

# The Brattle Group

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WASHINGTON

June 27, 2011

BRUSSELS

John Laird, Secretary  
California Natural Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

LONDON

MADRID

Dear Secretary Laird:

I am writing in regard to the Administrative Draft of the Delta Protection Council's Economic Sustainability Plan. I was troubled by the draft report, and would like to clarify my involvement in it. I would also like to correct several of the report's misstatements about my research findings.

Given the importance of presenting a realistic picture of the Delta economy to the public, I was greatly disappointed in the Administrative Draft and dismayed to be listed as a key contributor to the study. I conducted a discrete piece of research as a subcontractor to UOP on the value of Delta agriculture and the potential impacts of salinity changes on farming in the region. I had no role in the overall design or direction of the study. I was not even provided with a draft of the report prior to its release, as is customary in such circumstances. If I had been I would have insisted that my name be removed from the document.

In the context of a conservation program like BDCP, an economic sustainability plan should document the economy of the affected region, carefully measure the impacts of various conservation measures, and, most importantly, present a plan for mitigating any unavoidable impacts and otherwise ensuring the economic viability of the region. Residents of the Delta have some entirely legitimate concerns about how the BDCP will affect their region. I will note that many of these concerns have been expressed before in other settings and have been the subject of extensive academic research, including my own. For example, there are a number of public programs that take land out of agricultural production and have the potential to create adverse third party effects. Examples include agricultural support programs such as the Conservation Reserve Program and Wetlands Reserve Program, and fallowing-based water transfers such as the MWD-PVID and San Diego-IID transfers. Economists examining the socioeconomic effects of these programs have generally found that their negative effects are either small, or can be effectively mitigated. An important factor determining the size of socioeconomic impacts is the stimulating effects of payments to landowners and other parties. In any case, the starting point for developing an effective mitigation strategy is a measurement of the actual impacts of the program.

Unfortunately, the Administrative Draft contains important misstatements about my research on Delta agriculture, which I am happy to hear have been at least partially acknowledged in public

presentations by the lead investigators. In particular, the concluding section of the Administrative Draft contains the following misstatements and/or exaggerations:

**Large, isolated conveyance would decrease Delta agricultural production by nearly \$200 million, and negatively impact Delta tourism.**

This statement is simply false, and is not justified by the limited discussion of this point in Chapter 7 of the report. The \$200 million figure comes from a hypothetical sensitivity analysis intended to test the reasonableness of the estimated econometric model of land allocation in the Delta. It is not an estimate of any future condition in the Delta and should be completely discounted, except to the extent it illustrates how the model predictions vary with arbitrary changes in environmental conditions.

In fact, as shown in the attached paper that I offered to DPC as a stand-alone presentation of my research, under current regulations included in D-1641 the revenue loss from increased salinity in the south Delta would be less than \$35 million annually. It would be less than \$65 million even if the State adopts an elevated salinity standard of 1.0 EC for the south Delta as had been proposed. These figures – which are upper bounds on actual impacts – help to bring the effects of isolated conveyance into focus, especially since they are consistent with the earlier work of Richard Howitt and Glenn Hoffman who used different methods to reach similar conclusions.

**The BDCP proposal to create 65,000 acres of tidal marsh habitat would reduce annual agricultural production by a minimum of \$84 million, and generate little if any compensating tourist spending.**

This statement is speculative. It is not known at present exactly which lands will be targeted for restoration and thus it is not possible to give a precise estimate of impacts. It is inevitable that creation of habitat will have some impact on farming in the Delta. In my research, I detailed the range of values of Delta agriculture in various regions identified as desirable places to create habitat, and did not attempt to calculate bottom-line impacts.

I also object to the characterization of habitat creation as having no stimulus impact in the Delta. The restoration program contemplated as part of BDCP will inject a significant amount of money into the Delta economy over several decades. Such stimulus impacts have been analyzed by economists looking at other land conservation programs and should have been included in the UOP report.

**Implementing the November/December 2010 draft of the Bay Delta Conservation Plan would be devastating to the Delta economy. It would cause a 30-50% decline in Delta agriculture, and could decrease Delta recreation and tourism.**

These statements are also false and alarmist, at least as they relate to agriculture which was the sole subject of my research. As discussed above, if regulatory limits on south Delta salinity remain at current levels or even increase to 1.0 EC during the irrigation season, the impacts of elevated salinity on Delta agriculture will be far smaller than the \$200 million figure in the concluding section of the Administrative Draft.

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Beyond these misrepresentations of my work, I am disappointed by the polemical tone of the Administrative Draft, which is inappropriate in a research document. I disagree with a number of assumptions and methods employed in the analysis of economic impacts, especially those relating to recreation and tourism, but extending to several other parts of the report. Had I been given the chance to review the document prior to its release, in addition to insisting that my name be removed, I would have advised that several sections of the report should be almost entirely redone using more conventional methods.

Please let me know if you have any questions.

Best,

A handwritten signature in black ink, appearing to read 'David Sunding', with a stylized flourish at the end.

David Sunding  
Principal, The Brattle Group  
Professor, UC Berkeley

Cc:

Jerry Meral, California Natural Resources Agency

Marc Ebbin, Ebbin Moser & Skaggs