1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

June 15, 1981

To all Milwaukee Road Employees:

The uncertainty about continued operation of our commuter service ended today when the Regional Transportation Authority unexpectedly released $774,000 to fund operations through June 30. Present schedules and fares will be maintained for the balance of the month.

The RTA's purchase of service agreement with the Milwaukee expires June 30. The suburban passenger operation will then come under the jurisdiction of the Illinois Commerce Commission and we filed tariffs on June 10 with the ICC to increase all commuter fares 75 percent to attempt to cover costs in lieu of present RTA subsidies. The Milwaukee expects to continue commuter service after July 1, 1981, with increased fares if there is no resolution to RTA funding.

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We have grave concerns about House Bill 874, now before the Iowa legislature, that proposes a $300 million bonding plan for the state to buy and rehabilitate rail lines with money borrowed by selling tax-free bonds. The bonds would be paid off with revenue from a twelve-cents-a-gallon tax on the diesel fuel that railroads use in Iowa.

At that rate the Milwaukee would be required to pay taxes of more than $1 million annually. The fuel tax would apply on overhead traffic as well as shipments originating or terminating in Iowa. One way to pay the bill would be to pass the expense on to rail shippers in the state which might make rail service less attractive to the shipper than alternatives available to him.

We are concerned about the effect the bill - which will be actively considered by a special session of the legislature during the week of June 22 - could have on our reorganization plan. Negotiations with the Trustee of the Rock Island to purchase parts of the Kansas City line could be delayed, if the state appeared to be a higher bidder, making it difficult to define our core structure before September 15, when a reorganization plan will be submitted to court. Testimony of counsel involved in establishing the bonding authority indicates the earliest the bonds could be sold is eighteen months from passage of the bill. Such a delay could seriously impede our reorganization efforts. We plan to make the state aware of our concerns and objections to the proposal.

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Earlier in the month we announced that a portion of a proposed tender offer will be delayed until our reorganization plan is filed. A tender offer for $48.7 million of the First Mortgage bonds is expected within three weeks at a price of $790 per $1,000 principal amount. The proposed invitation to tender to holders of series A and series B General Mortgage bonds; Chicago, Terre Haute and Southeastern Railway First and Refunding Mortgage bonds; Chicago, Terre Haute and

Southeastern Railway Company Income Mortgage bonds; The Bedford Belt Railway bonds; and the Southern Indiana Railway Company bonds will not be made at this time. Recent trading in the General Mortgage bonds and in the Terre Haute bonds, the Bedford bonds and the Southern Indiana bonds have been at prices above the proposed tender price. It is our intention to propose a tender to holders of those bonds as an early step in the reorganization plan.

W. L. Smith
President

First Monday/Third Monday
The Milwaukee Road
516 West Jackson Boulevard
Room 862
Chicago, Illinois 60606