



RAILBLAZERS

ALLTRANSTEK, L.L.C.

Commercial Rail Transport Management and Consulting

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A CLOSER LOOK SERIES

Closer Look Series

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PICKING A PROGRAM: FLEET MANAGEMENT

Railcars are expensive, and they don't grow on trees. But shippers need railcars, especially in markets where rail presents economical shipping opportunities while other modal options may be limited. Thus, many shippers find themselves in the business of producing or moving commodities that require the use of railcars—meaning they either have to own them or they have to lease them.

The railcar market is coming off a record high that was completely driven by energy. Ethanol fueled production for the first part of the cycle and was quickly followed by growth in the oil and frac sand markets. Now the markets are totally changing and equipment investors (*i.e.* leasing companies) are going to have to develop new growth strategies.

This hyper-active railcar build environment at-

tracted a lot of interest from industry outsiders that wanted to enter the market through investment in railcars. The last five years have seen a record number of new railcar owner entrants to the market. New owners have ranged from oil companies that traditionally used pipeline, but needed a rail capacity for emerging oil markets, to new start up leasing companies.

Even now, coal continues its decline, agricultural markets struggle, and the tank car surplus has grown astronomically. A wealth of equipment has been available in the marketplace, and oftentimes at the right price for new investors.

All in all, new investors have been enticed by both the extremely attractive and hot markets, as well as prime purchasing opportunities to acquire relatively inexpensive used equipment.

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CAR TYPE HIGHLIGHT: OTH FLEET

Open top hoppers (OTH) are primarily a coal-driven rail car type, yet carry a slightly more diverse commodity base than their coal counterpart, the gondola fleet, due to the presence of bottom outlet gates. The OTH fleet currently totals 146,100 cars.

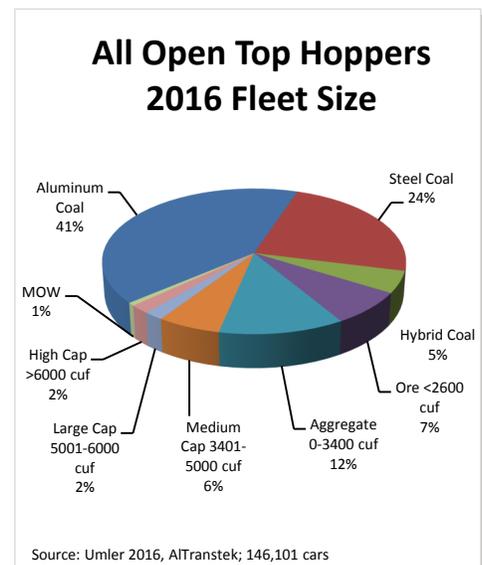
The North American open top hopper fleet is split into four main car types: coal hoppers, ore jennies, aggregate cars, and other higher capacity open top equipment. Like the gondola fleet, open top hoppers are generally differentiated by the car's cubic footage capacity.

The coal open top hopper fleet is the largest segment, totaling 102,000 cars. This is further segmented by material build of the car into three groups: aluminum cars, with 60,300, or 59% of the coal segment; steel cars, with 34,700 cars or 34% of coal OTH's; and Hybrid coal cars, with 7,100 cars, or 7% of the coal fleet.

Ore jennies are a specialized open top hopper

designed for heavy haul iron ore carloads. Ore jennies feature cubic capacity specifications of less than 2600 cuf (cubic feet).

Aggregate open top hoppers are considered to



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PROGRESSIVE RAILROADING ARTICLES

AllTranstek's Chief Commercial Officer, Richard Kloster, was recently featured by Progressive Railroading Magazine in their most recent July issue. This marks Mr. Kloster's second article of the year for the magazine, and he will also be featured once more in 2016.

April 2016 - Tank cars: The Year of the Shipper

This article discusses the increased auditing efforts of the FRA over 2016, and the compliance challenges posed to shipper tank car owners.

[Read the full article!](#)

July 2016 - Rule change could help ease box-car supply problem

With a box-car fleet that is not getting any younger, this article discusses a rule change which provides an opportunity for increased life of rail equipment

[Read the full article!](#)

(RCM continued from page 1)

While railcars don't grow on trees, they have certainly been ripe for the picking.

Now these new owners need to manage their equipment in some way. Typically, first time buyers of rail equipment will purchase used cars or acquire cars through finance lease purchase options. If the cars were already contracted with a third party fleet maintenance management provider, the simplest solution may be to extend that contract for a reasonable time while the new equipment owner considers fleet management options over an evaluation period. New car buyers may be offered similar management options by builders with a leasing division.

Prudent companies will look to maximize cash flows through high railcar utilization by minimizing lengthy out of service times and maintaining a healthy and safe fleet of railcars. The long term options for new owners are essentially to develop an in-house program, or outsource their fleet management needs to third party providers.

It can take years of practice, and millions of dollars, to develop a management program and build a complex system in-house. Managing a fleet of railcars requires significant investments of capital, human resources, technology, and time. So what are the big picture things a company needs to consider for the well-being of their fleet? The following items are top things that companies should consider when weighing their options and debating whether to perform them in-house or externally.

What car types are featured in this newly acquired portfolio? Any portfolio that features tank cars will present a seemingly endless string of regulatory hoops and hurdles. Tanks are burdensome to deal with because of the scrutiny placed on them from a compliance standpoint. On the other hand, non-tank freight cars are more manageable to varying degrees, and the amount of management activity needed for a fleet will largely depend on the cars present in the portfolio. For some car types that tend to forego maintenance and exercise early retirement options, companies may implement a very basic system that simply moves cars from origin to destination, manages freight bills, and audits shop and running repair invoices. Performing even these basic duties can technically

be considered "managing a fleet". However, there is a difference between optimally managing a fleet and running a fleet with minimal framework.

What programs can be leveraged to realize significant financial savings opportunities?

There are a few obvious answers to saving cash through fleet management. These programs are applicable to any car type and include:

Monitoring fleet movement. Performing mileage equalization by auditing annual mileage reports to ensure railroads have not overcharged for shipments.

Take taxes seriously. Ad valorem tax services provided by knowledgeable entities with a large customer base may present opportunities to reduce tax exposure. Knowledge of some legal issues may also be advantageous for challenging ad valorem tax assessments.

Lastly, audit everything! Audit railroad repairs, shop invoices, rentals, shop credits, retirement dates... auditing for correctness in price and process will always be prudent behavior for companies hoping to maximize their profits.

What additional measures should be taken for tank car owners?

Tank car owners have the onerous challenge of sifting through the regulatory world in combination with all the basic fleet management activities for regular freight cars. These owners will need to leverage a significantly higher amount of resources to successfully manage their fleet. First, new tank car owners need to have knowledge on their side. They will need input and feedback on many fronts, including engineering, regulatory compliance, and NDT. Apart from this "crash course" knowledge, new tank car owners also need to understand the importance of keeping their data organized, accessible, and defensible under tank car laws surrounding qualification intervals.

Ultimately, resources and knowledge are going to dictate the way many new railcar owning companies proceed. Some will fully outsource, while larger entities may take on the challenge of running the management program. For many new owners though, the road to operating excellence may require a mix in the way these services are sourced. Regardless of the route a company chooses to go, prudent car owners will carefully weigh all their options in picking their type of fleet management program and service mix.

ALLTRANSTEK RESTRUCTURE

AllTranstek, L.L.C. recently announced a restructuring of the company's fleet management teams by adding a fourth team to better service its growing client base and through the promotion of several valued employees.

Each of AllTranstek's four fleet management teams include maintenance managers, fleet coordinators and a team account manager. The restructuring accommodates increased demand for AllTranstek services as the Company surpasses 250,000 railcars under management.

AllTranstek also announced that Allison Bernabei will oversee onboarding of new accounts in conjunction with AllTranstek's Client Services, Technical Services, and Strategic Services teams – providing fleet management customers with a streamlined and consistent solution for their specific fleet needs. Allison has been with AllTranstek since 1997 and has years of experience in fleet management, repair trend analytics, estimate review and approval, JIC/DV preparation and resolution, scrap resolution, lease allocation, and auditing. She has led one of the two Downers Grove based fleet operations teams.

AllTranstek would like to thank its newly promoted fleet managers for their hard work and leadership over the past years in supporting the growth of the company. Their employee profiles can be viewed in the Employee Spotlight section of this newsletter on page 5.



THE MINER MINUTE

Which commodities are currently driving the most demand, both for new car builds and construction of Miner components?

Due to a softening in energy related commodities like coal, oil and frac sand, new

railcar construction has transitioned to designs for bulk commodities like grain, DDG and plastics. Miner follows these transitions closely and develops solutions that match customer needs.

Among all your product categories, where do you see the most innovation from an industry perspective and from Miner's perspective?

Many rapid discharge coal car owners are looking for cost effective solutions to repurpose their cars. Miner has developed unique rapid discharge solutions built with retrofit in mind, including locks on each door allowing the door to be operated from either side of the car. The system can be furnished with the appropriate linkages for use in aggregates or other heavier commodities.

As the longtime leader in hopper car outlet gate design and manufacturing, Miner now offers an innovative trough hatch cover design that has changed customer expectations for commodity protection and longevity.

Are you seeing more demand for components in the new car market or in the aftermarket? Does this vary across certain component types?

Many Miner components are designed to last the life of the car, so replacement needs are few in certain functional areas. However, side bearings are in higher demand due to increased tank car qualification. Customer expectations for component life cycle have evolved over the years, and we strive to evolve our products with their expectations in mind.

How does your R&D team respond to customer requests for modifying designs? Perhaps you could walk us through a recent success story?

A small example of our response to customer needs includes the modification of an existing Durashield hatch cover. Recently a Class I railroad approached us to modify our hatch cover design for their grain covered hopper. We assembled a team internal to Miner to facilitate the execution of the project. Miner engineering worked with the Class I railroad to finalize the design. This information was passed along to the car builder so they were aware of the difference in this design as compared to what they were used to installing. The overall time to come to market with this new design was relatively quick.



2016 Schedule of Events

NCTA Annual Conference

Denver, CO

Sep. 12-14

FTR Transportation Conference

Indianapolis, IN

Sep. 13-15

Chlorine Institute

Orlando, FL

Sep. 26-29

NEARS

Portland, ME

Sep. 27-29

Railway Supply Institute (RSI)

Omaha, NE

Oct. 2-4

SWARS

Glendale, AZ

Oct. 4-6

AAR Tank Car Committee Meeting

Galveston, TX

Oct. 18-20



FTR 2016 TRANSPORTATION CONFERENCE

The FTR Transportation Conference delivers more intelligence than prior years via four content channels over two days. After setting the stage with the State of Freight (overall economy and freight environment) review the morning of day one, concurrent sessions begin. Content channels include: Shippers, Carriers & Brokers, Truck & Trailer Equipment, and Rail Equipment.

Rail Equipment Content Channel:

Gain deep insight into forecasting and current conditions. Cover hot topics like government regulations, crude, and non-crude market segments.

Industry leaders will converge on September 13-15, 2016 at the historic Union Station, in downtown Indianapolis, IN to deliver the most complete and comprehensive outlook on freight transportation in North America.

Register or learn more at...
www.FTRconference.com



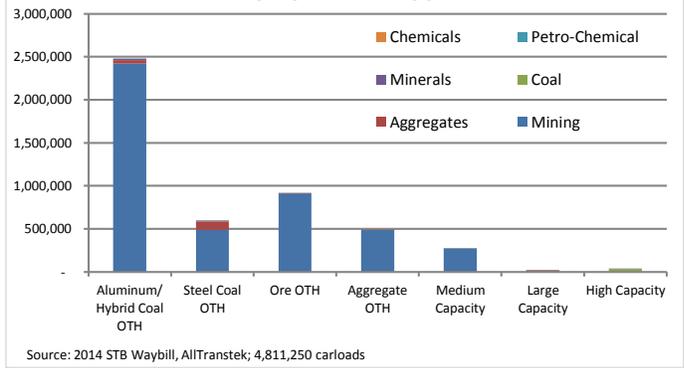
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be less than 3400 cu ft in capacity. This segment totals 24,000 cars—smaller variety of aggregate cars (0-2400 cu ft) outnumber the larger 2401-3400 cu ft car at a rate of 2 to 1. Designed to transport dense aggregate materials, primary commodities include crushed stone, phosphate rock, industrial sand, and gravel.

Other higher capacity open top hoppers haul coal coke, pulpwood, lightweight aggregates, and may find service opportunities in coal shipping. This fleet is dominated by the 3401-5000 cu ft medium capacity OTH segment, which totals 8,900 cars. The large and high capacity open tops, with cu ft capacities of 5001-6000 and >6000 respectively, each contribute an additional 2,800 cars to this fleet.

Shipments in open top hoppers are heavily skewed toward coal service, which accounts for 61% of the fleet traffic volume. This fleet does not move an extremely diverse commodity base, but the presence of bottom outlet gates

Open Top Hopper Traffic by Equipment Type



on the car type do allow for some service opportunities shipping other bulk materials within the Mining Industry. Minerals and aggregates, totaling 1.6 million carloads, trail behind coal shipments. Minerals traffic share of 20.3% exceed aggregate traffic share of 13.9% of OTH fleet traffic.

Utilization climbed to 78.8% in 2014, the first time the OTH fleet has exceeded the long term utilization average since 2007, largely as a result of retirements and modest coal surge. However, this is a run against what is expected to be a long term trend of declining coal shipments.

All charts and graphs come from the OTH Closer Look Report

FLEET MAINTENANCE MANAGEMENT

AllTranstek's fleet management program has experienced continued growth over the past few years, eclipsing the 250,000 railcar mark at the start of 2016. This growth is a real testament to both the quality of our service and the quality of our people. AllTranstek's fleet managers take pride in going to battle for customers so that customers can safely keep their fleet active and moving.

Repairing railcars can be a notoriously difficult process. The road to achieving a well maintained and healthy railcar fleet is filled with potholes, detours, and obstructions. Tasks include: (a) finding a qualified repair shop, (b) routing the car to selected shop in a timely manner, (c) ensuring that the correct components are used given a particular commodity, (d) calling the shop regularly, updating and comparing UMLER and other records to railcar stencil, and much more. It is a full-time job.

AllTranstek's program is designed to be a resource and communication bridge between railcar shippers and repair shops. By offering expert knowledge of the maintenance world and particularly the complicated rules and regulations surrounding tank cars, AllTranstek fleet

managers pave a smooth and trouble free road leading customers cost savings without fretting over tedious day to day management activities.

Familiarity with the North American shop system is vital to successful fleet management, and cultivation of a strong repair network for a fleet owner is not something that happens overnight. AllTranstek's team has been involved with the network of railcar repair facilities for over 20 years, allowing our customers to make new repair possibilities at diverse locations.

Knowing and interacting with so many shops also helps our team monitor nationwide rate structures and repair pricing ultimately reducing charges to the customer. In fact, AllTranstek's intervention often results in fee savings equivalent to the cost of one of our managers. Apart from shop and railroad repairs, we strive to save our clients money across many functional areas, including mileage equalization, taxes, railroad and rental audits, and UMLER maintenance.

Fleet management is what AllTranstek does best. Let us take railcar maintenance off your plate, so you can focus on your core business.

EMPLOYEE SPOTLIGHT

Jay Kraska

Account Manager

Jay Kraska is completing his fifth year in AllTranstek's fleet management group. Jay is adept at managing his clients' maintenance needs. Jay enjoys challenging repair estimate, and being an expert in all tank car regulatory issues. With his knowledge of tank car maintenance, Jay guides car owners, lessees, and repair shop staff in navigating the confusing and difficult world of tank car compliance with client budget in mind.



Jerry Raymond

Account Manager

Jerry Raymond has been with AllTranstek for over 3 years. Through his time training at Rescar's Savanna, Illinois repair track, Jerry learned the importance of enforcing customer maintenance procedures. His experience in fleet management includes invoicing, reporting, estimate review and approval, JIC/DV preparation and resolution, expediting compliance, and continuously growing his customer's repair network.



Troy Bryant

Account Manager

Troy has been with AllTranstek for 9 years. He brings over 25 years of experience in the rail industry. He began his career with Rescar and spent 15 years working at various Houston area locations, including ten years as a mini-shop manager. His rail-car repair background brings a unique perspective to fleet management. Troy's experience includes, BRC review, invoicing, JIC/DV preparation, regulatory compliance, and report development.



Meet our new Pod leaders!

THE IMPORTANCE OF OTMA

One time movement approval (OTMA) allows car operators of damaged or non-conforming equipment to transport the car in question without violating FRA rules and being subjected to the penalties of violation. Fees for FRA violations begin at \$7,500 per day per car during days on which the car is moving, with fees increasing as the severity of the violation increases.

OTMA guidelines are listed in FRA HMG-127 Rev. 4 and cover movement approvals for a non-conforming bulk package transporting a regulated commodity or a non-conforming DOT specification car that is transporting a non-regulated commodity (*i.e.*, a tank car stenciled to an AAR specification, but built to a DOT specification).

HMG-127 details defect types that allow for expedited movements, referred to as OTMA-3. The simplest of the three is the OTMA-3. OTMA-3 applies to a non-PIH commodity (poisonous inhalation hazard) that has not been involved in a NAR, and the non-conforming conditions must meet the defect descriptions listed in HMG-127. If defect descriptions do not match the criteria provided in HMG-127, the car requires OTMA-1 approval.

An OTMA-2 applies to a car that is overloaded by weight greater than 1,000 lbs of the car's gross rail load capacity (grl). The grantee (entity seeking the OTMA) must provide information/calculations to the FRA that indicate the car will never reach shell-full at any point during transport, including effects from ambient temperature variation. A car that is overloaded by volume will not be allowed to move until some product has been removed.

An OTMA-1 is called a traditional approval. It is the "catchall" for other defective and non-conforming equipment when OTMA-2 or OTMA-3 do not apply. An OTMA-1 submission requires the grantee to wait for the FRA to review the information and provide a written approval before the car can be moved.

Any application errors, from submitting the wrong type of OTMA to incorrectly completing the application can result in fines. OTMAs may be submitted online at <https://safetydata.fra.dot.gov/OTMA/default.aspx>.

Once approvals are received from the FRA, movement of the car must meet FRA written instructions in the OTMA and HMG-127. AllTranstek provides assistance with submitting OTMA applications.



AllTranstek Presentations and Events 2016

"NDT Are You Covered"

Date: June 9, 2016

Location: AllTranstek

Format: Webinar

Contents: This presentation offered perspective on what it takes to build a compliant NDT Program, identify compliance gaps, and maintain good standing with regulatory requirements.

"Rail Viability, Rates and Regulations"

Date: June 7, 2016

Conference: Argus North American Crude Transportation Summit 2016

Location: Houston, TX

Format: Presentation

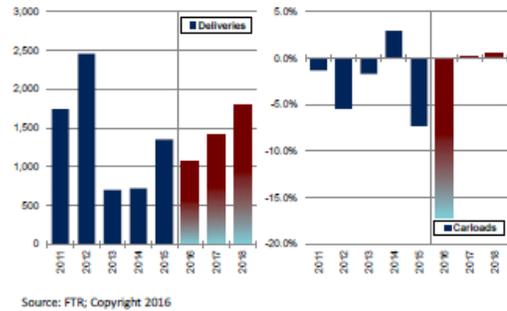
Contents: This presentation discusses the continued use of rail in crude shipping markets in light of rates and the increasingly difficult tank car regulatory environment

Please contact us if you would like to receive a copy of these presentations

FTR OUTLOOK: OTH FORECAST

- ◆ **Freight:** OTH traffic is forecast to drop 13.5% in 2016 to 4,645,000 carloads, then increase to a meager 0.5% AAGR over 2017-2020, reaching only 4,744,000 carloads in 2020.
- ◆ **New Cars:** Deliveries are forecast to fall 20.4% y/y to 1,074 cars in 2016, all Steel OTH. Over 2017-2020, deliveries are projected to grow at a 37.8% AAGR, increasing to 2,700 cars in 2020, with 44% Aluminum cars.
- ◆ **Inventory:** Retirements projected to fall 4.0% in 2016 to 6,810 cars, then average 6,174 cars over the 2017-2020 period, a -3.5% AAGR.
- ◆ The fleet is projected to total 130,462 cars in 2016, down 4.2% y/y, and continue to decline through 2020, at a -3.1% AAGR, to 114,067 cars in 2020.
- ◆ Surplus expected to increase 33.7% y/y in 2016 to 70,408 cars, then decline at a -5.3% AAGR to 55,371 cars in 2020.

N.A. Open-Top Hopper Outlook



Open-Top Hopper Market Indicators: 2016Q1

Actual, Not Seasonally Adjusted	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Orders	698	693	111	400
% Change, Y/Y	353.2	35.9	593.8	277.4
Backlogs	1,015	1,553	1,312	1,543
% Change, Y/Y	48.8	30.3	24.0	75.9
Deliveries	549	150	352	169
% Change, Y/Y	32.6	-3.2	134.7	-43.3
Backlogs/Deliveries Ratio	1.8	10.4	3.7	9.1
Net Orders/Deliveries Ratio	1.3	4.6	0.3	2.4

Source: ARCI Committee of the Railway Supply Institute

- ◆ Fleet utilization is forecast to plunge 15.2% points y/y in 2016 to 46.6% then improve to 50.2% in 2017, before averaging 51.8% over the 2018-2020 period.
- ◆ **Forecast Changes:** Higher surplus, lower utilization, freight, & deliveries.
- ◆ **Downside Risks:** The delivery forecast is conservative, but freight weakness and a high surplus persist, holding down new car demand.
- ◆ **Upside Risks:** Replacement demand for non-coal OTH.

All charts, graphs, and data are derived from the FTR Rail Equipment Outlook Report
For more information on this report, please visit www.ftrintel.com/REO



A Closer Look Series is comprised of six individual reports, each of which exclusively covers one of the major car types: Covered Hoppers, Tank Cars, Gondolas, Open Top Hoppers, Box Cars, or Flat Cars. These reports provide invaluable information and insight for longstanding rail equipment industry participants, as well as new entrants to the industry. Among the companies who will benefit the most are fleet owners, leasing companies, new car builders, component suppliers, service providers, financial institutions, investors, rail carriers and shippers.

A Closer Look Series examines the current railcar market from multiple angles, analyzing trends in fleet size, age, ownership, segmentation, commodity traffic bases, new car deliveries, retirements, utilization, attrition, car surpluses, and much more.

[Click here for more information on A Closer Look Series](#)



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Founded in 1994, AllTranstek has grown into one of North America's largest railcar management and consulting companies, currently managing over 250,000 railcars for some of the country's largest fleets. AllTranstek also provides technical, operational, and strategic consulting services to a broad range of companies active in the rail and rail equipment supply chains. No other company has the combination of institutional knowledge, innovation, and independence that characterizes AllTranstek. As an independent company, with no ties to outside funding from industry or government, our clients can be confident that we always have their best interests in mind. AllTranstek continues to cultivate strong relationships with clients both large and small because of our ability to creatively and flexibly tailor services of various sizes and scopes to each customer's individualized needs.