

ticipated, the Water Resources Council has given public notice that it proposes to establish, under the procedure prescribed in section 103, a new formula for the determination each year of the discount rate for use in the formulation and evaluation of Federal plans for use and development of the Nation's water and related land resources.

Attached to this statement is the Council's notice that appeared in the Federal Register on July 26, together with the addition to the Council's rules and regulations which would implement the proposal if adopted finally by the Council and approved by the President. Interested persons are invited in the notice to submit written comments, suggestions, or objections regarding the proposed regulation to me within 60 days from last Friday.

The basic provision contained in the proposal for determining the discount rate is as follows:

The interest rate to be used in plan formulation and evaluation for discounting future benefits and computing costs, or otherwise converting benefits and costs to a common time basis, shall be based upon the average yield during the preceding fiscal year on interest-bearing marketable securities of the United States which, at the time the computation is made, have terms of 15 years or more remaining to maturity: Provided, however, that in no event shall the rate be raised or lowered more than one-quarter percent for any year.

Three points should be highlighted in this proposal.

First, the formula is based upon the current "yield rate" on long-term Treasury bonds. Thus it is affected by the current market value of the bonds, whereas the present formula is based upon the "coupon rate"—that is, the value of the annual payment by the Treasury on the bonds regardless of their current value.

Second, the long-term Treasury bonds included in the determination are only those which, at the time of computation, have terms of 15 years or more to maturity. The present formula includes bonds which, "upon original issue," had 15 years or more to maturity.

Finally, the provision should be highlighted "that in no event shall the rate be raised or lowered more than one-quarter of 1 percent per year."

Later in the proposal it is stated that "the discount rate to be used in plan formulation and evaluation during the remainder of fiscal year 1969 shall be $4\frac{5}{8}$ percent," except as provided in another section. This section provides that the present rate of $3\frac{1}{4}$ percent is to prevail, unless the Congress otherwise decides, with respect to projects authorized prior to the close of the second session of the 90th Congress where the appropriate State or local government agencies have given, prior to December 31, 1969, satisfactory assurances to pay the required non-Federal share of project costs.

The current increase in discount rate between the present and the proposed new formula is $1\frac{3}{8}$ percentage points. If the proposed new formula were based upon the average of bid prices for June of each year, then for fiscal year 1969 the discount rate would be $5\frac{1}{2}$ percent. This would be an increase in the discount rate of $2\frac{1}{4}$ percentage points.

The President's statement in the budget message calls for a discount rate "related to the average estimated current cost to the Treasury of long-term borrowing." The Council's reasons for not proposing a formula based upon, say, June bid prices—that is, the prices for the month immediately preceding the beginning of a new "discount year"—appear to me to be three: