



Tealinc Touchbase Newsletter

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The Edge

Darell Luther provides insight

When I was a kid, I'd upon occasion go fishing in the Yellowstone River for catfish. It was always a bit of a challenge to get your bait deep enough in the river, especially during the turbulent runoff in June, when the snow melts in the mountains. We'd often use spark plugs as weight. I'd toss them in the current and search for the bottom. With enough experience, you could feel the plugs bouncing along the bottom until they found calmer waters and settled down. This rail economy, and the world economy for that matter, is searching for the bottom by feel in overwhelmingly turbulent times, waiting for some calm water.



United States railcar loadings seem to be searching for the bottom. May 2020 railcar loadings as compared to May 2019 were down 27.7%; the worst since the Association of American Railroads (AAR) began measuring railcar loadings in 1989. Carload declines were across all commodity groups with the exception of one minor group: farm products excluding grain. (For additional information, see the AAR Statistics section below.)

Fishing for the bottom often yields casualties. The ultimate casualties are railcars employed to transport commodities, whose volumes have fallen in the tumbling, near shut-down economy. As of June 5, 2020, there were 520,729 railcars in storage. That's a whopping 31% of the revenue hauling rail fleet in North America.

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Darell Luther is the founder and CEO of Tealinc, Ltd. You may contact Darell directly in his office at (406) 347-5237 or via email at darell@tealinc.com.

The Edge *(continued from page 1)*

The storage surge is led by covered hoppers, primarily those transporting frac sand and grain, with roughly 160,000 cars stored. Covered hoppers are followed closely by 145,000 stored tank cars (the majority them in the crude oil business) followed closely by the combination of coal hoppers and coal gondolas.

Also fishing for the bottom are interest rates. Federal Reserve indicators are that the federal funds rate will remain in the 0% to 2.5% range for the foreseeable future. The reasons read like a litany of bad news: the ongoing public health crisis, including sharp declines in economic activity, weakened demand, significant job losses, and low inflation.

A recent U.S. Bancorp Interest Rate Market Update shared a bit of positive news, as it indicates some hope of finding our calm spot—but nothing close to what could be called good.

Initial jobless claims came in at 1.542 million for the week ending June 6 amid a wave of business openings as states ease lockdown restrictions. While the recent data continues the gradual decline in weekly filings, Jerome Powell, Federal Reserve Chairman, expressed concerns for the future of the job market: “My assumption is that there will be... millions of people who don’t get to go back to their old jobs, and there may not be

a job in that industry for them for some time.”

Applications for unemployment insurance have fallen steadily each week from the peak in March, but the number of weekly filings are still more than two times the worst week during the Great Depression.

The JOLTS (Job Openings and Labor Turnover Survey) showed the number of available positions dropping to 5.05 million. The separations number (including both layoffs and quits) dropped to 9.89 million in April from a record 14.64 million in March. The quits rate (voluntary job leavers) dropped to 1.4%, the lowest point since April 2011. Hires dropped to 3.52 million in April from 5.11 million in the prior month, and the hire rate declined to an all-time low of 2.7%. It is important to note the JOLTS data lags from the employment report by one month.

The real positive, though, is the resilience of the American people. The economy has several micro positive signals that it’s getting back on its feet and wants to grow. The shopkeepers, small and large business entities, manufacturers, transporters, et. al. are trying to live in a new world and are consistently pushing economic growth. It’s just a matter of time before it finds its calm spot.

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Rail Fleet Management with Shannon Rodgers

This month, I'd like to visit with you about setting up a mechanical inspection for railcars. Although it seems like a pretty straightforward process, there are quite a few steps involved.

The first step begins in the office, when you get an exact list of the railcars. The pre-inspection process consists of researching all UMLER (Universal Machine Language Equipment Register) information and EHMS (Equipment Health Management System) for the railcars you intend to inspect. You're looking for inconsistencies in UMLER, air brake test information, reflectorization, adds and betterments, car codes, car classification, dimensions, interchange or speed restrictions, etc. In EHMS, you're looking for equipment health issues, focused on truck hunting and wheel (WILD) readings. WILD readings are impact readings of the wheels on the track, which if greater than 90 kips are condemnable, and if greater than 65 kips are opportunistic (Rule 41 AAR Field Manual). Our advice is, if you don't have experience with or knowledge of the AAR Field Manual and Office Manual, find someone that does (we can help you with this). Guessing at it usually costs money. This information is just for guidance, as you'll still want to inspect the railcars.

The next step in the process is getting the site paperwork complete and identifying exactly where the railcars are located. Before you go, make sure you have any Right of Entry forms, insurance documents (liability, auto, workers comp, etc.) and certificates of insurance to the party where the railcars are parked.

If the railcars aren't all in one location, plan your inspection visit to look at the largest grouping first and identify the location of the others so you can adequately plan the time required for a thorough inspection of all the railcars available.

To get a complete inspection, clarify with the storage facility or industry location whether the site is secure, so you can get all the way around the railcars and on top of them if necessary. There have been times I could only look at the railcars from one side because they were parked next to a live track. That meant I didn't get a complete inspection.

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Be aware of any fall protection requirements when walking the tops of railcars. This usually applies to covered hoppers, box cars, and other closed-top railcars. Prior to going to the railcar location facility, ask if there are any escort or flagging costs.

Once on site, check in with the office to be sure you're signed in and complying with their requirements. This may mean sitting through a safety video or a safety demonstration. You'll need the right PPE (personal protective equipment)—generally safety glasses, hard hat, steel-toed shoes, hearing protection, safety vest and sometimes gloves.

(continued on page 4)

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Rail Fleet Management (continued)

Also, be sure you understand the activity of the inspection location. Knowing if there will be switching going on nearby or trains running in the area is a wise precaution. Before inspecting, be sure the track is blue flagged so there is no activity on the track.

It seems like a lot of prep work, but if you go through the effort before arriving at the inspection location, it gives you the opportunity to focus on the inspection and not worry about other factors.

At the inspection site, have your inspection forms in order, specifically for the type of railcar you're inspecting. The running gear of most railcars is similar, so line items of wheels by location, trucks (A&B), air brake system, center sill, couplers, draft, yokes, side sill, etc. will be relatively consistent. The big difference will be the body of the railcar and types of gates and hatches. Railcar body inspections should reveal any damage to side posts, top chords, interior sheets, linings, pneumatic outlets, slide gates, hopper slope sheets, etc., all specific to the type of railcar you're inspecting.

As you're inspecting, note all defects on your inspection report, and verify the defect by taking plenty of photos. Be consistent on which end of

the railcar you start on so your defect reporting and photos are consistent with your reporting. I like to start on the "B" end (brake end) and work from there. First take a picture of the railcar initial and number, and then each defect as you walk the railcar. This approach ensures that all photographed defects follow the railcar initial and number belong to that railcar. This avoids confusion when looking at large groups of railcars. The photos, combined with a completed inspection form, will give you a very detailed inspection of each railcar. We like to take this information and work up a Billing Repair Card (BRC) to determine estimated costs of repair to arrive at a refurbishment cost.

Happy inspecting!



Railroad & Policy Updates

The Surface Transportation Board (STB) announced in May that it will permit informal discussions with stakeholders on the STB's proposed rule in Final Offer Rate Review, Docket No EP 755, regarding arbitration and other rate review options for smaller cases. The communications deadline is July 15, 2020. If you're a smaller shipper that has rail rate concerns, you need to participate by [going here](#).

Curious as to what makes a Class I, Class II railroad? It's all about the revenue, indexed over the years. 2019 data on railroad classification is [available](#) from the Surface Transportation Board.

Looking for an update on the STB final rule for the warehouseman/shipper relationship with demurrage responsibility? The Union Pacific Railroad does a good job of [summarizing it here](#).

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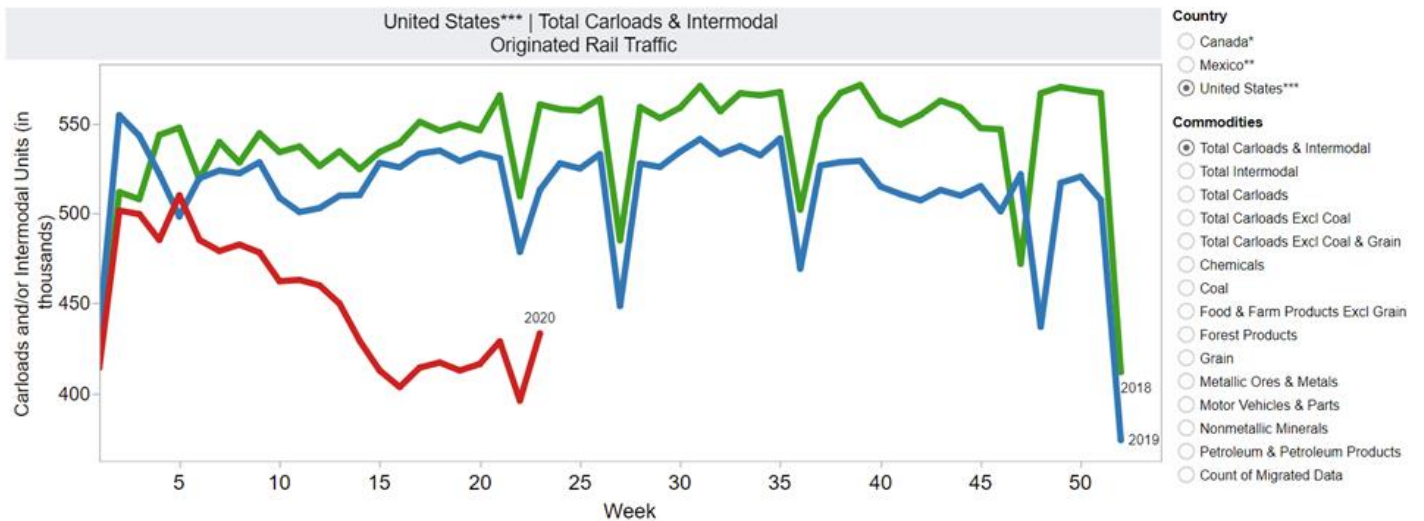
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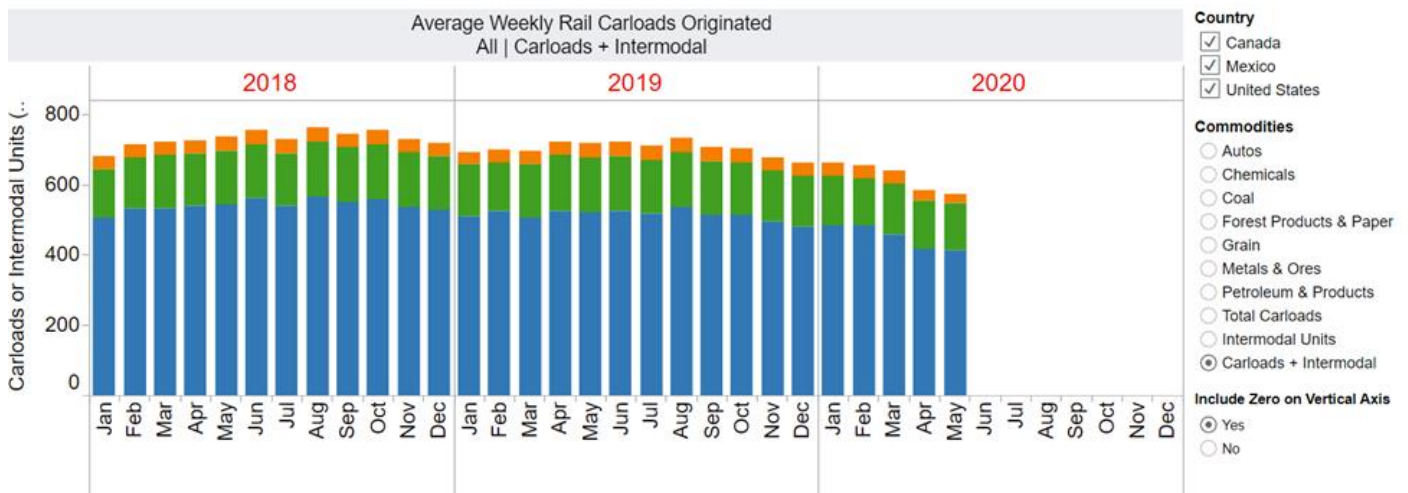
Railroad Traffic

The AAR reports weekly, monthly, and annual statistics for originated carloads. The trends, driven by the recent coronavirus economic shutdown, are significant. The rail industry was already going through a recession of sorts prior to the coronavirus, suffering from the sustained hit to coal traffic, the lack of grain exports, and the high international valuation of the US dollar, making grain more expensive on the world market.

More recently, the tiff between OPEC and Russia on oil production created a glut of oil on the market. Add a general shutdown in demand for manufactured goods and services that sell staple products, and it becomes difficult to sustain reasonable levels of rail traffic. These summary charts reflecting the impact to rail traffic are courtesy of the [AAR](#).



* Canadian traffic includes the U.S. operations of Canadian railroads.
 ** Mexican traffic includes the U.S. operations of Mexican railroads. Comparable railroad figures are not available for Weeks 1–26, 2017.



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Stored Railcars

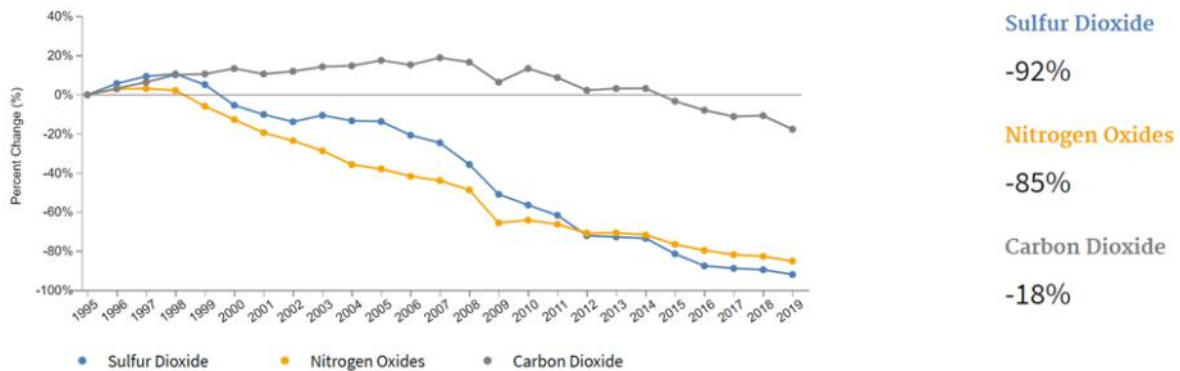
Half a million railcars in storage—around 31% of the total North American freight cars!

Car Type	Primary Commodities	Total Cars In Service	In Storage	Percent In Storage	Percent of Stored Cars
Box	Paper products, wood products, food prod.	103,612	23,508	23%	5%
Covered Hoppers	Grain, chemicals, nonmetallic minerals	572,345	160,151	28%	31%
Flats	Containers, trailers, lumber, steel, autos	75,077	21,195	28%	4%
Gondolas	Coal, nonmetallic minerals, metals, scrap	205,442	62,471	30%	12%
Hoppers	Coal, metallic ores, nonmetallic minerals	126,896	49,489	39%	10%
Intermodal	Containers, trailers	74,058	18,147	25%	3%
Refrigerator	Food products, farm products, chemicals	10,775	4,209	39%	1%
Tanks	Chemicals, petroleum, food products	436,819	145,443	33%	28%
Vehicle Flat	Autos	65,788	36,116	55%	7%
Grand Total		1,670,812	520,729	31%	100%

Source: Association of American Railroads

The first railcar type committed to storage in a big way were coal railcars. This has some history. The implementation of the [Clean Air Act \(“Act”\) of 1970](#) set standards for ambient air quality. These standards established requirements for State Implementation Plans to achieve National Ambient Air Quality Standards or new and modified stationary sources (coal-fired power plants). Further amendments to the Act in 1977 and 1990 fined-tuned a finite list of non-compliant pollutants. Basically, this gave utilities that ran on coal-fired generation a choice to either put scrubbers on their plants, convert them to an alternative fuel source, or simply shut them down and decommission them. As a result, emissions from 1995 to 2019 have decreased significantly (see graph below). This began the gradual decline in coal-fired generation. As a measure of volume, [coal production](#) dropped from 1.171 billion tons in 2008 to 756 million tons in 2018. The growth of the coal complex also incentivized overbuilding the coal car supply. Since roughly 2012, the coal car fleet has gradually generated significant surpluses to demand. More cars have been added to the storage list in recent years. (Continued on page 7.)

Annual Percent Change of Emissions, 1995–2019



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Stored Railcars *continued*

The next two major contributors of the stored fleet are more reflective of world supply and demand. Grain cars and tank cars for crude oil have both taken significant hits in the past two years. The world market for US-grown grains is highly dependent on politics, and more importantly, on price. The strength of the [US dollar relative to foreign currency](#) makes US grain more expensive to alternative growing regions. Hence the slowdown in exports and parking of a significant number of covered hoppers. Tank cars are subject to the world oil supply, in particular Russia and OPEC. [Russia and OPEC](#) are still working out which of them (or both) is going to slow supply and bring some reasonableness

back to the market. Additionally, a certain group of designated tank cars designed for crude oil were parked over the past five years because they were subject to more stringent AAR regulations mandating certain tank car upgrades, which put a lot of tank cars on the surplus list.



Industrial Inside

A lot of industries are at their worst right now through no fault of their own. Management through the coronavirus crisis has tested the mettle of many a team's leadership acumen. Many, though, are sitting on the edge of breakouts into new industrial revolutions. One of these is the auto industry. Despite low build and distribution numbers, alternatives are taking hold and being driven by the new millennial masses. Electric cars are getting a leg up during these times, due to persistence of their owners. Ride-share services and car-share opportunities are being driven by environmental and cost-conscious drivers in larger cities that can support the diversity in driver/rider options and discourage car ownership. As the population increases, these options are a good alternative to car ownership where feasible. Some authorities are touting 2020 as the year

of success in developing [product as service](#), driven by the subscription-model boom, internet of things revolution, and government and customer push for sustainability. [Digital transformation](#) trends in automobiles is another area that continues to grow as the next generation becomes digitally rooted. [Europe](#) is pushing its own related agenda for shared services, electric vehicles, and lowering environmental impacts. Maybe the coronavirus will step up the trend in transformation of the auto industry.

The current trend in the auto industry is down. Like many industries, auto industry sales have fallen significantly, auto manufacturing plants have been shut down, they are facing reductions in labor pools, and consumers aren't buying.

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Industrial Inside *(continued)*

[Autoracks \(railcars that transport automobiles\) are being parked](#) wherever there's room, often in unit train strings of railcars. The automakers themselves are facing a self-created headwind on types of automobiles to offer the public. [Consider the financial returns](#); an SUV yields much better results than an electric car. Like many major industries, we'll likely see a shift in supply and demand for automobiles in the future.



Private Empty Car Storage Charges

Read the article on page 6 about the number and type of railcars in storage. It is reasonable that 500,000 cars to store could cause a strain on storage facilities, such as customer yards, leased track, industrial parks, and shortlines. Storage can also become an issue for Class I railroads at serving yards due to a surplus of private railcars in the yard. Consider your business is down (as many are) and you have sufficient railcars registered under OT-57 for a normal operating scenario. Current times do *not* represent a normal operating scenario. Railcars continue to return faster than normal, since there are less railcars in total to haul on the railroad, freeing up resources. This is coupled with the impact of Precision

Scheduled Railroading, which continues to drive out excess time in transit. The result is too many railcars for the current business. Some railroads are now allowing only three days of railcar inventory in the serving area, after which the surplus railcars will be repositioned at the shipper, owner, or lessee's expense. It may be wise to review supply and demand and where the OT-57 storage locations are in relation to the shipping location. Oh and by the way, empty railcar repositioning rates continue to increase at a significant pace. Look in your serving railroad accessorial tariffs for any updates, or give us a call and we'll walk you through it.

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Independence Day

The 4th of July is a time for introspection. In 1776, the United States declared independence from Britain and its monarch king, King George III. The original 13 states were now free from Britain's reign. Today we enjoy those freedoms and live in the best country in the world. Despite the happenings of today, we should do our best to remember the positive influences that developed this country.

Financial Focus

[The Federal Reserve Board](#) has been extremely active of late, committing to a federal funds rate of a quarter of a percent or less. To facilitate economic stability, the Fed has also committed to increased purchases of treasury securities, agency residential, and mortgage-backed securities. Continuing to look for ways to provide financial stability during tough economic times, the Fed is also committed to buying corporate bonds from large employers to facilitate economic recovery.



Updated Equipment & Services Available at Tealinc

Check out our new website at www.tealinc.com. We've made the website easier to use and updated our content to better reflect our [growth and service offerings](#). If you need [railcars](#), we've got them! If you have too many railcars and want to get rid of some of them, we've got the marketing reach to find them a new home. If you're concerned about the changes we're currently experiencing and want to have experts review your fleet management, maintenance management, operations management, or simply a transportation audit, we're on your team.

2020 Scholarship Recipients Announced!

With multiple, exceptionally qualified and well-deserving young people applying for the 2020 Tealinc scholarship, we are excited to announce that the recipients are Avery Hess and Ana Tisa. These ladies have worked hard within their community and are focused and driven in their career field. We're proud of you and excited to see you achieve your dreams! Congratulations! To learn more about this year's recipients, [visit our website](#).

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