

Memo

To: Bill Couch
From: Milton Holloway
Date: 12/12/00
Re: Net Benefits of the LCRA IBT to San Antonio

Senate Bill 1 Requirements

Senate Bill 1 and the related planning guidelines from the Texas Water Development Board do not require that the regional planning groups measure the net benefits of an interbasin transfer (IBT) to the two directly affected regions. Neither do SB 1 and the WDB guidelines preclude LCRWPG from doing so.

Under SB 1, such net benefits will need to be shown by LCRA if the IBT is to be permitted by the TNRCC.

Measures of the Net Economic Benefits of the Transfer

The relative size of net benefits to Region K and Region L from the proposed LCRA transfer of 150,000 acre-feet of water to San Antonio is certainly an important question. However, resources of time and money are not available for answering the question in this planning cycle. There are general statements that can be made, however, that should be adequate for the level of planning in the current Region K plan.

1. Region K

It is clear, save one unanswered environmental issue, that there is reason to expect positive net economic benefits to the Lower Colorado region from the proposed IBT. The Net Present Value of the expected payments from San Antonio will exceed the Net Present Value of the costs of generating the new water supply and delivering it to San Antonio. The **direct** result will be a positive net income for LCRA. LCRA plans to use the net income to solve water shortage problems through out Region K, especially rice irrigation shortages in the lower basin. The only significant economic issue that keeps us from being confident about expecting positive net benefits is the economic value of potentially negative effects of the reduced river flow into Matagorda Bay. If expected environmental consequences turn out to be unacceptable, LCRA promises not to proceed. The direct economic benefit to Region K would occur primarily because of the rice production that would continue uninterrupted during droughts. The **direct** benefit is approximately the income value of rice production minus the income value of grass

production, because that is the next best alternative for the rice land during droughts. The total regional benefit is approximately equal to the **direct** benefit plus the **indirect** benefit due the economic multiplier effect.

There will also be benefits from avoiding water shortages in the small cities and rural areas in the Hill Country upper end of the basin. Recreation interests will benefit from the maintenance of higher lake levels during droughts due to the IBT.

2. Region L

It is equally clear that it is reasonable to expect positive economic benefits of the IBT to Region L. The approximate size of the **direct** economic benefit to Region L is the Net Present Value of expected future Region L net income due to the IBT. The future net income to Region L is the difference between the cost of the next best alternative to the IBT and the delivered cost of the IBT water. Region L's plan indicates that the LCRA proposal is less expensive than the next best alternative they have identified that is capable of being developed as the water source available in the same time frame as the LVRA proposed IBT. The **total benefit** to Region K is the **direct** benefit plus the **indirect** benefit due the economic multiplier effect.

We cannot be sure which region might benefit the most from the proposed IBT until a detailed study of the costs and benefits is completed. Such a study can be completed only after a specific project, with alternative configurations is defined.