

1st MONDAY 3rd MONDAY

Prepared for employees by the
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April 16, 1979

Managers and Supervisors:

The 10-day Teamsters strike did not have much of an impact on our operations. We did cancel temporarily some Sprint Trains when pickets went up at our St. Paul intermodal facility on April 9. The signing of a tentative Teamsters contract two days later allowed us to resume normal operations.

Daily carloadings so far this month are approaching the level of the same period last year. Unfortunately, 1978 was not a banner traffic year for us. We are still experiencing considerable problems in moving traffic due in large part, but not exclusively, to a shortage of locomotives.

On April 2 the reorganization court approved Mr. Hillman's request to issue \$10 million in Trustee's Certificates (see April 2 issue of FM/TM). The funds have been obtained through a \$6 million loan from the Milwaukee Land Company and a \$4 million loan from the account in which the proceeds of the sale since bankruptcy of mortgaged railroad property are deposited pending their reinvestment in the property.

The Trustee has told the ICC that the Milwaukee Road is opposed to the proposed merger of the Chessie System and the Seaboard Coast Line. He also submitted an initial list of protective conditions designed to offset the erosion of our freight revenues that would result if the Commission approves the merger. Our estimates show that the merger would deprive the Milwaukee Road of at least \$519,000 annually in gross freight revenues.

The results of the entire railroad industry's 1978 financial checkup show that the patient is not in very good health. Despite record levels of traffic, capital improvements and equipment acquisitions, the industry's earnings continued at rock-bottom levels during 1978.

Operating revenues during the year were nearly \$22 billion, up from about \$20 billion in 1977. On the other side of the ledger, operating expenses and taxes rose from around \$19.5 billion in 1977 to some \$21.5 billion in 1978.

The industry's estimated rate of return on net investment for 1978 was a very grim 1.62%, the same as was reported for 1977. Including the Milwaukee Road, seven of 37 Class I railroads operated at a loss last year.

Our program to abandon uneconomic lines is now about 56% complete. To date we have filed applications with the ICC to abandon some 2,650 miles of route. This does not include the approximately 1,400 miles of line west of Butte.

The abandonment petitions submitted to the ICC so far represent about 77% of the program to abandon a total of 3,445 miles of route east of Butte. We have already received ICC approval to abandon 785 miles, or nearly 23% of this total.

During the 1979 work season we will continue track rehabilitation projects that involve the use of state and/or shipper financial assistance. The programs include:

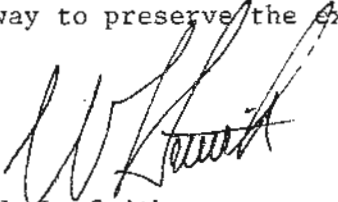
. Complete the upgrading of 35 miles of main line and 8 miles of siding between Fayette and Latta, Ind. The \$1.8 million project is being funded by a utility company.

. Continue and complete the rehabilitation of 62 miles of line between Alden and Jackson, Minn. The \$4 million program involves cost-sharing by the state, shippers and the Milwaukee Road.

. Rehabilitate some 35 miles of the Mason City line in a similar cost-sharing program. This will be the third season of work in a multi-year program designed to upgrade the entire 243-mile Mason City line.

. Also, we have submitted an application to the state of Michigan to obtain funds to begin rehabilitation of the line between Iron Mountain and Ontonagon. Although we have filed to abandon this line, the state has said the line is essential to Michigan's transportation network and must remain in service even if we are no longer the operator. The rehabilitation program is subject to approval by the state legislature.

At a recent Senate subcommittee hearing Jens Jensen, assistant vice president-market development and pricing, spoke in support of the Agricultural Subterminal Facilities Act of 1979. Introduced by Senator McGovern, the legislation calls for federal aid to encourage the construction of large storage and loading facilities--subterminals--at strategic locations in grain-growing areas. Jensen noted that in many cases shippers and railroads are trapped in an inefficient transportation pattern because of the limited storage and loading capacity of grain elevators. He said the construction of subterminals would allow both marketers and transporters of grain to realize the advantages associated with multiple-car rail shipments and rates. Jensen said that "one of the most productive ways to maximize the efficiencies of rail transportation is through the use of assigned rail equipment to move large volumes of specific commodities on a regular basis over a set route." He also urged the subcommittee to view the McGovern bill as a way to improve rail transportation and not as a way to preserve the existence of any particular railroad.



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