

# 1st MONDAY 3rd MONDAY SPECIAL

Prepared for employees by the  
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To all Milwaukee Road employees:

This edition is a companion to yesterday's regular edition of FM/TM. Yesterday, I discussed Master Gray's recommendation that "Milwaukee II" be permitted to continue, despite the protests of certain creditors and the railroad's stockholders, pending Trustee Ogilvie's new plan of reorganization early next year. I commented on how Master Gray acknowledged the role of employees in helping "Milwaukee II" meet its current financial needs.

That subject -- employee participation -- was also a topic on which I wrote in FM/TM of July 7. At the time, we were working on a voluntary program by which employees could defer a certain percentage of their current wages and, in effect, could become preferred stockholders in the reorganized company.

Now, conditions have changed. With the recession being deeper than we had anticipated and, accordingly, with our revenues falling short of our projections by substantial amounts, it has become even more imperative that employees join government agencies and shippers in contributing financially to the success of "Milwaukee II." Trustee Ogilvie several weeks ago met with a number of rail union leaders to explain our circumstances and seek their help. If we are not able to install an across-the-board wage-deferral program promptly, he told them, we may not have sufficient cash to see us through the end of the year. A wage-deferral program could, on the other hand, conserve our cash to the point that we can successfully weather the recession. Moreover, he indicated his view that the Reorganization Court would be most unlikely to provide further loans unless employees shared the risk of continuing "Milwaukee II."

A number of union leaders have recognized the crisis which exists. A wage-deferral proposal which would, in effect, be a collective-bargaining agreement is being hammered out with the active participation of persons on both sides of the table. That proposal is presently being considered by the 16 unions which must agree to it. In some instances, unions have already begun to seek necessary member approval.

The Brotherhood of Railway Clerks is one. International President Fred Kroll wrote BRAC members on the Milwaukee Road on July 31: "The condition of the Milwaukee Railroad continues to worsen. Due to the depressed state of the national economy, the Milwaukee's revenues are down more than one million dollars per month. This should convince every employee that the current gossip of a possible total shutdown is more than a rumor -- it is an imminent fact. The only alternative to a total shutdown is for the Trustee to find a way to bring current operating costs into line with receipts.

"We have been working on a near-continuous basis and have held many conferences with the Trustee in an effort to find a solution that will permit the continuing operations of the Milwaukee. While the problems are great, we cannot shy away from making a decision. Our discussions with the Trustee have resulted in a tentative agreement between the Trustee and the Standard Railway Labor Organizations. If this agreement is finalized and adopted, it will make a major contribution toward the continuation of the Milwaukee as a rail carrier and the continued employment of our members....

"A vote against the wage-deferral program would continue wages at their present level only until the Trustee shuts down the operation," Mr. Kroll said. "The shutdown of the railroad would have an everlasting effect upon you and your families. The Federal District Court in Chicago recently held that the protective payments under the Rock Island Railroad Transition and Employee Assistance Act, which parallels the Milwaukee Railroad Restructuring Act, is unconstitutional, thereby placing any protective benefits on the Milwaukee in jeopardy."

Mr. Kroll described how, under these conditions, Milwaukee Road employees would be entitled only to \$25 per day in unemployment benefits should the railroad be shut down. He pointed out that fewer than 25% of former Rock Island employees have been able to find other work in the railroad industry.

As of today, not all of the unions representing the Milwaukee's employees have signified their concurrence in the Trustee's proposal. Accordingly, the provisions which I outline here are not yet in effect. As of now, we do not know whether they will be placed into effect, nor if so when. If they are placed into effect with the agreement of our unions, the wage-deferral program will be mandatory. It will encompass all employees, union and nonunion, all officers, and the Trustee himself.

The current draft of the agreement provides that 10% of all wages earned for the balance of 1980 would be deferred. Wages, for this purpose, mean gross taxable earnings including overtime pay, arbitrary pay and miscellaneous compensation, however paid. Not included are such reimbursements of expenses as meal and lodging allowances. While the current draft of the agreement indicates that the deferrals would begin effective August 1, there's a question as to whether the program could begin that soon.

In 1981, 7% of wages would be deferred, with wages figured the same way as they were figured for 1980, to which would be added any increases under the various agreements. The 10% deferral for 1980 and the 7% deferral for 1981 wouldn't be cumulative. Employees would receive in 1981 93% of the gross taxable earnings they'd receive in the absence of the deferral program. During 1981, the Trustee and the signatory labor organizations would discuss whether the deferral program should be extended into subsequent years.

The agreement with labor representatives would cover only the Milwaukee's contract employees, of course. The Trustee would defer the same percentages of wages of exempt personnel.

The agreement would provide that the aggregate of wage increases to exempt employees during the remainder of 1980 wouldn't exceed the level contemplated by the Trustee's existing merit salary program. The aggregate of increases to exempt employees in 1981 wouldn't exceed the percentage increases received by contract employees in 1981. The Trustee would retain the authority to make larger raises to individual employees in exceptional circumstances, but if he did he'd have to offset the larger raises with smaller raises to other exempt employees. The agreement would provide that the unions could appoint a three-person committee to confer with the Trustee on how he has implemented these provisions of the agreement.

Upon the reorganization of the railroad, employees would receive preferred or preference stock in the reorganized successor company operating all or most of the lines of "Milwaukee II" currently being operated in an amount equal to 1.3 times the wages deferred in 1980 and 1981. If the agreement were to be extended to 1982 or 1983, employees would receive stock equal to 1.2 times the 1982 deferrals and 1.1 times the 1983 deferrals. If necessary under the securities laws, the railroad would file a registration statement with the Securities and Exchange Commission and would furnish each employee a copy of any prospectus which forms a part of the registration. At the time of distribution of the stock, the stock might be paid into an Employee Stock Ownership Trust, if the law permits.

If "Milwaukee II" isn't reorganized and its rail operations are ordered to be liquidated, employees who have received protective payments arising from Section 9 of the Milwaukee Railroad Restructuring Act or any other law or contract would have claims in the amount of their deferred wages which would rank in payment priority behind the claims of the Milwaukee's present preferred stockholders. All employees who have not received such protective payments would have claims for their deferred compensation with cost-of-administration status, the highest priority.

The agreement would be subject to the approval of the Reorganization Court, but it could be implemented in advance of such approval with the understanding that if the Court didn't approve it any wages which had been deferred pending Court approval would be paid promptly.

Given the short-range cash crisis, it's not possible now for Trustee Ogilvie to include in the proposed agreement the provision that the deferred wages would, in effect, be dedicated to certain rehabilitation projects. However, it's quite clear that in the absence of wage deferrals as outlined in the proposed agreement, we'd not only be unable to continue our internally funded maintenance but we'd run the great risk of seeing our operations stop altogether.

W. L. Smith  
President

