TRAIN OF THOUGHT

Newsletter for the Rail Industry

TRAIN OF THOUGHT
February 2023

Featured Articles

Railing On…

Darell Luther, Founder & CEO

Welcome 2023 – Happy New Year! We're pushing year three following the Covid outbreak and the seizing of the economy. We've felt the supply chain breakdown, with significant recoveries occurring across many modes of transportation.

During our Tealinc team meeting in December, we toured the Port of Houston and discovered that they were swamped handling inbound products to meet US demand. Some of which should have logically gone through a west coast port. When one looks at the world logistics systems (rail, truck, barge, ship), compared to pre-Covid, many changes have occurred. The rail system in the United States has struggled this past year to meet demand. From a 30,000-foot point of view, the push for goods into and out of the west coast has been met with some redistribution of those goods to other more reliable ports on the gulf and east coasts.

Threatening labor strikes, lack of available skilled employees and cuts that ran too deep caused the Surface Transportation Board to focus the railroads on moving grain, coal, steel, scrap, and other consumer and manufactured goods. A fight that is still ongoing.

The railroads have scrambled to retrench their efforts in meeting customer requirements. The shipper has retrenched in shipments, many going to truck, where that is an option. Our focus remains on railcars which continue to be in high demand, with supplies leaning towards newly built railcars that are subject to inflationary pressures and are priced out of a lot of shipper's reach.
We have used railcars and remain focused on matching customer supply with customer demand.

Rail-on with Darell Luther: (406) 347-5237 | darell@tealinc.com

Railcar Supply & Demand

Kristen Kempson, Director – Railcar Leasing & Sales

Railcars, Railcars, Where for Art Thou, Railcars? As you may already know, railcar supply is a real challenge in today's environment. What do you have sitting around? We all have a few railcars held close to the vest, and I am willing to bet you've considered selling your railcars. What are you waiting for? With supply options low, it's a great time to clean out your idle asset supply. If the service of the railroad or a switch in your originations have you thinking of other transportation modes let us know. We are expanding our rail fleet this year and will take a look at whatever you want to sell.

Got a need for more railcars? We can help you there too! We've got a variety of railcars available now including open top hoppers for coal, coke, taconite, ballast, rock, aggregate, etc. We've also got a variety of covered hoppers available to haul plastic pellets, sand, cement, minerals, etc.

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

Explore Railcar Supply & Demand with Kristen Kempson: (708) 854-6307 | kristen@tealinc.com

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

Rail Fleet Management

Shannon Rodgers, Director – Railcar Services

The rail transportation system in North America is a bit confusing. To support our rail fleet customers, I trace railcars daily to see if they're on schedule, manage bad orders and DDCT events, and focus on optimizing routes for both the best delivery times as well as the most cost-effective route.

For our rail fleet customers, we also manage the inspection, preventative maintenance, and repair process through our network of railcar inspectors and railcar repair shops. We've tried many of them and have vetted the best shops and inspectors. We use these same people, facilities, and Mobile Repair Units (MRU) for our customer's railcars that we use to maintain our private fleet. Minimizing empty mileage is also a key metric you need to be concerned about. Empty mileage runs from $4.50 to $6.00 per empty mile.

It doesn't take long to force your consideration of options, run to a shop, or call in a mobile repair unit. We also manage all the details, such as AAR Rule 107 claims, Joint Inspection Certificates and auditing of the car repair bills.

Focus on Rail Fleet Management with Shannon Rodgers: (814) 631-9277 | shannon@tealinc.com

Depreciation, Taxes & Railcars

Yvonne Lufborough, Director – Finance & Administration

As an ex-tax accountant, I don't envy the CPAs preparing for this year's busy tax season. The IRS began accepting 2022 returns on January 23rd. Remember your CPA this tax season by sending them a treat! Now that I work in the rail industry, many things of tax season still apply, and critical dates are important to remember.

January 31st remains an important date for payroll and 1099 forms. Ad Valorem taxes are due for your current railcar fleet on different dates depending on each state's requirements. Most of the state Ad Valorem forms are due between March 1st-May 1st.

Tax season is also a reminder of depreciation and how that affects railcars. Rail assets for non-railroad entities fall under 7- year property and qualify for Section 179 and/or bonus depreciation. For 2022, bonus depreciation was 100%. In 2023, bonus depreciation is slated to be at 80% if no other legislative changes occur. This means you can write off 100% percentage for railcars purchased in 2022 and 80% for railcars purchased in 2023 (if you meet all other requirements – **please refer to your tax advisor for tax advice for you and your business**). Section 179 and bonus depreciation on rail equipment can save you hundreds or even thousands of dollars in tax. Visit the IRS website for more information.

It's not all about depreciation though. Cash flow truly runs (or depletes) a business. Whether leasing or buying equipment is best for you really depends on your specific situation, desires, and growth goals. Leasing railcars is truly ideal if you do not have the upfront cash, are protecting cash outflow, and/or are discouraged from obtaining debt to buy railcars. You can match income with your new equipment's lease expense more quickly than if you buy. Leasing equipment can fall under a capital or operating lease, having different tax benefits to you.

Talk Depreciation, Taxes & Railcars with Yvonne Lufborough: (406) 234-2754 | yvonne@tealinc.com

Rail Strategy & Planning

Julie Mink, President

If you don't already know, Tealinc's company culture focuses on treating everyone as if they were a member of our own family. I take my relationships with my customers personally, as does everyone on the Tealinc Team. What am I most proud of? The partnerships we create with our customers. As they grow, Tealinc grows. A few years ago, a rail shipper came to us with a conundrum. Their fiscal year ended in just over 15 days, and he had a budget earmarked for a group of railcars his team desperately needed. On the 16th day, when the fiscal year ended, so did his funding for the railcars, and he was fearful that he would not have the rail equipment the team needed to make sales. In rail terms, 20 days is about 20 minutes in an average person's life. With railcars still to be identified, inspected, and selected, the reality was that even with best efforts, he easily had 30-90 days of time left before he could be ready to allocate funds and close on the railcars he needed.

As he presented challenges, I felt as if a member of my family was struggling, and I needed to do everything in my power to help him. His team's success would be impacted by how successfully we could partner with him. I quickly focused on implementing solutions. I became laser-focused on how we could safely secure these funds for him while ensuring he inspected and accepted the railcars as part of his crucial due diligence and business practice. Within 72 hours, we drafted an escrow account to secure his funds in a refundable account so that if the cars didn't work out and we didn't have other railcars to offer, we could refund his allocated budget money. As importantly, we quickly engaged with a qualified 3rd party railcar inspector to schedule an on-site inspection. We also focused on his due diligence checklist, including pulling freight rail rates to identify transportation costs. Tealinc's course of action also includes sourcing alternatives in case these railcars did not pass inspection. I am proud to say our customer was able to meet all of his timelines, the railcars passed inspection, and the customer was able to properly allocate his budget funds to get these railcars into service. We are thankful to this shipper for trusting us to solve their challenge. We're grateful we earned their business and, much more importantly, a lifetime of business and personal friendship! As we navigate 2023, while we suggest pre-planning as much as possible, we know that something may still go wrong no matter how carefully a project is planned. We're here to partner with you – rain or shine. We look forward to integrating you into the Tealinc family too!

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

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Scholarship Available!

Planning for 2023: An Industry Outlook

with Darell Luther, Founder & CEO

We're all focused on how specific supply chain impacts of 2022 will unfold in 2023. To this point, we've seen changes, mainly the threat of labor strikes on the railroad, severely impact the supply chain in all industries and across all commodity groups. In 2022 the one overriding theme that carried across all industries was: "what's the availability of skilled labor going to be?" The carryover from COVID-19, government programs, rapid unemployment, government vaccination mandates, and a strong resistance/reluctance by labor unions and non-unions alike are stressing an already stressed logistics system. We've seen the labor threat impact go through the management ranks in the rail industries as well as longshoremen and I'm sure many others that indirectly affect rail transportation. The potential for crippling rail strikes was so tenuous that it went to the point that the Presidential Emergency Board (PEB) got involved. Foremost on "most" union's minds – are quality of life issues. Many other events and issues set the stage for 2022 and lead into 2023.

Read below to learn more about the aggregate, coal, agriculture, scrap and rail industry.

We've highlighted railcar options tailored to specific industries. Click on any photo to explore options.

The Aggregates Industry. Some of the major players in the aggregates industry looked back on 2022 and have summarized their thoughts as another challenging year with the run-up in inflation, the effects of Ukraine on world distribution and rising fuel prices as challenges. They also managed some offset of those costs with steady appreciation in aggregate pricing. In looking forward, aggregate producers see cautious optimism prevailing.

2300 CUBE OPEN TOP HOPPERS
ROCK, BALLAST, TACONITE, ETC.

The Infrastructure Bill put in place in 2021 pledged $110 billion in infrastructure improvements in America. This includes 173,000 miles of roads, bridges, and highways. This massive undertaking lies in the heart of the thousands of aggregate producers in the US and is a target of aggregate mining and processing companies. Chief Economistic of the Portland Cement Association predicts the economy to be stronger in the first half of this year than initially expected.

3250 CUBE COVERED HOPPERS
SAND, CEMENT, MINERALS, ETC.

Rail aggregates are dominated by Union Pacific Railroad and, to a lesser degree BNSF Railroad. The constant growth of major metropolitan areas makes shipping aggregates by truck a rail target. The challenge is finding distribution centers within or near enough to the point of use to be economically viable. Examples of where this works is the limestone market in and around San Antonio, TX, to the Houston and Dallas markets. In the far west southern California and the South Bay Area of San Francisco has had success. The trucking rates and congestion continue to push sourcing of aggregates further away from points of us, creating the opportunity for the successful conversion of trucked aggregate movements in the railroad's headlights.

Rail will play a significant role in the delivery of these rock products.
Do you have enough railcars or too many?

The Coal Industry. Energy demand in the fourth quarter fueled a slight uptick in coal railcar loadings simply because coal was competitively priced against natural gas. Coal saw a growth of 2.7% or 90,709 railcar loadings, which was a significant increase when considering an absolute carload number.


4000 CUBE OPEN TOP HOPPERS COAL/COKE, TACONITE, BALLAST, ETC.

The next big thing in energy is hydrogen. Many power plants have or are converting to natural gas, with eyes on the next step to hydrogen. Conversations with natural gas allow the "plug and play" of hydrogen setting up companies for the future. I'm sure "plug and play" oversimplifies the facts, but you know what I mean. Hydrogen is clean, flexible, and efficient. So far, though, it had the typical bumpy ride much the same as throwing a saddle on a frisky horse on a cold winter morning in Montana. There is a lot of focus on hydrogen as an energy source right now, from production to running locomotives, heating houses, and surpassing restrictive clean air requirements.

The Scrap Industry. The World Steel Association (Worldsteel), Brussels indicates that steel demand dropped by 3.7% when comparing November 2021 with November 2022 year-to-date numbers. Turkey and the EU have been hit the hardest due to rising inflation and energy cost increases that don't allow for any fluff in the steel production process. According to RMDAS Scrap Price Index #1, Heavy Melting Steel (HMS) stymied a fourth-quarter 2022 decline in December 2022. #2 Shredded Scrap seems to have had the same turnaround. A handful of producers believe that mills are bidding on January supplies (or possibly the first quarter of 2023) to ensure they have the product to support their steel-making plans.

52' MILL GONDOLAS SCRAP, ROCK/BOULDERS, MOW, ETC.

We're seeing a resurgence in interest in 4000 cubic foot flat bottom steel gondolas and 2700 cube mill gondolas. Using a 4000-cube gondola is significant in hauling lightweight scrap. Our customers have told us there is about a 10-ton per railcar difference when utilizing the higher cubic capacity railcar. When loading HMS scrap, the 2400 cube to 2700 cube railcar will suffice. For even heavier loads, the smaller capacity mill gondola is even more ideal.

The Agriculture Industry. Global events genuinely impact the agriculture industry. The invasion of Ukraine by Russia has wreaked havoc with world grain supplies and caused a tremendous imbalance in world supply and demand. The inspection process in the Black Sea has been the focus of the United Nations, providing inspections of grain to be carried by ship to various demand points. At this time (January 18, 2023), more than 100 ships are backlogged in the Black Sea, waiting for travel approval and inspections. It's an interesting phenomenon and changes the dynamic of the world grain trade. Read more here.

Looking at commodities at the individual level is always interesting. For instance, in the marketing year 2022/2023, corn shows stocks at 1.377 million bushels with 13.73 million bushels of production for a total supply of 15.157 million bushels. Of that, 1.95 million bushels were exported on par with the 2019/2020 marketing year, which was affected by the pandemic. Approximately 11.99 million bushels are for domestic use, the lowest amount in the past five years. Using corn as an example, we anticipate slightly lower shipments but not significantly enough to impact railcar and grain train demand in the US. A good source of supply numbers is the USDA Feed Grains Reports.

The Rail Industry - Winter/Summer Weather. The weather has become a year-round phenomenon. Often global warming and climate degradation take the blame. In 2022, Buffalo, NY had the worst snowstorms the city has seen in decades. Weather significantly impacts rail capabilities to run long trains on time. Moisture in the air, and at certain temperatures, affects critical systems like brakes. As you would imagine, this causes a safety hazard when you want/need to stop. The challenge in summer months in geographic areas such as the southwest US where the heat is excessive (air temperatures souring to the 100 degrees plus mark) and rails absorb this heat. This causes "sun kinks" requiring maintenance on the track before running trains across the uneven and possibly out-of-gauge track.

Cold/snow in winter or heat in summer, there are a few items you can do to help the railroad get your railcars timely delivered. In the winter, make sure all switches are clear of ice and snow; walkways are clear and deiced, and all handholds, overhead safety equipment, and any place a human can or will be safe to travel or do their job. In summer, check your local industry track for gauge deformation (sun kinks), provide water to the outside workforce, and shade when the heat is excessive. Heat stroke is a real issue when working in excessively hot environments. **Be safe out there!**

The Railroads. The Class 1 railroads continue to make small strides in providing better, more reliable service. Last year was a struggle for them. They cut too deep on human resources with the conversion of operations to Precision Scheduled Railroading (PSR), which made it also a year of scrambling for the railroads. In the meantime, many shippers, receivers, and other interrelated service providers (ship, barge, truck) were suffering as a cause of these service challenges. Granted, it wasn't all railroads' fault. Finally, digging out, we see some service improvements and several areas that have not improved. For instance, Foster Farms in California requested Surface Transportation Board intervention to force a delayed trainload of corn to be delivered to its chicken raising facility asap since it was basically out of feed for the chickens because of earlier delays to scheduled trains. It's no fun when the government tells you how to run your business. Expect steady service improvement progress but don't be overly optimistic that service will magically improve to the required levels soon.

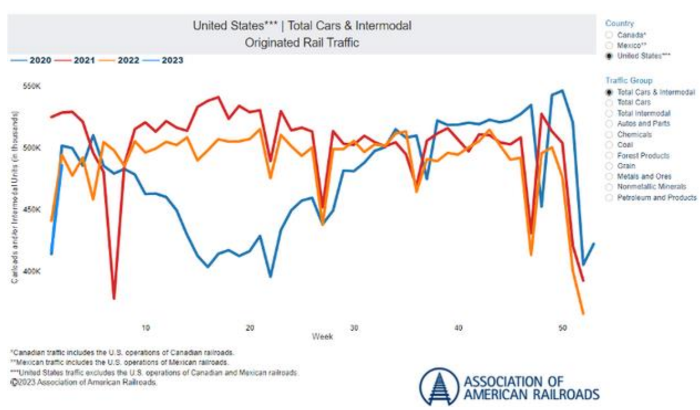
Industry Updates: Surface Transportation Board

with Darell Luther, Founder & CEO

The top of the list in Surface Transportation Board (STB) news is the directive by the STB ordering Union Pacific Railroad to deliver grain trains to Foster Poultry Farms (Foster Farms). Service continues to remain a challenge for all railroads. The STB has taken a much more active role in encouraging railroads to meet service requirements. It's interesting to keep up with the directives. You can do so by linking to STB. Next on the list is the announcement of adapting two final rules governing the rate reasonableness procedures. These rules have streamlined shippers' and railroads' approaches to resolving more minor rate disputes. The STB has established a voluntary arbitration program and an entirely new procedure for rate challenges known as Final Offer Rate Review (FORR). Smaller rate disputes are those that are not more than $4 million in rate relief over two years. For more information, click here.

Industry Updates: Rail Traffic Data

with Darell Luther, Founder & CEO and the AAR data



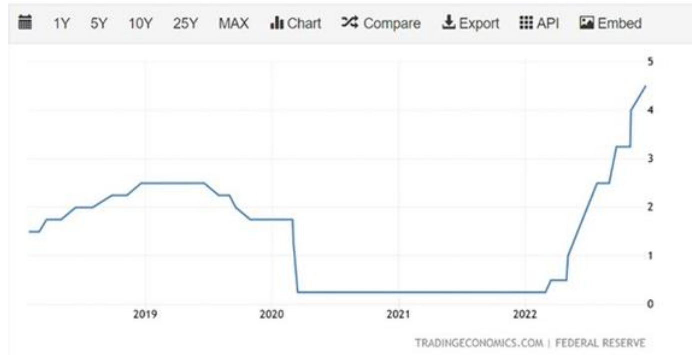
Rail traffic for the week of January 14, 2023, was 486,000 rail carloads and intermodal units. This breaks out to 244,272 rail carloads which are trending up 4.2 percent over the same week last year, and 241,829 containers (COFC) and trailers (TOFC) which are down 7 percent.

Those carload groups showing gains are grain, up 3,484 carloads to 28,008; non-metallic minerals, up 3,033 carloads to 30,380; and motor vehicles and parts, up 2,176 to 14,562 carloads. They show decreases where chemicals were down 2,226 carloads, forest products down 715 carloads, and miscellaneous down 117 carloads.
The most recent graph comparing 2020, 2021, and 2022 railcar originations shows some

resemblance to the typical seasonal patterns on would expect, except for the second and third quarters of 2020. 2023 seems to be starting strong, with originations up from the same time the previous year.

Industry Updates: Finance

with Darell Luther, Founder & CEO



The Federal Reserve Board (FRB), through the Federal Open Market Committee (FOMC), significantly influences the cost of goods by increasing or decreasing the Federal Funds Rate to banking and financial institutions. A move either way, up or down, causes a chain reaction throughout the banking system. Another charge of the FRB is to keep inflation in check thru monetary policy. This is generally in the form of interest movements.

Interest rates from approximately the second quarter of 2020 through first quarter of 2022 have been near zero (0%). The recent rise in rates by the FRB to keep inflation in check has significantly impacted the economy, slowing down consumer spending and costing those companies that work off of credit significant cost increases. Current rates are as high as we've seen in the past five years. The FRB publishes a very high-level state of the economy. It is an interesting read, you can find it through the Board of Governors.

Out & About with Tealinc

Come Meet Our Team in Person

- **March:** Meet Julie Mink & Yvonne Lufborough at Rail Equipment Finance Conference
- **April:** Meet Kristen Kempson & Shannon Rodgers at Assoc. of Short Line Railroad Shippers Confer.
- **May:** Meet Kristen Kempson at North American Rail Shippers Association

The year is just getting started! More to come…

About Tealinc

How will Tealinc create value with you?

Tealinc, Ltd. 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 to learn more…

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

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