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[Note from the Editor](#) Thanks for your continued interest in the Tealinc Newsletter! Here at Tealinc, Ltd. we solve rail transportation challenges and this newsletter is just one way we provide value for our customers. If you're new to Tealinc, we participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. We specialize in exceptional customer service and this newsletter helps our customers engage in the mission with us. Contact Us: www.tealinc.com | (720) 733-9922 | webmail@tealinc.com

[Railing On, with Darell Luther, CEO of Tealinc, Ltd.](#)



Tealinc CEO, Darell Luther

Spring is about here. After a week of 20 to 45 below zero farenheit in the first quarter of the year, 40 and 50 degree days are just fine. The railroads did a decent job keeping up with frozen air lines and the mechanical efforts to keep trains running in such cold temperatures were admirable though the cold, wintery, icy and, in the east, hurricane like conditions did take their toll on February 2021 railcar loadings. February 2021 railcar loadings were down some 11.1% over February 2020. Clearly a weather phenomenon. Thanks to those of you on the ground who kept everything running.

It's a new year and a new quarter. We're all looking for growth in whatever business line we're in. Some of this business is created or snuffed out by market demand and some by a stroke of the pen. There's been one significant change since our last newsletter and that's from the office of the President of the United States of America. I'm not headed to a political debate here only pointing out a significant piece of legislation that President Biden signed revoking the permit for the Keystone XL pipeline. It always amazing me how the stroke of a pen can make or break an industry. Crude oil will find its next natural transportation option. The railroads should benefit from this action putting more crude trains on rail.

BNSF has put out a flier on the new mechanical inspection procedure for stored/idled railcar prior to return to service. There remain a significant number of railcars in storage and given the amount of time they've been in storage there's a different set of mechanical requirements necessary before bringing them back into service. The development of mechanical requirements prior to putting railcars back in service is a good process to ensure safety appliances and the air and brake operating mechanisms of a freight car are in good condition prior to placing them in service. Read the complete newsbulletin and our comments below.

Freight railroads are working diligently on cost savings through Precision Scheduled Railroading (PSR) and, in BNSF's case, staying the course. For the most part, the railroads have done a great job improving operating ratios. While always on the radar screen, growth of the top line will likely be taking front seat in the near future. That means a host of charges that were either free in the past or largely overlooked which will not be implemented and will become a focus area for the railroads. Now is the time to review your transportation situation to implement your own Precision Schedule: loading, unloading, fleet size, track configuration, railcar turn times, railcar lease buy sell strategy, rate negotiation, site selection, etc.

Identify the holes in your operations and figure out how to fill them in or plug them!
If you want a different viewpoint, email me at darell@tealinc.com or call me in the office at (406) 347-5237.

Railcar - Buy versus Lease with Julie Mink, President of Tealinc, Ltd.

It sounds like a heavy weight fight announcement, "Buy vs Lease" who shall come out ahead! Really it's not that exciting...



Julie Mink, President – Tealinc, Ltd.

Before we start down the path of running an economic analysis between the two options, it is prudent to gather up all the relevant points that need to be taken into consideration. A list of relevant points include:

- What are the capital needs of my company, are they high or low?
- What is important, ownership or use?
- Is the need short or long term?
- What are the risk tradeoffs?
- What are the tax benefits?

Let's start with capital. Evaluate what the current and future projected capital position is for your company. Consider not only the capital required for a purchase but also the capital required for your operations to be economically healthy over a reasonable term of 3 to 5 years. A real tradeoff on capital to think about... Do you want to put money into your production facility by upgrading processing equipment, mining equipment, internal plant logistics (pipes, valves, conveyors, loaders, wagons) etc. or do you find that investments into railcars yields your company a better return. If your industry is heavily capital dependent the cash flow

tradeoff may lean towards leasing an asset. If your industry is not capital intensive, a purchase may make more sense.

Ownership or use. Which is most important? When you're the railcar owner, the upkeep, filings, taxes, administration, and maintenance, etc. are your responsibility. You also have an asset that is subject to market obsolescence over time as railcars are developed with better operating mechanisms, higher product carrying capacity, etc. Railcars are long lived assets with every railcar built after July 1, 1974 having a 50 year interchange life. The positive though is that you get an asset that is an exact fit for what you need and the availability is constant. If you're a lessee you have a variety of choices under modified full service and net leases. In this case under full service leases you're still required to maintain "customer" items such as hatch covers, gate operating mechanisms, cleaning costs, ad valorem taxes, and if you are considering a net lease, you can add to these items those mechanical items covered under the Association of American Railroads (AAR) and Federal Railway Administration (FRA). AAR/FRA mechanical requirements cover the running gear, wheels, trucks, air systems, brakes and safety appliances (ladders, crossing platforms, etc.).

Regardless of whether you choose to buy or select a lease under either a modified full service lease or a net lease, when it comes to the day-to-day management of your railcars there are a host of requirements and a host of options available. This is an area that is easily outsourced. We at Tealinc have a boutique program that is designed to fit our customers specific requirements that we'd enjoy visiting with you about. A quick call for an assessment is always free and a more elaborate evaluation can be designed to hone on your specific situation.

Railcar requirements. Are they short term or long term? Buying railcars for a short term move e.g. under three years is hard to economically justify using reasonable physical and financial projections. Buying railcars should be considered under longer term assumptions. Leasing railcars short term or long term is an option. Generally a lease will cost more per month the shorter the term; however, in some markets the pricing becomes inverted where long term rates are higher than short term (think sand cars where supply is high, demand is low). In this case the market is undervalued and the Lessors' are betting it will realign over the course of time.

What are the risk trade-offs? Trying to optimize your rail assets and balance them against physical production, product acquisition and cash flow needs is a challenge. Depending on the scenario you analyze there is always risk. The good news though is that there seems to be opportunities to also mitigate that risk if life doesn't go as planned. Some examples are:

- You purchase cars with the intent of a long term use (10+ years) and find the railcars idle and/or surplus to your needs in the near term. An option if you want to keep the cars is that you store them at your plant location or pay third party storage. If you are permanently surplus the railcars you can sell them in the market. You can also remarket them yourself or use a third party rail equipment marketing firm such as Tealinc to find value for you in the broader rail shipper community. To the contrary, if you're long railcars and it's a sizeable market (frac sand, coal, oil) you'd expect there to be a market wide surplus. In this case you

can expect substantially lower prices for the railcars than what their cash value was anticipated to be. This may be a moot point if you've depreciated them down to a market based value. Another scenario would be the cars have reached market obsolescence and there is no home for them. A solution would be to place these cars with a remarketer or sell them into the scrap market.

- You lease cars with the intent of a short term (3 years or less) use. The cars at the end of the term could go up in price, go down in price or simply be committed to a different customer at the end of the term. You also may have some repositioning costs and turnback costs associated with the lease.
- To manage cash flow risk you can lease cars for 5 years intervals for a period of 20 years. This is an executive decision at the inception of the lease based on your company's needs for cash and where cash is placed to grow the company. If you look over a long term period (say 20-30 years) it will most always be less costly to buy then to lease. Don't forget though that cash will be tied up in assets when you could need to deploy it elsewhere. In this instance, a sale-leaseback is ideal.

Whatever the situation you're contemplating, write out the pros and cons. That value will differ greatly between shippers and various railcar users. Don't forget to include the value of being able to ship your product because you have railcars available versus depending on a railroad to supply you with railroad owned/leased "system" railcars and/or pool cars that your competition could be filling/shipping while you anxiously wait for your turn.

What are the tax advantages? This is always a hard one to comment on. It really depends on your situation. If you buy railcars you can depreciate them under MACRS depreciation schedule. During the last few years, the option has also become available to apply bonus depreciation and depreciate used assets as well as new assets. That gives you near term income tax relief. We can't comment on how long bonus depreciation will be around. If you lease railcars you have benefit of the lease payments being classified as operating costs which are deducted in line with your production and sales. You also have some difference in balance sheet accounting which varies upon your profit and loss statements and how the assets are treated on the accounting books. Our advice on taxes – see your accountant / accounting department!

It's my personal focus to help customers realize the benefits that rail provides and that certainly includes managing your own destiny with either owned or leased private railcar assets. I welcome your call and look forward to exploring opportunities. You can reach me at julie@tealinc.com or call me at (720) 733-9922.

Wishing you a fantastic, healthy and abundantly successful 2021!

Rail Fleet Management Brief with Shannon Rodgers - Operations



Shannon Rodgers, Director Operations

There's a great article in this newsletter about railcars in storage in the Industry Updates below. It explains a new policy BNSF has implemented for taking cars out of storage and the accompanying mechanical inspection requirements. We buy a lot of railcars out of storage and believe this process will help negate some of the surprises we get even after an inspection. Of particular interest is the air brake test generally not done under a normal inspection because air supplies are not readily available. If you buy or lease railcars that have been in storage, keep in mind that EHMS data may not be current due to the fact that they've been stored and are not moving so aren't

generating any alerts. This is especially true for shortlines or industrial parks that don't necessarily update WILD, THD, brake system alerts. In this case a detailed inspection that is a bit more intensive than normal is required. Measuring of trucks and wheels must be complete as well as a thorough inspection of the air brake operating system and all parts thereof.

The CSXT has clarified the movement of empty railcars to scrap or sale in their tariff CSXT 6051. Consistent with the large number of railcars in storage, there are a lot of railcars moving off their last load to scrap or sale as lessors and shippers rationalize their fleets. Revenue empty charges apply to new cars, cars moving to scrap or sale, back to back empty moves, no revenue movement in the last 180 days and cars that are restenciled with new marks and numbers. When searching for a price on CSXT website (or any railroad for that matter), use the STCC 3742217 revenue empty. Use of STCC 3742218 non-revenue empty will not populate the price field. You don't want to assume that the railcar is free of transportation charges and then be surprised by an invoice. The big change here is the charge for movement to scrap and storage even if the railcar had a prior revenue move.

We've seen a slight uptick over the past year in railcars waiting at destination to be unloaded. We believe this is a COVID related issue. The receiver in many cases is backing up their supply chain due to uncertainty in where their final product is going and when. In most cases they received either doesn't have the commodity storage capacity on hand or doesn't want to incur additional handling costs. Using railcars for rolling storage is a business decision; however, take into consideration the car ownership (private/leased or railroad supplied) and track ownership (receiver/receiver leased or railroad). If you can accommodate the railcars on your track and they are private or leased cars and the track is controlled by the receiver you shouldn't incur demurrage charges. If the cars are railroad supplied and/ or the track is railroad controlled, expect the demurrage clock to start and continue clicking.

Contact me at Shannon@tealinc.com | (814) 631-9277 when you need specific help. Our Rail Fleet Management Services cover everything from administrative support to mechanical to cycle time reports to providing rail rate research and options for identifying other facilities

serviced by rail.

Rail Fleet Equipment Focus with Kristen Kempson – Marketing & Sales



Kristen Kempson, Director – Marketing & Sales

We are noticing a change in railcar user's preference to purchase railcars rather than lease railcars as of lately. We attribute this to changes in company restructuring, excess capital, changes in tax laws... you name it. In this changing environment, whatever your rail needs, Tealinc is here to support you. Here at Tealinc, we can support your railcar purchase and/or lease and we can even help you with a trade, fleet upgrade, railcar modification, railcar sale... you name it and we do it! While railcar inventory is constantly changing, we stay committed to supporting your needs.

Be sure you are staying connected with us. Our [railcar page](#) on our website is updated as equipment comes available. Additionally, we provide weekly email updates on equipment offerings and review services we provide to support your railcar shipments. Visit our [website](#) to join our distribution list. At the bottom of each page on our website, there is the option to subscribe to our distribution list. Be sure to also follow our [LinkedIn page](#) where we make weekly posts.

If you don't find what you're looking for on our website, let me know and I'll focus on finding it for you. Contact me at (708) 854-6307 or email kristen@tealinc.com.



Industry Update: Surface Transportation Board

The Surface Transportation Board (STB) has a new leader, Martin J. Oberman. The STB is responsible for the economic regulation of various modes of surface transportation mainly the oversight of rail transportation. They have a defined process that is steeped in many decisions, arbitration, research and governmental oversight. "I wouldn't expect drastic changes with this new leadership." – Darell Luther, CEO – Tealinc.

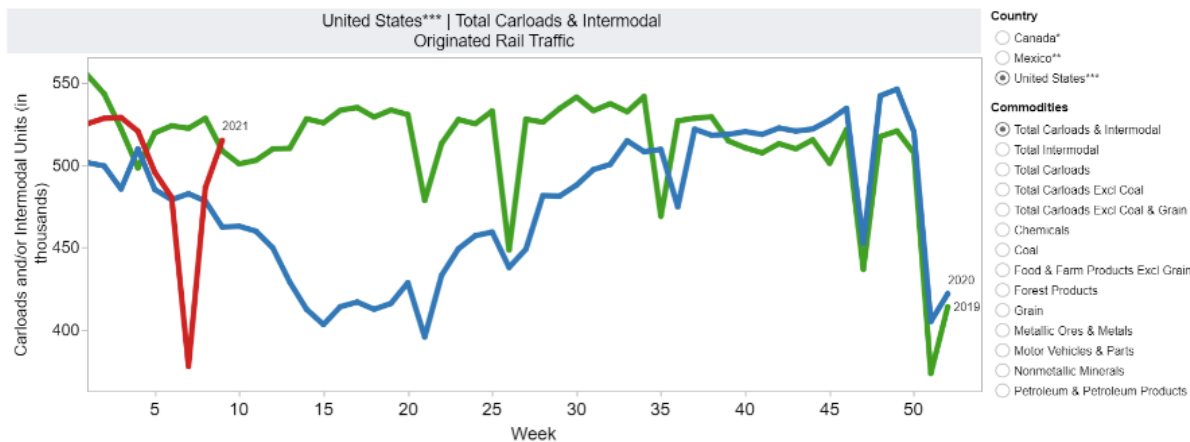
The STB has a plethora of information available. One area that is particularly interesting is the freight commodity statistics by railroad ([FCS](#)). These statistics will give you the commodity by Standard Transportation Commodity Code (STCC) and / or by description. The data is summarized by respondent road (railroad submitting the data) and by connecting road. It gives you a good benchmark of what pricing looks like overall for your commodities shipped. It certainly is a high-level benchmark that must be used with other data points to be relevant.

Another set of data that is valuable is the [demurrage](#) and accessorial charges by railroad by quarter. Again, another set of high-level data to determine trends.

The STB also provides oversight for demurrage oversight and rulemaking. To access the list of decisions concerning demurrage oversight [click here](#). These are the actual governing of the demurrage process and prior shipper challenges to the railroad’s demurrage billing practices.

Industry Update: Rail Traffic Data

What an impact a winter can have on one month of railcar loadings. You can see that impact in the month of February 2021 herein. The rebound is pointed in the right direction with pent up



* Canadian traffic includes the U.S. operations of Canadian railroads.
 ** Mexican traffic includes the U.S. operations of Mexican railroads.
 *** United States traffic excludes the U.S. operations of Canadian and Mexican railroads.
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demand for some products and a return to some normalcy for others. We’re seeing large gains on grain in the past few months (almost 30% in some cases) and even a bit of a gain on export coal to China which has ban on Australian coal creating a short-term market opportunity. Although overall domestic coal shipments continue to trend downward. Lumber and wood products are rising slightly as COVID related back-logs (no pun intended!) work thru the supply chain. There has been a significant amount of home upgrade and repair going on during our new working from home environment! Iron and steel scrap have shown strength where we’re seeing scrap pricing for railcars in the \$375 to \$440 a gross ton range depending on where you’re at in the country. Worth repeating from last quarters newsletter, “A rising tide lifts all boats”. To see additional graphs, visit AAR.org.

Industry Update: Financial Focus

The Federal Reserve Board (FRB) continues to monitor the economic health of banks, businesses, individuals, and other countries. The FRB is in micro adjustment mode and continues to make small changes to monetary policy that keeps it in line with its goals of maintaining an inflation rate of 2% or less and a borrowing rate between zero and a quarter of a percent. Digging out of the economic situation in the USA and world-wide impacts of that continue the forefront of their agenda. No drastic moves by the FRB are a good sign!

Industry Update: Railroad & Policy Updates

One day you're working to conserve costs and continue to improve service and commitment levels to customers while retaining as much of your human and physical resources possible. To the next moment when a couple of business segments "break out" and demands you immediately increase your resource allocation to meet the demand. That's exactly what's happened to the railroads in the intermodal and grain shipping world. Two different business lines but related in that they are very opportunity specific.

In the intermodal world there is a significant demand increase for off shore products. The advent of COVID-19 has a lot of people shopping from home and creating a resurging demand for goods. This has led to a literal traffic jam from foreign shipping points to the end consumer in the USA. Railroads continue to address getting in and out of ports in as timely a fashion as possible. At the ports themselves you can see a good example of the congestion as reflected by this [video](#) taken February 11, 2021 at Long Beach, LA Harbor where there are 32 ships anchored and 25 waiting. Ableit not as drastic, even [east coast ports](#) are feeling the impact of the US international spending. This also affects the ability of the grain shipping world as there are a lot of grain and grain products that move via container. The requirement to quickly turn containers is eating into the supply of empty containers that normally stop short of the port and get reloaded. Now the emphasis is on unloading and returning the empty containers to the port as quickly as possible.

Grain has finally hit a price point and world wide supply and demand imbalance that creates an opportunity to sell in the international market. Wheat exports, according to the USDA, have doubled over 2020 for the February 25, 2021 reporting date. If you're running unit trains you should only experience minor impacts. However if you're running carload business you may be experiencing more slowdowns.

Railcars in Storage.

The number of railcars in storage is slowly declining as the economy sluggishly recovers. According to the Association of American Railroads as of March 1, 2021 there are 392,000 railcars in storage, a reasonable reduction from the high of 520,000 railcars reported in storage in June 2020.

Railroads are proactively implementing rules that govern the removal of railcars that have spent a good deal of time in storage. The BNSF put out a marketing flier on March 9, 2021 that covers handling of stored/idled railcars prior to service return. The new handling process involves the mechanical team of the BNSF. Following is a listing a set of [BNSF guidelines](#) and mechanical involvement required.

Car Type	Primary Commodities	Total Cars		Percent	Percent of
		In Service	In Storage	In Storage	Stored Cars
Box	Paper products, wood products, food prod.	100,242	13,874	14%	4%
Covered Hoppers	Grain, chemicals, nonmetallic minerals	569,236	130,322	23%	33%
Flats	Containers, trailers, lumber, steel, autos	74,295	21,221	29%	5%
Gondolas	Coal, nonmetallic minerals, metals, scrap	198,272	46,881	24%	12%
Hoppers	Coal, metallic ores, nonmetallic minerals	123,374	44,397	36%	11%
Intermodal	Containers, trailers	73,549	7,646	10%	2%
Refrigerator	Food products, farm products, chemicals	10,464	2,861	27%	1%
Tanks	Chemicals, petroleum, food products	439,302	119,675	27%	30%
Vehicle Flat	Autos	64,991	5,634	9%	1%
Grand Total		1,653,725	392,511	24%	100%

Source: Association of American Railroads

- Cars stored and or idled less than 45 days
 - No mechanical notification or inspection required
- Cars stored and or idled between 45 and 180 days
 - Notify BNSF mechanical team to research the railcars for any prior issues or defects as we as any current maintenance advisories
 - Railcars with open defects or alerts are required to be inspected and repaired
- Cars stored and or idled for more than 180 days
 - Physical mechanical inspection required. Initial terminal inspection will involve testing the railcars for proper air flow and brake movement.
 - The air test is conducted for all cars that are part of the train

Third party qualified inspectors can perform the tests. It's safe to assume if all Class I Railroads aren't already doing this, they will. Keep this in mind when taking railcars out of storage.

About Tealinc, Ltd.

We solve rail transportation challenges. We specialize in Rail Transportation Solutions. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. We specialize in exceptional customer service. We focus on rail equipment and consulting services to assist the novice, mid-level and expert shipper to plan, modify and adjust short-term and long-term rail shipping and receiving needs.



Our team is made up of a diverse group of individuals with complementary rail backgrounds. Together, we have over 115 years of experience in the rail industry. We have the expertise, knowledge and ability to create value for our clients.

We look forward to earning your business!

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