NOTES TO APPENDIX I

1. The Tennessee Valley Authority (TVA) stated that its Power Supply and Use Program rates "are based on the expected costs of money which TVA must pay over the period of the evaluation. Since the power program is currently financed from earnings from the sale of power and from the sale of revenue bonds, the future cost of money varies with the proportion acquired from the different sources utilized as well as from changes in interest rates."

2. The General Services Administration (GSA) stated that in its facilities program the costs of alternatives were discounted to present value at 4.5 percent for 50 years, the estimated life of the buildings. GSA stated that the 4.5 percent rate was selected "as an estimate of the long term productivity value of capital" and was applied on the assumption that "the relationship between the costs of alternatives would hold over the life of the project under examination."

3. The Department of Agriculture stated that its analysts "often prefer to calculate internal rates of return for comparing investment-type programs, rather than use a benefit/cost ratio analysis which depends upon discounting." The "internal rate of return" is analogous to the "yields" of an investment. The procedure is to find the "internal rate" (the rate of discount) that equates the present value of the proceeds from an investment with the present value of the outlays on the investment.

4. The Office of Economic Opportunity advised us that the rates of 3 and 5 percent "were safely on the conservative side for estimates of this type," and that they represented a "rate of return on a safe investment and a slightly higher rate." The agency also advised us that these rates gave consideration to the secular growth in the price of quality-constant labor.