

Melissa Stone

From: Dhruv Khanna [dhruvkhanna2002@yahoo.com]
Sent: Tuesday, September 10, 2013 1:27 PM
To: Board of Directors
Cc: jscheer@sccfarmbureau.org
Subject: Open Space Credit Policy
Attachments: Kirigin Cellars letter to SCVWD Board.docx

Dear Board of Directors of the Santa Clara Valley Water District,

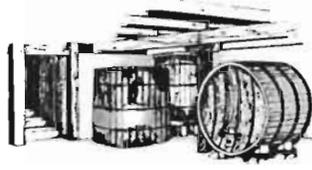
I deeply appreciate the SCVWD's Open Space Credit policies as well as its groundwater recharge efforts. As the owner of Kirigin Cellars, one of California's oldest wineries, with over 30 acres of vineyards (entirely replanted by me with drip irrigation over the past ten years), I worry greatly about the level of water in my wells, particularly during a dry year such as 2013.

I've done a great deal of research in the area of groundwater supplies in our County and the attached letter reflects my analysis. (I've signed it and faxed it to the SCVWD fax (408) 266-0271.)

I hope you have a chance to read the attached letter in advance of your 6 p.m. meeting today.

Thank you,

Dhruv Khanna
Owner, Kirigin Cellars



Kirigin Cellars

11550 Watsonville Road, Gilroy, CA 95020

September 10, 2013

Via email (unsigned), fax 1-408-266-0271 (signed)

Board of Directors
Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118-3686

Re: Despite the Open Space Credit, other government initiatives, and the hard work of local farmers, agriculture in Santa Clara County continues to decline

Dear Directors of the Santa Clara Valley Water District:

Kirigin Cellars deeply appreciates: 1. The SCVWD's long-standing policy to subsidize agricultural groundwater use; and 2. The SCVWD's efforts to recharge the County's groundwater supplies. However, as the SCVWD continuously evaluates its Open Space Credit program, it should be aware that its groundwater recharge efforts enhance the County's groundwater supplies, but do not guarantee that any of the wells in the County will in fact continue to yield water as they have in the past.

I write this letter to express my appreciation for the SCVWD's policies and efforts noted above, and to emphasize that **the SCVWD should continue these policies and efforts in order to mitigate the irreversible decline of farming in the County.**

I write this letter to emphasize also that:

- **The decline in farming and water use in the County is relentless and irreversible;**
- The Open Space Credit benefits all County residents in ways that are not easily measureable and have not been measured by the SCVWD's economists;
- Staff's projections overstate the amount of the needed Open Space Credit in the years ahead;
- Multiple cost and other financial pressures on County farmers will continue to increase, and such cost increases have not been taken into account by the SCVWD's economists; and
- Agricultural groundwater supplies are not guaranteed by the SCVWD despite its groundwater recharge efforts, and **the reliability of our vital agricultural groundwater supplies is far more fragile than M&I (municipal and industrial) groundwater supplies, for example, that are available to the City of Palo Alto.**

I. The Relentless and Irreversible Decline of Farming in Santa Clara County

According to the Santa Clara County Agriculture Commissioner's Annual Crop Report for 2012, the harvested acreage in the County has declined from 327,976 acres in 1962 to 243,899 acres in 2012.¹ **Thus, fifty years ago, we had over 34% acres of County land farmed than we have today.** Despite numerous government initiatives, including the SCVWD's Open Space Credit policies, farming has declined significantly in our County.

There are numerous reasons for the decline in farming in the County: population increases, the unique and unrivalled successes of our high-technology industries, and consequent higher costs for land, labor, housing, health care, fuel, utilities, insurance, etc. The County's population has soared from 642,315 in 1962 to 1,837,504 in 2012, according to the report.

Farming in the County lacks economies of scale. Furthermore, the opportunities for economies of scale are declining. In fact, a business decision to expand farming is fraught with the heightened threat that the larger the crop a farmer produces, the greater the likelihood and magnitude of financial losses. Annually, winery owners, for example, evaluate the decision of buying grapes from other Counties instead of growing them locally; our County's largest wineries almost certainly today purchase more grape from outside the County than they grow or procure from within the County.

While smaller local wineries such as Kirigin Cellars who rely almost exclusively on their own locally-grown wine grapes enjoy certain quality and control benefits, such benefits recede as the relative price of wine grapes from cheaper farming areas becomes increasingly attractive. Without doubt, every increase in the costs of production of a locally farmed product makes the purchase of the same product from an area with lower costs of production more attractive.

Because agriculture is a very competitive business and the opportunities for product differentiation and value-add are limited and not particularly unique to our County, **every increase in costs for agriculture represents an acceleration in the bleeding from and deepening of our existing wounds** because our costs are already much higher and constantly increasing faster than the costs of farming, for example, in the Stockton-Lodi area.

II. The Irreversible Decline of Water Use in the County

Since 1990, the County's population has increased by 300,000, but **the County has reduced its water use by 15% during the same period.**² Despite the irreversible decline in farming cited above and the similarly irreversible decline in water use in the

¹ <http://www.sccgov.org/sites/ag/Crop%20Report/Documents/2012%20Crop%20Report%20Pub.pdf> at 9 of 16.

² Myths vs. Facts, "Restoring the Delta," a publication signed by Beau Goldie, CEO, SCVWD along with other water agencies.

County, the SCVWD staff projects that farming and consequent water use by farmers in the County will remain flat. This projection lacks any reasoning and is conclusively contradicted by historical data. **Thus, the staff's projections of the size of the needed Open Space Credit in future years are overstated.**

III. The Value of the Open Space Credit

It is important for the Board to recognize that the value of the Open Space Credit is enjoyed not just by the County's farmers but also by other County residents. I live in Palo Alto. At the Stanford Dish, and at the Rancho San Antonio County Park, there is clearly insufficient parking on weekends. The County is starved for open spaces – hiking trails, bike trails, playing fields – and the orchards and nurseries as well as many playing fields in Palo Alto, Mountain View, Sunnyvale etc. have been decimated during the past fifty years.

The financial premise for my own expansion of grape growing – I have more than doubled my acreage under active cultivation over the past ten years at Kirigin Cellars – is that I will increasingly successfully sell wine to County residents who will be drawn to my winery because of its open spaces and because County residents are starved for other recreational opportunities.

Based on the information I have received to date, **the economic analysis** prepared by the SCVWD's outside economists **fails to adequately account for the numerous benefits enjoyed by all County residents from the Open Space Credit.**

IV. The Cost, Financial and other Pressures on Farmers Continue to Increase

The cost-pressures on County farmers continue to increase on numerous fronts. For example, our labor costs are relatively high and are increasing faster than labor costs in other farming areas of the state. There is a well-known agricultural labor shortage that shows no signs of abating, despite federal acknowledgement of the problem. The minimum wage in San Jose has gone up to \$10 per hour and a similar proposal is being considered by the County Board of Supervisors. **Our available work force may well choose to work in the City of San Jose which has chosen to place upward pressures on our existing labor costs.**

Similarly, **land and housing costs** in our County are higher than other farming areas in the state, and are increasing faster than in the other areas. We use electricity to run the pumps that bring our groundwater up to the surface for irrigation and **other electricity rates and fuel costs, insurance and health care costs have also gone up in the past and will likely increase in the future.**

Last but not least, the chokehold of regulatory Dos and Don'ts have continued to tighten and our regulatory compliance costs have continued to increase; almost monthly we face increased regulations and compliance costs pertaining to use of intra-farm roads, on-site parking requirements, drainage, grading, herbicides, rodenticides,

storm water and other run off, misapplied landscape and other ordinances, noise restrictions, LEED construction requirements, etc.

However, the SCVWD’s economists – as customarily warranted by their profession – have incorrectly assumed that all such factors will remain constant in assessing the impact of water rate increases for agricultural groundwater production on our farming businesses. *The assumption that all of the ever-increasing financial and other pressures that have caused farming to decline significantly in the County over the past fifty years will come to a stand-still in the future is false.*

V. The Supply – Quantity and Quality -- of Groundwater at Kirigin Cellars is Far more Fragile than M&I Groundwater Supplies, for example, in Palo Alto

It is also important for the Board to understand that there are huge differences in the supply reliability of M&I groundwater and agricultural groundwater. Because I live in Palo Alto and my winery is located in the unincorporated part of the County near Morgan Hill and Gilroy, I have through research and experience acquired first-hand knowledge of the reliability of the groundwater supplies at both locations.

My home in Palo Alto is only a few feet above sea level and the groundwater table is always very high. The City of Palo Alto has not pumped its groundwater supplies other than for emergency purposes since 1962. Prior to 1962, the City pumped as much as 5,000 acre-feet of water per year.³ According to a recent study, “In Palo Alto, [ground]water levels are currently at elevations comparable to the 1910s. In wet winters, wells in the Palo Alto area now, if not controlled, flow at ground surface.”⁴

My Kirigin Cellars property is located at an elevation of 350-380 feet above sea level. It is on the outer edge of the zone that the SCVWD classifies as being subject to groundwater production charges. Even though the SCVWD enhances groundwater supplies in the County through its groundwater recharge efforts (and I very much appreciate such efforts), the SCVWD simply cannot guarantee my supply of groundwater at any of my wells at Kirigin Cellars where I have been lucky enough to find and continue to find water in the appropriate quantity and quality.

It is beyond dispute that the groundwater supply is far greater and more reliable at areas in and around my home in Palo Alto and for the City of Palo Alto’s M&I use than at my Kirigin Cellars property for my vital farming purposes. The risks of finding and maintaining a reliable supply of agricultural groundwater are much greater – at least in general -- for a farmer than groundwater used or available for use for M&I purposes in the County.

³ City of Palo Alto Utilities Department Memorandum to Utilities Advisory Commission, June 4, 2003 at 2.

⁴ Groundwater supply feasibility study, Carollo Engineers, April 2003 at 16.

*The SCVWD, despite its groundwater recharge efforts, cannot guarantee either the quality or the quantity of my well water supply at Kirigin Cellars. **Thus agricultural groundwater is legitimately priced less than M&I groundwater because the former supply is, in general, less reliable, and thus the discounted price is not entirely based on the policy-based subsidy reflected in the Open Space Credit. The entire Open Space Credit is simply not a subsidy; only a portion of it is.*** For Kirigin Cellars' part, I would be happy to pay the SCVWD substantially higher groundwater production charges if the SCVWD could guarantee a continuous supply of the high quality water I currently pump from my existing wells.

VI. Conclusion

None of us takes our water supply for granted – far from it. I am very grateful for my well water. I use my water and the electricity I use to pump that water carefully. I am very grateful for the lower agricultural groundwater production rates subsidized by the SCVWD's Open Space Credit policies. I am grateful for the SCVWD's efforts to recharge our County's groundwater supplies. However, the SCVWD does not and cannot assure us any supply of groundwater for our vital agricultural purposes or otherwise.

For the reasons stated above, the SCVWD Board should continue its Open Space Credit policies and allow for only modest increases in the agricultural groundwater production charge that is tied to increases in farm income, if any.

Thank you.

Sincerely, on behalf of Miranda Designs, LLC, owner of the property known as Kirigin Cellars,

Dhruv Khanna (Mr. Khanna can be contacted as follows: cell phone: (650) 906-3537; and email: dhruvkhanna2002@yahoo.com). All correspondence should be addressed to Mr. Khanna at 742 Alester Avenue, Palo Alto, CA 94303.