

1st MONDAY 3rd MONDAY

Prepared for employees by the
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September 3, 1979

Managers and Supervisors:

The hearing on the embargo and associated issues began on August 27 and concluded on the 31st. The Special Master will have his report ready on September 11. Beyond this, there is no definite timetable and we will just have to wait for the Judge's decision. However, if the embargo is granted we anticipate that the earliest date it could be effective would be October 1. As you know, the ICC said it is prepared to implement a program of directed service if the embargo is approved.

One of the issues before the court is the Trustee's request to borrow \$15 million from the Milwaukee Land Co. and from the proceeds of the sale of railroad property. We have had to make repeated borrowings to sustain the operation of the entire railroad. Since filing for reorganization, we have tapped every available source of internal and external assistance. To date we have obtained some \$106 million through the issue of Trustee's Certificates. The source of these funds has been: \$45.8 million under the 4R Act; \$25.1 million in ERSA funds; \$16 million from the Land Company; and \$19 million from the property sales account. With the exception of the 4R funds which were approved in 1978, all the other borrowings were made this year.

The financial well, however, will run dry. The Carter Administration has said that additional federal funds cannot again be made available to support the full 9,800-mile system. We have told the court that the last of the funds presently available to us will probably be exhausted sometime in October. Even if the court approves the present request to borrow \$15 million, the funds will not be enough to support the full system beyond the end of the year.

As noted in the August 20 issue of FM/TM, the Trustee has asked the court for authority to borrow most of the some \$250 million in federal assistance that will be needed to fund the transition to, and the operation of, the "Milwaukee II" system. A hearing on this request is scheduled before Judge McMillen on September 24. Part of the funds the Trustee is seeking is the \$30 million now remaining in the ERSA appropriation. However, the Rock Island, and possibly some other railroads, are also interested in securing some of this money. We do not know if we will be able to secure the full \$30 million.

In a related financial matter, oral arguments are scheduled for September 17 in the U. S. Court of Appeals on the appeal by the indenture trustees of two of the most recent borrowings approved by the reorganization court. The borrowings are \$15 million in property sales proceeds obtained in May and June and the recent \$20 million ERSA loan.

The third issue before the court is the Trustee's request for direction regarding the need to spend nearly \$4 million to bring sections of the main line west of Miles City and parts of the Northern Montana line up to minimum FRA track standards. The problem of track deterioration, however, is not confined to non-"Milwaukee II" lines. Paul Cruikshank, Vice President, Operations, told the court during the embargo hearing that some "core" routes,

including parts of the lines to Green Bay and to Wausau, might have gone out of service had we not made the decision to do the work to bring this track up to minimum standards.

The Commission has adopted an expedited hearing schedule on our application to abandon lines west of Miles City. Hearings are scheduled to begin on September 10 and they will take place in six cities along the line and also in Chicago. The ICC timetable calls for an administratively final decision on the abandonment by early this January. Should the Commission approve the abandonment, actual discontinuance of service probably won't happen until considerably later in 1980.

We now have service orders from the Commission granting us trackage rights over the Indiana Harbor Belt Railroad to Hammond and then over Conrail from Hammond to Terre Haute. Track and bridge work on the Conrail line is almost complete. Our through Chicago-Louisville operation over Conrail is now targeted to begin on September 17.

During the recent court hearing, the Trustee announced he had agreed to remove some lines from the embargo proposal on the strength of financial assistance from states and shippers. The dotted lines on the map on the opposite page indicate the lines that are in this category. But as the note on the map states, these lines are not presently considered to be part of the "Milwaukee II" core system. The changes on the map illustrate the Trustee's position that he is willing to be "flexible" in the reorganization process.

Fuel availability remains tight, but not critical. With a few exceptions, we have about 8 days supply at most fueling locations on the railroad (our normal reserve supply is 15 days). As expected, fuel prices continue to climb. As I've noted before, at current rates of consumption, each cent increase in the gallon price adds about \$750,000 to our basic annual operating expenses. And this is a cost increase from which we get no increase in productivity.

I understand that pages of the preliminary plan of reorganization which outline savings that could be achieved through work rule changes in the train and engine service crafts and in some non-operating crafts have been posted in some areas of the railroad. I refer to pages 30-32 of the plan which indicate that a savings of some \$11 million could result from certain work rule changes.

If anyone read this material and came away with the idea that the reorganization of the railroad will come at the expense of the employees, please read page 56 of the plan and the section titled "A Commitment By Management and Labor." This section states that the estimated work rule change savings are not part of the financial assumption upon which the plan is based. The plan does, however, state that some work rule changes "would increase the assurance that a successful reorganization can be achieved."

A major part of the decision to attempt to reorganize the Milwaukee Road rather than to liquidate the company is the importance of providing continued employment for a large part of the present work force. There is, of course, no guarantee that the railroad can be reorganized. But if there is to be a chance for reorganization, it will depend in large part on diligent, constructive and cooperative action on the part of both management and labor.

For those of you who are interested in statistics, here are some recent figures on Milwaukee Road employment. In mid-July, 10,659 people worked for the railroad. Employment increased slightly during the last half of the month and total compensation paid to employees during the full month was \$21.3 million. A breakdown of the mid-July employment figures by general job categories showed the following: executives, officials and staff assistants, 424; professional clerical and general, 1,927; maintenance of way and structures, 2,281; maintenance of equipment and stores, 2,084; transportation (other than train, engine and yard), 629; transportation (train and engine), 3,182; transportation (yardmasters, switchtenders and hostlers), 138.

In the June 21 issue of FM/TM I asked you for some feedback on the usefulness of this publication. From the written and verbal comments I've received, I gather that the FM/TM letters are providing the kind of information which you as supervisors need. I understand from your comments that the FM/TM letters are getting a wide distribution both within and outside of the railroad. That's fine and keep it up. The information in the letters is for all employees and anyone else who is interested in the Milwaukee Road.

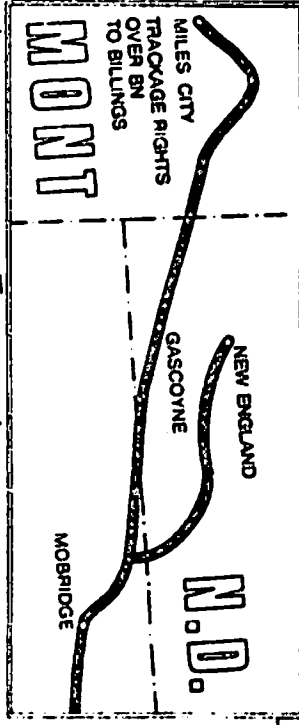
Some of you have said these letters could be more timely. I realize that not all of the information in FM/TM is "news" to all of you. Things often happen at a fast pace and information about events affecting the railroad often are discussed in the media before they appear in FM/TM. We've tried to compensate for this with special editions of FM/TM and through the use of "To all concerned" wire messages which are generally available over much of the railroad within a few hours after transmittal.

FM/TM now is sent to nearly 800 managers and supervisors. It is also sent to all General Chairmen. Please feel free to drop me a note if you have any ideas about how FM/TM can be improved or if there are topics you would like to see discussed in the letters. Thank you.

W. L. Smith
President

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CHIEF TECHNICAL INSPECTOR
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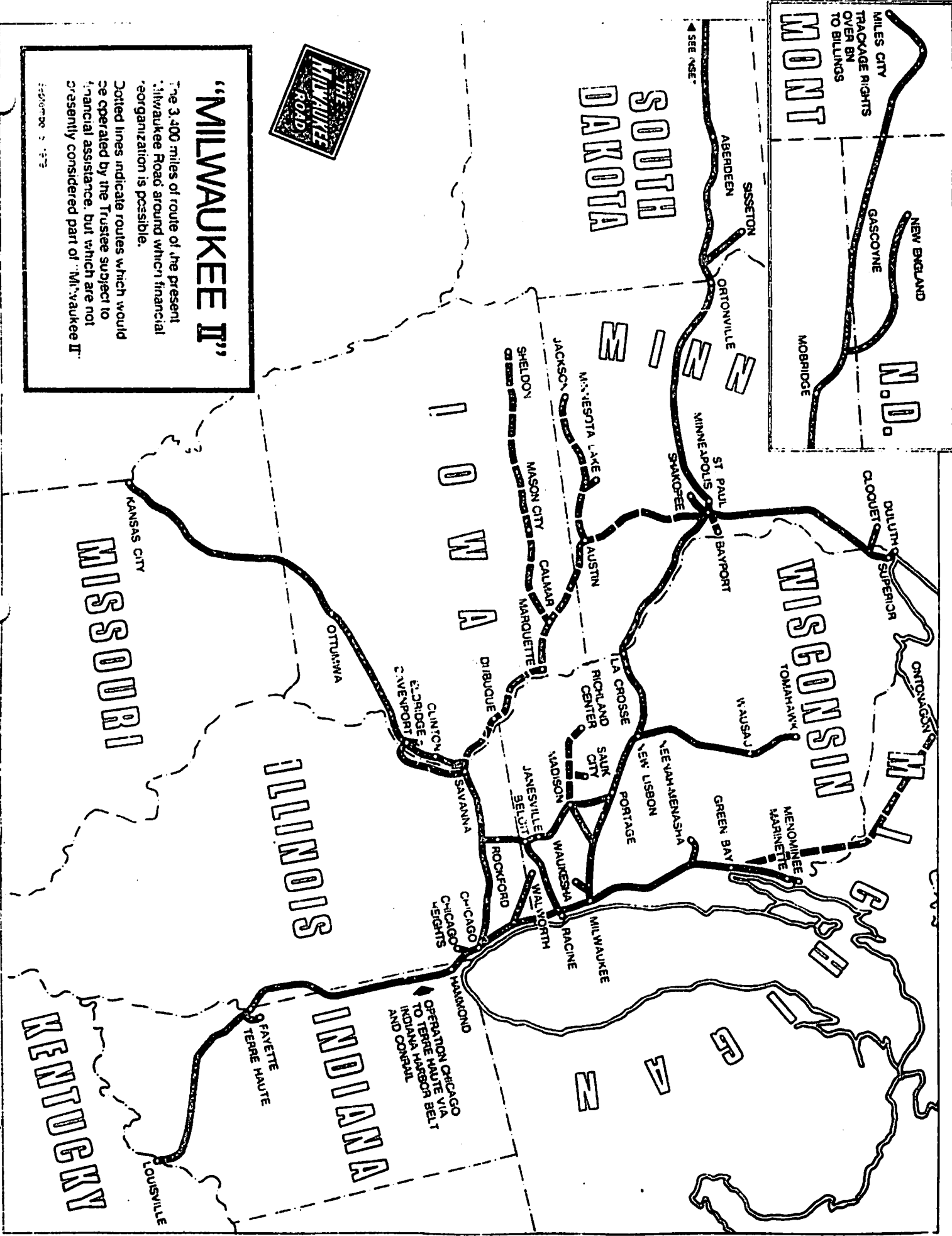
SOUTH
DAKOTA



"MILWAUKEE II"

The 3,400 miles of route of the present Milwaukee Road around which financial reorganization is possible.

Dotted lines indicate routes which would be operated by the Trustee subject to financial assistance, but which are not presently considered part of "Milwaukee II".



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