

# Bill threatens the city's lifeblood

By ANN CONY

Food processing in Watsonville has grown steadily since the days of World War II to become the lifeblood and foundation of the local economy.

The city has earned a national reputation in the industry as the "Frozen Food Center of the West," with an estimated 30 to 40 percent of the country's frozen foods coming from Watsonville.

According to statistics compiled by Crosetti Frozen Foods in December 1978, the local frozen food industry supports a payroll in excess of \$25 million per year.

Long viewed as a stable, recession-resistant base of the local economy, the food processing industry here now faces the biggest crisis in its history.

A congressional bill aimed at improving industrial wastewater treatment to clean up the nation's waterways looms like an executioner, carrying a multimillion-dollar price tag for local industry. The measure is now on President Carter's desk.

If the food processing industry here were to crumble, "The city of Watsonville would go broke," Mayor Bill Johnston says flatly.

Food processors say they cannot afford to comply with the terms of the bill and that some may be forced to cease operations or move out of town.

The food processors employ 5,000 to 7,000 people. (Most are minorities and many do not have other job skills.)

If the food processing industry collapsed here, it would send shock waves rippling through the allied industries: agriculture, the cold storage plants, the companies that supply paper, boxes, transportation, insurance and so on.

The shock waves would affect virtually every segment of the local economy.

"It would make a huge difference downtown," says Ken Miller, chairman of the Central Business Improvement District, who says approximately half the money spent downtown comes from the food processing payrolls.

"It would affect EVERYBODY," the mayor says.

Impact on city sales and property tax revenues could be awesome: "It's

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really scary," says Assistant City Manager John Radin.

The city, because of state and federal mandate, has been planning to build \$22 million worth of improvements to the municipal water treatment plant. Local industry's share of those capital costs would be roughly half.

Until a few weeks ago, everyone expected 75 percent of industry's share of the bill to be funded by a federal "grant," 12½ percent by the state and 12½ percent locally (presumably by municipal bond).

But the provisions of the congressional bill that has reached President Carter's desk effectively eliminate the federal "grants" for Watsonville's wastewater project. Furthermore, state funding is contingent on federal funding, so that, too, would be wiped out.

Although the federal "grants" Watsonville had been expecting were not to be outright gifts, they would have been interest-free loans repayable over 30 years.

Now, local industry may be forced to pay roughly \$10 million with no help whatsoever from the government.

Each plant's share of the \$10 million is based primarily on the amount of water it uses in its operations.

Green Giant Co. alone would have to come up with \$2.1 million. Watsonville Canning would have to scrounge up \$1.6 million. Del Mar Foods and Ametek would also have to come up with more than \$1 million apiece. (Ametek doesn't process food, but uses large quantities of water in its aluminum extrusion operations.)

Fourteen other local companies would also have to make hefty contributions, according to the calculations of Chris Kahr, consulting engineer for the city.

"The plants CANNOT afford to pay that kind of money," Mayor Johnston says emphatically.

Industry representatives are even more adamant on that point.

Dick Shaw of Richard Shaw Frozen Foods explains that the last few years have been hard on local food processors. Aside from waste water worries, which they've been working on for about five years, the industry has had to come to terms with:

—Skyrocketing energy costs. (One of the larger processing and freezing

companies here had a PG&E bill of more than \$68,000, last month.

—Concomitant increases in shipping costs — 300 percent in three years, according to Shaw.

—Rising labor costs.

Shaw and other industry representatives point out that California's labor rates are far above those of food processors in other states, especially in the Southeast, which is an increasingly difficult area to compete with because of its proximity to the East Coast marketplace.

"And our taxes are way out of sight compared to other states," Shaw adds.

"How long can we keep absorbing all these costs? It's simple mathematics," he storms.

This year has been particularly rough, partly because high interest rates have made it difficult for the processors to keep their inventory moving.

The congressional bill that has the local industry at wits' ends is a compromise measure put together in the closing hours of the congressional session that ended earlier this month. Essentially, it's an amendment to the federal Clean Water Act.

The main provision of the bill is to repeal a requirement that industry pay back federal grants already awarded to upgrade water treatment. That would provide tremendous financial relief to a great number of industrial firms nationwide (none in Watsonville) who could forget their "Industrial Cost Recovery" (ICR) payments to the government.

(The federal Office of Management and Budget recommended that Congress eliminate ICR because the Environmental Protection Agency was spending more money administering the program than the government was getting back from industry.)

Sen. Robert T. Stafford (R-Vermont) tacked on a provision that would make it harder for large industrial water users to acquire federal grants in the future. The complicated formula sets grant requirements that Watsonville cannot possibly meet in time to qualify.

(A side effect of the bill, says Ms. Kahr, is to render obsolete a big portion of a local wastewater study that was a prerequisite to government aid for financing improvements to the treatment plant. That study, submitted to the state and the EPA

over a year ago, represented six years of planning and \$1.5 million in consulting fees, including \$350,000 in local funds.)

The disastrous bill was fought by the city and by Congressman Leon Panetta (D-Carmel Valley) to no avail. Now they are pleading with Carter to veto the bill.

A letter to Carter signed by Mayor Johnston, dated Oct. 14, says:

"This initial (capital construction) cost would be in addition to a projected average increase in annual (water) user costs of approximately 340 percent above current charges. Certainly many, if not all, of our industries will refuse to participate in this project because of the unacceptable financial burden. The loss of our local industries and thousands of jobs they provide would destroy the economic basis of our entire community. . . . The implications of the potential withdrawal of these industries from Watsonville are extremely adverse, not only for our city, but also for the agricultural industry in the Pajaro Valley and the entire national frozen food industry."

Earlier this week, thousands of food processing employees signed

petitions asking Carter to veto the bill.

According to a White House spokesman, Carter has until Wednesday to sign the bill into law. (Because Congress has adjourned until after the November election, the president has 10 days to sign it or the bill automatically dies by what's known as a "pocket veto.")

Because the bill is such a boon to industry as a whole, political realists believe Carter will probably sign the bill before the deadline passes.

If, by chance, the bill is vetoed, it will probably be reconsidered when Congress reconvenes after the election and the portions so objectionable to Watsonville may be smoothed over.

However, if Carter signs the bill into law, there are several possible scenarios.

Consulting engineer Chris Kahr hopes Watsonville will be the subject of an EPA study on the effects of the bill. (She says the Northern California division of the EPA has agreed to make that suggestion to headquarters in Washington.) If that happens, the law might be favorably amended when it is reviewed by Congress next March.

If those hopes are dashed, it'll be hard to see the light at the end of the tunnel.

Since the local industries don't have \$10 million sitting in the bank, they'll probably look for alternative financing before they throw in the towel.

Chuck Allen, a liaison man for the association of local food processors, says industry might try to qualify for a California Pollution Control Authority loan guarantee, which would make it easier to secure a private loan.

Even that possibility may not be much of an alternative because bond rates are so high these days.

The number of local firms that might qualify for conventional bank loans is unknown, but none would be excited over that prospect either; with

the prime consistently above 12 percent lately.

Del Mar Foods may be the only company with a viable alternative. Allen says the company may pull out of the municipal water treatment system and convert to a "land application" system utilizing some 450 acres the company owns on Lee Road. Common in the San Joaquin Valley, that system involves using wastewater to irrigate certain crops (regulated by government).

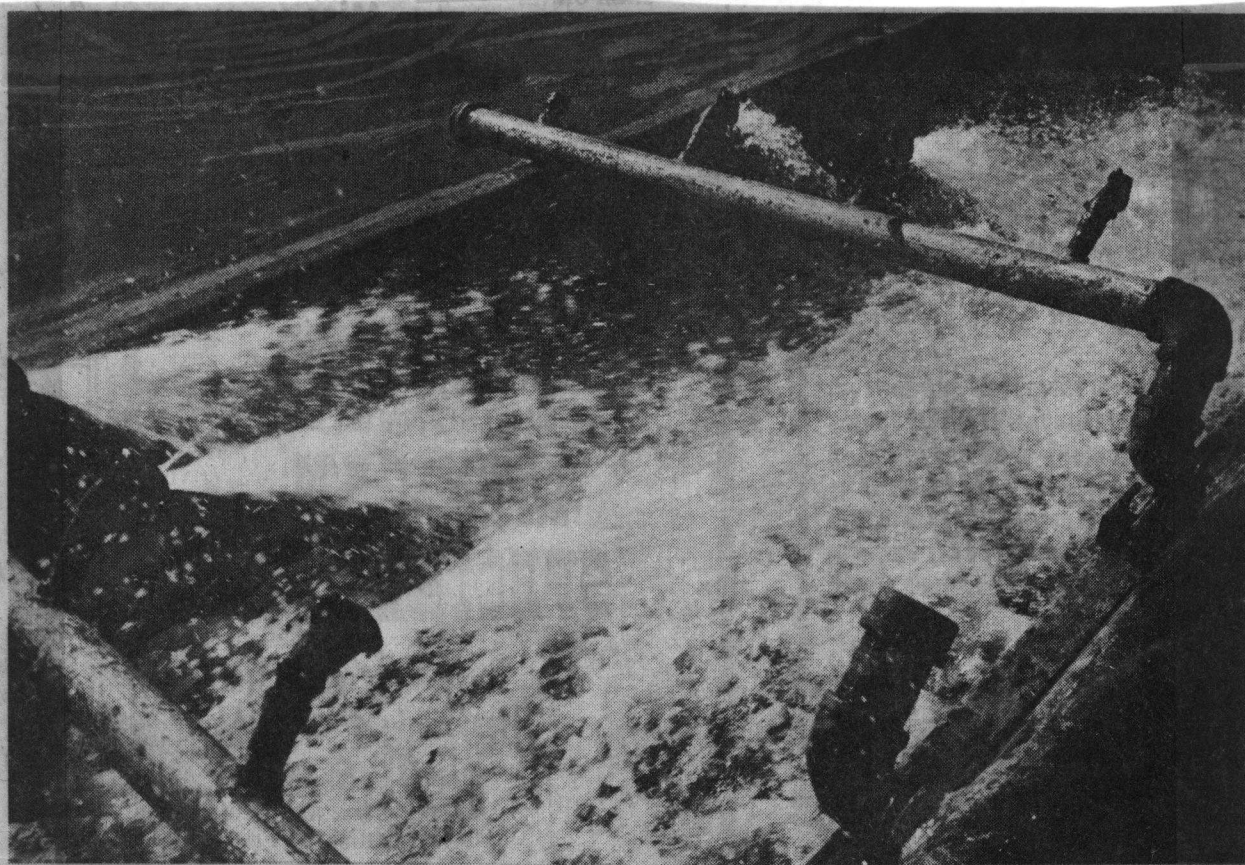
If the other companies can't obtain private financing on affordable terms, there is a strong possibility that Watsonville will engage in an act of passive resistance: refuse to build the improvements and wait to be dragged to court.

The quoted price tag for improvements to the city's existing water treatment plant is in 1979 dollars and it represents compliance with state standards.

Federal standards are more severe and Watsonville has submitted an application to the EPA asking for exemption from those requirements.

"The federal government imposed an arbitrary national standard," Ms. Kahr says.

If the waiver is denied, the city will undoubtedly appeal that ruling. However, if the ruling is upheld, the city will be required by law to construct a secondary treatment plant, which would cost over \$30 million.



Plenty of water is needed to wash spinach at the Richard Shaw plant.