

## UNITED STATES DEPARTMENT OF AGRICULTURE

## SOIL CONSERVATION SERVICE

Washington, D. C. 20250

WS-92 (Rev. 5)  
RC&D-7 (Rev. 4)

September 10, 1975

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WATERSHEDS MEMORANDUM-92 (Rev. 5)

RESOURCE CONSERVATION AND DEVELOPMENT MEMORANDUM-7 (Rev. 4)

From: R. M. Davis, Administrator

Re: Interest Rates for Water and Related Land Resource  
Project Evaluation

This memorandum states Soil Conservation Service policy regarding interest rates to be used in evaluating federal and federally assisted water and related land resource projects. The Water Resources Council has advised that the interest rate for fiscal year 1976 is 6-1/8 percent. This interest rate is to apply to watershed work plans and RC&D measure plans approved during fiscal year 1976 and also to river basin reports completed during fiscal year 1976. Interest and annuity tables based on the 6-1/8 percent rate are attached. Also attached is a copy of the Water Resources Council's amendment of the "Standards," which states changes in the discount rate formula and the current applicable rate. Watersheds Memorandum-92 (Rev. 4) and RC&D Memorandum-7 (Rev. 3) are canceled.

The date on which the state conservationist approves the plan by signing the RC&D measure plan or watershed work plan agreement determines the applicable interest rate. The 6-1/8 percent interest rate does not apply to any work plan or RC&D measure plan approved (signed) on behalf of the Secretary of Agriculture before July 1, 1975. It does not apply, for example, to any watershed work plan that had been transmitted to the Office of Management and Budget before July 1, 1975.

Watershed work plans, RC&D measure plans, and river basin reports subject to the 6-1/8 percent interest rate are to be handled as follows:

1. Plans completed or essentially completed but not approved before July 1, 1975

Reevaluate the plan, using current construction costs and the 6-1/8 percent interest rate, for use in part one of the addendum, which is to be inserted inside the plan, behind the front cover. This part of the addendum is to show the project benefits, the project costs, and the overall project benefit-cost ratio determined using the 6-1/8 percent interest rate. It should also indicate the price base used for costs and benefits and, for watershed plans, it should show a benefit-cost ratio without secondary benefits.

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These guidelines do not apply to watershed plans and RC&D measure plans subject to the full application of the Principles and Standards.

2. Plans being developed

Base the evaluation of costs and benefits on the 6-1/8 percent interest rate.

3. Supplements for watersheds

The approval date to be used in determining the applicable interest rate is the date the Administrator or the state conservationist, as appropriate, signed the original plan or agreement. General guidelines for determining interest rates to use for supplements are as follows:

a. Plans approved before the adjournment of the 90th Congress (October 14, 1968).

(1) Use 3-1/4 percent interest rate for all measures not previously justified or requiring rejustification--such as those having additional purposes, additional structures, or major modifications of original structures resulting in a change in scope.

(2) For all other measures, constructed or remaining to be constructed, use the interest rate applicable at the time the plan was approved.

b. Plans approved after the adjournment of the 90th Congress.

(1) Use current rate for all measures not previously justified or requiring rejustification such as those requiring additional structures, additional purposes, or major modifications of original structures resulting in a change in scope.

(2) For all other measures, constructed or remaining to be constructed, use the interest rate applicable at the time the work plan was approved.

c. For a ready reference, the applicable interest rates under current instructions are as follows:

Prior to October 15, 1968	3-1/4 percent
October 15, 1968, to June 30, 1969	4-5/8 percent
July 1, 1969, to June 30, 1970	4-7/8 percent

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July 1, 1970, to June 30, 1971	5-1/8 percent
July 1, 1971, to June 30, 1972	5-3/8 percent
July 1, 1972, to June 30, 1973	5-1/2 percent
July 1, 1973, to June 30, 1974	5-5/8 percent
July 1, 1974, to June 30, 1975	5-7/8 percent

4. River Basin Reports--All Types

- a. Evaluate all plans formulated during fiscal year 1976, using the 6-1/8 percent interest rate. Plans that are expected to be submitted in subsequent years should be evaluated using an array of interest rates, including the current rate of 6-1/8 percent. This will facilitate report preparation and use.
- b. Attach an addendum, indicating the effects of the 6-1/8 percent interest rate on benefits and costs, to all plans evaluated at rates other than 6-1/8 percent that are scheduled for submission to the Water Resources Council or the Washington office after July 1, 1975.



R. M. Davis  
Administrator

2 Attachments

C O P Y

United States  
Water Resources Council

Amendment of Standards for Planning  
Water and Related Land Resources

Change in Discount Rate Formula  
and Currently Applicable Rate

1. Notice is hereby given that the interest rate formula established by the U. S. Water Resources Council, September 10, 1973, in Chapter IV, D., "Standards for Planning Water and Related Land Resources" was amended by Section 80 of the Water Resources Development Act of 1974, Public Law 93-251, March 7, 1974. The full text of Section 80 is as follows:

"Section 80. (a) The interest rate formula to be used in plan formulation and evaluation for discounting future benefits and computing costs by Federal officers, employees, departments, agencies, and instrumentalities in the preparation of comprehensive regional or river basin plans and the formulation and evaluation of Federal water and related land resources projects shall be the formula set forth in the 'Policies, Standards, and Procedures in the Formulation, Evaluation, and Review of Plans for Use and Development of Water and Related Land Resources' approved by the President on May 15, 1962, and published as Senate Document 97 of the Eighty-seventh Congress on May 29, 1962, as amended by the regulation issued by the Water Resources Council and published in the Federal Register of December 24, 1968 (33 F.R. 19170; 18 C.F.R. 704.39), until otherwise provided by a statute enacted after the date of enactment of this Act. Every provision of law and every administrative action in conflict with this section is hereby repealed to the extent of such conflict.

"(b) In the case of any project authorized before January 3, 1969, if the appropriate non-Federal interests have, prior to December 31, 1969, given satisfactory assurances to pay the required non-Federal share of project costs, the discount rate to be used in the computation of benefits and costs for such project shall be the rate in effect immediately prior to December 24, 1968, and that rate shall continue to be used for such project until construction has been completed, unless otherwise provided by a statute enacted after the date of enactment of this Act.

"(c) The President shall make a full and complete investigation and study of principles and standards for planning and evaluating water and related resources projects. Such investigation and study shall include, but not be limited to, consideration of enhancing regional economic development, the quality of the total environment including its protection and improvement, the well-being of the people of the United States, and the national economic development, as objectives to be included in federally-financed water and related resources projects and in the evaluation of costs and benefits attributable to such projects, as intended in section 209 of the Flood Control Act of 1970 (84 Stat. 1818, 1829), the interest rate formula to be used in evaluating and discounting future benefits for such projects, and appropriate Federal and non-Federal cost sharing for such projects. He shall report the results of such investigation and study, together with his recommendations, to Congress not later than one year after funds are first appropriated to carry out this subsection."

2. The "Principles and Standards for Planning Water and Related Land Resources," established by the U. S. Water Resources Council pursuant to Section 103 of the Water Resources Planning Act (P.L. 89-80), were published in

the Federal Register on September 10, 1973, (F. R. 38-174-111) and became effective October 25, 1973.

3. Pursuant to the provisions of Section 80 of P. L. 93-251 and the authority delegated in Section 2 of Executive Order 11747, November 7, 1973, Chapter IV, D., "The Discount Rate" in the "Standards" is hereby amended to read as follows:

"The discount rate will be established in accordance with the concept that the Government's investment decisions are related to the cost of Federal borrowing.

"(a) The interest rate to be used in the 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 of 1 percent for any year. The average yield shall be computed as the average during the fiscal year of the daily bid prices. Where the average rate so computed is not a multiple of one-eighth of 1 percent, the rate of interest shall be the multiple of one-eighth of 1 percent nearest to such average rate.

"(b) The computation shall be made as of July 1 of each year, and the rate thus computed shall be used during the succeeding 12 months. The Director shall annually request the Secretary of the Treasury to inform the Water Resources Council of the rate thus computed.

"(c) Subject to the provisions of paragraphs (d) and (e) of this section, the provisions of paragraphs (a) and (b) of this section shall apply to all Federal and federally assisted water and related land

resources project evaluation reports submitted to the Congress, or approved administratively, after the close of the second session of the 90th Congress.

"(d) In the case of any project authorized before January 3, 1969, if the appropriate non-Federal interests have, prior to December 31, 1969, given satisfactory assurances to pay the required non-Federal share of project costs, the discount rate to be used in the computation of benefits and costs for such project shall be the rate in effect immediately prior to December 24, 1968, and that rate shall continue to be used for such project until construction has been completed, unless otherwise provided by a statute enacted after the date of enactment of the Water Resources Development Act of 1974, Public Law 93-251, March 7, 1974.

"(e) Notwithstanding the provisions of paragraphs (a) and (b) of this section, the discount rate to be used in plan formulation and evaluation for the fiscal year 1969 shall be 4 5/8 percent except as provided by paragraph (d) of this section."

4. The Treasury Department on July 13, 1973, informed the Water Resources Council pursuant to 3. (b) above, that the interest rate would be 5 5/8 percent based upon the formula set forth in 3. (a):

"\*\*\* the average yield during the preceding fiscal year on the 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\*\*\*."

This rate was used for plan formulation and evaluation during the periods July 1, 1973 - October 24, 1973, and March 7, 1974 - June 30, 1974, of the Fiscal Year 1974 consistent with a further provision of 3. (a) which provides:

\*\*\*\*[t]hat in no event shall the rate be raised or lowered more than one-quarter of 1 percent for any year."

Since the rate in Fiscal Year 1973 was 5 1/2 percent, (37 F.R. 14445), the rate for Fiscal Year 1974 was 5 5/8 percent.

5. The Treasury Department on July 17, 1974, informed the Water Resources Council pursuant to 3. (b) above, that the interest rate would be 6 1/2 percent based upon the formula set forth in 3. (a):

\*\*\*\*the average yield during the preceding fiscal year on the 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\*\*\*."

This higher rate, however, cannot be used for plan formulation and evaluation for Fiscal Year 1975 because a further provision of 3. (a) provides:

\*\*\*\*[t]hat in no event shall the rate be raised or lowered more than one-quarter of 1 percent for any year."

Since the rate in Fiscal Year 1974 was 5 5/8 percent, (38 F.R. 20119), the rate for Fiscal Year 1975 is 5 7/8 percent.

Dated:

Rogers C. B. Morton  
Chairman