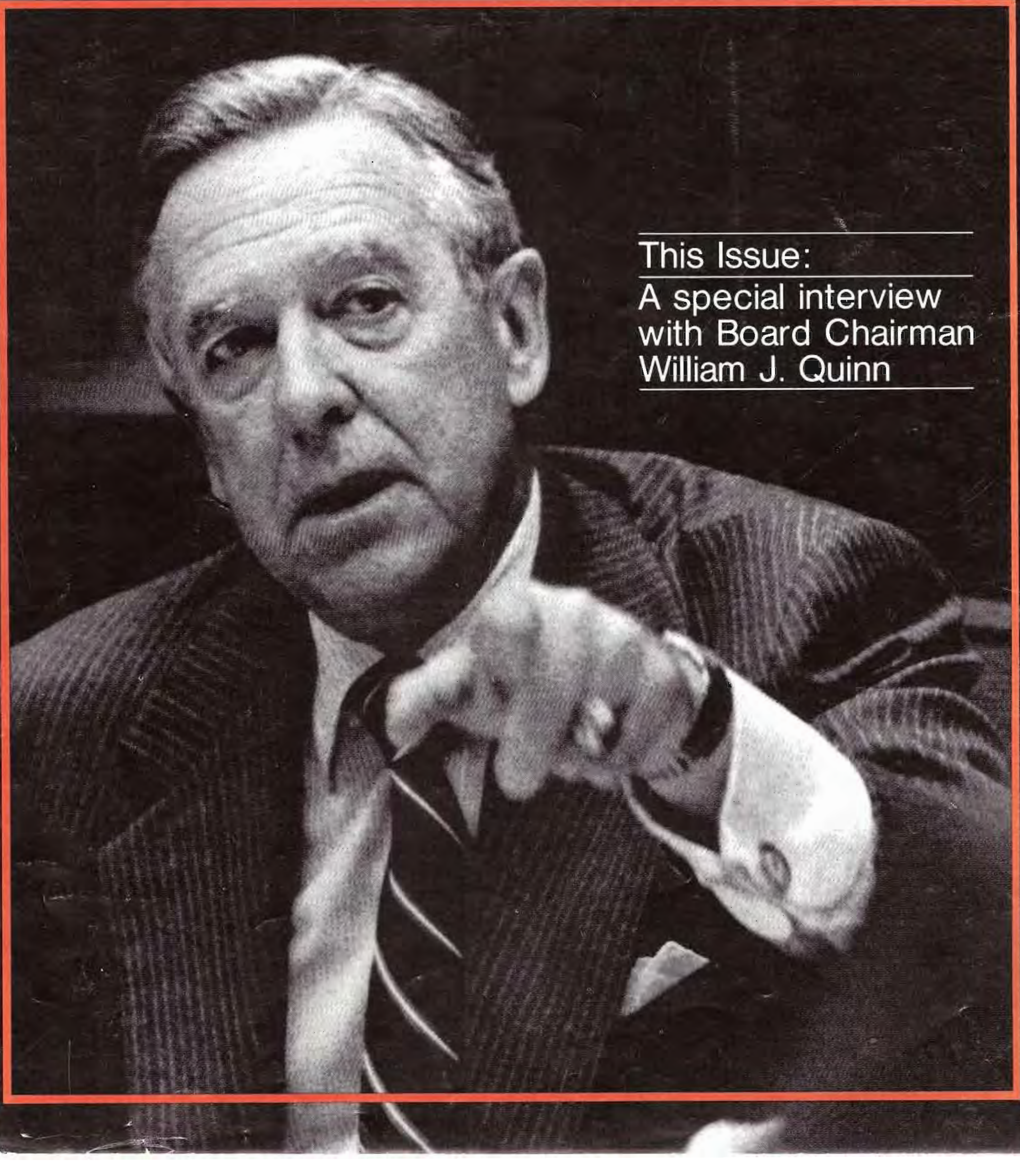
First Quarter, 1977

The MILWAUKEE ROAD Magazine



This Issue:
A special interview with Board Chairman William J. Quinn

The
MILWAUKEE ROAD
Magazine

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IN THIS ISSUE:

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on-line & up coming

Clockwise from top: The old pontoon bridge at Marquette, Ia., commemorated with a special plaque. AAR committee seeks more efficient ways to transport lumber on open-top cars. Milwaukee Road depot in Milwaukee, Wis., chosen Amtrak's "Station of the Year" in 1976. Milwaukee Road officers hold business meetings in the Far East.

MILWAUKEE ROAD, USDA AND FRA TO STUDY DUAL-PURPOSE FREIGHT CARS

The Milwaukee Road, the U. S. Department of Agriculture (USDA) and the Federal Railroad Administration (FRA) are planning a joint two-year experiment that could significantly improve freight equipment utilization and at the same time reduce transportation costs.

The experiment will involve a thorough analysis of the use of two prototype hopper-bottom boxcars designed to carry bulk grain or cargo and lumber which is either packaged or palletized. The Milwaukee Road and the Agricultural Research Service (ARS) of the USDA will each contribute about $30,000 toward the cost of the experiment. The FRA will contribute about $100,000.

The cars will operate on various Milwaukee Road routes derived from a computer analysis of market patterns and shipper equipment needs. In service, the cars will transport bulk grain in one direction and packaged or palletized products on the return movement.

Milwaukee Road, ARS and FRA officials will study the economics, engineering and operation of the cars. They also will analyze the potential of the cars for: decreasing transportation costs through reduction of empty back-haul movement of freight equipment; relieving seasonal equipment shortages for grain products; improving cargo handling.

The unique design features of the cars allow them to be used either as hopper cars or boxcars. Grain is loaded through top hatches and unloaded from a series of hoppers positioned underneath each car. The cars also are equipped with a special grid type of floor used to support packaged merchandise or lumber. This flooring does not interfere with the loading and unloading of grain which can pass freely through the grids. To facilitate the handling of bulkier cargo, both cars have two, 9 by 12 foot side doors similar to those on standard boxcars.

The prototype cars were built by the National Steel Car Corporation of Hamilton, Ontario, Canada, and are owned by the British Columbia Railway. The Milwaukee Road is leasing the cars during the two-year shipping experiment.

AAR COMMITTEE LOOKS FOR BETTER WAYS TO TRANSPORT LUMBER

Representatives of the Milwaukee Road and major lumber companies are members of an Association of American Railroads (AAR) committee assigned to find more efficient and safer methods of transporting lumber on open-top cars. It is anticipated that future shipments will benefit from this experiment to develop improved cargo loading practices. This is the first instance that major lumber shippers and railroads have cooperated in such a program.

Shown inspecting a flat car which moved lumber 1,800 miles from Tacoma, Wash., to St. Paul, Minn., from left-to-right are: R. Robbins, Weyerhaeuser Company; D. D. Fisher, general superintendent, Car Department, Milwaukee Road; G. Hubbard, Simpson Lumber Company; J. Manning, Western Woods Products Association; A. H. Blanken, Union Pacific Railroad, chairman AAR Loading Rules Committee.
(Photo is at left)

IT MAY BE GONE— BUT NOT FORGOTTEN

For many years, the old pontoon bridge at Marquette, Ia., was a familiar sight to the townspeople. Progress has a way of making old, familiar sights obsolete, however, and the bridge was torn down. Even though the bridge is gone, its memory is held in high regard by the citizens of Marquette, McGregor and Prairie du Chien. As part of its Bicentennial celebration, the city of Marquette commemorated the pontoon bridge with a special plaque.

WINTER TAKES TOLL OF CARLOADS, REVENUE

Out West, the mountains were nearly devoid of snow. In parts of the central states, drought threatened crops and livestock. In the East, unprecedented snows and frigid temperatures slowed industrial production and for days virtually shut down parts of the Milwaukee and its major eastern connections.

This was the weather picture in the first few weeks of 1977 — and carload volume and revenues felt the impact. Atop the expensive project of keeping our own line in operation, our yards became filled with cars backed up from eastern connections. Bensenville one day had 1,200 cars for ConRail — and since they couldn't be delivered, we couldn't get the revenues. Nor could we get the cars back so we could load them again.

The "crunch" of early 1977 differs from the "crunches" in the first quarters of other recent years: The national economy is finally moving upward; our business appears to be following suit. Carloadings by mid-February were, for the first time this year, approaching 1975 levels. But for a few weeks, a disproportionate amount of the money we need to operate was literally frozen.

ICC DENIES OUR INCLUSION PETITION

Update: On March 2, the ICC denied the Milwaukee's petition for inclusion in Burlington Northern, adding another paragraph to the chronology on page 14 of this issue. The ICC first agreed that it had jurisdiction over the inclusion case; it then denied the case on its merits.

For the moment, then, BN inclusion is stalled. "We are concerned with the Commission's action because we sincerely believe that inclusion would be beneficial to the public interest and consistent with the intent of Congress expressed in the 4R Act that there be a restructuring and rationalization of western railroads," said Chairman William J. Quinn.

What action the Milwaukee will take next hadn't been decided at presstime.

NEEDS OF INTERNATIONAL SHIPPERS

Meeting the transportation needs of international shippers has become a major activity on the Milwaukee Road. To assure continued good relationships between the company and its far eastern shippers, several business meetings were held recently in Japan and Taiwan with representatives of major import and export firms, trading companies, steamship lines and numerous port officials. Discussions also were held with members of the United States embassies in the two countries and representatives of the Japan National Railway. Attending from the Milwaukee Road were George H. Kronberg, vice president, Traffic, Van Dunfee, the newly appointed director, International Trade-Far East, with headquarters in Tokyo, and Erwin W. Jacobson, formerly director, International Trade-Far East.

MILWAUKEE ROAD DEPOT NAMED AMTRAK'S TOP STATION

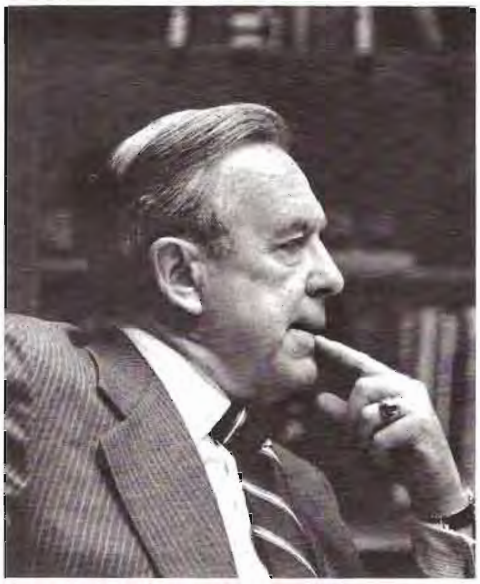
The Milwaukee Road depot in Milwaukee, Wis., was chosen as Amtrak's "Station of the Year" for 1976. A large plaque describing the honor was presented to station personnel there by Amtrak officials.

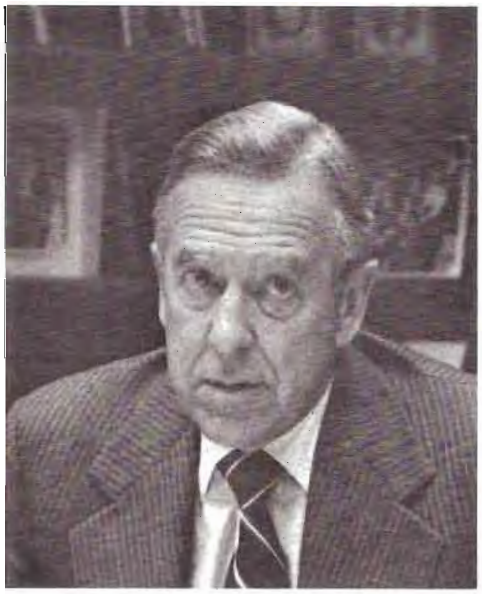
The award signifies that the Milwaukee depot earned the highest ratings of the more than 480 Amtrak stations in the appearance and attitude of employees, neatness of facilities, sales increases and the accuracy of information provided the traveling public.

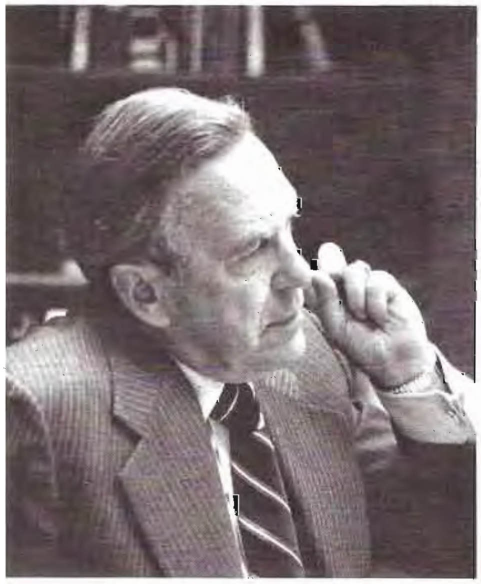
Many of the some 30 Amtrak employees who work at the Milwaukee station began their railroad careers on the Milwaukee Road. The depot itself was built by the Milwaukee Road during 1964-65. It was one of the last passenger stations built in the United States before Amtrak took over operation of intercity passenger trains in 1971.

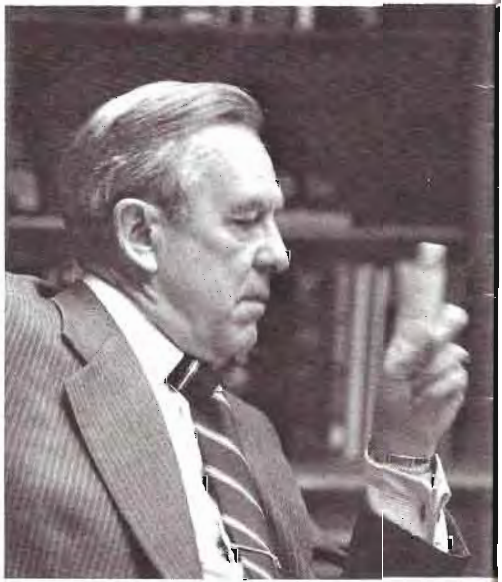
A Conversation With The Chairman

In December, Chairman of the Board William J. Quinn visited the Washington Division and other parts of the railroad. At Tacoma he was interviewed by Lynne Schow for the Washington Division Express, a newsletter financed and produced entirely by a committee of employees on the Washington Division as an aid to communications and understanding at the division level. Lynne's questions to Mr. Quinn were suggested by members of Washington Employees for Milwaukee, as the group is known. When we saw a transcript of her interview, we asked Lynne if she and her associates would share their efforts with all readers of the Milwaukee Road Magazine. She, and they, were happy to do so. Accordingly, on subjects ranging from employee ownership of the Milwaukee Road to the state of track maintenance to his own personal holdings of company stock, we give you Lynne Schow's questions and Bill Quinn's answers.









Q We understand that in order to make the Milwaukee a paying railroad, traffic must increase over our track. How many trains a day do you estimate would have to be run before we would show a profit — say, in percentage of increased ton-miles?

A **I don't think your question can be answered entirely in terms of a number of trains. The type of traffic we carry and the distance we carry it are better keys to profitability than are the number of trains we run. A 5, 10, 12 percent increase in volume of traffic would do wonders for us. We wouldn't necessarily have to increase the number of trains to handle this volume increase. First we would simply fill out the trains we have. We could add most of the new traffic, on an incremental basis, to the trains we now operate.**

Q Many employees on the Washington Division are deeply concerned about the solvency of the Milwaukee Road, for they realize that their very livelihoods depend on the Milwaukee Road. These employees are willing to "put their money where their mouth is" in the form of low-interest loans or outright purchase of the railroad. As Chairman of the Board, what are your feelings as related to employee ownership and as related to other forms of employee support?

A **From time to time suggestions are made that the employees should own the company. I suppose the inference is that with employee ownership employees would work harder and more productively, and within limits I think that is right. But what has always bothered me about the concept of employee ownership is that employee ownership — or low-interest loans from employees — doesn't, of and by itself, solve the fundamental problems of the Milwaukee Road and the railroad industry as a whole. The trend of our national thinking about transportation, unless arrested, will lead to the insolvency of the railroad industry as a whole. And because I think it inconceivable that the country can do without railroads, the end result will probably be nationalization of the railroad industry.**

Now, what are these trends that have been so adversely affecting not only the Milwaukee Road but all railroads? Obsolete regulation: The railroad industry is one of the most completely regulated forms of business in this country. It is regulated in a way which quite often does not acknowledge the economic changes that have taken place in our country since the regulation was imposed well before the turn of the century. Regulation has kept the railroads from being financially strong at least as much as it has protected the so-called public interest. Subsidization of the railroads' competitors: As a national policy, the government — meaning, really, the voters — have been pouring billions of dollars into competing forms of transportation, and those competitors of ours have been asked to pay little or nothing in return.

Now, if the employees owned the Milwaukee Road, would employee ownership solve these problems? Of course, the answer is no — and anybody in responsibility on the Milwaukee who might advise about or participate in employee financial involvement at a time when these problems are still present has to be concerned that employees might be putting up money that they might stand a chance of losing.

That is not to say that a great amount of self-help and assistance cannot be given by employees at all levels — or by our shippers, for that matter. Awareness by employees of these problems, and the use by employees of their influence with government — with members of Congress and with the regulatory agencies — is extremely important. We urge all employees to participate in understanding the railroads' problems and in helping us to do something about them.

To sum it all up, what I'm saying is that there is no certainty that employee ownership or participation would change the circumstances in which the Milwaukee Road finds itself. And to suggest to employees that, in effect, they subsidize a competitive struggle that is so heavily influenced by government subsidy to our competitors is, in good conscience, very difficult to do.

Q I can see that. But what if the employees are asking you? What if the employees make the aggressive step in this situation, and they come forward . . .

A **Well, I don't want to be, and I don't intend to be, in a position of attempting to block employee assistance. The form that employee assistance would take would require some analysis.**

For employees to go out and buy stock on the general market doesn't help the railroad because employees would

simply be buying stock that belongs to some other stockholder, not the railroad. For the railroad to issue additional stock to sell to employees is not practical. Most railroads, even the financially strong ones, do not have sufficient credit to allow them to go out and raise money on the equity market — the stock market. If you can't sell stock to the general public you sell it to your employees, is that the idea? I guess that just stating the question provides the answer, doesn't it?

Q How many shares of Milwaukee Road stock do you own personally? If it is true, as we understand, that each officer owns only one share, why is this the case?

A I do own just one share of Milwaukee Road stock, but that's only part of the answer. To give you the rest of the answer I'll first have to discuss the difference between Milwaukee Road stock and the stock of our holding company, Chicago Milwaukee Corporation.

Chicago Milwaukee Corporation owns 96 percent of the common stock of the Milwaukee Road, the railroad, and 92 percent of its preferred stock. There is very little stock in the Milwaukee Road itself in the hands of anybody except the holding company. The stock of the holding company, Chicago Milwaukee Corporation, is in the hands of the public. When Chicago Milwaukee was formed, it acquired the stock of the railroad through an exchange offer to the holders of the railroad stock, giving Milwaukee Road stockholders the opportunity to exchange their railroad stock for the new stock of Chicago Milwaukee Corporation. Most everybody who owned Milwaukee Road stock took advantage of the offer.

I own 1,275 shares of Chicago Milwaukee common stock and 100 shares of Chicago Milwaukee preferred. I have an option to purchase an additional 30,000 shares of common.

The significance of the one share of Milwaukee Road stock which I own, and the one share which each of the Milwaukee Road's elected officers and directors own, is that, with the railroad being a Wisconsin corporation, under Wisconsin law all directors must be stockholders of the corporation. So each director owns one "qualifying" share of railroad stock.

It's important to remember that it's the stock of the holding company, the railroad's parent company, Chicago Milwaukee Corporation, which is listed on the New York Stock Exchange and which is the active stock so far as public ownership and trading is concerned. There are about 6,600 owners of Chicago Milwaukee's common stock and 2,000 owners of its preferred stock.

If I may, I think your question also seems to be asking, how come the company's officers and directors don't own more stock than they do? Well, we can't very well tell our officers that as a condition of employment they've got to become stockholders. Other companies with which we compete for personnel don't require that. We would simply crowd ourselves out of the marketplace for good employees if we were to say, "come work for us, and you can't come to work for us unless you invest some money."

I think that we have been highly successful in getting and keeping a group of capable employees, supervisors at all levels, who do not have the benefit of some of the niceties of working for a company with greater financial strength. I've got people with me today who have been traveling across the country, seeing something of our railroad — people knowledgeable about business affairs and other railroads; and I tell you genuinely that they have been sincerely impressed by the people they have been meeting clear across the country, including the supervisory force on the Washington Division.

Q Which officer owns the most shares of stock?

A I think I do.

Q What are your feelings concerning hiring employees from other railroads for key positions on the Milwaukee, rather than promoting our own employees?

A My position and policy, the position and policy of the company, is simply stated: All other things being equal, we intend to and do promote our own people. We provide training opportunities. We provide assistance in educational opportunities — and we have promoted!

We have brought some people in from outside at top-level positions. The reason, frankly, is this: There was a considerable period in which the Milwaukee was engaged in a merger effort with the Chicago & North Western. The merger was before the Interstate Commerce Commission for hearings for several years. During that time the Milwaukee didn't hire very many people because, had the merger come about, the North Western would have had the majority of directors on the Board and undoubtedly would have controlled the top management. It was difficult to attract people to the Milwaukee in those days when, in effect, you had to say, "There's a merger right around the corner and when the merger comes there may be a new and different management and you may not be part of it." For that reason, I don't think much effort was made, then, to attract people to the Milwaukee.

When the merger effort was abandoned, through no fault of the Milwaukee, the Milwaukee was faced with the necessity of revitalizing itself. And we made a considerable change in the Board of Directors at the time — the Board having been in a sort of caretaker position for several years because of the merger effort. We shook up the company's organization. The president at the time was close to retirement, and the Board didn't feel that there was a man in the ranks who by training and background should succeed him. I say this without criticism of any of our officers, then or now.

After looking over 25 or 30 possible candidates, and with the approval of the Board, I asked Mr. Smith to join us — a man who was recognized as one of the top people at the Burlington Northern, as a "comer" in the management ranks of the railroad industry. In my judgment Mr. Smith has given leadership to the railroad, has brought in new and aggressive management practices, has stimulated the people around him to improve themselves and to move for the improvement of the railroad company.

Then, not so long ago, we had an opportunity due to the retirement of the vice president, Operation, to go out to get a man who had been vice president, Strategic Planning, for the United States Railroad Association, the planning organization that brought ConRail into existence — Paul Cruikshank. Mr. Cruikshank's government experience is very valuable to us. He has unusual experience and ability. He had the opportunity to go to several other carriers. We were able to attract him because of Mr. Smith, who knew him, and because we presented a challenge which was attractive to him.

Now, I've been talking about two people, but these men have given opportunity for advancement to the people around them; and I think that even from your position here at one end of the railroad you can see the changes that have been made — and those changes have included advancement from within. Nothing makes us happier than to find an opportunity for one of our employees. We're not looking for people from the outside. It's only for special skills that we need, but don't have, that we go outside.

Q In view of the fact that the Milwaukee Road is in such financial difficulties, why did you and Mr. Smith leave the Burlington Northern to come to the Milwaukee; and are your salaries guaranteed by the Land Company?

A I'll answer the second part first: Yes, our respective salaries are guaranteed by Milwaukee Land Company. And, as the proxy statement which goes each year to all stockholders shows, they are also guaranteed by Chicago Milwaukee Corporation.

Now, the first part. In my case, probably the most difficult decision I've ever had to make was whether I would accept the invitation of the Milwaukee Road to come back. There were a variety of things which played in my mind in the decision process: The necessity to move — I have a large family, and my family was not very happy with the prospect of having to move from where we had been for 15 or 16 years. I was no longer a young man just starting out. At the time I made the decision to come back, after the Burlington Northern merger had occurred, there was a general feeling in the industry that the merger movement among railroads was going to accelerate; and it looked as if there was a reasonable chance for the Milwaukee Road to become affiliated with one of the stronger systems. I wanted to do what I could to see that that happened.

I came back to the Milwaukee on March 16, 1970. The Penn Central went bankrupt in June of 1970 — not only chilling the whole national economy but effectively stopping, practically until now, any effort to do anything with the railroads in the way of merger.

I thought then, and I think now, that there is too much railroad in the United States, and there's going to have to be some shrinking of the railroad "plant." The Milwaukee Road, and others, as time goes on, are going to become different kinds of railroads than they are now. It has become the policy of the Milwaukee to be prepared to lead the company into an association with greater strength so that it, and its services, and its employees may survive rather than be washed away. And while we are working at this, we intend to be as competitive, as aggressive, and as efficient as we can. There is nothing sinister about what we are attempting to do. We are attempting to find a solution, long-range, for the Milwaukee Road — and affiliation with a stronger system is a necessary part of that program.

Now, I haven't mentioned Mr. Smith. Burlington Northern was made up of four companies. It had a lot of employees at all levels, including vice president. There were limited advancement opportunities. Not all the vice presidents, of which Mr. Smith was one, could become president! We gave Mr. Smith the opportunity to become a president at a fairly young age. After several sessions with him, and a full explanation of the Milwaukee's situation, he was willing to accept the challenge.

"... one of the problems of the Milwaukee Road is that it has more fixed plant than its revenues can support — more, in fact, than it or the users of its services really need ..."

You haven't asked a related question that I suspect is in the minds of many employees: Does the presence of several former Burlington Northern officers on the Milwaukee indicate that the Milwaukee has some sort of "deal" already made with the Burlington Northern regarding inclusion? Absolutely not. We have no prearrangement with the BN about inclusion or merger. We now have our case for inclusion before the ICC, and I might say that the record shows that we certainly haven't had much cooperation from the Burlington Northern in getting there.

Q It is our understanding that in 1949 the Tacoma line was built in A-1 condition with 132-pound rail and extra-long ties. It was at that time a 70-mile-an-hour line. Since that time, the track condition through lack of maintenance has deteriorated considerably. If only one mile of track were upgraded per year, it could still be in top condition. Why was this not done? As a homeowner, one knows that maintenance must be done on a continual basis in order to protect the investment. Is this not also true of railroads?

A Certainly it is. The answer is that if the homeowner has the funds he maintains his house — and if he doesn't have the funds he doesn't maintain it no matter how much he wishes to. Apply that to the railroad business and the analogy is complete.

What you say is correct: If you do one mile at a time and you keep it up long enough, you'll have the track all rehabilitated. But the Milwaukee Road operates more than 10,000 miles of line. We simply couldn't keep our entire property going — as we are required to by law — if, for example, we were to start at Chicago and move west, rehabilitating a few miles at a time. We must maintain the operational ability of the entire system; if we didn't it would do us no good at all to have just a few miles of highly efficient railroad. So we have applied what funds we have — severely limited funds — where they are needed most at the moment.

As I said before, one of the problems of the Milwaukee Road is that it has more fixed plant than its revenues can support — more, in fact, than it or the users of its services really need, given all the other available means of transportation.

Q In his visit to the area, Paul Cruikshank indicated that one thing we have going for us in trying to "make it on our own" was the feeling that rail service deteriorates when there is no competition. You are quoted in the Seattle Times, on the other hand, as saying, "The principal economic condition which must give way is the idea that public interest must have rail competition at all principal points." Are you, therefore, against the railroad's making it on its own, or trying to?

A No, of course not. Right now we are doing everything we can to make the railroad successful "on its own" — and we don't see that as being at all inconsistent with our belief that the Milwaukee must ultimately become part of a larger system with greater financial strength.

The comment which you quote was one which I made originally to the ICC in testimony on our application for inclusion in the Burlington Northern. What I was saying was directed, basically, at this point: Given all the other modes of transportation which have grown up and proliferated since the railroads were built — the truckers, mainly — I believe that it's wrong to require individual railroads to continue to provide the pattern of service in every instance that they did when they were the principal, perhaps only, means of transport.

Let me give you an example — and I do so without reference to any particular geographical area. Let's say that there is a city which, just after the turn of the century, was served by two railroad companies. Back then, the railroads pretty well dominated the freight-hauling business, and it was in the public interest to have those railroads compete with each other. Competition indeed does make for better service, other things being equal.

Between the turn of the century and today, that city, and the state, and the Federal government, have as a matter of public policy built roads and highways and airports and perhaps even barge facilities and waterways, all of which have aided and encouraged the growth of competitors for those two original railroads. And, of course, the new competitors of the railroads have come upon the scene to offer a wide variety of transportation services. Shippers now have a choice of modes of transport. The railroads no longer dominate the transportation market.

Now, does it make any sense for government to require that there still be those two original railroads, doing everything that they did at the turn of the century as if nothing had changed? Let's assume that the two railroads can demonstrate that they can do what is required of them today just as ably, and at less cost, by coordinating their facilities and using only the facilities that they really need. All I'm saying in that testimony, at that point is that the railroads should be given the opportunity to do so.

That type of "rationalization" of the railroads — I don't think that word is entirely appropriate but it's becoming the official term — is part of the process by which, were the Milwaukee to be controlled by the Burlington Northern, the Milwaukee could become stronger.

It would be imprudent of me to put my head in a sack and say, "full steam ahead, the Milwaukee is going to go it alone!" and pretend that we know nothing about the trends and the competitive climate that I've described to you. My doing that doesn't change anything. It's because we do try to be realistic that we say that the Milwaukee and most railroads are going to have to accept, in time, a contraction of the railroad plant and a realignment of the corporate structures so that there are fewer railroad companies. We're trying to get something started, we on the Milwaukee Road, before it's too late — while we still have a chance to help decide how the changes will come.

Q Many people on this and other divisions feel that lack of communications from top-level management, filtering down through the ranks, is the major contributor to poor morale. Thus, our division has initiated its own newsletter to attempt an increase in communications. Does the Milwaukee Road have any plans formulated to increase communications and thereby boost company morale?

A I fully agree that lack of communications from the top down can be and is a morale problem. We are doing something about it. You and the organization that you represent were stimulated to do something about better communications because top management held a meeting out here which was basically designed to tackle the same problem. I agree with you; I don't think we've done everything we can to communicate. I think we can improve. We want to improve. You're already seeing the signs of an intensified activity in communication from the top ranks downward — and I applaud you for what you and your organization are doing to help the communications processes both downward and upward.

Q Have you had any contact from any other divisions on the Milwaukee Road regarding employee ownership, employee financial support, or lack of employee morale? Is this concern confined only to the Washington Division?

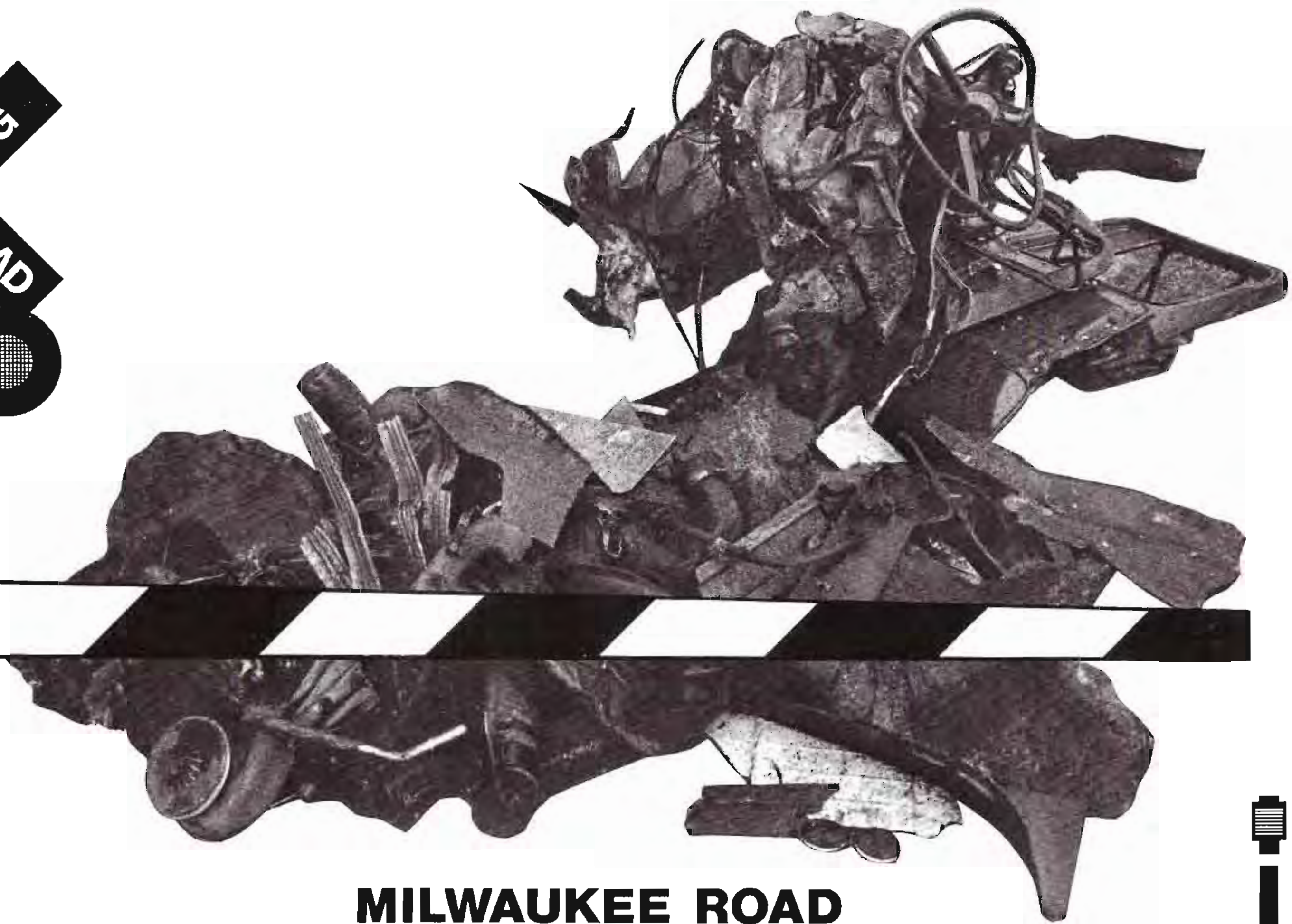
A I don't think that the attitudes out here on the Pacific Coast are any different from the attitudes of employees all across the country. The concerns of employees are understandable: They hunger for assurance; they hunger for more information. But remember, short answers to complicated questions do not necessarily produce better communications. You may not agree with the way I am answering your questions; but, in my judgment, sometimes a full explanation is needed when you're talking about complex matters — and these are complex matters! To find the proper way to make meaningful explanations is not simple when you have the number of employees we have spread around the way they are. But we're looking for the proper way; and I think that in the months to come you will see more and more evidence of a desire, and the implementation of a plan, to communicate better with employees.

Q When passenger trains were discontinued, maintenance was cut to a minimum to save money. Were those savings ever realized? If so, where have they gone?

A Costs have gone up continually, and those savings have been eaten up in today's higher costs — higher wages paid to employees, for example. Also, into paying the higher costs of the fuel and materials which we must buy to use in operating the railroad.

Q On the Washington Division, and presumably the entire system, there are numerous places where rails and other hardware have been stashed at one time or another to be used in the future. Much of this material has rusted with age and exposure to the weather. Are there any plans to recover this material to be reprocessed or sold for scrap?

A If there is any appreciable amount of material stashed away, I want to know about it. If the import of the question is that there are substantial amounts of useable material squirreled away for a rainy day, that rainy day is here and we should be using the material! Now, I might suggest that there could be instances in which we acquired material for rehabilitating track, or equipment, and then didn't have the money to pay the labor cost of doing the work. Also, I'm sure that there is some material around that is simply scrap — it's obsolete. In what I've seen today I could make suggestions about where we could tidy up the property, picking up the scrap and so forth. Sometimes we haven't been able to afford the cost of tidying up. But scrap is money and we have programs now under way to convert as much scrap — unuseable freight cars, even tracks that are no longer necessary — to cash that we can put back into the property. I'd think that our maintenance people in the field would be highly motivated to see that we do get rid of anything we don't need — because if they do, then we'll have more money for what we do need!



MILWAUKEE ROAD

"LIFESAVERS"

PROMOTE GRADE CROSSING SAFETY

Many Milwaukee Road employees who work and live in Illinois are real life-savers. Since last October, they have participated in a state-wide safety program called "Operation Lifesaver." The program is intended to do exactly what its name implies—to save lives by making people aware of the potential danger that exists at rail-highway grade crossings.

Illinois is a prime target for such a program. With one of the heaviest concentrations of railroads, Illinois has more grade crossings—15,985—than any other state. In 1975, 93 people were killed and 254 were injured at Illinois grade crossings. As of mid-October 1976, more than 70 people had died in grade-crossing accidents.

Even though these numbers are a grim tally, they don't convey the whole story. Of the 15,985 crossings in Illinois, 36 percent have some kind of automatic warning device such as flashing lights, bells or gates (nationally, an average of only 26 percent of the crossings in each state have automatic warning devices). But the alarming fact reported by the Illinois Commerce Commission is that between 1972 and 1975, at a time when the total number of crossing accidents declined, there was a 32 percent increase in accidents occurring at crossings with automatic warning devices. Of the 704 accidents in 1975, 460 or 65 percent happened at crossings with some form of automatic warning.

It was primarily because of the increase in accidents at crossings equipped with automatic warning devices, that the railroads of Illinois launched "Operation Lifesaver" last fall. Designed to make the public, and especially drivers, aware of the dangers of ignoring grade-crossing warnings, the safety campaign is a cooperative effort by the State of Illinois, the Illinois Grade Crossing Safety Council and the Illinois Railroad Association.

The campaign includes film presentations before civic and school groups, newspaper advertisements and prepared editorial and feature story material, public service announcements on radio and television, posters, bumper stickers and other special literature. The core of the campaign is a 15 minute color/sound film, "Any Time Is Train Time," produced by the Illinois Railroad Association. The film deals extensively with the three "E's" of grade crossing safety, Education, Engineering and Enforcement.

In addition to the efforts of all the railroads serving Illinois, many state and local agencies have played an important role in promoting "Operation Lifesaver." High schools throughout Illinois have incorporated the program's safety message in driver education classes. A revised edition of the Illinois "Rules of the Road" drivers license training manual will include special emphasis on grade crossing safety.

To promote "Operation Lifesaver" on the Milwaukee Road, President Worthington L. Smith sent information about the program to each of the some 2,500 employees who work in Illinois. Employee response to his correspondence has been impressive. A large number of Illinois employees have distributed "Operation Lifesaver" materials to their friends and to schools, businesses and churches in their community. Many have shown the "Operation Lifesaver" film and still others have made arrangements to have representatives of the Corporate Communications Department and Illinois Division safety and security officers present grade crossing safety programs.

Since the "Operation Lifesaver" campaign began, Milwaukee Road employees have given an average of five grade crossing safety programs each week. Audiences have ranged from driver education and other school groups to police and fire departments, school bus drivers, fraternal and senior citizen associations, railfan clubs, and employees of both Milwaukee Road customers and other businesses.

Additional efforts by Milwaukee Road personnel have included "Operation Lifesaver" presentations at Illinois Division safety meetings. Field sales representatives have distributed grade crossing safety material on their calls to Illinois shippers. Ticket agents at Chicago Union Station have handed out "Operation Lifesaver" flyers to the some 50,000 people who purchase commuter train tickets at the station each month. Flyers also were sent to the approximately 3,500 people who purchase Milwaukee Road commuter tickets by mail.

Newspapers throughout Illinois have been especially helpful in presenting the "Operation Lifesaver" message to the public. A reporter from a Chicago suburban newspaper even rode in the locomotive of a Milwaukee Road commuter train, interviewed the engineer and train crew, and wrote an article on the railroad's efforts to promote grade-crossing safety.

Although a large audience has already been reached, the promotion of safety is a never-ending project. Information about "Operation Lifesaver," copies of the film, and other materials are available from the Corporate Communications Department. Illinois employees can contact Tom Phillips on extension 223, Chicago Union Station.

Will "Operation Lifesaver" save lives? Similar safety programs have been presented in other states and the results have shown that such a public education effort can reduce grade-crossing incidents by as much as 30 percent. Of course, "Operation Lifesaver" is no cure-all—grade-crossing accidents will unfortunately continue to happen. But one thing is certain, thanks to the efforts of many Milwaukee Road employees, thousands of Illinois residents have been made aware of grade crossing safety. Hopefully that awareness will keep them from becoming a grade-crossing accident statistic.

(Photo by courtesy of Chicago Sun-Times)

Vital Statistics

The record of Milwaukee Road operations in Illinois, including Amtrak service on Milwaukee Road trackage, underscores the great importance of "Operation Lifesaver."

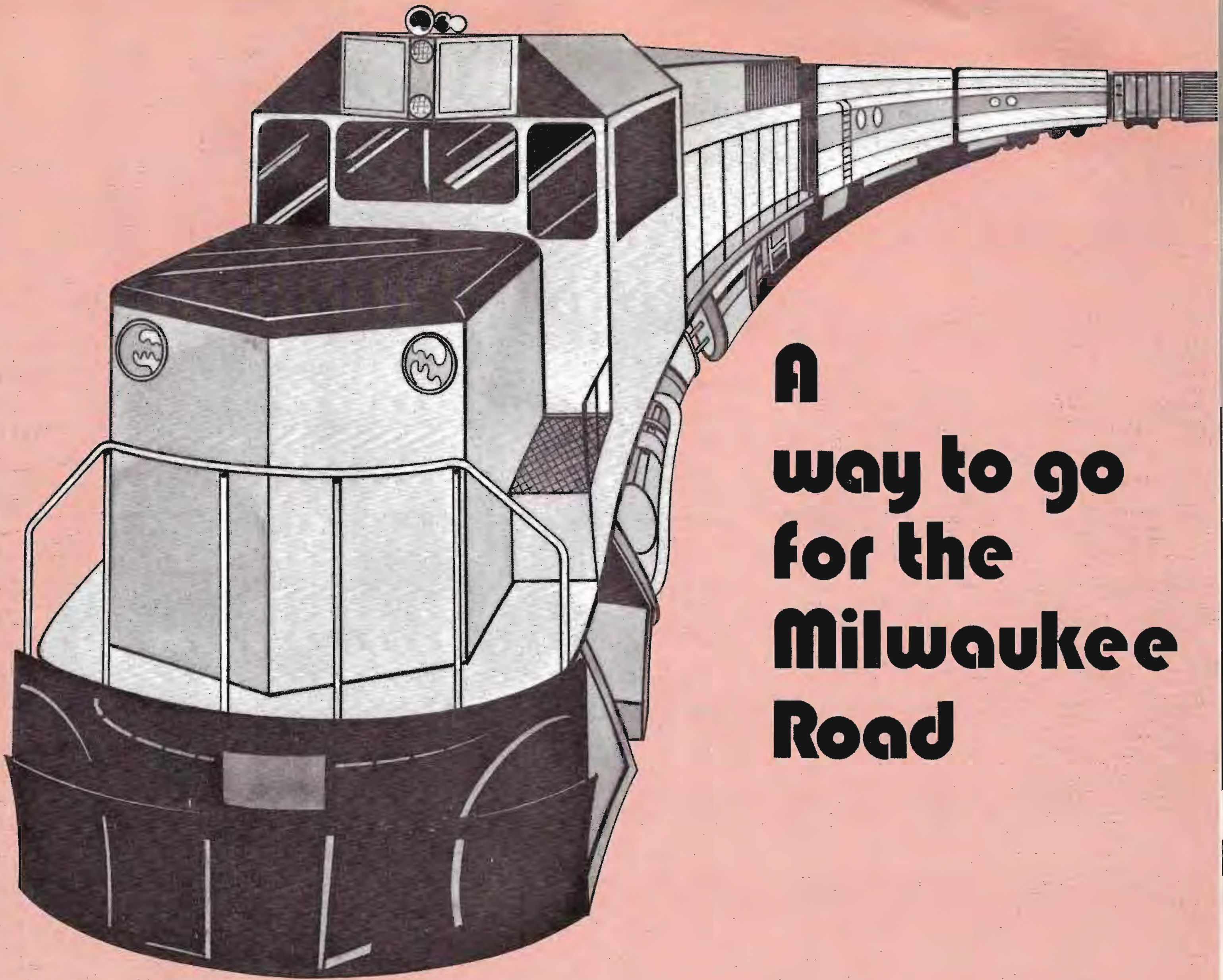
Including trackage rights, the Milwaukee Road operates over some 700 miles of route in Illinois. These lines are intersected by 764 public grade crossings and by 511 private crossings—mostly farm and industrial crossings.

Of the 764 public crossings, nearly 40 percent have some kind of automatic warning device. During 1976, over $95,000 in Federal, state, local and Milwaukee Road funds were used to install or improve warning devices. Nearly $700,000 will be spent for this purpose in 1977.

But as the state record clearly shows, warning devices can prevent accidents but they cannot eliminate all grade-crossing incidents. During the first ten months of 1976, there were 64 grade-crossing accidents on Milwaukee Road lines in Illinois. Seven people died and and another 26 were injured.

Of the 64 incidents, 39 happened at crossings protected by some type of automatic warning, including 19 incidents at sites equipped with gates. All seven fatalities occurred at crossings with automatic warnings; six happened at sites with gates. Of the 26 incidents that resulted in injuries, 16 took place at crossings with some kind of automatic warning.

The message is clear, and the Illinois "Operation Lifesaver" campaign is directed at making the public aware that it is essential to use caution at any grade crossing—no matter what kind of warning device it has.



A way to go for the Milwaukee Road

You are about to read a prospectus for the Milwaukee Road of the future.

You may be surprised by what it offers. We hope you are pleased.

However much the future of the Milwaukee lies in marketing and selling profitable services, in increasing efficiency and in expanding our understanding of each other and why we do what we do, the future of the Milwaukee lies also with government.

These days, the future of a railroad like the Milwaukee is being shaped at least as much by how the U.S. Department of Transportation and the Interstate Commerce Commission view the role of the railroads as it is by what the railroad can do for itself.

Today for the Milwaukee in its relationship with government there are two vital channels of activity:

—our proposal that, with an "up-front" loan of cash and the guarantee of loans to us by others, the Federal Railroad Administration help us rebuild our main line between Milwaukee and the Twin Cities and rehabilitate much of our equipment; and

—our continuing effort to associate this company with another railroad which has greater financial durability — with the Burlington Northern.

The information which follows bears in detail on these two subjects. We know of no projects which, at the moment, are more important to the future of the Milwaukee.

The application for federal financial assistance and the petition for inclusion in the BN are separate projects. Neither is dependent upon the other — although they would complement each other very well.

Both fit nicely with the emerging understanding of what Congress wants to happen to the railroads, as the desire of Congress is expressed in the "4R" Act which it enacted a year ago.

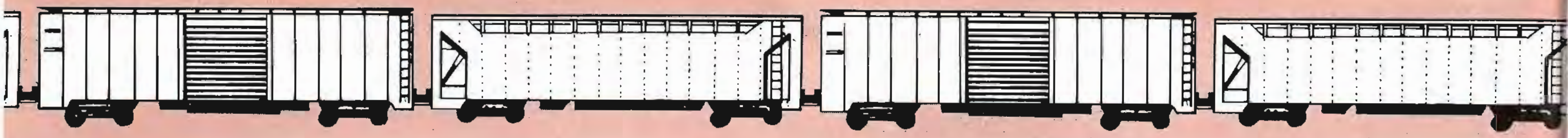
What the "4R" Act is and what it means to the railroads is another part of the package which follows.

These are continuing stories. New pages are being added even as you read those which are history.

As these stories unfold we hope you'll follow them with the interest that we do, and we hope you'll work to see that what must happen for the Milwaukee does indeed happen.

The Milwaukee has a plan for its future — a WAY TO GO! It also has a way to go to get there. We're counting on you to help.

Thank you.



How and why the Milwaukee Road would spend $109.4 million on rehabilitation

Once the domain of mile-a-minute freight trains and 100-mile-an-hour Hiawathas, the Milwaukee Road's double-track main line between Milwaukee and Minneapolis-St. Paul today presents its owners—and the nation—with a dilemma which needs to be quickly resolved.

The line is vital—to the Milwaukee Road and to the customers the railroad serves; to the economies of Wisconsin, Minnesota and indeed the entire upper midwest; to Amtrak; and to the emerging national interstate railroad network.

Yet the line is out of balance with what is required of it. On the one hand, it has greater train-carrying capacity than it needs—more capacity, actually, than studies show it will need for many years. On the other hand, it is in need of new ballast, crossties and rail.

To resolve this dilemma, and to respond to the wishes of Congress that railroads use the financial assistance available under the Railroad Revitalization and Regulatory Reform Act of 1976 to restructure and rehabilitate their lines, the Milwaukee Road on Dec. 21, 1976, applied to the Federal Railroad Administration of the U. S. Department of Transportation for $109.4 million in repayable financial assistance.

Of that amount, approximately $84.1 million is earmarked for the rehabilitation of the Milwaukee-Twin Cities main line. The balance would initiate freight-car and locomotive overhaul programs and the installation of environmental-protection facilities.

The money wouldn't be a taxpayer grant to the Milwaukee Road. Of the total, $91.7 million would be generated by government purchases of new nonvoting redeemable "preference shares" in the railroad company—with the railroad paying back at least 150 per cent of the value of shares it sold. The remaining $17.7 million would be generated by loans which the Milwaukee would place privately on the strength of government guarantees of principal and interest.

The Milwaukee selected its Milwaukee-Twin Cities line for rehabilitation under the "4R" Act for several reasons:

For one, the line is the heart of the Milwaukee's freight-transportation system. It's a leader in traffic volume, a key route for through freight, a major generator of freight volume within itself. It's also part of an Amtrak transcontinental route.

For another, the line is clearly more eligible for federal financial assistance than is any other segment of the Milwaukee's system, based on what the FRA has said to date about how it will judge the railroads' applications.

In a study which classifies lines of the nation's railroads "to determine which portions of the rail right of way should have

priority for rehabilitation or improvement," the DOT said this: "It makes little sense from an investment standpoint for the railroads or the government to sponsor rehabilitation projects which do not recognize the changes in the market for rail service."

With that as a guide, the DOT established several standards of essentiality of rail lines—high traffic density, service to major markets, essentiality to the national defense—which the Milwaukee-Twin Cities segment meets.

The DOT also determined that the five railroads which connect Chicago with the Twin Cities constitute a "corridor of consolidation potential," meaning that there are too many railroads, or too much total train-moving capacity, relative to the total need for rail freight service. The FRA views the reduction of such excess capacity—so that tax dollars won't be sought for lines of railroad which aren't really needed—as of high priority.

The Milwaukee's application spells out to the FRA how the project will reduce excess capacity in the corridor: The capacity of the Milwaukee's line itself will be reduced, leaving adequate room for future increases in volume. Then, Chicago and North Western Transportation Company and the Rock Island are studying how they can move some of their Chicago-Twin Cities trains over to the Milwaukee Road's line, allowing them to redesignate portions of their through routes as local or feeder lines.

The rehabilitation project planned for the Milwaukee's line over three years would simultaneously rebuild the track in a manner designed to minimize the cost of maintaining it in the future and equip the line with a centralized traffic control system designed to expedite trains and improve operating efficiency. Top speeds for Amtrak passenger trains, now 70 miles an hour, would be increased to 80. Top speeds for freight trains, now 50 miles an hour for the fastest trains, would be increased to 60.

The 316-mile line would be reballasted. Worn-out crossties would be replaced. The entire line would be relaid with continuous welded rail. Most of the line would be reduced from two tracks to a single track with extra-long passing sidings—average length, seven miles—located with the help of computer simulations of train operations

Financing the project breaks down like this: Of the "4R" assistance, some $66.4 million would go for the ballast, tie and rail work. Approximately $12.2 million would finance the construction and installation of the C.T.C. system. Approximately $5.5 million would be used to acquire ballast and other cars and maintenance-of-way machinery necessary if the project is to be completed in three working seasons. In addition, the Milwaukee Road would contribute approximately $27.2 million in rail, material transportation charges and other project costs.

The $16.7 million locomotive upgrading program would finance the overhaul of 337 road freight locomotives to improve their reliability and reduce future maintenance costs. In the process, the locomotives' fuel consumption would be reduced by more than 5 per cent.

The $7.5 million freight-car repair program would return to service 1,194 cars of a variety of types which the Milwaukee has stored "bad order." The cars represent a potential revenue-earning power to the railroad of about $9.9 million per year.

The $1.1 million environmental-protection program would add to the water-quality control facilities at the company's shops in Milwaukee. The additions are necessary before federal assistance will be made available for the car and locomotive programs.

In total, the $109.4 million rehabilitation program will constitute a major step forward in the Milwaukee's comprehensive program to shape its railroad to the needs that exist for it. By itself, the program won't do the complete upgrading job that's necessary on the railroad. But it's a start. ■

What the Milwaukee's federal rehabilitation project will mean to jobs on the railroad

If the Milwaukee Road obtains the $109.4 million in federal financial assistance for which it has applied to the Federal Railroad Administration, the railroad expects to increase its work force by nearly 600 jobs, most of which will last for the three-year life of the rehabilitation projects or longer.

Wisconsin and Minnesota particularly will benefit from the federally sponsored projects.

Of the total federal financial assistance, approximately $43.1 million will go to cover direct labor costs and supplementary benefits of Milwaukee Road employees working on the track-rehabilitation, locomotive and car repair, on pollution-control projects and on the installation of the centralized traffic control system.

The balance, $66.3 million, will buy equipment and material for the projects. The Milwaukee will make its purchases in accordance with the equal-opportunity guidelines established by the FRA.

Employment at the railroad's Milwaukee (Wisconsin) Shops, where freight-car repair work and much of the locomotive-repair work will be done, will increase by 160 jobs, on the average, over the three-year life of the projects.

Some 325 jobs will be added to the present track and signal forces working in Minnesota and Wisconsin in the three years in which the main line of the Milwaukee Road will be rehabilitated and resignalled.

Six jobs will be added to the work force at Tomah, Wisconsin, in both the maintenance-of-way equipment shop and the rail shop.

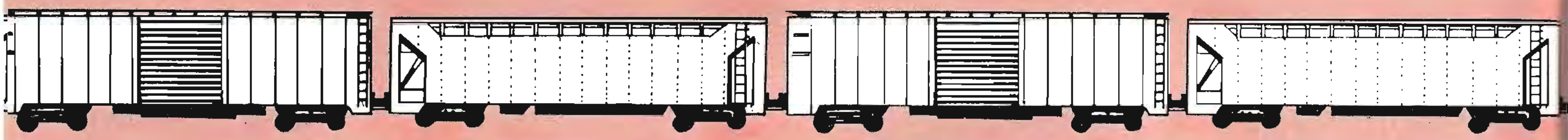
The beneficial impact of the projects will extend as far as Tacoma, Washington, where approximately 26 jobs will be created in the locomotive and car shops.

The rail-welding plant at Savanna, Illinois, will increase its output to supply welded rail for the Milwaukee-St. Paul line. Twelve new jobs will be needed at Savanna for the life of the rail-welding project.

Twenty jobs will be created at Chicago, mostly to handle planning, engineering and inspection.

Forty jobs in Minnesota, Wisconsin and Illinois will be created for train and engine crewmen.

It's the intent of the Milwaukee to retain as many of these 589 positions as possible upon the close of the projects so that additional rehabilitation work may be performed. ■



Burlington Northern INCLUSION:

Why we're where we are

In the spring of 1973, the Milwaukee Road began the process of seeking inclusion in Burlington Northern Inc., responding to a condition which the Interstate Commerce Commission established for just such cases.

Today, nearly four years later, the proposal that Burlington Northern and the Milwaukee combine their strengths and eliminate many of their weaknesses isn't yet before the Commission on its merits.

The Milwaukee has filed and refiled its application for inclusion in accord with the ICC's instructions. Last December, 27 pounds of exhibits and supporting testimony set forth a comprehensive plan by which, the Milwaukee contends, the BN could assume stock control of the Milwaukee without harm either to BN's financial standing or to its credit.

The Milwaukee's plan is founded on a simple fact: Standing by itself, and standing particularly in the deep competitive shadow of the Burlington Northern, the Milwaukee over the long pull cannot prosper and grow.

The ICC acknowledged in 1967 that such a problem might occur for the Milwaukee and other railroads in the territory of the new Burlington Northern. By "Condition 33," it retained jurisdiction over the BN merger for five years from the date of BN's birth—March 2, 1970—to consider petitions from such railroads for inclusion in BN. The Milwaukee filed its petition in April, 1973.

The Milwaukee and the BN have twice since, in 1973 and again in 1975, undertaken extensive studies to determine whether the two railroads could be operated more efficiently together than separately. The studies show that the two properties are indeed complementary to each other.

What's ultimately needed, Milwaukee's Chairman William J. Quinn has declared frequently, is the restructuring of all western railroads on a rational basis—a philosophy reflected in the Railroad Revitalization and Regulatory Reform Act of 1976. It's in line with this philosophy that the Milwaukee pursues its quest for inclusion in Burlington Northern

In recent months, ICC orders which on quick reading might appear to be rejections of the Milwaukee's inclusion case have dealt mainly with the compliance by the Milwaukee with burdensome procedural rules never before applied by the ICC in a control or merger case.

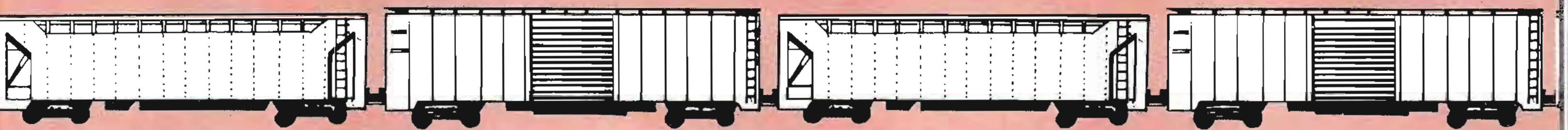
In setting oral argument for January 26, 1977, on procedural issues, however, the ICC raised the question of its jurisdiction —which it previously had expressly affirmed.

If the ICC accepts the Milwaukee's application, a timetable for action established by the "4R" Act comes into play. The ICC must complete its hearings on the inclusion case within two years from the date it accepts the application. It then has another six months to reach a decision. If it can't reach a decision within the time limit, it must tell Congress why.

The Milwaukee's plan for inclusion in Burlington Northern wouldn't result in the disappearance of the Milwaukee Road as a company. Under the plan, Burlington Northern would acquire the stock of the Milwaukee Road which is now owned by Chicago Milwaukee Corporation—92 per cent of the railroad's preferred stock and 96 per cent of its common stock. Burlington Northern would then operate the Milwaukee as a subsidiary company, much as the Chesapeake & Ohio operates the Baltimore & Ohio, which it controls. The Milwaukee would retain its corporate identity, its properties and its debt obligations. Burlington Northern under the Milwaukee's plan would not guarantee principal or interest payments on the Milwaukee's debt obligations nor dividends on its stock.

Though corporately separate, the BN and the Milwaukee, by combining operations and improving efficiency, would realize operating savings of approximately $25 million per year after seven years of BN control.

BN under the Milwaukee's plan would exchange approximately 2.1 million shares of its common stock for the Milwaukee's common and preferred stock. Isabel H. Benham, a Senior Vice President of Shearson Hayden Stone, Inc., a noted rail securities analyst and the Milwaukee's financial consultant, has suggested exchange ratios of BN



common for Milwaukee preferred and Milwaukee common. Assuming the continuation of BN's present dividend rate, the transaction would cost the BN approximately $3.3 million per year in additional dividends.

"For such a sum, BN is acquiring control of a property which should produce annual incremental earnings to it of $12.4 million in the sixth year or more than three times the estimated annual dividend payout on the shares issued for the acquisition," Ms. Benham said. "In addition, after five years of coordinated operations, the Milwaukee should also be contributing net earnings to the enlarged system as its share of the savings materializes and as its earnings capabilities are enhanced."

Under Ms. Benham's suggested plan of acquisition, BN would first issue a new convertible preferred stock and exchange it for the stocks of the Milwaukee owned by Chicago Milwaukee Corporation and minority shareholders. The new BN preferred stock, of which approximately 1.9 million shares would be issued for the exchange, would be convertible share for share into BN common over a five-year period at the rate of 20 per cent per year beginning in the second year of the BN-Milwaukee affiliation. The new preferred stock would pay no dividends. Each share would carry one fourth of a vote. Approximately 206,000 shares of the new BN preferred stock would be reserved for the conversion of the Milwaukee's convertible 4.5 per cent General Mortgage Income Bonds, Series B, which are due in 2044.

A detailed environmental impact report accompanies the Milwaukee's application to the ICC. It indicates that BN control of the Milwaukee would have largely beneficial environmental effects and negligible effects on the total work forces in the communities in which the Milwaukee Road has employees. As required by law, the ICC routinely prescribes protective conditions for railroad employees affected by merger or control proceedings.

Quinn urged that the Commission, as it considers the Milwaukee's control proposal, recognize changing transportation requirements and capabilities:

"I think that public interest and public responsibility during the remainder of this century will insist upon the exercise of a 'last clear chance' of saving American railroads under a private enterprise system. If this occurs, the principal economic condition which must give way is the idea that public interest must have rail competition at all principal points.

"Thus, I submit that the public interest in the present case does not permit of a determination based upon the desirability of competition being preserved between Burlington Northern and Milwaukee Road. The competitive gap between Milwaukee Road and Burlington Northern is becoming more rather than less pronounced. Furthermore, from a territorial standpoint large segments of Milwaukee Road's service area do not now receive competition from Burlington Northern, including substantial portions of Indiana, Iowa, Michigan, South Dakota and Wisconsin.

"If the Commission determines on the evidence which we have presented that the application is consistent with the public interest, it will be making a decision which will not adversely affect Burlington Northern's financial condition, future prospects or operating characteristics. If the Commission determines, notwithstanding our case, that it considers the application not consistent with the public interest, we will pursue our attempts to make this carrier viable and, failing the same, the public will be faced with the possibility of termination of our service over a 10,000-mile system." ■

The story of Milwaukee Road's attempt to seek inclusion in Burlington Northern: A CHRONOLOGY

Jan. 22, 1956: Great Northern, Northern Pacific and Chicago, Burlington & Quincy announce their plans to merge. Milwaukee Road subsequently opposes unless conditions to protect Milwaukee Road are imposed.

Feb. 17, 1961: The "Northern Lines" file a formal application with the Interstate Commerce Commission to merge into Great Northern Pacific & Burlington Lines, Inc. (later Burlington Northern Inc.).

Apr. 27, 1966: ICC denies Northern Lines merger application, in large part because of the probable competitive and financial impact the merger would have on the Milwaukee Road.

Oct. 25, 1966: The Northern Lines having agreed to conditions designed to minimize the impact of their merger on the Milwaukee Road, the Milwaukee supports the Northern Lines merger.

Jan. 24, 1967: ICC reopens the Northern Lines merger case for reconsideration.

Nov. 30, 1967: ICC approves the Northern Lines merger and imposes a series of conditions designed to protect the Milwaukee Road and other railroads.

May 10, 1968: At the request of the U. S. Department of Justice, the U. S. Supreme Court, pending appeal, stays the ICC order approving the merger of what is now to be called the Burlington Northern.

Feb. 2, 1970: U. S. Supreme Court upholds the ICC order approving the Burlington Northern merger.

Mar. 2, 1970: The Burlington Northern merger is consummated.

Apr. 2, 1973: Pursuant to a condition to the BN merger under which the ICC retained jurisdiction over the case for five years for the purpose "of considering petitions . . . by any railroad in the territory involved requesting inclusion in the merger" (Condition 33), Milwaukee Road petitions the ICC to reopen the BN merger proceeding to consider Milwaukee's inclusion in BN. Milwaukee and Burlington Northern subsequently begin joint merger studies.

May 31, 1974: Burlington Northern announces the termination by it of the joint merger studies, saying that the operational and financial studies established that inclusion of Milwaukee wouldn't be in the best interests of BN or its securityholders. Milwaukee Road indicates that, in its view, the studies showed significant savings and improvements in service.

Feb. 28, 1975: As an alternative to inclusion in BN, but without changing its position that it seeks inclusion, Milwaukee Road asks the ICC to impose additional conditions on the BN merger. Milwaukee tells the ICC that the conditions previously imposed are not providing the Milwaukee with the necessary long-term protection.

(Continued on Next Page)

INCLUSION: A CHRONOLOGY

July 21, 1975: ICC reopens the Northern Lines merger case to consider the Milwaukee's petition for inclusion under Condition 33. Thereafter, because the BN and Milwaukee are engaged in control studies, ICC holds its processing of the petition in abeyance at the request of the Milwaukee.

March 23, 1976: ICC holds prehearing conference on the Milwaukee's inclusion application. Subsequently, the ICC affirms that the Milwaukee has properly engaged the jurisdiction of the ICC under Condition 33. It authorizes the Milwaukee to file a formal application.

July 1, 1976: Milwaukee Road files formal application with the ICC for inclusion in Burlington Northern under Condition 33. The application is filed in accordance with the ICC's existing rules of procedure.

July 29, 1976: ICC rejects Milwaukee Road's inclusion application, saying in effect (in this order and in an Aug. 25 clarification) that it doesn't meet proposed new rules for merger applications and indicating that the Milwaukee can refile in a manner which does. In the two orders, the ICC directs the Milwaukee to use discovery proceedings set forth in ICC rules to obtain from Burlington Northern data it needs for its application.

Sept. 22, 1976: Having had no response from Burlington Northern to its discovery interrogatories, Milwaukee Road files with the ICC a motion to compel response from BN. Milwaukee files similar motions Sept. 30 and Oct. 13 with respect to subsequent interrogatories.

Nov. 11, 1976: ICC Administrative Law Judge denies Milwaukee's motions to compel responses from BN. He calls for a broad general investigation by the ICC of the "problem of western railroad consolidations."

Dec. 1, 1976: Milwaukee Road refiles its application for inclusion with the ICC, including testimony and exhibits ordered by the ICC on Aug. 25. Milwaukee proposes a plan of stock control by Burlington Northern, pointing out that the savings and efficiencies would help to preserve the Milwaukee and thus strengthen rail competition in much of the United States; and that stock control would impose no adverse effect on BN's financial strength nor on its credit.

Dec. 30, 1976: By a 4-to-3 vote with two Commissioners not participating, ICC "tentatively rejects" Milwaukee's Dec. 1 application pending oral arguments on the questions of whether discovery proceedings are proper and whether the ICC has jurisdiction over the case under Condition 33.

Jan. 26, 1977: ICC hears oral argument on the jurisdiction and discovery questions.

The 4R Act

What it is, why it's important to the Milwaukee Road

It is the purpose of the Congress in this Act to provide the means to rehabilitate and maintain the physical facilities, improve the operations and structure, and restore the financial stability of the railway system of the United States, and to promote the revitalization of such railway system, so that this mode of transportation will remain viable in the private sector of the economy and will be able to provide energy-efficient, ecologically compatible transportation services with greater efficiency, effectiveness, and economy . . .

With these words, Congress determined that the United States will have a strong national rail system—and, by inference, Congress acknowledged that the help of the federal government will be needed to do the job.

The words are from the Declaration of Policy of the Railroad Revitalization and Regulatory Reform Act of 1976, often called unofficially the "4R" Act and, officially, Public Law 94-210. No federal law more important to the Milwaukee Road has been enacted in recent times.

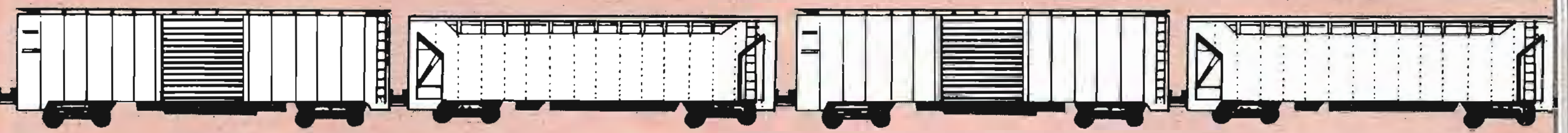
Indeed nothing—not even the most successful sales and marketing effort we could reasonably devise—is as important to the Milwaukee as is this new law. With all the resources at its command, the Milwaukee is preparing to use what the 4R Act provides for it—and to respond to what, through Congress, the nation wants of its railroads.

The outcome of the company's efforts will mean much change for the Milwaukee, physical and economic. There is no mandate in the law that today's railroads must remain as they are, nor that today's railroad companies must be preserved as they are. Something quite different is implicit, for example, in this portion of the statement of purpose of the new law which talks about how the desires of Congress will be carried out:

. . . through the encouragement of efforts to restructure the system on a more economically justified basis, including planning authority in the Secretary of Transportation, an expedited procedure for determining whether merger and consolidation applications are in the public interest, and continuing reorganization authority. . . .

The 4R Act arose out of crisis—the rash of railroad bankruptcies which spread from New England to New Mexico, the awareness that financial weakness and thus a lagging ability to provide service infected much of the rest of the railroad industry. President Ford's signature on the 4R bill on Feb. 5, 1976, put into motion a series of actions which are intended to give railroads the opportunity they need to work their way out of their long-range financial problems.

To railroad-watchers who have followed the urgings of the railroad industry on Congress literally for generations, there's a familiar ring to much of what Congress now declares to be its policy under the new law:



—to balance the needs of the rail carriers, shippers and the public;

—to foster competition among all carriers, railroads and the other modes—trucks, barges, airplanes; to promote more efficient transportation services; and to make investing in railroads more attractive;

—to build more flexibility into railroad ratemaking so that railroads can better compete; and

—to determine adequate revenue levels for railroads.

The new law provides no guarantees of success for the railroads, only incentives and help. While it greatly expands the role of the federal government in railroad matters, it doesn't "put the government in the railroad business." Indeed, the fundamental purpose of the law is to help avoid the need for even greater government involvement in the future.

Enacted though it was a year ago, the 4R Act isn't even today fully effective—and all of its provisions won't be "operative" for a number of months. Many of the actions set in motion by the law are predicated on administrative steps or studies which aren't completed.

For example, not until late 1976 were the regulations on how to apply for a share of the $1.6 billion in financial assistance available under the law published by the Federal Railroad Administration of the U. S. Department of Transportation.

As you watch what happens on the Milwaukee and in the railroad industry generally as the result of the 4R Act—and we hope, as you help the Milwaukee and the railroad industry meet the mandate of Congress—it's well to have before you a brief outline of what the 4R Act contains.

The long law—120 pages—is divided into nine sections, or titles. Seven of the nine contain provisions of importance to the Milwaukee Road. The other two are important as well, but they deal most directly with the establishment of ConRail and the Boston-New York-Washington passenger corridor.

Title 1

The general provisions of the law are short and to the point. In this title is the Declaration of Policy, much of which we've quoted or paraphrased. The statement of purpose within the policy declaration goes on to identify various methods by which the 4R Act is to be implemented:

—ratemaking and regulatory reform;

—financing;

—"transitional continuation of service on light-density rail lines that are necessary to continued employment and community well-being throughout the United States;"

—provisions to protect federal funds and to assure that what is borrowed will be repaid; and

—necessary studies.

Titles II, III and IV

These three sections of the law deal with railroad rates, the role of the Interstate Commerce Commission, and mergers and coordinations among railroads.

Included among the reforms to rail regulation is a provision which gives railroads the right to raise or lower rates by as much as 7 per cent without the risk of prior ICC suspension except where they have "market dominance." Subsequent ICC investigation could require the railroads to refund, with interest, any portion of such an increase which the ICC finds unjustifiable.

The law provides new procedures on peak-period pricing, rates for innovative services involving heavy outlays of capital funds, rate experiments, and the development of adequate rate levels.

Rate cases must now be handled by the ICC within prescribed time limits so that "regulatory lag," in which rate increases aren't approved until long after associated costs have gone up, is minimized.

The law requires the ICC to develop a new uniform cost and accounting system for railroads. In several other ways the law updates and modernizes the procedures of the ICC. Also, it prohibits a state from assessing higher taxes against railroads than it assesses against other industries.

Some of the philosophy of the Milwaukee's "Quinn Plan" of 1975—a call for railroads to plan their own restructuring with the help of the Secretary of Transportation—is now the law of the land.

Under Title IV, the Secretary of Transportation can aid railroads in planning and negotiating mergers and coordinations. He may conduct studies on the potential benefits of mergers. He may initiate these actions himself, or his services may be requested by the railroads.

The law also deals with the procedures under which planned mergers must come about. It requires that employee protection be part of all merger authorizations. It sets strict time limits under which the ICC must accept or reject and then handle merger proposals—hearings completed within two years, a final decision within another six months or prompt notice to Congress that the ICC can't reach a decision within the time limit.

Until Dec. 31, 1981, railroads may use an optional "expedited" merger procedure which gives the DOT planning and initial consideration of mergers before they are submitted to the ICC.

Title V

This section of the 4R Act sets up two methods by which the federal government may, over a period of years, provide up to a total of $1.6 billion in repayable financial assistance to railroads other than ConRail. In neither case is the money to be granted or given to the railroads. Every bit of what's used ultimately will be paid back—with interest.

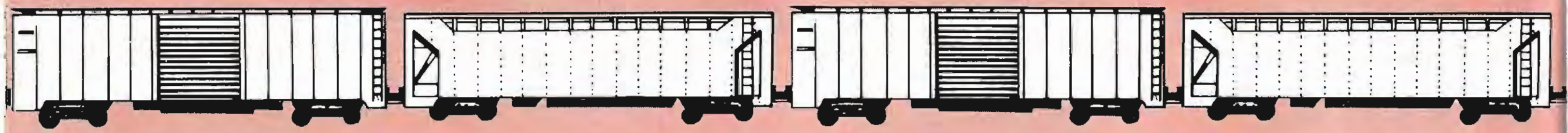
Title V sets up two important studies:

The first requires the DOT to categorize all U. S. rail lines according to several standards of usage and economic viability as a general guide to where federal financial assistance should be applied. The final standards and designations are due by April 30, 1977.

The second, a "capital needs," study requires the DOT, in conjunction with the Treasury Department, to recommend to Congress how much financing should be provided for the nation's railroads and how the financing should be arranged. The law calls for an evaluation of the public benefits and costs of public ownership of railroad rights of way. The final recommendations of this study are due in mid-1977.

Sections 505 and 506 of Title V establish a procedure by which the federal government may buy from railroads new securities called redeemable preference shares to finance rehabilitation and improvement projects, up to a total of $600 million. The nonvoting redeemable preference shares will be senior to common and most preferred stocks of the railroads and junior to most other debt securities. The shares will mature in 30 years or sooner and will earn dividends at a rate to be fixed by the Secretary of Transportation with the dividends accruing from the 10th year. The shares are to be redeemed at par over a minimum period of 15 years beginning not earlier than the sixth year nor later than the 11th year. Effectively, under the law, railroads selling preference shares to the government will ultimately pay back to the government at least 150 per cent of the face value of the shares which the government buys.

Section 511 establishes federal guarantees for the principal and interest of up to $1 billion in loans secured by railroads



from conventional lending sources with the approval of the Secretary of Transportation. Under the law, government-guaranteed loans mature in a maximum of 25 years. In approving an application for guarantees, the FRA approves the rate of interest and other terms of the proposed loan.

"Fair and equitable" protection of rail employees who might be adversely affected by rehabilitation projects aided by Title V financial assistance is guaranteed by the law itself. With the approval of the Secretary of Labor, as required by the law, railroads and unions which represent rail employees have agreed to what is, in essence, Amtrak-type employee protection.

There isn't any money specifically allocated by the provision, but Section 517 authorizes the Secretary of Transportation to allocate as much as $200 million of the total financial assistance provided by Title V to improve intercity passenger service on lines other than those in the Northeast Corridor.

Titles VI and VII

These two parts of the 4R Act generally launched ConRail; authorized Amtrak to acquire the Northeast Corridor trackage; provided funds for the Northeast Corridor; and deal with existing funds available to preserve facilities, particularly railroad terminal buildings, which have historical or architectural significance.

Title VIII

This part of the Act implements the Congressional mandate to provide "transitional continuation of service on light-density rail lines." It modifies existing ICC procedures on abandonment and extention of rail lines, sets up procedures for helping to fund the cost of continuing local rail services approved for abandonment by the ICC, and establishes rail-planning criteria which states must meet if they or their political subdivisions are to be eligible for federal funds.

By late April, each railroad must submit to the ICC a diagram map of its system identifying each line which is "potentially subject to abandonment." It must also identify each line for which the railroad plans to submit an abandonment application to the ICC. That diagram map must have been on file with the ICC for four months before the ICC may authorize an abandonment, if there's protest to the abandonment from a shipper who has made significant use of the line or from a state or local political body.

The law provides an opportunity for "financially responsible" persons or organizations to give financial aid to a line subject to ICC abandonment proceedings, in which case the ICC is directed to withhold its abandonment authorization if the offered aid meets given standards.

Title VIII also establishes a five-year assistance program for the continuation of local rail services on a matching basis with states which have established "state rail plans" as part of an over-all state transportation planning process. The Act establishes the eligibility requirements states must meet and authorizes $360 million which is available to states on a formula basis for the program. Through June 30, 1977, the federal government will pay 100 per cent of any assistance rendered under this section of the Act. The federal portion of the payments will decrease each year during the program. After June 1, 1979, and in the final year of the program, states themselves must pay 30 per cent of any service continuation costs.

It sets up a study on alternate future uses of abandoned railroad rights of way, directs the Secretary of the Interior to assist programs involving the conversion of abandoned rights of way to recreational and conservational uses, and authorizes up to $7 million annually through 1978 for this project. Additionally, it authorizes $6 million to establish a "rail bank" of lines considered necessary to reach fossil fuel resources.

Title IX

In some respects, notably the long-range future of the railroads, this last title of the 4R Act may be the most significant.

It sets up strong nondiscrimination standards for all activities in which 4R financial assistance is involved and establishes compliance requirements. It establishes a Minority Resource Center within the Department of Transportation.

A "comprehensive study of the American railway system" will be produced before August 1, 1977. The study will include

—the potential cost savings and service-quality improvements which could result from restructuring the railroads of the U. S.;

—the potential economies and improvements which could result from the improvement of local and terminal operations;

—what savings in rehabilitation cost might be possible if rehabilitation were limited to those portions of the U. S. railway system which are essential to interstate commerce or national defense;

—to what degree the national rail transportation system would be improved through common or public ownership of rail fixed facilities;

—what effect on the national rail transportation system "alternative rail corporate structures" might have;

—a listing, in priority order, of the rail properties which should be improved to permit high-speed passenger or freight services, what the costs and benefits would be and why;

—what the benefits would be of electrifying high-density lines; and

—an analysis of the financial and physical condition of the facilities, rolling stock and equipment of the railroads.

A second study, made in February 1977, examined public policies with respect to transportation and their impact on the railroads. The study covered:

—past and present policies and methods by which federal aid reaches the rail industry compared to other modes of transportation; and

—whether and to what extent railroads are or have been disadvantaged by any policy differences.

The law directs the Secretary of Transportation to "examine ways and means by which future policy respecting federal aid to rail transportation may be so determined and developed as to encourage the establishment and maintenance of an open and competitive market in which rail transportation competes on equal terms with other modes of transportation, and in which market shares are governed by customer preference based upon the service and full economic costs."

Also made in February 1977, was a report from the ICC on its study of "conglomerates and of such other corporate structures as are presently found within the rail transportation industry." The ICC was to determine what effects such diverse structures may have on transportation effectiveness, intermodal competition, revenue levels and other aspects of national transportation which the ICC decides to study.

Already submitted to Congress by the DOT is a "comprehensive report on the anticipated effect, including the environmental impact, of any abandonment of lines of railroad and any discontinuances of rail services" in states outside the Northeast. ■

communication: EMPLOYEE OPEN HOUSES

Since the dawn of mankind, there has existed a need to communicate. . .

Early man did so with basic guttural sounds, hand signs and primitive paintings on cave walls. As he became more enlightened, man developed more refined methods to convey his thoughts and ideas to exchange information.

Over the years, information has been communicated by puffs of smoke and jungle drums; it has been carved into clay tablets and even attached to the legs of carrier pigeons. But as the world's population grew and geographic dispersion took people to more isolated areas, so increased the need for faster and more efficient communication. Man's ingenuity met this need with increasingly sophisticated technology. Today it is possible to instantaneously transmit information over wires, through glass fibers, by microwave and earth satellites.

At the same time these various means of communication increased in sophistication, so did the audiences served by them. People today are more educated, more independent and certainly more concerned about their future. Recognizing this fact, corporate management is responding by placing greater emphasis on internal or employee communication.

There is a trend for management to be more candid and thorough in fulfilling its responsibility to communicate with employees. Management is talking more freely about subjects once considered taboo, discussing its problems and hopes for the future. Even though industrial publications (magazines, newspapers, newsletters and other printed means) are the methods most widely used by the majority of companies, face-to-face contact is considered by authorities to be the most ideal means of communication.

With a system as widespread as the Milwaukee Road, this form of communication is especially difficult. Because the problems and challenges facing not only the Milwaukee Road but the entire industry are of such magnitude, however, management made a precedent-setting decision. Open houses would be held around the system to explain company goals and objectives and to give employees an opportunity to express their concerns.

As a result of this decision, open houses have been held in the Seattle/Tacoma, Wash. area; at Savanna, Ill.; Milwaukee, Wis.; Minneapolis, Minn.; Harlowton, Mont.; Bensenville, Ill.; Aberdeen, S.D.; Perry, Ia. Officers attending the meetings included Paul F. Cruikshank, vice-president, Operations and Maintenance, M. Garelick, vice-president, Operations, W.W. Abbey, director, Corporate Communications,

EMPLOYEE OPEN HOUSES

". . . understanding can only come with better communication of the goals and objectives of both the company and its employees."

and senior officers from the various locations. Because of the immediate success of these meetings, others are now being planned for the future.

Cruikshank's opening remarks at the meetings were concerned primarily with the state of the railroad today and its goals and objectives for the future. He emphasized its strengths and its weaknesses, focusing on the necessity for change. The Milwaukee Road exists to provide a basic service that people want and need on a profitable basis. To accomplish this objective, the railroad must do two things — continue its efforts for inclusion in the Burlington Northern or make it a viable railroad with every available means possible.

The Milwaukee's strengths, Cruikshank pointed out, are its 11,000 dedicated employees, an excellent route structure, loyal customers and its ability to manage and make the changes necessary to meet the challenges of the future. And the railroad's weaknesses are its undermaintained track, lack of available capital, strong rail competition and subsidized modal competition.

Cruikshank indicated that management has already begun making a concerted effort to change the Milwaukee's "marginal" status. A reorganization of the company's divisions places greater authority with the field managers. He said that emphasis also will be placed on increasing productivity, improving the quality of service through closer control and eliminating excess cars and track. Financial aid will be sought from states, shippers and the Federal government. (NOTE: Burlington Northern inclusion and application for Quad-R money is discussed in depth in another section of this issue.)

Many of the questions asked by employees concerned local matters and situations. Others, however, indicated the deep interest of employees in the future of the company and any plans which might affect the status of their jobs.

At the Milwaukee meeting, for example, a question was asked if the company planned to reduce the number of employees to 10,000. Cruikshank replied that the company has no plans either to set a specific level of employment or to make substantial reductions. He said the company will avoid wherever possible any reduction in maintenance-of-way or equipment forces.

An employee at the Savanna meeting suggested that the Milwaukee's financial problem might be resolved by acquiring more business rather than relying on government funds. Cruikshank responded that the company must seek the right kind of business rather than more business. Not all business is profitable and therefore would not be desirable. He pointed out that the railroad is getting new business such as that from the Far East from the Port of Seattle. He also expressed great hopes for an increase in grain traffic in northern Iowa.

Other questions covering such subjects as early retirement of older employees to track coordinations with other railroads indicated a keen desire to know about and understand the problems of the Milwaukee Road. They also are evidence of the employees' willingness to help in any way possible.

Although the response from all the meetings was highly favorable, none was more enthusiastic than that of employees from the Seatle/Tacoma area. Shortly after the open house, they formed an organization and named it "Washington Employees for Milwaukee." Membership is open to all employees and meetings are held frequently to discuss matters of importance to both the division and the Milwaukee. A newsletter, the *Washington Division Express* is financed and produced entirely by a committee of members. Its purpose is to provide better communication and understanding at the division level.

From all reports, the open houses were a great success. But perhaps more important is the lesson that was learned from them. Understanding is essential to the future success of the Milwaukee . . . and understanding can only come with better communication of the goals and objectives of both the company and its employees.

Carson Inn Project

Recognizing the need for more effective labor-management communication at the local level, the Rail Operations and Labor-Management Relations Division of the Federal Railroad Administration (FRA) recently sponsored a pilot workshop that could have industry-wide implications.

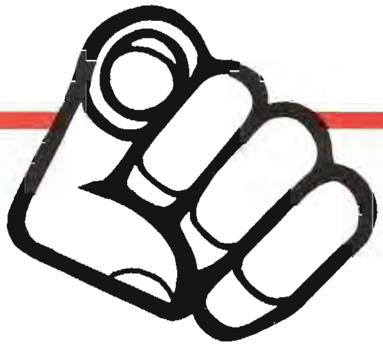
The workshop was held at the Carson Inn in Itasca, Ill. Participants were selected Milwaukee Road Lines East division managers and assistant division managers and their respective United Transportation Union (UTU) counterparts.

Over the years, the Milwaukee Road and the various organizations which represent its employees have worked together to develop a climate of cooperation at all levels. This workshop was designed to strengthen these efforts. Effective labor-management cooperation is crucial to the performance and profitability of the railroad and the well-being of its employees.

During the five-day workshop, participants discussed subjects ranging from job accountability and responsibility to railroad profitability and the future of the industry. Throughout the various sessions, it was evident that there are many areas of common interest shared by local management and labor union officers. Also discussed were the various human relations tools required to pursue a constructive labor-management relations program in their respective areas.

Content for the workshop was developed by Walter D. Schultz, manager, labor relations, Ray D. Nelson, assistant manager, technical training, both from the Milwaukee Road's Labor Relations and Personnel Department, and UTU Lines East General Chairman Tom McGuire. C. Page Townsley, director of management programs, Northwestern University Transportation Center, provided advice and assistance.

Results of the workshop are under evaluation by Burleigh B. Gardner, Ph.D., president, Social Research, Inc. It is hoped that the findings of the evaluation will lead to future workshops with participants from other organizations and other levels of management. ■



for your information

In 1976, earnings above $2,760 in the year can reduce certain railroad retirement benefits by $1 for every $2 earned over $2,760. Benefits are not reduced for any month in which earnings are $230 or less. Beginning in 1977, the annual earnings limitation is raised from $2,760 to $3,000 and the monthly limitation is raised from $230 to $250.

These earnings limitations apply to almost all survivor annuitants. They also apply to some retired employees and their wives, generally to those who are also qualified for social security benefits. Most who are subject to the earnings limitations have been notified.

Effective with benefit periods beginning in 1977, the Part-A Medicare deductible and coinsurance amounts have been increased. For covered services in such periods, Medicare pays:

- For the first 60 days in the hospital — all but the first $124 (current amount is $104).
- For the 61st through the 90th day in the hospital — all but $31 a day (the current amount is $26).
- For lifetime reserve days used — all but $62 a day (the current amount is $52).
- The 21st through the 100th day in a skilled nursing facility — all but $15.50 a day (the current amount is $13).

The Veteran Employees' Association will hold its 1977 reunion on July 23 at the Pfister Hotel in Milwaukee. Employees with 15 years of service are eligible for membership. Dues for new members are $4.00 for the first year, and $3.00 annually thereafter. Dues for 1977 are payable effective January 1. Applications for membership and requests for payroll deduction of dues may be obtained from W. B. Braheny, secretary, Room 848 Union Station, Chicago, Ill. 60606.

Because of an incomplete address file, several hundred of the Employees Mutual Benefit Association's (EMBA) certificates of insurance cannot be mailed to employees. If new certificates were not received by the end of 1976, please contact the Payroll Manager, EMBA, 1457 Grand Avenue, St. Paul, Minn., 55105. Upon receipt of correct addresses, certificates will be mailed direct to members.

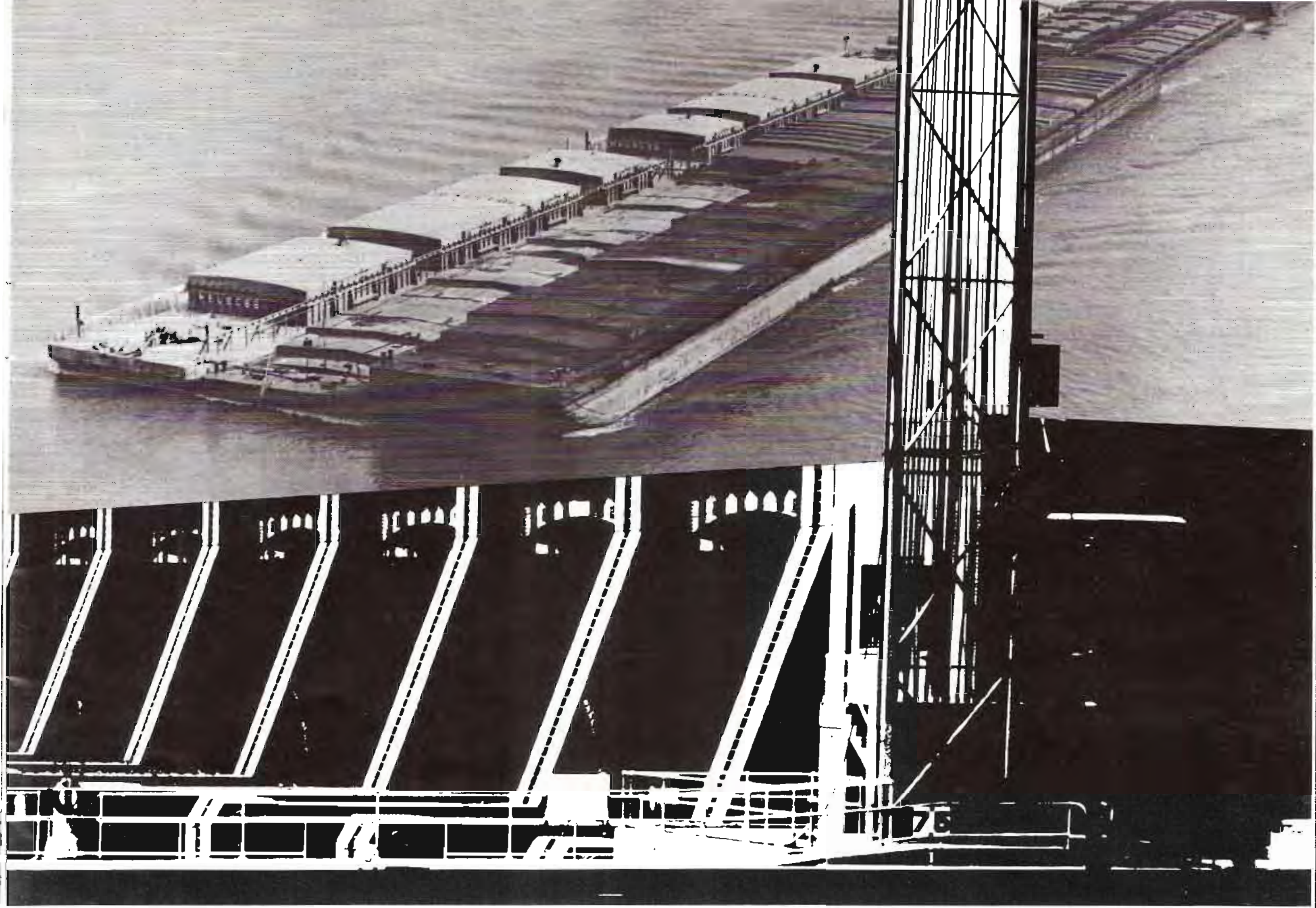
While the employee tax rate remains at 5.85 percent, the same as for social security taxes, the amount of earnings subject to railroad retirement tax increases from $1,275 to $1,375 per month beginning in January 1977. Only employees earning more than $1,275 in any given month will pay higher taxes. However, they will receive higher earnings credits for future retirement and survivor benefits.

L&D 26

IMPACT ON RAILROAD AND RAILROAD EMPLOYEES AND TAXPAYERS

Railroads won the 1976 "Battle of Lock and Dam 26." But the industry and its allies—rail labor, environmentalists, a number of key shippers and government officials—wasted little time in celebrating: From long and often sad experience, railroads know that "winning" can be a temporary thing, when the opposition is the U.S. Army Corps of Engineers and influential waterways interests.

Actually, controversy over the navigational facility on the Mississippi River at Alton, Ill., goes back to the mid-1960s, when the Corps began planning for the replacement of L&D 26 with an installation that would greatly increase capacity for barge tows. In 1969 and 1974, Congress made modest appropriations for initial work on the project, and it was in '74—with the Engineers scheduling a bid-opening—that the real fight began. Twenty-one western railroads, joined by environmentalists, went to Federal court and obtained a "stop" order. The judge's conclusion: The proposed new Lock and Dam 26 did not have the consent of Congress and therefore an authorization bill would be required before the Corps could go any further.



First, those supporting the project tried to include it in a multi-billion-dollar supplemental appropriations bill, but the effort failed in the House of Representatives. With that defeat, they went to a lower profile through much of 1975, but 1976 saw the whole dispute flaring up once again. And the Corps, with strong backing from the chairman of the House Committee on Public Works and Transportation, perhaps came closer than ever before to getting the authorization needed.

What the Engineers have been wanting is an all-new structure downriver from the existing L&D 26. That facility has 600-foot locks and can handle traffic requiring a nine-foot navigational channel, but the proposal for a new L&D 26 called for 1,200-foot locks and 12-foot draft capability. The cost: Better than $400 million and, with inflation, probably close to $500 million.

Railroads have made a strong case against the project. They've called attention to a number of deficiencies in the studies made by the Army Engineers, studies designed to support construction. They've also called attention to the impact upon railroads and rail employment: Testimony last year before a Senate subcommittee indicated that more than $300 million a year in revenues would be lost and that at least 35,000 railroad jobs could be threatened. Railroads have pointed out that the major benefits of a new L&D 26 would go to waterways operators and a relatively small number of on-water shippers—while off-water shippers would likely suffer because if large amounts of rail traffic were lost to water transportation, rates would in all likelihood have to go up on remaining traffic.

In addition, the proposal on L&D 26 is seen as merely a first step toward reconstruction of the whole upper Mississippi and Illinois Waterway systems—reconstruction which would increase barge capacity throughout the midcontinent waterways network and thus increase the threat to rail traffic and rail jobs. No real analysis has been made of the cost of a total rebuilding of the Mississippi and Illinois locks and dams—but there are some estimates that it could run as high as $4 billion, with the taxpayers picking up the tab.

Environmentalists also have a major stake in the whole affair, fearing that what the Corps of Engineers has in mind would have serious harmful effects on fish and wildlife and the whole ecology of the affected area.

At this point, the mood of the new Administration and the new Congress is hard to assess, so far as a new push for L&D 26 is concerned. It may be worth noting that during the Presidential election campaign, Gerald Ford came out in favor of L&D 26 replacement, Jimmy Carter did not; on the other hand, Mr. Carter's running mate, Sen. Walter Mondale, was a sponsor of a bill on L&D 26 which a railroad spokesman described as following the Corps of Engineers' "build-now, study-the-consequences-later" approach. As for the makeup of Congress, 18 out of 100 Senators are new to Capitol Hill, and about half of the Representatives making up the large Democratic majority in the House are first- or second-termers. The most powerful and persistent opponent of the L&D 26 project in the Senate, Wisconsin Democrat Gaylord Nelson, is still there, while the most determined advocate of the Corps' proposals in the House, Alabama Democrat Robert E. Jones, has retired. Waterways projects, however, are favorite items for inclusion in so-called pork-barrel legislation, and it's difficult to predict how 535 elected legislators will respond to the inevitable

L&D 26

pressures of "you-vote-for-my-project-and-I'll-vote-for-yours." And if the events of last year are any indication, railroads and others opposed to the L&D 26 plan will be in for another tough year.

Consider a few of the developments which took place in '76, on the river and in Washington:

—Last spring, the Mississippi River at Alton began looking like a parking lot for barges because the Engineers closed the main lock, allowing traffic to move only through a small auxiliary lock while repairs were made to a buffer cell downstream (a cell used as a pivot on which tows are turned into the locks). At one time, more than 800 barges were stalled near L&D 26, and railroads—seeing advocates of a new L&D 26 using the delays to support arguments that the existing structure had to be replaced—were forced to set the record straight. Barge delays, railroad spokesmen declared, were in no way due to defects in dam or locks; rather, they said, the Corps had known of the need for repairs to the buffer cell, had not scheduled the work as routine maintenance during a period of slack traffic, and did not act until stone began spilling out of the cell (after which the problem was compounded when a tow hit the cell). The Mississippi traffic jam got a lot of publicity—due, railroads believed, to a "stepped-up public-relations and press campaign led by the recently-organized Committee for Lock and Dam 26." Once the Corps reopened the main lock, the jam cleared in a short time.

—Later in the year, another "crisis" developed, and the railroads weren't having any part of that one either. This one had to do with low water levels which hampered navigation on the Mississippi, and the industry suspected that waterways interests were using the low-water situation in order to get public support for waterways expansion "by over-dramatizing their importance in the U.S. transportation network." On the contrary, railroads said, low water is just one problem affecting water transportation; floods are another, lock-closings for repair work are a third—and they all tend to show that "the river system is a fragile method of transportation, no matter how many billions of tax dollars are squandered on locks, dams and channels." It is simply poor economics, an industry spokesman pointed out, "to invest in so vulnerable a system, especially when the public money is never repaid. At the same time, public subsidy of river transportation fosters false competition and weakens the rail system which serves all people, by depriving railroads of revenue necessary to assure continued dependable transportation."

—For more years than most people can remember, railroads and others have protested that "subsidy" angle and the fact that taxpayers are required to foot the bill for all manner of waterways improvements with no return whatsoever in the form of user charges from those who gain from the improvements. Maybe the message is starting to get through, or maybe proponents of the L&D 26 project figured a concession would be tempting—in any event, a user-charge plan did come to the surface. As proposed, however, it seemed like half a loaf or less, since it would be phased in over an 11-year period and even at the end of that time would recover only 50 percent of capital and operations/maintenance costs. Railroads and rail brotherhoods stayed firm in opposing authorization of a new L&D 26 and in favoring 100 percent recovery, not 50 percent, from user charges.

—Eventually, both the Senate and the House passed an Omnibus Rivers and Harbors Bill and, while their respective versions differed on a number of points, they agreed on L&D 26: Authorization was not included in either bill. Thus it came as a surprise, to Senate conferees at least, when a Senate/House conference committee met to resolve differences and Rep. Jones, the soon-to-retire chairman of the House Public Works and Transportation Committee, declared that without authorization for Lock and Dam 26 there would be no 1976 Ominbus Rivers and Harbors Act. Through a lengthy debate, he held to the position despite the fact that the House had held no hearings on L&D 26 (nor had there been consideration of it on the House floor), and despite the legal question raised by inclusion of a provision in a final bill which had not been included in either the Senate or the House version. In conference committee voting, House members went with Rep. Jones, Senate members were unanimous in rallying behind Sen. Nelson in opposition to any authorization of L&D 26. In the end, Rep. Jones left the conference, the omnibus bill was approved—without L&D 26—and it went on to a final passage in Senate and House.

—As the controversy simmered on in '76, a number of L&D 26 alternatives also surfaced, and it fell to the General Accounting Office (GAO) to make the necessary evaluations. Three organizations submitted rehabilitation plans, the Western Railroad Association (WRA), the Illinois Department of Transportation (DOT) and the Corps of Engineers. GAO had them reviewed by an engineering consultant and late in '76 it announced the findings, one of which was that the railroad proposal was "conceptually feasible," and at a cost of about 25 percent of the total involved in the Corps' plan. WRA had estimated the cost of its rehabilitation plan at $52.7 million; the consultant, noting that the proposal was based upon certain assumptions "which need to be confirmed," boosted the figure to close to $85 million to allow for contingencies. Illinois DOT had suggested construction of a new lock through the center of the existing dam, with the existing locks remaining operational; the cost estimate on that idea was about $70 million, but the consultant adjusted it upward to more than $180 million. The Corps of Engineers, hanging in with a plan to build a new dam with a single primary lock downstream from the existing facility, set its cost figure at $473 million; the consultant moved that figure down to $341 million by eliminating a proposed temporary lock, putting a permanent lock through the dam and dropping major rehabilitation of the existing locks. The consultant also noted that Corps' estimates on rehabilitation of the dam seemed "overly conservative." It suggested that construction of a new lock through the existing dam "warrants further consideration by the Corps." And GAO suggested that a further study might in fact be needed to determine whether there is any need for rehabilitation of the facility now. Responding, the Senate Public Works Subcommittee on Water Resources called for studies by both GAO and DOT, GAO (in a report due April 15) to determine finally whether it would be better to replace or to rehabilitate, and DOT to do an economic analysis on the Corps' plan to build new.

Through the whole controversy, there has been a sometimes-bewildering series of charges and counter-charges. There have also been changes in laws affecting transportation and there have been various studies undertaken as ordered under those laws.

On the charge/counter-charge front, for example, the president of the Water Transport Association, John A. Creedy, came out flatly last year with the declaration that there has been "no inequity in public investment" as it affects the waterways/rail relationship. DOT, he charged then, "is already talking about $9 billion in (rail) aid, $4.7 billion already appropriated and $4 billion or more yet to come, and this is only a partial list. To put that amount of money in perspective, the Corps of Engineers reports that all investment in both structures and operations and maintenance for shallow-draft waterways for the past 151 years since 1824 totals half of that, or $4.5 billion." Overlooked in that argument, perhaps, was the fact that a large part of the railroad financial assistance involves dollars which would be repaid, something barge operators have never had to worry about, in the absence of any form of user charges to pay back the public investment in both capital investment and operating-and-maintenance costs. Too, as railroads pointed out, it seemed a strange and contradictory thing, that on the one hand government would be moving to strengthen the rail system through passage of such legislation as the law creating the United States Railway Association and leading to formation of Conrail and then the law that has become known as the 4R Act, the Railroad Revitalization and Regulatory Reform Act—and on the other hand moving to foster more false competition for railroads through massive, no-payback waterways-improvement programs.

As for studies, one important one mandated under the 4R Act has the U.S. Department of Transportation looking into the effects of public investment as it relates to the various modes of transportation. That particular study, many observers believe, has to demonstrate that government/public investment has in fact been unequal—and, presumably, it will also produce recommendations designed to correct the inequalities. At the same time, the 4R Act included a few provisions relating to railroad rate-making, and the effect of these changes (as and when interpreted by the Interstate Commerce Commission) also remains to be measured. One such change has to do with so-called seasonal rates, and it could be an important one because it might enable railroads to do what barge lines (and some truckers) may already do, which is to adjust rates quickly to periods of peak and slack demand.

As one railroad spokesman has put it, you seldom if ever hear of a barge "shortage" because at peak periods the operators raise rates so high that, in effect, they price themselves out of the market—while rail rates "remain the same regardless of demand and railroads serve all shippers to the best of their ability." Barge operators, railroads contend, tend to charge what the traffic will bear, with "higher rates going into effect when need for service is strongest."

Then, there is the argument of the Engineers and the waterways operators that the needs of commerce simply demand waterways expansion On this one, railroads come back with the same argument used in their opposition to the granting of eminent domain which could lead to construction of coal-slurry pipelines: There is no need, from an economic or a capacity standpoint, for either the "new" waterways system or the coal pipeline. As one bit of evidence, rail spokesmen note that during the Russian grain movements of 1973, railroads moved almost 300 percent more export grain than they had during the previous year, and they still were able to handle the usual domestic and export volume—while barges were taking on an increase of only about 5 percent in grain during the same period.

What it may come down to, at least in theory, is whether the peacetime role of the Corps of Engineers—which has been a vital arm of the Army in time of war—should be to build navigable waterways where none existed before and to improve existing ones, to the detriment of other forms of transportation, including railroads (which pay taxes and which shoulder 100 percent of the cost of improving and maintaining their rights-of-way). What it may come down to in practice is whether a new Administration and a new Congress, with the benefit of DOT studies on Federal aid to transportation modes, will want to continue age-old customs, namely those that have given what amounts to a free ride for barge operators.

One factor that opponents of the L&D 26 project can count on, without much doubt, is the presence of Sen. Nelson, who has fought the project the whole way—not because he loves railroads but rather because he wants to have solid reasons for putting government money into such projects. At the time that Mr. Ford came out in favor of a new L&D 26, the senator was sharply critical: The decision, he said, reversed a "reasonable position" which the Ford Administration held in testimony earlier before the Senate Public Works Committee. Every major government department and agency, he declared, "including the President's own Council on Environmental Quality (CEQ), the Department of Transportation (DOT), the Interior Department and the Environmental Protection Agency (EPA), as well as every major planning body except the Corps of Engineers, advocated delay until the necessary studies were completed. Suddenly, without explanation, the President switched . . . Clearly, the professional judgments and expertise of CEQ, DOT, EPA and Interior have been ignored."

Even before that, however, railroads had given a measure of support to something less than a new L&D 26. They endorsed a Nelson bill which would have allowed repair and renovation of the 38-year-old L&D 26, with an exhaustive DOT study required before a replacement could be built. In Senate committee testimony, a railroad spokesman suggested that the existing structure be brought up to a proper level of maintenance, that use of the locks system be made more efficient in various ways including the increased use of switch boats, and that any proposed structural changes to increase capacity of the existing locks or any proposed new construction be subjected to a complete economic analysis. More efficient utilization of the facility, a railroad witness noted, could boost cargo capacity of the existing locks by a substantial amount.

Several factors may be significant, as the industry braces for a renewal of the battle in the new Congress:

—While railroads have stood alone in opposition to waterways projects many times in the past, they are by no means alone in the L&D 26 affair, not with rail labor, citizens and organizations concerned about the environment, important shippers and legislators of the stature of Sen. Nelson sharing the industry's position.

—Railroad opposition to such projects has often been regarded as just that: Opposition. Now, however, the industry is suggesting alternatives, as indicated by the proposal for rehabilitation of the existing locks and dam.

—The concept of user charges to defray waterways capital and operating/maintenance costs may be gaining greater acceptance in Washington. The plan considered in hearings last year was regarded by the industry as inadequate, in terms of the sums it would recover—but at least the consideration given user charges was serious consideration, and that's a plus.

—With all the rail legislation that has involved Congress in recent years, there has come to be a greater understanding of the industry, its problems and its capabilities. When railroads and those supporting their case speak, Washington now tends to listen, and that could mean that Congress will be less likely to ram through legislation harmful to the industry without even considering the effects of that legislation.

—The case against a new L&D 26 has been carefully prepared and fully documented, and railroads have made sure that the facts are known to those who should know them. In other words, this has not been a situation in which the Corps of Engineers comes in with a mountain of arguments to support its case, while the opposition has little to say except "No." Railroads and their allies have turned the spotlight on L&D 26—and as one railroader summed it up a while ago, "I don't think the Corps and the waterways people like the bright lights shining on them." ■

As this issue was going to press, Senator Adlai E. Stevenson and nine other senators introduced a bill (S. 712) to authorize construction of a new dam and a single 1,200-foot lock to replace L&D 26 at Alton. No user charges are proposed in the bill.

ABOUT PEOPLE

EDWARD J. STOLL, vice president, Real Estate, Economic and Resource Development, Chicago, has been awarded the highest degree of membership in the American Industrial Development Council (AIDC). The honor was awarded by the AIDC Board of Directors. A past president of AIDC, Stoll is also a Fellow of the Council and a Certified Industrial Developer. AIDC is an international organization of professional industrial development practitioners with over 1,000 members in the United States, Canada and Mexico.

WILLIAM R. HAYGHE, manager, International Trade, Seattle, has been appointed to represent the railroad industry on a statewide foreign trade advisory board. The board was established by the Trade Development Division of the Washington Department of Commerce and Economic Development. The board will assist the state's agricultural and manufacturing industry in expanding its trade potential.

PAUL TECHEL, joint agent, Milw-N&W, Ottuma, Iowa, has been appointed deputy grand exalted ruler for Iowa's southeast district of the Benevolent Protective Order of Elks and will supervise 11 lodges in his new position. Techel also serves as secretary of the Ottuma Lodge, B.P.O.E.

PAUL W. SCOTT, western director, Real Estate, Economic & Resource Development Department, Seattle, has been appointed chairman of the Economic Development Committee, Greater Renton, Washington, Chamber of Commerce. Current major project of the committee is the Valley Flood Control Program.

VICTOR ROBISON, recently took first place with his 1947 Studebaker in international competition. The first place was in the 1947-49 Studebaker category. Earlier this year, his car placed first in Midwest competition. More than just an antique car, the Studebaker was a gift from Robison's father in 1962. His father was a salesman of the popular automobile from 1911 until the line was withdrawn from the market in 1947.

APPOINTMENTS

H. E. BLOEDEL
agent, Beloit

M. W. BONNOM
manager responsibility accounting, Chicago

F. K. BRENNAN
director of special projects, Chicago

A. J. CINI
manager, National Railroad Passenger Corporation (Amtrak), Milwaukee

E. CONWAY
attorney, Chicago

J. E. ELLIS
terminal operating officer, Council Bluffs

V. FULLER
area coordinator, personnel, Tacoma

P. M. GEMMATO
senior analyst, marketing & pricing, International Trade, Chicago

G. E. LANE
trainsmaster, Milwaukee

M. W. McGEE
agent, Council Bluffs

J. F. MILLARD
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Z. L. NAWROCIK
shop safety officer, Milwaukee

E. J. PAJOR
manager, pricing, food products, Chicago

J. H. ROBERTSON
rules examiner, Tacoma

E. A. SPALDING
senior manager, marketing & pricing, grain and food products, Seattle

R. STINSON
chief clerk to division manager, Tacoma

RETIREMENTS

CHARLES P. ADAMS
conductor, Three Forks

EDWIN J. AGENA
conductor, Portage

HARTLEY W. ANDERSON
agent-operator, Zumbrota

GEORGE J. ALPOSTOLOFF
yard conductor, Milwaukee

ELMER Z. BABCOCK
brakeman, Miles City

EARL L. BARTLE
train engineer, Tacoma

DONALD J. BARTZ
draftsman, Milwaukee

ROLLIE J. BAUGHMAN
car repairman, Milwaukee

FRED H. BEARDSLEY
track laborer, Tomah

W. H. BEEVER
conductor, Harlowton

ERNEST L. BENSON
assistant car foreman, St. Paul

CARL A. BORGH
superintendent of electric maintenance, Milwaukee

ALBERT E. BORN, JR.
conductor, Chicago

S. W. BRECKLER
engineer, Marquette

E. G. BRINTON
clerk, Perry

KENNETH E. BUSHNELL
conductor, Sioux City

JOSEPH J. BYRNE
yard conductor, Seattle

GARNER M. CADY
conductor, Three Forks

M. G. CANARY
conductor, Tacoma

LEE V. CARPENTER
conductor, Wasau

LEOLA A. CEASE
clerk, Tacoma

THERON A. CHILDERS
agent-operator, Marmarth

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mail sorter and janitor, Milwaukee

BERNADINE R. COCHLIN
chief revising clerk, Austin

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carman, Chicago

FRED J. CROES
switchman, St. Paul

LEO Z. DAMAN
section laborer, New Albin

L. J. DANIELSON
section laborer, Milbank

W. V. DILWORTH
district manager, sales, San Francisco

JOHN B. DOLKIEWICZ
car inspector, Milwaukee

GENEVIEVE DRAPES
janitress, Milwaukee

C. B. DROVDAL
section foreman, Wilmot

HERMAN G. ERDMAN
bridge tender, Menasha

JOHN L. ERRIGO
conductor, Tacoma

JACK F. EVERHART
clerk, Savanna

JACK S. FERRELL
conductor, St. Maries

THOMAS M. FINNEGAN
switch foreman, Sioux City

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manager revenue accounting, Chicago

BERNADINE E. FLECK
telephone operator, Chicago

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train dispatcher, Aberdeen (S.D.)

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carman, Green Bay

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PAWEL GLINSKI
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diesel cleaner, Chicago

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passenger conductor, Chicago

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engineer, Sioux City

GAYLORD A. KELLOW
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MILDRED M. KERNS
assistant bureau head, Chicago

JAMES H. KERVIN
district master mechanic, Bensenville

MARTIN S. KLEEWEIN
carman, Milwaukee

ELMER H. KRUG
agent, Marion

JOHN J. KUZAK
electrician helper, Channing

GEORGE T. LANCASTER
switchman, Nahant

JOHN A. LANDFRIED
section laborer, Roscoe

HELGE LARSON
carman, Minneapolis

VICTOR LINDSAY
engineer, Ottumwa

J. W. LOFTUS
foreman, Perry

BENNY R. LUNDBERG
signal foreman, Red Wing

ALEXANDER J. MACZKA
carman cutter, Milwaukee

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dictaphone operator, Chicago

MAE MAREK
clerk, Chicago

A. D. MERWIN
brakeman, Mason City

HUGH B. MILNE
check clerk, Milwaukee

HANS MONSON
electrician, Deer Lodge

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locomotive engineer, Harlowton

JOSE M. MUNOZ
section laborer, Chicago

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car inspector, St. Paul

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welder, Chicago

EDWARD NOVAK
dining car inspector, Chicago

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foot board yardmaster, Menasha

LEONARD E. OKRAY
scale inspector, Milwaukee

KERMIT M. OLSON
rate clerk, Mason City

DOUGLAS L. OMAN
switchman, Minneapolis

CLEM A. PEARSON
machinist, St. Paul

LOWELL M. PETERSON
engine watchman, Perry

STANLEY F. PROKOPEK
car inspector, Bensenville

FRANCIS J. REESE
shop superintendent, Tomah

NELS R. ROLFSNESS
engineer, Lewiston

C. F. ROWE
brakeman, Tacoma

HARRY J. RUTOWSKI
car inspector, Milwaukee

STANLEY S. RZEPKA
car inspector, Bensenville

HARRY A. SAUTER
area manager-sales, Seattle

ARTHUR J. SCHMIDT
machinist, Tomah

FRED E. SCHNEIDER
carman, Milwaukee

WILLIAM G. SEIFERT
locomotive engineer, St. Maries

M. F. SELIG
roundhouse foreman, Aberdeen (S.D.)

ROBERT E. SHERWOOD
store helper, Tomah

LOUISE SLOWIK
secretary, Chicago

RICHARD C. SNOUFFER
assistant to senior trainmaster, Green Bay

F. L. STRIEBEL
division engineer, Deer Lodge

LARRY C. STROUSE
switchman, Davenport

JOHN SUKO
sheet metal worker, St. Paul

DOUGLAS C. SUTTON
disposition clerk, Minneapolis

E. C. THOMPSON
statistician, Chicago

MATTHEW TORTORICI
section foreman, Janesville

L. J. WATTIER
section laborer, Bristol

LAMONT A. WOOD
laborer, St. Paul

LAWRENCE WREN
conductor, Three Forks

Announcing... 1977 Scolarships

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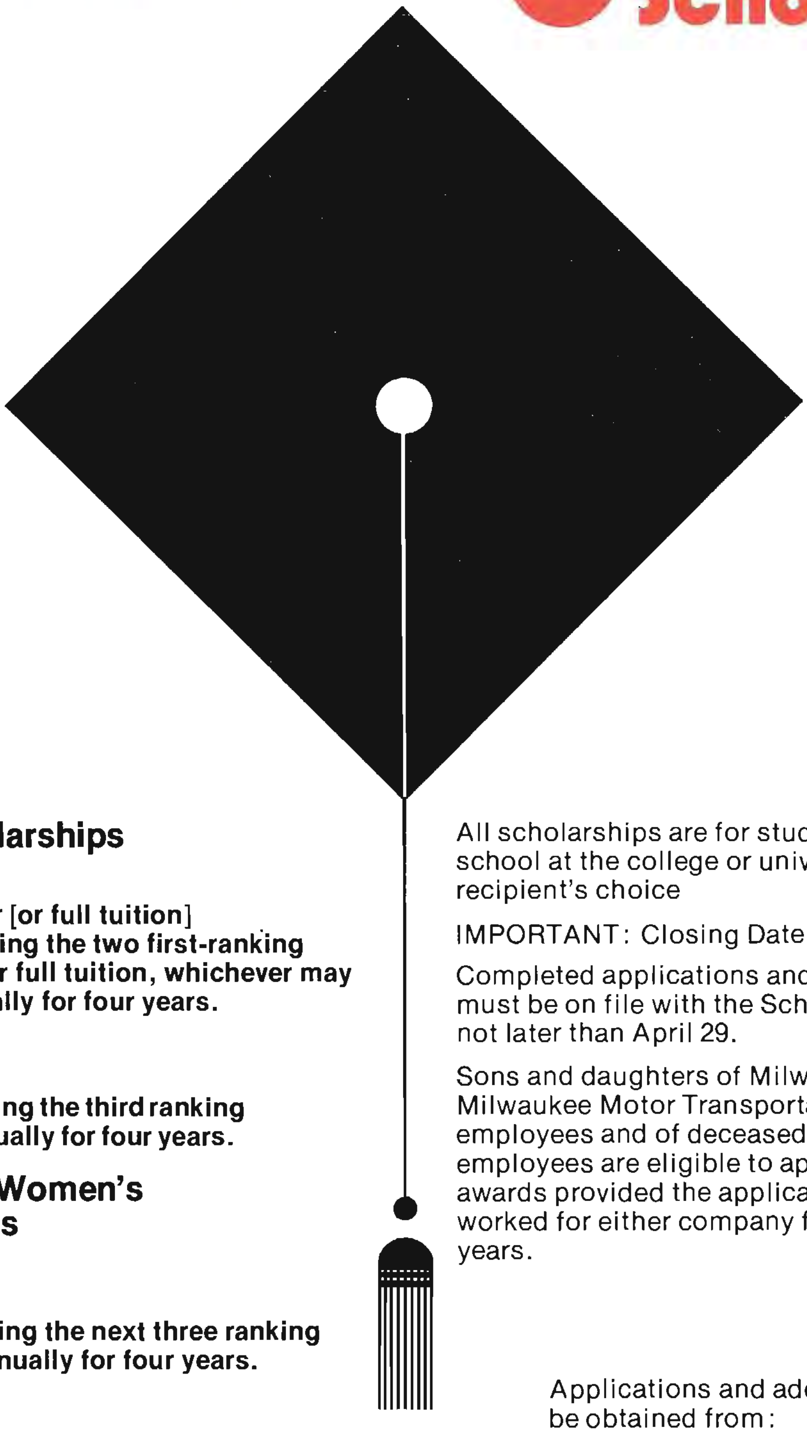

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Chicago, February 25, 1977

All scholarships are for study in an undergraduate school at the college or university of the recipient's choice

IMPORTANT: Closing Date April 29, 1977

Completed applications and all supporting papers must be on file with the Scholarship Committee not later than April 29.

Sons and daughters of Milwaukee Road and Milwaukee Motor Transportation Company employees and of deceased or retired such employees are eligible to apply for the scholarship awards provided the applicant's parent has worked for either company for at least two (2) years.

Applications and additional information may be obtained from:

John H. Munger, Chairman
J. T. Gillick Scholarship Committee
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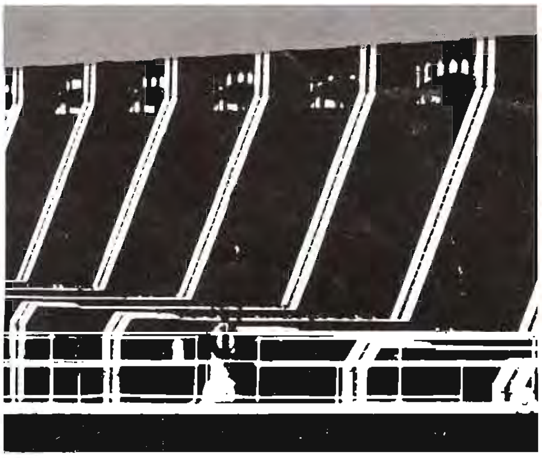
People, Places and Things in this Issue

Board Chairman William J. Quinn discusses subjects ranging from employee ownership of the Milwaukee Road to the state of track maintenance. Page 2

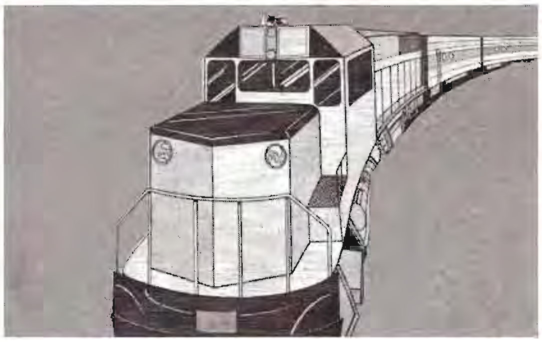
Open houses have been held around the Milwaukee Road to explain company goals and to give employees an opportunity to express their concerns. Page 17



Controversy over the Lock and Dam 26 navigational facility on the Mississippi River at Alton, Ill, goes back to the mid-1960s. Page 20

For your information. Page 19

Operation Lifesaver aims to save lives by making people aware of the potential danger at rail-highway grade crossings. Page 7



A way to go for the Milwaukee Road of the future. Page 9

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