

Reclamation Manual

Directives and Standards

- Subject:** Updating Construction Appropriation Authorization Estimates
- Purpose:** Establishes the appropriate methodology for calculating appropriation ceiling adjustments for budget formulation in accordance with project authorizing legislation.
- Authority:** Various project authorizing statutes. (See also paragraph 7, Use of General Legislation.)
- Contact:** Technical Service and Dams Division, UC-200
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1. **General.** All active projects in construction status which are being funded through the Water and Related Resources appropriation are to be considered in the appropriation ceiling updating and reporting process. Such consideration will continue until final work is complete and a final ceiling statement is prepared.

- A. **Legislative Language.** The legislation authorizing the construction of a Reclamation project generally contains language in a section entitled "Appropriation Authorized" that reads similar to:

". . . thereby is hereby authorized to be appropriated for construction of the (name) the sum of \$xx,xxx,xxx (month, 19xx prices), plus or minus such amounts, if any, as may be justified by reason of ordinary fluctuations in construction costs as indicated by engineering cost indexes applicable to the type of construction involved herein."

This language establishes the authority and ceiling for congressional appropriations for construction projects. The phrase beginning "plus or minus such amounts. . ." provides the authority to adjust the appropriation ceiling by indexing to reflect changes in costs. This language, or something similar, must be present in each authorizing act before indexes may be used to adjust the appropriation ceiling. When the legislation does not include the above or similar language, the authorized amount cannot be indexed. However, it may be increased by applicable general legislation (see paragraph 7).

- B. **Amount Authorized.** The amount authorized for each project is usually derived from the project cost estimate contained in the feasibility report which was submitted to support the legislation. This estimate should include sufficient details on each of the project features to classify the field costs according to available indexes for such items as land and rights, dams, canals, laterals, etc.; and to further determine the preauthorization cost and the percentage of noncontract costs. Such an authorizing estimate and classification will be necessary to complete the appropriation ceiling indexing process.

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- (1) Cost indexes will be applied to each index classification amount such that the current amount, with adjustments for accrued expenditures or actual costs, is determined before the result is rounded to the nearest \$1,000. If the current plan and Federal obligations do not include a portion of the authorized project intent, that portion must also be eliminated from the appropriation ceiling.
- (2) Fiscal year costs for land acquisition, construction contracts, and a proportionate amount for noncontract costs will be eliminated annually from the indexing process. The results of the elimination process will be updated using the year-end (October) indexes.
- (3) Some active projects were authorized by methods which do not lend themselves to clarity or specific authorizations. These projects should be examined and a statement prepared by the Regional Director to justify a position concerning an applicable ceiling. See paragraph 11 for reporting.
- (4) Each Regional Director will designate a contact person who will be responsible for the appropriation ceiling documentation for all projects in the region. When the legislation provides a single appropriation ceiling for a group of projects or units, the individual parts will be coordinated by one of these persons as a single appropriation ceiling statement.
- (5) Although the following paragraphs indicate some acceptable optional updating methods, a consistent method must be used throughout the life of the project unless otherwise approved.

2. Source Data.

- A. **Construction Cost Trends.** Quarterly construction and land and rights cost indexes for updating the appropriation ceiling will be obtained from Reclamation's *Construction Cost Trends*, which is issued by the Technical Service Center.
- B. **Local or Special Indexes.** If the change in cost of some items in the authorizing estimate is not properly reflected by available Reclamation indexes, the use of local or special indexes in place of those in the *Construction Cost Trends* is subject to approval by the Regional Director. The method and data used along with a justification for use of local or special indexes should be so stated on the request for approval.
- C. **Authorizing Estimate.** The authorizing estimate will be used to establish the amounts to be assigned to each index classification. The General Property Index should generally be used when other specific indexes are not available. **The Composite Index should not be used to reflect the change in cost of any project feature.**

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- D. **Starting Index Date.** The starting index date will be the date of the price level as stated in the authorizing act and the current index date will be the date required for the budget documents. In the absence of a price level date in the act, the base date will be determined from the price level in the authorizing estimate or report. When those dates are between quarter dates, the previous quarter date will be used.
3. **Updating Land and Rights Costs.** The field costs and associated acreage as authorized for land and rights will be used to establish the base amounts for updating. The change in cost of land and rights in Reclamation may not be reflected adequately in the cost indexes developed from data provided by the Department of Agriculture. The development of appropriate Reclamation-wide cost indexes that cover all of the many variables that affect the cost of land in different projects is impracticable. Therefore, any of the following methods may be used to update a land cost ceiling.
- A. **Actual/Estimated Cost.** The land cost ceiling is obtained by using the actual and/or estimated cost of the acres required, provided appropriate adjustments are made when the number of acres required is different from the number of acres authorized. If the number of acres required is less than the number of acres authorized, the current value of the acreage difference, as determined by indexing the base cost per acre, will be added to the actual and/or estimated costs. If the number of acres required is greater than the number of acres authorized, either (1) the current value of the acreage difference, as determined by indexing the base cost per acre, will be deducted from the actual and/or estimated costs, or (2) the cost of excess acreage acquired will be treated as a construction expenditure and labeled as land. This method places a limitation on the land cost ceiling through the estimated number of acres at the time of authorization and is illustrated in figures 1 and 4.
- B. **Indexing.** The land cost ceiling is obtained by using the current value of the amount authorized for land and rights, as determined by indexing the base amount, with adjustments made for the accrued expenditures in the same manner as construction costs as described in paragraph 4A. This method places a limitation on the land and rights ceiling through the estimated value of land at the time of authorization and is illustrated in figures 1 and 4. The cost of land experienced in excess of the land classification cost ceiling may be moved to a construction classification which has available ceiling, but labeled with that proper classification. When moving the excess land costs to a construction classification, a reference notation should be made under that classification to the effect that costs are for "land."
- C. **Combined Index.** The amount authorized for land and rights is combined with the amounts authorized for construction and indexed in the same manner as described in paragraph 4A. However, either of the above methods may be used even though the

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construction cost ceiling is established by the combined index method. This method is illustrated in figures 3 and 6.

4. **Updating Construction Costs.** The field costs as authorized will be classified by the types of indexes available in the *Construction Cost Trends* to establish the base amounts for updating. Either of the following methods may be used to update a construction cost ceiling:

A. **Indexing.**

- (1) The construction cost ceiling is obtained by using the sum of the current values of the amounts authorized for each classification, as determined by indexing the base amount, with adjustments made for the incurred expenditures assigned to each index classification. Each classification cost ceiling will be the current value as determined by multiplying the unexpended balance by the next October index factor, dividing by the previous index factor, deducting the expenditures from year to year until the current index date is reached; and then adding back in the total expenditures incurred. (Adding back in the total expenditures gives a **total construction ceiling** amount which includes the *remaining unexpended balance* plus those expenditures actually incurred.) This is the same as multiplying the base amount by the current index factor, dividing by the base index factor, and deducting the sum of the expenditures. The resulting amounts are then multiplied by the current index factor and divided by their respective year-end (October) index factors. The total expenditures are then added back in to obtain the **total cost ceiling** for each classification. This method places a limitation on the construction cost ceiling by allowing indexing of only the amount not yet expended and is illustrated in figures 2 and 5.
- (2) To avoid exceeding the cost ceiling for any given construction classification, costs of construction experienced in excess of that ceiling may be moved to another classification; however, any costs so moved must be properly labeled according to their original classification. A corresponding notation should also be made in the original classification, stating what costs were moved. This is illustrated in figures 2 and 5.

B. **Combined Index.**

- (1) The construction cost ceiling is obtained by using the sum of the current values of the base amount authorized for each classification, as determined by combined indexing, with adjustments made for the fiscal year expenditures which are assigned proportionately to the classification balance to complete each year.

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- (2) This method is identical to the indexing method described above except that the fiscal year expenditures are proportionately assigned to index classifications and no individual classification cost ceilings are shown. This method is illustrated in figures 3 and 6.

5. Updating Noncontract Costs.

- A. Since the estimate supporting the authorized amount is based on a percentage of field cost as noncontract cost, this same percentage will be used to determine the current value for the noncontract ceiling. Noncontract costs are thus eliminated from indexing at the average rate that field costs for land and rights and constructions are eliminated. This percentage method, illustrated in figures 3 and 6, places a limitation on the noncontract cost ceiling by allowing indexing only on that amount which corresponds to land and construction amounts not yet expended.
 - B. Preauthorized expenditures, if included in the authorized amount, will be eliminated from this percentage and added to the current value to avoid showing any increased cost for that amount.
6. **Alternate Appropriation Ceiling.** The project cost estimate as authorized may be updated by indexing and used as the appropriation ceiling until expenditures are made on land acquisition or construction contracts.
 7. **General Legislation.** The authorized construction cost ceiling may be increased by an amount to cover the work which will be required as a result of general legislation where specific authorization by Congress is provided (see Assistant Secretary, Water and Science letter of May 17, 1990). In accordance with an opinion issued by the Office of the Solicitor, Washington, D. C., dated October 3, 2000, authorized construction cost ceilings prior to May 17, 1990, may be increased by general legislation with proper notification of Congress. The requirements of such legislation, in addition to normal indexing, are illustrated in figure 3. Some of the acts which should be considered are listed in figure 7.
 8. **Contract Impact Adjustment.** Bid values contain an amount for anticipated inflation that is not reflected in the appropriation ceiling until the contract is complete. To make the appropriation ceiling comparable to the obligation, a temporary adjustment may be made to compensate for the difference. The amount of the adjustment for each contract is found by multiplying the bid amount by the appropriate percentage obtained from figure 8. These adjustments may be added to the appropriation ceiling as the last items in the computation. Such adjustments are temporary and represent that amount of anticipated inflation remaining in the balance of the contract.

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9. **Additional Legislation.** If the appropriation ceiling will not cover the Federal obligations, it will be necessary to formally inform the appropriate committees of the Congress and/or propose legislation to cover the deficit. Legislation should be proposed at a time such that Congress will have adequate time to take appropriate action before appropriations exceed the ceiling.
10. **Final Statement.** Since the appropriations will be expended 2 years after the last budget justification is prepared for that project, it will be necessary to continue preparing the appropriation ceiling computation each year to October of the last budget year plus one. The last computation will be known as the final ceiling statement.
11. **Reporting.**
 - A. **Budget Estimates and Budget Justifications.** The appropriation ceiling dated October in budget year minus two must be entered as a paragraph on each project's budget estimate and justification narratives. For all projects which are proposed for construction and/or currently being funded through the Water and Related Resources appropriation, the computations supporting the appropriation ceiling will be submitted to the Regional Budget Office for review and comment. Any changes or additional computations should be submitted and reviewed prior to their use in the budget justification documents.
 - B. **Maintaining Supporting Documentation.** Copies of all authorizing estimates, justification statements, legislation applicable to the appropriation ceiling, and the appropriation ceiling computations will be maintained by each regional office, which will also be responsible for establishing support for and promoting Bureau-wide consistency in the application of these instructions. Computer programs and data files will also be maintained to provide the necessary consistency, format, and indexes.
 - C. **Reporting Format.** Computations will show at least (1) the name of the project, (2) the legislation authorizing a ceiling, (3) the base estimate and price level used to support the authorized amount, (4) any special notes such as authorization for special indexes or contracts for non-Federal funding, (5) the base estimate field costs as classified by indexes, (6) fiscal year expenditures, (7) the base and current indexes as well as the date and value of any intermediate indexes used, (8) the resultant ceiling for that index classification, except where a Combined Index is used, (9) base and current total field cost, (10) total expenditures to date, (11) base and current noncontract costs, (12) corrections or adjustments to fit legislated amount, (13) legislation used and the values for general legislation increases, and (14) the total base and the current ceiling. An example format is illustrated in figures 1, 2, and 3.

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12. **Aggregation of Facilities.** In order to provide the most accurate and informative data possible, projects and/or project facilities should not be aggregated for appropriation authorization estimates except in accordance with applicable authorizing legislation.