

1st MONDAY 3rd MONDAY

Prepared for employees by the
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September 17, 1979

Managers and Supervisors:

Judge McMillen is now reviewing the recommendations of the Special Master on the embargo and associated issues. The Judge has given no indication of when he is likely to rule. He clearly has his work cut out, for as the Special Master noted in his report "the relevant record includes the testimony of more than 70 witnesses, covering more than 2,500 pages of transcript, as well as thousands of pages of written testimony, expert reports, memoranda, figures and tables." But despite this great mass of material, on page 40 of his report, the Special Master sums up the basic issue of embargo this way:

"The DOT has decided that it will not provide any additional funds to Milwaukee as long as it continues to operate lines outside of 'Milwaukee II.' Since DOT funds are necessary for continued operation of the Milwaukee, the embargo request presents the court with only two alternatives. One is to deny the requested embargo, in which case the entire Milwaukee system will shortly have to cease operations. The other is to grant the requested embargo, thus enabling an important segment of the Milwaukee to continue to operate."

As you know, the issue of cash availability is central to the embargo. In recent testimony before a Senate Subcommittee, ICC Chairman Daniel O'Neal said we could end 1979 with a cash surplus. Some people have seen this statement as proof that we are not "cashless" and therefore the court should reject the embargo request.

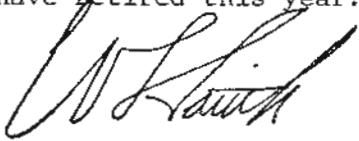
Chairman O'Neal, however, did not say that a surplus was definite, he said it was possible under certain conditions. We acknowledged this possibility during the embargo hearing. The Special Master also dealt with this possibility in his report. But in referring to cash projections for the balance of 1979, the Special Master said the figures were "an optimistic estimate of the Trustee's cash position." He noted that if all possible sources of cash became available the railroad could have a positive cash balance of some \$4.8 million on January 1. But he went on to say that even if these funds were available to support the continued operation of the full system, "that system will collapse early in 1980." He also noted that unanticipated increases in costs or decreases in revenues could bring about such a collapse before the end of the year. For example, he estimated that if our expenses for the last four months of the year averaged only 10 percent above predicted levels, we could have a negative cash balance of more than \$15 million on the first of the year.

The court will soon hold hearings on the Trustee's request to obtain much of the financial assistance that will be needed to fund the start up and the operation of "Milwaukee II." With the court's permission, we are filing advance application with the FRA to obtain approximately \$65 million in 4R equipment and track rehabilitation funds. A \$32 million equipment rehabilitation application will call for the upgrading of 87 road locomotives, 1,202 freight cars, 43 road cabooses, and improvements to the major car repair building at Milwaukee Shops. We are seeking nearly \$33 million in track funds, mainly to upgrade 58 miles of main line between Chicago and Milwaukee and to rehabilitate 92 miles of line between New Lisbon and Wausau. Additional funds will be used for bridge work and to repair track maintenance equipment.

Here's a quick update on several important issues that have been reported in FM/TM. Today we began operating our through Chicago-Louisville trains over Conrail between Hammond and Terre Haute. The first hearing on our application to abandon lines west of Miles City was held in Butte on September 10-12. The next hearing will be in Chicago the week of September 24. The hearings will then continue at seven locations west of Miles City during the first two weeks in October and will conclude in Chicago the following two weeks.

Traffic revenues in August were somewhat above forecast due to increased movements of grain, lumber and coal. September revenues, however, should be down slightly due to three fewer working days in the month and the annual shutdown of the Big Stone power generating plant. Generally the demand for equipment for most commodities continues to exceed our ability to supply cars. We have seen a slight increase in traffic as a result of the Rock Island strike. Since the strike began the last week of August we have handled about 1,000 carloads of business that had been moving on the Rock. Overall, total carloadings for the first eight months of this year were slightly less than 8 percent below their level during the same period a year ago.

Larry Harrington, Vice President-Management Services, reports that there has been a considerable drop in management ranks during the first seven months of this year. In this period 61 managers and supervisors have resigned, 46 retired, many before reaching 65, and 14 returned to craft positions. Where necessary we have tried to fill vacancies, but other positions have been abolished. For example, two vice presidents and one assistant vice president have retired this year. These positions have been abolished.



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