BRIEFING MEMORANDUM

DATE: December 16, 2025
FROM: Austin Olah, Economics & Planning Lead, RLAD
SUBJECT: Revision to PEC 05-03 – Interest Rate Calculation

KEY TAKEAWAYS

- RLAD has developed a methodology for calculating the interest rate for repayment terms for greater than 30 years of extraordinary maintenance costs (XM) in lieu of completion of an ability-to-pay study.
- The interest rate will be applicable as the minimum allowable rate for repayment contract negotiations regarding extended repayment of XM costs, as authorized by 43 U.S.C. 510(b), if an ATP study is not completed that otherwise demonstrates a need for the 30-year rate.
- The methodology will add one basis point for each year greater than 30 years, up to a maximum of twenty additional basis points, to the published interest rate for average market yields on outstanding marketable obligations of the United States as determined by the Secretary of the Treasury.
- The methodology is rooted in macroeconomic theory and precedent set by other Federal agencies; it is necessary given the Department of Treasury does not issue the applicable product for terms greater than 30 years.
- Additional advantages include enhancing transparency and ensuring a unified approach (and therefore accountable to taxpayers); increases certainty and sets clear expectations for stakeholders; and places less burden on Reclamation staff who may not have the resources to develop interest rates on their own.
- The change will require a revision to Reclamation Manual (RM) Directive and Standard (D&S) PEC 05-03 after review by regional directors and stakeholders.

NEXT STEPS

- Present the approach to stakeholders and solicit feedback via the RM website.
- Complete a major revision to RM D&S PEC 05-03 specifying the changes and continue to implement accordingly.

BACKGROUND

RLAD completed the most recent major revision of PEC 05-03 in July 2024 in coordination with various offices. Among the revisions was clarification of when interest is assessed on XM work. On the topic of interest rates, stakeholders shared comments regarding the interest rate determination, and specifically the requirement in Paragraph 8.C.(1)(a) of an ability-to-pay study for repayment terms greater than 30 years. This was not among the 2024 revisions, having been added to the D&S earlier, but RLAD agreed to work with stakeholders on alternative approaches.

The purpose of the requirement in Paragraph 8.C.(1)(a) is to ensure that Reclamation is only offering the minimum necessary repayment term if the requested repayment term exceeds 30 years. This is consistent with the statutory requirements of 43 U.S.C 510(b) and specifically the intent of Congress for the Aging Infrastructure Account to be revolving such that the repaid principal can be utilized for future XM work.

As Treasury has not produced rates for terms greater than 30 years, entering into a contract with a 30-year rate for a greater than 30-year term is not explicitly called for by 43 U.S.C 510(b). Further, as there is no directly comparable rate, holding the rate at the published 30-year rate for terms up to 50 years makes less economic sense as the yield curve has steepened. To account for this, and to allow for flexibility other than completion of an ATP study, Reclamation has developed an extrapolated rate for terms up to 50 years on the basis of basic macroeconomic theory and published work from the San Francisco Federal Reserve. This approach has been successfully utilized by other Federal agencies for extended repayment terms on infrastructure loans. RLAD does not recommend removing the flexibility of securing a 30-year rate for a repayment term greater than 30 years if a completed ATP study justifies the need accordingly, as it is a practical tool to assist the stewards of Federally-owned infrastructure. However, the need to demonstrate a reason for securing such repayment terms has only increased.

DISCUSSION

RLAD reviewed multiple approaches for developing rates up to 50 years and identified disadvantages to each. These approaches included extrapolation based off methods for setting 50-year High Quality Market (HQM) Corporate Bond Yields, adopting the WIFIA program repayment methodology, and developing a trend line from currently available rates up to 30 years. The disadvantages are summarized below:

- HQM Yield Extrapolation: Valid proxy but weak correlation and limited data
- WIFIA Methodology Adoption: Not comparable; maximum repayment term of 35 years
- "Best Fit Line" Methodology: Little to no mathematical or economic rationale

Another approach for a 75-year infrastructure repayment program was pioneered by the Department of Transportation (DOT) in the administration of the Transportation Infrastructure Finance and Innovation Act (TIFIA Act) of 1998, utilizing research from the San Francisco Federal Reserve (Federal Reserve)[1]. RLAD proposes an approach based on the same macroeconomic research as implemented for the TIFIA program.

The Federal Reserve developed a dynamic model to extrapolate the yield of a hypothetical 50-year U.S. Treasury bond. Specifically, the model allows for an estimate of the "added costs" of issuing a 50-year bond instead of a 30-year bond – in other words, the spread between the two rates. The authors conclude that the 50-year rate is unlikely to exceed the 30-year rate by more than 20 basis points when the yield curve is not flat or outright inverted.

The TIFIA Act was amended by P.L. 117-58 to allow for repayment terms of up to 75 years for authorized surface transportations projects. Due to the long repayment term, and in absence of an applicable Treasury rate, the DOT issued a Notice of Proposed Rulemaking in January 2024 to extrapolate appropriate interest rates for terms greater than 30 years.[2] DOT proposed a "1.4 basis points for each year of the loan term after year 40 to, but not including, year 51…" given the results from the Federal Reserve, as well as evidence from similar products such as the High Quality Market Corporate Bond Par Yield. The DOT carried forward this methodology in a Final Rule in June 2024

[1] [1] Christensen, Jens H. E., Jose A. Lopez, Paul L. Mussche. 2021 "International Evidence on Extending Sovereign Debt Maturities," Federal Reserve Bank of San Francisco Working Paper 2021-19. https://doi.org/10.24148/wp2021-19

[2] FR Doc. 2024-01243

while noting there was no public objection to the methodology – any comments received on interest rate setting were supportive[3].

Given the analysis from the Federal Reserve, precedent set by DOT, and recent steepening of the yield curve, RLAD recommends implementing a one basis point increase for each year greater than 30 years, up to a maximum of twenty additional basis points, to the published interest rate for average market yields on outstanding marketable obligations of the United States as determined by the Secretary of the Treasury. This approach is consistent with precedent set by the Federal Reserve, and, on a year-to-year basis, is more lenient than the approach currently implemented by DOT.

[3] FR Doc. 2024-11139