

One change in the enhanced authority, which has a significant impact on the claimed savings under multiyear contracting, is the opportunity for DOD contractors to buy materials and produce in economic order quantities. To achieve these savings, it is necessary to spend significant sums of money earlier under the multiyear contracts than would have been the case under annual contracts.

DOD claims the projected difference in total obligational authority required for annual contracts and the multiyear contract is a savings. We disagree. DOD's claimed total obligational savings does not reflect the cost of borrowing associated with accelerated expenditure of funds under multiyear contracting. This is not a DOD budget cost but it is a real cost to the government. The difference between expenditures under the multiyear and annual contract methods must be discounted to present value to determine the savings.

When GAO discounted the 11 proposed fiscal year 1983 multiyear contract candidates, DOD's claimed savings of \$657.9 million, representing an 8.6 percent savings over annual contracting, was reduced to a potential savings of \$177.8 million, or 2.3 percent. Another more difficult savings offset to quantify is the cost of deferred tax revenues for