

The Arizona Daily Star

STATE CONSOLIDATED PUBLISHING COMPANY

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March 26, 1932

Miss Ida M. Tarbell,
120 East Nineteenth St.,
New York City.

Dear Miss Tarbell:

I am enclosing herewith a statement regarding the All American Canal project, which gives you some information that you can get in no other place. My idea in forwarding it to you is to give you complete information on the deplorable financial conditions that would result from the building of this canal, and to show you also that the sentiment that was created to put the plan across was fostered and voted on by people who will pay nothing of the construction cost. This statement will also show you the deplorable condition of the Imperial Valley Irrigation District as it now exists, upon which this additional debt is to be added.

I think the important features to bear in mind are these:

- (1) That those interests that want the canal have no intentions whatever of repaying the government for its cost.
- (2) The land brought in under this project will never be able to repay the cost.
- (3) That the greatest sentiment for it comes from those interests that will get certain fees and from the temporary boom that will take place while the actual construction is under way.

And may I add also that before any water can be taken from the Colorado River by the All American Canal a diversion dam will have to be built above Yuma. one-half of this diversion dam will rest in Arizona soil. Before this dam can be built, Arizona will have to be made to consent to its construction, and that is a very problematical matter.

I think this project is a classical example of a capital grab, of financing something that is not economically feasible, and which, as far as the government goes, will have to be paid by the taxpayers of the country. The information is absolutely reliable and I assure you you can use it without the slightest fear, and you are welcome to use my name to it if you so desire.

With kind personal regards,

WRM:P
Enc.

Yours very truly,

W. H. Malins

ALL-AMERICAN CANAL PROJECT

On February 11, 1932, the electorate of the Imperial Irrigation district by a vote of 6456 to 1274 approved a contract submitted by the U. S. Department of Interior for the construction of the All-American canal, including a new intake and diversion dam in the Colorado river.

While this vote would appear to indicate that opposition to the project was negligible, there existed a very strong under-current of opposition which is not apparent in the election figures, due to the fact that a large majority of the votes were cast by residents who had little or no property interest in Imperial valley.

There are also a number of other factors which should be considered in connection with this election, which are listed briefly as follows:

1-- During the 20 years the All-American canal has been an issue in Imperial valley, the water users never at any time have been given an opportunity to judge the project on its merits.

The canal first was proposed by members of the Imperial Laguna water company which had obtained certain rights to a tract of land situated on the mesa west of the valley and too high to be served by the present canal system. Failing in their efforts to finance the project with their own resources they turned to the valley for aid and began to promote the idea that Imperial valley should get its system out of Mexico, and build a new high line canal, which incidentally, would also serve their lands.

Throughout the period since this original proposal was made this group of men, headed by Mark Rose, former president of the Imperial Laguna company and now a director of the Imperial Irrigation district, has poured forth a ceaseless propaganda of untruth in support of the project, and vilification of those who dared raise a voice in protest.

During the past ten years this group has been in control of the Imperial Irrigation district board of directors, and has had funds amounting to millions of dollars at its disposal for the promotion of the project. Literally hundreds of thousands of dollars have been spent in various lobbying activities and in perpetuating its control of district affairs. In 1924 and 1925 the Imperial county grand jury filed direct accusations against the board in connection with its expenditures for the entertainment of members of congress, and for other questionable disbursements. Powerful political influences were brought to bear to discredit these accusations, and they were dismissed finally by the courts.

There always has been a strong element among valley landowners which

approved neither the program nor the methods used by the political group in control of the district, but rather than become the target of ruthless attacks through the press and from the platform these men have for the most part remained silent.

During the months preceding the canal election the controlling majority on the district board of directors became especially active. Mark Rose, accompanied by high-salaried employees of the district held meetings almost nightly, describing the benefits to accrue from the canal in half-truths and promises. They challenged anyone to question their statements, and then launched personal attacks on those who had the courage to do so.

Few of the valley residents ever read the contract. This fact was confirmed by questionnaires mailed out by an opposing organization. None of them ever heard it debated on its merits either from the platform or through the press. With two exceptions the newspapers in the valley either supported the canal project or remained silent. The two which openly opposed the contract were blacklisted by the district and their publishers denounced as "tools of the Mexican interests" and "bought by the power trust." The All-American canal was heralded as a great patriotic undertaking, and those who opposed it were held up to public scorn as traitors to Americanism.

In the face of such a situation it was impossible for the voters of Imperial valley to get an accurate picture of the actual merits and demerits of the project.

2-- It was evident for some weeks before the election that the contract would be endorsed by a large majority, and many of those who were not in sympathy with the contract did not even go to the polls. Others cast their ballots in favor of the contract in the hope that an issue which has kept Imperial valley in violent political turmoil for many years would be settled and harmony restored.

3--The publisher of an El Centro newspaper which supported the program remarked two days before the election: "We'll never pay for the project anyway, so what's the difference." This viewpoint prevailed to an amazing extent in the towns of the valley prior to the election.

4--The psychology of "hard times" played an important part in the final result. The idea of promoting public construction work as a means of relieving employment, which has been so popular throughout the country during the past two years, was taken up as a campaign slogan in the election campaign and the "great wave of prosperity that is to come to Imperial valley during the construction period" was painted in glowing colors. Laborers, mechanics and merchants alike were swept away by the promise of an immediate revival of prosperity in Imperial valley.

5--A large majority of the votes were cast by electors who have only a small property interest in the valley, or none at all. Figures published by the Imperial Irrigation district in 1929 disclosed the fact that only 1,812 of the 4,759 farms in the valley were farmed by their owners. Inasmuch as ranch land pays approximately 90 percent of the cost of maintaining the irrigation system, it is clear that the ranch owners who will assume the greater part of the All-American canal cost actually had only a very minor part in making the decision to assume the \$38,500,000 debt. Although

owners of town property pay only ten percent of the district taxes, they cast 4424 of the 7730 votes polled at the election, or over 57 percent.

Information compiled by the Water Rights Protective League, a local organization formed eight months prior to the election by a group of men who felt that both the valley's water rights and its financial security would be jeopardized by acceptance of the proposed contract, disclosed the fact that the land owning class generally was not in favor of the contract.

Questionnaires sent out in September, 1931, brought replies from owners of over 150,000 acres of land with a valuation of \$12,000,000 expressing dissatisfaction with the proposal. A large share of these were non-resident owners, however, and had no voice in the final decision. They must share the cost, however.

In presenting the views of those who voted against the contract it should be understood that there are two distinct elements on the opposition side. One group, and it probably is small in numbers, is opposed to the canal at any cost. The position is taken that Imperial valley always has received its water supply at comparatively low cost and without interruption through Mexico, and that the expenditure of an appreciable sum for a new canal is unnecessary.

It is probable that the greater number of the negative votes, however, were cast by property owners who favor the construction of the canal under favorable terms, but who regarded the proposed contract as both unfair and impossible for fulfillment. The viewpoint of this group, as set forth in the literature of the Water Rights Protective League, and from other sources, is summarized as follows:

1- WATER RIGHTS. According to the estimates of the Reclamation Bureau compiled during its survey of the All-American canal project in 1929-30, there are 1,008,745 acres of irrigable land to be served by the proposed canal. This includes 515,000 acres within the present irrigation district in Imperial valley. The average annual diversion of water for the 425,000 acres actually farmed within the district during the past eight years has been 2,596,530 acre feet, according to records of the district.

While this diversion of water during that period has been in excess of six acre feet to the acre, the actual duty of water in the valley

according to the compilations of various engineers is slightly in excess of four acre feet to the acre.

On this basis the million acres to be irrigated by the canal would require more than 4,000,000 acre feet of water annually.

Under the terms of the Water Division Compact signed by the various claimants to California's share of the water in the Colorado River at a conference held in Los Angeles August 18, 1931, only 3,850,000 acre feet of firm supply are to be allotted to the entire agricultural area of the lower basin, including 104,500 acres in Palo Verde valley, 18,000 acres on the Palo Verde mesa, and 25,000 acres under the Yuma project at Bard.

On the basis of the above figures it will be evident that the amount of firm water allocated to the All-American canal project will not be sufficient, on a basis of four acre feet to the acre, to serve the entire area. If pro-ration of the supply comes necessary, then under the terms of the present contract, the owners in Imperial valley who now hold perfected rights to their water, will have no stronger claim than the owners of a half million acres of new land in Coachella valley and on the adjacent mesa which is to be brought into the district.

Through the initiative of the Water Rights Protective League two non-resident land owners on October 23, 1931, asked for a federal injunction against the execution of the contract on the ground that the Imperial Irrigation District directors had no right to dispose of the established water rights as contemplated in the agreement of last August, and confirmed by the terms of the contract.

The injunction was denied by Judge Paul J. McCormick of the United States District court at San Diego on the ground that the action was premature, and that he had no right to interfere with the proceedings at that time.

Director W. F. Beal of the district board, a minority member who opposed the ratification of the contract, conducted a vigorous campaign against the acceptance of the water agreement. The issue was too involved, however, to be fully understood by the great mass of voters.

2--REPAYMENT OF LOAN. Under the terms of the contract the Imperial Irrigation district becomes the guarantor for the repayment of the entire government loan. The estimate of cost determined by the Reclamation Bureau is \$33,593,763. The Swing-Johnson bill authorizes an expenditure up to \$38,500,000 if required.

The 500,000 acres now outside of the Imperial Irrigation district are to be brought into the project by annexation to the present district. They are to be formed into separate units for assessment purposes, but failure on the part of any of these units to meet their payments when due does not relieve the district of the obligation to make the payments to the government.

It is the contention of those opposing the contract that improved lands in the present district will be required to carry the financial obligation of the new lands for an extended period following the completion of the canal and pending the full development of these outside

areas, and that this requirement will place an unjust and impossible burden on the original district lands.

3--LATERAL SYSTEMS. The contract provides for the construction only of a diversion dam, de-silting works, and main canal, one branch of which is to serve the present irrigation district, and the other branch to serve the mesa and Coachella valley lands. No provision is made for the financing of lateral systems for the new lands. The burden of supplying money and credit for this supplementary construction work will necessarily fall on the Imperial Irrigation district. There will be no income from the outside areas until their distribution systems are completed.

In view of the fact that the Imperial Irrigation district now has \$14,550,000 in bonds outstanding, with some issues quoted as low as 34 percent of par value, there is no assurance that the district will be able to supply the credit necessary for this development.

4--POWER DEVELOPMENT. While the proponents of the project have made the assertion that power to be developed at Pilot Knob and other drops along the system will bring in sufficient revenue to retire the loan, the contract includes no provision for the financing of plants, distribution lines and other works necessary to utilize this power.

The Reclamation Bureau estimates the value of the power, in terms of falling water, at two mills per kilowatt-hour. The annual return on this basis is estimated at \$303,638. In view of the fact that the major power agencies in the Southwest already have contracted for an enormous block of power at Hoover dam at a figure of 1.63 mills, and that the Imperial valley electricity probably would be available at about the same time as the hydro-energy from the Hoover project, some doubt is expressed that a ready market will be found for such power as is developed on the canal. Imperial valley could absorb only a small portion of it at the present time.

5--DE-SILTING WORKS. The Reclamation Bureau cost estimates include \$3,374,903 for the construction of de-silting basins at the diversion dam. Since Hoover dam will become a de-silting basin for the main flow of the stream there is some question as to the desirability of so large an expenditure for this purpose in connection with the Imperial project.

6--COMPETITION FROM NEW LANDS. The Water Rights Protective League issued an exhaustive pamphlet in protest against the proposal to bring in 500,000 acres of new land at a time when farmers all over the country are suffering from the effects of over-production. It is pointed out that these lands will product winter vegetables and fruit in direct competition with those already being supplied in greater volume than the market will absorb at a profit.

7--DRAINAGE PROBLEMS. Although the federal congress has authorized the expenditure of \$38,500,000 for the canal project, the federal land bank has for many years refused to lend money on Imperial valley lands. In a letter addressed to R. Y. Watson, chairman of the Imperial Valley

Federal Farm Loan committee, in January, 1930, President Willard D. Ellis of the Federal Land Bank of Berkeley commented on the drainage problem as follows:

"Another point on which the bank should have competent opinion is in regard to the All-American canal's probable effect on drainage. The area to be included lies above the district. The soils are said to be porous, and for this reason considerable water may be expected to escape to lower levels. This would create a ground water body which would tend to move out under the district, especially in the east side area."

Commenting further on the possible effect of the canal loan on valley securities, Ellis said:

"The bonded indebtedness of the Imperial Irrigation district as of January 1, 1928, was \$15,100,000. The bonded debt per \$100 assessed valuation is \$36.60. The usual per acre assessed valuation was \$100, with a maximum per acre of assessed valuation of \$150. One estimated cost per acre of the All-American canal and related works for lands in Imperial Irrigation district is \$40.50 per acre. What the added debt to land already in cultivation in the Imperial Irrigation district may be because of the construction of the All-American canal, if it is constructed, is not known. Whether the annual operation and maintenance charges may be increased or decreased cannot be determined at this time. It seems doubtful, however, that the construction of the All-American canal will add anything to the net income of a farm that is now producing maximum crops.

"If the All-American canal is constructed a large acreage of new land will, in time, be brought into cultivation. Whether this new land will adversely affect the value and earning power of land already in production time alone will demonstrate. It seems to us that because of the district organization, whereby all land is subject to the lien securing the bonded indebtedness of the district, no one is competent at this time to appraise land in the valley for long-term loans because no one knows what may be added to the land in the way of bonded indebtedness because of the necessity of expending greater sums for drainage and the All-American canal."

8--MEXICAN REVENUES. A source of considerable income to the Imperial Irrigation district has been the Mexican lands situated in that portion of Imperial valley which lies south of the international boundary. In 1925 water sales to farmers on the Mexican side of the line amounted to \$630,259. Since that time the income from that source has decreased somewhat, owing to the effect of low cotton prices on the acreage in cultivation. This year the district budgetted \$150,000 as the estimate revenue from Mexican sources.

Since the Mexican water users maintain their own distribution system, the cost of delivering this water from the main canal has been comparatively small, and the income from this source has contributed to a comparatively low water cost on the American side. While the income from Mexican customers is at a low point now, this is a potential source of

considerable revenue to the district.

Under the terms of the proposed contract, however, the Imperial Irrigation district is prohibited from selling water to Mexico, or to any other customer without the consent of the Secretary of Interior. The limited allocation of water to the enlarged district probably would prevent such sales even if permission was granted.

It is apparent then, that the contract not only will preclude the possibility of further revenue from this source, but it will jeopardize an investment of several million dollars of district money in Mexico.

According to figures quoted in a letter written by District Engineer M. J. Dowd on August 1, 1930, the district spent during the period from 1916 to 1929 the sum of \$1,919,316 on its irrigation system in Mexico. The exact amount of the investment prior to 1916 is not known, but it is estimated conservatively at \$1,000,000. The district voted \$3,500,000 in bonds in 1915 for the purchase of the system from the Southern Pacific company, and the investment in Mexico constituted an important part of the system for which that price was paid.

Figures from the records of the district recently compiled by Otis B. Tout for his book "The First Thirty Years," show that the district's investment in levees and protective works in Mexico amounts to \$3,873,910. These figures total \$6,793,226 for both canals and protective works in Mexico.

That the Imperial Irrigation district will be able to realize any return from its investment in Mexico following the completion of the All-American canal appears doubtful. So far, the sponsors of the canal project have refrained from any reference to this subject. It is quite certain that the campaign of slander which has been directed at both Mexican officials and farmers in Lower California for many years by the All-American canal group will contribute nothing to a settlement favorable to the district.

Owing to possible flash floods from the Gila river and other tributaries below Hoover dam, it will be necessary that Imperial valley maintain some protective works south of the boundary. Mexico will be in a position to dictate the terms under which this is done.

9.--DISTRICT FINANCES. The finances of the Imperial Irrigation district today are in a deplorable condition. In a letter addressed to the board of directors January 19, 1932, the El Centro branches of the Bank of America and the Security First National Bank of Los Angeles announced that they would honor no more pay vouchers or warrants beyond the \$623,742 which they were carrying as an overdraft in the form of registered warrants at that time. A copy of the bankers' letter is appended hereto.

The district continued to issue its checks, however, and workers, merchants and supply houses absorbed \$93,000 of them between January 19 and March 15, when it was announced that an agreement had been reached with the banking institutions through which the latter would extend additional credit to the total amount of \$800,000, including the registered warrants on hand January 19. This additional credit amounts to approximately \$175,000, of which the first \$46,500 is to be used to take up fifty percent of the outstanding pay vouchers and warrants.

In the meantime the district board announced that on March 16, this year, it would begin collecting a water charge of 50 cents an acre foot as a means of raising money for current operating expenses. Farmers protested against this proposal, declaring that they could not pay a water charge in addition to the regular assessments. Up to this time the district's revenue has been collected mainly in the form of a land tax amounting to \$5.00 for each \$100 valuation on all land in the district. This assessment is collected in two semi-annual payments due the last Monday in December and the last Monday in June each year.

The reaction of the water-users toward the extra water assessment is disclosed in the following resolution adopted by the board of directors of the Imperial County Farm Bureau on March 12, 1932:

"WHEREAS, the Imperial County Farm Bureau is of the opinion that there is not sufficient money in the valley to meet the semi-annual assessments soon to be due the Imperial Irrigation District and an additional charge of 50 cents per acre foot for water, and

"WHEREAS, we believe also that the imposition of a 50-cent charge for water will result in the collection of less money than if it is not imposed, now therefore

"BE IT RESOLVED, that the Imperial County Farm Bureau recommends to the Imperial Irrigation district that immediate steps be taken to secure from bondholders either a cancellation or a postponement of interest on the bonded indebtedness, as a first step in the adjustment of present financial difficulties."

The bond payments referred to in this resolution amount to \$403,875 for interest which is due July 1, 1932. There is also due \$300,000 in principal at that time.

Normally the district would collect in excess of \$1,000,000 in water taxes in June. Due to existing conditions, however, a large delinquency is anticipated and it is estimated that the income from this source will be very little more than enough to pay bond obligations, leaving the district no operating funds from this source for the ensuing six months.

The critical condition of district finances generally is attributed to two factors:

- (a) Extravagant and wasteful disbursement of funds over a long period of years in maintaining a political machine to promote the success of the All-American canal project. Over \$200,000 has been disbursed annually for many years through a "revolving fund" for which no public accounting is made.
- (b) No effort has been made by the district toward a program of general retrenchment to offset the diminishing income until the past three months. The financial statements for the past three years have disclosed the fact that the district gradually was going deeper in the red. The board failed to take any important steps to remedy this situation, however, until the collapse of its credit on January 19 this year.

10--LAND VALUES. In the face of such political turmoil and mismanagement of district affairs as have existed for years it is readily understood why there is practically no sale for district land at any price. Confidence on the part of financial institutions has been very generally destroyed. Today the farmers are facing a sharp increase in their water charges with markets at low ebb and practically no credit. With the prospect of an additional burden of \$33,500,000 for the All-American canal, plus a large additional expenditure for the development of new acreage which will bring added crops into competition with those already being produced, the situation is not reassuring.

11--POLITICAL OUTLOOK. That the political group which has spent money so lavishly to perpetuate its own power can much longer hold its control in the face of the critical state of district finances appears doubtful. Since the ratification of the canal contract there has been a very definite reaction against the policies of the group in power, and the levying of an extra water charge appears to be crystallizing the opposition into a demand for a complete change of personnel. Among many of the landowners there is a feeling that financial interests, which really control the situation, would be conferring a favor on the valley if they would force a show-down involving complete change in the management.

The Imperial Valley has no problems which cannot be solved by good engineering and able management. The lands are highly productive. The problems of flood, water shortage and excessive silt will be solved by the erection of Hoover dam, regardless of whether the All-American canal is built or not. All the elements necessary to financial stability are present except sane business management.

The Swing-Johnson bill stipulates that Coachella valley shall become a part of the All-American canal project. Residents of the Coachella area, however, have expressed reluctance to join with a district whose financial affairs are in such chaotic condition, and a strong organization in that valley is demanding a separate contract with the Department of the Interior. There is also a wide-spread opinion in Imperial Valley that separation of the two units would be advantageous to Imperial as well.

That Imperial Valley ever will be able to repay the federal government under the terms of the present contract appears doubtful. Many of the more intelligent landowners say the burden will be impossible to

carry. The non-taxpaying element and small owners who comprised the great bulk of the voters on election day are indifferent. They take the attitude that the government will extend the same leniency in this case in the matter of repayment that has been shown to all other reclamation projects. In the meantime it is felt that there will be a period of "boom times" stimulated by actual construction work which will enable them to "make a stake and get out." This latter sentiment prevailed on election day to an amazing extent, even among some of the large landowners.

That the administration at Washington, and especially the Secretary of Interior, would give approval to a contract so impossible of fulfillment in the face of such conditions as exist in the valley, is the most surprising angle of the entire procedure. Director C. W. Breckman of the Imperial district, and other landowners, urged that the department make an economic survey before submitting the contract, in order to bring out some of the information contained herein. This proposal met with the opposition of the majority of the district board which is sponsoring the project, and was rejected by the Secretary.

It is inconceivable that any private banking concern would make a loan amounting to millions of dollars without making some investigation as to the ability of the creditor to pay. And yet the federal government is proposed to make such a loan to the extent of \$38,500,000 in Imperial Valley.

Dated March 23, 1932.