

Ag economist: Water will matter more than ever in California

By John Holland
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Tightening water supplies in California will reinforce its shift to almonds, walnuts and other high-value crops, an economist told a Modesto audience.

Farmers will make that decision as they face recurring droughts and limits on river supplies and groundwater, said Richard Howitt, professor emeritus of agricultural and resource economics at UC Davis.

He spoke Monday to the Northern California chapter of the Appraisal Institute, which drew about 150 people to its annual conference at the DoubleTree Hotel.

The event dealt with a range of issues involving residential, commercial and other properties, but agriculture was front and center. California is in a fourth year of drought, and in 2014 it enacted its first statewide regulation on well pumping. Farmers also face the prospect of reduced river diversions to protect fish.

All of that means that access to water, already part of the equation for farmland values, will be even more important in the future. "I'm going to argue that increasingly, water will become a dominant factor in the value of agricultural land," Howitt said.

Some areas, notably the Oakdale and San Joaquin irrigation districts, still have fairly abundant water at low cost to farmers. Others, such as the Modesto and Turlock irrigation districts, have been strained by the drought but have muddled through. Still others, including the Merced Irrigation District and several providers on the West Side, face drastically reduced supplies.

Howitt said many almond farmers in the western and southern San Joaquin Valley are willing to pay up to \$1,200 per acre-foot of water because allotments from the federal Delta-Mendota Canal are at zero. That's roughly 100 times what some farmers pay elsewhere for water.

The costly water can be worth it if it keeps nut and fruit trees and grapevines alive. Growers cannot let them go for a year without water, as they can with annual crops.

Howitt said one annual crop, processing tomatoes, still is getting plenty of water because California is the nation's only major producer and growers have a "lock" on the market. Cotton and wheat, on the other hand, are produced in several other areas of the country.

Howitt was co-author of a report that estimated that the drought caused \$2.2 billion in economic losses and 17,100 lost jobs last year. The toll, about 5 percent of the 2013 gross farm income, would have been much worse if farmers had not increased their use of groundwater, he said.

Dorene D'Adamo of Turlock, a member of the state Water Resources Control Board, said groundwater used to be mainly a backup for when river supplies fell short. Now, she said, wells are the sole source for some of the almond, walnut and pistachio orchards that have spread across the land.

"So in the years when the aquifer should be recharging, it's actually being depleted in some areas," she said.

The state board will let local and regional agencies draft the groundwater sustainability plans required by the new law, and will step in only if serious problems persist, D'Adamo said.

Modesto-area walnut and almond grower Paul Wenger, president of the California Farm Bureau Federation, agreed

that perennial crops have “hardened demand” for water. He also noted the increasing importance of water to farmland values.

“You’re already seeing banks wanting to know where the water comes from before they make loans,” he said.

Howitt said California can continue to be an agricultural powerhouse if it assures that groundwater levels are stable and a market is in place for transferring water among farmers. He also noted that the state specializes in crops, such as nuts and berries, that people consume more as their incomes grows.

“We are on the right side of the economic trend,” he said.

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