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Michael J. Havey, Supervisor
California State Controller's Office
Cost Plan & Apportionment Section
P.O. Box 942850
Sacramento, CA 94250-5875

Dear Mr. Havey:

Thomas Cotton of your office requested guidance regarding the effective date of the allowability of interest under OMB Circular A-87 on land acquired by state and local governments. This letter provides the requested guidance.

As you know, Circular A-87 is silent on the allowability of interest incurred on land acquisitions. However, ASMB-C10¹ (question and answer 3-43, page 3-23) states that interest on land is an allowable cost, although it did not provide for an effective date for this policy.

Based on your request, ASMB has reviewed the record, beginning in the 1980s, on the evolution of OMB's policy on the allowability of interest under Federal programs. As a result, ASMB (in consultation with OMB) has concluded that with the May 4, 1995, revision of Circular A-87, OMB intended that interest be allowed on land if acquired on or after September 1, 1995. The land must have been acquired in connection with the purchase or construction of a building or other facility and the interest must be incurred during the fiscal year of the claim.

If you have any questions on this issue, please let us know.

Sincerely,

David S. Low
Director

¹ OMB has delegated to DHHS the responsibility for issuing government-wide implementing guidance for OMB Circular A-87, cost principles for state and local governments. The DHHS office of the Assistant Secretary for Management and Budget (ASMB) was given this task. This guidance was issued as ASMB C-10 published on April 8, 1997.