

1st MONDAY 3rd MONDAY

Prepared for employees by the
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Managers and Supervisors:

My apologies for slipping past a publication date or two for this newsletter. I thought you might be interested in a preliminary, and nonlegal, rundown on what is in the new "Milwaukee Railroad Restructuring Act" which was passed by Congress on November 2 and signed by President Carter on November 4.

Service continuance

The Act requires the Milwaukee to operate its full 9,500-mile railroad, at the service level of October 15, 1979, pending the outcome of an attempt by proponents to develop and qualify an Employee or Employee-Shipper Stock Ownership Plan, but no later than April 1, 1980. Accordingly, when on November 5 U. S. District Court Judge Thomas R. McMillen entered an order authorizing Trustee Richard B. Ogilvie to lift the embargo and return to work some 1,800 furloughed employees, the railroad began restoring full operations as quickly as operationally possible. The new law supersedes the directed-service provisions of the Interstate Commerce Act insofar as the Milwaukee Road is concerned, for the duration of time encompassed in the new Act.

Employee or Employee-Shipper Stock Ownership Plan

One plan to convert all or a substantial part of the Milwaukee into an employee-owned or employee-and-shipper-owned company may be submitted to the Interstate Commerce Commission no later than December 1, 1979, by an association composed of national railway labor organizations, employee coalitions, or shippers. The plan must include a comprehensive evaluation of the prospects for the financial sustainability of the Milwaukee Road.

Within 30 days of the plan's submission, the ICC must approve the plan if it finds it feasible. In order to find the plan feasible, the ICC must determine that adequate public and private financing is available to the proponents of the plan; that the plan is fair and equitable to the estate of the Milwaukee Road; that the plan will be implemented by April 1, 1980; that the railroad proposed to be operated under the plan will be self-sustaining; and that the plan contains an assessment of all operating practices and includes agreements by labor and management to make implementing changes designed to achieve labor-productivity increases consistent with safe operations and adequate service, which may include changes in labor work rules. Adequate financing, as used in this context, includes all sources of private funds; the probable value and priority of valid claims against the estate -- ESOP proponents are expected to ask Milwaukee Road employees to contribute their labor-protection claims -- and federal, state or local funds available under programs in existence on January 1, 1980, which are or will be available to the proponents and which the proponents are likely to obtain.

If the ICC finds the plan feasible, it shall submit the plan to the reorganization court. The court then has 10 days to determine whether the plan is fair and equitable to the estate of the Milwaukee Road.

If the court finds the plan feasible, the proponents of the ESOP plan have until April 1, 1980, to implement their plan.

Interim financial assistance

The Act makes available to the Secretary of Transportation \$10 million from funds available to the ICC for directed service. It instructs the Secretary to grant the \$10 million to the Trustee so that operations of the entire Milwaukee Road system may be financed after November 1, 1979. By court direction, the Milwaukee must rely on external financial assistance for the operation of the lines which were embargoed November 1. Funds generated within the railroad, or by its subsidiary Milwaukee Land Company, may be used only on those lines which the Trustee believes are reorganizable, or on associated lines receiving financial help from states or shippers.

The Act increases the authorizations under the Emergency Rail Services Act of 1970 by \$75 million -- to \$200 million from \$125 million -- and requires the Secretary of Transportation to guarantee Trustee's Certificates for loans required to maintain the operation of the Milwaukee's entire system from November 1, 1979, to April 1, 1980, or to the date upon which ESOP proponents fail to meet their specified deadlines, whichever is earlier.

The Act further provides ERSA loan guarantees for the first 60 days of the Milwaukee's continuing operations after April 1 or after the failure of the ESOP proponents to meet their deadlines.

For both time periods, the loan guarantees cover the difference between total expenses of the railroad and its revenues. Estimates are that this difference will run between \$10 million and \$15 million per month.

Claims for repayment by the Milwaukee of loans guaranteed under this provision are subordinated to the claims of any creditors as of the date of enactment of the law.

If the ESOP proponents fail to meet their deadlines and, under other provisions of the Act, portions of the Milwaukee are eliminated, financial assistance for the surviving railroad under ERSA or any other federal legislation will be conditioned on good-faith efforts by the Trustee and the railroad to establish an Employee Stock Ownership Plan which will include the purchase or acquisition by participants of qualifying securities of the Milwaukee equal in value to 25 per cent of the amount of federal assistance provided.

Assistance to displaced employees

Under the Act, employees of the Milwaukee who are separated or furloughed prior to April 1, 1981, as the result of a reduction in service, if best qualified, will have priority over new employees for available jobs on other railroads unless the jobs on the other railroads are filled in accordance with an Affirmative Action or similar plan.

The Railroad Retirement Board is to act as a clearing-house for employment information, maintaining for other railroads a list of available separated Milwaukee Road employees.

Labor protection

The Act establishes supplementary unemployment insurance for employees separated prior to April 1, 1984, by restructuring of the railroad. It provides a 40-day period in which the Milwaukee's management and official representatives of the Milwaukee's employees may negotiate a broader employee-protection agreement. If the parties can't agree on a plan within 20 days from the date of the Act, the National Mediation Board has up to 20 days in which to attempt to mediate an agreement. If mediation fails, the Act requires the parties to enter into a fair and equitable agreement. The plan will be administered by the Railroad Retirement Board.

Benefits and allowances under the plan would be an administrative expense of the estate of the Milwaukee. The Act limits the liability of the Milwaukee under any employee-protection plan to \$75 million. It provides loan guarantees for the Milwaukee of up to \$75 million under the Railroad Revitalization and Regulatory Reform Act of 1976 for an employee-protection plan. It appropriates up to \$5 million in government funds for supplemental unemployment insurance, up to \$1.5 million for new-career training, and up to \$750,000 for the administrative expenses of the Railroad Retirement Board.

Employees who elect to take a separation allowance under a plan established under the Act will be entitled to receive new-career training assistance.

Court authority over line abandonments and sales

After April 1, 1980, or earlier if the ESOP proponents fail to meet any of their specified deadlines, the authority to permit abandonments, sales or transfers of lines of the Milwaukee Road moves from the ICC to the reorganization court. This provision is consistent with the federal Bankruptcy Act as it was amended October 1, 1979.

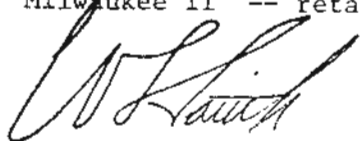
In the case of a sale or transfer to another rail carrier, the Milwaukee is required to file an application with the ICC. The ICC has up to 180 days to act on the application. The Commission's ruling is subject to limited review by the court.

Pending an ICC review of a sale or transfer application, the court may authorize the sale or transfer on a preliminary basis and permit the purchasing carrier to operate the line on an interim basis using Milwaukee Road employees to the extent necessary.

Assistance in upgrading

If another railroad buys from the Milwaukee a line which carries an average of 3 million gross tons of freight per mile per year, the Secretary of Transportation is authorized to make available to that carrier redeemable preference shares under the 4R Act to rehabilitate and improve the line.

The same provision applies to lines which the restructured Milwaukee Road --
"Milwaukee II" -- retains.



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