

From: <Stephen.Hatchett@CH2M.com>
To: AWLaputz@waterboards.ca.gov
Date: 3/2/2011 8:35 PM
Subject: RE: Economic Impacts

As far as I can see, the numbers you cite look consistent with what I had in my sections. I couldn't quite match the total direct costs you cite with what was in my version of Mark's section, though they were close - maybe there were some late changes that I didn't see.

The possible effect of the revisions to requirements on forage land seem reasonable based on the analysis I did last year, and you correctly cite the 75% reduction in acreage impact from a 50% drop in direct cost. So, I can't say specifically what the effect of the revised program would be, but your description of the likely change looks consistent with the analysis.

Hope this helps.
Steve

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-----Original Message-----

From: Adam Laputz [mailto:AWLaputz@waterboards.ca.gov]
Sent: Tuesday, March 01, 2011 10:30 AM
To: Hatchett, Stephen/SAC; Stephen Hatchett
Cc: Megan Smith
Subject: Economic Impacts

Steven:

Are you able to review a short, two paragraph, summary and discuss of economic impacts of the ILRP (see below)? We have made some adjustments and are trying to utilize the Economics Report discussion in evaluating some potential reductions. Pay special attention to may summation of value of production/employment losses under Alternatives 1 and 5. Call me if you have time to do this short review.

Adam
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2. Economic Impacts

The annualized cost estimate for the recommended Framework is between \$216 million and 1,321 million. The potential economic effects to Central Valley irrigated agriculture under the high range of these costs are analyzed in the Economics Report (as Alternative 5). As described above, this represents a "worst-case" scenario where the third-party framework is ineffective, individual monitoring is required, management practices implementation estimations in the Economics Report reflect current conditions (PEIR comments have described that the Economics Report has underestimated the level of management practices in place –see Master Response 17, Chapter 2, Final PEIR, ICF International 2010), and irrigated agriculture is found a contributing source of all "Tier 2" constituents (e.g., DO, pH). The economic effects, under the high end of this range would be identical to those described for Alternative 5 –see Tables 19, 20, and 21 of the Staff Report. Alternative 5 projects an annual loss of \$605 million in total value of production, and a loss of 3,927 agricultural sector jobs.

The lower end of the annualized cost estimate, \$216 million, is reduced from that shown for Alternative 1 in the Economics Report (\$478 million). It is anticipated that the lower cost would reduce the economic effects compared with those shown for Alternative 1 in the Economics Report (see pages 124 and 125 of the Staff Report) –especially to lower value crop types (e.g., irrigated pasture, hay). Alternative 1 projects an annual loss of \$336 million in total value of production, and a loss of 2299 agricultural sector jobs. One lower value crop type that was given consideration in the recommended Framework, leading to a reduction in estimated costs, is

irrigated pasture. From data review (pesticide use reports) and discussion with stakeholders it is estimated that there are a significant number of irrigated pasture operations that use minimal amounts of pesticides and do not apply fertilizers. This information has prompted the Board to consider regulation of these operations in a separate commodity-based ILRP order that would provide reduced oversight and monitoring for these types of irrigated pasture operations. In addition to reduced oversight and monitoring, it is estimated that irrigated pasture operations, due to their minimal pesticide and fertilizer usage, would not need to implement the more expensive management practices to be in compliance with the ILRP (e.g., tailwater return systems). Page 3-9 of the Economics Report describes that ILRP acreage and revenue impacts would be substantially reduced if low value crop types (e.g., irrigated pasture, hay) could identify less-expensive practices, such as avoiding the use of certain pesticides. As described on page A-2 of the Economics Report, if tailwater return systems were not implemented by irrigated pasture operations, there is an estimated 61 percent reduction in management practice costs. Further sensitivity analysis indicates that a 50 percent reduction in ILRP costs per acre would reduce estimated acreage impacts of Alternative 1 (e.g., loss of acreage) by 75 percent (see page 3-9 of the Economics Report). From the results of this sensitivity analysis, it is expected that the reduction in costs to irrigated pasture lands will significantly reduce the potential economic impacts of the ILRP.