

1 NON-BINDING ARBITRATION INITIATED 10/21/08  
2 PURSUANT TO  
3 DECREE OF MAY 19, 2003, 538 U.S. 720  
4 KANSAS V. NEBRASKA & COLORADO  
5 NO. 126, ORIG, U.S. SUPREME COURT  
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11 DEPOSITION OF JOHN LEATHERMAN,  
12 produced, sworn, and examined on Tuesday, the 24th  
13 day of February, 2009, between the hours of 8:00  
14 o'clock in the forenoon and 6:00 o'clock in the  
afternoon of that day at Husch Blackwell Sanders LLP,  
4801 Main Street, in the City of Kansas City, County  
of Jackson, State of Missouri, before:

15  
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Registered Professional Reporter  
of  
17 JAY E. SUDDRETH & ASSOCIATES, INC.  
Suite 100  
18 10104 West 105th Street  
Overland Park, Kansas 66212-5755

19  
20 a Certified Court Reporter within and for the State  
of Missouri.

21  
22 Taken on behalf of the State of Nebraska.  
23  
24  
25  
26

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21 INDEX

	PAGE
22 JOHN LEATHERMAN	
23 Direct Examination by Mr. Wilmoth	4
Signature:	34
24 Certificate:	35

25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
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19  
20  
21  
22  
23  
24  
25  
26

EXHIBITS

EXHIBIT NUMBER	DESCRIPTION	PAGE REFERENCED
23	Testimony on Substitute of SB 89 Disposition of moneys recovered from Republican River Compact Litigation to the House Agriculture and Natural Resources Committee	19

1                                 JOHN LEATHERMAN,  
2 of lawful age, having been first duly sworn to tell  
3 the truth, the whole truth, and nothing but the  
4 truth, testified as follows:

5                                 DIRECT EXAMINATION

6 BY MR. WILMOTH:

7             Q.     Good morning, Dr. Leatherman. How are  
8 you today?

9             A.     I'm fine, thank you.

10            Q.     Feeling okay today? Nothing would  
11 prohibit you from testifying truthfully and  
12 accurately, to your knowledge?

13            A.     No.

14            Q.     Thank you for coming. I think you are  
15 aware that I'll be asking you some questions today  
16 about the report that is titled Economic Impacts  
17 on Kansas of Diminished Surface Water Supplies to  
18 the Lower Republican River Basin Caused by  
19 Nebraska in 2005 and 2006 dated January 20 --

20            A.     Yes.

21            Q.     -- of 2009. You're familiar with that  
22 report?

23            A.     Yes, I am.

24            Q.     And for the record, that report was  
25 marked as Exhibit 20 to Dr. Kastens' deposition.

26

1 To the extent we'll be referring to that report in  
2 this deposition, we'll be referring to that  
3 exhibit. I'll also refer to it as the economic  
4 report for simplicity sake.

5 Do you have a copy of that report  
6 available to you or would you like a copy?

7 A. No, I do not.

8 Q. I have a clean copy. Dr. Leatherman,  
9 what is your educational background?

10 A. I received a degree -- a Bachelor of Arts  
11 Degree in Psychology from the University of Wisconsin  
12 at Milwaukee I believe in 1980. Master of Science  
13 Degree in Natural Resource Management from the  
14 University of Wisconsin, Stevens Point, I believe, in  
15 1985 and then a Ph.D. in Urban and Regional Planning  
16 from the University of Wisconsin, Madison, in 1995.

17 Q. And what is your professional background  
18 since you -- since 1995?

19 A. I'm a professor in the Department of  
20 Agricultural Economics at Kansas State University.

21 Q. And you have held that position since  
22 1995?

23 A. That's correct.

24 Q. And do you teach any course work there?

25 A. My position is extension outreach work.

26

1 Q. Is this position similar to that  
2 described by Mr. Kastens earlier?

3 A. Similar insofar as we both do outreach work,  
4 although our areas of specialty differ quite  
5 significantly.

6 Q. In what regard?

7 A. I generally work in the area of rural  
8 development, which deals with such things as  
9 community economic development, local public finance,  
10 environment management issues.

11 Q. And you're currently under contract to  
12 the state of Kansas to assist in the Republican  
13 River matter. Is that correct?

14 A. That's correct.

15 Q. Does the scope of that service include  
16 production of this report?

17 A. Yes.

18 Q. The economic report, for the record.  
19 Does the scope of your employment include anything  
20 else related to the Republican River?

21 A. No.

22 Q. Have you done any other projects under  
23 contract to the state of Kansas, aside from your  
24 agricultural extension work?

25 A. I have worked under contract in my official

26

1 employment capacity on a variety of projects for the  
2 state of Kansas, but I have never done so as an  
3 independent consulting agent.

4 Q. Okay. Could you describe generally the  
5 nature of some of those projects that you were  
6 involved in?

7 A. Oh, one was estimating the economic impact  
8 of the conservation reserve enhancement program in  
9 southwestern Kansas. That was one for which I was  
10 directly contracted, and I have received several  
11 grants to do water shed management planning, oversee  
12 work in that area. I have received funding to  
13 support outreach work relating to rural health care  
14 economics. Those are the major ones that I can think  
15 of recently.

16 Q. Regarding your estimation of the impact  
17 of the CRP program, could you describe that work,  
18 please?

19 A. That was -- that came essentially as a  
20 result of the settlement between Kansas and Colorado  
21 in the Arkansas River compact case, and coming out of  
22 that the state used at least some portion of its  
23 settlement money to establish a conservation reserve  
24 enhancement program, which essentially adds a layer  
25 above normal conservation reserve programs with the

26

1 objective of trying to conserve water resources in  
2 southwestern Kansas.

3 Q. What is the practical implication of  
4 implementing that program on water use?

5 A. Well, there are, perhaps, several, but the  
6 most obvious one would be the objective of trying to  
7 conserve water from the aquifer.

8 Q. And how does it operate to do that? How  
9 does the CRP program or the base program operate  
10 to achieve that goal?

11 A. I can speak only generally. I am not an  
12 expert on the mechanics of how that program works,  
13 but essentially they allow landowners the opportunity  
14 to retire irrigation rights for a period of time in  
15 return for compensation.

16 Q. Do you have any idea what that  
17 compensation structure is?

18 A. No. I can't answer that right for you.

19 Q. Regarding dollar figures, you don't  
20 know?

21 A. No.

22 Q. In terms of your work on the economic  
23 paper, I'm sorry, the economic report, did you  
24 apply this knowledge that you learned in working  
25 on that CRP analysis?

26

1           A.     The analyses were similar insofar as they  
2 used similar technique.

3           Q.     Okay.  In preparing the economic report,  
4 did you consider the impact of potential payments  
5 under these programs?

6           A.     No, I did not.

7           Q.     Do you know if any of your co-authors  
8 did so?

9           A.     No, I don't, but I don't believe any did.

10          Q.     Okay.  Could you describe generally your  
11 role in preparing the economic report?

12          A.     I, together with Dr. Tom Johnson from the  
13 University of Missouri, Columbia, were responsible  
14 for the component that estimated the indirect  
15 economic effects.

16          Q.     Do you have any expert opinion on the  
17 component analyzing the direct economic impact?

18          A.     I have the opinion that I have world class  
19 partners that worked on that side of the project, and  
20 I believe that they are about as careful in crafting  
21 an accurate answer as anyone could be, and so I have  
22 complete trust in what they gave me as a direct  
23 estimate.

24          Q.     So you did not question the estimate  
25 that was provided to you for direct impact?

26

1 A. No, I did not.

2 Q. You did no incident analysis of those  
3 direct impacts?

4 A. No, I did not.

5 Q. Is it accurate to say that your indirect  
6 impact analysis begins with the premise of the  
7 direct impact as quantified by your colleagues?

8 A. Yes.

9 Q. If that direct impact number is changed  
10 in any way, does it affect your analysis?

11 A. Yes.

12 Q. If that direct impact number is reduced,  
13 how would it affect your analysis?

14 A. It would reduce the number that I would come  
15 up with.

16 Q. Do you believe that would be a linear  
17 response? In other words, if the direct impacts  
18 were 10 percent less, would the indirect impacts  
19 be 10 percent less?

20 A. Yes. All else being equal.

21 Q. Can you describe generally the social  
22 accounting matrix?

23 A. Social accounting matrix is an extension of  
24 input/output analysis. It essentially provides an  
25 accounting system for how the economy is connected

26

1 and how financial transactions flow from various  
2 sectors within that economy. It's a comprehensive  
3 accounting system, accounting for all financial flows  
4 that exist within the economy during a period of  
5 time, typically one year.

6 Q. How is it typically employed, in your  
7 experience?

8 A. It can be employed in several ways. It's a  
9 very rich descriptive tool of the interconnectiveness  
10 of the economy, and there are many times we use it  
11 just for educational purposes to help people to  
12 understand the linkages that exist, then applying the  
13 appropriate mathematics to that system. We can use  
14 it in a predictive fashion to try to estimate the  
15 impacts of various types of policies or events.

16 Q. Are there any drawbacks of the social  
17 accounting matrix, that you're aware of?

18 A. No drawbacks, per se, although there are  
19 alternative modeling systems that may be used  
20 depending on the nature of the question asked. In  
21 certain instances it may be appropriate, once again,  
22 depending on the relationships that we believe to  
23 exist, given a change or a policy where it may be  
24 appropriate to utilize a different type of modeling  
25 tool, but there's nothing necessarily inherently

26

1 wrong with this type of an accounting system as long  
2 as it's applied correctly, a given question that  
3 needs to be answered.

4 Q. What other types of modeling systems are  
5 available to answer the question that you  
6 attempted to answer in this document?

7 A. There may be -- there may be the  
8 appropriate -- there may be the application of  
9 several different types of models, none of which are  
10 inherently superior to utilizing the techniques that  
11 we used, and those would include simple -- a simple  
12 input/output type model from which the social  
13 accounting matrices are derived. There are other  
14 types of models that can join the social accounting  
15 matrix with a series of econometrics equations, which  
16 may help to identify impacts in other areas beyond  
17 just the financial accounting. There are computable  
18 general equilibrium models which would give us  
19 impacts to essentially social welfare, and there  
20 again, depending on the nature of the phenomenon that  
21 you're trying to understand, it may be more important  
22 to utilize one tool over another. Given the modeling  
23 assumptions that we were dealing with with this  
24 particular question, we believe that the social  
25 accounting matrix analysis was the correct analysis

26

1 to use.

2 Q. What assumptions were those?

3 A. That essentially we are dealing with a very  
4 short-term phenomena. That we restrict our  
5 perspective to what occurred in the economy in 2005  
6 and 2006.

7 Q. If I understand your indirect effect  
8 analysis correctly, the area of analysis is  
9 statewide?

10 A. That's correct.

11 Q. Is that equivalent to saying that the  
12 so-called ripple effect of a direct effect in  
13 northeast Kansas would ripple through the whole  
14 state, in your assessment?

15 A. That would be correct.

16 Q. And what is that premise based on?

17 A. How the -- how the direct effects that  
18 accrue to the farmers within the region, what they,  
19 in turn, do in response to those direct effects, and  
20 given the short-term nature of the time frame within  
21 which we consider economic impacts to arise, we  
22 assume that 100 percent of the impact accrued to  
23 household consumption, because farmers lost profits,  
24 which, in turn, affects the level of household income  
25 that's available. They have no alternative, other

26

1 than to curtail household consumption, and household  
2 consumption, then, is a phenomenon that spreads the  
3 effect very, very broadly, given the wide variety and  
4 the large geographic area over which we all spend  
5 household -- our household income.

6 Q. How did you determine that household  
7 income was curtailed in 2005 and 2006?

8 A. It follows logically that if there is less  
9 income generated, something has to happen in response  
10 to that, and we've estimated the amount of direct  
11 income that was reduced as a result of lower  
12 production levels. It follows logically that  
13 something has to happen and, in our opinion, it is  
14 that household consumption would have to go down.

15 Q. So is it accurate to say that that's an  
16 assumption on your part? An informed assumption,  
17 albeit.

18 A. That would be correct.

19 Q. So you did not conduct any interviews  
20 with individuals in the relevant geographic area  
21 to determine how their household income was  
22 impacted in 2005, for example?

23 A. That's correct. I did not.

24 Q. Were you present earlier when I asked  
25 Dr. Kastens about crop yields in 2005?

26

1 A. Yes.

2 Q. Do you recall hearing that crop yields  
3 were at a record high in 2005?

4 A. I believe that was what was said. I don't  
5 have a specific recollection of that. I recall the  
6 discussion.

7 Q. That's fine. Assuming for sake of my  
8 next question that crop yields were at an all time  
9 high in 2005, how would that reflect on your  
10 educated assumption that household income was  
11 negatively impacted that year?

12 A. I'm really not qualified to answer that  
13 question. I don't understand the nature of  
14 agricultural production economics sufficiently to  
15 offer an informed opinion of that.

16 Q. With regard to the ripple effect, this  
17 reminds me somewhat of casting a stone into the  
18 water and the ripples go outward. Is that a fair  
19 analogy?

20 A. That's where it comes from.

21 Q. It seems to me that when you have cast  
22 your stone into Kansas, the ripples float only  
23 south. Don't the ripples also go north into  
24 Nebraska?

25 A. Yes, they do.

26

1 Q. How was that accounted for in your  
2 analysis?

3 A. It was not.

4 Q. Do you have any idea regarding the  
5 impact of those ripples in Nebraska?

6 A. I do not.

7 Q. Do you think that the ripples move  
8 outward from the center in equal fashion?

9 A. Not always.

10 Q. In your opinion, do you believe that  
11 some of those ripples would certainly have reached  
12 the state of Nebraska?

13 A. In my opinion, yes.

14 Q. Do you have any opinion about the  
15 relative extent of those ripples vis-a-vis those  
16 in Kansas? Is it roughly proportional, is it the  
17 same, is it 10 percent? Any idea?

18 A. I couldn't say unless I actually modeled it.

19 Q. When we cast our stone into the pond and  
20 the ripples go outward, do they attenuate the  
21 farther you get from the center?

22 A. Yeah.

23 Q. Or are they uniform statewide?

24 A. They would not be uniform statewide. They  
25 would essentially be attracted first to the major

26

1 centers of economic activity where people go to shop,  
2 or where there are large conglomerations of various  
3 types of economic activity that will capture a  
4 greater share of the effect, and so no, it would not  
5 be uniform. It would be -- it would be somewhat  
6 directional based on exactly where the spending  
7 occurred and the connections between places.

8 Q. So under that concept, would it be fair  
9 to say, just in laymen's terms, that your average  
10 farmer is going to go to the local Wal-Mart to  
11 purchase shoes rather than travel 400 miles south  
12 to do so? Is that the layperson's concept of what  
13 you just mentioned?

14 A. That would generally be true, but not --  
15 that would not be a generalization I would make  
16 because we're all more than happy to get in our cars  
17 and go lengthy distances for special shopping  
18 opportunities and trips. By and large, when I buy a  
19 gallon of milk I do it locally, but if occasionally  
20 my wife and I go Christmas shopping in Kansas City,  
21 we do it.

22 Q. But you buy a lot more milk than you buy  
23 Christmas gifts, I assume?

24 A. I'm a big milk drinker.

25 Q. Me, too. I like milkshakes. Does the  
26

1 economic report assume that all income classes  
2 reduce their spending proportionally?

3 A. No.

4 Q. Which classes reduce and in what  
5 relation to the others?

6 A. I want to backtrack on what I just said. If  
7 I understood your question correctly, you asked would  
8 they reduce their spending proportionately. Which  
9 income? Please repeat.

10 Q. Certainly. My question was ill phrased.  
11 Do each of the classes reduce their spending in  
12 the same proportion?

13 A. In our report we assume so, yes.

14 Q. And what is that assumption based on?

15 A. Based on the fact that there was lack of any  
16 real data upon which to refine that assumption.

17 Q. In your experience, do people making  
18 \$150,000 or more typically have more flexible  
19 income?

20 A. That would be correct.

21 Q. More disposable income than, say,  
22 someone making \$50,000?

23 A. In absolute terms.

24 Q. Okay.

25 A. Not in proportionate terms.

26

1 Q. Okay. So those individuals in the  
2 \$150,000 income bracket may not necessarily be  
3 inclined to reduce spending as much as someone in  
4 the \$50,000 income bracket?

5 A. Proportionately it would be less, but to the  
6 extent that 150 is a hundred thousand more than 50,  
7 the total dollar value is likely to be significantly  
8 larger.

9 Q. Okay. When you conducted your indirect  
10 effect analysis, did you consider the impact of  
11 any payment of damages in this proceeding as an  
12 offset to those indirect effects?

13 A. No, I didn't.

14 Q. Do you agree conceptually that if a  
15 damage payment were made in this proceeding, that  
16 it would have an effect on the regional economy?

17 A. It would depend largely on how it was spent,  
18 but yes.

19 Q. Dr. Leatherman, I'll hand you a document  
20 that will be marked Exhibit 23, and recognizing  
21 that you may not have seen this document, I would  
22 ask you to take a moment and familiarize yourself  
23 with it.

24 (Whereupon, Leatherman Deposition Exhibit  
25 Number 23 was marked for

26

1 identification by the reporter.)

2 Q. (By Mr. Wilmoth) I'm interested in  
3 Pages 1 and 2 of this document. Take your time.  
4 Have you had enough time to review that document?

5 A. I believe I have for our purposes here.

6 Q. Dr. Leatherman, Exhibit No. 23 appears  
7 to indicate the means by which Kansas would spend  
8 and allocate any award provided in this  
9 proceeding. For purposes of my next question,  
10 assume for the sake of argument, please, that this  
11 is precisely how that money would be spent and  
12 assume that the award were \$10 million. What  
13 effect, if any, would that have, in your view, on  
14 the regional economy in northeast Kansas?

15 A. The expenditure of resources will always  
16 have some impact. To the extent that it is in the  
17 amount of \$10 million, it will probably be compounded  
18 by some increment. I can't tell you how much unless  
19 I actually model this. I can't tell you whether it's  
20 5 percent or 50 percent or what, but generally  
21 speaking, the very notion of a multiplier effect is  
22 that it will be some increment greater than 1.  
23 Unless, of course -- I will take that back, because  
24 there are certain kinds of investments which can  
25 actually, perhaps, have negative multipliers which

26

1 would reduce the value to less than 1, but this  
2 probably would have some, and until I did it, I  
3 actually couldn't tell you exactly what it would be  
4 or at what scale.

5 Q. Is that equivalent in layperson's terms  
6 to saying, essentially, that this would produce a  
7 positive ripple effect in contrast to a negative  
8 ripple effect? Not opining on how big the ripple  
9 is, but --

10 A. I'd have to know more about precisely what  
11 they were going to do within these three expenditure  
12 categories to say that definitively.

13 Q. Let's look at those for a moment. I  
14 direct your attention to the third paragraph,  
15 second sentence says, "The amended bill would  
16 require monetary damages to be credited first to  
17 the existing interstate litigation water fund in  
18 an amount necessary to cover the state's expenses  
19 for the past Republican River litigation." Do you  
20 see that sentence?

21 A. Yes. That suggests to me a leakage from the  
22 state.

23 Q. To the State of New Mexico, I presume?

24 A. That's where I presume.

25 Q. Second sentence says, "Five percent of  
26

1 any remaining monetary damages would be credited  
2 to a new Republican River compact compliance and  
3 enforcement fund." Do you have any idea what that  
4 would entail?

5 A. I'm only speculating, but I would guess that  
6 that would be for continued monitoring purposes and  
7 modeling purposes.

8 Q. You think that would be a leakage to the  
9 state?

10 A. Depending on where the contractors were. If  
11 they were Kansas based, it would not. If they were  
12 Colorado based, that would represent a leakage.

13 Q. We all know there aren't any good  
14 modelers in Colorado. For the record, that was a  
15 joke. Final sentence of this paragraph indicates,  
16 "The balance would be credited to a new Republican  
17 River water conservation projects fund." Do you  
18 have any idea what that might mean?

19 A. I really don't, and that's why I'm hesitant  
20 to offer a generalization. I really don't.

21 Q. Presumably those conservation projects  
22 would be located in the state of Kansas, though?

23 A. I would guess, but I don't know the nature  
24 of what they're doing, whether the net effect will be  
25 positive or negative to the economy.

26

1 Q. If that same \$10 million was spent  
2 locally, specifically to compensate the  
3 individuals who were allegedly harmed by the  
4 activities of the state of Nebraska, how would  
5 that affect your indirect impact analysis?

6 A. I'm not an expert on this, but my  
7 understanding is that that would not be possible.

8 Q. Which part would not be possible?

9 A. To directly compensate the landowners in the  
10 Bostwick Irrigation District with settlement funds.

11 Q. Is that because of some legal  
12 limitation?

13 A. Yes. It's my understanding. I'm no expert  
14 in this area, however.

15 Q. So if I understand what you're saying,  
16 it's your understanding that there's no way to put  
17 money back into the local economy from this?

18 A. That would not be correct. There could be  
19 ways of doing projects that would benefit that local  
20 economy that could be positive, but it will not be a  
21 direct income transfer to Bostwick irrigators, is my  
22 understanding.

23 Q. Would an example of that be this  
24 Republican River Water Conservation Fund,  
25 potentially if that was a -- created a project in  
26

1 the basin, there would be a benefit?

2 A. Depending on the nature of the project,  
3 potentially, yes.

4 Q. Dr. Leatherman, I would direct your  
5 attention to Page 10 of your report. Beneath the  
6 heading labeled D. Time Frame of the Analysis.  
7 If I'm correctly interpreting this, you chose data  
8 from 2004 to build the model used in this  
9 analysis. Is that accurate?

10 A. That's correct.

11 Q. Why was that date selected -- that data  
12 selected?

13 A. When we first started this process, the only  
14 data available in the implant system was for 2004.  
15 At the front end of this process I spent considerable  
16 time checking the data for accuracy. As time went  
17 on, subsequent years data became available. It so  
18 happened that IMPLAN, for whatever reason, skipped  
19 producing data for 2005 and went directly to 2006.  
20 At the time I was faced with the question of should I  
21 take similar efforts to verify, check and test the  
22 2006 data, which was relatively new, or should I  
23 stick with the 2004 data that I knew so well. Given  
24 the fact that absent major structural changes in the  
25 economy we would expect from year to year the data to

26

1 change relatively little, and therefore, the  
2 resulting estimates to change very, very little, I  
3 felt, with the confidence that I had in the 2004  
4 data, that was good enough to use. It would be -- it  
5 would be -- I don't think I could have improved on  
6 it.

7 Q. What was the nature of this data?

8 A. The data that supports the IMPLAN system is  
9 a -- it consists of a number of elements which are  
10 then utilized and manipulated within the system to  
11 create the entire accounting structure. The specific  
12 data that is input into the system, while I cannot  
13 off the top of my head give you necessarily a  
14 comprehensive accounting, by and large, it has to do  
15 with various types of income, levels of employment  
16 and other elements upon which the model ultimately is  
17 constructed and based. These data elements  
18 essentially come from official U.S. Government  
19 statistics. They start with essentially the  
20 information generated by the Bureau of Economic  
21 Analysis and other elements of the Department of  
22 Commerce, which form what we all know and hear every  
23 night in the news are official government statistics.  
24 They then take those statistics and they utilize  
25 various types of state-of-the-art estimation methods

1 to distribute that to states and then local areas of  
2 the economy. That is the data upon which these  
3 models are built.

4 Q. You mentioned that the IMPLAN skipped  
5 producing data in 2005. Is that what you said?

6 A. They did not produce data for 2005.

7 Q. Forgive my ignorance, who did not  
8 produce data for 2005?

9 A. The Minnesota IMPLAN group which supports  
10 the IMPLAN impact analysis system.

11 Q. So not these agencies that you referred  
12 to in all these government statistics?

13 A. That's correct.

14 Q. They exist. They hadn't been distilled  
15 by the Minnesota IMPLAN group or packaged?

16 A. That's correct.

17 Q. Have you had an opportunity to look at  
18 that data subsequent to your report for 2005?

19 A. It has not been produced, so.

20 Q. You haven't looked at it independently?

21 A. No.

22 Q. Okay. How did the IMPLAN data for 2004  
23 compare to 2006?

24 A. I haven't scrutinized it closely in order to  
25 make a definitive judgment. I have worked with the

1 2006 data and now I'm working with 2007 data, by and  
2 large it's relatively comparable, at least on first  
3 appearance.

4 Q. Let's take about ten minutes, if we can,  
5 and we'll come back and we'll finish up before  
6 11:00.

7 (Brief recess taken.)

8 Q. (By Mr. Wilmoth) Mr. Leatherman, just a  
9 couple more questions and then we'll finish up for  
10 the day. I want to return to the ripple effect  
11 for just a moment. You have assigned a dollar  
12 figure to the indirect impacts in this paper.  
13 Correct?

14 A. That's correct.

15 Q. And we have established, I think,  
16 earlier that some of the ripple effect would have  
17 been felt in Nebraska. Is that correct?

18 A. That's correct.

19 Q. The figure that you report in this  
20 paper, is that Nebraska effect subsumed in that  
21 number or on top of that number?

22 A. On top of that number. We have accounted --  
23 this is the amount that has accrued to Kansas. We  
24 have allowed for all leakages that would otherwise  
25 occur. We have accounted for them, and so any impact

1 in Nebraska is a leakage. Any impact elsewhere in  
2 the United States is a leakage. We have accounted  
3 for that. We're just reporting on that that accrues  
4 to the Kansas economy.

5 Q. Okay. Thank you. One of the things I  
6 didn't pick up on in the report was the notion of,  
7 in layperson's terms, covering one's behind in the  
8 short term. What I mean by that is, it would  
9 appear to be typical in the American economy when  
10 hard times strike to rely fairly heavily on  
11 credit. Would you agree with that generally?

12 A. I don't really know. Seems to me like in  
13 good times we were running up a lot of debt, too.

14 Q. Fair enough. And we're running up even  
15 more as we sit here today.

16 A. Indeed.

17 Q. We, in fact, may own a piece of Citibank  
18 by the end of the day. My question is this. Did  
19 you consider in this report the extent to which  
20 individuals within the affected area might  
21 continue their purchasing through the use of  
22 credit, specifically credit cards and other  
23 borrowed income?

24 A. No.

25 Q. Do you think it's possible that that  
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1 could have occurred?

2 A. Perhaps to some degree over a short term in  
3 some smaller amount, but no, they didn't completely  
4 substitute that income and put it on credit. I don't  
5 believe that.

6 Q. Okay. One of the other things that I  
7 think I understood you to say was that essentially  
8 the indirect effects would be felt in the same  
9 year as the direct effects. Is that correct?

10 A. No.

11 Q. Okay.

12 A. I'm sorry.

13 Q. Go ahead.

14 A. The indirect effects would occur over some  
15 period of time that would likely be greater than a  
16 year. That's because of the notion that the dollar  
17 turns over a number of times before leakages finally  
18 exhaust the entire effect. That time period,  
19 depending on the structure of the economy, can be a  
20 couple years to, perhaps, five, six or seven,  
21 depending on the nature of the impact, depending on  
22 the structure of the economy, but it is not a one  
23 year phenomenon.

24 Q. Okay. And if the economy changes during  
25 that period of time, does that affect your

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1 analysis at all? In other words, if 2007 were a  
2 banner year, for example, and household incomes  
3 rose substantially.

4 A. The economy is always changing to some  
5 degree, and those changes will, indeed, affect how  
6 the indirect effects ultimately play out. We make  
7 some simplifying assumptions with regard to doing  
8 these things because we are doing a relative -- a  
9 static analysis, but I'm thinking that by and large,  
10 absent there being very substantial structural  
11 changes to the economy, it plays out about like we  
12 estimate.

13 Q. I thought I understood you to say  
14 earlier that the IMPLAN model was selected because  
15 it could deal with the specific years and short  
16 term -- on the short term. Is that correct?

17 A. That is not quite correct.

18 Q. What did you mean?

19 A. We did not --

20 Q. What did you say? I have forgotten.

21 Excuse me.

22 A. Well, I have forgotten as well. I'll try it  
23 again.

24 Q. Okay.

25 A. We did not select IMPLAN specifically

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1 because of the time frame of the analysis or anything  
2 else. Given the nature of the economic change that  
3 we presumed to occur, IMPLAN certainly is an  
4 appropriate tool to utilize. We could have utilized  
5 other tools and if we had utilized them properly, we  
6 would have come up with probably about the same  
7 amounts. But no, we did make a number of  
8 suppositions with regard to the nature of the  
9 economic changes and when they occurred. Given those  
10 suppositions, IMPLAN is an appropriate tool to use to  
11 try to answer those impact questions.

12 Q. Do I understand the report to presume  
13 that reduced household income from a reduced crop  
14 yield in 2005 is generally felt in the same year?

15 A. To be honest, you would have to ask one of  
16 the production economists how that would work. I  
17 could only guess.

18 Q. Who would that be?

19 A. You could ask Terry Kastens.

20 Q. So you didn't analyze, for example,  
21 whether individual farmers within KBID might have  
22 actually sold their crops in the later year?

23 A. I have no idea what they would have done.

24 Q. Okay. One last thread here. If I heard  
25 you correctly, you said that the '04 and '06

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1 Minnesota IMPLAN data were similar?

2 A. I have not observed any great variation in  
3 my work with the '06 data compared to my work with  
4 the '04 data.

5 Q. Okay. And the Minnesota IMPLAN data, if  
6 I recall correctly, is essentially a  
7 conglomeration of various statistics, including  
8 income levels and things like that?

9 A. Yes. There are data files that depend --  
10 they essentially produce the information for the  
11 United States as a whole, all 50 states, all 3,000  
12 odd counties, and then they have developed methods  
13 for breaking it down to a zip code level, and so that  
14 is all potentially available. For this -- for this  
15 project we utilize the Kansas State data file, and  
16 within that is state level income information,  
17 employment information, household income distribution  
18 and some other kinds of things that go into the  
19 construction of these accounts.

20 Q. Can you explain why the reduction in  
21 economic production, household incomes, etcetera,  
22 that were apparently experienced in 2005 aren't  
23 reflected in the '06 IMPLAN data?

24 A. Given the size of the overall economy, it's  
25 a relatively small shock. I can't tell you what the

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1 numbers are, but we're talking in the Kansas State  
2 economy of some billions of dollars. You make a  
3 \$10 million change, it's not that big a rock to throw  
4 into the body of water.

5 Q. So you don't necessarily know at the zip  
6 code level what the difference is between the '06  
7 and the '04 data?

8 A. I have not taken any effort to formally  
9 compare or analyze changes in the two data sets.

10 Q. But at the zip code level, is it your  
11 estimation that there aren't significant  
12 differences between the '06 and '04 data?

13 A. I have not seen the zip code level data, nor  
14 I don't own it.

15 MR. WILMOTH: I think that's all we  
16 have. Pete, do you have anything?

17 MR. AMPE: I think you covered it.

18 MR. WILMOTH: John, do you have  
19 anything?

20 MR. DRAPER: Take a minute?

21 MR. WILMOTH: Sure.

22 (Brief recess taken.)

23 MR. DRAPER: No further questions.

24 (Witness excused.)

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JOHN LEATHERMAN

STATE OF \_\_\_\_\_ )

) SS:

COUNTY OF \_\_\_\_\_ )

Subscribed and sworn to before me this \_\_\_\_\_  
day of \_\_\_\_\_, 2009.

\_\_\_\_\_

NOTARY PUBLIC

My Commission Expires: \_\_\_\_\_

In re: Non-Binding Arbitration

