

Water Pacts Give State's Growers New Profit Stream

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The Bush administration plans this month to begin signing contracts that will position Central Valley farmers to reap substantial profits for decades by selling water to the state's expanding metropolitan areas.

The more than 200 contracts — governing most of the water from the massive federal Central Valley Project — will give the valley's agribusiness interests control over the single largest allotment of water in the state for the next 50 years.

That will not directly affect how much urban users in places such as Southern California pay for water. But by promising irrigation districts more water than they may need — and at a relatively inexpensive price — the agreements will virtually guarantee growers a dominant role in the state's water markets.

The pacts will commit the U.S. Bureau of Reclamation to deliveries that have harmed the environment in Northern and Central California. And they will pledge to farmers the same amount of water that they received four decades ago, despite projections that Central Valley agriculture will use less water in the years to come because of more efficient irrigation and the spread of cities into farm regions.

Environmental organizations, groups that monitor federal spending and congressional critics contend that the Bush administration has crafted the new contracts to benefit big farmers.

"Agriculture is important, but it's not the economic future of the state of California," said Rep. George Miller (D-Martinez). "This isn't about farming. It's about building an annuity for people who want to sell government-subsidized water to Southern California or whoever needs it."

Bennett Raley, who oversaw negotiations for the new contracts as the assistant secretary of Interior for water and science before resigning late last year, defended the plans. The contracts were designed to "provide for stability and functioning markets," he said, adding that they are the least contentious, most efficient way to realign water use in the West.

When cities go shopping for water, they will turn to sellers who can guarantee a long-term supply, Raley said. To do that, sellers need long-term control.

The Central Valley Project is the largest water-supply system in the country. Reaching from the Cascades near Redding to the Tehachapis near Bakersfield, the 450-mile-long network of dams, reservoirs and canals has long been a polarizing symbol.

Conceived in the 1930s and built over the next several decades at a cost of \$3.2 billion to U.S. taxpayers, the project propelled the conversion of California's dusty interior into a multibillion-dollar powerhouse of industrial agriculture. It dried up stretches of one of the state's biggest rivers, the San Joaquin, destroyed salmon runs and supplied Central Valley growers with a vast quantity of cheap water.

The valley remains the nation's biggest vegetable patch, producing \$13 billion worth of crops a year.

But since the original contracts were written 40 years ago, California's population has doubled to 36 million, its farm acreage has dropped by roughly a quarter, and new environmental protections have set aside water for fish and wildlife.

Critics such as Hamilton Candee, senior attorney and co- director of the Western Water Project for the Natural Resources Defense Council, an environmental group, say the contracts ignore those changes. "These contracts offer this super-cheap water in quantities that go way beyond the needs of the users," Candee said.

Irrigation districts will pay more for water under the new contracts. But it still will be inexpensive relative to what other users pay — a projected \$16 to \$61 an acre-foot, compared with an average \$500 an acre-foot paid by Southern California's urban water agencies, which get their supplies elsewhere. An acre-foot, the amount of water that would cover 1 acre to a depth of 1 foot, is enough to supply roughly two households for a year.

Kirk Rodgers, regional director of the reclamation bureau and the official who will sign the contracts, said they "are in full compliance with laws and statutes."

"We are not contracting for water where there is not a need," he said, adding that irrigators had demonstrated they would be able to use the water they get for agricultural purposes.

Despite those assurances, reclamation delivery records show some irrigation districts consistently have failed to use all the water available to them.

For instance, Reclamation District 108, one of the oldest districts in California and the provider of water to 48,000 acres of rice and tomato fields north of Sacramento, has in the last two decades never taken its full allotment, according to bureau figures. All told, the district's unused water amounts to more than 1 million acre-feet.

The Central Valley Project's biggest customer, the sprawling Westlands Water District, also has failed several times in the last decade to take all the water available to it.

Moreover, the district, which irrigates 570,000 acres of cotton, fruits and vegetables on the San Joaquin Valley's west side, is shrinking substantially. Westlands is taking 108,000 salt-laden acres out of production with the help of a federal buyout. At times, the district has discussed retiring an additional 100,000 acres that suffer from drainage problems.

Westlands' new contract nonetheless will provide the same amount of water it was promised in the past. Rodgers said that if Westlands' acreage drops significantly, the bureau "would need to reevaluate what the needs are" but that "it's too early" to decide now.

The managers of Reclamation District 108 and other districts also said events in coming years could increase the amount of water they use. Farmers' planting patterns could change, requiring more water, they said; in a particularly dry year, they may need more water.

Because of its size and the enormous amount of water it delivers — more than enough to supply every household in California — the Central Valley Project has long been the target of reform efforts. The most notable was the 1992 Central Valley Project Improvement Act, sponsored by Miller.

That law set aside a large portion of water from the project for environmental uses such as maintaining wildlife refuges and keeping enough water in rivers to protect endangered fish. It shortened the length of irrigation contracts from 40 years to 25 years, and allowed farmers to sell their water to urban users outside the Central Valley.

But Miller and others complain that the new contracts skirt Congress' intent in three major areas: their

duration, the amounts of water involved and the price the irrigators will pay.

"Every judgment call is a call for the current contractors," said Edward R. Osann, who served as the Bureau of Reclamation's director of policy and external affairs from 1993 to 1996 and now works as a water and energy conservation consultant for utilities and environmental groups. "If you had an umpire that called every ball a strike, sooner or later you'd wonder."

Although the 1992 law shortened contracts to 25 years, the new pacts can be stretched to 50 years. The administration included a clause that provides an automatic 25-year extension as long as contractors meet certain conditions.

Miller calls those near-automatic extensions "outrageous," and predicts the contracts will be challenged in court. "They'll be sued, and we'll start all over again," he said.

Environmentalists also argue that the amounts of water to be delivered under the contracts should be smaller. The new agreements should reflect the fact that the Central Valley Project frequently can't deliver full contract quantities south of the Sacramento-San Joaquin Delta because of environmental restrictions, they say.

Rodgers, however, said proposed new storage and diversion projects should make more water available. And he pointed out that the contracts contain a clause warning irrigators that in times of shortage, they may not get all the promised water.

Critics also question whether the price the irrigation districts will be charged will be high enough to meet a deadline for farmers to repay the government their \$1.3-billion share of the cost of the Central Valley Project. In 1986, Congress said farmers must pay that bill by 2030.

With project water costing as little as \$2 an acre-foot under the expiring contracts, irrigators have so far repaid just \$122.6 million. Under the new contracts, the price will be higher and adjusted each year. Reclamation bureau officials say that will be enough to pay the debt. "We have made a commitment to Congressman Miller," said John Davis, deputy regional director and contract negotiator. "We know we owe \$1.3 billion, and have said we will [provide] him with yearly updates. We're not asking him to trust us."

Water under the new contracts will still be subsidized: the price will be less than what it costs the government to provide it. That is largely because under century-old policies, the government has made what amounts to a decades-long, interest-free loan to farmers. Although the farmers owe the federal treasury a huge sum for their share of the cost of building the water project, they are not required to pay any interest as part of their irrigation bills.

Farmers do have to pay interest to the government when they sell water to urban users outside of the project, along with a surcharge of \$25 an acre-foot.

But with urban water agencies now paying from \$110 to more than \$200 an acre-foot for farm water — prices that can only go up with rising urban demand — sellers can still look forward to hefty profits.

California's water markets are just emerging, and many farmers remain reluctant to sell. "There is a paranoia that exists in the community that if we don't use the water, we'll lose it," said Van Tenney, general manager of the Glenn-Colusa Irrigation District, which supplies water to 170,000 acres, mostly planted in rice, in the Sacramento Valley.

But with 80% of California's water supply going to agriculture statewide, farm-to-city sales are widely

expected to become a permanent fixture in the state.

Glenn-Colusa just sealed a deal for a second round of water options to Southern California's major urban wholesaler, the Metropolitan Water District of Southern California. With the first transfer, in 2003, the irrigation district reaped \$4 million for fallowing rice fields and sending water south.

This year, it could collect \$10 million from the MWD for transferring up to 80,000 acre-feet.

Looking at those kinds of figures, critics say the new federal water contracts are positioning irrigation districts to make a bundle in the coming decades. Said Aileen Roder, program director for Taxpayers for Common Sense, a watchdog group: "We have set up a water-profiteering system here."

Nation's largest water-supply system

The Central Valley Project, operated by the U.S. Bureau of Reclamation, is the nation's largest water-supply system, extending more than 400 miles from north of Redding to Bakersfield.

— Rivers — Federal canals Shared federal/state canals Dams



The Central Valley Project

- Supplies irrigation water to 3 million acres of Central Valley farmland and drinking water for 3 million people.
- Includes 20 dams and reservoirs, 11 power plants and 500 miles of major canals.
- Includes Shasta Lake, the state's largest reservoir.
- Began construction in 1937 with the Contra Costa Canal and was completed in 1979 with the New Melones Dam.

Sources: U.S. Bureau of Reclamation, ESRI, USGS, GDT

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