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

March 1, 1982

To All Milwaukee Road Employees:

During the next thirty days, the Milwaukee Road work force will be reduced by approximately 325 employees.

Elimination of approximately 150 positions is a result of the reduced need for management and administrative personnel to operate our smaller rail system. The remaining 175 are reductions made because of the general decline in business which is affecting most Class I railroads. None of the reductions will affect our ability to meet service requirements.

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Trustee Ogilvie and the South Dakota Railroad Authority have agreed in principal that we will, subject to Reorganization Court approval, sell to the Authority most of the trackage of the Miles City line. In recognition of this agreement, the State of South Dakota and the utilities owning the Big Stone Power Plant informed Special Master Milton Gray on February 22 that they no longer object to the abandonment of our track west of Ortonville, Minnesota.

Master Gray will file a report with Judge McMillen who, in turn, will rule on the proposed abandonment.

Under the sale agreement, the Authority would acquire about 480 route miles of Milwaukee line between Ortonville, Minnesota and Terry, Montana, where a connection with Burlington Northern will afford a western outlet for South Dakota agricultural products. The 38-mile segment between Terry and Miles City would be salvaged.

In addition to providing a link to the Pacific North Coast, the Authority's ownership will allow continuance of unit coal train service between the mine at Gascoyne, North Dakota and the Big Stone electric generating facility at the eastern edge of South Dakota.

Since early in our reorganization process the future of the Miles City line has been uncertain. It was included in the lines to be operated under the preliminary plan of reorganization of August 1979 because of public interest, contingent upon the availability of rehabilitation funds.

The Trustee's report of May 1980 affirmed the line to be economically marginal, but to be operated if possible in the public interest if suitable external funding could be arranged for necessary rehabilitation.

During the reorganization process, a variety of state, shipper and railroad funding has been provided to accomplish additional maintenance to keep the line functional on an interim basis.

Trustee Ogilvie stated in his January 15, 1981 Feasibility Report to the Court that rehabilitation funds would be needed in order to sustain continuance of the line as part of the reorganized Milwaukee.

During the early months of 1981, continuing attempts were made with state officials, shippers and power companies to conclude a package guaranteeing the $49 million necessary to rehabilitate the line during a three-year period. Somewhat later, the Federal Railroad Administration expressed interest and Administrator Robert Blanchette, federal and state legislators, and other government officials, made a two-day inspection trip between Minneapolis and Aberdeen in April 1981.

However, these efforts to obtain long-term, low-interest rehabilitation loans were unsuccessful and Trustee Ogilvie filed an application May 15, 1981 to abandon all Milwaukee lines west of Ortonville.

In seeking alternative solutions, the Trustee explored the possibility of selling the line. Two offers from other firms were rejected by Trustee Ogilvie before he agreed to the recent offer of the South Dakota Railroad Authority.

In August 1981, an agreement was reached under which the three utilities would provide an interest-free $1 million loan to institute immediate additional maintenance between the mine at Gascoyne and the Big Stone Power Plant which they own.

In its September 15, 1981 report to the Court, the Interstate Commerce Commission advised that it would be in the public interest to permit the Milwaukee to sell the Miles City line to a financially responsible purchaser who would be able to continue to provide essential rail services. The Commission went on to say that if no offer is made for the line, the Court should then permit the Milwaukee to abandon it.

The Authority will pay $30.4 million in cash, plus other benefits worth up to $7.3 million, for the Ortonville - Terry route. If the Court approves, the Authority will also be able to lease the line on an interim basis pending the Court's approval of the purchase.

Proceeds of the sale would be placed in escrow to be used by the railroad only with Court approval.

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By the time you receive this issue, the 7% wage reduction will have been approved by all labor organizations representing Milwaukee Road employees.



W. L. Smith
President