Touchbase

MAY 2016

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Tealinc 2016 Scholarship Recipients Announced!

As an adamant supporter of post-secondary education providing over $26,000 in scholarships over the past several years, we are proud to announce the 2016 Tealinc Scholarship Recipients. We received a number of highly qualified applicants who made the decision process difficult yet it is extremely encouraging to see so many driven young people focused on not only their academic success but also on their community involvement. Our scholarship recipients bio's will be posted on our website shortly and when they are, you can learn more about each winner at **http://www.tealinc.com/news-education/tealinc-scholarship/**

Congratulations to Sarah Polich and Caitlyn Crowe!

Railroad & Policy Updates

Canadian Pacific drops efforts to merge with Norfolk Southern

Canadian Pacific announced [April 11, 2016] that it will end its attempt to merge with Norfolk Southern Corp., and will withdraw a resolution calling for NS shareholders to vote in favor of negotiations between the companies.

CP plans "no further financial offers or overtures to meet with the NS board" at this time, according to a CP press release.

"We have long recognized that consolidation is necessary for the North American rail industry to meet the demands of a growing economy, but with no clear path to a friendly merger at this time, we will turn all of our focus and energy to serving our customers and creating long term value for CP shareholders," said CP Chief Executive Officer E. Hunter Harrison.

Since late last year, CP executives have been pushing for a merger with NS, arguing that the creation of a North American transcontinental railroad would enhance competition, ease freight congestion and improve service to shippers.

NS: "We are confident the continued execution of our plan will deliver superior value to all of the company's stakeholders by best positioning Norfolk Southern to succeed"

NS rejected all three of CP's financial offers, however. [In April 2016], NS CEO James Squires encouraged employee shareholders to oppose a CP resolution calling for merger discussions between the companies' boards. The resolution was scheduled to be considered at NS' annual meeting next month.

In response to CP's announcement [April 11, 2016], NS officials said the company is committed to pursuing its five-year strategic plan to streamline operations, cut expenses and maintain "superior" customer service.

"The Norfolk Southern team has made significant progress and is on track to achieve annual productivity savings of more than $650 million and an operating ratio below 65 percent by 2020," the statement read. "We are confident the continued execution of our plan will deliver superior value to all of the company's stakeholders by best positioning Norfolk Southern to succeed."

We urge the STB to preserve its ability to review the impact of the proposal on competition and consumers before Canadian Pacific starts scrambling the eggs."

The NS statement also thanked the company's shareholders.

"We thank our shareholders for their input and support throughout this process and our employees for their hard work and dedication to strengthening Norfolk Southern as a critical component of the nation's transportation infrastructure."

CP's announcement follows recent statements by U.S. government officials who expressed opposition or concern about the proposed merger. The most recent statement came from the U.S. Department of Justice (USDOJ), which late last week filed a reply in opposition to CP's petition for a declaratory order on its proposal for the creation of a voting trust pending the Surface Transportation Board's review of the merger.

"Canadian Pacific's voting trust proposal would compromise Norfolk Southern's independence and effectively combine the two railroads prior to completion of the STB's review," said Assistant Attorney General Bill Baer of the Justice Department's Antitrust Division in a press release. "That makes no sense. We urge the STB to preserve its ability to review the impact of the proposal on competition and consumers before Canadian Pacific starts scrambling the eggs."

Read the entire article:
http://www.progressiverailroading.com/canadian_pacific/news/Canadian-Pacific-drops-efforts-to-merge-with-Norfolk-Southern--47898

Mechanical Brief with Steve Christian

Don't forget additions and betterments in railcar valuation

Rule 107 in the 2016 AAR Office Manual spells out the "HANDLING OF DAMAGED OR DESTROYED EQUIPMENT." This rule provides a means to compensate railcar owners when their railcar(s) are damaged or destroyed. This rule sets out the requirements of the damaging carrier (railroad) and the railcar owner for notification, disposition/settlement, and determination of settlement value. The purpose of this article is to examine just one specific aspect of the determination of the settlement value. That aspect is "Additions and Betterments."

To begin with, I want to explain what prompted this research. At a recent meeting, a customer advised that their serving railroad had derailed and destroyed a number of their cars. These cars had been recently purchased. Before going into service, the cars had to undergo extensive shop work in order to handle the customer's product. The cost of this work was almost equal to the purchase price of the cars. The customer was upset that he was unable to recoup this cost in the settlement value from the railroad. They asked Tealinc to research the rules and advise them if there was a way to adjust the value of their railcars to get all or some of this value. My thoughts immediately went to "Additions" and "Betterments".

Additions: Components added (not replaced) to existing equipment that are capitalized in accordance with GAAP

To see if any of the work performed on the cars could be classified as either Additions or Betterments, I began a search of AAR publications on the subject. I started with Appendix A, "Definitions" in the 2016 AAR Office Manual. Here is what I found:

Betterments: Improvements to a freight car of existing parts through the substitution of superior for inferior parts that are capitalized in accordance with GAAP

Keep extensive records, especially the BRC's, to back up your entries.

I believe that any major upgrade or major change to the cars should be considered.

U.S. carload traffic for March 2016 down 14.2 percent

Additions:
Components added (not replaced) to existing equipment that are capitalized in accordance with GAAP (Generally Accepted Accounting Principles). These additions are recorded in the equipment owners' investment account on their balance sheet.

Betterments:
Improvements to a freight car of existing parts through the substitution of superior for inferior parts that are capitalized in accordance with GAAP (Generally Accepted Accounting Principles). These betterments are recorded in the equipment owners' investment account on their balance sheet.

I then took a sample of the Billing Repair Cards for the work performed on their cars and compared the line items to the definitions above. It became apparent to me that there were many high priced items that could be classified as either Additions or Betterments. I believe that this customer can claim these costs and adjust the Umler records accordingly. While it's probably best if these values are entered into Umler as Additions and Benefits (A&B's) before the cars are first loaded with the new commodity, I think it can still be entered later. If you decide to do this, I would keep extensive records, especially the BRC's, to back up your entries.

It is important to remember the references to the capitalized value carried on your balance sheet for the railcars and "Generally Accepted Accounting Principles." It appears to me that the AAR wants the initial cost of the railcars and initial cost of the Additions and Betterments on your balance sheet to coincide with the initial cost and Addition and Betterment numbers entered in Umler. Of course the rate of depreciation and maximum depreciation will vary between book and Umler. I am not saying that every repair bill should be carried as an asset on your balance sheet and be added to Umler. However, I believe that any major upgrade or major change to the cars should be considered.

Tealinc has a wide variety of talents and experiences within our company to guide you through this. As always, Tealinc stands ready to serve you.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at ***steve@tealinc.com****.*

Railroad Traffic

The Association of American Railroads (AAR) reported [April 6, 2016] weekly U.S. rail traffic, as well as volumes for March 2016.

Carload traffic in March totaled 1,196,167 carloads, down 14.2 percent or 198,737 from March 2015. U.S. railroads also originated 1,250,925 containers and trailers in March 2016, down 7.7 percent or 104,343 units from the same month last year. For March 2016, combined U.S. carload and intermodal originations were 2,447,092, down 11 percent or 303,080 carloads and intermodal units from March 2015.

Carloads of chemicals, miscellaneous carloads and motor vehicles and parts, up

Carload declines in March 2016 include coal, down 35.9; petroleum and petroleum products, down 22.4; and metallic ores, down 27.1 percent

U.S. ports to spend $155 billion on capital projects through 2020

"The takeaway from this survey is that

In March 2016, seven of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with March 2015. These included: chemicals, up 5.5 percent or 8,439 carloads; miscellaneous carloads, up 24.8 percent or 5,925 carloads; and motor vehicles and parts, up 5.2 percent or 4,690 carloads. Commodities that saw declines in March 2016 from March 2015 included: coal, down 35.9 percent or 188,250 carloads; petroleum and petroleum products, down 22.4 percent or 15,524 carloads; and metallic ores, down 27.1 percent or 7,281 carloads.

Excluding coal, carloads were down 1.2 percent or 10,487 carloads from March 2015.

Total U.S. carload traffic for the first quarter of 2016 was 3,143,251 carloads, down 13.8 percent or 501,616 carloads, while intermodal containers and trailers were 3,339,672 units, up 1.5 percent or 49,958 containers and trailers when compared to the same period in 2015. For the first quarter of 2016, total rail traffic volume in the United States was 6,482,923 carloads and intermodal units, down 6.5 percent or 451,658 carloads and intermodal units from the same point last year.

"Railroads are still looking for the light at the end of the tunnel, and for some commodities, including coal and other energy-related products, it's just not there yet," said AAR Senior Vice President of Policy and Economics John T. Gray. "That said, most economist are calling for continued slow but steady economic growth for the U.S. in the months ahead. Railroads stand ready to provide the freight transportation service the economy will require."

Visit the AAR at:
www.aar.org

Industrial Inside

U.S. ports are slated to invest $154.8 billion in freight and passenger infrastructure through 2020, according to a recent survey by the American Association of Port Authorities (AAPA).

In the 2016-2020 Port Planned Infrastructure Investment Survey, the association asked its U.S. member ports how much they and their private-sector partners plan to spend on infrastructure over the next five years.

The biggest project investments will be at ports along the U.S. Gulf Coast, where many new energy processing, production and transfer facilities are being planned, AAPA officials said in a press release. Private-sector investment in the area was estimated at more than $122 billion, according to the survey.

The overall $155 billion figure reflects a more than threefold increase compared to the results of a similar survey five years ago, when ports estimated they'd spend $46 billion on infrastructure improvements.

The AAPA noted that the federal government is expected to invest about we must have increased and sustainable funding at and on both sides of our ports"

$25 billion in U.S. ports through 2020, and emphasized the importance of greater public funding.

Historically, the federal government has under-invested in the United States' transportation system, AAPA officials said.

"The takeaway from this survey is that we must have increased and sustainable funding at and on both sides of our ports," said AAPA President and Chief Executive Officer Kurt Nagle. "There's still a lot of work to be done, but the investments that we make today in our ports will pay off for generations to come."

Read the entire article at:
http://www.progressiverailroading.com/intermodal/news/US-ports-to-spend-155-billion-on-capital-projects-through-2020--47913?email=julie@tealinc.com&utm_medium=email&utm_source=prdailynews&utm_campaign=prdailynews04/12/2016

Financial Focus

Early warning signs of recession flash faintly in US jobs data

As the economy again started off the year on a sour note, the glass-half-full crowd pointed to the strength of the U.S. jobs market as a reason not to worry. As long as payrolls are racking up monthly gains of 200,000 or more, the economy remains in fine fettle, or so the optimists would have it.

Take a peek below the headline jobs data, however, and there are signs that the labor market is losing some momentum. Temporary-help employment, which peaked prior to the last two recessions, is showing signs of topping out. And a broad labor-market index constructed by Federal Reserve economists -- and monitored by Chair Janet Yellen -- has fallen for three straight months, the first time that's happened since 2009.

"I am a little concerned," said 75-year-old Bob Funk, chief executive officer of Express Employment Professionals, which provides temporary workers to companies. "Our industry is always on the front end of a recession," as provisional workers are the first to be let go on signs of economic weakness.

In the run-up to the 2001 recession, provisional employment peaked 11 months before the downturn began. The lag before the Great Recession of 2007 to 2009 was 16 months.

Temporary-help employment fell in two of the past three months and is down 1.8 percent so far this year -- even while total payrolls are higher. “It’s leveling off," said Funk, who co-founded Oklahoma City-based Express Employment Professionals in 1983. “We ended up 10 percent last year. We’re only up about 2 to 3 percent so far this year.”

In the run-up to the 2001 recession, provisional employment peaked 11 months before the downturn began. The lag before the Great Recession of 2007 to 2009 was 16 months.

The picture is similar for the labor market conditions index, which is comprised of 19 indicators, including temporary help. The six-month moving average of changes in the index turned negative nine months before the 2001 economic drop-off and five months before the more recent recession.

On that basis, broad-based declines among its components turned the average just barely negative last month, suggesting labor conditions may be plateauing rather than deteriorating in a way that would presage a recession.

Few forecasters are saying that an economic downturn is imminent, in spite of a projected further slowdown in the first quarter. Economists at St. Louis-based Macroeconomic Advisers put growth from January through March at a 0.9 percent annualized rate, down from 1.4 percent in the last three months of 2015.

Economists polled by Bloomberg in April lowered their odds of a recession in the next 12 months to 15 percent, from 18 percent in March and 20 percent in February, according to the median calculation.

And even some of Funk's fellow staffing specialists are voicing confidence in the outlook.

"Generally speaking, we think the labor market is still fairly robust. We've certainly seen certain sectors that had some weaknesses, like manufacturing. But they've bottomed out to some extent and are starting to stabilize."

"Generally speaking, we think the labor market is still fairly robust," said Kip Wright, senior vice president of Manpower North America, part of ManpowerGroup Inc. "We've certainly seen certain sectors that had some weaknesses, like manufacturing. But they've bottomed out to some extent and are starting to stabilize."

In perhaps a sign of strength, companies seem more willing to take on permanent workers rather than hiring temporary help. "They're gaining more confidence," Wright said. "Our full-time hiring business is growing at significant double-digit numbers."

That said, some staffing-company executives describe labor-market conditions that are more reminiscent of an expansion that is closer to its end than its beginning.

They say it's hard to find workers to meet the needs of their clients and report that wages are starting to increase as a result -- developments that typically occur in the latter half of an expansion as the economy begins to reach its limits.

"We're probably two-thirds of the way through the cycle" that began in June 2009, said Michael Gapen, chief U.S. economist at Barclays Plc in New York.

The history of cyclical fluctuations in the U.S. suggests that the "odds are significantly better than 50-50 that we will have a recession within the next three years"

The history of cyclical fluctuations in the U.S. suggests that the "odds are significantly better than 50-50 that we will have a recession within the next three years," former Treasury Secretary Lawrence Summers told a group of economists in Cambridge, Massachusetts on April 15.

Learn more at:
http://www.msn.com/en-us/money/markets/early-warning-signs-of-recession-flash-faintly-in-us-jobs-data/ar-BBrWz5n?li=BBnb7Kz&ocid=UE07DHP

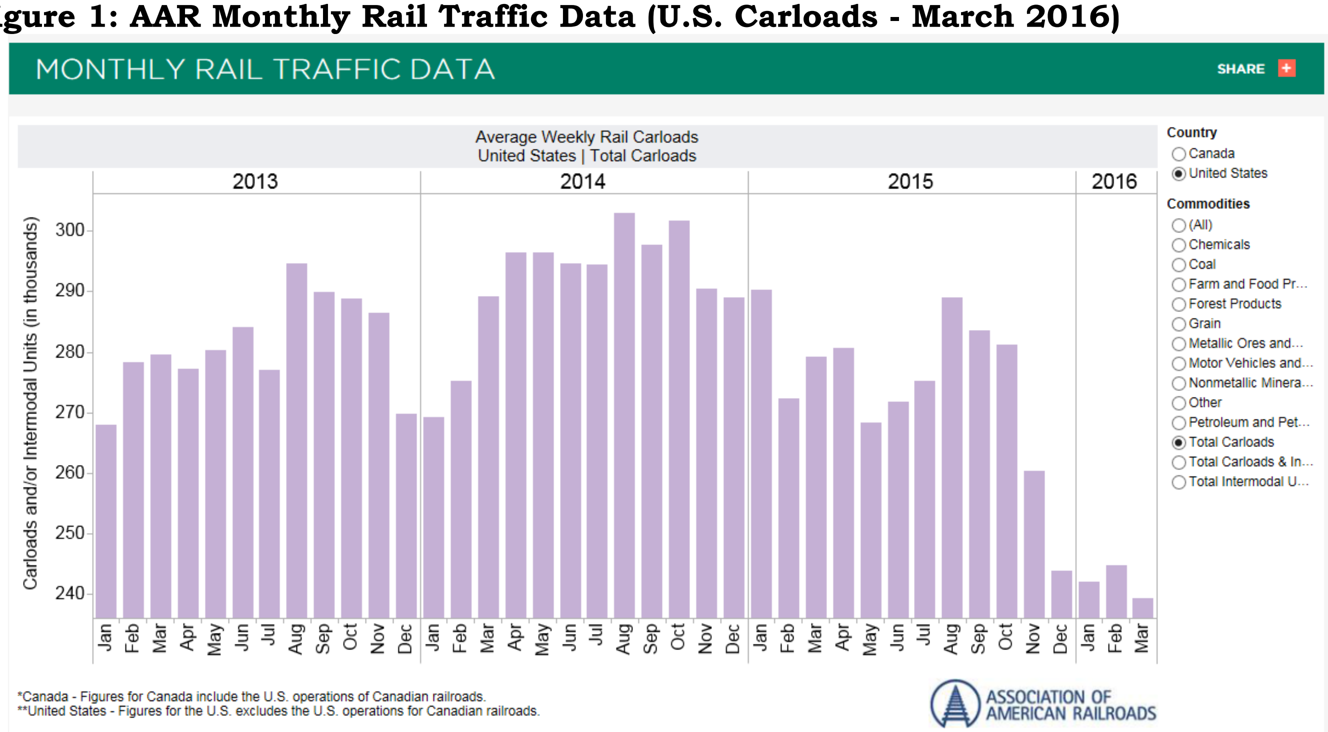
The Edge
… with Julie Mink

Here at Tealinc, Ltd. our clients are quite diverse. In the same day, we may talk with an industrial shipper moving unit train business, planning for scheduled plant maintenance and looking to store idle cars, another customer pre-planning railcar maintenance and upgrading portions of his fleet, a customer looking to revamp their railcar maintenance plan, or we may speak to someone new to rail who is exploring the idea of transitioning his product from truck to rail, flabbergasted by the gluttony of rules, regulations and processes. We may spend time in the same day talking to a customer eager and desperate to find the railcars that best fit his move and then another customer long on cars desperate to get cars sold so that storage bills will stop accumulating. It's interesting that in the same work day, such a diversity of work comes across our desks. While the customers and conversations may be varied, one thing is for sure. When you ship via rail, you'll need to spend a lot of time carefully planning and understanding what's going on in "the rest of the world" to understand how to best plan and anticipate challenges and opportunities for your business.

I anticipate that as you're reading this, you notice you've fallen into one of these scenarios a time or two before – either you've had an excess of rail equipment or a feeling that the well has simply run dry and the equipment you need is non-existent. Finding the "perfect balance" happens only once in a great while.

Looking at the AAR Monthly Rail Traffic Data (see figure 1 below), it's clear that total U.S. carloads through March 2016 are markedly off. As one would expect, this would equate to an excess of idle rail equipment in general, both private and railroad controlled so we find it interesting to look at a snapshot of where we're at right now and give advice as to where we think we're headed.

Figure 1: AAR Monthly Rail Traffic Data (U.S. Carloads - March 2016)



U.S. Rail Carload Volume Continues to Drop

The first quarter of 2016 is off to a rough start. If you don't already have a subscription to the AAR "Rail Time Indicators" report, it's worth the investment and monthly read albeit in this market, I liken reading it on a consistent basis to reading my investment portfolio. When you look at the big picture, things are going okay but when you focus in on a consistent basis, the pieces can feel overwhelming and the decreases feel dramatically depressing. In the April report of Rail Time Indicators, published April 8, 2016, total carloads year to date (excluding intermodal) were 3,143,251 (down 13.8% from Q1 2015.) Out of the top twenty commodity carloads tracked by the AAR, only 6 commodities have a positive change in U.S. rail carload origination (see Figure 2 below) while the remaining 14 commodities have seen much better days (see Figure 3 below.) You know things are rough when the carload types with the highest percentage increase is "All other carloads".

Figure 2: Change in Originated U.S. Rail Carloads – March 2016 vs. March 2015

Commodity Group	Carloads	Percent Increase
Motor Vehicles	19,698	9.1%
All other carloads	18,679	32.4%
Chemicals	12,827	3.2%
Waste & nonferrous scrap	4,946	12.7%
Coke	4,007	8.3%
Stone, clay & glass products	593	0.7%

Figure 3: Change in Originated U.S. Rail Carloads – March 2016 vs. March 2015

Commodity Group	Carloads	Percent Decrease
Farm Products Exc. Grain	-212	-4.7%
Nonmetallic minerals	-265	-1.2%
Food products	-348	-1.1%
Primary metal products	-431	-1.0%
Primary forest products	-445	-6.2%
Pulp & paper products	-741	-2.6%
Lumber & wood products	-1,168	-6.4%
Crushed stone, sand & gravel	-2,215	-2.1%
Grain mill products	-3,129	-6.3%
Grain mill products	-4,818	-4.3%
Metallic ores	-7,281	-27.1%
Petrol. & Petr. Products	-15,524	-22.4%
Coal	-188,250	-35.9%

So What Does This Mean For You?

If you have ever thought of getting into rail, a real opportunity is waiting for you. While this business is exceptionally cyclical and we cannot pretend to have a crystal ball in order to forecast the future, an opportunity is knocking on your door inviting you to move your product via rail. The percentage of carload decreases in Q1 – 2016 point to a continued depressed rail situation. Coal, which has carried the rails for a long time, is struggling and doesn't show signs of ever returning to "normal" levels.

Railroad Performance Measures - Train Speed and Terminal Dwell

When you look across the Class I railroads you'll find two measures of fluidity - train speed and terminal dwell. We've talked about this before but I think it deserves a close look right now especially while carload volumes are down. Train speed is the movement of trains across the tracks unencumbered except when help short for congested yards, maintenance of way, accidents or acts of God. Train speed as reported in Figure 4 below shows a slight uptick in MPH for March 2016 as compared to 2Q15. Terminal dwell is the time a car or trains spend in the yard being reclassified or waiting for clearance to move across the next leg of the system. Terminal dwell is slightly down for March 2016 compared to 2Q15. Both metrics are similar to what one would expect – reduced carload traffic typically indicates reduced revenue for the railroads which in turn leads to more parked engines and a reduction in crews. You can find both measures here http://www.railroadpm.org/ and here is a current breakdown.

Figure 4: Railroad Performance Measures (Train Speed and Terminal Dwell)

Railroad Performance Measures - Historical Average (*CN not included in average - no 2Q15 metrics reported)		
	2Q15	**Mar-16**
Train Speed (Miles / Hour)		
BNSF	23.6	28.1
CSX	20.3	20.7
KCS	26.4	27.5
NS	21	23.6
UP	24.6	26.9
AVERAGE*	**23.18**	**25.36**
CN		27.9
Terminal Dwell (Hours)		
BNSF	25.3	26.2
CSX	25.1	25.8
KCS	23.5	22.6
NS	25.5	23.5
UP	28.4	27.5
AVERAGE*	**25.56**	**25.12**
CN		14

Our Advice Moving Into Summer 2016…

Our advice is to watch evaluate your current scenario as well as your projected volumes for the next 6 – 12 months and further out if your industry allows you to do so. Make sure to stay focused on the big picture and take advantage of situations that allow you to right size your fleet while capitalizing on any cost savings. We anticipate the continued decline in carloads will insight a new level of available cars either off lease in storage or coming off lease or up for renewal. We also know lessors are seeing an opportunity (and mandatory requirement) to upgrade their fleets which will mean some older equipment may become available for sale while some equipment will head for the scrap yard (watch scrap pricing – advantages will be taken as scrap pricing ebbs and flows). We also anticipate that lease rates for renewals will either stay flat or drop slightly truly depending on car condition and market availability and lease rates for new leases may drop slightly.

There are definitely opportunities to be had and we look forward to helping you achieve your rail fleet goals. Whether you're long on equipment and want to sell cars (inquire about our highly regarded marketing program) or you're looking to add / replace cars in your fleet, you can rely on our years of experience and market knowledge to help you achieve your goals.

We look forward to earning your business!