

1st MONDAY 3rd MONDAY

Prepared for employees by the
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June 2, 1980

Managers and Supervisors:

Trustee Ogilvie's report to the Court of last May 14 is being well received. Judge McMillen has scheduled a discussion of the length and scope of possible hearings for the afternoon of Monday, June 9.

Contrary to some published reports, we didn't say on May 14 that we were delaying the filing of the new reorganization plan until early next year. One newspaper story in particular which made this statement caused a measure of concern among some of our shippers. If you run across this same concern, it might be well to point out that in March, after the ICC rejected all plans which had been filed, Trustee Ogilvie indicated that in May he would file with the Court a report which explored three possible courses of action. Later, he said, he would file a new reorganization plan with the ICC. That filing with the Commission is now set for early next year.

The misunderstanding about our plans has prompted some shippers to ask whether we've hit a snag. We haven't. We've planned all along to file our new reorganization plan after we've had sufficient experience with "Milwaukee II" to be able to demonstrate, rather than to forecast, that our slimmed-down railroad can be economically viable.

We passed one of the more significant mileposts in the history of the reorganization on May 27. That afternoon, I executed papers which conveyed to Potlatch Corporation our lines from Avery to Plummer and from St. Maries to Bovill as well as 5 locomotives, 185 log flats, and certain other necessities of railroad operation. For Potlatch, the transaction means the ability to resume rail service in the Idaho panhandle to serve itself and several other shippers and receivers. Potlatch will do so with a new carrier, the St. Maries River Railroad, which will operate from a connection with the Union Pacific at Plummer through St. Maries to a connection with the Burlington Northern at Bovill. For the Milwaukee, the transaction means the first sale of a portion of the Pacific Coast Extension to be completed. Since the property between Avery and St. Maries now belongs to Potlatch but will not be part of Potlatch's railroad, there is no longer a through route via the Milwaukee Road to the Pacific Coast. The \$4.5 million we received for the property has been deposited with the mortgage trustees.

Those of you who saw the "To All Concerned" message of May 22 know that, at last, the FRA has begun to come through with some of the financial assistance which we are due and on which we've been working for so long. However much these funds will improve our cash position at least temporarily, it's well to know that had we not received these funds we would have had a serious cash crunch in June. I point this out mainly to impress upon you that while the long-range prospects for "Milwaukee II" are quite good, in the short run during the transition we are still dependent on federal help -- and on maximum internal economy.

At the moment, it does appear that we shall be able to begin track-rehabilitation work between Chicago and Milwaukee, and to some extent between New Lisbon and Wausau, on July 1. These, at least, are the dimensions of the proposal for funding under Section 505 of the 4R Act which have been before the FRA for some

time. There may be modifications to our original program which might reduce the amount of work we shall do with the government's help. The details are being worked out now.

We're frequently asked, what about the rehabilitation of the Miles City line and other corridors?

We intend to seek Section 505 assistance for the Miles City line in conjunction with South Dakota. The groundwork for the application is being laid now. The line certainly needs the work, and we have no funds of our own to do more than maintain its present condition. At present, the FRA simply isn't interested in talking about funding for the Miles City line.

We're doing what we can with our own money to hold the Kansas City line to its present condition. Our plans include a comprehensive upgrading of this line with our own funds over time.

The coordination with Conrail between Gibson and Terre Haute has relieved considerably the rehabilitation burden on the Louisville corridor. Conrail's route is in the midst of a major upgrading. We'll be able to complete the remaining work between Latta and Bedford, where we join the L&N, with our own money.

Even though we aren't a Pacific Coast railroad anymore, the eruption of Mount St. Helens affected us. Nineteen of our log flats which Weyerhaeuser was using on the Columbia & Cowlitz have disappeared. We'll be reimbursed by Weyerhaeuser. Timberland properties of Milwaukee Land Company in Idaho and Washington have received some ash fall, but no real damage.

Last week, Congress passed a law known as the Rock Island Transition and Employee Assistance Act. Much of it is patterned after the Milwaukee Railroad Restructuring Act, particularly those segments which provide protection to Rock Island employees who do not take jobs on other railroads which ultimately buy segments of the Rock Island.

Certain portions of the Rock Island Act are designed to deal with the Milwaukee, although there is a question whether these provisions are either effective or timely.

One such provision authorizes \$18 million in Section 505 funds as a loan to a "noncarrier entity" for the purchase of lines of the Milwaukee, to the extent that the Secretary of Transportation determines that the funds are available. The new law provides, in effect, that anyone utilizing the 505 funds must be financially responsible and able to repay the principal and pay the interest. It also sets a deadline of September 15, 1980, for any such purchase plan to be filed with the ICC and requires that any such plan must be approved by the ICC and the Reorganization Court.

Another provision appears to pave the way for the Milwaukee to provide directed service over lines in South Dakota which the state offers to buy, for the 30 days immediately prior to the state's acquisition of the lines, if the state requests. We expect to receive an offer from the state for certain of our grain lines. Additional state legislation will be necessary before the state can hire an operator to run the lines. Actual acquisition of the lines is still some time away. There are provisions in the Act to extend the service provided by other railroads, including the Milwaukee, over portions of the Rock Island, and

we have moved to take advantage of them in order to retain our interests in the Muscatine area and the DRI Line's interests in the Quad Cities. On May 27, we asked the ICC to issue the appropriate orders either under its existing authorities or under the new Rock Island Act when and if President Carter signed it, which he hadn't done at that time. The original round of directed-service orders over the Rock Island expired May 31. As of today we have the necessary extensions.

You might be interested in the progress of implementing the protection provisions of the Restructuring Act. Through May 30, we had paid 1,174 claims for separation, utilizing about \$16 million of the \$75 million authorized for the purpose and deferring about \$5.3 million as the Restructuring Act requires. About 516 employees had filed claims for interim employee assistance; 321 such claims had been paid for a total of approximately \$169,000. There had been 71 claims for moving expenses, 52 for coverage of losses on the sale of homes. Relatively few affected employees are electing to wait for what protection might be available under the New York Dock conditions or the BRAC protective agreement. Only 38 claims for separation allowances under New York Dock had been received by May 30.

Some of you may be aware that J. Fred Simpson, former Milwaukee Road employee and a member of S.O.R.E. and New Milwaukee Lines, has been seeking to represent employees and former employees in receiving New York Dock protective conditions. Simpson's doing so has placed him in conflict with the Bankruptcy Act and the orders of the Reorganization Court through which an orderly process of settling labor claims has been established pursuant to the Milwaukee Railroad Restructuring Act. On May 27, Judge McMillen signed an order prohibiting Simpson from soliciting employees and former employees and from further interference with the Court's orders.

The Labor-Management Action Group has completed its schedule of meetings with division staffs and division local chairpersons. The Action Group has also held meetings with employees at 22 locations within "Milwaukee II." To complete the process of explaining the purpose and function of the Action Group, meetings will be scheduled this month for employees in Chicago Union Station and at Milwaukee Shops. This cooperative labor-management effort is being well received by employees. With employees' assistance, the Action Group is turning up fertile ground for improvements in productivity.

Among the employees who have come to these meetings are many who are personally concerned about the future of the Milwaukee and about their jobs with it. From time to time, it has appeared to the members of the Action Group that efforts to communicate with employees about these issues aren't being altogether effective. The Action Group is finding a real need to improve the communications process, to which supervisors are essential.

Since we go to some lengths to keep supervisors advised so that they in turn may pass the information along, any hindrance to this important process concerns me. Any employee of this company is entitled to know what he wants to know about the organization he works for. I prefer that he learn from his supervisor. We have undertaken the task of seeing that supervisors have the necessary information. This publication is part of our effort. I direct it to supervisors so that you may be as up to date on current events as our resources permit.

I remain convinced that well-informed employees are, in the long run, better employees because they understand that they are important to the total effort -- and they understand why they are important. A supervisor who stands in the way

of effective two-way communication with employees is neither fully understanding his job nor adequately doing it. You are an important part of the communication effort. Make it work!

You may have heard that a steam locomotive was going to operate on the Milwaukee Road this month. It was but it won't. We had agreed to operate steam-powered excursions for an organization which engages in such activities provided satisfactory arrangements could be made. The steam locomotive itself posed no insurmountable problems, but the condition of the passenger cars was not satisfactory. We have asked the group to see what it can accomplish in the way of improving the condition of the cars by fall, and then to come back to see us again. We are still interested in operating the trips for the attention they'll focus on "Milwaukee II's" core. Doing so would be a moneymaking venture for "Milwaukee II."



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