

Reclamation Manual

Directives and Standards

Subject:	Interest During Construction (IDC)
Purpose:	Establishes the responsibilities and the procedures for calculating and recording IDC in accordance with generally accepted accounting principles. The benefit of this Directive and Standard (D&S) is to standardize the calculation of IDC for reimbursable construction projects Bureau of Reclamation-wide.
Authority:	Reclamation Project Act of 1939 (Pub. L. 76-260, 43 USC 485); Water Supply Act of 1958 (Pub. L. 85-500 , Title III); Reclamation Safety of Dams Act of 1978 (Pub. L. 95-578 , 92 Stat. 2471), as amended; Federal Water Project Recreation Act of 1965 (Pub. L. 89-72); Omnibus Public Land Management Act of 2009 (Pub. L. 111-11), Title IX, Subtitle G; Title XI, Section 1101 of Pub. L. 116-260 ; Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standard (SFFAS) 4, <i>Managerial Cost Accounting Standards and Concepts</i> ; FASAB SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i> ; Department of the Treasury (Treasury), <i>U.S. Standard General Ledger (USSGL)</i> ; General Accounting Office, <i>Accounting Principles, Standards, and Requirements, Title 2 Standards Not Superseded by FASAB Issuances</i> , Standard I10, Imputed Interest.
Approving Official:	Director, Mission Support Organization
Contact:	Finance Policy and Programs Division; Policy, Compliance & Audit (84-27410)

1. Introduction.

- A. Treasury provides funding to Reclamation from various sources such as the Reclamation fund, the general fund, and others. Treasury incurs costs for providing this funding. Reclamation's program of work involves the construction of project features. Congress requires Reclamation to recover some costs of these project features.
- B. A cost allocation process allocates cost associated with multipurpose projects/features to the various purposes (e.g., power, irrigation, municipal and industrial (M&I), fish and wildlife enhancements, recreation, and flood control). See Reclamation Manual (RM) D&S, *Project Cost Allocations* ([PEC 01-02](#)) and RM Policy, *Allocation of Operation, Maintenance, and Replacement Costs* ([PEC P07](#)) for more information. Generally, the cost associated with power, irrigation, and M&I are reimbursable by customers. Recreation and fish and wildlife may be covered by the Federal Water Project Recreation Act of 1965 and are also reimbursable by customers or may be non-reimbursable. Generally, these project purposes, excluding irrigation, are subject to reimbursement for interest according to project legislation.

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- C. Interest is applicable to all reimbursable purposes, including irrigation, for work performed as authorized under Pub. L. 111-11 (see RM D&S, *Extended Repayment of Extraordinary Maintenance Costs* ([PEC 05-03](#))).
 - D. IDC and interest on investment (IOI) are components of the cost of money to the Federal government. Reclamation calculates and recovers the interest components in addition to construction and operation and maintenance costs for reimbursable project purposes as specified in project legislation. Reclamation records IDC and IOI as both imputed costs and imputed funding sources as Treasury incurs the cost. Reclamation collects, records, and deposits the repayments including IDC/IOI to specific Treasury accounts (see Paragraph 1.E. and 1.F. for exceptions regarding power components).
 - E. Effective September 2014, two Reclamation Fund accounts (5000.026 and 5000.027) were transferred to Western Area Power Administration (Western) and Bonneville Power Administration (BPA) per a Memorandum of Understanding (MOU) between the Department of the Interior and the Department of Energy. Appendix D contains a copy of the MOU for historical purposes.
 - (1) Reclamation calculates and records IDC on Reclamation's power components.
 - (2) For Reclamation's power components pertaining to Western, Western calculates and Reclamation records IOI.
 - (3) For Reclamation's power components pertaining to BPA, BPA directly funds the capital projects, so Reclamation does not record IOI.
 - (4) Western and BPA collect, record, and deposit the repayments for the power components.
 - F. Reclamation calculates and records IDC on reimbursable extraordinary maintenance on power components authorized by Pub. L. 111-11. For guidance on calculating IOI and recording and collecting payment on these repayments, contact Policy and Programs, Reclamation Law Administration Division.
- 2. **Applicability.** This D&S applies to all Reclamation personnel involved in the calculation and recording of IDC.
 - 3. **Capitalizing IDC.** Reclamation law requires repayment of reimbursable project costs including interest.
 - A. If reimbursable construction authorized by Pub. L. 111-11 does not meet Reclamation's capitalization criteria, Reclamation expenses the IDC but the region must include the IDC in the repayment and capture these costs on the Statement of Project Construction and Repayment (SPCCR).

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- B. If the construction meets Reclamation's capitalization criteria, Reclamation capitalizes IDC as part of the cost of the constructed asset(s). In accordance with FASAB [SFFAS 4](#) and [SFFAS 6](#), Reclamation records IDC as a capitalized imputed cost to capture the full cost of the asset. Appendix E contains a copy of the Department, Financial Management Policy's concurrence memo, included for historical reference.
4. **Computing IDC.** Generally, the capitalized costs of the original construction, additions, replacements, and betterments, and the agreements authorized by Pub. L. 111-11, allocated to reimbursable functions, except irrigation, are subject to IDC unless otherwise provided by law (e.g., irrigation is subject to IDC on repayments authorized under Pub. L. 111-11). Reclamation does not charge IDC on expenditures financed from revenues (such as incidental revenues) or non-Federal sources. See RM D&S, *Interest Rates for Interest During Construction (IDC) and Interest on Investment (IOI)* ([FIN 06-31](#)) and [PEC 05-03](#) for information regarding the establishment of annual interest rates.
- A. **Power.** Compute IDC using simple interest on capitalized power projects, additions, replacements, and betterments construction costs incurred prior to October 1, 1983. Compute IDC using compound interest on capitalized projects, additions, replacements, and betterments construction costs incurred after September 30, 1983. Reclamation entered into agreements with the various power marketing agencies to begin charging compound interest on all power construction costs occurring on or after October 1, 1983, per the Commissioner's memorandum, *Policy on Computing Interest During Construction for Power Repayment*, dated February 14, 1984, published as Program Analysis Office (PAO) Planning Instruction 84-03 and supplemented by PAO Planning Instruction 86-01. Appendix C contains a copy of the documents for historical purposes.
- B. **Functions Other Than Power.** Projects with functions other than power, that have planning reports with simple interest adopted before September 30, 1980, use simple interest per the Commissioner's memorandum, *Policy on Computing Interest During Construction for Repayment Purposes*, dated November 10, 1980, published as PAO Planning Instruction 80-45 and supplemented by PAO Planning Instruction 84-03. For the remaining capitalized projects, compute IDC using compound interest unless otherwise provided by repayment contract or law. Appendix C contains a copy of the documents for historical purposes.
- C. **Base for Computation.**
- (1) Use general ledger (GL) 4902.xxxxx, *Delivered Orders-Obligations Paid* as a base for computation. You may need to consider any expenditure adjustments in the Financial and Business Management System in the computation. You may also need to consider GL 4802.xxxxx, *Undelivered Orders – Obligations, Prepaid/Advanced* if Reclamation advances the funds for construction.

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- (2) The base for computing IDC on agreements with advances to the non-Federal entity as authorized by Pub. L. 111-11 is the reimbursable portion of the amount disbursed.
 - (3) The base for computing IDC for construction, additions, replacements, and betterments is net disbursements of the funds used for the construction, additions, replacements, or betterments.
 - (a) Effective October 1, 1983, IDC is adjusted to exclude the following items:
 - (i) contract holdbacks until released and paid to the contractor,
 - (ii) expenditures for non-reimbursable expenses financed from construction funds,
 - (iii) funds returned to Treasury from construction activities associated with construction cost credits, and/or
 - (iv) expenditures financed from revenues or non-Federal sources.
 - (b) The accumulated net disbursements for advance planning and preconstruction cost activities are a part of the base for computing IDC commencing with the beginning of the year that construction is initiated.
 - (c) IDC is not applied to general investigation disbursements either before or after initiation of construction. This includes both reimbursable and non-reimbursable general investigations costs.
 - (4) See RM D&S, *General Property, Plant and Equipment (G-PP&E)* ([FIN 07-20](#)) for guidance on capitalizing or expensing costs. Pub. L. 111-11 may result in Reclamation charging IDC on expensed repayment activity.
 - (5) The allocation of costs for the purposes of calculating IDC is the same as the SPCCR allocation. Reference RM D&S, *Statement of Project Construction Cost and Repayment (SPCCR)* ([FIN 06-02](#)) and [PEC 05-03](#).
5. **IDC Commencement.** When reimbursable Federal funding is advanced to a non-Federal entity for extraordinary maintenance (XM) work, authorized by Pub. L. 111-11, IDC begins as of the date of the disbursement of the funds. When reimbursable Federal funding is provided for XM work, as authorized by Pub. L. 111-11, and when Reclamation is responsible for performing the operations and maintenance, see [PEC 05-03](#) for guidance on IDC commencement. For other reimbursable construction activities, IDC begins for each project or project feature, including additions, replacements, and betterments, in the quarter when the first disbursement occurs to initiate construction. This is defined as the point in time when the first disbursement is made under a construction contract, including land purchase contracts for purchase of rights-of-way, as distinguished from disbursements for

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advance planning and preconstruction activities. The repayment specialist, regional finance office, and the project manager work together to determine when IDC commences.

6. IDC Termination.

- A. **Assets Under Construction (AUC) and Pub. L. 111-11.** Generally, IDC terminates for construction in the quarter the asset is transferred from AUC to the appropriate completed asset account or, when Reclamation provides advanced funding to the non-Federal entity in accordance with Pub. L. 111-11, in the quarter the regional director transmits written notice to the non-Federal partner of substantial completion and the initiation of repayment.
- B. **Construction in Abeyance (CIA).** Unless a statutory requirement exists, suspend the calculation and recording of IDC after a program or feature is transferred to CIA. Do not retroactively compute and record IDC if CIA facilities are subsequently transferred to AUC or a completed asset account. IDC resumes if a CIA facility is transferred to AUC. Refer to RM D&S, *Construction in Abeyance (CIA)* ([FIN 07-26](#)) and RM D&S, *Determination to Suspend an Authorized Construction Activity* ([FAC 01-13](#)) for further information on CIA.

7. **IDC Estimate.** Regional or area staff knowledgeable in project cost allocation procedures is responsible for determining the initial, interim, and final cost allocations (FCA). IDC is considered an estimate until the approval of the substantial complete concurrence documentation and transfer to the appropriate completed asset account. See Paragraph 8.D for information on finalizing the IDC and PEC 01-02 for information on project cost allocation.

8. **Procedures for Computing IDC.** Each quarter, the regional finance office computes, reviews, approves, and records IDC in the GL. Do not calculate IDC until you determine the reimbursable functions, multipurpose allocation percentages, and applicable interest rates for the project or feature. Appendix A contains a sample template with instructions for calculating IDC when Reclamation does not provide advanced funding to the non-Federal entity. Appendix B contains a sample template with instructions for calculating IDC when Reclamation provides advanced funding to the non-Federal entity in accordance with Pub. L. 111-11. The templates may be changed to meet regional needs. Appendix A and Appendix B identify the mandatory requirements that must be included in the computation worksheet(s).

A. Review.

- (1) Review repayment contracts for new amendments and contact the regional or area office staff knowledgeable in project cost allocation procedures for any new legislation, changes in allocations, and verification of current information used in the IDC calculation.

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- (2) For a new construction project, review the authorizing legislation, Budget Justifications, Project Data Sheets, Definite Plan Reports, repayment contracts, and any other available information for provisions relating to the calculation of interest and allocation to reimbursable functions subject to IDC. Coordinate with the area or regional office staff knowledgeable in project cost allocation procedures in determining how IDC must be calculated for the project and/or project features.
- (3) For additions, replacements, betterments, or Safety of Dams (SOD) modifications, review programs and budget documents, repayment contracts, and any other information available to determine if:
 - (a) the addition, replacement or modification has a reimbursable function,
 - (b) the work was started after September 30, 1982,
 - (c) the construction requires more than 1 year to complete (not applicable to advanced funding provided to the non-Federal entity authorized by Pub. L. 111-11), and
 - (d) the cost exceeds \$10,000 (not applicable to advanced funding provided to the non-Federal entity authorized by Pub. L. 111-11).
- (4) Calculate IDC for SOD modifications per Section 4(c)(1) of the SOD Act Amendment of 1984. See RM D&S *Safety of Dams Repayment and Cost Allocation* ([PEC 05-05](#)) for additional information.

B. Estimated IDC.

- (1) If you cannot determine the current period's IDC, then record an estimate. Calculate the estimate using any reasonable means available, such as using last year's IDC as an estimate for the current fiscal year or using actual expenditures (GL 4902.xxxxx) for the prior quarter.
- (2) For new construction, additions, replacements, or betterments, do not record any estimates until the next fiscal year (not applicable to advanced funding provided to the non-Federal entity authorized by Pub. L. 111-11).
- (3) When IDC was estimated in a prior fiscal year or quarter, reverse the estimate in the following fiscal year or quarter. Compute and record IDC using the actual expenditures for that year or quarter.

C. Prior Year Adjustments.

Distribute prior period cost adjustments to the appropriate years.

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- D. **Project Completion.** Upon completion of the project, the regional finance and regional staff knowledgeable in project cost allocation procedures review the IDC calculations to determine the final IDC amount.
- (1) For additions, replacements, betterments, and agreements authorized by Pub. L. 111-11, the regional finance and regional staff knowledgeable in project cost allocation procedures perform an independent verification of the information/documentation and IDC calculations to determine the final IDC amount to transfer to the completed asset account, if applicable, and to determine the final IDC amount to be included in the repayment.
 - (2) For construction and deficits, the regional staff knowledgeable in project cost allocation procedures prepares a FCA to include the calculation of reimbursable IDC. See [PEC 01-02](#) for additional information. Prepare a final IDC worksheet to recalculate IDC for the project or project feature using the FCA information. Compare the recalculated IDC to the FCA amounts and reconcile any difference.
9. **Retention.** The regional finance office permanently retains the IDC worksheets. Footnote the IDC spreadsheets with any significant changes each fiscal year. Each region is responsible for keeping copies of any documents needed to support the IDC calculation as part of the permanent IDC file for the project.
10. **Procedures for Recording IDC.**
- A. The regional finance office posts the amount of IDC calculated per Paragraph 8 above. The pertinent elements are:
 - (1) transaction type of “FB50” or “FV50”,
 - (2) document type of “VB”,
 - (3) Work breakdown structure (WBS) “RA” for capitalized construction activities or the appropriate WBS (e.g., “RX”) for expensed construction activities associated with Pub. L. 111-11,
 - (4) commitment item of “NA”,
 - (5) debit GL 6730.00000, *Imputed Costs*,
 - (6) credit GL 5780.Z0000, *Imputed Financing Source-Other*,
 - (7) trading partner of “1406” on both GL accounts, and
 - (8) main account (use the 5th through 8th digits of the fund as the main account). (Example: Fund XXXR0680G1, the main account is 0680.)
 - B. These entries do not derive any cash or budget GL accounts.

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- C. The RA WBS settles, resulting in a debit posting to GL 1720.CIP00, *Construction in Progress* and a credit to GL 6610.00000, *Cost Capitalization Offset*. During year-end closing, GL 6730.00000 and 5780.Z0000 close to GL 3310.A0000, *Cumulative Results of Operations-Operating*, resulting in a zero impact. GL 6610.00000 closes to GL 3310.C0000, *Cumulative Results of Operations-Capital Assets*, leaving capitalized IDC recorded in GL 1720.CIP00 and GL 3310.C0000.

11. Related References.

- A. [FIN 06-02](#), *Statement of Project Construction Cost and Repayment (SPCCR)*.
- B. [FIN 06-31](#), *Interest Rates for Interest During Construction (IDC) and Interest on Investment (IOI)*.
- C. [FIN 07-20](#), *General Property, Plant, and Equipment (G-PP&E)*.
- D. [FIN 07-26](#), *Construction in Abeyance (CIA)*.
- E. [FIN 07-24](#), *Assets Under Construction (AUC)*.
- F. [CMP 07-01](#), *Project Management*.
- G. [FAC 03-02](#), *Construction Activities*.
- H. [FAC 01-13](#), *Determination to Suspend an Authorized Construction Activity*.
- I. [PEC P01](#), *Final Cost Allocations*.
- J. [PEC P07](#), *Allocation of Operation, Maintenance, and Replacement Costs*.
- K. [PEC 01-02](#), *Project Cost Allocations*.
- L. [PEC 05-03](#), *Extended Repayment of Extraordinary Maintenance Costs*.
- M. [PEC 05-05](#), *Safety of Dams Repayment and Cost Allocation*.
- N. U.S. Treasury [Annual Interest Rate Certification](#).

12. Definitions.

- A. **Additions.** New, separate, physical assets or sub-assets that increase the capacity or operating efficiency of an existing asset.
- B. **Advanced Planning.** Detailed planning studies in connection with an authorized project involving the collection of field data, land classification, foundation exploration, topographical mapping, aerial surveys, and other engineering and

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economic studies necessary for the preparation of definite plan reports and designs and specification preparatory to the start of construction.

- C. **Assets Under Construction or AUC (also known as Construction in Progress).** General property, plant, and equipment (G-PP&E) construction costs that meet the requirements for capitalization until the work is substantially complete as defined in the project management plan. See [FIN 07-24](#) and [CMP 07-01](#) for additional information.
 - D. **Construction in Abeyance or CIA.** Construction activities approved by Reclamation management to be identified as temporarily suspended as outlined in [FAC 01-13](#).
 - E. **Final Cost Allocation or FCA.** When construction of the project is determined to be substantially complete, a final cost allocation is required. At this point, most post-authorization planning, design, construction, and IDC costs are known; and operation, maintenance, and replacement costs are more-clearly defined. This final allocation, therefore, determines actual reimbursable and non-reimbursable costs and is the basis for assignment of costs to beneficiaries for repayment.
 - F. **Half-Year Convention.** A calculation of a weighted average of the costs incurred throughout the fiscal year. This approach avoids having to compute IDC on a daily, weekly, or monthly basis. This approach is not valid for calculating IDC on advanced funding provided to the non-Federal entity authorized by Pub. L. 111-11.
 - G. **Interest During Construction or IDC.** Interest accumulated during the construction period. Reclamation records it as an imputed cost and imputed finance source. When capitalized, Reclamation adds IDC to the cost of the asset and includes it in the depreciation of the asset.
 - H. **Preconstruction Activities.** Consist of the development of the design, the specifications, and the acquisition of the work. See [FAC 03-02](#) for additional information.
 - I. **Replacements.** The construction or installation of G-PP&E to replace an existing asset. Reclamation also uses the term to describe replacement of components of a capitalized asset in the operation and maintenance process. See [FIN 07-20](#) for information regarding the capitalization of replacements.
13. **Review Period.** The originating office will review this release every 4 years.

RECLAMATION MANUAL TRANSMITTAL SHEET

Effective Date: _____

Release No. _____

Ensure all employees needing this information are provided a copy of this release.

Reclamation Manual Release Number and Subject

Summary of Changes

NOTE: This Reclamation Manual release applies to all Reclamation employees. When an exclusive bargaining unit exists, changes to this release may be subject to the provisions of collective bargaining agreements.

Filing instructions

Remove Sheets

Insert Sheets

All Reclamation Manual releases are available at <http://www.usbr.gov/recman/>

Filed by: _____

Date: _____