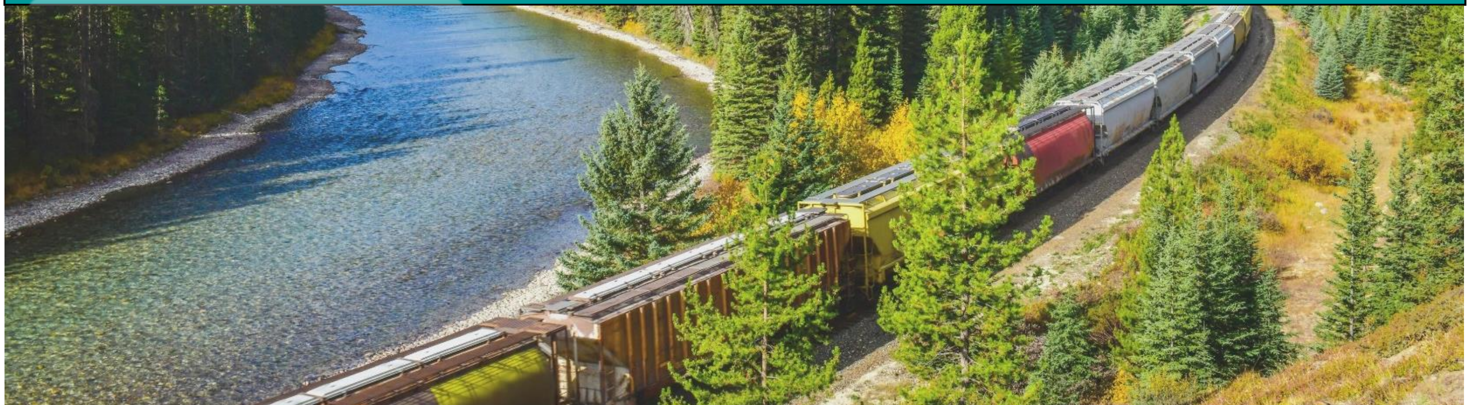
TEALINC Your Rail Partner | RAILCARS MANAGEMENT CONSULTING

TRAIN OF THOUGHT

Newsletter for the Rail Industry



TRAIN OF THOUGHT
FIRST QUARTER - 2024

RAILCARS **SUPPORT** **STRATEGY**

Featured Articles

Railing On…

Darell Luther, CEO

HAPPY NEW YEAR! By now you're realizing that a good deal of the success you're to have in Q1 is the direct result of all the seeds you'd planted in Q4 of 2023. If you're looking for a 2024 cash jumpstart, consider a sale – leaseback of your rail equipment which allows you to retain possession of the equipment while also generating capital for 2024 projects or if you're long on railcars, consider an outright sale of your railcar fleet. If your rail fleet strategy is looking for a jumpstart, let's talk about railcar fleet management where we focus on two main areas: rail fleet management and railcar fleet maintenance and repair management. We'll focus on tracking and pushing your equipment to be sure cars stay enroute and we'll work to get the railroads attention to get railcars moving. We've found a few interesting cases of neglect, enhanced billing that isn't necessary, and even in some cases a lack of Class 1 railroads and leasing companies both thinking the other was driving 1000-mile interchange inspections. We'll also work to help you get railcars repaired on-site or moved to a repair facility for repairs or preventative maintenance.

Next on the planning list is the tracking, cycle time reports and intervening reporting in a format that can be used to review the surface operating plan. We suggest taking thousands, hundreds of thousands and potentially a million plus data points and analyzing where your railcars have set the longest, which routes are better from a service parameter and cost per ton, per mile, which railroads give the best service are very important facts to have at your fingertips. Considering the reciprocal switching the Surface Transportation Board has introduced in 2023. You'll want to start building your case to implement a progressive view to better your service.

Keep Railing-on with Darell Luther:
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Railcar Supply & Demand

Nate Chilton, Director: Railcar Leasing & Sales

As the newest member of Team Tealinc, I am thrilled to be joining such a passionate and collaborative group focused on partnering with rail shippers! Over the past decade, I have witnessed the railcar supply tighten and it has been a significant challenge for many shippers throughout 2022 and 2023. The trend is anticipated to continue in 2024 and beyond. If you pay attention to Railinc and their data reporting on number of railcars in the entire North American railcar fleet and watch the number of railcars reaching end of life in the next 1-10 years, you'll see the data on why this railcar market remains so tight. The natural cure is to build new railcars to replace railcars that have already been taken out of service for age, been scrapped, or are otherwise no longer available; however, new railcar pricing remains a tremendous roadblock and pricing pressures are expected to stay high in 2024. Interest rates and component parts supply constraints has driven the price of a new railcar up 20% to 30% or even higher in many cases. Mainstay general service freight railcars increased from 2020/2021 with average prices between \$80k to \$90k to a new rate reflecting component parts increases and raw steel and aluminum increases to the \$110k to \$150k price range. These types of increase are difficult for shippers, rail customers and the shortline and Class 1 industry to absorb. The Federal Reserve Board, Federal Open Market Committee (FOMC) is targeting 2% inflation rate and our current rate is tracking at 3.5%. Expect a little more belt tightening in 2024, e.g. continued high interest rates.

In 2024, we see these price increases holding and maybe even moving up slightly. The incoming deficit supply of many railcar types is negating the usual onslaught of good used railcars being available in the market. This means that new railcar prices will drive investment and lease rates up over the course of the year. Word of advice as we move forward: expect railcar lease rates to rise across the board. If you observe the utilization rate of the majority of railcar leasing companies, you'll see nearly 100% utilization with a little noise in the system moving cars from one lessee to another. There just aren't a lot of good railcars readily available. Get your railcars now if you really want to secure your future rail transportation options.

Whatever your needs, give me a call and we can discuss your railcar supply and railcar demand needs.

Explore Railcar Supply & Demand with Nate Chilton: (815) 762-0184 | nate@tealinc.com

Rail Fleet Management

Shannon Rodgers, Director – Railcar Services

New Year… same old rail industry! The complexities of managing a railcar fleet have never been more challenging—or more crucial. Rail shippers ask me all the time how they can become more efficient, effective, and successful when shipping by rail. My answer always remains the same. If you have in-house rail experts, trust them to battle the good, the bad, and the ugly with the railroad to manage your railcar fleet. If you are going it alone without a rail industry expert, we're here to help.

That's not a sales tactic. It's real world. The reality is that rail fleet management is not just an option. It is a strategic imperative for businesses navigating the tracks of success. Managing a rail fleet involves juggling multiple variables, from preventative maintenance, reactive repairs, scheduling releases, scheduling unloads, tracking railcars, re-routing off-route railcars, etc. When you have a dedicated fleet management team who brings a wealth of experience and cutting-edge technology to optimize operations, the result means increased efficiency and reduced railcar fleet downtime.

The reality is that when you choose a fleet management partner, you're tapping into a reservoir of industry expertise. From compliance with rules and ever-evolving regulations to insights into best practices, having seasoned professionals by your side ensures you stay ahead of the curve.

Thought about the health of your railcar fleet today?
The saying "an ounce of prevention is better than a pound of a cure" holds true in rail fleet management. Regular maintenance is not just about fixing issues—it's about preventing them. Fleet management services implement proactive maintenance strategies to enhance the reliability and longevity of your rail assets.

Know where your railcars are right now?
In a world driven by data, visibility into your fleet's performance and ensuring your railcars are waybilled, moving, and on route is a non-negotiable. Fleet management services provide sophisticated analytics tools that offer insights into last location, asset utilization, cycle times, dwell times, and other key metrics. Harnessing this data empowers you to make informed decisions and drive operational excellence. The future of rail management is digital and your rail fleet manager needs to stay agile. There are new technologies on the horizon and we're focused on staying up with the most efficient and accurate advances. The goal is to stay on top of maintenance needs, track asset health, and predict potential issues before they become disruptions so that you can make planned and informed decisions.

Are you spending time with headaches or are you focused on your core competencies?
Let's face it: railcars are a tool. Rail transportation is simply a mode for you to move what matters. When either are out of alignment, you cannot do your job efficiently. By outsourcing fleet management, you free up valuable time and resources to focus on your core competencies. Let the experts handle the intricacies of fleet logistics while you concentrate on growing your business and delivering exceptional service to your clients.

In the dynamic world of rail transportation, the path to success is paved with strategic decisions.
Embrace the future with confidence—partner with Tealinc for your rail fleet management services and let your business ride the rails of efficiency, reliability, and strategic success.

When we can be of service to help manage your railcars, we'll enjoy partnering with you!

Focus on Rail Fleet Management with Shannon Rodgers: (321) 361-9834 | shannon@tealinc.com

Railcar Accounting & Ownership

Yvonne Lufborough, Director – Accounting & Finance

Happy New Year to all our esteemed rail industry partners! As we embark on a fresh journey in 2024, it's time to ensure that our "tracks" (pun intended!) are clear for a successful tax season. This quarter, I'd like to focus on the essential insights into railcar tax filings and railcar ownership to set you on the right track for the year ahead.

1. **Understanding Railcar Ownership.** Whether you're a seasoned rail industry veteran or a newcomer to the tracks, owning railcars comes with unique responsibilities. Take a moment to review your inventory, update records, and ensure compliance with regulatory standards. Proper documentation is the key to a smooth ride through tax season.

2. **Navigating Depreciation and Tax Benefits.** Railcar ownership offers tax advantages through depreciation deductions. As you kickstart the year, evaluate the depreciation schedules for your rail assets. This is an opportune time to work with your financial advisors to maximize tax benefits and optimize your overall financial strategy. If you're upgrading your fleet, be sure to sell your railcars to Tealinc to optimize your returns!

3. **Organizing Documentation for Tax Filings.** Smooth tax filings begin with organized documentation. Gather essential paperwork, including maintenance records, inspection certificates, and any relevant lease agreements. A well-organized filing system not only simplifies the tax process but also serves as a valuable resource for future audits.

4. **Collaborating with Industry Experts.** Consider collaborating with industry experts and tax professionals specializing in railcar ownership. Their expertise can provide valuable insights, ensuring that you leverage all available tax incentives and stay compliant with the latest regulations.

5. **Staying Informed on Legislative Changes**. The regulatory landscape is ever-evolving. Stay informed about any changes in tax laws or industry regulations that may impact your railcar operations. Being proactive in adapting to these changes will safeguard your financial interests.

6. **Marking Key Tax Deadlines.** Don't let tax deadlines sneak up on you! Mark important dates on your calendar to ensure timely submissions. Staying ahead of deadlines not only avoids penalties but also allows for strategic planning in line with your business goals.

7. **Utilizing Technology for Efficiency.** Explore technology solutions that streamline your tax filing processes. Digital platforms and software can enhance efficiency, reduce errors, and provide real-time insights into your financial landscape.

As we embark on a promising year in rail, let's ensure that our financial tracks are well-maintained and ready for a successful journey. Here's to a smooth tax season, prosperous rail operations, and a year filled with success on every track!

Talk Railcar Accounting & Ownership with Yvonne Lufborough: (406) 234-2754 | yvonne@tealinc.com

Railcar Strategy & Planning

Julie Mink, President

This article ran in our Q4-2023 Newsletter, distributed to approximately 40,000 Tealinc Train of Thought subscribers. The principal advice continues to apply so we're republishing this article. We stand ready to assist you in planning efforts and to determine if selling some or all your railcars makes sense for your operation.

While Tealinc is looking to grow and expand our owner railcar fleet, we see that a lot of railcar owners are feeling added pressures of owning their railcar fleet outright. As the essential workhorses of the rail industry, railcars have a lifecycle that extends far beyond their initial purchase and can become a burdensome asset over the course of their lives. Upsizing, downsizing, integrating businesses… there are a plethora of reasons to sell your rail assets. Here are some reasons why selling your railcars can be a smart business decision.

1. **Optimizing Asset Utilization.** Railcars represent a significant capital investment. When railcars are not fully utilized due to changes in business needs or market dynamics, they can become idle assets, tying up valuable financial resources, costing money in daily storage fees, and leaving an open end to future railcar cleaning, repair, switching, and freight expenses. Selling underutilized railcars allows businesses to free up capital for other investments or operational improvements. Also consider a sale-leaseback where you can maintain possession of your railcars without the responsibilities of ownership.
2. **Focusing on Core Competencies.** Companies evolve over time, and their core competencies may shift. Rail transportation may not be the primary transportation mode and selling railcars enables companies to concentrate on their core strengths and allocate resources where they can achieve the highest returns.
3. **Reducing Maintenance and Operating Costs**. Owning a fleet of railcars comes with ongoing maintenance and operating costs. Regular inspections, repairs, and compliance with industry standards can be costly and time-consuming. By selling railcars, companies can offload these responsibilities and associated expenses to the new owners, potentially reducing operational overhead.
4. **Adapting to Market Changes.** Market conditions, customer demands, and industry regulations can change rapidly. Railcar types and specifications that were once in high demand may become obsolete or less profitable. Selling railcars allows businesses to adapt to evolving market dynamics by divesting older or less relevant assets and acquiring new, more suitable equipment.
5. **Generating Immediate Cash Flow.** Selling railcars can provide a significant infusion of cash, which can be especially valuable during times of financial need or economic uncertainty. Companies can use the proceeds from the sale to reinvest in their core operations, pay down debt, or explore new growth opportunities.
6. **Improving Balance Sheets.** Removing railcars from the balance sheet can improve financial metrics like debt-to-equity ratios and return on assets. This can enhance a company's creditworthiness and provide greater financial flexibility for future endeavors.
7. **Streamlining Fleet Management.** Managing a fleet of railcars can be complex. Selling railcars (or considering a sale-leaseback) can simplify fleet management, reducing administrative burdens and the need for specialized expertise in railcar maintenance and logistics. Under a sale-leaseback arrangement, Tealinc can become your Rail Fleet Manager and complete all the pesky tasks you had to complete as a railcar owner. We can even continue to partner with your logistics team at a high or low level to ensure your business continues to succeed.

Selling railcars is not just about divesting assets; it's a strategic business decision that can bring numerous advantages. By carefully assessing your railcar fleet and market conditions, you can make informed decisions that benefit the bottom line and positively impact long-term sustainability.

Explore Railcar Strategy & Planning Opportunities with Julie Mink: (720) 733-9922 | julie@tealinc.com

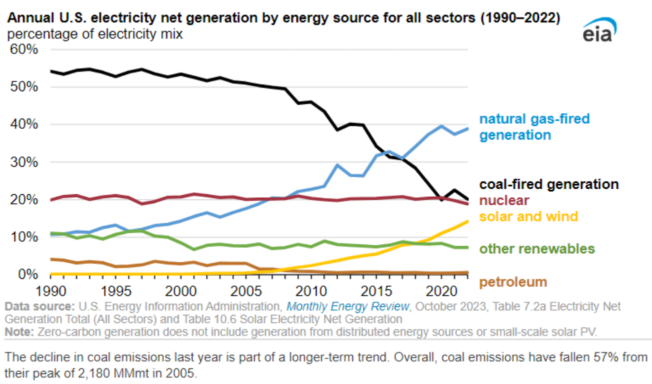
Planning for 2024: Political Influences

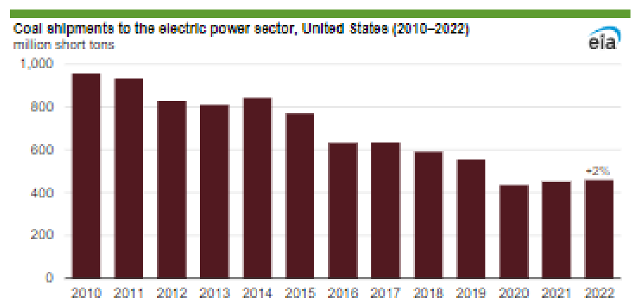
with Darell Luther, CEO

I said it last quarter and I'll say it again: 2024 is an election year. Election years tend to not follow fundamental trends such as a normal supply and demand curve (e.g. if you have greater supply than demand, prices will be down and vice versa) of products and services. The fundamentals of service are challenging and are sometimes as much hypothetical as real.

I took a bit of time to research "political influences" in an election year. My thought process is that the financial market should reflect supply and demand. Supply and demand are a factor of having a good or service that you produce at one geographic area and transport it to another geographic area in which it is wanted (in demand). The financial market should reflect this produce – transport – consume model in that the balance should ideally be in sync with supply – transport and consume all being relatively equal. Thus, in turn the politically influenced market influences all three of these key components. Production is affected by policy; transport is affected by policy and consumption is affected by policy.

Think through changes that we're seeing in today's energy production market that have been a direct result of policy. The energy production and consumption of coal for instance has changed dramatically over the years. Consider the change in electricity net generation for all electrical sources. Coal has fallen from approximately 55% of net electrical generation to somewhere in the 20% range. Natural gas has been the primary replacement fuel with solar and wind being a distant second. The impact to the major Class 1 railroads was (is) monumental.





Retooling because of the clean air policy implementation and changes to environment caused the railroads to transform their operations and seek new business. I only use coal as an example because of the dramatic decline in coal railcar originations, literally millions of tons of coal not being shipped by rail, not being transported at all. This type of policy change whether rooted in fact or fiction has an impact on all those shipping by rail, truck, barge and ocean-going vessel. All these industries have geared up for millions of tons of product to be shipped from supply points to demand points in the US mainly power plants and to major international consumers and the demand has fallen off 30% to 50%. From a railroad perspective something must give to make the financial returns required to be an investable industry. The impact of shipping coal by rail isn't isolated to just coal. The impact on the grain, plastic pellet, scrap, steel, automobile, mineral, fertilizer, et al. shipper is a resulting steady year over year rate increase with more rules and more accessorial charges (demurrage, storage, etc.). Coal paid a lot of the fundamental operating bills for the railroad, its downturn a policy shift.

We've seen this same boom to bust cycle on the logging industry (transport of lumber, logs, poles, etc.), the frac sand industry (transport of white sand, brown sand sourcing, fracking regulations) oil (crude price volatility) grain (export enhancement programs) and many other commodities and manufactured products.

Planning for 2024: Political Influences continued:

In applying the election year impact to the rail industry, we can expect policy closer to home that has yet to be defined (at least in the real world) with many different statistically justified studies supporting both sides of the argument. Just read up on the STB proceedings and actions to get a look at what policy the rail industry is embroiled with. The far-reaching impact of policy changes should be diligently reviewed and cautiously implemented.

Industry Updates: Surface Transportation Board

with Darell Luther, CEO

I spend a good deal of time preaching the value of tracking, tracing, pushing and subsequently measuring railcar cycle times. The mining of rail transportation data is unequivocally one of the most important steps an exceptional rail team can implement. This data tells you what the results are for the application of your business plan from production, storage, warehousing, loading, transport (rail, barge, vessel), unloading, storage, warehouse, redistribution and finally to either a manufacturer, further production, or product enhancement and finally to the consumer.

I've got to tell you though, gathering, refining and analysis of data isn't necessarily the most fun thing you will do. It may be the most important though if you're responsible for the transportation of a product or commodity. You may be asking yourself what's this got to do with the Surface Transportation Board (STB).

The answer to that question? The STB is bringing to close docket EP 711 which is the ruling on Reciprocal Switching which has been under review since 2016. This docket is the result of either unmeasured service or measured and ignored service by the Class 1 railroads. The status update is below.

AGENCY: Surface Transportation Board (the Board or STB). ACTION: Notice of Proposed Rulemaking and Closure of Subdocket No. 1. SUMMARY: This decision closes Docket No. EP 711 (Sub-No. 1) and proposes, in a new subdocket, a new set of regulations that would provide for the prescription of reciprocal switching agreements to address inadequate rail service, as determined using objective standards based on a carrier's original estimated time of arrival, transit time, and first-mile and last-mile service. To help implement the new regulations, the Board proposes (1) to require Class I carriers to submit certain data, which would be publicly accessible and generalized; and (2) to adopt a new requirement that, upon written request by a customer, a rail carrier must provide to that customer individualized, machine-readable service data.

The STB after nearly 8 years has drawn a line in the sand and is compelling Class 1 railroads to know their service parameters and have put some teeth into service non-compliance. This measure is suddenly of utmost importance to the Class 1 railroad industry. It should be as important to the rail shipping community. If STB had oversight to the shipping public would there also be a reciprocal commodity replacement program in place where a customer could select their purchases on service. Wait a minute doesn't this happen anyway? In well managed shops where service is measured this happens and appropriate actions are implemented it does. In most of the rail industry we've learned to work around poor service but rarely have I seen sophisticated measures and reporting. So back to my preaching, *"you can't fix what you're not measuring".*

As far as Tealinc is concerned, where service is the subject, we lease railcars to the industry. We would like to lease you 100 or 1000 railcars. We don't want to do it on poor service or poor planning though. We find that we're all happier when true demand requires the railcars and we're proactively managing the railcar fleet on your behalf wringing the most productivity out of your lease fleet as possible.

Industry Updates: Federal Railroad Administration

with Darell Luther, CEO

The Federal Railroad Administration (FRA) is reviewing the [Freight Car Safety Standards (FCSS)]() to possibly put in place restrictions on new foreign built freight cars. Railcar builders and others of interest have until February 6, 2024, to comment. It isn't clear what reporting or assurances will need to be put in place to assure compliance with the FCSS changes. Most U.S. builders build railcars in Mexico using FRA, Association of American (AAR) and other US supported engineering requirements to govern how they build railcars to meet US specifications. The only other builder is in Canada and that builder also adheres to the same US and Canadian specifications.

FRA is proposing to amend the Freight Car Safety Standards (FCSS) to implement section 22425 of the Infrastructure Investment and Jobs Act (Act). The Act places certain restrictions on newly built freight cars placed into service in the United States (U.S.) including limiting content that originates from a country of concern (COC) or is sourced from a state-owned enterprise (SOE) and prohibiting the use of sensitive technology that originates from a COC or SOE. The Act mandates that FRA issue a regulation to monitor and enforce industry's compliance with the standards of the Act.

The industry at one time had a foreign freight railcar builder (Vertex) that had a difficult start to build "cheaper" railcars than the industry norm. This company left after a short life in the US new railcar market, leaving behind a railcar manufacturing design not supported by any other builder in the US. There's probably some merit in the FCSS policy. Railcars are long lived assets with 50 years of railroad interchange life. Having a support network in place for that many years is of most importance.

Industry Updates: AAR Railcar Load Report

with Darell Luther, CEO

The Association of American Railroads (AAR) report for the week ending December 2, 2023, US Railroads originated nearly the same 1,128,573 carloads in November 2023 as November 2022. US combined carload and intermodal originations where 2,408,470 up 2.6 percent. The two largest impact groups on a carload basis are coal and grain. Excluding them from the total carloads were up 5,231. The first 11 months of 2023 show 10,824,994 carloads up just .2 percent from the prior year. Five of the ten carload commodity groups posted and increase from the same week in 2022. [See the entire report here]().

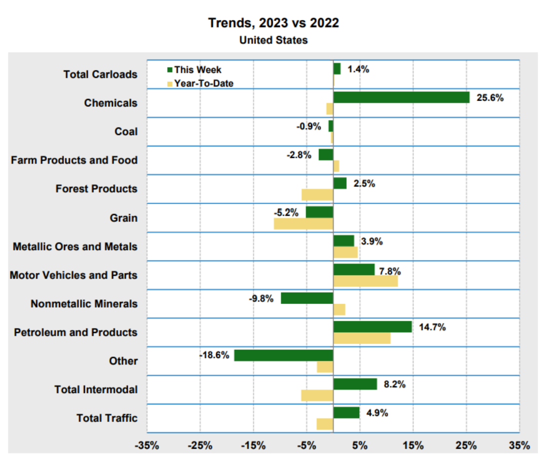
U.S. Rail Traffic[1]

Week 48, 2023 – Ended December 2, 2023

	This Week		Year-To-Date		
	Cars	vs 2022	Cumulative	Avg/wk[2]	vs 2022
Total Carloads	**237,049**	**1.4%**	**10,824,994**	**225,521**	**0.2%**
Chemicals	33,692	25.6%	1,493,007	31,104	-1.3%
Coal	68,492	-0.9%	3,165,792	65,954	-0.5%
Farm Products excl. Grain, and Food	16,902	-2.8%	779,165	16,233	1.1%
Forest Products	8,941	2.5%	389,461	8,114	-6.0%
Grain	23,425	-5.2%	900,178	18,754	-11.2%
Metallic Ores and Metals	21,843	3.9%	992,945	20,686	4.6%
Motor Vehicles and Parts	16,209	7.8%	717,381	14,945	12.1%
Nonmetallic Minerals	29,043	-9.8%	1,522,653	31,722	2.2%
Petroleum and Petroleum Products	10,902	14.7%	458,181	9,545	10.8%
Other	7,600	-18.6%	406,231	8,463	-3.1%
Total Intermodal Units	**272,577**	**8.2%**	**11,684,971**	**243,437**	**-6.0%**
Total Traffic	**509,626**	**4.9%**	**22,509,965**	**468,958**	**-3.1%**

[1] Excludes U.S. operations of CPKC, CN and GMXT.

[2] Average per week figures may not sum to totals as a result of independent rounding.



Industry Updates: Tealinc Tidbits

with Darell Luther, CEO

Panama Canal Water Conditions Affect Container Volumes. US east and west coast ports are feeling the effect of a long term drought affecting the draft levels required to support seamless movement through the canal. All commodities that normally would ship via the canal are having to light load or make alternative plans. This impact also affects rail shipment volumes at all US ports.

Florida Appetite for Refined Fuels. Although Florida is number 2 in jet fuel usage and clocks up an impressive 650 million miles of driving a day by its some 22 million residents not one gallon of fuel is refined in the state. A midstream company is planning unit trains of fuel to be railed into Florida to three new storage and distribution terminals.

Aggregates Industry Forum & 2024 Outlook. The aggregates industry mainstream publication by Rock Products has their 7th annual Aggregates Industry Forum and Outlook available. Mark S. Kuhar, editor sums it up with a line from a line in Grateful Dead song, "what along strange trip its been". 2023 has been a year of excitement, progress, and unexpected development. The Rock Products issue covers the major players in the industry their returns for Q3 2023 and a Q&A session providing insights into their 2024 plans.

Long Haul Switching in Canada. The US rail network and those governing bodies that make the rules and regulations are still struggling with the right approach to the proposed Reciprocal Switching rules and regulations. In Canada there is a process in place for these rules and regulations. The Canadian Transportation Industry has published the rules that govern. It's an interesting read.

Grain Trends. The USDA keeps track of the domestic and export markets for the primary whole grains grown in the US. They also have historical pricing for different modes of transportation as well as how the modal share of grain transportation has declined significantly since 1978 thru 2020. A reduction of having 50% of the grain market being transformed by rail in 1978 to 25% of the market in 2020 should cause the railroads to reflect on their pricing and service strategies.

Partnering with Tealinc.

How will Tealinc create value with you?

Tealinc LLC is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by leasing, buying, selling, consulting and managing rail fleets with our customers long term and short-term requirements in mind. We participate in nearly every industry supported by rail; lease, purchase and sell nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers.

Where can Tealinc create value for you?

Choose a box below to learn more…

Lease, Buy, Sell or Trade Railcars	Rail Fleet Management Services	Rail Strategy & Business Development