NEW LANDS FOR AGRICULTURE

The California State Water Project

A report on land ownership and land use in the State Water Project service area of the upper San Joaquin Valley

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California Institute for Rural Studies

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Les Melvill grows olives on a small-scale ranch at the northern end of California's Sacramento Valley. He bought a 48 acre olive grove in 1967 and takes pride in the fact that careful farming practices have raised his yield per acre several times over.

But like many olive growers throughout the state, Les Melvill is hurting. Prices paid to independent olive growers have been depressed for several years. According to Melvill, "Here in 1967 we ended up with 500 and some odd dollars per ton. Last year [1980] we averaged $350 per ton. We're getting less for our fruit now than we were getting in 1946!"[1]

More than 300 miles away, located in the southern San Joaquin Valley, is the 5,000 acre McCarthy olive ranch, in which the Prudential Insurance Company of America owns a 75% interest.[2] Planted on the West Side of the Valley in the late 1960s and early 1970s, the ranch owes its existence to the State Water Project, a publicly financed facility that brings Northern California water to the southern part of the state. When the huge ranch's olive trees came into full bearing in 1978, state production totals swelled by 46% over the previous record.[3] The resulting olive glut drove down prices paid by processing companies to independent growers although retail prices paid by consumers did not decrease. Ironically, the water that irrigates the McCarthy ranch is collected and stored at Oroville Dam, just 40 miles from Les Melvill's Tehama County home.

The SWP: Who gets the water?

Approved by the legislature in 1959 and ratified by a narrow margin in the general election the following year, the State Water Resources Development Bond Act authorized funding for construction of the California State Water Project (SWP). The key SWP features funded by the 1960 bonds are Oroville Dam, situated in the foothills of Butte County on the east side of the Sacramento Valley, and the California Aqueduct, a canal that winds down the Central Valley and into the urban areas of Southern California.

Oroville Dam, the largest earth-fill dam in the state, collects and stores water from the Feather River watershed. Releases from the dam flow down the Feather and Sacramento Rivers into a network of channels that make up the Sacramento-San Joaquin Delta. Equivalent quantitites to the amounts released at Oroville are pumped out of the Delta and fed into the California Aqueduct. Because the San Joaquin Valley slopes uphill from sea level in the Delta of Central California to southern Kern County, the California Aqueduct must pump water **uphill.** To do this, the canal is built in segments, each at a different elevation, and water must be pumped from a lower elevation segment to a higher one as it moves south.

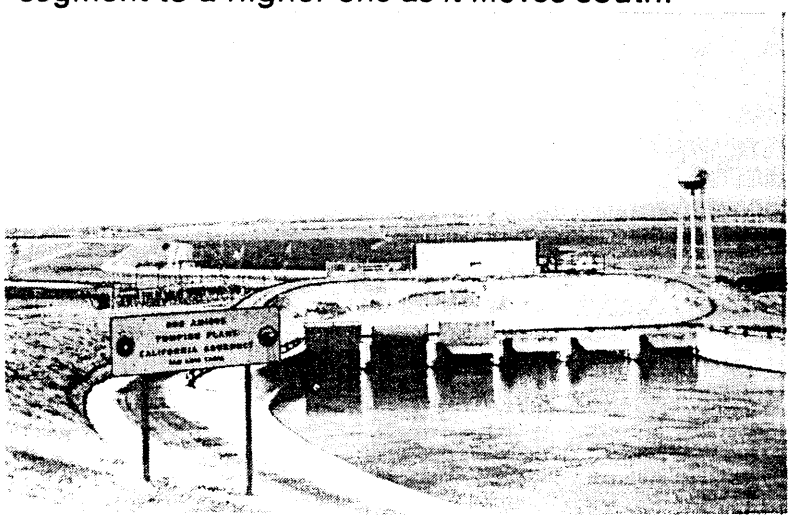


Figure 1. California Aqueduct; Dos Amigos Pumping Plant lifts water from Reach 3 to Reach 4

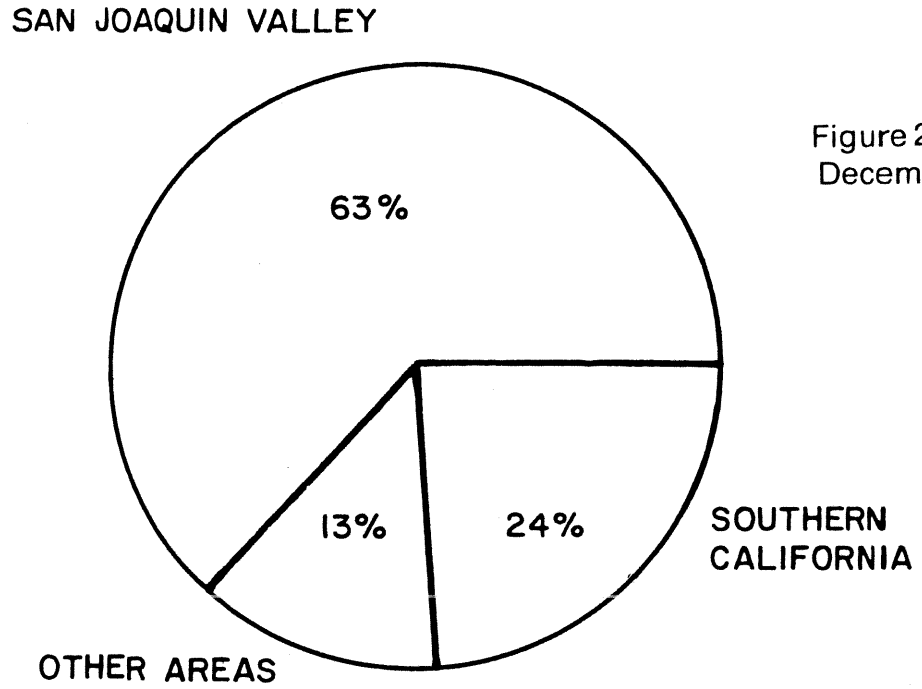


Figure 2. Cumulative SWP deliveries through December 31, 1980, by service area

Water deliveries to SWP service areas began in 1968, although the portion of the Aqueduct that can pump water over the Tehachapi Mountains to Southern California did not become operational until several years later. From the first deliveries in 1968 through the end of 1980, the SWP brought an aggregate of 15.9 million acre-feet of water to state service areas. Of that amount, 63% (10.0 million acre-feet) was used in the San Joaquin District, almost entirely for agricultural irrigation. Only 24% of the thirteen year total of SWP water deliveries has found its way to Southern California urban areas. By contrast Southern California water users (mainly residential customers) have paid 70% of the total SWP project costs to date, while San Joaquin Districts users (mainly agricultural interests) have paid only 13.5% of the total costs.[4] It is one of many ironies of the SWP that those who get the most water pay the least, while those who get the least pay the bulk of the costs.

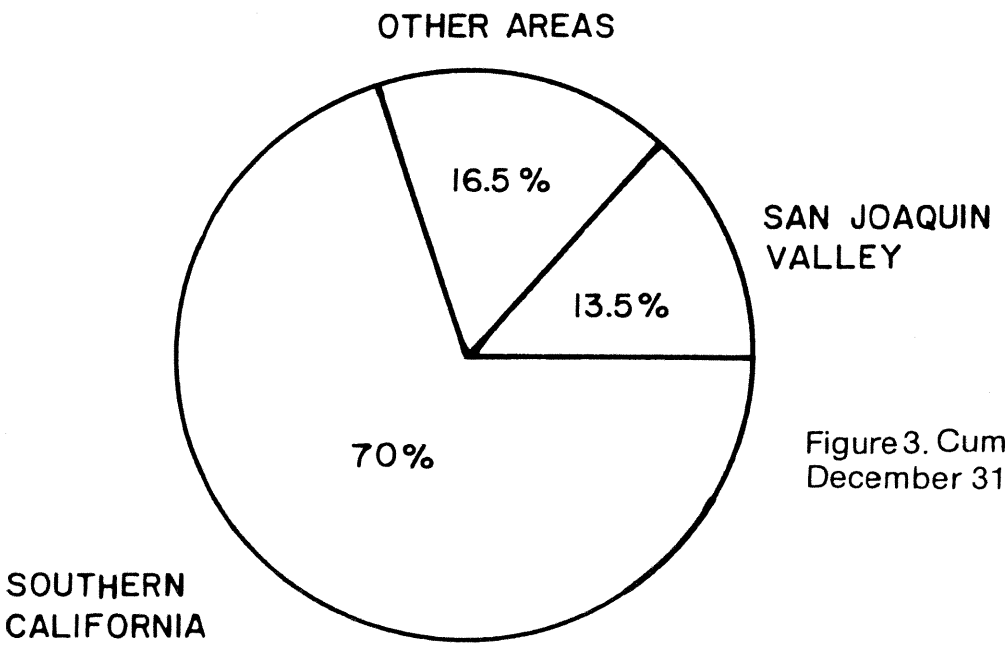


Figure 3. Cumulative SWP payments through December 31, 1979, by service area

A major reason offered by SWP supporters for delivering so much state project water to the San Joaquin District was the desire to relieve the overdraft of groundwater in that region. With the rapid growth of irrigated agriculture in what is essentially a desert climate (less than six inches per year of precipitation falls in the San Joaquin Valley region of Kern County), more water has been pumped from wells annually than is returned underground from natural sources. As a result, the water table has steadily fallen, requiring ever deeper wells. Escalating energy prices have faced farmers with an even more severe increase in costs as they are forced to pump their water from increasingly greater depths. In the early days of the SWP, it was hoped that the availability of surface water deliveries from the state project would help to relieve the problem. However, because California is one of the few western states without a comprehensive groundwater management plan, this hope has been frustrated. The cumulative groundwater overdraft (Kern County) stood at -10,000,000 acre-feet in 1968 and had reached -17,000,000 acre-feet by 1977.[5] Instead of relieving the overdraft on existing irrigated lands, CIRS has found that SWP water has been mainly used to develop new lands for irrigated agriculture.

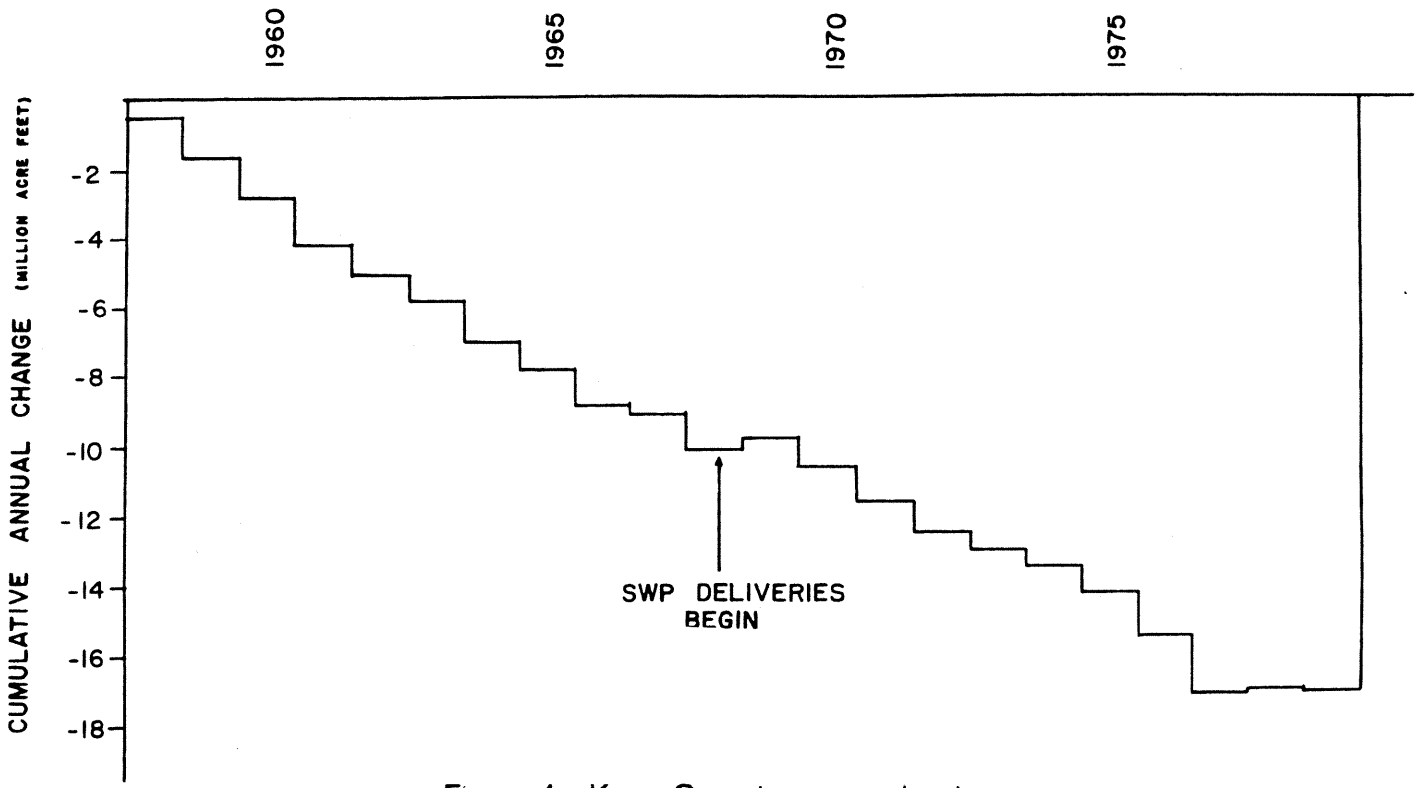


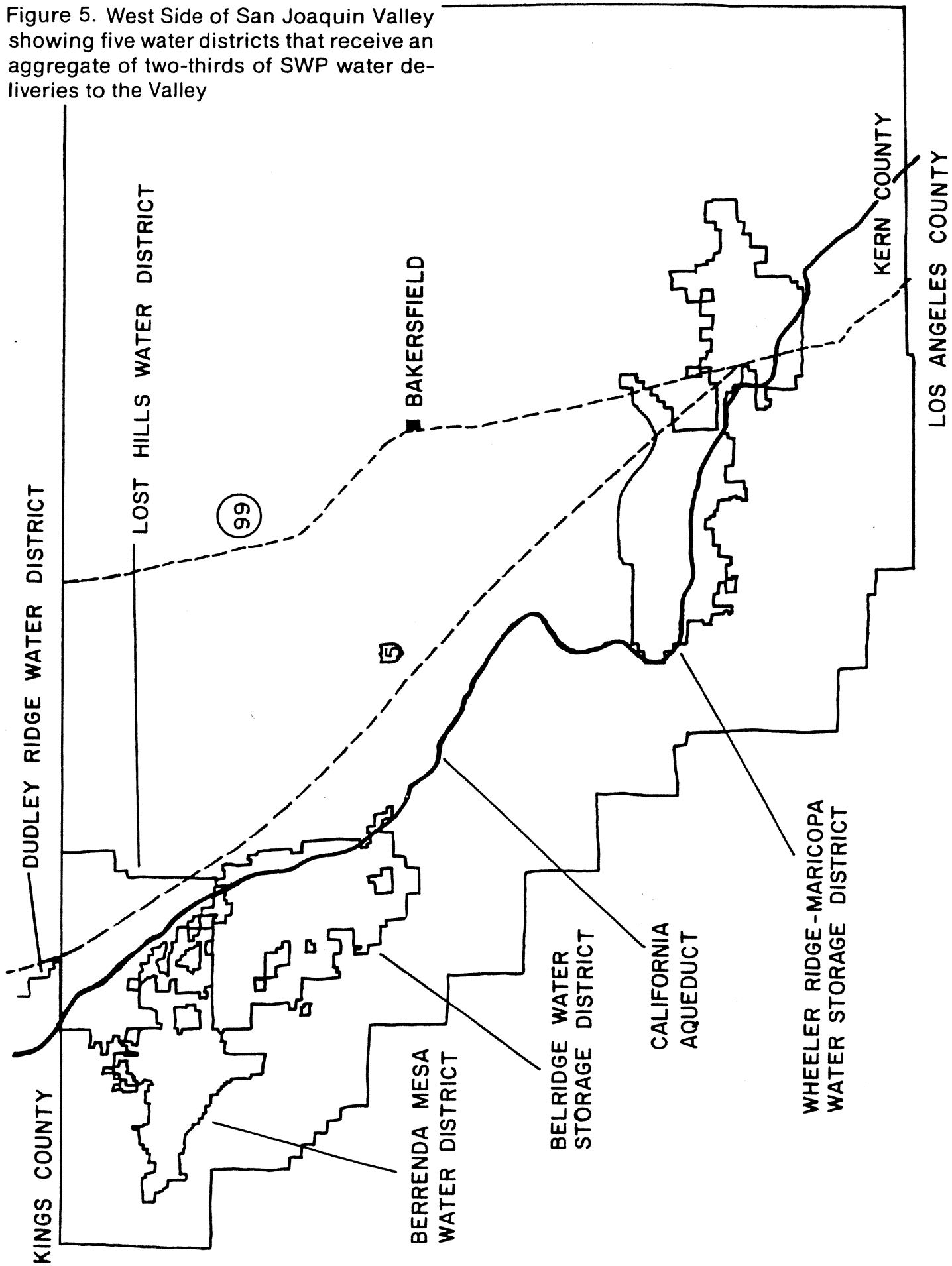
Figure 4. Kern County groundwater overdraft, by year

According to the California Department of Water Resources (DWR), approximately 450,000 acres of San Joaquin Valley cropland are now irrigated with SWP water. The leading crop — with 234,000 acres — is cotton, followed by barley, almonds, wheat, and pistachios. Irrigated crops grown with SWP water were valued at $392 million in 1979.[6]

Most SWP water has gone to only a few water districts. Just five of the numerous San Joaquin Valley water districts account for 62% of all SWP deliveries in the San Joaquin District.[7] These five districts include areas of the West Side of the Central Valley that could not be farmed without surface water deliveries. Decades ago well drillers discovered that West Side wells mainly yield brackish salt water that is not suitable for irrigation purposes.

In 1968, just prior to completion of the California Aqueduct delivery system, the West Side was described as representing great potential for agricultural development. "The largest single area of agriculturally undeveloped land remaining within the San Joaquin Valley lies along its southwestern and southern edge," stated a University of California report. "This undeveloped area is located

Figure 5. West Side of San Joaquin Valley showing five water districts that receive an aggregate of two-thirds of SWP water deliveries to the Valley



mainly in Kern County... The West Side area to be served by the State Water Project includes some 1,046,000 acres in Stanislaus, Kings and Kern counties. Some 604,000 of these acres represent land new in agriculture."[8]

Typical of this West Side area is the Lost Hills Water District. The service area of this district includes a total of 71,200 acres, of which about 67,000 are irrigable. Soil Conservation Service maps have long indicated that the soils in this West Side region were of good quality and are rated as Class I or Class II (prime agricultural soils). Prior to the SWP, only 2,300 acres were irrigated.[9] Today over 54,000 acres are in production.

Owners have experienced a considerable appreciation in land values because of development made possible by state water. According to the DWR, land in the West Side service area was valued at $50 per acre just prior to SWP water availability.[10] In 1976, irrigated land in this area was appraised at an average of $2,000 per acre with a range from $1,000 per acre for land used for field crops up to $3,722 per acre for developed pistachio orchards.[11]

Who owns land in the SWP service area?

The CIRS has utilized public records to identify landowners in the five water districts that account for roughly two-thirds of SWP deliveries to the San Joaquin District. As shown in Table 1, there are 479 distinct owners of parcels comprising at least 20 acres in the five districts and the aggregate amount of land is 384,099 acres (about 600 square miles). Of this total, about 250,000 acres (390 square miles) have been placed in production as a direct result of SWP deliveries.

Only eight of the 479 landowners account for an aggregate of 227,545 acres. Thus, eight owners have 59% of the land. This is shown in Table 2 where the largest landowners are identified along with a detailed breakdown of the types of property they own. The degree of concentration of land ownership is remarkably great.

TABLE 1 — DISTRIBUTION OF LAND OWNERSHIP[a] IN FIVE STATE WATER PROJECT DISTRICTS[b], 1980-81

Size of Holding	Number of Owners	Total Acreage
80 acres or less	214	10,036
81-160 acres	77	9,817
161-320	65	15,186
321-480	32	12,599
481-640	21	11,993
641-1280	34	29,846
1281-1920	12	17,204
1921-2560	3	7,066
2561-5120	13	42,807
5121 acres or greater	8	227,545
Total	479[d]	384,099[c]

a Kings and Kern counties Assessor's Roll of Secured Property, compiled and analyzed by staff of California Institute for Rural Studies.

b Area included:
Belridge Water Storage District (Kern)
Berrenda Mesa Water District (Kern)
Dudley Ridge Water District (Kings)
Lost Hills Water District (Kern)
Wheeler Ridge-Maricopa Water Storage District (Kern)

c Total land area of the five districts in parcels of 20 acres or greater is 384,099 acres.

d Total number of Assessor's parcels of 20 acres or greater in the five districts is 2,435 parcels.

TABLE 2 — LARGEST LANDOWNERS IN FIVE STATE WATER PROJECT DISTRICTS[a], 1980-81

LAND AREA IN ACRES

OWNER	Orchards	Vineyards	Field or Row Crops	Grazing	Undeveloped	Total
1. Chevron USA, Inc.	—	—	29,702	1,124	6,967	37,793
2. Tejon Ranch Co.[b]	5,274	7,251	1,770	20,434	1,168	35,897
3. Getty Oil Co.[c]	2,412	—	21,638	990	10,344	35,384
4. Shell Oil Co.[d]	4,498	—	18,272	2,472	6,753	31,995
5. McCarthy Joint Venture A	16,105	—	7,667	1,333	—	25,105
6. Blackwell Land Co.[e]	9,453	3,850	6,623	804	3,933	24,663
7. Tenneco West, Inc.[f]	4,232	831	12,896	1,109	1,112	20,180
8. Southern Pacific Land Co.	—	796	11,335	2,911	1,486	16,528
Subtotal — 8 owners	41,974	12,728	109,903	31,177	31,763	227,545
Total — All owners[g]	58,963	17,185	205,377	43,526	59,048	384,099
Eight leading owners as per cent of all owners	71%	74%	54%	72%	54%	59%

a Compiled from Kings and Kern counties Assessor's Roll of Secured Property, 1980-81. Includes all 2,435 parcels of 20 acres or greater in the following districts: Belridge Water Storage District (Kern), Berrenda Mesa Water District (Kern), Dudley Ridge Water District (Kings), Lost Hills Water District (Kern), Wheeler Ridge-Maricopa Water Storage District (Kern).
b Includes Tejon Agricultural Partners
c Includes Getty Refining and Marketing Co.
d Includes Kernridge Oil Co.
e Includes the joint ventures Hanwell Orchard and El Vic Farm Corp.
f Includes Tenneco Oil Co. and Tenneco Realty Development Co.
g Refers to owners of parcels of 20 acres or greater

The Big Eight landowners

Chevron USA, Inc.

This subsidiary of Standard Oil Co. of California is the largest landowner in the five district area and leases its crop and grazing land to independent farm operators. The company owns about 90,000 acres of agricultural land in the San Joaquin Valley.[12]

Tejon Ranch Co.

This company owns a total of roughly 260,000 acres in Kern and Los Angeles counties. Tejon Ranch's orchards, vineyards and row cropland in the SWP service area totals 14,295 acres and is actually owned in the name of Tejon Agricultural Partners (TAP). TAP is a California limited partnership set up by Tejon Ranch Co. as a tax shelter vehicle for wealthy investors. The largest stockholder in the Tejon Ranch Co. with a 25% ownership interest is the Times Mirror Co., publisher of the *Los Angeles Times.*[13] The *Times* has been a leading proponent of further expansion of the SWP.

Getty Oil Co.

Getty Oil Co. leases most of its holdings to independent farm operators but farms a portion itself through its Minnehoma Land and Farming Co. subsidiary.

Shell Oil Co.

Shell's holdings consist primarily of land owned by its Kernridge Oil Co. subsidiary, formerly Belridge Oil Co. All of this land could not be farmed without state water. This is because only poor quality groundwater could be found in wells on the property and it lacked surface water facilities prior to construction of the SWP.

McCarthy Joint Venture A

This partnership is composed of Prudential Insurance Co. of America (75%) and McCarthy Associates (25%), a family partnership formed by Leland J. McCarthy and Richard P. McCarthy [14]

Blackwell Land Co.

This corporation was formed by the Lazard family, prominent international bankers. Blackwell is linked to overseas markets through ownership of its stock by three multinational companies:[15]

Midhurst Corp., a subsidiary of S. Pearson and Son, England	36.8%
Les Fils Dreyfus, Basle, Switzerland	22.2%
Unifin, a subsidiary of IFI Int'l, Luxemburg	10.0%

Included in Blackwell's total acreage of 24,663 acres are 3,065 acres owned by El Vic Farm Corp., a joint venture of Blackwell Land Co. and Mitsubishi Corp. of Japan[16] and 1,685 acres owned by Hanwell Orchard, a joint venture of Blackwell Land Co. and John Hancock Mutual Life Insurance Co.[17] The properties are farmed by Blackwell Management Co., a Blackwell Land Co. subsidiary.

Tenneco, Inc.

Most of this company's 20,180 acres are owned by Tenneco West, Inc., a subsidiary that handles its agricultural and land management operations.

Southern Pacific Land Co.

The state's biggest private landowner, Southern Pacific Co., leases its land to independent farm operating companies.

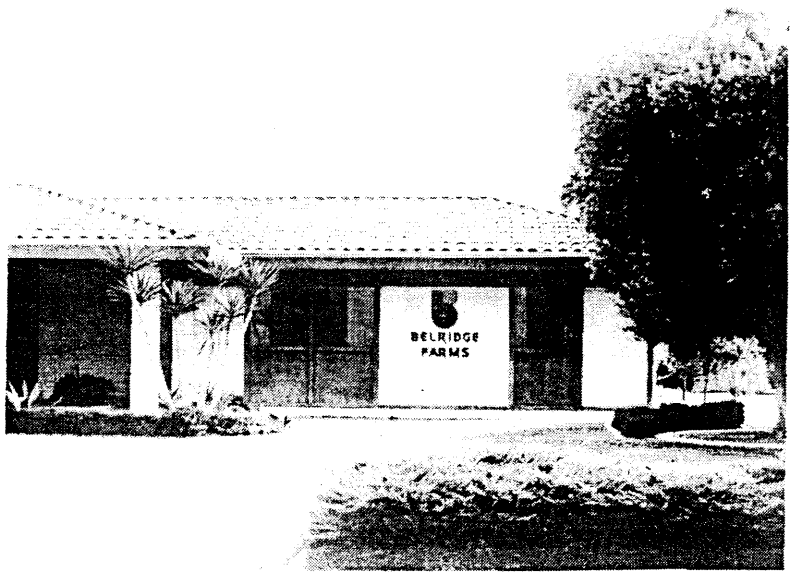


Figure 6. Headquarters of Belridge Farms, subsidiary of Shell Oil Co. Belridge is the largest grower of carrots in California.

While the Big Eight landowners clearly dominate ownership of the West Side districts, many of the other 471 landowners are not truly independent. For example, it was discovered by CIRS that 35 owners who hold an aggregate of more than 14,000 acres report the same business address. The address appears in the Assessor's records as

c/o Agricultural Business Systems, Inc.
1485 N. Tustin Ave., Suite 200
Orange, CA 92667

and is also one of several addresses reported by Berrenda Mesa Custom Farming Co., the management company that actually farms the properties. These 35 owners are shown in Table 3.

Using names like "Money Tree", "Green Gold" and "Bonanza Acres", 26 of the presumably separate entities are actually limited partnerships forming a tightly knit interconnecting network. The key figures are Reed R. Callister (a Los Angeles attorney), Herbert R. Benham, George Barton Heuler, and Harold Kaemerle. The latter two are officials of Berrenda Mesa Custom Farming.[18]

In addition to the holdings shown in Table 3, the Berrenda Mesa Farming Co. manages another 6,207 acres comprised of 2,022 acres within the Berrenda Mesa Water District (leased from unrelated invididuals) and 4,185 acres outside the SWP service area (almost entirely owned by the JB2H partnership).[19] The aggregate total of land under management is roughly 20,000 acres.[20]

TABLE 3 — INTERLOCKING OWNERSHIP THROUGH
BERRENDA MESA CUSTOM FARMING CO. GROUP

	LAND AREA IN ACRES		
Name of Record Owner	*almonds*	*pistachios*	*row crops*
*Almond Jack	40	—	—
*Almond King	38	—	—
*Almond Queen	40	—	—
*Arbole Verde Orchards	—	39	—
Berrenda Mesa Custom Farming Co.	—	956	—
*Bonanza Acres	—	40	—
*Callico Ranch	—	223	—
Clancy, K.N. & Harmon, R.F.	40	—	—
*Del Rio Ranch	—	40	—
*Earl's Ranch	40	—	—
*El Dorado	—	39	—
*Green Gold Ranch	—	40	—
Heuler, G. Barton	198	40	—
JBQH	—	—	796
JB2H	620	80	1,844
JBZH	360	—	—
JLH Ranch	324	—	—
*Kerman Ranch	—	800	—
*Keyson Ranch	—	40	—
*Lucky Tree	200	—	—
*Mellen Ranch	40	—	—
*Midori Ranch	202	—	—
Moley, Malcolm	—	—	162
*Money Tree	—	39	—
Pattison, Gene	163	—	—
*Santa Maria Ranch	—	640	80
*Sir George Ranch	—	40	—
*Stephan's Ranch	440	—	80
*Sunrise Ranch	240	—	—
*Table Top Ranch	66	—	—
*Westside Almond Ranches IV	2,822	—	158
*Westside Almond Ranches 10	242	—	—
*Westside Ranch No. 1	712	—	75
*Westside Ranch No. 2	356	—	126
*Westside Ranch No. 3	520	—	—
Total	7,703	3,056	3,321

*Denotes limited partnership

Grand Total: 14,080

Figure 7. Almond groves farmed by Berrenda Mesa Custom Farming Co. in western Kern County

Permanent crops for tax shelter

A key factor in the decision to plan permanent crops in the SWP service area was the tax treatment afforded to investors in those crops during the 1960s. In the sixties, IRS tax rules permitted individual investors to annually deduct their share of development costs for permanent crops as a business expense thereby reducing their taxable income. Those in high tax brackets benefit the most from this reduction in taxable income. In 1971, UC Davis agricultural economists estimated the effective tax subsidy at $346 per acre of orchard for those in the 70% tax bracket.[21] This "tax shelter" served as an incentive for thousands of investors to become part owners of permanent crop plantings.

After it was discovered that both the climate and soils of the SWP service area on the West Side of Kern County were well suited to many orchard crops, there was a rush of new plantings. For example, there were only 190 acres of bearing almond trees in the county in 1966. By 1974, total almond plantings had reached 47,193 acres. Today Kern County has 60,531 acres of bearing almond trees establishing it as the leading almond county in the state.[22] In 1980, almonds produced in Kern County were valued at $147 million, making it the number three crop by value.[23]

Table 4 shows the pattern of ownership of permanent crop plantings in the five SWP service area districts studied in detail. Just six owning groups (including the Berrenda Mesa group) account for 90% of the land planted to almonds, grapes, olives, and pistachios in those districts.

As more tax shelter investment entities were formed throughout the nation, the IRS found itself subject to strong citizen pressure opposed to tax subsidies for wealthy investors. Finally the Tax Reform Act of 1969 put an end to this special tax break for investments in citrus and almond orchards (effective December 29, 1970 for almond plantings). However many types of permanent crops were not affected by this law. According to UC Davis agricultural economists, "For all other orchards and vineyards, tax subsidies exist undisturbed by reform."[24]

Faced with the loss of citrus and almonds as tax shelter vehicles, entrepreneurs began searching for other crops that could be used for this purpose. It was not long until one was found. According to a *New York Times* investigation:

> This California pistachio is brought to you courtesy of the Internal Revenue Service and the Shah of Iran.
>
> To explain. In 1969 and 1971 the Internal Revenue Code was changed to eliminate tax shelters...setting off a rush to plant pistachios, which were not mentioned and therefore remained under shelter...
>
> Today, trees planted from 1970 on, mainly in the southern San Joaquin Valley, are starting to come into serious production. And, with perfect timing for the California growers, the revolution that forced the Shah into exile has...brought a halt to exports from the world's main pistachio producing country.[25]

TABLE 4 — OWNERSHIP OF PERMANENT CROP PLANTINGS IN FIVE STATE WATER PROJECT DISTRICTS,[a] 1980-81

	LAND AREA IN ACRES[a]			
Owner	*almonds*	*grapes*	*olives*	*pistachios*
McCarthy Joint Venture A	3,300	—	4,771	5,600
Blackwell Land Co.[b]	5,616	3,258	—	4,004
Berrenda Mesa Farming group	7,703	798	—	3,056
Tejon Ranch Co.[c]	3,269	6,683	—	1,009
Shell Oil Co.[d]	1,270	—	1,140	200
Getty Oil Co.[e]	2,183	—	179	50
Total	23,341	10,739	6,090	13,919

Permanent crops in the five districts[f]	almonds	25,249	acres
	grapes	14,548	
	olives	6,184	
	pistachios	14,659	

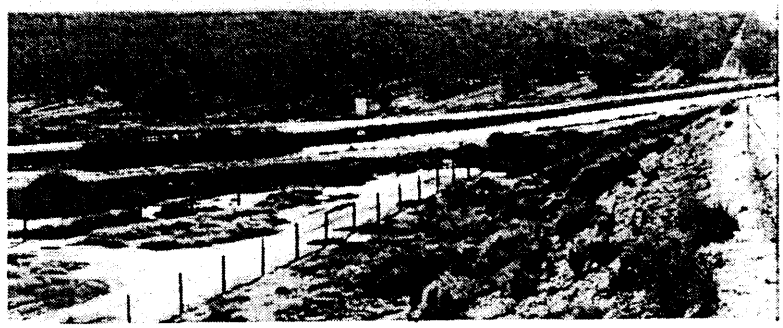
a Refers to assessable acreage (gross acres). Includes roads, ditches, waste land, etc.
b Includes joint ventures Hanwell Orchard and El Vic Farm Corp.
c Includes Tejon Agricultural Partners
d Includes Kernridge Oil Co.
e Includes Getty Refining and Marketing Co.
f Refers to net cropland (net acres). Excludes roads, ditches, waste land, etc.

Case Study: The SWP impact on the olive industry

An important consequence of the rapid growth of new plantings of permanent crops is the subsequent surge in commodity production when the plantings come into bearing. For olive growers, the production glut that followed the development of new olive groves in the SWP service area in the 1970s made it possible for olive processing companies to lower prices paid to independent growers while keeping prices at the consumer level fixed. This kind of situation has been described in general terms by the UC Davis agricultural economist Hoy Carman: "Middlemen usually benefit from increased supplies of agricultural products. Their increased returns come from better capacity utilization and a larger percentage decrease in prices paid [to farmers] than in prices received."[26] In analyzing societal benefits resulting from favorable tax treatment Carman found that the *lowest* return to society occured in the case of olive orchard development. His estimates indicate that returns to society were only $0.11 per $1.00 of tax subsidy for olive plantings.[27]

Prior to the development of the SWP, the California olive industry was dominated by small-scale producers. At the end of the 1960s, the state's olive groves totalled 27,000 acres with an average of 26 acres per farm.[28] As a result of the availability of state supplied water, more than 6,000 acres of new orchards were planted in western Kings and Kern counties during 1970 and 1971.[29] These new plantings had a tree density of 100 trees to the acre as compared with an average of 48 to 50 trees per acre in older established orchards.[30] Thus it was expected that the 6,000 acres of new plantings would yield as much production as 12,000 acres of existing olive groves. In effect, the new groves were thought to represent a roughly 50% increase in production. Of the 6,000 acres planted on the West Side, approximately 5,000 acres consist of olive trees owned by McCarthy Joint Venture A, a partnership consisting of Prudential Insurance Company of America (75%) and McCarthy Associates (25%). This acreage is farmed by McCarthy Farming Co., Inc. under a lease arrangement.[31] During 1980, Prudential also paid McCarthy Farming a management fee of $100,096.[32]

Figure 8. Orchards owned by McCarthy Joint Venture A. Prudential Insurance Co. of America owns a 75% interest in this partnership.

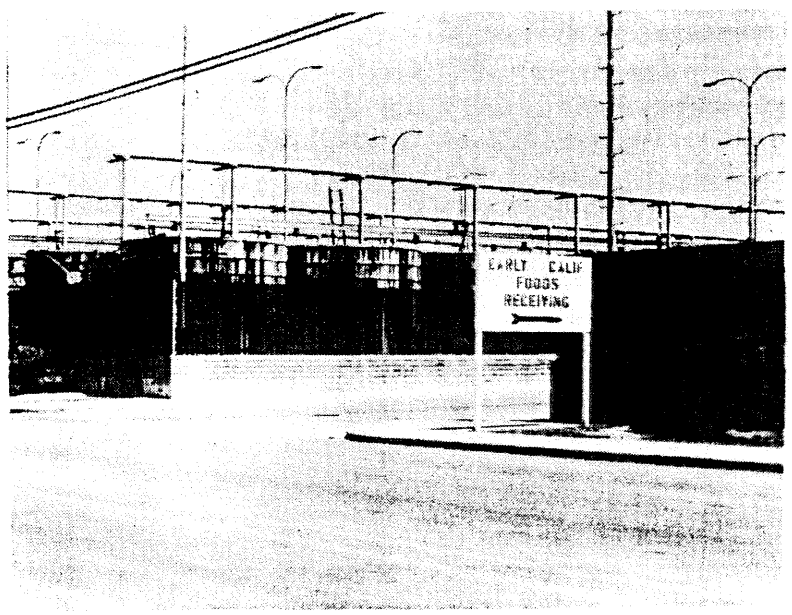


McCarthy Farming and Prudential were aware of the marketing problem that would result from increased production. In order to assure a market for their crop, they signed a long-term contract with Early California Industries, the leading independent processor. This contract requires Early Cal to purchase all olives produced at the McCarthy ranch and, in return, permits Early Cal to defer $1,000,000 of payments for such crops. According to Early Cal's 1979 annual report, this "...long term obligation bears no interest and is repayable only on termination of the contract."[33] In effect, Early Cal gets an interest-free loan of $1,000,000 while McCarthy and Prudential are assured of a market for their olive crop.

Small-scale olive grower Les Melvill describes the leverage that Early Cal gets from this arrangement. He says, "Early Cal sets the price...They're in the driver's seat. Prudential supplies 53% of their total pack — *53%* — together with that interest-free money...What does that do to a guy like me? I've got no bargaining position at all. They won't even talk to you."[34]

Ultimately, then, SWP water was used to create a production glut of olives that had the effect of driving down prices paid by independent olive processing companies to the state's independent small-scale olive growers while keeping prices charged to consumers fixed.

Figure 9. Early California Industries olive processing plant, Visalia, California. Olives from the 5,000 acre McCarthy ranch olive groves are processed here.



Until this year it was thought that this negative effect of increased production in the olive industry was an exception. That is, it was believed that increased production of other commodities grown in the SWP service area would not lead to lower prices paid to farmers. However, in 1981, prices to be paid to commercial almond growers are expected to weaken as production, including that in the SWP service area, reaches record levels. "We can definitely expect lower prices," says Stephen Heinricks of the California Almond Growers Exchange. "I don't think anyone in the industry was expecting a crop of this size."[35]

The SWP impact on small-scale farmers

When the SWP began to deliver irrigation water in 1968, it quickly became apparent that small-scale farmers were adversely affected by the requirements of the project's pricing structure. This is because SWP water prices in the San Joaquin District service area are relatively higher than the cost of federally subsidized water obtained from the Central Valley Project. According to UC Davis agricultural experts, "...water costs of $25.00 per acre-foot will require production of high-value crops in order to generate enough return to pay the cost of water plus yielding some profit."[36] The substantial investment required for orchard or vineyard development, traditionally high-value crops, is beyond the capital resources of most small-scale farmers. For this reason, agricultural lending institutions play a central role, not only in providing production loans, but also in *determining which farmers will be granted loans at all.*

The DWR itself discovered that small-scale farmers were at a distinct disadvantage in this situation. According to DWR official documents:

> Lending institutions have recently shown greater caution and selectivity in loaning funds to west side agriculturists, unless the growers possess substantial resources, according to representatives of a major bank active in the region.
>
> A number of smaller-scale ranchers and those with inadequate resources have already had to leave, liquidating and disposing of their properties. In the opinion of the banker, this was usually because the rancher had underestimated the capital requirements to develop land, procure necessary irrigation and farming equipment, and retain adequate reserves to finance operations for several years before sufficient income was received from sales of crops.[37]

While unintended, the state of California has used its great power, represented by the State Water Project, to tip the economic scale to the advantage of large-scale agricultural interests. Unlike Federal water projects, there is no acreage limitation on the amount of land that can be irrigated with SWP water. At present, there is little that can be done to correct these inequities.

Glenn Reservoir: Another threat to small-scale farmers and ranchers

Harold Niesen's ranch in the Stony Creek Basin is nestled in the foothills of the Coastal Range Mountains on the west side of California's Sacramento Valley. Located just 30 miles from Les Melvill's olive farm, the ranch was homesteaded by Neisen's grandfather during the last century and the family has lived near the tiny town of Elk Creek ever since. He is one of several ranchers in the Stony Creek Valley whose land heritage can be traced back three or more generations.

However Niesen has been worried about recent SWP expansion plans. State water planners want to build a complex of dams that has come to be known as the Glenn Reservoir. "If this project is built," Niesen says, "this whole valley would be inundated."[38]

The Glenn Reservoir complex is a key element in the planned expansion of the State Water Project embodied in Senate Bill 200 (SB 200), which voters will be asked to approve or reject in the June 1982 primary election. According to Ronald Robie, Director of the DWR, "Section 11255(g) [of SB 200] would authorize the Glenn Reservoir-River Diversion unit. The bill provides that this combination onstream and offstream storage reservoir may be constructed in stages."[39] The unit's ultimate capacity is 8,700,000 acre-feet, twice as large as any existing reservoir in the state.[40] While Robie claims to have scaled down the capacity of the Glenn complex, the language of SB 200 remained vague when signed by the Governor.[41] This removed the last hope that the legislature might intervene to stop the authorization of the unit.

Figure 10. Stony Creek basin in western Glenn County. This is the proposed site of SWP Glenn Reservoir complex.

Niesen and his fellow members of the California State Grange have been fighting the proposed reservoir complex for years and are quick to point out that the proposed site is on the east side of the mountain crest that drains into the Eel River watershed to the west. According to Niesen, the DWR conducted a major study in 1957 that focused on the Stony Creek Basin as the storage site for large quantities of water to be diverted from the Eel, Trinity and Klamath Rivers.[42] Again in 1967, the DWR proposed a reservoir on the Eel River with a tunnel diversion into the Glenn Unit. This project failed in the final states of planning because of strong opposition from residents of Round Valley located within the Eel Reservoir boundary. Robie's plans now call for protecting the North Coast Rivers (including the Eel) from further development and filling the proposed reservoir with water pumped uphill several miles from the Sacramento River. But Niesen and his neighbors believe that the full-scale Glenn Unit is not needed and are certain that the DWR wanted the Unit approved in SB 200 as a "beach head" on Eel River water. According to Niesen, "We are even more determined to make people aware of the devastating effects of the Glenn Reservoir."[43]

SB 200: The plan to expand the SWP

In the June 1982 primary election, California voters will be asked to approve or reject SB 200. This proposal is the latest in a series of plans intended to significantly expand the facilities of the SWP. The principal features of the proposal include the Glenn Reservoir (first stage) and the Peripheral Canal, a 42 mile long ditch that would channel a substantial portion of Sacramento River water flow around the Sacramento-San Joaquin Delta to the California Aqueduct. The Peripheral Canal will make it possible to significantly increase annual SWP deliveries to the south.

Proponents of SB 200 argue that these new SWP facilities are needed to supply even more water to existing state service areas. When the California Aqueduct and Oroville Dam were under construction in the 1960s, state officials signed contracts for the eventual delivery of 4,230,000 acre-feet of SWP water per year. Presently existing facilities, however, can only provide about 2,300,000 acre-feet per year. Thus state officials made promises that they knew they could not keep. It is further argued that if the water needs of continuing susbtantial urban development in Southern California metropolitan areas are to be met, then the SWP will be unable to continue to supply large quantities of water to agricultrual interests. Finally, California is expected to lose 500,000 acre-feet of its present 4,700,000 acre-feet annual share of Colorado River water in the mid-1980s. It is argued that additional SWP supplies will be needed to offset this loss.

After SB 200 was signed into law in 1980, opponents found that a great many California residents did not support plans to expand the SWP. One reason for this opposition is because of the enormous costs of the proposed Peripheral Canal and Glenn Reservoir units (total SB 200 costs exceed five billion dollars). Another reason is that a broad range of citizens do not think that

the project is needed. These opponents include water conservationists who see the danger in building more water storage reservoirs, Sacramento-San Joaquin Delta water users who stand to lose unknown amounts of their fresh water supplies, and small-scale farmers and ranchers like Les Melvill and Harold Niesen whose livelihood or home have been threatened by the SWP projects. As a result of this widespread opposition, the "California Coalition to Stop the Peripheral Canal" was able to gather 843,000 signatures of voters. This requires a referendum of the people on the proposed expansion of SWP facilities.

Figure 11. Map of Northern California showing locations of proposed Glenn Reservoir complex and Peripheral Canal

Living on borrowed water

Ron Khachigian is the chief administrative officer for the Blackwell Land Company in Kern County. Ranking sixth among the eight leading landowners in the West Side agricultural area, Blackwell has 13,000 of its 24,663 acres planted to permanent crops such as almonds, grapes and pistachios.

According to Khachigian, a stable supply of water to irrigate his corporation's Kern County land may depend on substantial expansion of the SWP. He says, "We're very, very concerned about this. The state water project, as it was originally designed, has not been completed, 4.23 million acre-feet of water was to have been supplied [each year]. The project is now capable of serving some 2.3 million acre-feet. Our farm's life depends upon the completion of the project, or we're just dead."[44]

Construction of the Glenn Reservoir and the addition of a large capacity delivery system through the Delta, as in the proposed Peripheral Canal legislation, are exactly what Blackwell and the other major landowners want. This is because these large-scale operations have been living on borrowed water.

Declaring that they did not need their full contractural amounts of water (entitlements), Southern California metropolitan water agencies have turned back more than 44% of their aggregate entitlements from the project's beginning through the 1980 calendar year. More than 3,225,000 acre-feet of water contracted for delivery was refused by these agencies *even though their contracts require them to pay capital costs each year for its delivery.*[45] Most of this "surplus" water ended up irrigating land on the West Side of the San Joaquin Valley.

This borrowing of water by Kern County water users from urban water agencies is made possible under a simple mechanism established by the DWR. SWP contractors agree to pay for a fixed share of the project's construction costs each year in return for a committment for the delivery of a specified amount of water. In addition, contractors agree to pay a much smaller delivery charge for the amount of water actually transported to the agency's service area. If an agency decides that it does not need its full entitlement for a given year, it may elect to receive a smaller amount. In such a case, the contractor pays the full capital expense for its entitlement but pays transportation charges for only the amount delivered. The excess of contracted amount above the quantity actually delivered is declared "surplus" by the SWP and is resold to other contracting agencies, no matter where they are located, *for relatively inexpensive delivery charge only.* Agricultural interests in the West Side areas have come to rely on the "surplus" water furnished at bargain prices by the SWP.

Without the expansion of SWP facilities and delivery capacity, agricultural districts will eventually lose this "surplus" water not presently needed in Los Angeles. If this occurs, Khachigian predicts that in future years, "...we'll probably have to pull out one-third of our permanent crops.[46]

Large-scale landowners in the SWP service area have responded to the bountiful supply of state-supplied water, including "surplus" water, by expanding their crop acreage to use every drop. Then they argue that they can not afford to lose any of the amount they now use each year. This situation brings to mind an observation made more than a half-century ago by William Mulholland, builder of the Owens River Aqueduct that still provides much of the Los Angeles water supply. Mulholland is reported to have said, "If you don't get the water, you won't need it."

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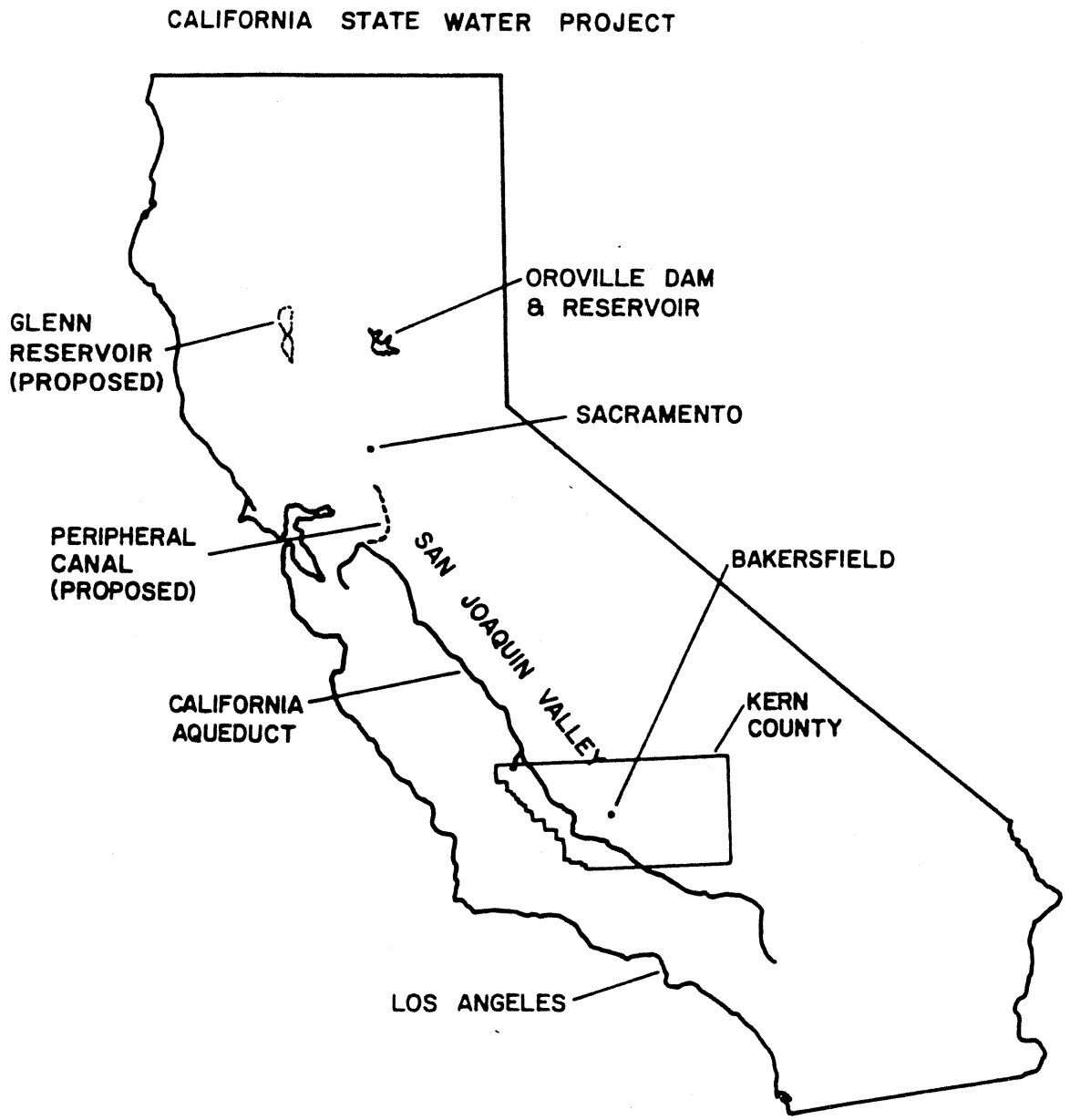

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