

1st MONDAY
3rd MONDAY

JOB 001080
SUPVR. CAR UTILIZATION
THE MILWAUKEE ROAD
MILWAUKEE

Milwaukee Road's Corporate Communications Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

June 23, 1980
(Delayed issue of June 16, 1980)

Managers and Supervisors:

We are feeling the effects of the economic recession.

In April, our total "revenue units" for "Milwaukee II" -- carloads plus trailerloads -- was below projection by more than 16%. Early figures indicate that revenue units in May were off about 10% from what we'd anticipated they'd be. The first look at June figures suggests a shortfall for the entire month of about the same as May's.

The shortfall in total operating revenues isn't quite so dramatic, thanks to higher-than-anticipated revenues per car. But the trend of revenues is decidedly down and away from our "Milwaukee II" projections: 3.1% in April, 3.4% on a preliminary basis for May, 7.7% for June based on a first-period projection which almost always turns out, by the second period, to be too pessimistic. Cash is running slightly ahead of projection, but there isn't as much margin of comfort as we'd like.

The impact of the recession is being felt almost entirely in three classes of traffic: lumber, autos and auto parts, and steel. Elsewhere across our commodity mix, our marketing projections are, so far, quite accurate.

Since we can do virtually nothing to increase the flow of traffic which simply isn't moving in normal volumes, we must cut back our operations. We have stored about 35 "Milwaukee II" locomotives for the time being because we don't need them. The Operating Department is making reductions in force which will trim expenses by about \$8.1 million over the last six months of 1980. The Mechanical Department will trim an additional \$500,000 out of its budget for the balance of the year. At present, these reductions should have little effect on equipment maintenance and no effect on track maintenance and rehabilitation. Rather, they reflect largely the decreased demand for freight-train services.

There are any number of predictions as to when the recession will "bottom out" and business pick up again. We aren't particularly optimistic that the upturn will start in July as some analysts anticipate. We look for things to be slow for perhaps the remainder of 1980. I remind you that by Trustee Ogilvie's own statement the future of "Milwaukee II" rests on the financial results of the period between now and early next year, when he expects to file a new reorganization plan. If it is within your power to increase revenues and eliminate unnecessary expense, it is imperative that you do so.

You might wonder whether the proceeds of the sales of property could be used to sustain "Milwaukee II" through these thin days. True enough, property-sale procedures, and Milwaukee Land Company earnings, do represent sources of funds for us, but they are available only upon the order of the Court. We don't expect to ask for authority to draw on property-sale proceeds until later this year. Using existing authority, we'll draw down \$2.7 million from the Land Company this

month. We'll be signing a financing agreement with the FRA this week on \$30 million in ERSA loans. This is the loan which Judge McMillen authorized on March 27. Our plan calls for it to be the last borrowing from taxpayers for funds with which to operate the railroad.

We shall need further borrowings for rehabilitation, of course -- and this week we shall also be signing off with the FRA on about \$19 million of what was originally to be \$33 million in federal financial assistance for track rehabilitation this season. We'll be able to begin work July 1, spending about \$13 million between Chicago and Milwaukee, \$4 million between Junction City and Weston on the Wisconsin Valley line, and \$2 million to complete the replacement of a bridge at Knowlton, Wisconsin.

One of the factors behind our inquiry with the Chicago and North Western into mutually beneficial coordinations of track is that 4-R Act assistance isn't going to be available for the rehabilitation of our Green Bay line, which had been planned for 1981. The absence of funds with which to upgrade the line, coupled with the logic and purpose of the 4-R Act in eliminating redundancy from the nation's rail system, suggest that our Green Bay line might be an excellent candidate for coordination, as of course is our Chicago-Twin Cities main line.

I have estimated for Judge McMillen that the Milwaukee and the North Western will have their internal work completed by mid-July on the coordination study for the Milwaukee-Green Bay and Milwaukee-Camp Douglas segments, and that we would expect to present the matter to the Court by early August with the idea that coordinated operations could begin shortly thereafter under a temporary service order.

There has been speculation in some newspapers that the coordinations which we are studying with the North Western are the first step toward a merger of the two railroads. Nothing in the current discussions suggests an eventual merger. We are simply exploring ways to make "Milwaukee II" more efficient from an operating standpoint.

In our present circumstances, a merger with another railroad in the usual way isn't possible. Corporate mergers usually are accomplished by an exchange of stock or other paper which represents future obligations of the merging parties. In our case, however, anyone who might wish to acquire "Milwaukee II" is, in effect, required to buy it from the Trustee for cash or for paper which is of very sound value. The number of railroads which could arrange such financing is limited.

On the subject of financing, I should mention that once again the U.S. Court of Appeals has affirmed Judge McMillen's authority to order Trustee Ogilvie to borrow funds to keep the Milwaukee going, by a ruling on an appeal brought by the railroad's stockholders.

Another Court note: Judge McMillen has set July 8 as the day on which hearings will begin on Trustee Ogilvie's report to the Court of May 14 -- the report which indicated that "Milwaukee II" can be profitable by 1983. Judge McMillen indicated today that he is shooting for a decision by July 29 on the issues raised by stockholders. Next week, the parties in the reorganization proceeding will estimate for the Court how long they believe the hearing will take.

Here are some dramatic comparisons which are being circulated by Bruce Cederholm, Assistant Vice President, Transportation. They show what the reduction to "Milwaukee II," our new service pattern, and your good efforts are doing to improve our service.

Comparing our service in March of this year with that of just about a year ago -- June, 1979, actually -- Bruce found that we'd cut the time to delivery at Kansas City on cars from Chicago by 34%; improved the time from receipt at Kansas City to delivery at Chicago by 25% and to arrival at Green Bay by nearly 33%; improved the time from departure at Green Bay to delivery at Chicago by 41%, to delivery at Kansas City by 33%, and to delivery at Louisville by 42.5%; improved the time from departure at Portage to delivery at Kansas City by 45% and to delivery at Louisville by a rousing 61%; and improved the time from receipt at Duluth to delivery at Chicago by 19% and to delivery at Louisville by 52%.

These service improvements and other factors, such as our reliable locomotive fleet, a far greater availability of our own freight cars and the elimination of many miles of slow track, have produced what Bruce calls a dramatic reduction in car-hire costs -- the rent we pay to use other railroads' equipment. Last year, we paid out \$17 million more for the use of "foreign" equipment than we received from other railroads for the use of our cars. Bruce expects to see this imbalance reduced by at least \$12 million for the full year 1980. He urges increased concentration on all the factors that go together to produce maximum car utilization. So do I.

Here are some other comparative numbers in the area of employment. Our preliminary report to the ICC on the middle-of-the-month count of all employees for May, 1980, pegged that number at 8,198. In May, 1979, we reported a total of 10,122 employees. The reduction measures 19%.

This report, which we file monthly, breaks our employment into seven categories. Here are how the May, 1980, figures in each category compared with the same figures for May of 1979 -- with all percentages being reductions: executives, officials and staff assistants, 10.1%; professional, clerical and general, 17.5%; maintenance of way and structures, 10.8%; maintenance of equipment and stores, 12.7%; transportation other than train, engine and yard, 33%; transportation (yardmasters, switch tenders and hostlers), 14.3%; and transportation (train and engine), 26.9%. As one might expect, there is a relationship between the size of the percentage reduction and the number of employees in the category: the larger the category, generally, the larger the reduction. The train-and-engine category in May, 1980, embraced 2,361 jobs. There were 399 in the category of executives, officials and staff assistants.

Congratulations on the fact that we are becoming a safer railroad. Through the first five months of 1980, the frequency and severity of injuries to employees have dropped far faster than have man-hours worked. In May, enginemen, signal-and-communications employees and bridge-and-building employees worked their second consecutive month without a lost-time incident.

The Labor-Management Action Group is rounding out its first series of meetings with employees across the system. The series will end with meetings for employees in Chicago Union Station during the last week of June. On June 13, the

Action Group met in Chicago with the General Chairmen's Association, representatives of the FRA, and members of the Trustee's staff. The meeting reviewed the progress of the Action Group thus far and considered a number of proposals to increase productivity.

At the request of employees to the Action Group, First Monday/Third Monday will be mailed to all active employees beginning next month. It's important that we have your correct home address on file. We shall be using address records made available by the Personnel Department for the mailing.



W. L. Smith
President

