

1st MONDAY 3rd MONDAY

Prepared for employees by the
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November 19, 1984

To All Milwaukee Road Employees:

On November 13, the Interstate Commerce Commission set an expedited procedural schedule to consider the Chicago and North Western Transportation Company's amended application and reorganization plan to acquire and operate the core assets of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. CNW's proposals were transmitted to the Commission by an order issued November 1, 1984, by our Reorganization Court. If the Commission approves the CNW's amended application, which was filed on November 7, 1984, the Court also requested the Commission to compare it with the proposals of the Soo Line Railroad Company which were previously approved by the Commission:

The procedural schedule is as follows:

November 21, 1984 - All verified statements in support, opposition, or seeking protective conditions must be filed.

November 28, 1984 - All verified statements must be filed in reply to November 21st filing.

November 30, 1984 - All requests for cross-examination must be filed.

December 5, 1984 - Cross-examination, if any, begins.

December 11, 1984 - Simultaneous briefs must be filed.

December 17, 1984 - Oral argument before the Commission.

December 20, 1984 - Open voting conference.

December 21, 1984 - Issuance of summary decision reflecting voting conference.

January 7, 1985 - Issuance of final decision with rationale.

In its order dated November 13, the Commission offered the following supplementary information:

The Commission's decision served September 26, 1984, returned to MILW's Reorganization Court without action CNW's reorganization and acquisition proposals and related exemption requests identified as Finance Docket No. 28640.

On October 9, 1984, CNW submitted to MILW's Reorganization Court amendments to its MRR application to acquire and operate MILW's core assets. The principal amendment increased the consideration CNW offers for MILW's core assets. In Order No. 782, MILW's Reorganization Court referred the amended application for our consideration under section 5 of the MRR and section 77 of the Bankruptcy Act. The Court directed us to transmit to it our decision on CNW's amended MRR application and reorganization plan within 60 days of CNW's filing with us.

This is January 7, 1985, assuming a November 7, 1984, filing, and our acceptance of the application.

CNW's amended MRR application and reorganization plan will be considered under section 77 of the Bankruptcy Act, section 5(b) of MRR, and 49 U.S.C. 11344(b). The statutory criteria are set forth on pages 43-48 of our September 26th decision.

In view of the limited time given us by the Court, we have established an expedited procedural schedule. No extensions will be granted and dilatory tactics will not be tolerated.

Parties are requested to use hand delivery, express mail, or overnight package delivery for service of pleadings on principal parties. Since a substantial record has already been developed, parties are strongly encouraged to incorporate previously filed material by reference and confine new evidence and argument to issues raised by CNW's amended MRR application.

* * *

October was a productive month for track work according to the monthly report just issued by our Engineering Department.

On the Ramsey to St. Paul line, 6,785 ties were installed and track surfaced between Comus and Rosemount.

The high production surfacing gangs, 5515 and 4945, surfaced 46 miles from Hastings to Newport, 49 miles on the Dubuque line and 20 miles on the DRI line.

14,000 ties were installed between Oakdale and Lyndon, and 3,300 ties were installed in Dunn yard at St. Paul.

The brushcutting gang cut brush between Oconomowoc and Portage.

The steel gang laid welded rail on two curves at St. Croix and one curve at Davenport and three miles of track between Ixonia and Watertown.

The rehabilitation project between Minneapolis and Appleton, which started on June 4, has been completed with the installation of 103,600 cross ties, 2500 switch ties and 155 miles of track surfaced.

Track drainage improvements along the Eldridge line are being progressed to finalize cleanup of the State-Shipper rehabilitation project. B&B forces are constructing approximately 800 linear feet of concrete paved ditch channel under Elm Street overhead bridge with funding from the City of Davenport.

Signal forces completed installation of new crossing warning devices at:

- 33rd Street - Fruitland, Iowa
- 41st Street - Fruitland, Iowa
- 49th Street - Fruitland, Iowa
- 57th Street - Fruitland, Iowa
- North Avenue - Brookfield, Wisconsin
- W. 7th & Alton Streets - Minneapolis, Minnesota

Communications forces completed:

- Installation of cable for a new switchboard at Milwaukee depot.

- Installation of Prime computer communications between Chicago and Milwaukee mechanical offices.

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Beginning January 1, 1985, railroad retirement tax rates and the maximum amounts of compensation subject to retirement taxes will increase. Also beginning in 1985, the maximums will be applied on an annual, rather than monthly, basis.

The railroad retirement tier I tax rate, like the social security tax rate, increases from 7% on employers and a net 6.7% on employees to 7.05% on each. The maximum amount of an employee's compensation subject to the tier I tax increases from \$3,150 a month to the social security maximum of \$39,600 a year.

The tier II tax rate on employers increases from 12.75% to 13.75% while the rate for employees increases from 2.75% to 3.50%. The maximum amount of compensation subject to the tier II tax will increase from \$2,350 a month to \$29,700 a year.

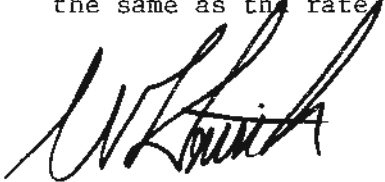
As you know, tier I benefits are the equivalent of a social security benefit; tier II is comparable to an industrial pension payable over and above social security benefits.

The changeover from monthly to annual maximum amounts will affect the way in which these payroll tax deductions are made for employees with higher earnings. It will also result in some employees paying more in railroad retirement taxes each year and receiving additional retirement credits.

With annual maximums, an employee with uniform earnings in every month of the year will, by the end of the year, have paid the same amount in railroad retirement taxes that he or she would have paid under monthly maximums. However, employees whose monthly earnings exceed 1/12th of the annual tier II maximum will see larger payroll tax deductions at the beginning of the year. The deductions would later decrease when the employee has earned the maximum amount of compensation subject to the 1985 tier II tax. Once the employee earns the maximum compensation subject to the 1985 tier I tax, retirement tax deductions would stop completely for the remainder of the year.

Employees whose monthly earnings fluctuate and sometimes exceed 1/12th of the annual tier II maximum will pay more in railroad retirement taxes than they would under monthly maximums, even if their total earnings for the year do not exceed the annual tier II maximum. But these employees will receive higher compensation credits as well and they can also receive additional service month credits in excess of their actual work months.

In addition to regular railroad retirement taxes, railroad employers pay railroad unemployment-sickness taxes and supplemental railroad retirement annuity taxes. Throughout 1985, railroad employers will pay a tax of 8% on the first \$600 an employee earns each month to finance the railroad unemployment-sickness benefit program. The supplemental annuity tax rate for the first quarter of 1985 will be 20¢ per work-hour, the same as the rate effective in 1984.



W. L. Smith
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