



Determining ownership and operating rates for cost recovery and reimbursement is a cornerstone of equipment management. This guide will provide construction professionals with the key industry terms, definitions, formulas, and helpful links needed to navigate the process.

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Key Concepts & Definitions

Cost Recovery Rate: The amount an equipment owner should charge in order to recover equipment-related ownership and operating costs. These rates are derived from cost formulas and factors developed from field research and from analytic methods used in the construction industry. Also known as Rental Rate Blue Book Rates.

Standby Rates: Standby refers to the period during which equipment is assigned to a job and available for work, but is not put into operation until needed. Under certain circumstances contractors may be entitled to payments for their equipment on standby. These payments are meant to reimburse the contractor for fixed costs such as depreciation, cost of facilities capital (CFC), and indirect equipment costs. No industry standard exists for the computation of standby rates. EquipmentWatch uses the rate element tables in the Rental Rate Blue Book to determine standby rates, however, many contracts will specify other calculations. US judicial courts have recognized standby rates as 50% of the ownership rate, and most state DOT's have adopted the courts formula.

Internal Charge Rates: Rates that are calculated to determine hourly ownership costs and hourly operating costs for purposes of internal billing, bid preparation, or cost accounting.

Ownership Rates: The cost to own an asset per month, week, day, and hour. The ownership costs of depreciation, indirect costs, cost of facilities capital, and major overhaul are annualized and then adjusted to reflect the average annual working season to obtain a monthly ownership rate, from which weekly, daily, and hourly rates are determined.

FHWA Rate: The Federal Highway Administration (FHWA) has approved the use of the Rental Rate Blue Book on federally funded projects. The most common application is in force account work and for federally funded projects. The FHWA has limited their participation in matching funds with state highway agencies to the monthly ownership rate divided by 176 (hours per month), plus the hourly operating rate. Additionally, FHWA states that the rates must also be adjusted for age and geographic region.

Operating Rates: The cost to operate an asset per hour. These costs include labor and parts for routine, daily servicing of the equipment, operating expendables, fuel, lubricants, tires, and ground engaging components. The hourly operating rate assumes the equipment is in good operating condition and does not include operator's wage.

Formulas To Know

BASIC RATES:	FORMULAS:
Monthly Ownership Rate	Calculated using depreciation, indirect costs, cost of facilities capital, and major overhaul costs.
Weekly Ownership Rate *Based on the loss of roughly 32 hours during a month when machinery is used on a weekly basis.	= Monthly Ownership Rate x 28%
Daily Ownership Rate *Based on the loss of roughly 60 hours during a month when machinery is used on a daily basis.	= Weekly Ownership Rate x 25%
Hourly Ownership Rate *Based on the loss of roughly 80 hours during a month when machinery is used on an hourly basis.	= Daily Ownership Rate x 15%
EquipmentWatch Monthly Standby Rate *Using Rate Element Tables in Rental Rate Blue Book.	= Monthly Ownership Rate x (Depreciation Percentage + CFC Percentage + Indirect Cost Percentage)
US Judicial Courts Standby Rate *Most State DOT's have adopted this formula.	= Monthly Ownership Rate x 50%



Formulas To Know... Continued

ADJUSTED RATES FOR COST RECOVERY SUBMISSION:	FORMULAS:
Monthly Time Standard (FHWA Rate) *Used when equipment is used on a monthly basis. Most DOT's specify this rate.	$= (\text{Monthly Ownership Rate} \times \text{Age Adjustment} \times \text{Regional Adjustment}) / 176 + \text{Hourly Operating Rate}$
Weekly Time Standard Rates *Used when equipment is used on a weekly basis.	$= (\text{Weekly Ownership Rate} \times \text{Age Adjustment} \times \text{Regional Adjustment}) / 40 + \text{Hourly Operating Rate}$
Daily Time Standard Rates *Used when equipment is used on a daily basis.	$= (\text{Daily Ownership Rate} \times \text{Age Adjustment} \times \text{Regional Adjustment}) / 8 + \text{Hourly Operating Rate}$
Hourly Time Standard Rates *Used when equipment is used on an hourly basis.	$= (\text{Hourly Ownership Rate} \times \text{Age Adjustment} \times \text{Regional Adjustment}) + \text{Hourly Operating Rate}$

STANDBY RATES:	FORMULAS:
EquipmentWatch Monthly Standby Rate *Using Rate Element Tables in Rental Rate Blue Book.	$= \text{Monthly Ownership Rate} \times (\text{Depreciation Percentage} + \text{CFC Percentage} + \text{Indirect Cost Percentage})$
US Judicial Courts Standby Rate *Most State DOT's have adopted this formula.	$= \text{Monthly Ownership Rate} \times 50\%$

Useful Links

- **FHWA Equipment Rental Rate Policy:** www.fhwa.dot.gov/programadmin/contracts/110
- **EquipmentWatch Specifying Organizations:** www.equipmentwatch.com/specifying
- **Internal Charge Rate Calculator Product Guide:**
<http://equipmentwatch.com/resource-library/product-guides/internal-charge-rates/>
- **Cost Recovery Product Guide:**
<http://equipmentwatch.com/resource-library/product-guides/cost-recovery/>
- **EquipmentWatch Dictionary:** <http://equipmentwatch.com/resource-library/dictionary/>
- **Bureau of Labor Statistics:** <https://www.bls.gov/>
- **Environmental Protection Agency:** <https://www.epa.gov/>
- **Engineering News-Record:** <http://www.enr.com/>

For more information please visit
EquipmentWatch.com/Contact-Us or call us at **888-407-0530**