RECONSTRUCTION FINANCE CORPORATION
RAILROAD DIVISION

REPORT

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD

FEBRUARY 1937

Mr. J.W. Barriger, III,
Chief Examiner,
Railroad Division,
Reconstruction Finance Corporation
Washington, D.C.

Dear Mr. Barriger:

Pursuant to your instructions, an examination has been made of an extensive representative portion of the fixed plant, equipment and other facilities of the Milwaukee Road, supplemented by reference to the records, and conference with officers of the property. Studies have been made of methods and results of conducting transportation; and of traffic history and prospects, the latter being evaluated by the road's Chief Traffic Officer. No check or analysis has been made of any financial matters, except as an analysis of the Income Account.

A report is submitted herewith which is summarized as follows:

Physical condition of track and structures has been built up and much improved in the past decade, and is now adequate, not only for the present, but also for a substantially increased, traffic volume. Standards are good and have been well, and economically, maintained. Advantage has been taken of mechanical aids in reducing maintenance costs. Much has been done in prolonging rail life by proven modern methods. Tie condition has been steadily improved and longevity increased by use of preservative treatment and application of tie plates. Ballast is generally ample and of good quality. Bridging has been adequately maintained and much timber trestling replaced with permanent work in recent years. The current, and future, rail, tie and ballast renewal programs are adequate to maintain, and progressively improve, the good track condition which has been achieved.

Equipment condition, both locomotive and car, is good; facilities for its maintenance are adequate and repair costs economical. Savings are being effected, by building cars - freight and passenger - in the road's own shops, as compared with outside purchases. Locomotive utilization and performance have been improving in recent years and continuing efforts in this direction are being made. Recent purchase of 30 new freight locomotives for mid-1937 delivery will materially help transportation performance, and, incidentally, create a substantial reserve of power to meet the needs of increased traffic. Annual operating savings - less depreciation - are estimated at approximately 12 per cent on this investment. Considering age, type of construction and service character, of the freight cars, it may be said that except for meeting the needs of currently increasing traffic and filling gaps in certain classes, resulting from the retirements of the past decade, the ownership is fairly adequate. Certain additions made in 1936, and to be made in 1937, will materially strengthen this situation. The passenger train cars are being currently improved and ownership increased. Additions of the past three years have featured a modern type in which the use of high capacity steel alloys and other lightweight materials, coupled with improvements in design, has produced a unit lighter by about one-third than former equipment. The road is keeping abreast of the times in the installation of air-conditioning. The 1937 program of additions to, and improvement of, existing passenger train equipment comprises the construction of 33, and air-conditioning of 45, units.

Transportation is efficiently conducted. As compared with the Northwestern Region (excluding three iron ore carriers), the Milwaukee leads in heavier train loading and lower unit consumption of fuel, the two most important factors in achieving low ton-mile costs. The Milwaukee is burdened with a greater proportion of empty freight car miles than its Northwestern neighbors. An analysis of this matter is under way and will be covered in a supplemental report. Transportation accomplishment is handicapped by service necessarily rendered on a considerable mileage of thin traffic branch lines. Some such mileage has been abandoned, and other abandonments are being studied, or urged, before regulatory bodies. There is much more to be done in this direction. The report includes a separate study of transportation methods and results on each Operating Division, coupled with some observations and suggestions. Electric operation in mountain territory is efficient but handicapped by a badly unbalanced traffic - roughly two-thirds eastbound. This condition obtains on all of the territory west of Mobridge, South Dakota.

The organization for, and the quality of, management is good.

The Income Account has been analyzed in the report in some detail; a Balance Sheet and supporting schedules are furnished; comment in this summary appears unnecessary.

Freight revenues, at the peak in 1929, dropped to the low point in 1932 and, in 1933, began a gradual climb, which in 1935 showed an increase of 10 per cent above 1932. The year 1936, however ran 18 per cent above 1935, and 29 per cent above 1932. Revenues per ton mile in 1935 were 7.5 per cent below 1929. The depressed condition of agriculture, its crop curtailments and losses, and consequent reduced purchasing power, have bitten hard into Milwaukee's freight revenues in addition to the effect of the general business depression. The Traffic Officers of the road, however, look for ultimate, if gradual, recovery of at least a substantial measure of former freight revenues. No one can now safely attempt the "timing" of such recovery. The views of the Chief Traffic Officer are quoted full in the report. The repeal of the Fourth Section of the Interstate Commerce Act, if that shall eventuate, will undoubtedly result in some additional traffic to move over the Milwaukee's Puget Sound Line.

Passenger earnings are improving - the inauguration of the high-speed "Hiawatha" service between Chicago and the Twin Cities being a potent factor. Reduced rates, surcharge abolition and improved service should continue to build up Milwaukee's passenger revenues in line with the general trend in its territory.

The full year of 1936, as compared with 1935, gross revenue increased $16,695,000 (18%), out of which was secured an increase in net available for interest of $4,815,000 (80%), although maintenance expenses were increased $3,342,000, and the cost of compliance with the "Social Security" and "Railroad Retirement" Acts was $2,046,000 in 1936, as compared with a net credit adjustment on this account of $746,000 in 1935. The ration of transportation expenses to gross revenues was reduced from 39.1% to 37.1%. The net income available for interest in 1936 exceeds that of any year since 1930. The demonstrated ability to convert increased gross, so substantially, into increased net, in spite of increased tax burdens, augurs well for the future.

Respectfully submitted,

T.A. Hamilton,
Examiner,
Railroad Division.