

1st MONDAY 3rd MONDAY

Prepared for employees by the
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February 19, 1979

Managers and Supervisors:

WINTER IS STILL DISRUPTING OPERATIONS. While there have been no major snowstorms the past two weeks, light snows, high winds and drifting have hampered service throughout the system, especially on the three midwestern divisions.

Locomotive availability is down. Many Milwaukee Road as well as leased units are out of service with weather related mechanical problems. We are now operating about 350 road locomotives, but this is some 100 units short of what is needed to meet full service requirements.

Although progress has been made in clearing yard and industrial tracks and switches, congestion remains a serious problem in most of our midwestern terminals. This problem has been especially critical in Chicago where heavy congestion on terminal railroads has reduced our ability to interchange cars with eastern lines.

The combination of fighting the weather, congestion and the shortage of locomotives has frequently made it necessary to reduce trains enroute, to set out cars for later movement. We are doing everything possible to move traffic, but progress is slow.

To reduce service disruptions, we have resumed rerouting some eastbound cars from the west end of the railroad to the Union Pacific for delivery back to us at Council Bluffs. We are also routing some westbound transcontinental traffic to the UP at the Bluffs. The reroute order on interchange traffic delivered to us at Kansas City is still in effect. Also, in some instances we have asked shippers to route their traffic via other railroads to avoid congested areas on our railroad. We are giving up some revenues with these actions, but our primary goal is to keep traffic moving.

CARLOADINGS THIS JANUARY were down nearly 11% compared to loadings in January 1978. Most of the decline was due to the problems we had in delivering and receiving cars. Operating expenses increased, however. During January we spent more than \$1 million over budget for snow-removal activities.

ALTHOUGH TRAFFIC IS MOVING, revenues are following at a slower pace. This is the result of the normal process where there is a lag of between 15 and 20 days in the settlement of accounts between railroads and in the payment of freight bills by shippers after cars are delivered. In large part, this situation underscores the still-critical need to control expenses carefully.

BECAUSE OF THE PRESENT ECONOMIC SITUATION, we have advised the general chairmen of the unions whose labor contracts have been approved by the reorganization court that we are postponing temporarily the payment of the retroactive pay schedules included in the contracts. We expect to be able to make these payments on a cash-available basis starting in late May. All of the contracts approved by the court provide for retroactive payments from January 1, 1978. Wage increases specified in the contracts are being paid, of course.

4R LOCOMOTIVE AND CAR PROGRAMS have been accelerated to speed the return of equipment to revenue service. We have increased from 2 to 3 the number of locomotives to go through the rehabilitation program at Milwaukee Shops each week. At this pace, work on the 111 units scheduled in the program will be completed by about July 1 instead of November 1 as originally planned.

The repair of freight cars has been increased from 3 to 4 cars a week. This production schedule means that all 950 cars in the program will be back in service by mid-September.

UPDATE ON '79 FREIGHT CAR ACQUISITIONS: The first of the 1,145 cars which are scheduled to be added to the equipment fleet this year are already in service. The balance will be placed in operation over the next eight months. When all the cars are in service they are expected to produce about \$16 million gross freight revenues annually.

We are obtaining the cars under lease agreements approved by the reorganization court. The cars are valued at more than \$40 million.

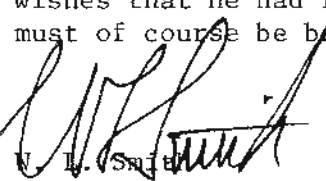
The 1,145 cars include the 500 50-foot boxcars and the 400 covered hoppers noted in the January 16 issue of FM/TM. The other additions to the fleet include 125 new 50-foot insulated boxcars, 100 rebuilt 50-foot boxcars and 20 100-ton capacity auto parts boxcars.

A NEW DIVISION known as the Passenger Division was established on February 1. The division was created to bring under one jurisdiction all of the administrative, operating, mechanical and maintenance functions involved in the operation of our commuter service and of Amtrak intercity passenger trains.

Steve Barry has been named division manager of the new division. With the exception of one newly created post, all the positions assigned to this division had existed in other divisions or departments. The new division has jurisdiction over all passenger operations in Illinois and over part of a Wisconsin line used by commuter trains.

Under contract with the Regional Transportation Authority, we operate a commuter service in the Chicago area which serves nearly 36,000 passengers a day with some 80 trains. Amtrak trains operate over our line between Chicago, Milwaukee and Minneapolis.

RECENT PRESS REPORTS IN MONTANA have indicated that the Trustee has received an offer of \$200 million for portions of the railroad. Mr. Hillman only wishes that he had received such an offer, but he hasn't. Any offer to buy must of course be backed up with sound financing.


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