2019

Ohio Trucking Association and Schneider Downs

TRANSPORTATION BUSINESS OUTLOOK AND ECONOMIC SURVEY

OTA
OHIO TRUCKING ASSOCIATION

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

INTRODUCTION

The results are in for the 2018-2019 Ohio Trucking Association (OTA) and Schneider Downs Transportation Business Outlook and Economic Survey! Over the last year, OTA and Schneider Downs staff have worked tirelessly to provide an indication of where the market stands in Ohio for the carriers that move this great country forward. We are excited to report that over 100 members participated in our inaugural survey, and our hope is that the finished report will set the foundation for a year-over-year benchmarking analysis to our members to further serve as a tool to improve their businesses.

This important work is designed to provide another set of data for our members to use while planning their future growth and assessing their operations. No one anticipated the record performance that the industry experienced in 2017 and 2018, nor the slowdown that has marked Q1 and Q2 of 2019. In this report, we will review the feedback of OTA carrier members and the impact of economic conditions and industry challenges, as well as political and regulatory forces and their impact on the industry.

This is one of the many benefits of membership in the OTA, designed to further our vision of making the trucking industry in Ohio more operationally efficient and profitable. We hope this information is used to serve you, our members, better.

Thank you,

Thomas A. Balzer, CAE
President & CEO
Ohio Trucking Association

Daniel P. Phillips, CPA
Shareholder
Schneider Downs

For more information about this report, please visit **https://schneiderdowns.com/transportation-logistics-resources**

ABOUT THE SURVEY RESPONDERS

ANNUAL REVENUES

$0-1 million	13.19%
$1.01-5 million	17.58%
$5.01-10 million	14.29%
$10.01-20 million	13.19%
$20.01-50 million	18.68%
$50.01-100 million	8.79%
$100.01-250 million	2.20%
$250.01-500 million	4.40%
Over $500 million	7.68%

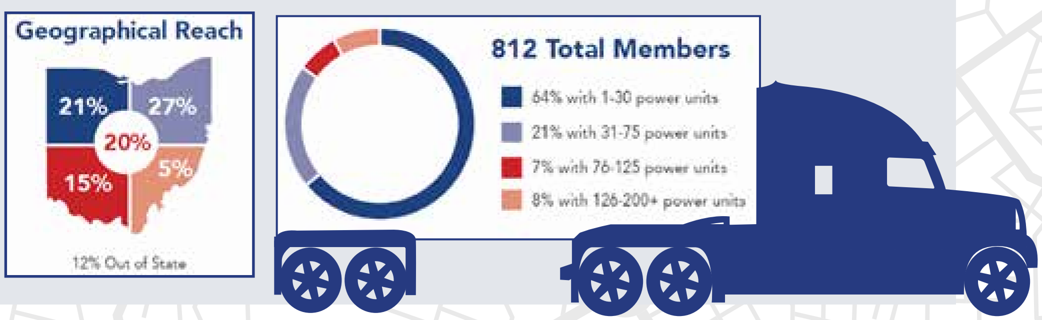
SECTORS

Truckload	69.77%
Flatbed	30.23%
Tanker	20.93%
Less than Truckload	16.28%
Private Carrier	10.47%
Refrigerated	9.30%
Aggregate & Construction	4.65%
Intermodal	3.49%

ADDITIONAL SERVICES

Freight Brokerage	69.49%
Third-Party Logistics	52.54%
Warehousing	52.54%

OTA MEMBERSHIP PROFILE



A QUOTE FROM AN OTA MEMBER

WE'RE DEFINITELY **STRONGER** THAN ANY ONE OF US ON OUR OWN. BIG CARRIERS, SMALL CARRIERS – WE ALL ARE PART OF THE INDUSTRY.

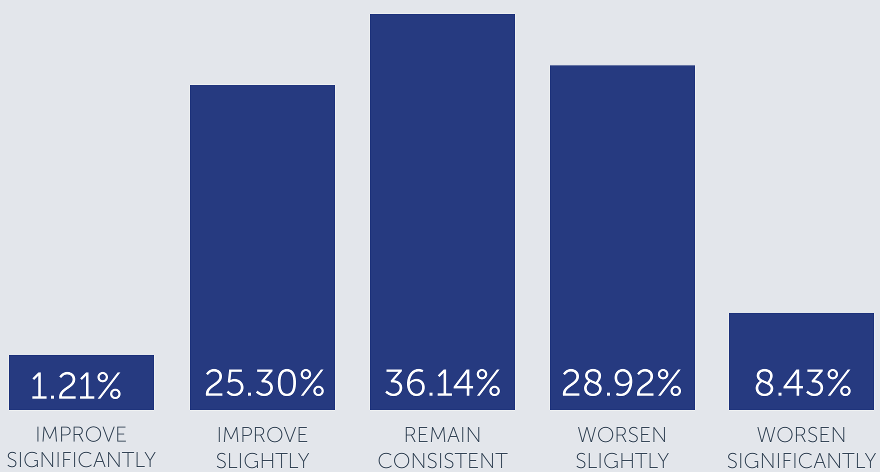
Doug Sibila, Peoples Services

ECONOMIC CONDITIONS

MACROECONOMIC CONDITIONS IN THE INDUSTRY

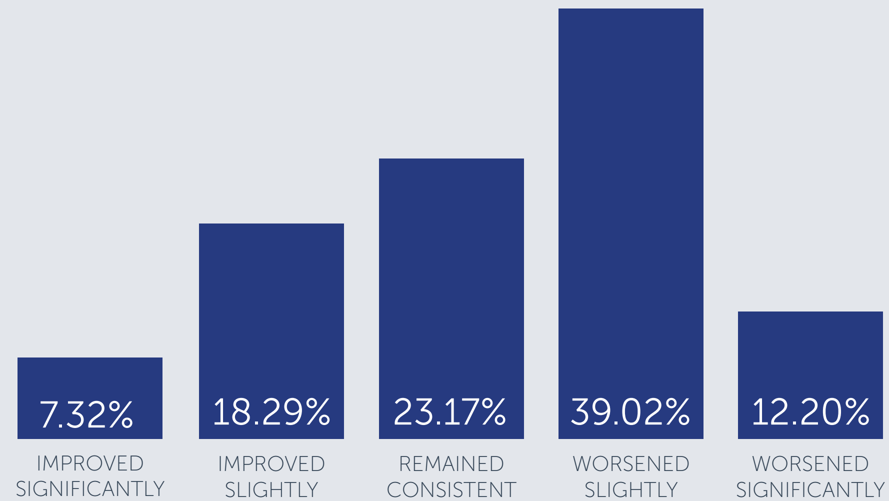
SURVEY RESULTS

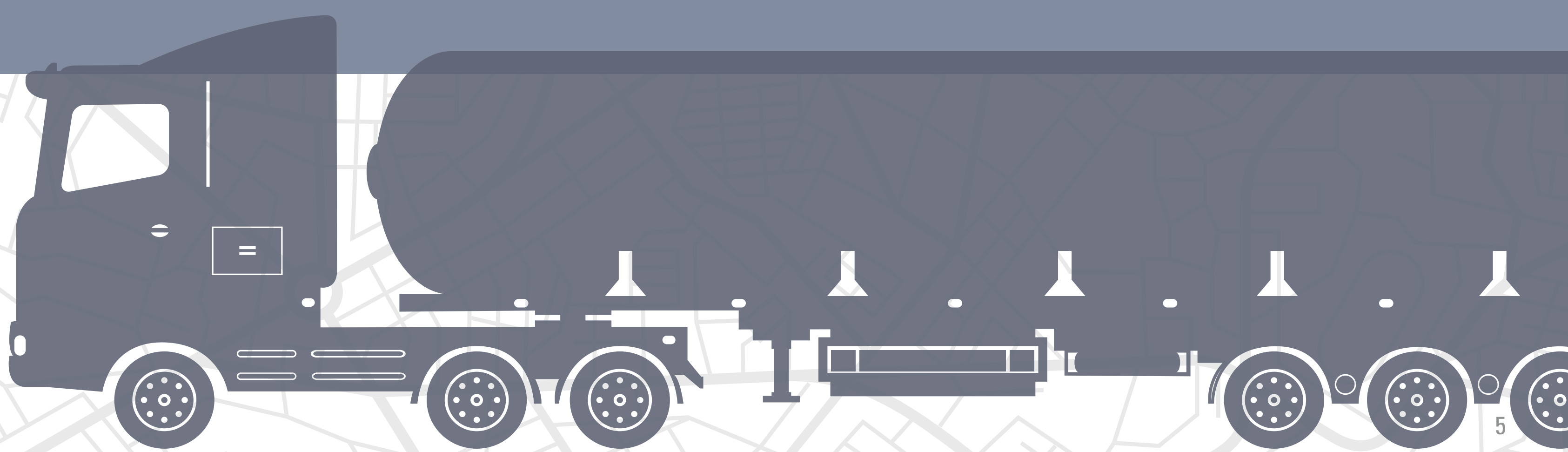
In the next 12 months, do you believe the overall economic conditions in the transportation industry will:



SURVEY RESULTS

What do you believe the state of the transportation industry is today compared to a year ago?





MACROECONOMIC CONDITIONS IN THE INDUSTRY

Macroeconomic Conditions in the Transportation Industry

By: Jim Gilboy, CPA, Schneider Downs

The year 2018 was considered a great year for the trucking industry. Where will the industry go in 2019 and beyond? Bob Costello, the American Trucking Associations' Chief Economist, recently described 2019 as "slowing but growing." Our survey respondents seem to be echoing those sentiments. Eighty percent of the respondents believed the state of the transportation industry today remained consistent, improved slightly or worsened slightly as compared to a year ago. That is good news and represents a solid performance following a record year like 2018.

Twelve percent of the respondents considered conditions to have significantly worsened compared to a year ago. Of those respondents, 60% of the group were smaller carriers with less than $5 million in revenue. This could be a telling sign for the future. Smaller carriers can anticipate their profit margins to be squeezed by the combination of higher driver pay, which is used as a tool to retain and attract drivers, and reduced revenue as demand for trucking services soften and the spot market weakens. How these carriers will react to the next economic downturn will determine their viability in the coming years.

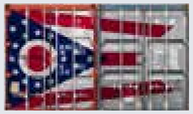
When considering the next twelve months, 63% of the respondents believe that the overall economic conditions in the transportation industry will remain consistent or improve. Twenty-nine percent of respondents believe that economic conditions will worsen slightly, and just 8% believe that the economic conditions will worsen significantly. With 92% of the respondents believing the overall economic conditions in the transportation industry will remain favorable, there is plenty of optimism about the future of the trucking industry.

What are the factors that could influence how the transportation sector of the economy actually performs in the next twelve months? First, the biggest unknown at this point is how the Chinese trade negotiations and potential tariffs will be resolved. If the negotiations are not successful and more tariffs are imposed by both countries, the possibility of a recession could increase substantially. Secondly, how will international tensions affect the transportation industry? Even though the United States is more energy independent than in the past, if there is a disruption of the flow of oil from the Middle East, this disruption could have a substantial negative impact on the economy as a whole and transportation in particular. Another international factor that could influence the United States economy is the ratification of the United States / Mexico / Canada Trade Agreement (USMCA). It is believed that this agreement is an improvement over the North American Free Trade Agreement (NAFTA), and will provide benefits to the United States economy. Lastly, if there is a slowdown in international economic activity, there will certainly be an impact felt here in the U.S. because of our interdependent world economy.

On the domestic front, what will the Federal Reserve Board do with interest rates following the 25% decrease in the fed funds rate in July 2019? Will rates be reduced further to bolster slowing economic conditions or will there need to be rate increases to control inflation in an expanding economy? Will housing starts, which have been flat in 2019, be a drag on economic growth? The Fed will need to consider a slowdown in the housing market when deciding which way to move interest rates in the future. The future direction of interest rates are unknown at this time.

Finally, with historically low unemployment rates, will businesses be able to find qualified individuals to hire in order to help grow and expand to meet the needs of their customers? The trucking industry has already been dealing with a shortage of drivers and mechanics for several years, and that shortage is projected to continue into the future. The businesses that find innovative solutions, such as technology, training, wage and productivity increases, will be able to thrive in the future.

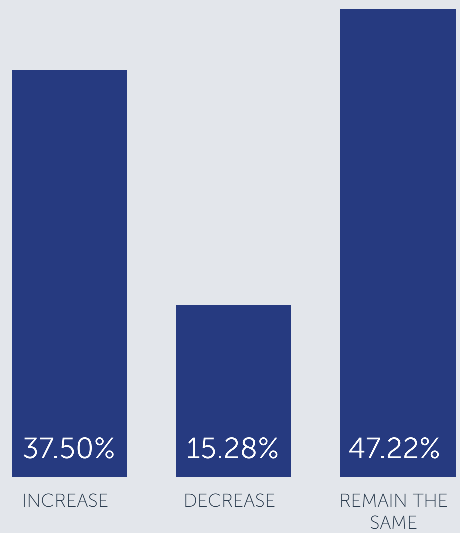
In summary, the U.S. economy has now been in its longest expansion in history since June 2009. The trucking industry has also seen a long expansion, with 2018 being a record year. Conditions point to continued growth in 2019, but not at the same pace. Many of the factors mentioned above will help determine if this long economic expansion continues through 2020.



MICROECONOMIC CONDITIONS IN THE INDUSTRY

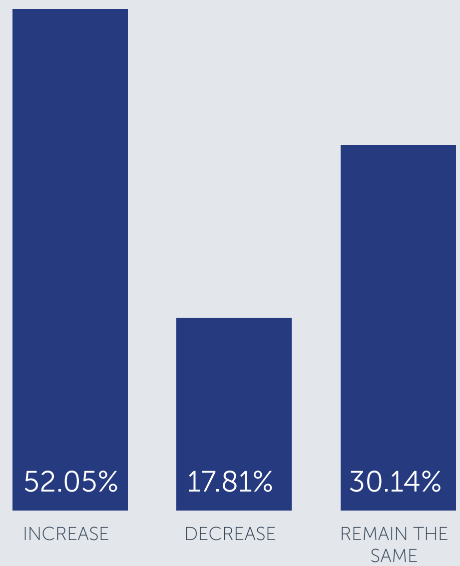
SURVEY RESULTS

In the next 12 months, our capital budget will:



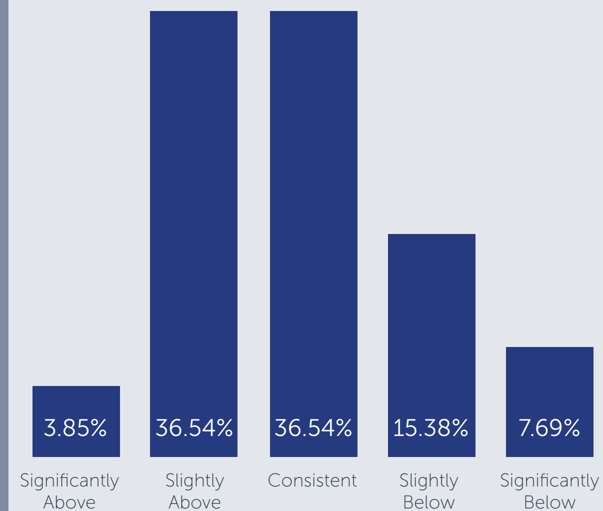
SURVEY RESULTS

In the next 12 months, our fleet maintenance costs will:



SURVEY RESULTS

Where do you expect your 2019 forecast revenues to be compared to your 2018 results?

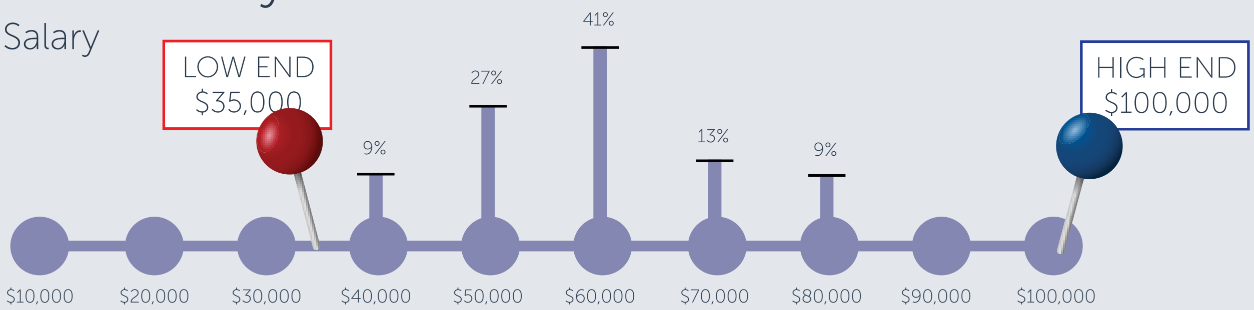


MICROECONOMIC CONDITIONS IN THE INDUSTRY

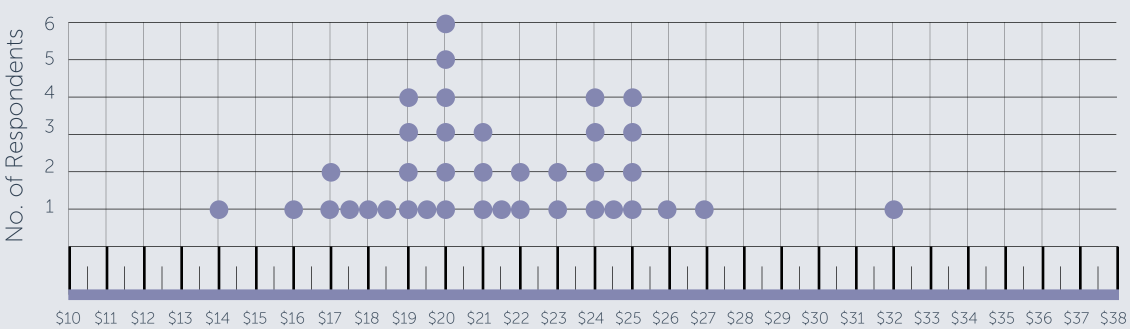
SURVEY RESULTS

Driver Pay

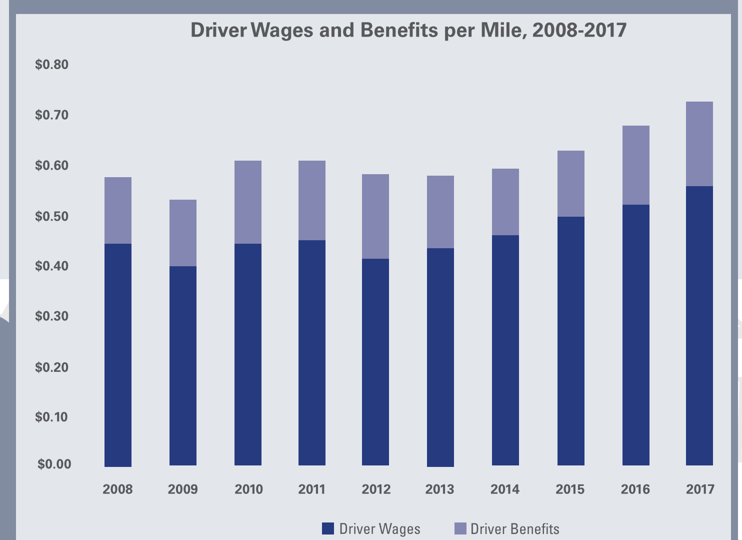
Salary



Hourly



DRIVER PAY NATIONAL DATA



Microeconomic Conditions in the Transportation Industry

By: Brandon Embreus, CPA, Schneider Downs

The overall performance of the trucking industry is highly correlated to the operations of several key demand sectors, allowing them to serve as excellent benchmarks for revenue projections. The construction, manufacturing, wholesale trade and retail trade industries are four of the primary users of the transportation services the trucking industry provides. The following table illustrates the historical and forecasted growth within the aforementioned industries:

Sector	Current Revenue	Annual Growth 2013-2018	Projected Annual Growth 2018-2023
Construction[1]	$2.0tr	3.4%	0.8%
Manufacturing[2]	$6.2tr	-0.5%	1.5%
Wholesale Trade[3]	$8.3tr	0.3%	1.9%
Retail Trade[4]	$5.5tr	2.1%	1.2%

The construction industry has exhibited a robust performance over the past five years due to greater demand from both residential and nonresidential markets. This demand was buoyed by favorable interest rates and accommodative lending standards. However, over the past two years, interest rates have risen, reigning in carefree borrowing. Growth within the construction industry over the next several years is also expected to increase at a slower rate, driven by lower demand following the waning construction boom and a normalizing housing market.

Over the next several years, it seems likely that the manufacturing industry will expand, increasing the average annual growth from -0.5% to 1.5%. However, this expected increase is significantly lower than the growth experienced by the industry in 2018.

The wholesale trade industry is also expected to rally over the next several years from an average annual growth of 0.3% to 1.9%. Like the manufacturing industry, this increase is significantly lower than the increase experienced by the industry in 2018, as its expected growth is strongly impacted by downstream demand from the retail industry.

The retail industry has exhibited a strong performance over the past five years, driven by increasing levels of disposable income and low levels of unemployment. However, the Consumer Confidence Index is expected to decline over the next several years, causing many consumers to decrease their spending on expensive retail goods:

Industry	Current Revenue	Annual Growth 2014-2019	Projected Annual Growth 2019-2024
Local Freight[5]	$52.0bn	2.6%	1.3%
Long-Distance Freight[6]	$223.2bn	2.6%	1.8%
Local Specialized[7]	$48.1bn	0.8%	2.7%
Tank & Refrigeration[8]	$45.1bn	0.5%	2.8%

By comparison, both local freight and long-distance freight sectors of the trucking industry are expected to experience decreased average annual growth over the next several years when compared to the past five years. Although these sectors will continue to grow, it will be at lower rates than recently experienced.

The results of our survey appear to be consistent with compiled industry data:

- 73% of respondents anticipate slightly increased or consistent revenues
- 82% of respondents anticipate increased or consistent fleet maintenance costs
- 85% of respondents anticipate increased or consistent levels of capital spending

These survey results could be indicative of a sense of optimism derived from the positive performance experienced in 2018. Higher customer demand has resulted in increased revenues and the need for larger fleets and greater numbers of drivers. However, this optimism was not shared by all respondents. Eight percent of respondents anticipate a significant decrease in revenues from the prior year, and all of these respondents were from large companies with revenues in excess of $20 million per year. These mixed results, combined with the industry data, indicate a need for more accurate forecasting. As industry growth is expected to slow, trucking companies must now focus on finding sustainable levels of capacity.

At first blush, the outlook appears rosier for the local specialized and tank and refrigeration sectors of the trucking industry. However, the annual growth (based on revenues) depicted in the table above is bolstered by expected increases in fuel surcharges. Increasing diesel prices are expected to drive increased operating costs, which will ultimately constrain profit margins.

The much-publicized driver shortage also has the potential to further limit profit margins for all sectors. As indicated by the results of this survey, the top three challenges currently impacting our respondents are all driver-related:

- Ability to find and hire experienced drivers
- Labor costs / driver retention
- Healthcare costs

Interestingly, the results of this survey also indicated a wide pay range for drivers:

- $35,000 - $100,000 for salaried drivers
- $14/hour - $32/hour for hourly drivers

As the supply of drivers is expected to continue to decline, the cost of employing talented truckers will likely continue to increase. These rising costs will be felt more acutely by companies who have not yet increased driver pay and benefits in line with prevailing market rates.

In summary, the outlook for the trucking industry appears positive, but less so than in recent years. Trucking companies must accurately project their needs against market expectations and prepare for increasing costs and narrowing margins.

(1) IBISWorld. (June 2018). IBISWorld Sector Report 23.
(2) IBISWorld. (June 2018). IBISWorld Sector Report 31-33.
(3) IBISWorld. (June 2018). IBISWorld Sector Report 42.
(4) IBISWorld. (June 2018). IBISWorld Sector Report 44-45.
(5) IBISWorld. (May 2018). IBISWorld Industry Report 48411.
(6) IBISWorld. (July 2018). IBISWorld Industry Report 48412.
(7) IBISWorld. (February 2018). IBISWorld Industry Report 48422.
(8) IBISWorld. (May 2018). IBISWorld Industry Report 48423.

INDUSTRY CHALLENGES

INDUSTRY CHALLENGES

SURVEY RESULTS

TOUGHEST CHALLENGES YOUR ORGANIZATION IS CURRENTLY FACING

73.49%	Ability to Find & Hire Experienced Drivers
62.65%	Labor Costs/Driver Retention
48.19%	Healthcare Costs
38.55%	Insurance/Reinsurance Costs
33.73%	Age of the Drivers/Health & Wellness
33.73%	Overall Regulatory Environment

TOUGHEST CHALLENGES YOUR ORGANIZATION IS CURRENTLY FACING - ADDITIONAL RESPONSES

MID-RANGE RESPONSES (20% TO 30%):

28.92%	Fuel prices
26.51%	Customer demand/economic environment
24.10%	Workman's compensation costs
24.10%	Hours of service rules

LOW-RANGE RESPONSES (BELOW 20%):

18.07%	Truck parking
16.87%	Investment in new equipment
15.66%	Litigation exposure/tort reform
15.66%	Onboard technology
14.46%	Infrastructure/congestion
12.05%	Other
8.43%	Succession planning
3.61%	IT security

ACTIONS TAKEN TO ADDRESS THE DRIVER SHORTAGE

75.00%	Wage Increase
68.42%	Social Media Engagement (recruiting, marketing, etc.)
61.84%	Employee Referral Programs
51.32%	Upgrade Equipment and Technology
47.37%	Advertising

ACTIONS TAKEN TO ADDRESS DRIVER SHORTAGE - ADDITIONAL RESPONSES

MID-RANGE RESPONSES (20% TO 30%):

25.00%	Performance-based incentives
25.00%	Driver training programs
21.05%	Guaranteed at home times

LOW-RANGE RESPONSES (BELOW 20%):

15.79%	Guaranteed weekly compensation
13.16%	Use of external recruiters/headhunters
13.16%	Community outreach
11.84%	Academic partnership
7.89%	Targeting of specific demographics
7.89%	Per diem
6.58%	Profit sharing
6.58%	Additional employee benefits
5.26%	Revisions to business model

INDUSTRY CHALLENGES

Driver Shortage Continues to be Top Industry Issue

By: Doug Morally, CPA, Schneider Downs

The U.S. Census Bureau recently released data placing the number of truck drivers in the country at an all-time high, with more than 3.5 million working in the industry, making driving a truck or tractor-trailer one of the largest occupations in America. Despite these record figures, trucking companies and industry experts alike agree that driver shortage is still a major concern.

Respondents to our annual trucking industry survey support that contention, telling us in overwhelming numbers that driver-related issues are among the most difficult challenges they face. Over 73% of respondents said their toughest task is the ability to find and hire experienced drivers; an additional 63% cited driver retention and controlling labor costs as challenging.

While the census data shows a sustained increase in the number of drivers since 2010, when there were fewer than three million drivers on the road following the 2009 recession, American Trucking Associations' (ATA) Chief Economist Bob Costello says a driver shortage remains, due to increased demand. He estimates the industry has a shortfall of over 50,000 truck drivers nationwide, with the number expected to rise as older drivers retire. The Census Bureau's data notes that truck drivers tend to be older than the average worker, with a median age of 46 compared to 41 for all other workers.

The driver shortage is also impacted by some unique entry barriers. Federal laws, for instance, do not allow drivers between the ages of 18 and 20 to drive Class 8 vehicles across state lines, which is a significant reason why younger individuals tend to bypass a career in trucking.

One piece of suggested legislation, however, could help. The Developing Responsible Individuals for a Vibrant Economy – or DRIVE-Safe Act – proposes a two-step program for prospective young drivers once they've obtained a commercial driver license. The legislation, introduced in March 2018, would require those drivers to log 400 hours of on-duty time and an additional 240 hours of driving time with an experienced driver in the cab after earning a CDL. Once completed, the young driver would then be able to participate in interstate commerce.

The industry has taken other steps to address the driver shortage as well. Over 50% of survey respondents indicated that top actions to attract and retain drivers include wage increases, social media engagement, employee referral programs and upgrades to equipment and technology. Additionally, over 20% of respondents told us that performance-based incentives, driver training and guaranteed home time are actions they're taking to increase the pool of drivers.

INDUSTRY CHALLENGES

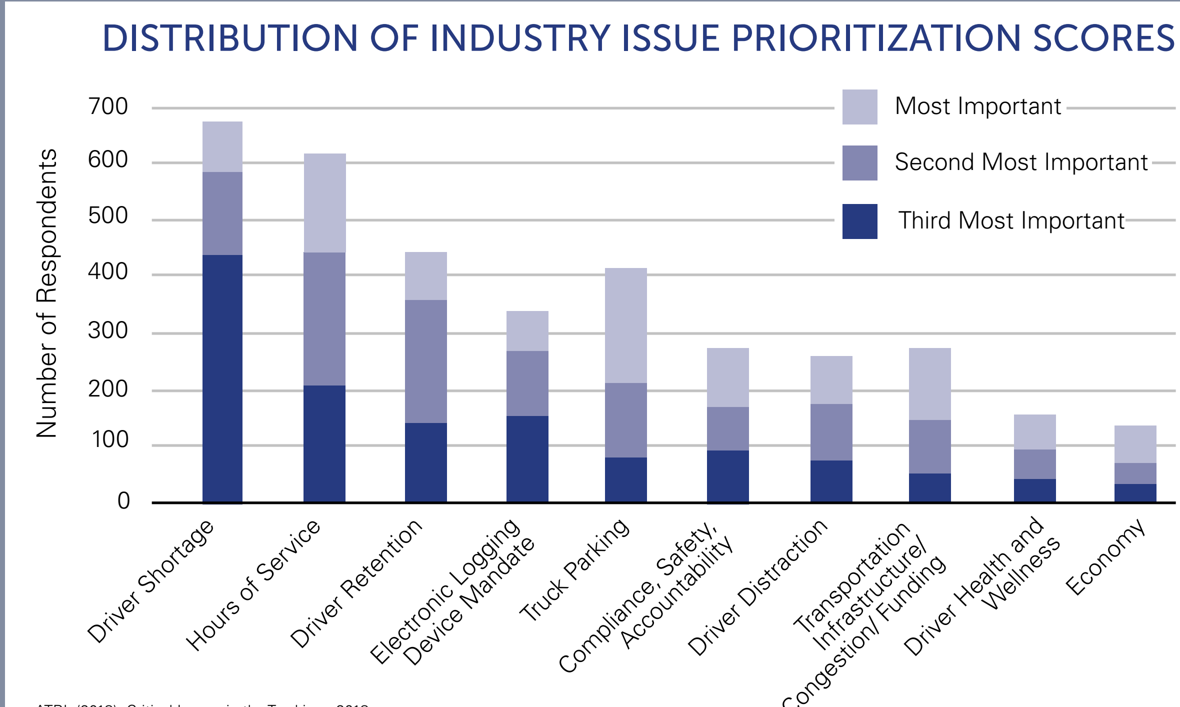
How Do We Compare?

By: Brandon Embreus, CPA, Schneider Downs

The concerns of our respondents closely mirror the concerns of industry participants from across the country. Per the American Transportation Research Institute (ATRI), Critical Issues in the Trucking Industry – 2018 survey, driver shortage and driver retention both ranked among the top three concerns industry-wide. Similarly, regulatory issues such as hours-of-service and electronic logging devices (ELDs) both made it into the top five. In the aggregate, at least seven of the top ten concerns at the national level (driver shortage, hours-of-service, driver retention, ELDs, transportation infrastructure/congestion/funding, driver health and wellness, and economy) correlate directly to the top concerns identified by OTA members.

The ATRI survey proposes the following broad measures to attracting and lowering the barriers-to-entry for younger drivers:

- Advocate for Congress and federal agencies to develop an apprenticeship program to attract, train and retain safe 18-20-year-old interstate drivers to the industry such as the DRIVE-Safe Act;
- Work with the U.S. Department of Transportation and the Department of Labor to harmonize regulations with White House efforts to expand apprenticeships and other workforce development initiatives in the trucking industry; and
- Collect and analyze safety performance data on 18-20 year olds who operate commercial vehicles interstate.



ATRI. (2018). Critical Issues in the Trucking - 2018.

INDUSTRY CHALLENGES

Trucking Companies Have Need to Manage Risk, Contain Costs

By: Tim Martin, CPA, Schneider Downs

In the transportation sector, the current industry climate most assuredly poses its fair share of challenges. Technological disruption, for instance, presents management of all-sized companies with major decisions. Resonated by our survey respondents, costs associated with commercial trucking insurance and driver healthcare are among the many wide-sweeping issues that can seriously affect a company's bottom line. If not proactively analyzed and addressed, they can leave a company in an ill-advised risk management position, coupled with excessive and unnecessary insurance costs.

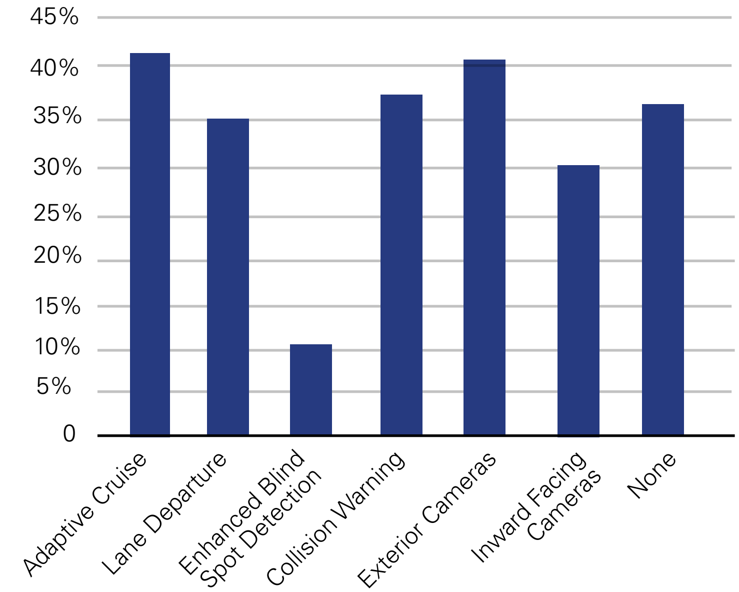
Approximately 39% of survey respondents named insurance and reinsurance costs as one of their toughest organizational challenges. Although premium amounts are derived from several factors, a carrier's driving record plays a substantial consideration in the calculation. In its latest report, the Federal Motor Carrier Safety Administration (FMCSA) says trucking fatality rates have increased steadily from 2009 through 2016. The nation's carriers, with the goal of curtailing large-vehicle crashes, have increasingly turned to advanced driver-assistance systems, including adaptive cruise control, exterior cameras, collision warning, and lane departure systems, which were the primary technologies that have been employed by organizations completing the survey. However, over one-third of the survey respondents replied that they do not employ any driver assistance technology. Do these technologies add fixed costs upfront? Absolutely. But they're expenses that address industry safety performance and, as a result, could overall help lower commercial insurance premiums.

The American Transportation Research Institute recently published the 2018 version of the Crash Predictor Report, a tool that uses historical data to predict future crash involvement in the trucking sector. A finding of the report was that if a driver had a reckless driving violation or a failure-to-yield right-of-way violation, crash likelihood increased by 114% and 101%, respectively. In addition, a carrier's CSA score – FMCSA's metric based on performance data that identifies high-risk motor carriers and drivers – affects premiums. Although a nationwide driver shortage is cited as a primary challenge in the sector and its outlook, it's essential that standards still be upheld for hiring and retention, which is heavily equated with a fleet's risk management.

Strategic risk management is vital to lessen rising insurance costs. Within the transportation sector, the aforementioned decisions made – or avoided – by management have an impact on the bottom line.

SURVEY RESULTS

WHICH DRIVER ASSISTANCE TECHNOLOGY DOES YOUR COMPANY EMPLOY?



INDUSTRY CHALLENGES

State of Health Care in Trucking

By: Al Rubosky, Oswald Companies

Health care and benefits in general are hot topics in the trucking and transportation industries. Additionally, the Affordable Care Act has brought on added administrative burden and reporting requirements. Like other industries, the cost of health care has continued to rise with more and more cost shifting to the employees and their families. Today, for a PPO plan, the average health care cost to a company (before employee contributions) per employee per year is $13,203, up from $13,132 the previous year.

Cost control and attracting/retaining employees is the focus, given the rising costs and the labor market being so competitive in trucking. We are seeing employers implementing creative and dynamic strategies to address these key areas.

Given the mobile nature of the trucking industry, many employers are turning to robust technology like text messaging and smart-phone friendly websites to enhance engagement and communicate key messages. Health care is confusing, and the goal is to provide clear and concise messaging around resources to help employees make better health care decisions, and get the most value. Telemedicine is a great example. Employees can conveniently have an appointment with a doctor during a break and even be prescribed medicine instead of having to go to an emergency room or urgent care, which drastically reduces cost for them and the employer.

Other employers are looking to uniquely control unit cost of health care and have deployed a self-funded reference-based pricing model, thus removing networks and paying providers using Medicare as a reference.

Finally, benefits, with health care being the key component, is no longer one size fits all. The opportunity for choice and ability to customize one's benefits to fit an employee's specific needs is becoming the norm. Employees like the option to select plans that complement their health care program and remove the sting of high-cost procedures and services as well as choices that will protect their income when they are out of work.

Health care will continue to evolve and change, and we will be innovating with it every step of the way.

PPO BENCHMARK

Deductible Individual	Deductible Family	Coinsurance	Office Co-pay
$500	$1000	20%	$25

Specialist Co-pay	ER Visit Co-pay	Employee Contribution	Firm Contribution	Average Cost Per Employee
$40	$150	27%	32%	$13,203

HIGH DEDUCTIBLE, WITH HSA BENCHMARK

Deductible Individual	Deductible Family	Coinsurance
$1500	$3600	20%

Employee Contribution	Family Contribution	Average Cost Per Employee
26%	26%	$9669

Note: Statistics provided by Mercer National Survey, 2017 and 2018

INDUSTRY CHALLENGES

Cybersecurity Fears. Or Not...

By: David B. Murphy, S+, Schneider Downs

As the son-in-law of a logistics company owner, I often find myself keeping tabs on the trucking industry. My wife, in fact, actually works for her father, coordinating pickup and delivery schedules with dispatchers and processing state permits for oversized loads. I always admire the amount of work it takes to keep a company like that running. At every turn, seemingly, there are hidden pitfalls, with predators ready to pounce on your livelihood and take your profit. That's why I like reviewing surveys like the one from the Ohio Trucking Association (OTA) and Schneider Downs, as it gives me a sense of where the industry is and what issues are important to individual businesses. As a cybersecurity professional who deals with incident response investigations, I'm especially interested in getting a sense of how each business community prepares and responds to major cybersecurity incidents.

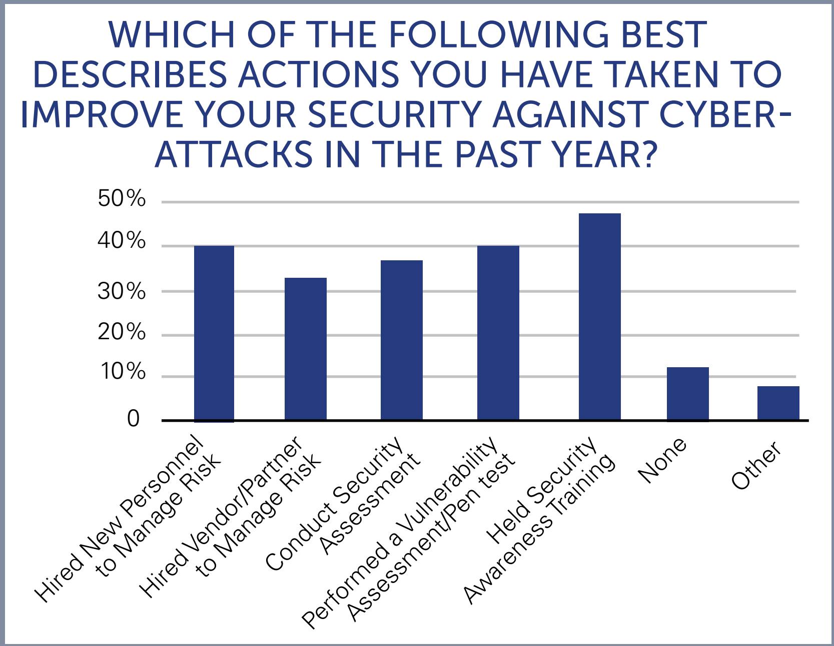
Only about 4% of respondents to the OTA survey indicated that IT is a top issue at their company. Although we didn't ask the question directly, it's a good bet that the 4% might represent organizations that have experienced a security breach. At another data point in the survey, 37% of respondents indicated that cybersecurity is a significant issue for their business.

I often imagine a scenario wherein I gather the CEOs of those trucking companies that have experienced a major data breach or ransomware event and ask them to share what it was like to go through the ordeal. Some might admit that, without any other options available, they paid an extraordinarily high ransom amount. Others might confess that the company was only weeks away from shutting its doors. Still others might describe what it was like to be unable to process payroll, or even incur major layoffs because their data was corrupted.

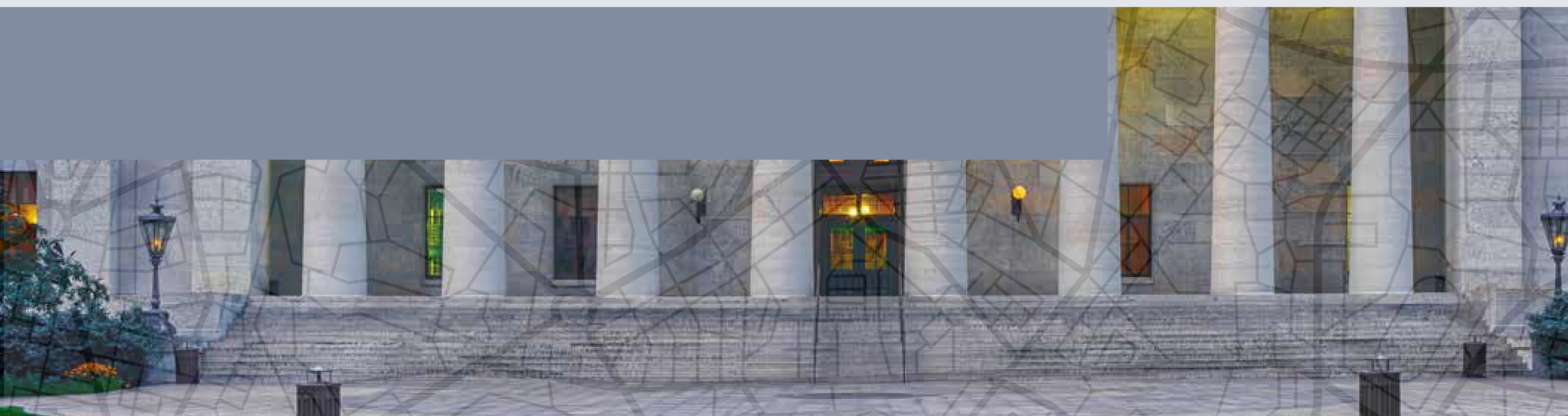
Unfortunately, such testimonials are almost impossible to discover, with the only glimpse into that world of pain often masked by lawyers and PR firms. Lawsuits are also frequently filed against these organizations, since most fail to remember that they are the ultimate stewards of the sensitive data that belongs to employees, families, vendors and individual customers until they have to publicly disclose the breach in accordance with federal and state mandates. If every computer in your business were to be shut down, and all your data was corrupted, could you still perform critical business functions and deliver loads on time? What about business production downtime? It's hard to process and fulfill requests when you don't have access to appropriate systems.

Fortunately, your cybersecurity efforts don't need to be an expensive venture. Introducing consultants into the mix to give your IT team the proper guidance and direction can hold things on the right track and keep costs down. The end goal of the effort is not to make your organization bulletproof, but to make it a tougher target. Some survey respondents said they're taking steps like hiring new key personnel or bringing on a vendor/partner to manage risk, or conducting high-level security or vulnerability assessments – all good ways to reduce risk and give you peace of mind, knowing you're protecting your business.

SURVEY RESULTS



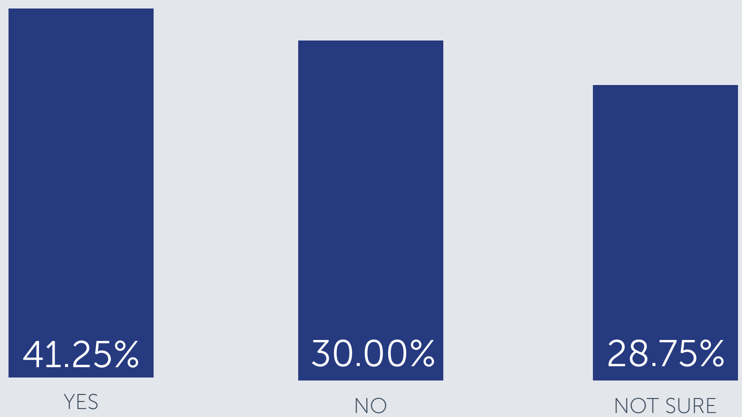
POLITICAL/REGULATORY



POLITICAL/REGULATORY

SURVEY RESULTS

Are you optimistic that the current administration and Congress will engage a major infrastructure bill in the next 12 months?



Infrastructure

By: Danielle Miceli, CPA, Schneider Downs

Summer road construction and work zones always add to the cause of transportation congestion as well as serve as a good reminder of how the infrastructure in America could be improved. However, with traffic continuing on heavy intersections and bridges, in addition to the need for road improvements, America needs a long-term infrastructure plan. Our survey responses were evenly divided if respondents believe the current administration and Congress will engage a major infrastructure bill in the next 12 months. Forty-one percent of the responses were optimistic a bill would be passed, while the other fifty-nine percent were either not optimistic or unsure of the success of the bill altogether.

The American Trucking Associations (ATA) states that the average American spends 42 hours annually sitting in traffic. Areas of bottlenecks are located across the whole United States, and unfortunately three congested Ohio locations made American Transportation Research Institute's (ATRI) top 100 bottlenecks list. These include #6 –

POLITICAL/REGULATORY

Cincinnati at the I-71 at I-75 interchange; #48 – Cincinnati at the I-75 at I-74 interchange; and #93 – Columbus at the I-71 at I-70 interchange.

Those in the trucking industry computed this to $74.5 billion in congestion costs, which includes wasted fuel, increased labor costs, safety costs and vehicle wear and tear. Transportation infrastructure and congestion issues have reached number 8 on ATRI's 2018 top trucking industry issues list. With driver shortage still being number 1, the congestion issue adds to this with 425,533 commercial drivers sitting idle for an entire year from lost productivity.

As infrastructure and congestion continue to rise as an issue, ATA has taken action during 2019 in launching an advocacy campaign to increase funding to the Highway Trust Fund. As quoted from the website, Road to a Better Future: "By raising the user fee by 5 cents per gallon each year over the next four years, more than $340 billion in new revenue over 10-years would be generated for fixing our roads and bridges. For the cost of a nickel, we can reclaim the time and money we are losing to traffic congestion and damaged roads." Chris Spear, ATA President & CEO, testified before a congressional panel during June 2019 to propose the Build America Fund to support the infrastructure funding.

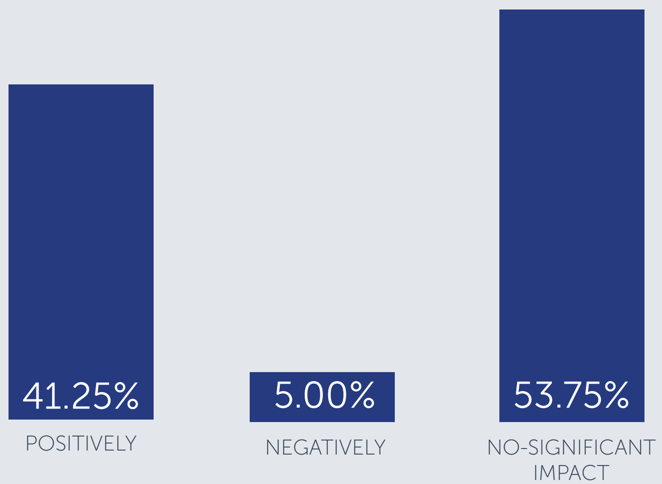
The Senate has spent this summer working on the first version of a highway bill, and as of July 30, 2019, they advanced a five-year, $287 billion highway policy. Transport Topics reported that the Environment and Public Works Committee approved the legislation that would reauthorize provisions of the 2015 highway law Fixing America's Surface Transportation (FAST) Act, which would carve out funding for bridge repairs, as well as seek to rehabilitate freight and commuter corridors, streamline the environmental permitting process, and enhance severe weather-resilient infrastructure programs.

The uncertainty still exists regarding funding for the policy. In July 2019, Transport Topics stated that a federal fuel tax is being considered, offering hope for long-term investment in roads and bridges. The Ohio Trucking Association, along with Schneider Downs, is monitoring the issue, and will communicate any updates on the FAST act as they are released publicly.

ATA communicates that not only does this issue impact the trucking industry, but it impacts all Americans. Our roads, highways and bridges are crumbling and creating bottlenecks across the United States. We are all crossing our fingers that further action is taken soon for funding the bill's program to improve our infrastructure. Stay tuned.

SURVEY RESULTS

Has the tax reform law passed in December of 2017 impacted your company?



Tax Reform's Impact on the Transportation Industry – One Year In

By: Carl Scharf, CPA, Schneider Downs

It's hard to believe the Tax Cuts and Jobs Act (TCJA or Act) was passed almost two years ago. Within the first year of application, the Act has already brought great opportunity and benefit to the transportation industry. In fact, only 5% of survey respondents believed that the TCJA impacted their company negatively, and 41% viewed the impact positively.

The TCJA was enacted on December 22, 2017, marking the largest overhaul of the Internal Revenue Code (IRC) in over 30 years. President Trump, backed by a Republican-controlled House and Senate, passed the legislation through the budget reconciliation process (bypassing the generally required 60-senator vote). With the TCJA came several taxpayer-friendly incentives – and a few challenges – to companies in the transportation industry.

The major headline was the reduced corporate tax rate from a 35% maximum to a flat 21%. The TCJA lowered the corporate tax rate in an effort to make U.S. companies more competitive on a global basis. Authors of the TCJA anticipated that the reduction in the corporate tax rate would spur job growth and increase pay, capital investment and debt reduction. While it's still too early to assess this impact, we have seen large U.S. companies increase shareholder dividends and make stock buybacks.

The TCJA included a new deduction, the Qualified Business Income (QBI) deduction, for eligible pass-through entities. (Eligible entities are primarily non-service-based businesses, whereas professional and certain "brokerage" services are prohibited from taking the deduction.) The QBI deduction is an immediate 20% deduction from operating income, effectively bringing the top marginal rate for individual taxpayers down from 37% to 29.6% on eligible income.

Transportation companies structured as pass-through entities likely qualify

POLITICAL/REGULATORY

for this deduction and should have realized a significant tax reduction. Additionally, our freight broker friends ended up benefiting from the provision, since when the Act was passed, it was unclear how the Internal Revenue Service (IRS) defined "brokerage" services. Lo and behold, in August 2018, the IRS issued proposed regulations clarifying the meaning of "brokerage" services as services in which a person arranges transactions between a buyer and a seller with respect to securities. This includes services provided by stock brokers and other similar professionals, but does not include services provided by real estate agents and brokers, or insurance agents and brokers.

Transportation companies also have certainty as to available depreciation/expensing incentives for capital equipment purchases into the foreseeable future. The Act has brought 100% bonus depreciation on qualifying property placed in service prior to December 31, 2022. Subsequently, there is a phase-out through 2026. In addition, bonus depreciation now applies to both new and used property, so long as the used property is "first use" to the taxpayer. For transportation companies that are very capital-asset intensive, machinery and equipment purchases will yield significant year-one cash-tax benefits. Additionally, the IRC Section 179 expensing limit was increased to $1.0 million from $500,000.

Some provisions of the TCJA might offset some of the tax benefits noted above. Like-kind exchanges are now limited to real property transactions, so companies are no longer able to defer gain on the sale (or trade-in) of tractors and trailers. After December 31, 2021, research and development expenses will need to be capitalized and amortized over a five-year period (15 years if the research is performed outside of the United States). However, the research and development tax credit remains intact, which is a win for transportation and logistics companies. Entertainment expenses like sporting tickets are no longer deductible. Companies will also face a new business interest expense limitation whereby the deduction for interest expense will be limited to 30% of "adjusted taxable income," which is effectively EBITDA on a tax basis. For years beginning after December 31, 2021, depreciation is no longer added back to calculated adjusted taxable income. Highly leveraged companies will or may already have faced these significant limitations in the amount of tax-deductible interest.

Additionally, as driver shortage and retention continues to be a top challenge for the transportation industry (per 73% of survey respondents), another tax provision affecting employee drivers was the elimination of the employee business expense deduction on the driver's personal income tax return; i.e., the potential $66 per diem. However, owner-operators do retain the ability to deduct the $66 per day as a business expense. As a result of this elimination for employee drivers, many transportation companies are establishing a per diem reimbursement plan, which could exclude the payments from drivers' taxable income, yet still give the company a deduction. In this tight driver labor market, this per diem policy could be a great recruiting and retention tool.

There are certainly winners and losers with the tax reform act; however, transportation companies, in large part, should have realized tax savings as a result. And perhaps those respondents that indicated no significant impact (54%) have historically been so capital-asset intensive that they are, in fact, continuing to benefit from the bonus depreciation rules that many taxpayers have become accustomed to. However, and as indicated above, the current rules under TCJA cranked-up bonus depreciation to 100% from the previous 50%.

OHIO TRUCKING ASSOCIATION

The Ohio Trucking Association is a 100-year-old full-service trade association operating in Columbus, Ohio. With over 815 total members in the trucking, logistics, warehousing and moving industries, our promise to our members is simple: the Ohio Trucking Association will work to improve operational efficiency, profitability and relevancy for all of Ohio's transportation industry. Advocacy, professional development, networking, and cost savings initiatives are the keys to carrying out this promise to our members.

No matter what the cause, our industry is stronger when operating as one! We encourage you to explore more about becoming involved with the Ohio Trucking Association at **www.joinota.com**.

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SCHNEIDER DOWNS TRANSPORTATION AND LOGISTICS INDUSTRY GROUP

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Big Thinking. Personal Focus.

Established in 1956, Schneider Downs has grown to be one of the largest independent public accounting and advisory firms in Columbus, Ohio and Western Pennsylvania, with nearly 500 personnel in total, including 50 shareholders and partners.

More than 25 years ago, we established the Schneider Downs Transportation and Logistics Industry Group. The group includes assurance, tax, technology and management consulting professionals who combine their individual expertise to serve our wide range of transportation and logistics clients, from local carriers to national enterprises, including: trucking, general freight, flatbed and box, TL, LTL, tank waste brokerage, bulk commodity dump, 3PL, heavy hauling/permitted loads, moving and warehousing. The Transportation and Logistics Industry Group meets on a regular basis to review and analyze issues central to this industry. As a result, our transportation and logistics professionals possess the most current knowledge of transportation issues, regulations and trends. We work with you to seek innovative ways to reach your strategic goals.

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