Economic Impact Statement - Outstanding Arizona Waters

A.R.S. § 41-1055(A)(2) - Summary of Information Included in this Economic Impact Statement

The Arizona Department of Environmental Quality (ADEQ) is amending the Arizona Administrative Code (A.A.C.) R18-11-112(G) to designate specific portions of the Upper Verde River and Sycamore Creek, upstream of the Town of Clarkdale, as Outstanding Arizona Waters (OAWs). This designation provides the highest level of surface water protection ADEQ assigns and recognizes the extraordinary ecological, recreational, and cultural significance of these reaches. The OAW designation supports long-term protection of the values these surface waters provide to local communities, recreational users, and habitat for threatened and endangered species. The rule change is expected to result in minimal economic costs for state agencies, political subdivisions, businesses, and private persons. The rule does not create new fees or regulatory compliance costs for existing landowners, businesses, or permittees and is expected to provide substantial long-term environmental and recreational benefits throughout the region. The following discussion addresses each of the elements required for an Economic, Small Business, and Consumer Impact statement (EIS) under A.R.S. § 41-1055.

A.R.S. § 41-1055(A)(1) - Identification of the Rule Making

a) A.R.S. § 41-1055(A)(1)(a) Conduct and Frequency of Occurrence

The final rulemaking addresses the discharge of pollutants to the Upper Verde River and Sycamore Creek from point sources regulated under the Arizona Pollutant Discharge Elimination System (AZPDES), Arizona's implementation of the federal National Pollutant Discharge Elimination System (NPDES). The OAW designation adds protective regulatory measures to prevent degradation of existing water quality from point source discharges authorized under NPDES permits issued through the AZPDES program. No new dischargers directly to designated OAW segments are allowed unless they meet the exemption criteria outlined in A.A.C. R18-11-107.01(C)(2).

Currently, there are no pending or active AZPDES permit applications and no existing dischargers with direct discharges to the adopted OAW segments. Interest in developing AZPDES-regulated facilities with direct discharges to these remote waterways is extremely limited if present at all, reflecting the area's sparse industrial or municipal development and the availability of alternative locations elsewhere in the region. Accordingly, this rulemaking is not expected to change the frequency of discharge permit applications, but the formal OAW designation would provide a clear regulatory framework that prevents future degradation from new or expanded point source discharges.

The OAW designation does not establish new regulatory measures for nonpoint source pollution. ADEQ continues to work collaboratively with landowners, land managers, and other stakeholders to address nonpoint source pollution that may affect OAWs through voluntary cooperation and implementation of existing best management practices. As there are no existing dischargers or pending AZPDES applications to the adopted OAW segments, the designation does not increase monitoring, reporting, or fee obligations for any current landowner, business, or permittee in the affected reaches.

b) A.R.S. § 41-1055(A)(1)(b) Harm Resulting from the Conduct and Likelihood if Rule is Not Changed

If the final rulemaking is not adopted, the Upper Verde River and Sycamore Creek would not receive the highest-level protection that ADEQ assigns to surface waters. Although there are currently no dischargers with direct discharges to the adopted OAW segments, these waterways would remain more vulnerable to future point source discharge permits that could degrade water quality, and ADEQ would need to evaluate future permit applications primarily through existing water quality standards rather than the more protective OAW regulation. While ADEQ already works to protect water quality through existing programs, the absence of formal OAW designation could leave these waters with extraordinary ecological, recreational, and cultural significance exposed to potential future degradation.

Summary of potential qualitative impacts by not adopting the rule:

- Increased risk of water quality degradation from future point source discharges as development pressure and population growth in Yavapai County continue, particularly given that restoration of degraded water quality is expensive, time-consuming, and often incomplete.
- Loss of proactive protection for threatened and endangered aquatic species that rely on high water quality and healthy stream habitats.
- Reduced certainty and predictability for stakeholders, recreational users, and local communities regarding long-term protection of these regionally significant waterways.
- Missed opportunity to secure the highest level of protection for surface waters that support regional recreation and tourism, allowing environmental pressures to persist and potentially affect downstream agricultural, municipal, and recreational users, as well as tourism-related quality of life in nearby communities.
    - As context, a 2026 study led by Audubon Arizona found that water-related outdoor recreation associated with rivers, lakes, and streams in Yavapai County generated approximately $720.4 million in annual economic output and supported roughly 4,500 jobs, underscoring the economic importance of maintaining high-quality waterways for residents and visitors. Additionally,

the study estimated that related activities generated \$608.0 million in retail sales and \$243.5 million in wages annually statewide, attributable to recreation associated with rivers, lakes, and streams in Yavapai County.

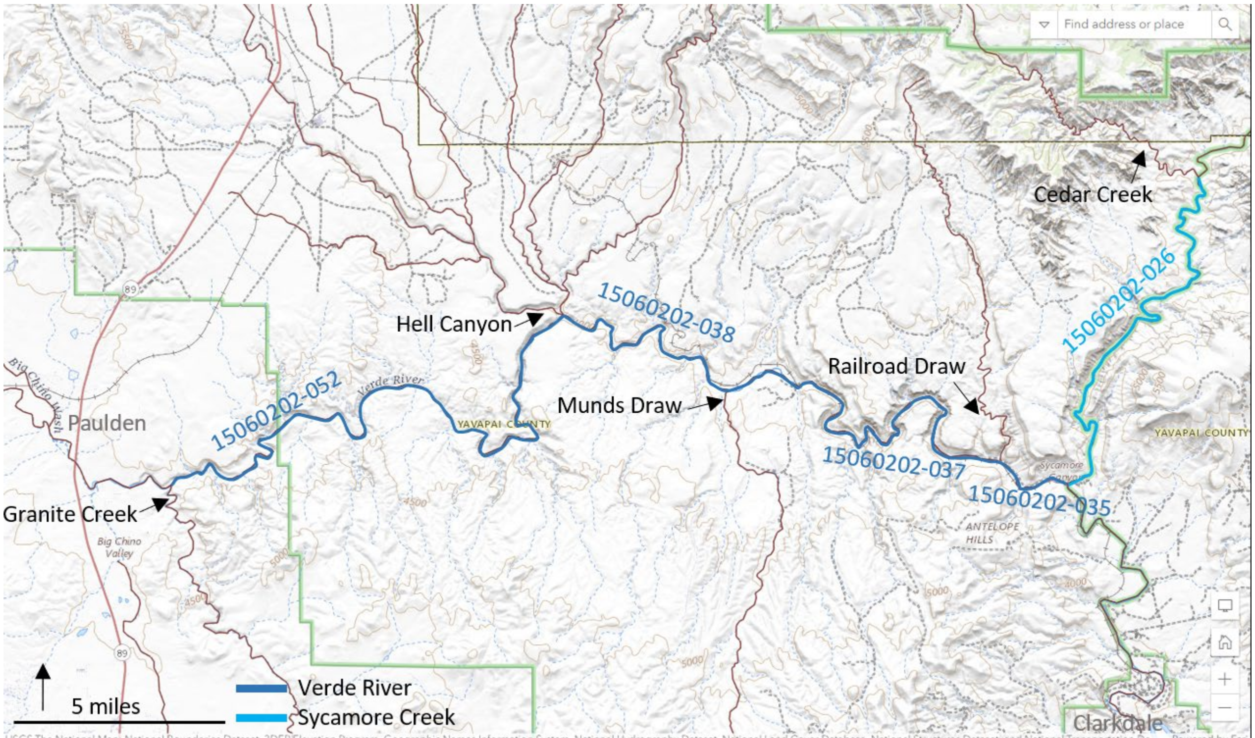
c) A.R.S. § 41-1055(A)(1)(c) Estimated Change in Frequency of Targeted Conduct

The rulemaking is not expected to materially change the frequency of AZPDES permit applications for the affected segments because there are currently no AZPDES-regulated dischargers and no pending applications for direct discharges to these waterways. Based on current permit activity and the remote, sparsely developed character of the surrounding watershed, the baseline frequency of AZPDES permit applications for the affected segments is very low. The rule change is expected to maintain this low baseline by clearly specifying conditions under which new or expanded direct discharges may be considered, thereby providing regulatory certainty for prospective applicants while protecting existing high-water quality.

The main effect of the rule is to formalize and clarify the prohibition on new or increased discharges to waters with extraordinary ecological, recreational, and cultural significance, except in limited circumstances that meet exemption criteria outlined in A.A.C. R18-11-107.01(C)(2). These exemptions apply uniformly and are based on environmental protection standards, not business type or sector. The OAW designation provides proactive, long-term protection that would help prevent future degradation as development patterns evolve, rather than directly increasing or decreasing current permit application conduct.

A.R.S § 41-1055 (B) - Economic, Small Business, and Consumer Impact

Geography of Interest



The finalized OAW designation affects specific segments of the Upper Verde River and Sycamore Creek located upstream of the Town of Clarkdale in Yavapai County, Arizona. The affected watershed forms part of the upper Verde River basin and includes a mix of public and private lands.

Yavapai County has a population of approximately 252,000 residents and a diverse economy that includes tourism, outdoor recreation, mining, agriculture, and other service industries. Nearby towns and communities depend on the Verde River watershed and its connected groundwater resources for water supplies, recreational opportunities, and overall quality of life.

A.R.S. § 41-1055(B)(2) - Community and Industries Impacted

Primary community groups and industries affected by the rulemaking are limited and generally expected to have neutral or beneficial impacts rather than new burdens.

- State Agencies and Federal Land Managers: Agencies responsible for environmental, land, and resource management are expected to have neutral impacts because existing staffing, coordination processes, and land management plans already accommodate OAW protections without requiring new expenditures, staffing, or infrastructure.

- Political Subdivisions and Public Utilities: Counties, municipalities, and water and utility providers are expected to have beneficial impacts because the rule helps protect watershed integrity and water quality, supports recreational amenities important to tourism and quality of life, and reduces the risk of costly future water quality remediation projects, without imposing new permitting, monitoring, or compliance requirements.
- Private Landowners and Businesses: Landowners and businesses located in the affected area are expected to experience neutral to beneficial impacts, as the rule addresses point source discharges rather than land use or nonpoint source activities and does not create new regulatory obligations, fees, or reporting requirements. Entities that might seek new AZPDES permits for direct discharges to the designated segments could face opportunity costs because the OAW designation limits the circumstances under which new or increased direct discharges may be authorized. However, given the absence of current dischargers and pending applications, and the remote, sparsely developed character of the surrounding watershed, these potential future facility location constraints and associated opportunity costs are reasonably expected to be minimal under current and foreseeable economic conditions.
- Tourism, Outdoor Recreation, and Conservation Organizations: Tourism, recreation, and conservation-related entities are expected to have beneficial impacts as protected water quality and ecological integrity help sustain outdoor recreation demand, recreation-based tourism, and quality of life in nearby communities.

A.R.S. § 41-1055(B)(3) - Cost Benefit Analysis

This rulemaking primarily adds two new OAWs to ADEQ’s existing OAW designations and does not create new or additional costs for administering the program. As implementation relies on existing program resources, ADEQ, political subdivisions, businesses, and private persons are generally expected to have neutral or beneficial impacts rather than new economic burdens.

Impact on ADEQ

- Costs: Negligible; no new hires, payroll changes, or contractor costs are anticipated. ADEQ already administers existing OAW designations, and adding the Upper Verde River and Sycamore Creek segments does not require any new staffing, infrastructure, or budget increases, with administrative activities absorbed within existing Water Quality Division (WQD) operations.
- Benefits: Enhanced legal and regulatory framework for protecting high-value surface waters that support threatened and endangered species, reduced long-term risks and potential costs associated with water quality remediation and

restoration, strengthened capacity to meet federal Clean Water Act antidegradation objectives, and alignment with state and federal natural resource conservation priorities.

Impact on Other State Agencies and Political Subdivisions

- Costs: No additional costs are identified for other state agencies or political subdivisions. The rule does not impose new mandates, reporting requirements, or funding obligations on state agencies, counties, municipalities, or other local governments.
- Benefits: Other agencies and political subdivisions benefit from protection of watershed integrity and water quality, enhanced recreational amenities that support tourism and quality of life, support for local natural resource conservation efforts, and reduced risk of costly future water quality remediation projects.

Impact on Private Landowners and Businesses

- Costs: Private landowners and existing businesses in the affected area would not incur new regulatory obligations, fees, or reporting requirements, because the rule governs point source discharges rather than land use or other nonpoint source activities. The primary economic impact is a potential constraint on the ability of prospective future facilities to locate where a new or increased direct discharge to the designated segments might otherwise have been considered. However, given the absence of current dischargers and pending applications and the remote, sparsely developed character of the watershed, any associated opportunity costs are reasonably expected to be minimal under current and foreseeable economic conditions.
- Benefits: Landowners and businesses benefit from protection of water quality for on-site and nearby uses (including irrigation and recreation), enhanced recreational amenities that can support commercial activities, and improved quality of life and business attractiveness through preservation of scenic and ecological conditions. Given the absence of existing direct dischargers and the limited potential for new facilities with direct discharges to the adopted OAW segments under current conditions, the final rulemaking is not expected to have a measurable direct impact on the revenues or payroll expenditures of employers in the affected reaches.

Impact on Tourism, Recreation, and Consumers

- Costs: The OAW designation does not impose additional costs on tourism and recreation businesses or on private consumers, and is not expected to affect consumer prices, product availability, or access to recreational services.
- Benefits: Tourism and recreation entities, conservation interests, and consumers benefit as protected water quality and ecological integrity help sustain outdoor

recreation demand, visitor use of regional amenities, and recreation-based tourism. These benefits underscore the importance of water-based outdoor recreation to the region's economy and residents' quality of life.

A.R.S. § 41-1055(B)(4) - Impact on Private and Public Employment

The final rulemaking is not expected to have a measurable impact on either public or private employment. It primarily preserves existing conditions and provides proactive protection rather than creating new labor demand or reducing current positions.

For public employment, ADEQ would implement the OAW designation using existing staff and resources, and no new positions or changes in responsibilities are anticipated. ADEQ already administers 22 existing OAW designations, and adding the Upper Verde River and Sycamore Creek segments would be managed within the same staffing and budget framework. Other state agencies, federal land management agencies, political subdivisions, and local governments are not expected to require any employment changes because the rule does not create new mandates or programmatic duties for them.

For private employment, no existing businesses operate facilities with AZPDES permits for direct discharge to the adopted OAW segments, so no employment impacts are anticipated for current operations. Tourism and recreation sectors may see sustained or modestly increased employment over the long term as protected water quality and recreational amenities continue to support outdoor recreation, hospitality, and tourism businesses. However, any such changes are expected to be small and not readily measurable relative to broader economic trends. Other business sectors are not expected to have direct employment impacts, and any potential future changes in employment would depend primarily on broader economic trends beyond this rulemaking.

A.R.S. § 41-1055(B)(5) - Impact on Small Businesses

ARS §41-1001 defines a small business as an independently owned and operated firm that is not dominant in its field and that either employs fewer than one hundred full-time equivalent employees or has less than four million dollars in gross annual receipts in the previous fiscal year. Under this rulemaking, small-business relief methods listed in ARS §41-1035 are not necessary because the rules do not impose new regulatory requirements, fees, or compliance obligations on small businesses.

The OAW designation applies to entities seeking new AZPDES permits for direct discharges to the designated segments, and there are currently no businesses with such permits in the affected reaches. Existing small businesses in the region therefore incur no additional administrative or compliance costs because of this rulemaking. Many tourism, outdoor recreation, and hospitality businesses in the area are predominantly small businesses and may benefit indirectly from enhanced water quality protection through sustained recreational demand and regional amenities. For reference, 92.2% of total businesses in Yavapai County fall within the "fewer than 100 employees" small business definition.

Prospective small businesses that might seek new AZPDES permits for direct discharges to OAW segments would be subject to the same exemption criteria in A.A.C. R18-11-107.01(C)(2) as any other applicant, with these criteria based on environmental protection standards rather than business characteristics. Based on the limited potential for new direct-discharge facilities in the affected reaches and the program's defined exemption criteria, the number of prospective small businesses likely to be affected by these provisions is expected to be negligible, and separate small-business-specific requirements, schedules, or performance standards are not warranted under this rulemaking.

A.R.S. § 41-1055(B)(6) - Impact on State Revenues

The final rulemaking is not expected to have any direct impact on state revenues. It does not create new fees, licenses, permits, or penalties, and it does not change existing fee structures for AZPDES permits, tax rates, or tax compliance requirements, so state revenue streams should remain unchanged.

While maintaining a strong water quality protection framework may indirectly help Arizona sustain or increase future state revenues associated with tourism, outdoor recreation, and related economic activity, these potential impacts are expected to be modest and widely distributed. The impacts would also primarily depend on broader economic conditions and visitor demand, rather than on this specific rulemaking, and are therefore not quantified here.

A.R.S. § 41-1055(B)(7) - Alternative Methods

The adopted OAW designation is the least costly and least intrusive method to provide the highest level of surface water protection for the Upper Verde River and Sycamore Creek while maintaining a strong water quality standards framework. It provides proactive protection for waters with extraordinary ecological, recreational, and cultural significance without creating new costs for ADEQ, political subdivisions, businesses, or private persons. By contrast, maintaining the status quo would leave these waters more vulnerable to future degradation, while more prescriptive regulatory alternatives would impose substantially higher costs without being necessary to achieve the core water quality protection objectives.

<u>Adopted OAW Designation (preferred option)</u>

- Description: Designate specific portions of the Upper Verde River and Sycamore Creek as OAWs under A.A.C. R18-11-112(G), providing the highest level of surface water protection ADEQ assigns.

- Costs: Negligible; no new costs to ADEQ, political subdivisions, businesses, or landowners; implementation relies on existing staff and existing program resources.
- Benefits: Provides proactive protection for waters with extraordinary ecological, recreational, and cultural significance; prevents future water quality degradation from point source discharges; supports threatened and endangered species; sustains recreational values and tourism; and maintains a clear, stable regulatory framework with minimal compliance burden.
- Conclusion: Least costly, least intrusive option that achieves water quality protection objectives; selected as the preferred option.

<u>Alternative 1 - No OAW Designation (status quo)</u>

- Description: Maintain current water quality protections without designating the Upper Verde River and Sycamore Creek segments as OAWs.
- Costs: Negligible new costs in the near term; regulatory patterns would remain similar to current conditions, but there would be increased risk of future water quality degradation that could require costly remediation or more intensive treatment in the long term.
- Benefits: Regulatory flexibility for prospective future permit applicants seeking discharge to affected segments.
- Conclusion: Does not provide the highest level of protection for waters with extraordinary values; leaves waterways vulnerable to future point source discharge permits that could degrade water quality, harm threatened and endangered species, and compromise recreational values; over time, a pattern of not providing appropriate protection for high-value waters could invite closer federal oversight of Arizona’s water quality programs; not acceptable as a primary method.

<u>Alternative 2 - Enhanced Monitoring without OAW Designation</u>

- Description: Increase water quality monitoring and stakeholder collaboration without formal OAW designation, relying on existing water quality standards and voluntary conservation efforts.
- Costs: Higher ongoing costs to ADEQ and partner agencies for expanded monitoring, stakeholder engagement, and voluntary program administration, with similar increased risk of future water quality degradation that could require costly remediation or more intensive treatment if significant impacts occur.
- Benefits: No distinct benefits relative to the preferred option; enhanced monitoring does not provide the same level of long-term protection or regulatory certainty as an OAW designation.
- Conclusion: Enhanced monitoring without OAW designation provides weaker legal protection and relies on voluntary compliance, creating uncertainty and risk of future water quality degradation; imposes higher costs than the preferred option

while delivering less certain environmental protection; not preferred compared with the OAW designation.

Overall, the preferred rulemaking alternative maintains a robust water quality protection framework without imposing new costs or regulatory burdens and reasonably minimizes economic impact on agencies, businesses, and landowners while still achieving the required statutory objective.

A.R.S. § 41-1055(B)(8) - Sources and Description of Data Used

(1) Arizona Secretary of State, Arizona Administrative Code, Title 18 Environmental Quality, Chapter 11 Department of Environmental Quality - Water Quality Standards, https://apps.azsos.gov/public_services/Title_18/18-11.pdf

(2) Arizona Department of Environmental Quality, Arizona Pollutant Discharge Elimination System Permitting, https://azdeq.gov/permits/AZPDES/IND

(3) Arizona Revised Statutes, Title 49, Section 255.01, Arizona pollutant discharge elimination system program, https://www.azleg.gov/ars/49/00255-01.htm

(4) Environmental Protection Agency, National Pollutant Discharge Elimination System (NPDES), https://www.epa.gov/npdes

(5) Audubon Arizona, 2026, The Economic Impact of Arizona's Rivers, Lakes, and Streams, September 2024 through August 2025 survey participation, https://www.audubon.org/southwest/resources-publications/economic-impact-of-arizonas-rivers-lakes-and-streams or https://www.audubon.org/azrivers

(6) U.S. Census Bureau, 2024 1-Year Estimates, American Community Survey, https://data.census.gov/

(7) Arizona Office of Economic Opportunity, 2025, Industry Employment and Wages, https://oeo.az.gov/labor-market/industry-employment

(8) University of Arizona, 2022, Arizona County Agricultural Economy Profiles, https://extension.arizona.edu/sites/default/files/2025-01/Arizona-County-Agricultural-Economy-Profiles_2022.pdf

(9) Arizona Revised Statutes, Title 41 Section 1001, Definitions, https://www.azleg.gov/ars/41/01001.htm

(10) Arizona Revised Statutes, Title 41 Section 1035, Rules affecting small businesses; reduction of rule impact, https://www.azleg.gov/ars/41/01035.htm

(11) Environmental Protection Agency, Water Quality Standards Handbook, Chapter 4 - Antidegradation, https://www.epa.gov/wqs-tech/water-quality-standards-handbook

(12) U.S. Census Bureau, 2022, Statistics of U.S. Businesses (SUSB), County data by employment size, https://www.census.gov/data/tables/2022/econ/susb/2022-susb-annual.html

Disclaimer and Data Limitations

Data and assumptions used in this study are based on multiple sources. Where information was not provided directly, the author of this report has made estimates and assumptions through independent research efforts, general knowledge of the industry and consultations with various working groups. Every reasonable effort has been made to ensure that the data contained in this study reflects the most accurate and timely information possible. The results from this study suggest a possible scenario based on available program parameters and assumptions, and do not exclude other possibilities under different assumptions.

The report was based on information that was current as of March of 2026.