Corporate Relations

M E D I A   M O N I T O R   June 18, 1982

Dissemination of these news items to all interested people is encouraged. Content may differ from Milwaukee Road viewpoint. You may wish to retain for reference.

Chicago Sun Times   June 18, 1982

Milwaukee Road sale is opposed

Chicago Milwaukee calls Grand Trunk terms 'indefensible'

By Daniel Rosenheim

The Chicago Milwaukee Corp. Thursday voiced strong opposition to a plan under which ownership of its bankrupt Milwaukee Road subsidiary would be transferred to the Grand Trunk Corp.

Chicago Milwaukee is a holding company that owns 95 percent of the railroad's stock. The railroad filed a bankruptcy reorganization petition in December, 1977.

IN A LETTER to Richard B. Ogilvie, court-appointed trustee of the Milwaukee Road, Chicago Milwaukee Corp. Chairman Emory Williams labeled the proposed transaction "indefensible" and "not provident."

"Unless the transaction can be renegotiated to provide the estate with suitable consideration, we urge that negotiations be terminated in order to avoid a long and costly litigation," Williams said, in the company's first public response to the tentative reorganization plan announced in late May.

As the principal shareholder and debtor-in-possession of Milwaukee Road, Chicago Milwaukee Corp. is considered an "interested party" to the bankruptcy hearings and has a right to raise objections to any reorganization plans. But Ogilvie is not bound to include such objections in any recommendation he might ultimately make, and the railroad's ultimate fate will be determined by the bankruptcy court and the Interstate Commerce Commission.

Terms of last month's preliminary consolidation agreement call for Grand Trunk to acquire the stock of a reorganized Milwaukee Road by assuming about $250 million of debts and obligations. But the mere assumption of liabilities is apparently not enough for Chicago Milwaukee Corp.

LEON FIORENTINO, vice president-finance and treasurer of Chicago Milwaukee, said his company's principal objection to the deal is the absence of cash consideration for the railroad and its "substantial" tax benefits.

Fiorentino said the tax benefits have been estimated at $207 million in net operating loss carryforward and $21 million in investment tax credits.

"We have a vested interest in a fair deal," said Fiorentino, who said he expects the company will file suit, if needed, to stop the Grand Trunk transaction. "The consideration for the equity and tax benefits they contemplate transferring amounts to nothing. We have to represent our shareholders to see that no assets are given away at bargain prices."

Ogilvie, who has said he believes the Milwaukee Road should be part of a larger rail system, was out of town Thursday and unavailable for comment.

But Mike Sullivan, who serves as counsel to Ogilvie, said he was not surprised by Williams's letter. "Obviously, our response will be made in court," Sullivan said.

In his letter to Ogilvie, Williams also objected to the 2½-year timetable for completion of the deal, calling it "tantamount to a 2½-year option to acquire, for no consideration, 100 percent equity in a reorganized railroad capable of earning $36 million in 1985."

Williams said Chicago Milwaukee has "numerous other objections" to the deal, which he said were expressed in a June 8 meeting between the corporation and Ogilvie's representatives.

FIORENTINO, WHO noted the hiatus of more than four years since the railroad sought bankruptcy, 1977, added that "time is of the essence."

Grand Trunk and bankruptcy attorneys had hoped to reach a definitive agreement by July 1, Sullivan said, but he added that the target date now appears to be unrealistic.

Grand Trunk is a subsidiary of Canadian National Railway, a government-owned transcontinental railway system.

Chicago Tribune
June 18, 1982

Railroad merger plan criticized

By Sheila Tefft

CHICAGO MILWAUKEE Corp. threatened Thursday to block the proposed merger of the bankrupt Milwaukee Road and Grand Trunk Corp., contending it would get nothing in the deal and stands to lose valuable tax benefits.

The Chicago-based company, which owns 95 percent of the bankrupt Chicago, Milwaukee, St. Paul and Pacific Railroad Co., said it would fight the merger in court unless the terms of the agreement were renegotiated.

In a letter to Milwaukee Road trustee Richard B. Ogilvie, Emory Williams, chairman of Chicago Milwaukee, called the proposed agreement "one-sided."

"It contemplates delivering to GTC what is tantamount to a 2½-year option to acquire, for no consideration, 100 percent of the equity in a reorganized railroad operation capable of earning $36 million in the year 1985," Williams told the trustee. "We believe it is clearly indefensible to transfer such equity . . . for no consideration."

TRADING IN Chicago Milwaukee stock on the New York Stock Exchange was halted after the letter was released. The shares later resumed trading and the stock closed at $59, up 25 cents.

On May 23, the two railroads announced they had signed a letter of intent for the Grand Trunk to take over the bankrupt carrier. That proposal calls for the Grand Trunk to acquire all the stock of the Milwaukee Road after it has been reorganized and to assume the railroad's $250 million debt incurred since bankruptcy was filed in 1977.

The plan has been approved by bankruptcy Judge Thomas McMillen but must still be cleared by the Interstate Commerce Commission.

However, an impending court battle with the Chicago Milwaukee could prove to be a major obstacle for the railroad merger.

"We have had an adversary relationship with the CMC in the past and they're entitled to their views," said a Milwaukee Road spokesman. Ogilvie was out of town and unavailable for comment.

THE GRAND TRUNK said it "is proceeding with the obligations and plans agreed upon in our letter of intent."

Chicago Milwaukee, which is 38 percent owned by an investment group affiliated with Oppenheimer & Co., contended it would lose valuable tax breaks if the merger goes through. The Grand Trunk would acquire tax loss carryforwards, investment tax credits and depreciable property in the deal.

Chicago Milwaukee still has about $207 million in unused tax loss carryforwards and $21 million in unused investment tax credits from railroad operating losses. Those benefits have been a cornerstone of the firm's expansion and diversification plans and their loss "could be a detriment to our own company," said Leon Fiorentino, vice president of finance and treasurer.

"We're still holding to our position that the railroad should be liquidated," Fiorentino said.

Wall Street Journal
June 18, 1982

Chicago Milwaukee Seeks End of Pact On Rail Unit's Sale

By a WALL STREET JOURNAL Staff Reporter

CHICAGO – Chicago Milwaukee Corp. asked that the bankruptcy trustee for the Milwaukee Road end an agreement to sell it to Grand Trunk Corp.

Chicago Milwaukee, which owns 96% of the Milwaukee Road's common stock, threatened "long and costly litigation" if the trustee proceeds with the sale.

The trustee, Richard B. Ogilvie, couldn't be reached for comment. But a spokesman said he will continue to negotiate a definitive agreement for the sale of the Chicago, Milwaukee, St. Paul & Pacific Railroad, as the Milwaukee Road is formally known.

In a letter of intent, Grand Trunk, a unit of Canadian National Railways, agreed to assume about $250 million of the railroad's debts and obligations. The estate would keep some assets and use them to satisfy claims of creditors and shareholders.

But Chicago Milwaukee objects that the estate wouldn't receive anything in the transaction, while Grand Trunk would be given 2½ years to acquire a railroad operation that Chicago Milwaukee says could earn $36 million in 1985.

"We don't like the deal," said Leon F. Fiorentino, vice president and treasurer of Chicago Milwaukee, which isn't in Bankruptcy Code proceedings, although its Milwaukee Road unit is. "We think this is on the wrong side of the price spectrum and ought to be adjusted upward."

Officials of Grand Truck Corp. and its parent, Canadian National, weren't immediately available for comment. Canadian National is owned by the Canadian government.

Wisconsin State Journal, Madison, June 10, 1982

Loss of rail line would hurt area businesses, study finds

By Doug Mell
Of The State Journal

Plant closings, layoffs and increased shipping costs will hit 34 businesses between downtown Madison and Janesville if they lose rail service, according to a study by the Dane County Regional Planning Commission.

"It (rail service) is important because rail use has declined to such a point that only businesses that really need rail service are still using it," said Luci Blackburn, who conducted the study.

The Milwaukee Road has asked the federal Interstate Commerce Commission for permission to abandon about 35½ miles of track from Madison to 4 miles north of Janesville.

If that abandonment happens, and a short-line operator does not take over the rail line, at least two businesses would fold, Ms. Blackburn said. Several other businesses have indicated they eventually may have to close if there is no rail services, she added.

In addition, there will be about 117 layoffs of employees who work for businesses that would be affected by the rail service loss, she said.

The study, which was conducted for the Wisconsin Department of Transportation, surveyed 34 businesses along the Milwaukee Road line from the railroad's switching yard in downtown Madison to Janesville. Most of the businesses are along the line that is scheduled for abandonment.

Five businesses in Madison use the rail service, Ms. Blackburn said.

The rail line runs from Madison, through McFarland, Stoughton, Edgerton, Milton Junction to Janesville.

Of the businesses that Ms. Blackburn surveyed, 41 percent said they would lose some business because the cost of other transportation, such as trucking, would not allow them to compete with similar businesses that have rail service.

The survey revealed that businesses now using the line would have to pay $1 million more a year for transportation if rail service was lost. The cost estimate is based on what the shippers would have to pay to truck their products to the nearest "team track" location.

(A team track is a public facility on a rail line that shippers can use to load and unload their products to and from freight trains.)

Of the shippers who use the line, Ms. Blackburn said 37 percent are related to a wide variety of industries; 21 percent are somehow related to building (lumber and brick yards); 21 percent are related to agriculture (cooperatives and grain elevators); and 21 percent are wholesale and retail storage businesses.

Businesses that lose rail service are at a disadvantage to those who still have that service, she said, because of the additional costs of trucking their products to a team-track facility.

"They (businesses) have to have rail service to be competitive with other businesses," Ms. Blackburn said. Generally, she said, "those (businesses) who do use it (rail service) do need it."

The study also said the annual cost of operating a short-line railroad from along the part of the track that is planned for abandonment would be $360,000. The shortline operation would save businesses about $400,000 a year in additional transportation costs, she said.

36 miles of track may be dropped

The Milwaukee Road railroad officially has asked the Interstate Commerce Commission for authority to abandon service on 36½ miles of track from Madison to 4 miles north of Janesville.

The abandonment request, which has been expected for some time, was filed Monday and has to be approved by the ICC and the federal Reorganization Court in Chicago that is handling the railroad's bankruptcy proceedings, said Bill Bickley, the company's director of corporate relations.

The request is from mile post 138.4, which is about the middle of the railroad's track crossing Lake Monona to mile post 102, which is north of Janesville at Anderson Station.

Bickley said the railroad's decision to discontinue rail service on the line is based on declining revenue from shippers and the high cost of improving the track to make it safe for freight trains.

4

Wisconsin State Journal, Madison June 8, 1982

$2.94 million offered by state for railroad line

By Paul A. Rix
State government reporter

The Wisconsin Department of Transportation reversed gears Monday and offered $2.94 million to buy a Milwaukee Road line between Middleton and Prairie du Chien, thus clearing the way for a short-line operator to resume service to rural communities this summer.

Michael Sullivan, attorney for the Milwaukee Road, said Monday night a U.S. District Court judge in Chicago approved the state's offer to purchase the deteriorated line along the Wisconsin River.

James Thiel, a transportation department lawyer, submitted an identical proposal to one offered a week ago. The Justice Department had assessed the same property at $900,000.

Sullivan said he and Thiel appeared before Thomas McMillen, a federal judge who has supervised the reorganization of the bankrupt Milwaukee Road since December 1977. The railroad has tried to sell many of its lines in Wisconsin for several years and become a profitable Midwest carrier.

"Hopefully, everything is in line now," Sullivan said, adding that his company will try to close the transaction within 30 days, perhaps sooner.

A week ago, Thiel withdrew the $2.94-million offer and told McMillen his agency wanted to renegotiate, a request railroad attorneys vigorously opposed.

The temporary withdrawal by the state last week centered on a sharp disagreement between attorneys for the state DOT and the Justice Department over the value of the property and how to appraise land, track and bridges, and who does the appraisals.

Attorneys from both agencies have disagreed over the value of Milwaukee Road property for more than two years.

Sullivan said the offer presented to McMillen Monday was the "same package" Thiel withdrew June 1.

Communities along the route and its branches include Prairie du Sac, Sauk City, Mazomanie, Spring Green, Lone Rock, Muscoda, Wauzeka and Bridgeport. Rail service to the Badger Army Ammunition Plant near Baraboo is also included in the deal, Sullivan said.

There has been no freight service on the west end of the line, from Lone Rock to Prairie du Chien, for more than two years. The Interstate Commerce Commission in Washington, D.C., authorized the Milwaukee to abandon that stretch in March 1980, Sullivan said.

A short-line operator has indicated he can begin service this summer, according to spokesmen for the Wisconsin River Rail Transit Commission.

The commission, comprised of representatives from Dane, Iowa, Sauk, Richland, Grant and Crawford counties, was organized in 1980.

According to spokesmen for the commission, John Zerbel, head of the Central Wisconsin Railroad Co., a short-line company based in the Milwaukee area, has said he will put up 20 percent of the purchase price for the tracks and bridges.

The state DOT will cover 80 percent of the cost of the track and bridges and assume 100 percent of the cost of the right-of-way. None of the counties will have to put up money for the purchase of the line, commission spokesmen said.

Many parts of the line are deteriorated and in need of immediate repair, Sullivan said.

Journal of Commerce
June 3, 1982

Milwaukee Defers Bondholder Offer

Journal of Commerce Staff

CHICAGO — A proposed tender offer to holders of certain Milwaukee Road bonds will be postponed indefinitely, attorneys for Trustee Richard B. Ogilvie told the reorganization court.

Mr. Ogilvie filed applied to the court in April for authority to go ahead with tender offers for general mortgage and certain "Terre Haute" bonds. But the attorneys said a May 24 letter of intent to transfer ownership of Milwaukee stock to Grand Trunk Corp. led him to reconsider.

He will reassess the tender offer after the definitive transfer agreement has been reached and the required reorganization plan amendments filed with the court and the government, the attorneys said.

Wausau Herald June 9, 1982

Wausau-Tomahawk rail improvement plan OK'd

By DEWEY PFISTER
Herald Staff

MERRILL — A $6 million rehabilitation program for Milwaukee Road tracks between Wausau and Tomahawk received final approval by the Lincoln County Board Tuesday.

A complex financial transaction, believed to be the first of its kind in the state, provides some assurance of continued rail service to Lincoln County.

Before winter, the Milwaukee Road will install all new ballast, replacement ties and about 30 miles of used 100-pound, continuous weld rail, according to Jack Ormond, manager of the Marinette, Tomahawk and Western Railroad at Tomahawk.

Rehabilitation of the 42-mile line will enable daily freight trains to complete Wausau to Tomahawk and return trips faster and more safely, Ormond said.

Financing of the estimated $5,980,800 project will be as follows:

- $1,699,900 to be provided by the Milwaukee Road in materials and labor.
- $2,140,500 to be provided as a grant by the state Department of Transportation's rail bureau.
- $1,640,500 borrowed by six rail users in the Lincoln County Shippers Association.
- $500,000 to be borrowed by Lincoln County from DOT's Wisconsin Rail Preservation Program, to be repaid by the rail users.

Wausau Paper Mills Co. in Brokaw, Owens-Illinois Inc. in Tomahawk, and Northern Door, Consumer Cooperative Exchange, Ward Paper Co. and Lincoln Wood Products Co. in Merrill borrowed the $1.6 million, which will be repaid by the railroad over approximately five years for each rail car used.

The five Lincoln County firms guaranteed repayment of the $500,000 borrowed by Lincoln County. They will be repaid by the railroad as cars are used.

"A healthy economy depends on healthy employers," said attorney Glenn Hartley, counsel for the shippers association. Failure to rehabilitate the line could mean eventual loss of rail service and force industries to ship by truck, he explained.

Lincoln County Corporation Counsel Michael Ravn told supervisors the county is guaranteed it will not have to make any payments but must participate in the project to comply with the state rail preservation program law.

"It (the project) is mandatory for the county's economic health and well-being," Ravn said.

"This is a county problem, not a Merrill problem" said Board Chairman Neil LeMay in recommending the agreements that received unanimous board approval.

Janesville Gazette
June 4, 1982

Rail Sale Bid May Help Retain Service

WASHINGTON, D.C.—The Grand Trunk Corp.'s plans to buy the Milwaukee Road could affect the Milwaukee Road's efforts to abandon marginal or low-profit lines, including those in Rock and Walworth counties, Rep. Les Aspin, D-Wis., said.

"The fact that the Milwaukee Road will not be trying to make it on its own, if this merger goes through, will make a dramatic difference in its arguments before the Interstate Commerce Commission (ICC) in months ahead," Aspin said. "The railroad's argument that it needed to rid itself of its less profitable lines in order to succeed is now moot."

Milwaukee Road officials have said they still plan to file abandonment petitions before July 1 for lines from Beloit to Burlington, Walworth to Fox Lake and Janesville to Madison.

GTC and the Milwaukee Road hope to work out a sale agreement by July 1. If abandonment petitions are filed by then and the sale appears imminent, Aspin said, shippers and local officials opposing the abandonments stand "a much better chance" of retaining rail service.

"The Milwaukee Road admitted when it first discussed abandoning these lines that it was not getting rid of them because they were big money losers," Aspin said. "Instead, the railroad's strategy has been to rid itself of any line which could not provide a return on investment of more than 11 percent."

Both the bankruptcy court and the ICC were sympathetic to the Milwaukee Road's strategy when it appeared the railroad would have to make it on its own, Aspin said.

"Now that there will be support from a parent company, I hope the ICC and the court will be more cautious in allowing further Milwaukee Road abandonments," he said.

Cedar Rapids Gazette
June 9, 1982

Decision to come this month on who buys East Iowa track

AMES (UPI) — The Chicago & North Western railroad and Milwaukee Road will find out later this month which company will be allowed to buy a lucrative section of track in Eastern Iowa which serves a power plant, the Iowa Transportation Commission learned Tuesday.

The section runs from Davenport to Washington, Iowa, and was formerly part of the bankrupt Rock Island Railroad's main line from Kansas City to Chicago.

State Department of Transporation officials said a new Iowa-Illinois Gas and Electric power plant in Fruitland, just south of Muscatine, has made the route extremely attractive to the railroads. The matter was discussed at Tuesday's commission meeting.

The Milwaukee Road — which also is bankrupt but trying to reorganize into a smaller system — and the Rock Island trustee have been negotiating about the section of track for about a year and a half.

Officials of the Milwaukee Road had tentatively agreed to buy the section for $14 million. However, the C&NW suddenly offered $16 million two weeks ago.

DOT Railroad Director Les Holland said the Iowa DOT is firmly backing the Milwaukee Road's position and sent a representative to a Rock Island bankruptcy hearing in Chicago last week to oppose the C&NW bid.

Holland said U.S. Bankruptcy Judge Frank McGarr will award the track to the Milwaukee Road if the company matches the C&NW offer. He set June 29 as the deadline for the Milwaukee Road to come up with the extra money.

Green Bay Press Gazette
June 3, 1982

Milwaukee Road track sale gains

CHICAGO (AP) — Milwaukee Road trustee Richard B. Ogilvie has gotten a federal go-ahead to ask the Interstate Commerce Commission's approval for a proposed track sale to the Grand Trunk Corp.

The former Illinois governor announced last week a plan to sell the railroad's 2,900-mile core system to the Canadian-controlled Grand Trunk, which has 2,100 miles of track in the United States.

Ogilvie already has sold off the least-profitable sections of the Milwaukee Road's former 10,000-mile system in order to help the ailing carrier recover as part of its reorganization under federal bankruptcy laws.

Under Tuesday's order by U.S. District Judge Thomas McMillen, the ICC first must approve the proposed sale and then receive a revised Milwaukee Road reorganization application by Oct. 1.

A letter of intent signed May 24 by Ogilvie and Grand Trunk President John Budakin calls for Grand Trunk to acquire the stock of the reorganized Milwaukee Road in return for assuming $250 million of the railroad's outstanding debts.

Approval of the sale would give Grand Trunk control of rail lines all the way around the Great Lakes in the United States and Canada.

The Grand Trunk's parent firm, the Canadian National Railway Co., recently has made a move to increase its interest in a major container shipping operation, CAST North America. The bid has raised concern among shipping firms in many Great Lakes ports.

Des Moines Register June 13, 1982

7

Railroads' back taxes ignite dispute

State, counties square off over rights to $7 million

By RANDY EVANS
Register Staff Writer

A few sentences inserted into Iowa's statutes last year have stirred up a king-sized controversy with state government on one side and a majority of Iowa's counties on the other.

As would be expected in a dispute of this sort, money is at the center of the controversy — some $7 million in delinquent property taxes that the Milwaukee Road and Rock Island Line railroads have not paid.

The state and the counties each are claiming the money as theirs. The counties are contending the state is trying to steal from them; the state denies that and points in its defense to the law that was passed last year.

That law was part of a landmark package of legislation that was drafted in the wake of the Milwaukee and Rock Island bankruptcies to ensure the continued operation of key rail lines in the state.

Tax, Bonds, New Fund

The legislation established a special tax on diesel fuel used by railroad locomotives, authorized the Iowa Railway Finance Authority to issue up to $200 million in bonds for track improvements and loans, and decreed that railroads' delinquent property taxes henceforth would go into a state railroad improvement fund — and not to the counties where the taxes were levied — when the overdue sums are paid.

The delinquent tax provision went unnoticed at the time by most county officials. But when the Iowa Department of Transportation notified the affected counties earlier this year that the department would be seeking court approval to take over their tax claims against the Milwaukee, the reaction was swift and predictable.

"I am very, very angry about this," said Charles Pacha, the county treasurer and chief tax collector in Washington County. "Railroads are a vital source of transportation, and keeping these lines is important. But they are taking our money to do it."

Cerro Gordo County Treasurer Michael Grandon was equally displeased: "This is a gross injustice to the cities, counties and school districts."

Chicago Court

Lawyers for the state and the Iowa State Association of Counties are arming themselves for the legal battle that will be played out later this year in an unlikely arena for an Iowa controversy: the Chicago courtroom of U.S. District Judge Thomas McMillen.

McMillen is presiding over the bankruptcy reorganization of the Milwaukee Road, and the DOT has asked him to assign to the department the Iowa counties' tax claims against the Milwaukee.

About $2.5 million of the $7 million pot at stake in the controversy represents the property taxes that have gone unpaid since the Milwaukee's finances crumbled in the late 1970s. The remainder is owed by the bankrupt Rock Island.

Virtually every Iowa county is holding unpaid tax bills for the Milwaukee or Rock Island railroads. According to state and county records, the Milwaukee has unpaid taxes due in 56 of Iowa's 99 counties and the Rock Island has them in 55 counties.

Twenty-eight counties have delinquent tax bills for both railroads. Polk County's are the largest, totaling nearly $440,000. Linn, Muscatine and Wapello counties each are holding more than $200,000 in unpaid taxes. And unpaid taxes in Jasper, Johnson, Pottawattamie, Scott and Washington counties exceed $150,000 each.

The DOT plans to ask the Rock Island's bankruptcy judge soon to assign that railroad's tax claims to Iowa, too.

Change Defended

State officials defended the tax law change, saying the delinquent tax money will help the state ensure that important Rock Island and Milwaukee rail lines are preserved and not dismantled.

William McGrath of Melrose, the chairman of the Railway Finance Authority and a former county supervisor, said he concluded after much soul-searching that the new law will benefit the people of Iowa.

"Yes, counties would be losing revenue," he said. "But the loss the counties would suffer would be minor compared to the loss if we can't get these lines back into service by someone who will be able to pay taxes."

Jane Phillips, a lawyer for the DOT's Transportation Regulation Authority, added: "Some think we are trying to steal their money from them. It's not money we are going to take home and pocket. It's very much addressed to a special, pressing need in the state."

But John Torbert, executive director of the State Association of Counties, said: "If the societal good is so great, fine, fund it. But don't use property tax money to do it."

"If it's for the benefit of everybody, then everybody ought to be paying," said Des Moines lawyer Lee Gaudineer, who is representing the counties.

If the Chicago judge does not rule in the counties' favor in their challenge of the state's action, county officials are hoping the Legislature will change the tax laws so the property of a railroad behind on its tax payments would not be included when property taxes are computed countywide. That would increase the taxes other property owners would have to pay, but it also would reduce the revenue shortages local government bodies now face when the two railroads' taxes go unpaid.

Milwaukee Journal

June 10, 1982

Young railway chugging west

By Paul Bargren

Journal Waukesha Bureau

Waukesha — Like the little engine that could, the Central Wisconsin railroad is succeeding — if sometimes on willpower alone.

If all goes as planned, 1982 will see the shortline railroad grow from 45 miles to 300 miles of track.

John A. Zerbel, a Brookfield accountant who is president of Central Wisconsin, said the Interstate Commerce Commission had granted preliminary approval of the line's application to take over a 125-mile line in western Wisconsin.

The new trackage would extend Central Wisconsin's operations from Waukesha to Prairie du Chien and provide the link with the Mississippi River that Zerbel had long hoped to obtain.

The Central Wisconsin — actually the operating name for the Southeastern Wisconsin Railroad Co. — started with 45 miles of track from Waukesha to Milton Junction. Earlier this year, it took over 140 miles of track from another shortline, the Chicago, Madison & Northern Railway Co.

Purchase approved

And it was selected by the state from among 19 applicants to run the western line to Prairie du Chien, evidence that Zerbel and company must be doing something right.

A federal judge on Monday approved the state's purchase offer of $2.94 million for the line to Prairie du Chien.

Zerbel runs a low-cost, high-energy operation.

An example: When the Central Wisconsin took over its original line from Waukesha to Milton Junction, the state estimated that roadbed repairs would cost more than $400,000. Zerbel did the job for about $200,000.

"I'm old-fashioned. I don't think you have to have all the equipment in the world to do the job. I remember the days when people worked for a living," he said. "And we're not building track to run on at 80 mph, but 40 mph, or even 25."

Central Wisconsin track gangs still rely on sledge hammers and muscle.

Not profitable

Like the Central Wisconsin's original line, the Prairie du Chien line once was operated by the Milwaukee Road but abandoned as unprofitable.

The state, in a move to preserve rail service, bought the rights of way. Local governments form rail commissions and purchase 80% of the associated buildings, bridges and other structures, and the railroad company pays the remaining 20% and leases track rights, Zerbel said.

The new western line runs from Middleton just outside of Madison to Prairie du Chien, where cars can be transferred to Burlington Northern trains, he said. Two spurs will serve Richland Center, Sauk City and Prairie du Sac.

For the last 18 months there has been no service west of Lone Rock, but service could be restored as early as Aug. 1, Zerbel said.

The line may be small but the numbers are big.

Under the proposed agreement, the Central Wisconsin will pay $470,000 for its share of the structures, plus $8,000 a year plus 2% of revenue in excess of $1,350,000, which the state considers the break-even point for the line, Zerbel said.

The former Chicago, Madison & Northern trackage includes two lines that intersect at Monroe. One links Janesville and Mineral Point, the other links Madison and Freeport, Ill. The cost there is $20,000 a year plus 2% of revenue over $600,000 on each line.

The Waukesha line to Milton Junction near Janesville is leased for $5,000 yearly plus a sliding percentage on revenue of more than $300,000.

To connect the Waukesha-Milton line with the other segments, the Central Wisconsin would lease the right to run from Janesville to Middleton on Milwaukee Road tracks, Zerbel said.

The Chicago, Madison & Northern abandoned its lines in February after reporting losses of $1 million in two years, but Zerbel is confident that the whole will prove better than the sum of its parts.

To serve the expanded system, the Central Wisconsin purchased four used Fairbanks-Morse diesel locomotives. Its original locomotive, a 1946 General Electric road-switcher dubbed The Blue Oxen, continues in service.

The line has 15 freight cars but that number could grow to as many as 300, Zerbel said.

The line began with three full-time employes but will grow to 11 or 12 by the time the western lines are in full operation, he said.

Zerbel's main interest is still his Brookfield accounting firm. He helped organize the Central Wisconsin after acting as a consultant for a group of about a dozen industries on the Waukesha-Milton line when they became worried about the line's abandonment.

Railroads are strictly business with Zerbel, 64.

"I don't blame people for wanting to be railroad buffs, but I don't want to be one. It's fun and games with them, not economic realities. They go more for aesthetics. They don't realize the risks and costs of running a system," he said.

"Why, the Soo Line has had single accidents that resulted in $1 million in damage."

He also owns a steam excursion line in Upper Michigan, the Marquette and Huron Mountain Railroad.

The Central Wisconsin may expand even further soon. Zerbel said he had heard that the North Western Railway was considering abandoning its line that runs from Waukesha to Madison. He said he would be interested in operations between Madison and Jefferson or Lake Mills.

TRANSPORT TOPICS June 7, 1982

Record Rate of MC Failures Reported Since 1980 Reforms

Regulated trucking companies have been going out of business at a record rate since mid-1980, when the Interstate Commerce Commission began implementation of the Motor Carrier Act, according to a report by American Trucking Associations.

"Motor carrier bankruptcies and failures are at an all-time high, and those remaining in business are finding net income shrinking," ATA President Bennett C. Whitlock Jr. announced June 1.

Available data show that 144 carriers representing an estimated $755 million in annual revenues and employing some 18,291 persons have closed their doors permanently, Mr. Whitlock said.

Another 47 companies representing $1.2 billion in revenues and 22,265 employes currently are experiencing financial difficulties — ranging from voluntary curtailment of service to reorganization under Chapter 11 of the federal bankruptcy law, he said.

These 191 carriers, which accounted for nearly $2 billion in revenues and over 40,500 employes, are companies that had an "established presence" in the trucking industry, the ATA president said.

"Missing from this tabulation, I am sure, are a substantial number of small, newly formed motor carriers which went out of business shortly after they were organized," he added.

"There is mounting evidence of increased instability and financial difficulties in the industry because of the manner in which the ICC is implementing the Motor Carrier Act of 1980," Mr. Whitlock said.

He added that the industry's adjustments to the new regulatory environment have been hampered by the most serious business recession in recent history. Also, the ICC has gone beyond the provisions of the MC Act in providing "a surfeit of operating rights," he said.

"A veritable blitz of new operating authorities not dictated by public need (3,500 new grants in fiscal 1981 alone), together with the recession, have brought about a financial situation in the motor carrier industry that seriously threatens its overall stability.

"There is considerable excess capacity in the trucking industry today. There is little doubt that much of this excess is due to deregulation, since past recessions, although producing financial difficulties, have not produced a similar situation."

Mr. Whitlock said the 144 reported closings took place in 39 states and the District of Columbia. Only the sparsely populated states were spared, he said. New Jersey suffered the greatest loss (13 carriers), followed by Tennessee (nine). Ten states accounted for 72 closings, half the total.

On a regional basis, Mr. Whitlock said the Midwest appears to have suffered the largest number of closings (49), followed by the Mid-Atlantic area (33) and the Southeast (31).

TRANSPORT TOPICS June 7, 1982

Truck Costs Increased 15% in 1981; Heavy Trucks Up 13.7%, Hertz Says

NEW YORK — The cost of owning and operating a truck in the United States rose almost 15% in 1981, and for heavy-duty trucks the cost rise was 13.7%, according to a report released by Hertz Corp.

"The new figures indicate truck operators buying new tractor-trailer combinations in 1981 can expect to spend more than $520,000 to run these units a typical 100,000 annual miles over the next five years of their normal use life," the report stated.

The Hertz study noted that because of the key distribution role trucks play in the nation's economy, their continuing above-inflation expense increases can have a ripple effect on consumer prices. Total increases in commercial vehicle expenses were 198% since 1972 compared with 107% for the Consumer Price Index.

The Hertz truck expense survey lists ownership and operating expenses for a typical 18-foot city-suburban pick up-and-delivery unit, for an 18-wheel over-the-road tractor-trailer combination, and for 12-15 passenger commuter and cargo vans, often used in transportation pools.

The survey for 1981 shows higher expenses in every truck cost category, with interest expenses jumping 36% and truck purchase prices themselves between 10-14% higher.

Hertz said that for a typical over-the-road 55-65-foot, five-axle diesel tractor-trailer, average costs per mile over a five-year, half-million mile life reached 82.34 cents in 1981, compared with 72.45 cents in 1980. In 1971 the cost was 27.38 cents and in 1972 27.94 cents. The 1980-81 rise was 13.7% and the total for the decade 201% for tractor-trailers.

"Even if expenses should stay at present levels, these figures mean a typical tractor-trailer will cost some $411,700 to run for the next five years — and this excludes driver compensation and fringe benefits which could add some $200,000 extra," the report observed.

'Even if expenses stay at present levels, these figures mean a typical tractor-trailer will cost some $411,700 to run for the next five years.'

If prices continue to rise in the future as they have in the past, Hertz said, the outlays by 1985 will total $522,400.

The Hertz study showed truck costs vary substantially as unit mileage totals advance, with 1981 expenses for the typical tractor-trailer used in its estimates ranging from 74.12 cents per mile during the first year's initial 100,000 miles to 88.42 cents in the fifth 100,000-mile use period, even assuming constant prices with no further inflation.

If inflation boosts prices between now and 1985 at the same rate it did in the past decade, fifth-year outlays then will be more than $1.36 a mile, according to the report. As an example, it noted that first-year upkeep costs in 1977 were just 2.8 cents a mile, but fifth year maintenance in 1981 was 16.42 cents, about 486% higher.

Hertz pointed out, however, that most small fleet operators replace some units each year, so inflation often masks the high-mileage cost increases.

As another example, Hertz said that while total first-year expenses for a tractor-trailer purchased in 1981 came to 74.12 cents per mile, fifth-year expenses in 1981 for an old combination acquired in 1977 were only 77.47 cents a mile because of the lower purchase price of the rig five years ago. The lower 1977 purchase price offsets a 311% difference in upkeep costs in 1981 for units in their first and fifth years: 4 cents for new units now, 16.42 cents for one five years old. The assumed 1981 purchase price was $95,331.

For 18-foot gasoline straight trucks, the company said the cost of operating 15,000 miles a year in typical city-suburban pick up-and-delivery service came to $1.1876 a mile in 1981, against $1.0564 in 1980, a 12.4% increase. In the past decade Hertz said straight truck costs rose 209%, from 38.47 cents a mile in 1971, while typical passenger car costs rose 172%.

For 15-passenger vans, typical of unit costs used in commuter pools, the study estimated per-mile and per-passenger-mile costs for 13,270 miles per year commutation, about 50 miles a day round trip. The study also gives comparative figures for 12-passenger vans, station wagons and sedans.

Hertz has issued its vehicle cost studies since 1973 to provide truck and automobile fleet operators a benchmark to measure their own expenses. However, the company emphasized that a wide variety of circumstances can change costs materially for any individual unit and for similar units in different use by different people in different sections of the country.

For information, contact: Hertz Corp., Public Affairs Dept., 660 Madison Ave., New York, N.Y. 10021; 212-980-2353.

Cedar Rapids Gazette June 10, 1982

it's a TRAIN!

By J. McCauley Flansburg
Gazette Johnson County Bureau

OXFORD — A train's horn blared for the crossing in this western Johnson County community at 4:15 the other morning.

Oxford residents awoke not believing their ears. No train had run on the Rock Island tracks since 1980. Was it really a train, or were their ears playing tricks on them?

Because of the pre-dawn darkness, most residents were unable to see the train, and townspeople were left scratching their heads and wondering if, in fact, a train had traveled through town.

As the day progressed, however, the talk among townspeople revealed that if the mystery train had indeed been a product of the imagination, it was the town's collective imagination.

The "mystery" train — in reality no mystery, but a real freight-train — belongs to the Iowa Railroad which began using the old Rock Island tracks last week, said Bryan Whipple, the company's president.

Trains will be using the route regularly, perhaps on a daily basis.

The Iowa Railroad, based in Des Moines, was started last November, Whipple said, and on May 30, the company reached agreement with the Rock Island Railroad bankruptcy trustees and the Interstate Commerce Commission to lease the abandoned rail line between Des Moines and Iowa City.

That agreement, Whipple said, completes his company's quest for reinstating a rail line from Council Bluffs to Bureau, Ill. Connections are available in Bureau for hauling cargo to and from Chicago.

The Iowa Railroad shares the stretch of track running from Iowa City to Davenport with the Milwaukee Road, Whipple said. In Des Moines, Iowa Railroad shares tracks with the Chicago & North Western Transportation Co.

"We're in the middle of getting everything organized in terms of lining up shipping clients," Whipple said. "There's just an inordinate amount of things to do, so I can't even say what our next step is.

"We're expecting to get big business from the Cedar Rapids area through the Cedar Rapids and Iowa City rail line," he said. "Before too long, we expect to get a significant amount of traffic from Cedar Rapids."

All grain elevators along the Rock Island track have been notified of the new service, Whipple said. "With transporting the grain by rail, they'll save anywhere from 2 to 5 cents per bushel — which is fairly darned significant considering how depressed the grain economy is."

Farms and grain elevators aren't the only businesses seeing a chance to save transportation costs. Martin Borah, manager of Midwest Color Printing in Marengo, said his company is currently paying $7 per ton to transport newsprint by truck from Iowa City to the plant. "The (new) rail service comes right to the plant," he said. "This totally eliminates that expense."

Midwest Color Printing produces Sunday supplements and advertising sections for several newspapers. The new plant opened in Marengo in July 1981.

Borah, who has actively sought reopening the old Rock Island tracks, said when construction on the plant began in September 1980, company officials were under the impression rail service would be restored on the line. Since then, however, Borah said it's been an uphill battle to restore service. Now that service is under way, he said, he will work toward getting a permanent buyer for the line.

"I'm very pleased with the progress that has been made," Borah said. "We now have to encourage other shippers to support it by directing as much traffic as possible through the Iowa Railroad."

Rep. Jean Lloyd-Jones (D-Iowa City), a longtime proponent of rail service restoration in Iowa, said she is "delighted the service started and I hope it picks up more shippers so it can become more profitable."

The new use of the Rock Island tracks will draw more attention to the state's train diesel fuel tax, Lloyd-Jones said, which has been placed under a temporary injunction after rail service companies filed suit against the state. The fuel tax, passed by the Iowa Legislature last year, calls for taxing all diesel fuel burned by trains within the state at 8 cents per gallon. The suit is expected to be ruled upon soon in Polk County District Court, she said.

"I hope we can pick up the diesel fuel tax soon and put it into the railroads," she said. The money collected through the tax would be available in the form of loans or bond issues to the rail companies for the purpose of upgrading the tracks.

If the fuel tax injunction is lifted, the tax would be retroactive to Oct. 1, 1981, when the law was initially to have been implemented. "If that can happen, the Rock Island line could become a prime target for Amtrak," Lloyd-Jones said.

"I hope this new service signals a return to trains — not only freight but passenger as well."

Des Moines Register June 8, 1982

DOT chief's style makes inroads

By RANDY EVANS
Register Staff Writer

AMES, IA. — Warren Dunham likes to tell his employees not to think of him as the boss.

"Think of me as a friend who is always right," he says.

The comment is typical Dunham. His management style is laced with humor and cordiality, a broad smile, and the belief that employees will work harder if they have a good time on the job.

"There is no reason why we can't get the work done and have fun at the same time," said the 35-year-old director of the giant Iowa Department of Transportation.

"It seems to me that you spend an awful lot of your waking hours in here in exchange for money. If you can't enjoy what you are doing you might as well stay home in bed. Having fun doesn't have to come at the expense of getting the work done."

4,000 Employees

Dunham became the $47,000-a-year director of the DOT in January. Since then his easy-going and affable manner have helped him dispel the apprehension many of the department's 4,000 employees had about the young outsider from Illinois. He was brought in to replace Raymond Kassel, a career employee of the DOT, who retired.

There were concerns that Dunham was another director out of the mold of Victor Preisser, the hard-driving whiz kid whose style as the DOT's first chief executive has been compared to an egg beater.

But department staff members say that Dunham's stay at DOT headquarters here has been marked by gentle persuasion, not management by edict, and by fine-tuning the operation, not major overhauling. He has made inroads toward improving the morale of the troops, which had sagged in recent years with layoffs and budget reductions, insiders said. And he has made points with many by seeking the opinions of his employees, including some in lower echelons who have been surprised that the boss wants their advice.

"There are things I want to get done, but I'm not going to do it at the expense of the continued good operation of the department," he said. "I don't want to change things just for the sake of doing them a different way, just because that's what I'm used to."

Minority Hiring

But Dunham fears the department sometimes is too inflexible and mechanical, and decisions are made simply because they have been handled that way in the past. And he is concerned about what he sees as the department's poor record of hiring members of minority groups.

When changes come, the Dunham approach is to show the staff how the changes will benefit the department, he said, instead of merely putting out the word that this is what he wants done. "Things will stay fixed longer that way," he explained.

The changes since Dunham settled in here have been subtle in the grand scheme of the DOT's $310 million annual budget.

Dunham has quietly let it be known that he has little tolerance for the many complex charts and graphs that had been a staple of staff presentations at Iowa Transportation Commission meetings since the days of Preisser.

Dunham is no fan of meetings, and his coaxing has prompted the Iowa Railway Finance Authority to dispense with its twice-monthly meetings until there is need for the board's action or consideration of some matter.

Stickler for Fine Points

Dunham has quickly acquired a reputation for an appreciation of clear expression, and as a stickler for the fine points of the English language. A copy of the Associated Press' style manual on a shelf behind his desk is evidence of that, and Dunham has been reading drafts of reports and correspondence from his staff to make sure they are written in plain English.

"He's kind of a nitpicker," said Robert Rigler of New Hampton, chairman of the Transportation Commission, the DOT's governing board. "But that's good. I think it keeps the staff on their toes."

One high-ranking official said, without sarcasm, "He's a peach of a guy."

Said another: "He asks a lot of questions, and they are good questions that make you think."

But some in the department criticize Dunham for taking too long to make decisions and for seeking what one employee called "committee input" on what ought to be routine decisions.

Dunham shrugs off such comments. "When it comes time to make the decision, I'm not afraid to make it. But on the other hand, if somebody has something to contribute, I'm interested in what they have to say."

House Husband

Warren Barrett Dunham didn't set out in life to become director of one of the largest state agencies in Iowa government. And he still is not sure what his ultimate goal in life is, although he said he would like to spend a couple of years as a "house husband," reading, writing and rearing his two children while his wife, Connie, goes back to school.

Dunham is the son of a career U.S. State Department officer, and he spent much of his childhood in the Washington, D.C., area and in the Netherlands. But he calls himself a "Midwesterner by pedigree."

He was graduated from Carleton College in Northfield, Minn., and made occasional jaunts into Iowa with other members of the Carleton track team. He was employed by the college and by a bank in St. Paul, Minn., after receiving his degree in sociology.

Dunham obtained his master's degree in public administration from Syracuse University and then joined the Illinois State Bureau of the Budget. He moved to the Illinois Department of Transportation in 1976 and held a number of jobs there before being named the chief policy adviser to that state's secretary of transportation.

12

Aberdeen American News
June 6, 1982

Trains will roll again on Sisseton-Milbank line

By DENNIS GALE
Associated Press Writer

Trains will be rolling again next week on the Sisseton-to-Milbank branch rail line, but this time, the barley-filled hopper cars will be pulled by the blue and gold engines of Dakota Rail Inc.

Officials of the northeastern South Dakota shippers and investors group paid $570,000 for the Milwaukee Road's 38-mile branch line Friday. The corporation had been negotiating with the Milwaukee Road's bankruptcy trustee since last September, said John Wiles, a Watertown lawyer and former state Rail Division attorney who is involved in the venture.

Wiles said the check handed over Friday represents the balance of the $660,000 purchase price. The rest was paid earlier by SLA Property Management, another arm of the complicated private set-up that will put trains on the track. The third partner, Sisseton Line Associates, is buying and leasing cars and engines.

"Overall, they dickered quite a bit with them on the price," he said "Obviously, they would have liked to have purchased it for less. But the property is worth just exactly what you can get for it."

Wiles said buying the line means the shippers can keep favorable rates for their barley.

"The rate that they've had in the past is going to be the same rate they have in effect now," he said. "It's a very special rate that has enabled the Sisseton barley shippers to offer a much more lucrative barley price to the farmer than any other barley shipper in the immediate area. That's why they have such a huge barley market in that area."

Towns served along the line are Peever, Wilmot and Corona. Wiles said the line will be used to move about 10 million bushels of barley a year.

"Between 15 and 20 investors" came up with the money to buy the line, which is used mostly to ship northeastern South Dakota barley to malting companies, he said. Operations on the branch line actually began Friday, Wiles said.

"There's a big blue and gold Dakota Rail engine with 41 hopper cars sitting up in Sisseton," he said. The cars will be loaded with grain and head for Milbank next week.

There, the cars can hitch up with either the Milwaukee Road or the Burlington Northern because of a trackage rights agreement hammered out Thursday, Wiles said. The agreement will open up new markets for the shippers because the BN is the railroad which operates its trains on South Dakota's core rail system, he said.

Next on the agenda is getting a $1 million Federal Railroad Administration grant for tie and ballast repairs, Wiles said.

"We need to push it so we can use it this summer," he said.

Jim Myers, state Rail Division director, is helping secure the grant even though he felt relocating the elevators would have been a more practical solution to the abandonment, Wiles said.

Aberdeen American News
June 11, 1982

New rail operation going well

By DENNIS GALE
Associated Press Writer

Despite a derailment, initial operations on Dakota Rail Inc.'s 38 mile Milbank-to-Sisseton branch rail line have been going well, company accountant Mike Ross said Thursday.

"We've certainly got the traffic available to us," Ross said. "If we can fix up our rail now to make it a little smoother operation, we'll be all right."

He said repairs should curb derailments such as one that sidelined two cars and an engine at Wilmot Wednesday. The derailment was cleared up Thursday afternoon.

Ross said the mishap was caused by a broken rail, which made two empty hopper cars plus the back end of the engine leave the tracks at the intersection of Highway 15 and a Wilmot street. The derailment occurred on the fourth run on the branch line.

Dakota Rail, a private group of investors and barley shippers that bought the line June 4, is sinking money into the former Milwaukee Road track repairs even before a decision on a $1 million Federal Railroad Administration grant is made, Ross said.

The private groups responsible for buying and running the new company bought $250,000 worth of new track repair equipment, he said. Rehabilitation work actually started in April — before the track deal was complete, he said.

The Kansas City Times

May 29, 1982

Rail mergers pick up steam across nation

KC area may pay price of lost jobs for better service

By Steve Nicely
A Member of the Staff

The American railroad industry is moving at full throttle down the paths of consolidation and deregulation. What its ultimate destination will be has yet to be determined, although some speculate that it could lead to as few as three dominant rail systems nationwide.

As the third-largest rail gateway in the nation, Kansas City will feel the brunt of such developments if they are allowed to run their course.

Consolidation of rail carriers serving the Eastern third of the nation has largely been accomplished in the formation of three main rail systems. It is the vast area west of the Mississippi River that will experience the most change and turmoil during the next several years.

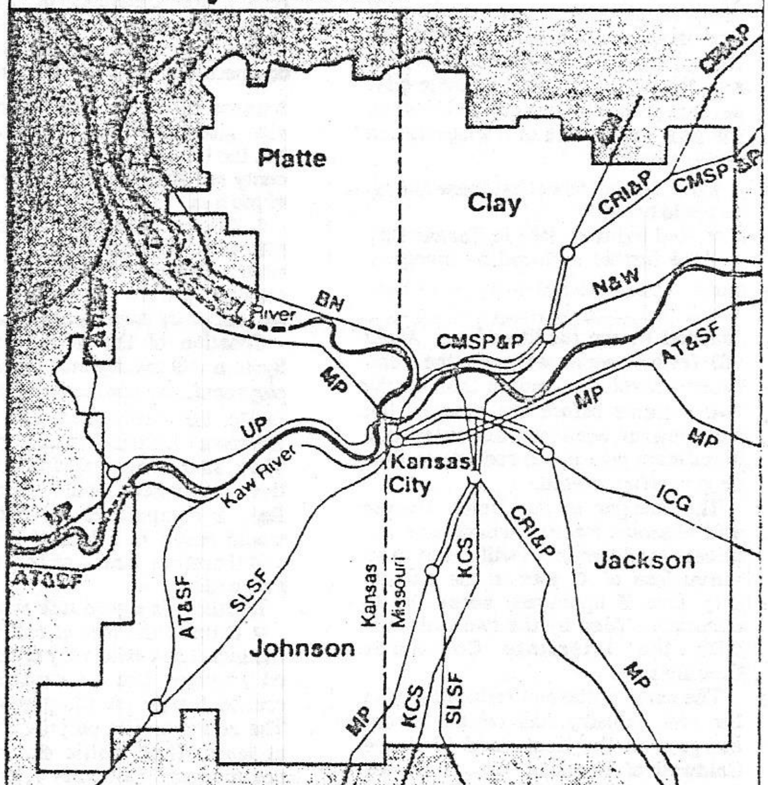
Should consolidations of railroads in the West reach the magic number of three, the stage will be set for the possible formation of three transcontinental rail systems.

A large step in that direction was the merger of the Burlington Northern and Frisco systems in 1980. The next step, if approved on schedule this fall, would create Pacific Rail System Inc., one of the the largest railroads in the nation. It would join the Union Pacific, the Missouri Pacific and the Western Pacific railroads.

The union of the three "Pacifics" would leave four main railroads to serve the West, including the Santa Fe and the Southern Pacific. Then the West would be just one merger away from matching the number of dominant rail systems in the East.

The scenario is realistic if the deregulatory climate of the recent past is allowed to continue, said Charles Bath, vice president for traffic for Kansas City-based Farmland Industries Inc., the largest farm cooperative in the country and a leading shipper of farm products and supplies.

Kansas City: a rail hub



AT&SF	Santa Fe Railway	KCS	Kansas City Southern Lines
BN	Burlington Northern Railroad	MP	Missouri Pacific Railroad
C&NW	Chicago and Western Railway	N&W	Norfolk and Western
CMSP&P	Chicago, Milwaukee, St. Paul and Pacific	SLSF	St. Louis-San Francisco
CRI&P	Chicago, Rock Island and Pacific	UP	Union Pacific Railroad
ICG	Illinois Central Gulf Railroad		

The Times/Holmes Knaus

The basic questions, he said, seem to be ones of "if and when" the government will apply the brakes to the mergers of rail giants.

"I'd be very surprised if the next merger announced is not transcontinental," Mr. Bath said. "I look for it in the next three years and probably sooner."

In the midst of these changes, Kansas City at the very least will maintain its present stature as the third-largest rail gateway in the United States behind Chicago and St. Louis. At best, Kansas City could improve its rail position and attract new industries interested in enhanced shipping benefits. The downside risk is the immediate loss of some railroad jobs.

The merger trend enveloping the railroads does not have unanimous support. Shippers, analysts, labor and management give voice to a multisided conflict.

One dissenting view is that of Michael F. McClain, senior vice president of Kansas City Southern Lines, who answered with an emphatic "no" when asked whether the mergers are beneficial to the public interest.

"I think it will return to what it was like at the turn of the century: the robber barons, the transcontinental railroads that wreaked their power on everyone," said Mr. McClain, whose prosperous but moderately sized railroad stands to suffer from the mergers now on the books.

"As the mergers take place," he continued, "we will end up with four or five major railroad systems and the government will simply step back in and re-regulate it."

The Kansas City Southern case provides an insight into the complexity of the situation. Some railroads serving Kansas City will be harmed by the mergers of other carriers who will find their position strengthened. Although it is too early to accurately assess the net effect upon a single city, several probabilities emerge based on the past experience of transportation professionals.

First the bad news that these changes could bring:

- Rail industry jobs in Kansas City will be further reduced by mergers, most agree. Jobs already have been lost from the consolidation of Burlington and Frisco facilities here. About 185 fewer people were on the combined payroll last month than on the two systems before the merger, but the general economy also played a significant role in the reduction, Burlington officials said.

The merger of the Union Pacific and Missouri Pacific, which have duplicate facilities here, will result in an initial loss of 47 jobs in the Kansas City area if approved, according to documents filed by the two railroads with the Interstate Commerce Commission.

The same pattern of reduced jobs in the rail industry has resulted from mergers in the East, said Clarence Caldwell of Roanoke, Va., a United Transportation Union vice president who has been involved in labor negotiations for all of the big mergers in the East since 1959.

"Mergers are designed to eliminate duplicate facilities and employees," he said, "so I assume there will be a substantial loss of employment on certain segments of the merged property."

The unions don't like it, he said, but it is a reality that has to be faced because profits are essential to the survival of the railroads. Mr. Caldwell estimated that the jobs of 5 percent of railroad employees were disrupted by elimination or transfers because of the mergers in which he was involved.

"But it doesn't always hold true," he said. "When the Chessie System formed its corporation last year, their profits increased immensely. It generated new traffic which virtually wiped out the adverse effect on employees."

Employment in the railroad industry has been declining for some time. Two of every three jobs have been eliminated in the railroad industry since the end of World War II, said Daniel Collins, assistant general secretary and treasurer of the United Transportation Union in Cleveland. Diesel power, improved technology, competition from other modes of transportation and the current recession also have been factors, he said, but the latest round of mergers "obviously are going to accelerate the pace of job loss."

- If local jobs will be lost on the railroads strengthened by mergers, what will happen to jobs on railroads serving Kansas City that stand to be weakened by such consolidations?

Creation of the new Pacific Rail System will mostly hurt local rail employment, say spokesmen for the Santa Fe, the Cotton Belt and the Katy (Missouri-Kansas-Texas) railroads. They said a merger without protective conditions would give Pacific Rail a competitive advantage that would result in a loss of business — and therefore jobs — on the unmerged railroads.

But there is a good side as well:

- Despite the loss of railroad jobs, the increased efficiency of consolidated services can be expected to increase traffic on merged railroads. The added traffic on joined lines will at least offset traffic diverted from non-merging railroads serving Kansas City, say observers in the rail industry.

At best, it is quite possible that the total amount of rail traffic moving through Kansas City will increase to the point that it more than offsets the losses of other local lines, most observers believe.

Shippers will be the chief beneficiaries of increased efficiencies that should result in faster and better service on merged properties. One of the benefits will be achieved by single-system handling on merged lines, replacing the time-consuming process of passing freight from one railroad to another.

- Jobs lost to consolidation could be more than replaced by industrial development if improved shipping possibilities attracted new industries to this area. The addition of a single shipping industry with 100 employees would compensate for the losses.

The Burlington-Frisco merger has already resulted in the addition of a daily train through Kansas City during an economic period when most rail lines have cut back.

"That's a magnificent improvement with business conditions being the way they are," said Chris Knapton, vice president of the Association of American Railroads in Washington. When economic conditions improve, he said, the number of new trains moving on Burlington-Frisco tracks through Kansas City should increase dramatically.

The Union Pacific anticipates "substantial increases" in traffic through Kansas City if its bid to take over the Missouri Pacific is granted. Kansas City is the main connecting point between the two railroads.

The Pacific Rail merger would attract additional traffic through Kansas City, said Dick Lohr, Union Pacific public relations director.

"Some shippers have testified that with the merger they would be willing to route new traffic through Kansas City," he said. "We know the traffic has been routed other ways because of the bottleneck."

- The creation of temporary jobs for capital improvement projects in the Kansas City area.

The Burlington has embarked upon a $10 million improvement project locally, working on tracks, buildings and communications systems. Mr. Lohr said the Union Pacific had committed itself to spend more than $5 million here for route upgrading and new equipment if its application is approved.