1st MONDAY
3rd MONDAY

Prepared for employees by the
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To all Milwaukee Road Employees:

The Rail Deregulation Bill has passed both Houses of Congress and is awaiting President Carter's signature. Important to "Milwaukee II" is the section of the Bill "forgiving" those obligations incurred under the provisions of the Milwaukee Railroad Restructuring Act November 1979 through February 1980. This indebtedness, in excess of $50 million, will be "forgiven" when "Milwaukee II" is successfully reorganized or when more than 50% of "Milwaukee II" has been sold and 50% of its employees have obtained employment with other carriers.

The Bill will produce a period of adjustment in dealing with the unfamiliar for railroads and their customers. Answering a question regarding the effect of deregulation on "Milwaukee II," Governor Ogilvie stated:

> "'Milwaukee II' is a smaller, leaner operation organized for effectiveness. Through the trials of our reorganization process we have experienced a continuing period of review and change. We have analyzed our route structure, management, management systems, and marketing approach -- then responded to develop a new railroad as required by our bankruptcy. The reliability of our car and locomotive fleets and track structure has vastly improved since December of 1977. Our employees have responded in a positive fashion unknown in the rail industry. We do not have the financial strength of some of our competitors, but our progress toward reorganization has better conditioned us to face this new railroading era requiring acceptance of change and quick response."

Disposition of our non-operating properties continues. The sale to the Escanaba & Lake Superior of the 117 miles between Iron Mountain and Ontonagon, Michigan, was closed September 29. E&LS has an option for the next 12 months to acquire the 94 miles between Iron Mountain and Green Bay, Wisconsin, over which it is presently providing temporary service under ICC Order. Earlier in September, Judge McMillen gave final approval of the sales to Crandic and Illinois Central Gulf, both in the Cedar Rapids area. We are, of course, awaiting final approval from the Court of our sales to Burlington Northern and Union Pacific. Soon, we anticipate completion of the transfer of ownership to South Dakota of some 760 miles of route in that state. South Dakota will also lease, with an option to buy, the line between Canton, South Dakota, and Sheldon, Iowa, and between Canton and Elk Point, South Dakota.

The Marquette - Mason City - Sheldon line has been identified as likely to be profitable and a positive cash contributor to "Milwaukee II." Its business has exceeded our May 15 forecast; and contrary to media indications, this line is not for sale.

We are experiencing an extremely successful grain movement from our northern Iowa and southern Minnesota lines with 47 grain unit trains presently in operation compared with 14 in July.

Originating at various locations along the Mason City and Austin - Jackson lines, the trains make a minimum number of consecutive trips to several destinations. There are 25 trains (3 trips each) to Gulf Coast ports, and 17 trains (6 trips each) to interior Texas points. Additionally, from the Marquette - Sheldon route, 3 trains are making 10 trips each to Milwaukee; and a run-through train via Chicago and the Missouri Pacific is making 29 trips to Ama, Louisiana. The Milwaukee and Ama trains are meeting or bettering the respective 10-day and 12½-day turnaround times guaranteed in their rate contracts. The 47th train operates entirely in Minnesota between Jackson and Duluth.

Of 2,046 cars making up these trains, 507 are Milwaukee-owned and the others "foreign" or private. The 500 new jumbo covered hoppers now entering service under leases will aid significantly in maintaining our ability to provide a high level of service for our Iowa and Minnesota grain traffic.

During the month of September, grain brought in 220% of its forecasted revenue!

The Interstate Commerce Commission has extended until December 15 its order for interim service by various carriers on portions of our embargoed lines.

First Monday recently interviewed F. Bruce Cederholm, AVP-Car Management. This detailed transcript will provide valuable insight about his most innovative new department:

FM: Is it correct that Milwaukee is the first railroad to consolidate, or pull together, all of the activities dealing with car management and place them in a single department?

FBC: To our knowledge, the Milwaukee is the first. Conrail moved their transportation department into their marketing department, but it was not done under the same philosophy that we used in our reorganization.

FM: This goes quite a bit beyond car distribution, doesn't it? CMD will plan acquisition and use of cars.

FBC: Car distribution is a function of the division forces. The Car Management Department will have much broader responsibilities and will tie together all the car decisions, including car acquisitions, serviceability, profitability control, car allocation and assignment, equipment maintenance programs, and will provide guidelines for car distribution.

FM: Then, it can be said CMD will have total control of cars?

FBC: Car Management will have the responsibility for procedures for controlling all cars as well as responsibility for seeing that the car fleet is managed in such a way as to produce a return on this sizable investment.

The mission of the Car Management Department is really twofold: It will insure the profitable use of the company's largest asset base, its car fleet; and it will provide an adequate supply of cars to meet marketing objectives and overall corporate objectives.

FM: Was placement of CMD under Marketing a direct recommendation of Reebie Associates, or was the decision made by Milwaukee management after seeing Reebie's results?

FBC: The placement of the Car Management Department under Marketing was a choice made jointly by Mr. Smith, Mr. Cruikshank and Mr. P. C. White. Reebie & Associates had made several recommendations, but it was felt that in the Milwaukee's environment it best fit in the Marketing Department.

FM: Explain the organizational structure of CMD.

FBC: The Car Management Department consists of six sub-departments. Each is headed by a director with his own responsibilities.

C. R. Shinn is Director of Box Cars and has total responsibility for all box cars in the fleet. L. L. Struble is Director of Gondolas and Hopper Cars and R. C. Creamer is Director of Flat Cars and TOFC/COFC, each with total responsibility for the cars under their direction.

R. L. Jones is Director of Car Hire Control and his group is responsible for the car hire budget as well as dealing with the AAR and the ICC as to rules and regulations which affect car productivity. They have the responsibility of reviewing all leases and bills for leased cars.

C. D. Anderson is Director of Car Information with a wide range of responsibility relating to information needed for the management of the car fleet. For example, his forces will be going out to the divisions in October and November and setting up procedures for car distribution within specific areas on each division as well as market service areas on each division which will report to the Division Customer Service Department.

T. M. Pawlicki is Director of Car Productivity Improvement. His department will be responsible for generating the car productivity indexes as well as negotiating for long-term and short-term leases and setting up procedures so that we will have an orderly, planned car repair and car rebuilding program.

FM: Did this new organization require creation of additional positions? Have we hired new people from outside the company?

FBC: The new Car Management Department is made up of employees who were formerly employed in the Transportation Department, Customer Service Department and Marketing Department. With the formation of the new department on September 1, their former positions were abolished and their former responsibilities consolidated into the Car Management Department. There are fewer people now involved in the Car Management Department than were previously involved in various car-related functions.

FM: How is your staff, and other Milwaukee Road people with whom you deal, reacting to all of this? (People out in the field, etc.?)

FBC: The people who are actually in the Car Management Department are very enthused and dedicated people who will see that the Car Management Department functions as it is designed. As we reorganize the management of cars on the divisions and place them under the Division Customer Service Department, people will become more and more aware of just what is being done and why. To date, the reaction from the field has been very encouraging. We are getting away from the 24-hour reaction or crisis situation and moving toward a procedure that plans for car orders and car loading at least one week in advance. This new way of doing things will allow time for planning. Whereas under the old system we were continually fighting fires. The one thing we have to guard against is people falling back into their old habits. I don't feel they are going to have to work any harder -- we have always done that -- but we are certainly going to work more efficiently.

FM: Why was the decision made?

FBC: The decision was made due to the Reebie Report, which pointed out how our previous management and organizational structure was actually hindering improved productivity of the car fleet.

FM: To back up for a moment, what influenced or caused Milwaukee to request Reebie's assistance in this matter?

FBC: Mr. Cruikshank had been working with an AAR task force for about two years, and this task force had been studying how cars were managed on various railroads. Reebie was involved as a consultant to the AAR task force.

FM: And even further, why did we decide to study the situation at all? Why was Milwaukee not content to continue as we, and apparently all other railroads, had been doing?

FBC: In October of last year, a meeting was held by Mr. Smith with the Operating, Transportation, Marketing, and Sales Departments present, along with a representative of Reebie & Associates. I had been frustrated for some time due to the organizational structure not lending itself to decisions which could be made on a real time-and-need basis. It was then that it was decided to have Reebie study the entire car management process on the Milwaukee.

FM: Is the CMD principally a Reebie design? What input came from our own people?

FBC: The Reebie design for the Car Management Department is based on the questionnaires, interviews, and ideas put forth by people in all departments of the Milwaukee which were put into a management plan by Reebie Associates.

FM: The benefit from the new CMD has been estimated or forecast as $30 million annually. Does this mean "Milwaukee II" will have saved that amount of money by September 1, 1981, and can be expected to continue to achieve that dollar amount in each succeeding twelve-month period -- or is $30 million a more general long-term goal? What time span will be required to reach that dollar goal and continue to maintain such savings?

FBC: The benefits expected from the new Car Management Department have been estimated or forecasted to be as much as $30 million annually. This does not mean that "Milwaukee II" will have saved that amount of money by September 1, 1981, but it is a goal to work towards. For example, in 1967 the Milwaukee Road car fleet was generating about 14 loads per year per car. By 1977, the productivity of the car fleet had been reduced to 9.6 trips per year. The Milwaukee Road was not the only railroad showing a decrease in productivity and it, in reality, was a nationwide trend due to more and more one-way cars being put into the system. If we can increase the productivity of the 22,500 cars we have from 9.6 trips per year to 12 trips per year, we will have added $30 million in additional Milwaukee revenue. However, if there is not the demand for all 22,500 cars, then it is only prudent that the size of the fleet be reduced and that the productivity of the balance of the cars be increased to at least 12 trips per year. Hopefully, we can build this up to 15 trips per year. You cannot afford to spend $40,000 for a car and only load it 9 or 10 times a year with an average revenue of $550 per car. Each car director is measured on his productivity on a monthly basis by using information which we have had available for a long time, but Reebie & Associates have taken this information and put it together so that we have a management tool that provides us with a real time basis for making decisions.

FM: What immediate improvements and benefits do you expect?

FBC: With the defined duties and responsibilities, we expect to see immediate improvement in car productivity. We already are seeing that decisions can be made in a timely manner and, of course, those making decisions now have the responsibility for the decision and will be measured as to the results.

FM: What long-term improvements and benefits will result?

FBC: We expect the long-term improvements to result in more profitability for the Milwaukee Road; and with the continued improvement in schedules by the Operating Department, we expect to see increased traffic originating on the Milwaukee as well as received from other railroads.

FM: Are there any significant changes in our treatment of assigned cars? Why? Will assigned cars be more productive now? What savings result directly from improvements in this area?

FBC: Cars which are assigned to shippers will be reviewed on an annual basis to see if the assignment of the cars is in the best interest of the Milwaukee Road and if the productivity of cars assigned to shippers must increase. At the same time, we will work toward elimination of agency pools, and cars will be allocated to the closest loading points when made empty or returned empty from connecting lines. Empty miles are the biggest cause of low productivity of the car fleet.

FM: What can shippers expect?

FBC: Shippers can expect to have cars of the type they need available for their loading, and this will be a joint planning effort on the part of both the shippers and the railroad.

FM: Will CMD play a significant part in scheduling car repairs?

FBC: Car Management Department will advise the divisions which light bad orders to repair on a weekly basis and is in the process of putting together a scheduled repair program for the year 1981.

The format of this First Monday is somewhat different because Mr. Smith is on vacation.