

An aerial, black and white photograph of a large steel arch bridge spanning a wide body of water. The bridge's structure is a complex lattice of steel beams forming a large arch. A white semi-truck with a trailer is driving across the bridge deck. In the background, a city skyline is visible under a cloudy sky. The water below the bridge shows some ripples and small structures.

Best Idea Session

TC-02 Benchmarking – Tampa, FL
February 23, 2018

Variable Operating Costs

- Consistency and predictability in VOCs is critical to business planning and monitoring
- Ability to offer competitive pricing while maintaining desired margins is dependent on predictive VOC measures
- Seasonality of the business can contribute to volatility in VOCs



Halvor Lines

Straight-Line Tractor Depreciation

- GAAP method of depreciation
- Calculation: $(\text{Cost-salvage value}) / \text{estimated useful life}$
- “Typical” tractor depreciation – 4-5 years to 20-30%
- Allows for consistent monthly depreciation of assets



Halvor Lines

Problem: Monthly Utilization Variance

<i>Standard Depreciation</i>	Month A	Month B
Depreciation Expense	2,100	2,100
Dispatched Miles	10,500	9,000
Cost per Mile	0.200	0.233



Problem: Fleet Utilization Variance

<i>Standard Depreciation</i>	Tractor A (4 yr)	Tractor B (3 yr)
Miles	480,000	480,000
Cost	140,000	140,000
Accumulated Depreciation	100,800	75,600
Net Book Value	39,200	64,400
Residual Value	45,000	50,000
Gain (Loss)	5,800	(14,400)
Cost per Mile	0.210	0.158



Solution: Mileage-Based Depreciation

- Determine anticipated miles (hub) used during ownership
- Calculate mileage rate: $(\text{Cost} - \text{expected residual value}) / \text{miles}$
- Depreciation calculation: $\text{Monthly hub miles} \times \text{mileage rate}$
- Difference between standard depreciation and mileage depreciation handled through a reserve
- Over time, can adjust for anticipated market value or trade cycle by adjusting expected residual or miles



Halvor Lines

Rate Calculation Example

<i>Mileage Depreciation</i>	Tractor A
Expected Miles	480,000
Cost	140,000
Expected Residual Value	45,000
Mileage Depreciation Rate	0.198



Depreciation Example

Mileage Depreciation

	Month A	Month B
Hub Miles	11,413	9,783
Mileage Depreciation Rate	0.198	0.198
Depreciation Expense	2,259	1,936
Dispatched Miles	10,500	9,000
Cost per Mile	0.215	0.215

Standard Depreciation

	Month A	Month B
Depreciation Expense	2,100	2,100
Dispatched Miles	10,500	9,000
Cost per Mile	0.200	0.233



Halvor Lines

Resale Example

Mileage Depreciation

	Tractor A (4 yr)	Tractor B (3 yr)
Miles	480,000	480,000
Cost	140,000	140,000
Accumulated Depreciation	95,000	95,000
Net Book Value	45,000	45,000
Residual Value	45,000	50,000
Gain (Loss)	-	5,000
Dispatched Miles	441,600	441,600
Cost per Mile	0.215	0.215

Standard Depreciation

	Tractor A (4 yr)	Tractor B (3 yr)
Miles	480,000	480,000
Cost	140,000	140,000
Accumulated Depreciation	100,800	75,600
Net Book Value	39,200	64,400
Residual Value	45,000	50,000
Gain (Loss)	5,800	(14,400)
Dispatched Miles	441,600	441,600
Cost per Mile	0.228	0.171



Halvor Lines

Three vertical bars of varying shades of gray are positioned on the left side of the slide. The leftmost bar is the darkest, the middle bar is a medium gray, and the rightmost bar is the lightest.

Challenges

- Potential GAAP departure
- Setup and maintenance challenges



Halvor Lines

Benefits

- Consistent and predictive costing
- Cost between periods is now truly variable and matched to revenue
- Budgeting simplified
- Minimize capital gains and losses by recognizing correct expense in the months incurred
- Potential future evolution: adjust rate year over year to more closely approximate fair market value



Halvor Lines

Questions?



**"Um, Can you repeat
the part of the stuff
where you said all
about the things?"**

share the fun with Wanna-Joke.com



Halvor Lines