

1st MONDAY 3rd MONDAY

Prepared for employees by the
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July 2, 1979

Managers and Supervisors:

Judge McMillen has continued for two weeks the hearings on the selection of a new Trustee. More than 40 names have been submitted to the court for consideration. Judge McMillen has engaged an executive search firm to assist him in reviewing the credentials of candidates. This is the same process the court followed at the time Mr. Hillman was named Trustee.

Fuel availability remains uncertain. Last week we began to make modest reductions in the frequency of some freight operations. No services have been eliminated totally. We shall continue to operate the entire railroad as fuel supplies permit. So far, the service reductions have been confined to our midwestern routes because that is where fuel supplies are tightest. We plan to restore service when, and if, sufficient fuel becomes available. We have already been able to do this in some areas where shippers have helped us find fuel. We are working with our shippers on the service cuts and are asking them for their cooperation in adjusting their transportation needs to what we can provide.

The federal government apparently isn't going to act on the rail industry's request for full fuel allocations for rail freight operations. The Department of Energy did eliminate the 100 per cent allocation for agricultural production, mostly to satisfy the demands of the independent truckers. It is both ironic and frustrating to cut service when railroads are the most fuel-efficient way to move high volumes of freight. Further compounding the irony is the fact that the Milwaukee now has more locomotives available for service--nearly 400 road units--than at any time in the past two years.

This week we initiated two activities with the ICC and in our 16-state service territory which relate to the railroad's proposal to reduce the size of its system to that which can be successfully reorganized. Our attorneys have begun notifying the ICC and the public that:

. By August 8, we will file with the ICC a formal application to abandon our lines west of Miles City; and

. In compliance with an order of the reorganization court, we are filing a map with the ICC that provides notice that the Milwaukee's entire system is subject to abandonment applications within the next three years.

Neither of these actions means that service, over either the entire Milwaukee or over major parts of it, will stop in the immediate future. On June 19, Judge McMillen ordered us to begin abandonment proceedings for the entire railroad and to file a new map with the ICC. He did not order us to abandon the entire railroad now nor in the future, provided that in a plan of reorganization we can show that portions of it can be saved in Milwaukee Road ownership. Since reorganization will involve the divestiture of many of our lines, and since even a sale to others requires that we technically abandon the line

ourselves, both the Judge and we want to get the lengthy procedures involved in line abandonments started as quickly as possible. The Trustee's preliminary plan of reorganization is due to be filed with the court on or before August 6.

The new map which was prepared under ICC regulations pursuant to Title VIII of the 4R Act and which is dated June 30, 1979, indicates that 8,030 miles of owned route and trackage rights are anticipated to be subject to abandonment applications within three years; and that 1,966 miles of owned route and trackage rights are already the subject of abandonment applications before the Commission.

In recent actions related to wages and benefits the court has authorized the Trustee to:

- . Reinstated, effective July 1, the merit salary program for exempt personnel. The program was suspended in April because of our difficult cash position;

- . Pay scheduled wage increases and cost-of-living adjustments that became effective under union agreements on July 1;

- . Continue to defer, until further court order, payment of back pay obligations that, under union agreements, would have been effective at various times since January 1, 1978. In its agreements with the unions the Milwaukee has said that it would make such payments when cash is available. The court approved the agreements on this basis.

The court has approved an agreement between the Milwaukee and the American Train Dispatchers Association. This is the last of the nationally negotiated labor agreements to be approved by the court. We are working on the language of an agreement with the American Railway Supervisors Association which represents mechanical foremen in the car and locomotive department.

There's good news about track and equipment rehabilitation programs.

Rehabilitation of the 68-mile line between Alden and Jackson in Minnesota will continue soon under an amended contract with the Minnesota DOT which has been approved by the court. Under the contract the state will lend us our share of the track-upgrading costs.

In 1978 the court approved contracts between the Milwaukee, Minnesota and two shipper associations for the rehabilitation of the Alden-Jackson line. Work began last fall and was scheduled to resume this spring, but our cash position has made it impossible for us to provide our share of contracted costs. The amended contract will allow the upgrading of the line to continue. The line is important to our grain revenues and to Minnesota's agricultural economy.

A budget appropriation bill which includes a \$1.6 million grant for initial rehabilitation work on our line between Iron Mountain and Ontonagon has passed both houses of the Michigan legislature. We'll begin work on the line as soon as possible after the Governor signs the bill.

Work is continuing on the rehabilitation of portions of the Mason City line under contract between the railroad, Iowa, and shippers. This is the third year of work on the line.

Negotiations are progressing with South Dakota, which is working in conjunction with North Dakota and Minnesota, on the development of a \$2.3 million grant for the rehabilitation principally of the Gascoyne-Big Stone City portion of the line between St. Paul and Miles City. If talks are successful, we hope to be able to go to court for approval of a final agreement on July 23.

Upgrading of 34 miles of line and 8 miles of siding between Fayette and Latta, Indiana, is complete. Loan funding was provided by an Indiana utility company.

The Shipper Assistance Program is moving forward. The court has approved a contract with Farmers Union Grain Terminal Association for the repair of 25 jumbo covered hoppers. FUGTA is providing an interest-free loan of \$237,500 which we shall repay in 60 monthly installments. Work will be done at Milwaukee Shops. The project will be completed in August. Rehabilitated cars will be assigned to serve various FUGTA elevators in the Dakotas. Shortly, we plan to go to court for approval of additional loan agreements totaling some \$500,000 for the repair of 28 more hoppers and 35 boxcars used in paper service.

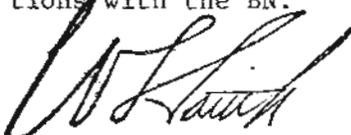
4R-funded locomotive and car repair programs are nearly complete. As of the end of June, 105 of 111 locomotives and 762 of 950 freight cars in the programs had been repaired and returned to revenue service. Milwaukee Shops forces have also completed work on two Precision National Corporation locomotives and are working on an additional eight units. The PNC repair contract could, over time, involve the upgrading of as many as 50 units. Repairs have also been completed on two of three Milwaukee units used in unit coal train service. This work is being funded by a loan from a Wisconsin utility served by the unit trains.

In our other 4R project, work continues full-swing on the rehabilitation of the Milwaukee-St. Paul main line. The 4R track force now numbers some 350 persons.

We are in the process of augmenting our track and mechanical department forces so that we can continue to operate the entire railroad as ordered by the reorganization court. The additions to the work force are consistent with budgets we have presented to the court. The July force level for maintenance-of-way activities will represent an increase of some 550 persons over the size of the force at the start of the work season in May. These additions represent the historic seasonal increase in the track force. A total of 419 persons are being added to the car and locomotive department; 258 persons on the divisions and 161 persons at Milwaukee Shops. Our ability to sustain any level of maintenance activities depends, of course, on our cash position.

The Sprint Train intermodal demonstration project has been extended 17 weeks, retroactive to June 10. We are also talking with the FRA and AAR about an additional eight-month extension and an expansion in the present service schedule. The fuel shortage, in combination with the strike of independent truckers, has increased the popularity of Sprint service for intermodal shippers. Sprint volume reached a record high of 1601 trailers during the week ending June 23. Even before that, weekly loadings were averaging well over twice what they were when we began Sprint operations last June.

The court has approved an agreement by which the Port of Pend Oreille will lease and operate for up to 180 days the Milwaukee's line between Newport and Metaline Falls, Washington. The Port has the option to buy this property during the term of the lease and to make arrangements to secure the trackage rights the Milwaukee uses to operate between Newport and East Spokane. The Milwaukee's East Spokane-Metaline Falls line is now before the ICC for abandonment. Sale of our property and the Port's acquisition of rights into East Spokane is contingent upon ICC approval of the abandonment and on their negotiations with the BN.



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