

# Reclamation Manual

## Directives and Standards

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<b>Subject:</b>	Project Cost Allocations
<b>Purpose:</b>	Establish the requirement that cost allocations are to be performed on Bureau of Reclamation projects, document the legal authority for accomplishing this activity, and set forth requirements for appropriate methodology. This will ensure that all authorized project purposes share equitably in the benefits of multipurpose construction, and will maintain a greater level of consistency in allocation of construction costs throughout Reclamation.
<b>Authority:</b>	Reclamation Project Act of 1939 - Section 9 (Pub. L. 76-260; 43 U.S.C. § 485h), Fish and Wildlife Coordination Act of 1946 (Pub. L. 79-732; 16 U.S.C. §§ 661-666), Water Supply Act of 1958 (Pub. L. 85-500; 43 U.S.C. § 390) Federal Water Project Recreation Act of 1965 (Pub. L. 89-72; 16 U.S.C. § 460l-12, et seq.), Reclamation Reform Act of 1982 (Pub. L. 97-293; 43 U.S.C. § 390), all as amended and supplemented; Reclamation Manual Policy, <i>Program Economics, Revenues, and Contracts - Final Cost Allocation</i> (PEC P01); <a href="#">Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies</a> (P&G)
<b>Approving Official:</b>	Director, Office of Program and Policy Services
<b>Contact:</b>	Contract Services Office, 84-56000; Economics and Resource Planning Group, 86-68270

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### 1. Need for Cost Allocation.

- A. **Requirements.** Reclamation law and associated policy require an allocation of costs to components or purposes of projects in order to: (1) test financial feasibility of reimbursable components or purposes by a comparison of estimated project costs with anticipated revenues, and (2) after construction, establish and measure compliance with project financial requirements. Cost allocation is utilized as a transitional step leading from economic evaluation into repayment analysis. The primary purpose of the final allocation is to determine the assignment of costs to beneficiaries for repayment. As cost-sharing requirements differ by law among the purposes or components served by a project, a systematic and impartial process of allocation is required to determine and assign those costs that are clearly identifiable with the particular purposes which they serve, and to equitably apportion the remaining costs which jointly serve two or more purposes.
- B. **Initial Cost Allocation.** An initial allocation is made during plan formulation to provide a preliminary estimate of the financial feasibility of individual project elements and the project as a whole. Thus, in the project planning stage, project costs are

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allocated to the various project purposes to test financial feasibility of the reimbursable purposes by a comparison of estimated costs with anticipated revenues. The reimbursable cost estimates are then used as the basis for establishing the obligations in repayment or water service contracts, which amounts are subject to change based on interim or final cost allocations. The allocation yields an estimate of costs for each reimbursable and non-reimbursable function as well as costs for the project as a whole. This allows for judgment regarding the appropriateness of the Federal investment in individual components and the project overall.

- C. **Interim Cost Allocation.** For projects constructed over a longer period of time, or which are placed into service in stages, interim cost allocations are often performed to address major changes in the project plan which have an impact on allocation of costs. These provide an appropriate basis for establishing rates for individual construction blocks as each portion of the project comes online. The methodology for performing these will be consistent with that used in the initial allocation. Repayment contracts with payment amounts based on interim allocations must clearly specify that such amounts are subject to change based on additional, future interim allocations or on the final project cost allocation.
  - D. **Final Cost Allocation.** When construction of the project is determined to be substantially complete, a final cost allocation is required. At this point, all significant post-authorization planning, design, construction, and interest during construction (IDC) costs are known, and operation, maintenance, and replacement (OM&R) 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. See [PEC P01](#) for information on obtaining approval of final cost allocations.
  - E. **Treatment of Purposes.** Neither the ability of a particular purpose to repay its cost nor knowledge of a desirable rate will influence the amount of costs allocated to that purpose. Allocated costs and expected repayment will be determined independently. All project purposes will be accorded comparable treatment in the cost allocation process, as each is entitled to its fair share of the advantages and costs resulting from the plan of development.
2. **Responsibility for Cost Allocation.**
- A. **Implementing Offices.** Where Reclamation is the entity responsible for project construction, cost allocations will be performed by Reclamation staff knowledgeable in cost allocation procedures under the direction of the responsible area or regional office. Coordination with other agencies having responsibilities for particular purposes (Western Area Power Administration, cost sharing partners on Recreation facilities, etc.) will be conducted at all appropriate administrative levels. Cost allocations which establish contract terms and conditions and/or result in initiation of repayment will be

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transmitted by the Regional Directors to the Contract Services Office with a recommendation for approval by the Commissioner, following the process outlined in [PEC P01](#). Preliminary cost allocations prepared for planning or other purposes will be approved by the Regional Directors. Annual updates of cost allocation and repayment data included in budget justification documents will be approved by the head of the division in the regional office that has the responsibility for preparing the documents.

- B. **Documentation.** It is important that all elements of the allocation process be carefully documented. This is particularly important in the derivation of benefits, single-purpose alternative (SPA) costs, separable costs, and reimbursable costs. In order to ensure the accurate assignment of actual costs during the final cost allocation process, proper maintenance of the Project Cost Estimate files throughout the design and construction phases is critical.
3. **Costs to be Allocated.** National Economic Development (NED) Account costs, defined in Paragraph 3.D(2) as total project costs, will constitute the costs to be allocated for projects in all stages of planning, construction, and operation. In the allocation process, these costs are adjusted for time of occurrence by the application of appropriate compound interest and annuity factors to derive equivalent present worth monetary values at the beginning of the first calendar year of project service.
- B. **Allocations During Construction.** After construction begins, costs to be allocated will reflect annual financial statements showing the effects of investment, retirement, replacement, reconstruction, abandonment, maintenance, and other transactions recorded during the period of construction and operation. Costs used in the allocation are the latest official estimates of Reclamation and other agencies which may be providing supporting data.
- C. **Non-depreciated Costs.** Complete, non-depreciated costs are to be used in all phases of the allocation. This will require vigilance during a final allocation due to the fact that some project costs are currently accounted for on a depreciated basis by Reclamation finance offices.
- D. **Presentation.** A table showing costs to be allocated will precede the cost allocation in planning reports. Costs specifically identified with a particular purpose, as well as separable and remaining joint costs, will be shown with specific and separable costs listed by component or purpose. Cost components, i.e., construction, IDC, OM&R, etc., will be separately identified.
- (1) **Deferred Uses and Non-reimbursable Costs.**
- (a) Costs incurred for excess capacity to facilitate subsequent additions, or costs of other provisions for deferred project uses, will be included in the total costs to be allocated and then segregated by allocating directly to the

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deferred-use category (e.g., costs expended for water storage capacity for anticipated future municipal and industrial water demands as authorized under the Water Supply Act of 1958, as amended). The deferred costs would encompass all costs applicable to the deferred use or component including both separable costs and joint costs, as appropriate.

- (b) The non-reimbursable costs for highway improvement and for post-authorization archeological mitigation, as per the Archeological and Historic Preservation Act of 1974, will also be included in the total cost to be allocated. They will then be directly assigned to these purposes since they are not allocated any remaining joint costs.
- (2) **Total Project Costs to be Allocated.** All NED costs of project construction are to be allocated. These include costs incurred by the responsible Federal entity and, where appropriate, contributed by other Federal or non-Federal entities to construct, operate, and maintain a project in accordance with sound engineering, economic, and environmental principles. These costs include post-authorization planning and design costs; construction costs; construction contingency costs; administrative service costs; fish and wildlife habitat mitigation costs; relocation costs; historical and archeological investigation and mitigation costs; land, water, and mineral rights costs; environmental enhancement; and OM&R costs (P&G 2.12.5). Post-authorization planning and design costs of features or facilities that have not been constructed must also be included and allocated in the Total Project Costs.
- (3) **Non-Federal Costs.**
- (a) Disposition of project costs financed by a non-Federal entity will vary depending on the particular cost category. In the instance of a non-Federal contribution for an add-on purpose which involves only stand-alone incremental costs (i.e., for a purpose which does not depend directly on joint project facilities for its value), the costs are directly set aside to that purpose. If benefits (or SPA costs, where applicable) related to the purpose are included within the allocation, those benefits must also be subtracted out or set aside so as to not influence the remaining allocation process.
  - (b) If a non-Federal contribution is made for a purpose which is an integral part of the project, the contribution is included with other (Federal) costs for the purpose and carried through the allocation process so that the purpose accrues a proportionate share of joint costs. At the conclusion of the allocation process, the non-Federal contribution is then applied as a credit to the repayment obligation associated with the project purpose or beneficiary on whose behalf the contribution is made.

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4. **Benefits Used in Cost Allocation.** Categories of monetary benefits (or other measures of beneficial use) and computation procedures used for NED objective purposes found in the cost allocation will be the same as those used for project justification (P&G, chapter II). All benefits, SPA costs, and costs for allocation purposes will be placed on a comparable basis in relation to time of occurrence using the same interest rate and period of analysis. Benefits will be capitalized to their present worth (lump-sum) amounts at the first calendar year of project service. Cost estimates for separable costs and SPAs will be at least of appraisal grade.
5. **Interest Rates.** The interest (discount) rate to be used in cost allocation and for the computation of imputed IDC will be the same rate used in the analysis of the project (e.g., the plan formulation and evaluation rate (P&G 2.1.2)). This rate is published by Reclamation annually in the Federal Register and can also be found on the [interest rate certifications webpage](#) posted by the Department of the Treasury, Bureau of the Public Debt. For interim and final cost allocations, the interest rate used will be the plan formulation and evaluation rate used in the project planning documents upon which the project authorization was based, as referenced above. At the conclusion of the allocation process, IDC allocated to interest-bearing reimbursable purposes will be converted to the amount that would result from computation at the interest rate applicable to repayment of individual purposes. Interest rates for cost sharing or repayment are discussed in Reclamation Manual Directives and Standards covering those topics.
6. **Period of Analysis.** The period for estimating benefits and costs used in the cost allocation process will be the same as that used in project formulation and evaluation which is the lesser of the economic life of the project, or 100 years beyond the initial date of service (P&G 1.4.12).
7. **Allocation of Safety of Dams (SOD) Costs.** In accordance with Pub. L. 95-578, as amended, SOD modification work is considered to be new construction. Therefore, 15 percent of the total SOD modification costs will be allocated among the reimbursable purposes based on the benefit calculations developed for the SOD modification report, rather than on original or outdated construction cost allocations. Where not otherwise specified by law or contract, the allocation of the 15 percent among the reimbursable purposes will be made according to the proportional net present benefits of those purposes. The contact offices listed above may be consulted for guidance on the use of this allocation procedure.
8. **Additional Resources.** Detailed guidance for performing cost allocations can be found in Chapter III of the Economics Guidebook, which is available from either of the contact offices listed above.