

# Reclamation Manual

## Directives and Standards

<b>Subject:</b>	Interest Rates for Interest During Construction (IDC) and Interest on Investment (IOI)
<b>Purpose:</b>	To clarify administrative requirements for the establishment of annual interest rates for the calculation of IDC and IOI. The benefit of this Bureau of Reclamation Manual (RM) Directive and Standard (D&S) is to ensure Reclamation establishes interest rates in accordance with specific authorizing legislation, Reclamation laws, or administrative policy.
<b>Authority:</b>	Sale of Water for Miscellaneous Purposes Act of 1920 (Pub. L. 66-147; 41 Stat. 451; <a href="#">43 USC 521</a> ); Reclamation Project Act of 1939 (Pub. L. 76-260; 53 Stat. 1187; <a href="#">43 USC 485</a> , et seq.); Water Conservation and Utilization Act of 1939 (WCUA) (Pub. L. 76-398; 53 Stat. 1418; <a href="#">16 USC 590y</a> , et seq.); Small Reclamation Projects Act of 1956 (Pub. L. 84-984; 70 Stat. 1044; <a href="#">43 USC 422a</a> ); Amend Small Reclamation Projects Act of 1956 (Pub. L. 89-553; 80 Stat. 376; <a href="#">43 USC 22b</a> et seq.); Water Supply Act of 1958 (WSA) (Pub. L. 85-500, Title III; 72 Stat. 319; <a href="#">43 USC 390b</a> ); Water Resources Development Act of 1974 (Pub. L. 93-251; 88 Stat. 34; <a href="#">42 USC 1962d-17</a> ); Reclamation Reform Act of 1982 (Pub. L. 97-293; 96 Stat. 1263; <a href="#">43 USC 390ee</a> ); Omnibus Public Land Management Act of 2009 ( <a href="#">Pub. L. 111-11</a> ), Title IX, Subtitle G; and acts amending and supplementing these laws; Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ( <a href="#">SFFAS 4</a> , <i>Managerial Cost Accounting Standards and Concepts</i> ; FASAB <a href="#">SFFAS 6</a> , <i>Accounting for Property, Plant and Equipment</i> ; FASAB <a href="#">Statement of Federal Financial Accounting Concept 2</a> , <i>Entity and Display</i> ; United States General Accounting Office (GAO): Accounting Principles, Standards and Requirements, <a href="#">Title 2: Standards Not Superseded by FASAB Issuances</a> ; specific project authorizations
<b>Approving Official:</b>	Director, Mission Support Organization
<b>Contact:</b>	Finance Policy & Programs Division; Policy, Compliance, & Audit Branch (84-27410)

1. **Introduction.** In accordance with Reclamation law, Reclamation must recover full, reimbursable costs it incurs for the construction of applicable projects, including the cost of replacements, additions, etc. Full costs include IOI and IDC. Generally, capitalized costs of the original construction, additions, replacements, and betterments, allocated to reimbursable functions, except irrigation, are subject to IDC and IOI unless otherwise provided by law (e.g., irrigation is subject to interest on repayments authorized under Pub. L. 111-11). See RM D&S, *Interest on Investment (IOI)* ([FIN 06-32](#)) and RM D&S, *Interest During Construction (IDC)* ([FIN 07-21](#)) for additional information. Reclamation

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must use rates for these interest costs in accordance with this D&S and RM D&S, *Water Rates and Pricing* ([PEC 05-01](#)).

2. **Applicability.** This D&S applies to all employees and contractors who calculate, record, or provide advice concerning applicable interest rates.
3. **Interest Rates.** The Director, Policy and Programs (P&P) provides the interest rate applicable for the current year to the regions at the beginning of the fiscal year. See Appendix C for an example of the notification memorandum. Regional office personnel calculate and record IDC and IOI on any unpaid investment. Refer to [FIN 06-32](#) and [FIN 07-21](#) for additional information.

### A. Power.

- (1) For projects which began on or before January 29, 1970, unless law otherwise provides, Reclamation determines the interest rate in accordance with administrative policy.
- (2) For projects, which began construction between January 29, 1970,<sup>1</sup> and September 30, 1983, unless law provides otherwise, Reclamation will use the applicable interest rate during the fiscal year in which funds are first appropriated to initiate construction. The interest rate will be the average yield rate for the preceding fiscal year on interest bearing marketable United States securities, which have terms of 15 or more years remaining to maturity, rounded to the nearest multiple of one-eighth of 1 percent. The yearly rate adjustment was under a limit of 0.5 percent.
- (3) For projects, which began construction after September 30, 1983<sup>2</sup>, unless law provides otherwise, Reclamation will use the applicable interest rate during the fiscal year in which construction began. The interest rate will be the average yield rate for the preceding fiscal year on interest bearing marketable United States securities, which have terms of 15 or more years remaining to maturity, rounded to the nearest multiple of one-eighth of 1 percent. The yearly rate adjustment is no longer capped at 0.5 percent.
- (4) The applicable rate for additions, betterments, and replacements construction activities is the rate the Department of the Treasury (Treasury) determines for the fiscal year in which Reclamation first disburses funds for these activities,

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<sup>1</sup>Source is Department of the Interior Secretarial Order 2929, *Standard Repayment Interest Rate Formula for New Federal Power Projects and System Transmission Facilities*, dated January 29, 1970. For historical purposes, Appendix A contains a copy of this document.

<sup>2</sup>Source is Department of Energy memorandum dated September 1, 1983. For historical purposes, Appendix B contains a copy of this document.

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including pre-construction costs such as planning activities, feasibility studies, etc.

- (5) The applicable rate for deficits is the Treasury rate for the fiscal year in which the deficit occurs.

**B. Municipal and Industrial (M&I) Water and Miscellaneous Purposes.** See [PEC 05-01](#) for more information.

- (1) **Sale of Water for Miscellaneous Purposes.** For the sale of water for miscellaneous purposes authorized under the Sale of Water for Miscellaneous Purposes Act of 1920, Reclamation will establish an interest rate in accordance with the WSA, Section 301(b).<sup>3</sup>
- (2) **Water Repayment Contracts.** For water repayment contracts authorized under Section 9(c)(1) of the Reclamation Project Act of 1939, Reclamation's interest rate will not exceed 3.5 percent.
- (3) **Water Service Contracts.** For water service contracts authorized under Section 9(c)(2) of the Reclamation Project Act of 1939, Reclamation will establish an interest rate in accordance with the WSA, Section 301(b) unless applicable project-specific legislation specifies a different interest rate.
- (4) **Water Conservation and Utilization Projects.** For contracts for the sale of water and surplus power authorized under the WCUA, Reclamation will establish an interest rate in accordance with the WSA, Section 301(b).
- (5) **Additions, Betterments, Replacements, and Deficits.** If the authorizing legislation specifies a rate or formula for the initial construction, it may not authorize the same rate or formula for additions, betterments, replacements, and/or deficits. If the law clearly states to use the same rate or formula or specifies a rate for additions, betterments, replacements and/or deficits, use the rate or formula in the authorizing legislation. If the legislation is not clear, receive concurrence from the field solicitor. Otherwise, establish an interest rate in accordance with Paragraph 3.A.(4).

**C. Safety of Dams.** Reclamation will establish the interest rate for projects authorized under the Reclamation Safety of Dams Act as RM D&S, *Safety of Dams Repayment and Cost Allocation* ([PEC 05-05](#)) describes in detail.

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<sup>3</sup>This interest rate is updated annually and distributed by P&P to other Reclamation offices. It is available on the Treasury's Web site at <https://www.treasurydirect.gov/government/interest-rates-and-prices/certified-interest-rates/annual/>. See Appendix C for example of the P&P memorandum.

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- D. **Other Interest-Bearing Investments.** The interest rate will be in accordance with law or repayment contract or, if neither applies, the rate the Commissioner, Bureau of Reclamation approves.
4. **Related References.**
- A. [Pub. L. 95-28](#), Public Works Employment Act of 1977.
- B. [18 CFR 704.39](#), Water Resources Council, Standards for Plan Formulation and Evaluation.
- C. GAO's [Policy and Procedures Manual for Guidance of Federal Agencies](#), Title 2 - Accounting, Appendix I - Accounting Principles and Standards, I10 - Imputed Interest.
- D. [FIN 06-32](#), *Interest on Investments (IOI)*.
- E. [FIN 07-21](#), *Interest During Construction (IDC)*.
- F. [PEC 05-01](#), *Water Rates and Pricing*.
- G. [PEC 05-05](#), *Safety of Dams Repayment and Cost Allocation*.
5. **Definitions.**
- A. **Addition.** New, separate, physical assets or sub-assets that increase the capacity or operating efficiency of an existing asset.
- B. **Betterment.** An improvement or upgrade of an existing asset that increases the size, capacity, operating efficiency. A betterment may also extend the useful life of an asset.
- C. **Contract Water.** Project water or non-project water made available under a water-related contract.
- D. **Deficits.** Unpaid prior year's expenses.
- E. **Interest.** Service charge for use of money or capital the user pays at agreed intervals. The annual percentage accrued on outstanding principal.
- F. **Interest During Construction or IDC.** The interest accumulated during the construction period. Reclamation adds this interest to the cost of the long-term asset. Refer to [FIN 07-21](#) for additional information.
- G. **Interest on Investment or IOI.** The interest that accrues on the unamortized balance of cost Reclamation allocated to power, M&I, and other interest-bearing reimbursable functions, beginning with a notice of substantial completion of the construction and

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continuing for the duration of the repayment term. Refer to [FIN 06-32](#) for additional information.

- H. **Irrigation Use.** Use of contract water to irrigate land primarily for the production of commercial agricultural crops or livestock, and domestic and other uses that are incidental thereto.
- I. **Municipal and Industrial or M&I Water.** The use of contract water for M&I and miscellaneous other purposes not falling under the definition of “irrigation use” above or within another category of water use under an applicable Federal authority.
- J. **Reclamation Project Act of 1939.** Section 9 of the 1939 Act authorizes Reclamation to enter into contracts:
- (1) to furnish water for municipal water supply or miscellaneous purposes with repayment by the contracting party over a period not to exceed 40 years from the year in which water is first delivered with interest not exceeding 3.5 percent (water repayment contracts), or
  - (2) for such periods, not to exceed 40 years and at such rates that will produce revenues sufficient to cover the appropriate share of annual operation and maintenance (O&M) cost and an appropriate share of fixed charges as the Secretary deems proper with payments due each year in advance of delivery of water (water service contracts), and
  - (3) to sell electric power or lease of power privileges for periods not to exceed 40 years at such rates that will produce revenues sufficient to cover the appropriate share of O&M cost, interest on the appropriate share of the construction investment at not less than 3 percent, and other fixed charges the Secretary deems appropriate.
- K. **Replacement.** The construction or installation of general property, plant, and equipment to replace an existing asset. Reclamation also uses the term to describe replacement of components of a capitalized asset in the O&M process.
- L. **Sale of Water for Miscellaneous Purposes Act of 1920.** The 1920 Act authorizes Reclamation to enter into contracts to supply water from any irrigation system project for purposes other than irrigation.
- M. **Water Conservation and Utilization Act of 1939 or WCUA.** The WCUA, Section 9 authorizes Reclamation to enter into contracts for furnishing municipal or miscellaneous water supplies, or for developing and furnishing power in addition to the power requirements of irrigation, if doing so does not impair the efficiency of the project for irrigation purposes. Reclamation will negotiate contracts for municipal or miscellaneous water supplies or for surplus power at such rates to produce revenue

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sufficient to cover the appropriate share of annual O&M cost of the project and such fixed charges, including interest, as the Secretary deems proper.

- N. **Water Supply Act of 1958 or (WSA).** The WSA, Title III, *Water Supply*, Section 301(b) directs Reclamation to use the interest rate for computing IDC and IOI on the unpaid balance as of the beginning of the fiscal year in which construction begins. The Secretary of the Treasury will determine the interest rate on the basis of the computed average interest rate payable by the Treasury upon its outstanding marketable public obligations, which are neither due nor callable for redemption for 15 years from date of issue.

6. **Review Period.** The originating office will review this release every 4 years.