes from having been there with the Conrail transition team

- THE advent of Conrail as the “new railroad” for 77,000 North Jersey commuters brings promises of long-range service improvements
- BUT also fare increases and some service cutbacks
- The key to operations is the state's willingness not just to continue its present \$50 million annual subsidy for commuter trains, but to raise the subsidy payment

Edward C. Burks, NY TIMES  
May 23, 1976

# As 1976 came to aa close...

- New contracts to continue operation by Conrail of the commuter services on the former Penn Central, Jersey Central and North Jersey Coast lines had to be agreed to by Sept, 30th
- OUTLOOK INITIALLY...
- New Jersey WAS the problem.
- At the start, Conrail was set to discontinue the Cranford Elizabeth -Bayonne shuttle runs over what was once the main line of the Jersey Central.
- Also, the Princeton “dinky” between Princeton and Princeton Junction, on the former Penn Central main line, was likely cease operating by the end of the year 1976

# Two early questions for NJ to worry about

## **Equipment problems**

- CAPEX shortage
- The newest coaches on the North Jersey commuter runs, were the Jersey Arrow II's over the old Penn Central main line
- Although the • Department of Transportation has been encouraged by Conrail's declared desire to “run a good passenger service”
- Asst. NJ Commissioner Peter Stangl felt that overall ‘Conrail is going to have to be pushed’. Because Commuters is not their core mission.  
Conrail was essentially a freight carrier.

# 1976 into 1977 good news for NJ Transit

- The state had access to some 80 per cent Federal financing
- NJ pushed ahead with several major commuter improvements.

Its Federal grant to design a new electrification system for Conrail's Morris and Essex line (of the old Erie Lackawanna) between Hoboken and Dover and for extension of the electrification to Netcong.

+ The Federal Government authorized the construction of new electric cars for the modernized line.

During Conrail's Activation Team life and the first three years of Conrail's life – agreement was to keep things going as they where--

ACTIVATION period for Conrail  
August 1975 to April 1 1976

D-Day type planning/coordination

Day 1 was 4/1/1976



**Conrail E8 No. 4022 leads a commuter train on the New York & Long Branch in October 1978. Mike Schafer photo**

# What was Conrail doing?

- Trying to survive as we found out that the so-called FINAL SYSTEM PLAN has some serious flaws...

Prepared originally for Conrail's Chairman of  
the Board for delivery to GE's Executive Group  
in 1994

## Lessons from Conrail's Search for Profitability – out to 1994-96



Modified with few post 1996 updates

# Conrail Network





# Changing Management Philosophy

- From Government to Private sector thinking
  - motivate the need to change
  - inspire your people
  - and convince government leaders this is the right thing to do

# Theory of the Firm

- Is there money to be made? On freight
- If yes, how do we go about it?
- Why being the low cost operator is so critical?

# The Rail Industry Problem

- RR costs exceed motor carrier costs
- Some markets we can never compete in
- Where can we have the low cost advantage
  - » Segmentation
- Put our resources into the segments with the best Yield

The strategic question:

“could Conrail be profitable at densities less than 200 million tons?”

**Conrail Tonnage: Forecast versus Actual**  
(in millions of tons)

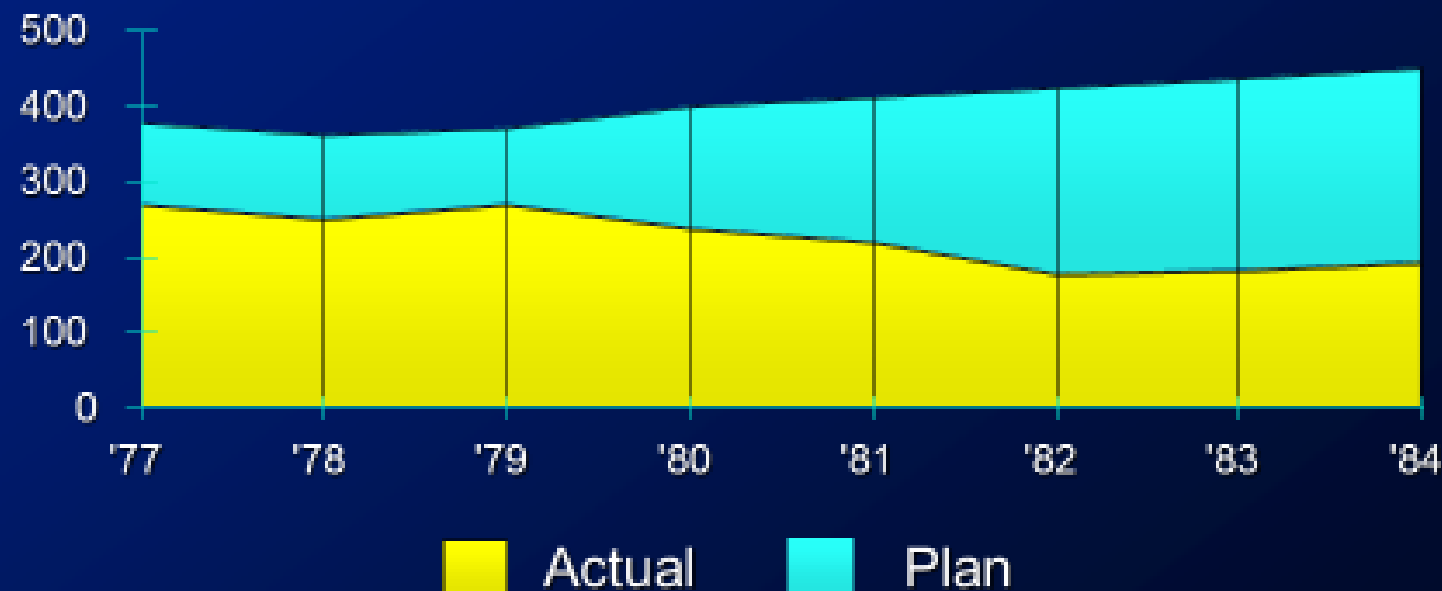
Year	the Plan	ACTUAL
1977	377	269
1978	361	250
1979	370	269
1980	399	238
1981	411	219
1982	423	177
1983	436	181
1984	450	192

It was clear by 1980 that customers would not give Conrail that much business. Management realistically concluded that total tonnage might decline to less than 150 million tons on a worst case scenario, and increase to no more than 220 million tons in the best case. **Tonnage exceeding 400 million would never occur.**

# The Original Government for Conrail Growth Was Flawed

## *Conrail Tonnage: Forecast vs. Actual*

Tons In Millions



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# WHAT CONRAIL & others did was to partner to have the FEDS revise the 1975 Final System Plan

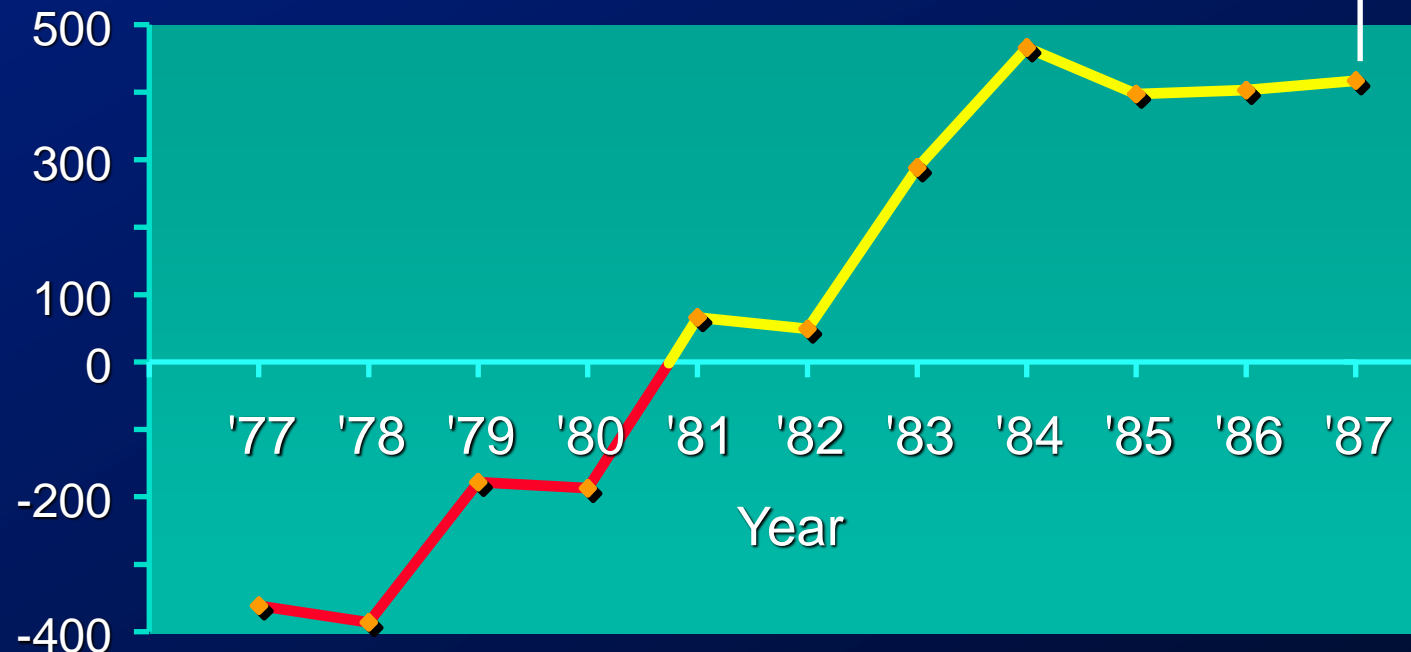
- How?
- Compromised on some role shifts
- Negotiated in 1979 to 1980 to have the original law and ASSET TRANSFERS under the FSP modified.
- Amtrack and a number of states agreed with the asset transfers to them

# Phase 2 -- Conrail's had a Commercial Success While Still A Government Corporation

## *Operating Income*

Dollars In Millions

Privatized 4/87



## *Conrail's Dramatic first improvement phase completed by about 1985*

- Three years after recording its first small profit, Conrail's operating income before taxes reached \$466 million on revenues of just \$ 3,380 million.
- Imagine the size of the improvement:
- **Conrail loses one quarter of it's 1979 traffic base and produces a \$ 600 million plus turnaround in its profit versus loss situation.**

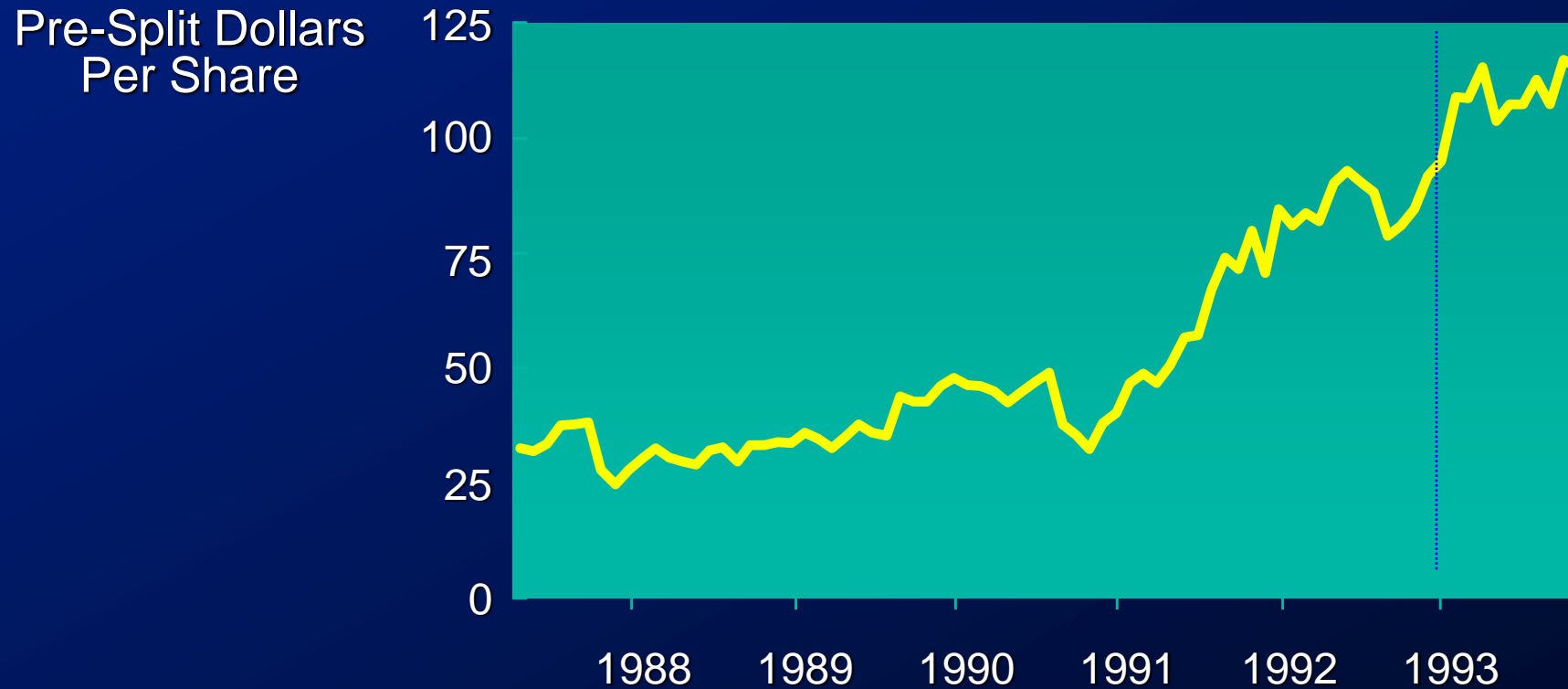


# Conrail's financial feasibility stabilized

- Taking a company valued as a private firm from about \$3 billion in value towards \$6.5 billion
- Between 1987 and 1996

# Shareholder Rewards: Conrail's Stock Performance

## *Average Monthly Closing Price to 1993*



Back to the New Jersey Transit story

What was the enabling legislation?

# Northeast Rail Service Act of 1981 –

General Provisions set forth the findings of Congress about freight and passenger rail service in the Northeast United States.

- Parts of the following summary was written by the Congressional Research Service, which is a nonpartisan division of the Library of Congress    Published on May 15, 1981.

# Passenger service 1976 to 1979 – then into 1982

- Passenger service continued under contract by NJ Transit with Conrail **until the end of 1982.**
- On January 1, 1983 NJ Transit assumed passenger operations from Conrail.
- NJ diesel-powered passenger service was provided by former EL U34CH's, CNJ GP-40P's, PC E-7A and E-8A's, and PRSL and CNJ Budd Company RDC's.

# Fixing the shortcomings of the original CONRAIL Act

- The original Conrail Act did not change much about the residual Commuter Services that remained with Conrail as it was believed that they were fully compensated for them by the states.
- EVERYONE AGREED THAT CONRAIL WAS NOT FULLY COMPENSATED
- The federal legislation that removed the requirement from Conrail to run Commuter service was the 1981 Budget Reconciliation Act. (PL 97-35) which in Section 1136 (45 USC 744a) said:
  - Notwithstanding any other provision of law or contract **Conrail shall be relieved of any legal obligation to operate commuter service on January 1, 1983.**
- Following this Act, the SecDOT ordered Conrail to get rid of everything that the Act allowed them to get rid of, while also greasing the skids of where the things that were shed will go as provided by the Act.

# TRANSITION COMMUTER PERIOD – 1981 TO 1983

## States Rush to Replace Conrail In Switch of Commuter Service

The Washington Post      By Douglas B. Feaver

December 30, 1982

- Transportation paralysis threatens Philadelphia and, to a lesser extent, New York and northern New Jersey Monday when the Consolidated Rail Corp. (Conrail) goes out of the business of hauling commuters.
- State transportation departments and transit authorities in Maryland, Pennsylvania, New Jersey, New York and Connecticut are scrambling to complete last-minute details and negotiate contracts with as many as 17 railroad labor unions each so they can assure train rides for the 214,000 weekday commuters who depend on Conrail to get to work.
- The changeover technically occurs Saturday, New Year's Day, but the first real test will come with Monday morning's rush hour, when many commuters will return to work after the holidays.

# EXECUTION – pg. 2

- In order to enable Commuter services to continue, the same Act created a subsidiary of Amtrak named **the Amtrak Commuter Service** to take over and operate all Commuter Services from Conrail on that date --- absent any other arrangements made for them by the respective states.
- As it turns out all states made other arrangements except Maryland.
- The Conrail Commuter service in Maryland transitioned to Amtrak Commuter Service
- NOTE -- The Clockers and the Keystones had already been transferred to Amtrak from Penn Central in 1974
- Entities like SEPTA, NJT Metro North and MBTA took over the operation and property of the Commuter Services in their respective areas
  - -- including massive transfer of staff from Conrail to these entities.



# Dec 30, 1982

- In New York, the Metropolitan Transportation Authority (MTA), which operates the subway and bus systems and the Long Island Rail Road, concluded negotiations with 17 rail unions so it can take over about 5,000 Conrail employees who operate the commuter trains on the Harlem, Hudson and New Haven lines.
- The Connecticut Department of Transportation reimburses the MTA for its operations between the state line and New Haven.
- Officials of the labor unions and the MTA predicted that service would continue and that the contracts will be signed.

# Over in New Jersey...

- New Jersey commuters to Hoboken, Newark, New York and Staten Island were in a similar, but less certain, situation.
- New Jersey Transit, the statewide public bus authority, is also negotiating to take over Conrail service but has made elaborate plans to provide alternate bus service for about 60 percent of its Conrail commuters starting Monday if there are labor problems on the rail system.
- "We're down to economic issues that I can't discuss," said Jerome Premo, executive director of New Jersey Transit. "The unions have been respectful and the next handful of days will be crucial." The unions have offered to work without contracts, Premo said, but he is anxious to have final agreements in place.
- Both the MTA and New Jersey Transit are seeking substantial changes from work rules in Conrail contracts
- Amtrak HAD ALREADY won significant changes in its contracts for the Maryland service and for its passenger operations in the Northeast Corridor between Washington and Boston.

# The theory at US DOT

- Hauling passengers is a losing proposition for railroads throughout the Free World, and that is the reason Congress, under substantial prodding from Transportation Secretary Drew Lewis, ordered Conrail to divest itself of its passenger operations.
- The order came in the Omnibus Reconciliation Act in July, 1981, and left transit authorities with little time to plan the massive takeover of more than 1,500 daily commuter trains that will occur Saturday.
- When the transfer is completed, Conrail will be completely out of the passenger business and can concentrate on improving its financial performance in the freight business.

# Conrail's fate not yet secured back in 1982

- Conrail faced two major tests in the upcoming year 1983.
- One option was a plan to sell off the freight railroad
- If Conrail was found to be profitable after the second test next October, than it is supposed to be transferred by the Transportation Department to private owners in a yet-to-be-determined manner.
- Conrail was is projecting a very low net income of \$130 million for 1982.
- However, under the accounting method required of railroads by the Interstate Commerce Commission, Conrail expected actually to report a loss of about \$35 million.
  - Far better than the \$350 million loss back in 1978.

# A few Conrail commuter service oddities



**Conrail's lone Chicago commuter train terminated at Valparaiso, Ind., and was known as the "Valpo Dummy." An operation inherited from the Pennsylvania Railroad, Conrail transferred operation of this train to Amtrak in 1979. Mike Schafer photo**

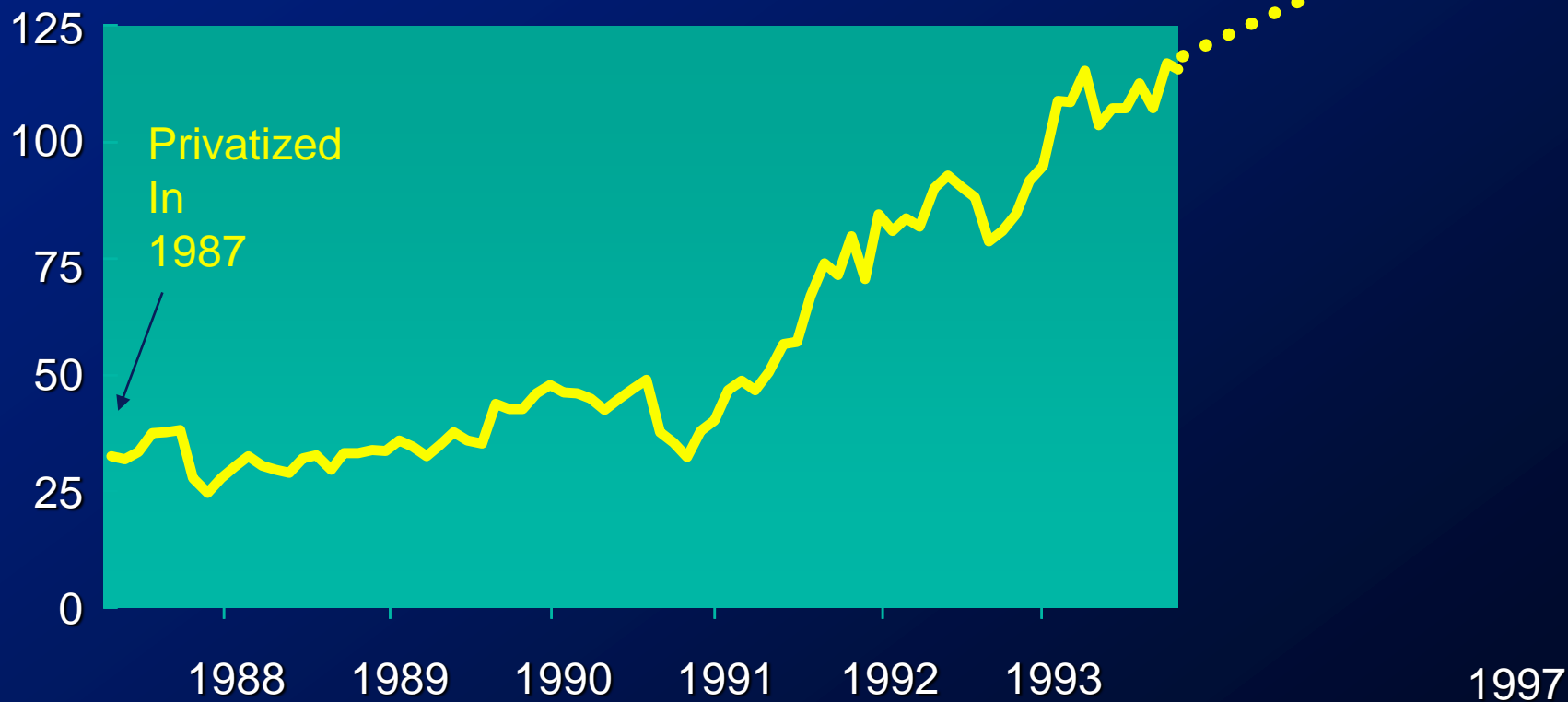
## LONG TERM STRATEGIC RESULT

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**CONRAIL MANAGERS MADE THE  
CONRAIL NETWORK  
MORE VALUABLE  
THAN THE COMPANY**

# CONRAIL WAS SOLD IN 1997 AT A HUGE PROFIT TO SHAREHOLDERS THAT INCLUDED MOST MANAGERS

Pre-Split Dollars  
Per Share





# Today Conrail still is alive & operating as Shared Asset Corp.

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- Conrail tracks are leased to Norfolk Southern and to CSX Railroad companies by a retained residual Conrail stock corporation
- Both NS and CSX are profitable vertically integrated railways that compete with trucks
  - and with each other in the eastern United States markets
- Strong independent companies can also “lease private train rights” on either NS or on CSX
  - Like JB Hunt Trucking and PACER Intermodal do