

**ADDENDUM TO THE TESTIMONY OF
PHILLIP J. PACE,
CHAIRMAN OF THE BOARD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
OF THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON RESOURCES
AND THE
CALIFORNIA SENATE AGRICULTURE AND WATER RESOURCES COMMITTEE**

Friday, June 14, 2002

The Metropolitan Water District of Southern California (Metropolitan) is exploring several new programs that could supplement existing programs to help California reduce its use of Colorado River water. Among the alternatives under consideration is a proposed landmark program that could help provide a more reliable water supply for urban Southern California, while helping farmers and the local economy in the Palo Verde Valley in southeastern California.

In July 2001, the respective boards of directors of Metropolitan and the Palo Verde Irrigation District (PVID) approved principles of a 35-year agreement for a Land Management, Crop Rotation and Water Supply Program. The principles follow a successful pilot program between Metropolitan and PVID implemented from 1992 to 1994.

The following provides details of the test program and its regional economic impacts, as well as the summary of principles of the proposed Metropolitan/PVID Land Management, Crop Rotation and Water Supply Program.

THE 1992-94 TEST LAND FALLOWING PROGRAM WITH PVID

Metropolitan implemented a two-year test land fallowing program with PVID from August 1, 1992, through July 31, 1994. Under the test program, 20,215 acres of agricultural land were not irrigated with Colorado River water. Metropolitan compensated the landowners/lessees in the Palo Verde Valley who voluntarily fallowed approximately 22 percent of their land. Such payments, \$620 per fallowed acre per year, totaled \$25 million during the two-year period. By not irrigating, approximately 93,000 acre-feet of Colorado River water a year was saved, stored in Lake Mead, and made available by the U.S. Bureau of Reclamation (Reclamation) to Metropolitan until 1997, when Reclamation released this water due to flood control.

A five-member Measurement Committee was established consisting of one representative from each of the following organizations: Metropolitan, PVID, Reclamation, Imperial Irrigation District and Coachella Valley Water District. The Measurement Committee reviewed the status of the program and determined the actual amount of water saved by the test program.

The fallowed lands were maintained under approved Land Management Plans for the duration of the two-year test program. The purpose of the plans was to conserve land and water resources, and to eliminate or minimize adverse impacts to adjacent farms, the community and PVID through control of weeds and wind erosion. Weed control measures chosen by the farmers consisted of mechanical and chemical methods. Wind erosion control measures chosen by the farmers included application of appropriate cultural practices such as providing crop stubble, sod remnants or clod plowing. The test

program was found to have no adverse environmental or air quality impacts.

Four surveys were conducted in the Palo Verde Valley during and after the test program to evaluate the economic impacts of the test program on the participating farmers and the community at large. Results indicated that the program was well accepted by the farmers and the community at large, and that the program did not affect overall regional economic performance in the Palo Verde Valley to any significant degree.

REGIONAL ECONOMIC IMPACTS OF TEST LAND FALLOWING PROGRAM

- Participants enrolled up to 25 percent of their productive acreage in exchange for an annual payment of \$640 per enrolled acre
- Total enrolled acreage was 20, 215 acres (approximately 22 percent of Palo Verde Valley's cultivated acres)
- In a typical year, between 90,000 and 95,000 acres are cultivated. A portion of land is double-cropped, so gross planted acreage in the valley in a typical year is about 110,000 acres
- Principal crops grown in the valley include alfalfa, cotton, sudan grass, wheat, melons, lettuce, and onions
- Test program displaced about 20,215 acres of field crops (hays--primarily alfalfa, and grains -- primarily wheat)
- Test program did not have any appreciable effect on planting decisions for vegetables and melons
- Overall regional economic performance, the region's property and sales tax bases, and governmental services provided were not measurably affected
- Test program contributed to some loss of employment in the region:
 - 27 full-time farm jobs
 - 25 full-time farm-related business jobs, and
 - 7 part-time/seasonal farm-related business jobs
- Combined employment losses were equal to about 1.3 percent of the region's average employment for 1991-92
- Test program did not cause non-farm-related businesses in the region to reduce employment or lose revenue
- Test program did negatively impact farm-related businesses providing services or supplies to the region's farmers such as seed, fertilizer, chemicals, and custom services
- Test program did not have a significant impact on regional gross farm revenue because revenue losses from reduced acreage were mostly offset by test program payments
- Participants spent 93 percent of test program payments in excess of fallowing and maintenance costs on farm-related investments, purchases, and debt repayment

- About 61 percent of test program payments in excess of costs was spent within the local economy
- Test program provided timely financial relief to the region's agricultural producers who had been under significant hardship due to low prices for key commodities, especially alfalfa, and pest infestation

SUMMARY OF PRINCIPLES OF AGREEMENT FOR PROPOSED NEW LAND MANAGEMENT, CROP ROTATION AND WATER SUPPLY PROGRAM

The objectives are to develop a flexible and reliable supplemental water supply for urban Southern California for 35 years, and to assist in stabilizing the farm economy within the Palo Verde Valley through sign-up payments and annual payments for water supply. Two types of agreements would be executed: (1) a Program Agreement between Metropolitan and PVID, and (2) Land Agreements between Metropolitan and participating landowners/lessees in the Palo Verde Valley.

HOW THE PROPOSED PROGRAM WOULD WORK

The maximum area of proposed program lands that would not be irrigated during each contract year would not exceed 24,000 acres in any 25 years and 26,500 acres in any 10 years during the 35-year program. A baseload area of 6,000 acres would not be irrigated each year of the 35 years. Metropolitan, upon a minimum of one-year notice, would have the option to increase the non-irrigated area from 6,000 acres up to a maximum of 26,500 acres. Once increased, the increased area would not be irrigated for a minimum of 2 years, and could be decreased on a minimum one-year notice by Metropolitan. Metropolitan would exercise the increases such that the average non-irrigated area over the 35 years would equal at least 12,000 acres per year (approximately 13 percent of irrigated Valley lands).

The landowner/lessee would be responsible for payment of taxes, PVID water toll payments, vegetation abatement, dust control, and all other costs related to the lands. A maximum of 29 percent of any one landowner/lessee's irrigated land would be eligible for the sign-up payment, unless there is insufficient interest in the proposed program, in which case the area could be increased up to a maximum of 35 percent.

STRUCTURE OF PAYMENTS

- Two types of payments to participating landowners are to be made under the proposed program: a one-time sign-up payment and annual payments.
- The sign-up payment is \$3,170 per acre times the maximum number of acres that could be non-irrigated at any year (expected to be 29 percent of the farm acreage). This sign-up payment could be paid in installments over a five-year period.
- The annual payment is \$550 per acre times the number of acres to be non-irrigated in that year (usually between 7 percent and 29 percent of the farm acreage). Annual payments would be escalated following the first year for the life of the proposed program with possible adjustments, if any, every five years based on future inflation.
- Additional payments to be made under the proposed program include:
 1. A payment of \$100,000 per year to Palo Verde Irrigation District to cover its additional costs

associated with the program. This payment is to be escalated at 2.5 percent per year following the first year for the life of the program

2. A one-time payment of \$6 million following commencement of the program, or \$300,000 per year which equates to over \$16 million in actual dollars over the proposed program's life, for the purpose of community improvement projects
 3. The cost of the environmental documentation and other activities prior to program implementation estimated to total \$500,000
- When all these costs are considered, the calculated unit cost of saved water would depend on the level of saved water to be developed over the life of the proposed program.
 - For the minimum amount of saved water required to be developed over the life of the program (1.76 million acre-feet [MAF] or 48.6 percent of the maximum water that could be developed under the proposed program), the unit cost is \$206 per acre-foot (AF).
 - For an average or expected amount of saved water of 2.77 MAF to be developed over the life of the program (about 76 percent of the maximum), the unit cost is \$168/AF.
 - For the maximum amount of saved water that could be developed over the life of the proposed program (3.63 million acre-foot or 100,800 acre-feet per year for 25 years and 111,300 acre-feet per year for 10 years), the unit cost is \$153/AF.
 - These unit costs include all costs--payments to landowners and PVID, environmental and community improvement costs.
 - Should any of the cost components change, the above-cited unit costs will change.
 - The contracts are still being developed and are expected to be finalized by the end of July 2002.