Memorandum

U.S. Department
of Transportation
Federal Highway Administration

Washington, D.C. 20590

Subject: Equipment Rental Rates

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From: Chief, Construction and Maintenance Division
Office of Highway Operations

Reply to Attn. of: HHO-32

To: Regional Federal Highway Administrators
Direct Federal Program Administrator

Previous memorandums have addressed FHWA's policy concerning the acceptability and use of equipment rental rate guides for contractor owned equipment. These include Mr. Gendell's memorandums of August 22, 1986, October 30, 1986, and December 23, 1986, and Mr. Weseman's memorandum of January 27, 1988, (copies attached). The principle of equipment rental rate guides for contractor owned equipment is that they should fairly represent the contractor's actual cost of owning and operating equipment.

Several issues not covered in earlier guidance memorandums have been raised. These include the use of standby equipment rental rates, the use of equipment the contractor obtains through a third party rental agreement, and the eligibility of mobilization costs associated with the use of contractor furnished equipment. There also appears to be misunderstanding on how the Blue Book is developed. Specifically why the monthly rate should be divided by 176 to obtain the hourly rate and how reduced construction seasons are addressed.

Standby Equipment Rates

The contractor continues to incur certain ownership costs when equipment is required to be on standby. To allow an equitable compensation, standby rates which fairly reimburse the contractor for the expenses of owning the equipment may be approved for Federal-aid participation. The use of a standby rate is appropriate when equipment has been ordered to be available for force account work but is idle for reasons which are not the fault of the contractor. The standby rate may be based on the contractor's actual costs or data from an approved rate guide. In either instance, there should be no operating costs included in the rate used.

Generally, equipment rental rate guides are based on usage and time. Since there is no wear and tear to the equipment during idle time most rate guides usually will need to be modified to eliminate any costs associated with usage. Costs that are related to time include "cost of facilities capital (CFC)," equipment overhead, and possibly some depreciation.

The CFC is computed by multiplying the average value of the equipment by the cost of money rate, determined by the Secretary of the Treasury pursuant to Public Law 92-41 (85 Stat. 97), and prorating this amount over the annual usage hours.

Equipment overhead costs usually include annually occurring costs such as taxes, insurance, and licensing fees. Equipment overhead costs should not be included in a standby rate if recovered in other cost methods, for example, project overhead costs.

Depreciation is the decline in value of the equipment due to age and usage. It is normally computed using the straight-line method based on the overall economic life which is in turn based on anticipated usage (wear and tear) per year. Since there is no wear and tear to equipment during standby time, an appropriate adjustment should be made to the depreciation rate provided in most rental rate guides.

While an industry standard does not currently exist for standby rates, it has been the normal practice of the courts to reduce published ownership rental guide rates by 50 percent for standby rate usage. Therefore, the FHWA will accept use of 50 percent of the ownership rental rates of an approved guide as the standby rate in lieu of a contractor's actual standby costs. Standby time should not exceed 8 hours per day, 40 hours per week, or the annual usage hours as established by the rate guide.

Contractor Leased Equipment

When a contractor obtains equipment through a third party rental agreement for use in a force account situation, his/her cost will normally be the invoice cost. The invoice cost should be comparable with other rental rates of the area. The Associated Equipment Distributors (AED) Rental Rate and Specifications book may be used to evaluate the contractor's proposed costs for such equipment rental.

Since rental agreements vary, the specific operating costs included in the rental agreement may need to be determined. There may be additional eligible operating costs not covered by the agreement which the contractor has incurred and should be reimbursed for, such as fuel, lubrication, field repairs, etc.

Mobilization

The costs required to mobilize and/or demobilize equipment not available on the project is eligible for reimbursement. Standby rates should be used for equipment while being hauled to the project. This will be in addition to applicable rates for the hauling equipment. All costs associated with the assembly and disassembly of the equipment for transport should also be considered in the mobilization costs.

Development of Blue Book Equipment Rental Rates

The developer of the Blue Book accumulates all contractor costs for owning a piece of equipment for an entire year. These costs are then prorated over the months that the equipment is normally expected to work. The result gives a contractor's cost of owning the equipment for a month (established in the Blue Book as 176 hours). Equipment is not expected to work constantly for 12 months. For example, the developer of the Blue Book has determined that the paver has the shortest working season (6 months). Working seasons for other types of equipment are:

Tandem Roller	8.0 months
Hydraulic Excavator	9.5 months
Crawler Dozer	9.5 months
Wheel Loader	9.5 months
Motor Grader	8.5 months
On-Highway Rear Dump	10.0 months

Maps at the beginning of each Blue Book equipment section indicate adjustment factors for differences in climate and regional costs. Rate adjustment tables provide for the difference between current prices of new equipment and the price for equipment during the year of original purchase.

The Blue Book states that, "Weekly, daily and hourly rates are . . . derived from the monthly rate. Rates for shorter periods are increased to account for lost availability and productivity during shorter use periods." In actual practice, any loss in productivity will result in additional time needed to do the work. Since the basis of payment when rental rates are used during force account is actual hours worked, the contractor is thus fully reimbursed for any loss in productivity. Lost availability of equipment is not considered a viable factor since a contractor, in bidding a project, agrees to furnish all equipment required to complete the project. Further, a contractor has the option of renting needed equipment from a third party; such rental costs, as discussed earlier, are reimbursable.

Based on the above rationale, the FHWA has determined that when the Blue Book is used to calculate equipment rental costs for periods of less than a month, the most equitable approach is to utilize an hourly rate developed by dividing the Blue Book monthly equipment rental rate by 176.

Original Signed By
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4 Attachments