

SORE Newsletter No. 10  
4410 - 20th Street East  
Tacoma, Washington 98424

November 14, 1979

Dear Members and Friends:

Introduction:

We have now arrived at a point in time when the future of the Milwaukee Railroad will be decided once and for all. During the next 60 days the final decisions will be made that will either assure that the Milwaukee is reorganized as a viable trans-continental railroad or truncated to an uneconomic midwestern railroad doomed to certain failure.

In response to the October 31 embargo, Congress enacted and President Carter signed, legislation which sets specific dates for the presentation, approval and implementation of a shipper-employee reorganization plan. A detailed plan must be presented by December 1, 1979, and approved by the ICC within 30 days and thereafter by the bankruptcy court within 10 days. Financing and labor commitments must be obtained at the same time. If any deadline is missed or if the plan is not approved by the ICC or court, then the court is given authority to immediately abandon part or all of the Milwaukee system without ICC review, and without directed service.

The work to be completed by New Milwaukee Lines over the next 60 days is awesome. Happily, a good deal of it is already underway and our exceptional staff and consultants have the capability to do a job that others might assume to be impossible. This is our chance and we must not fail.

The following is a discussion of the status of the embargo, the legislation, the New Milwaukee Lines plan, and our funding requirements.

Embargo:

Judge McMillen granted authority for the Trustee to embargo operations effective October 31 on the Milwaukee's western lines as well as lines in Iowa and Wisconsin. The Trustee acted immediately to divert all equipment and power off the Milwaukee by the nearest connection and to furlough employees. To the surprise of some, the ICC refused to order directed service, but did issue a service order allowing the Trustee to re-route Milwaukee traffic by other carriers. The re-route order was effective system wide, not just in the West. For example, the Milwaukee coal trains normally received from the BN at Miles City destined for Wisconsin were re-routed off the Milwaukee, and the BN handled them all of the way to St. Paul. This certainly brings into question whether there was ever any intent to include the Miles City to St. Paul segment in the Trustee's Milwaukee II.

Following President Carter's approval of Senator Magnuson's bill, all of the parties were back in court on November 5 and Judge McMillen lifted the embargo, requesting the Trustee to restore service to the October 15 level as soon as practical. The ICC re-route order remains temporarily in effect, but is being monitored closely to see that it is not being used in lieu of re-establishing Milwaukee service.

We now anticipate that power will be returned to the West and service restored in the immediate future. It will be helpful if each of you will keep track of activities in the territories you work, reporting irregularities to Ron Russ who is voluntarily staffing our new offices at (206) 623-3312 in Seattle, Washington.

Legislation:

In response to the embargo, Congress moved quickly to enact legislation which had been under consideration for some time. The legislation is a compromise between at least three different geographic interest groups: the Midwest, the East and the Pacific Northwest. The Eastern congressmen were determined to keep the dollar commitment of the federal government to an absolute minimum. This seems peculiar in light of their generous attitude toward the Penn-Central bankruptcy and Con-Rail; nevertheless, the Eastern interests insisted on a minimum federal commitment which resulted in providing funding to reopen the railroad for the shortest possible time necessary to give New Milwaukee a chance to file a plan and obtain review by the ICC and bankruptcy court. In a further effort to save money at the expense of the West, the bill provides that it is in lieu of directed service and that if New Milwaukee fails to get its plan approved there will be no directed service.

The midwestern interests, still believing that the western operations were dragging down the midwestern portion of the system, were most concerned to strictly limit labor protection which they feel will have to be paid employees in the West. Many midwestern congressmen still do not realize that the midwestern portions cannot survive without long-haul western traffic and that by severely limiting labor protection have created a potential situation where if New Milwaukee fails to get its plan approved, employees in the West will receive some protection, while there will be little or none for those in the Midwest.

Northwestern congressional delegations, led by Montana and Washington, pushed hard to get funds to reopen the railroad immediately and to get a time table for New Milwaukee to formalize, present and implement a plan for employee-shipper ownership of a reorganized transcontinental Milwaukee.

The bill establishes a process that would allow New Milwaukee Lines until December 1, 1979, to file a plan with the Interstate Commerce Commission for acquiring all or a substantial portion of the Milwaukee Railroad. The ICC would have 30 days in which to determine whether the plan is feasible. In order for the plan to be feasible, the ICC would have to find that:

- adequate public and private financing is available;
- the plan is fair and equitable to the railroad's estate;
- implementation of the plan would occur by April 1, 1980;
- that part of the railroad to be operated under the plan can be operated on a self-sustaining basis; and
- the plan contains an assessment of all operating practices, and includes agreements by labor and management to make implementing changes to increase labor productivity.

If the ICC determines that the plan is feasible, the bankruptcy court would have 10 days in which to review the ICC finding of fairness and equity to the estate, but could rebut the finding only by clear and convincing evidence. The ICC finding that "adequate public and private financing is available" limits the

public financing to programs in existence as of January 1, 1980, and New Milwaukee Lines must be able to show that adequate funds are or will be available and that it is likely to obtain them. If the plan survives the ICC and court review process, New Milwaukee Lines would have until April 1, 1980, to implement the plan.

If New Milwaukee Lines fails to submit a plan by December 1, or the ICC determines that it is not feasible, or the court finds that the Milwaukee estate is not treated fairly and equitably, or New Milwaukee Lines fails to implement by April 1, 1980, then the bill triggers certain other events:

- the bankruptcy court, not the ICC, would have immediate authority to approve abandonments;
- the bankruptcy court, with limited ICC review, would have immediate authority to approve sales or transfers of Milwaukee property to other carriers; and
- there would be no directed service since the Emergency Rail Service Act funds are deemed to be a substitute for directed service, at least until April 1, 1981 (long after service has been discontinued on that part of the railroad's system outside of the Trustee's proposed Milwaukee II core railroad).

The exigencies of the present situation and this complex legislation present a difficult and unique choice for Milwaukee employees and shippers who will not be included in the Trustee's Milwaukee II system. The choice is to provide sufficient immediate financial support to New Milwaukee Lines to enable it to survive the ICC and bankruptcy court review process and to implement the acquisition of a Seattle-Louisville transcontinental line by the April 1, 1980 deadline, or to watch the western lines of the Milwaukee collapse and have no service in the interim before the Burlington Northern, Union Pacific and other carriers possibly purchase portions of the railroad and restore service. At the minimum, this transition would take months.

If New Milwaukee Lines succeeds, the employees and shippers will have acquired a potentially very valuable railroad property for very little cash but with a major commitment to make it succeed. Federal loans will be available to rehabilitate the main lines and equipment and it will be up to the new owners to use the railroad to provide service and maybe a profit for themselves.

If New Milwaukee Lines fails, the western lines will be shut down immediately. There will be no directed service. The nation will lose a great national asset. The midwestern portions can be expected to close soon after and all Milwaukee employees will be left to find new jobs.

The creditors have filed a petition in the bankruptcy court challenging the constitutionality of the legislation, claiming that continued operation of the railroad will erode the estate. The issue will be argued in Chicago on November 15. We will be represented by Yale Lewis and Tom Brewer, who have prepared an extensive brief and are confident that the statute is constitutional. We anticipate that Judge McMillen will reject the creditors' attack on the statute. If, however, he should accept their position, we will pursue an immediate appeal. Congress and the Administration have indicated that we should have time to present our case to the ICC and that the railroad should be continued in operation until we are shown wrong. Regardless of the outcome of the November 15 hearing, you should not lose hope, nor assume that we are beaten. We have made it this far and are now within reach of success, only because we did not give up when the odds were overwhelming. New Milwaukee Lines is now in a position to see the matter to a successful conclusion.

#### Plan Preparation:

Russell Murphy of the Consulting Center and his staff have been working since August to develop a detailed reorganization plan for New Milwaukee Lines. They have used the SORE proposal, data from the Booz, Allen & Hamilton work papers, and their own research and are now in the final stages of refining a viable plan. The basic outline is for a new railroad company to be owned 50% by employees and 50% by shippers and investors which would acquire the Milwaukee Railroad plant and equipment between Louisville, Kentucky and the Pacific Coast. The new company would concentrate on long-haul transcontinental traffic, abandoning a significant amount of short-haul midwestern territory to other carriers.

Finalizing the plan will be a major effort which must be completed by December 1 in order to allow it to be filed that day with the ICC. Tom Brewer will go to Washington D.C. immediately following the November 15 hearing and will stay there to work with Russell Murphy, Bill Brodsky, our consultants and myself, refining the plan until it is filed, and then to work on the hearings which the ICC will hold concerning the plan.

Prior to filing with the ICC, the plan will be reviewed by the New Milwaukee Board at its meeting in Spokane on November 27. As work will be continuing on the plan full time up to that date, that is probably the earliest that detailed copies will be available.

At the same time that the plan is being prepared for ICC filing, applications will be started to obtain necessary 4-R Act financing for rehabilitation and E.D.A. and Farmers Home Loan financing for the Employee Stock Trust which will provide funds for the employees to purchase their share of the new railroad company's stock. The loan applications will be handled by Gerry Johnson of Seattle, Larry McCaffrey of Washington, D.C., and Russell Murphy of Alexandria.

Bill Brodsky and Jim Wickwire will be working with the labor organizations to develop the necessary ground work for the new company's labor agreements. Adrian Parmeter and myself will be working with shippers and investors to develop commitments for the 50% of the stock in the new company that will not be held by employees. In that regard, I have just returned from ten days in Japan and Taiwan where preliminary meetings were held to explain what was happening to the Milwaukee, the New Milwaukee Lines' efforts and that Japanese and Chinese equity investment would be welcome. These meetings, arranged by Montana's Governor Judge and his staff, were only preliminary, but they provided an important opportunity to meet with the leaders of the financial and business communities in the two countries and we now are in position to follow up with detailed discussions as soon as the plan is finalized.

John Pelling, Vice-President of Dean Witter Reynolds in New York and his staff are providing leadership for us in working to assemble domestic investor support.

We will be meeting frequently with the Trustee and the railroad creditors over the next month in order to establish an outline for a fair and equitable settlement of their interests. Yale Lewis is actively working as our lead negotiator in this area.

#### Funding Requirements:

There is an enormous amount of work to be accomplished over the next three months. The plan must be finalized and shepherded through hearings before the ICC and bankruptcy court; rehabilitation financing, ESOP financing, shipper-investor commitments must all be developed, labor relations and management ground work must be worked out. It is all possible and we have capable staff and

consultants getting the job done. We will not be able to complete the work, however, if we do not raise funds to meet the November and December payrolls. We now project that November expenses will be in the vicinity of \$200,000 and that December expenses will be \$150,000. These figures are consistent with our original budget projections and we will have to raise the funds now. The Old West money will pay our expenses through October. We have not received funding from the Pacific Northwest Regional Commission nor from National Rail Labor. We are still hopeful that these sources will eventually come through, but we cannot wait longer. Congress has set the time limits within which the work must be done and we cannot procrastinate. The next two months will be up to the employees and the shippers. They have the option to fund the effort and develop effective competitive service and good jobs or to hold back and assure the immediate end of Milwaukee service in the West and in Iowa and the eventual end of all Milwaukee service.

We are asking each working employee to contribute 10% of their checks for the next two months. This is a major commitment, but the result to be achieved will be good jobs and a share in the ownership of a vital new railroad company that will run in a manner to make each of us proud and that will earn a profit to benefit each share owner.

Letters are being mailed to Milwaukee shippers stressing the urgency of the situation and asking for their financial support. The shipper letters will be followed up with personal telephone calls. Up to this point New Milwaukee Lines has involved a relatively limited number of big shippers. We are now in contact with many more medium and smaller shippers and expect to receive their support.

#### New Offices:

In order to provide a central location to handle the growing volume of paperwork and to provide a place for you to find out the status of the reorganization we have rented office space in the Union Trust Building in Seattle. The address is: 119 South Main Street, Seattle, Washington 98104. We are on the second floor and the telephone number is (206) 623-3312. Ron Russ has volunteered to take charge of getting the office underway, and can be reached at that number.

A list of the officers and directors of New Milwaukee Lines is attached.

Please send your tax deductible contributions to Bill Arnold at Fife Community Credit Union, 4410 20th Street East, Tacoma, Washington 98424; or to Mike Fitzgerald, Treasurer, New Milwaukee Lines, 415 Power Block Building, Helena, Montana 59601.

Sincerely,

*J. Fred Simpson*  
J. Fred Simpson *hou*

NEW MILWAUKEE LINES

OFFICERS

President: William J. Arnold  
President, Fife Community Credit Union  
4410 20th Street East  
Tacoma, Washington 98424

Executive Vice President: William H. Brodsky  
427 South Princeton  
Itasca, Illinois 60143  
(312) 773-2180

Vice President, Financial Planning: J. Fred Simpson  
P.O. Box 10629  
Bainbridge Island, Washington 98110  
(206) 842-4310

Vice President: John A. Wall  
President, Power Townsend Company  
P.O. Box 5087  
Helena, Montana 59601  
(406) 442-2770; 442-2771

Vice President: Daryl W. Dewald  
General Secretary-Treasurer,  
United Transportation Union Lines West  
P.O. Box 97  
Alberton, Montana 59820  
(406) 722-4462

Treasurer: Michael T. Fitzgerald  
Director, Montana International  
Trade Commission  
Suite 415, Power Block Building  
Helena, Montana 59601  
(406) 443-7910; 442-6554

Secretary: W. Paul Schmechel  
President, Montana Power Company  
40 East Broadway  
Butte, Montana 59701  
(406) 723-5421, ext. 2104

NEW MILWAUKEE LINES

BOARD OF DIRECTORS

W. Paul Schmechel, Chairman of the Board  
President, Montana Power Company  
40 East Broadway  
Butte, Montana 59701  
(406) 723-5421, ext. 2113

C.K. Clover  
General Chairman, Brotherhood of Locomotive Engineers  
Lines West  
2510 David Court Place East  
Tacoma, Washington 98424  
(206) 922-7631

Lloyd Hanson  
General Chairman, United Transportation  
Union Lines West  
1505 Lilac Lane  
Liberty Lake, Washington 99019  
(509) 255-6324

P.H. Jacobson  
Assistant General Chairman, Brotherhood of  
Maintenance of Way Employees  
2305 North 12th Street  
Coeur d'Alene, Idaho 83814  
(208) 667-7227

Joe P. Shannon  
Local Chairman, Brotherhood of Railway  
and Airline Clerks No. 66  
P.O. Box 9  
Denton, Montana 59430  
Office: (406) 567-2280  
Home: (406) 567-2525

Andrew T. Nelson  
Manager, Transportation Research, Grain  
P.O. Box 43594  
St. Paul, Minnesota 55164  
(612) 646-9433

William J. Arnold  
President, Fife Community Credit Union  
4410 - 20th Street East  
Tacoma, Washington 98424  
(206) 922-7870

NEW MILWAUKEE LINES

BOARD OF DIRECTORS (continued)

Peter Field  
President, Cameron Forest Industries  
P.O. Box 490  
New Castle, Wyoming 83701  
(307) 746-4497

Dominick Costello  
Division Chief  
Marketing for the Department of Agriculture  
P.O. Box 94947  
Lincoln, Nebraska 68509  
(402) 471-2358

Art Kane  
President, Knife River Coal Mining Company  
1915 North Kavaney Drive  
Bismarck, North Dakota 58501  
(701) 223-1771

Donald L. Frerichs  
2234 Merrihills Drive  
Rochester, Minnesota 55901  
(507) 282-8233

Michael T. Fitzgerald  
Director, Montana International  
Trade Commission  
Suite 415, Power Block Building  
Helena, Montana 59601  
(406) 443-7910; 442-6554

Kenneth B. Jones  
301 Park Street  
Yankton, South Dakota 57078  
(605) 665-7866