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~~CONFIDENTIAL~~

September 29, 1997

Tib Belza, Roger Strelow and the Water Transfer Work Group
c/o CALFED
1416 Ninth Street, Suite 1155
Sacramento, CA 95814

Dear Sirs,

I am writing to respond to three of the issues raised at our second water transfer work group meeting.

First, in response to the question, "How much can we really address economic impacts of water transfers?" I believe that it would be irresponsible not to. California's rural counties, as indicated by many measures already face economic challenges far more critical than those of urban counties. While the proposed water market might compensate a small number of land owners, it could exacerbate economic problems for lower income residents and county governments.

Our examination of economic impacts will require the participation of someone representing low-income rural residents. As no one is currently serving in that capacity, may I suggest we ask Bill Hoerger, an attorney with California Rural Legal Assistance to make a presentation at our next meeting?

Second, regarding the need to define "third parties" (page 3, discussion paper), while I think this could be helpful in understanding the issue, I am not sure it is ultimately significant. "Third parties," although a commonly used term, is a misnomer. In an unregulated market, impacts will be community-wide. With water speculators already actively knocking on doors around rural counties, mentioning large sums of money, it is clear that cumulative water transfers and reallocations could involve millions of acre-feet of water. The Farm Bureau has estimated the number at between 3.3 and 4.5 million acre-feet. Without some protections and assurances, the majority of rural community residents could become so-called "third parties."

Perhaps an analogy would be helpful. The Endangered Species Act has allowed litigators to discuss environmental impacts in terms of listed species. But most of us know that the "environment" is actually a complex web of habitats and

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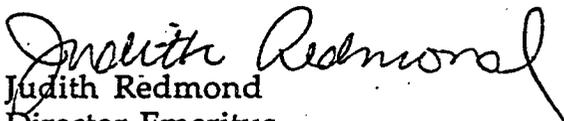
interrelationships. In the past, too much focus on endangered and indicator species has resulted in too little focus on ecosystems. Of course CalFed is attempting to avoid that mistake!

By analogy, too much focus on "third parties" while simplifying our task in the short run, may overlook the complex interrelationships that exist in communities and watersheds. As Tehama County Supervisor Charlie Willard said at our meeting, even regions *receiving* water from water transfers may have much to fear from an unregulated market because of the potential resulting urban sprawl. If he is right, then current residents in most of our coastal southern cities could be considered "third parties." In my opinion, the term is not useful. We simply must all recognize that the market must be regulated and areas of origin must be protected.

The third issue I wish to address has to do with the process for enforcing proposed protections. In our upcoming discussions we will probably debate the options listed in the discussion paper. Hopefully we will come to some agreement and make some policy recommendations. However, protections for the community will be complicated to enforce, especially given the overwhelming power of money to pave the way for transfers to move forward. It is essential that a process is defined which ensures that county governments, groundwater users, low-income communities, down-stream water users, local businesses and small-scale farmers are kept informed of the process, with adequate opportunities to become involved.

A publicly accessible data-base tracking cumulative transfers from various regions is the first step in terms of information. Adequate prior public notification and public hearings are the first steps in terms of opportunities to become involved. Without these essential elements, I fear any protections that we recommend could be useless.

Sincerely,


Judith Redmond
Director Emeritus