



Steve Ringman/Seattle Times

The Chewuch Canal Co.'s ditch snakes across the landscape for more than 13 miles. The first half of the canal is open, the rest is piped for efficiency.

Wall Street spends millions to buy Washington state water

By EVAN BUSH
Seattle Times

WINTHROP, Wash. — Follow the water and you'll find the money.

That's how it often works in the dusty rural corners of Washington, where a Wall Street-backed firm is staking an ambitious venture on the state's water.

Crown Columbia Water Resources since 2017 has targeted the water rights of farms on tributaries of the mighty Columbia River.

This March, the company sealed a \$340,000 deal for Douglas County water.

The same day, it paid \$1.69 million for a farming partnership's water in Columbia County.

Two months later, the company spent nearly \$1.61 million near Walla Walla.

Piece by piece, the company's lawyer, Mark Peterson, is constructing a portfolio to span the state, building out a plan he hopes will untangle the arcane world of water rights, and thrust it into a 21st-century free market.

Worldwide, as temperatures rise and aquifers dry, investors are increasingly bullish on water, and buying vineyards, farms and ranches for what's underneath or flowing through.

In Washington state, there's little water left unclaimed, according to the state Ecology Department. In the future, scientists expect less snowpack, more variable precipitation and more frequent summer water shortages.

Amid a changing climate, a population boom in Washington and churning development, Peterson's client plans to buy, lease and sell water in a privately operated water market of its own creation. Crown's activities here are unprecedented in scope for a private firm.

The company's aggressive pursuit of water could put it in the vanguard.

Or it could all evaporate. Ongoing negotiations between the U.S. and Canada over the Columbia River could shift flows, potentially draining demand.

Crown has faced regulatory scrutiny from the state Ecology Department. And in emails, some officials privately expressed concern over Wall Street influence on water markets.

Some critics fear business models like Crown's could lead to speculation or consolidation.

"We're potentially allowing a marketplace to develop here that could be pretty destructive in the future," said Paul Jewell, a policy director for the Washington State Association of Counties. "With a growing population and growing need for water, we're going to be beholden to private interests with a profit motive for something that's supposed to be a public resource."

Meanwhile, the company's attempt to buy water from a local family farm partnership in the Methow Valley riled nearby residents, ranchers and farmers, who were concerned that selling the water downstream would permanently end its use in their community and that their lifestyles might dry up.

"If you start selling your water off, you're going to lose agriculture and that is

losing your character, I believe," said Craig Boesel, a Winthrop cattle rancher whose family homesteaded the land in 1889.

Wall Street and water

Peterson hails from Wenatchee, where the town's namesake river meets the Columbia.

After leaving for college in Seattle and law school in Portland, Peterson returned to Wenatchee as a small-town attorney who took on "pretty much anything that walked into the door."

The market led him to water law. He soon began to view Washington's arcane system as inefficient and wasteful.

"Washington state is way behind" among Western states, Peterson said.

For years, he's eyed the 1,200-mile Columbia River, the irrigation superhighway of central Washington, as an opportunity.

The valleys alongside the Columbia grow each year a cornucopia of high-value crops: apples, wine grapes, cherries and hops among them. When irrigated, Washington cropland is among the most valuable in the country, according to the United States Department of Agriculture.

Crown Columbia's parent company, the Spokane-based Crown West Realty, acquired two commercial farms in 2014 and 2016 for more than \$46 million, hiring Peterson to consult on water.

Petrus Partners, a Manhattan-based investment firm, controls Crown West

Farms on the fringe

An arcane system that dates back to the late 1800s governs Washington's water.

In the earliest days, "you make a claim by sticking a piece of paper on a tree or in a public place that says you have the right to withdraw a certain amount of water," said Jonathan Yoder, director of the State of Washington Water Research Center and professor of economics at Washington State University.

Fast-forward more than a century: Water rights, now managed by the Department of Ecology, are measured down to the molecule, Peterson joked.

In Washington, water is a public resource that can't be owned. But the right to use water is exclusive and treated like a property right.

The state keeps a sprawling online database of water permits, claims and certificates, including some that rely on photocopies of century-old paperwork. Water rights left unused for five years can be lost, or relinquished, for others to use.

During drought, the agency can restrict the use of some water rights to aid fish. Older water rights receive priority.

No longer are hammers, nails and paper sufficient to acquire water. Now, a coterie of pricey lawyers, consultants and engineers make a living on the process.

Where there's a constraint, a market could develop, Yoder said.

"New water rights are hard to come by," Yoder said. "How else are you going to get

In Washington, small water banks have operated locally for years, often redistributing large water rights to new uses nearby.

Peterson's vision for Crown Columbia is bigger. It would allow water to be distributed across much of the state, which he thinks would be more economically efficient.

Agriculture has changed in the century since lawmakers began regulating water. Modern irrigation systems are more efficient, can send water farther and pump it uphill.

Farms have consolidated. The largest 4.4% of Washington farms, which are 2,000 acres and larger, operate about 74% of the state's farmland, according to a Seattle Times analysis of 2017 Census of Agriculture statistics. Those farms also own an increasing percentage of the state's irrigated land.

"In the tributaries, the farms are small. It's hard for them to be economically viable at scale," Peterson said.

These farms do have valuable water rights, which could be worth more downstream. Crown wants to buy and lease the rights of farms on the fringe, leave their water in stream and let gravity deliver it to the Columbia, where it could quench the thirst of vineyards, orchards or be used for ecological purposes.

"We'll sell to anybody," Peterson said.

Peterson's concept hinges on rights held in the state's Trust Water Rights Program, which allows users to park inactive water rights with the state to avoid losing them.

The program is designed, in part, so the Ecology Department can use parked rights to keep more water in streams, which helps fish struggling with waters too low or too hot.

For Crown, the program serves as a "vault" to protect its holdings, Peterson said. Crown eventually plans to operate a clearinghouse for water — buying, leasing and selling it. But before new water uses can begin, the parked water must be validated and approved by the Ecology Department.

Over the past two years, Peterson and Crown purchased at least \$4.7 million worth of water rights across several rural counties, according to real estate tax records, placing some in temporary trust for terms of 20 years. Crown has reached agreements to market other entities' water, too, Peterson said.

The company controls about 7,000 acre-feet it could lease or sell, Peterson said. This summer, it made its first loan of 600 acre-feet of water, to a Walla Walla-area farmer, he said. Each acre-foot was priced at \$200 for one year.

But not every transaction has gone so smoothly.

A fight in the Methow

In the Methow Valley, water nurtures the land and the colorful personalities who depend on it.

So when retired lawyer Mary McCrea, of Twisp, last June discovered fine print in the Methow Valley News' legal section that spoke to a local ranching family's plans to sell water away from the valley, it left her gobsmacked.

'WE'RE POTENTIALLY ALLOWING A MARKETPLACE TO DEVELOP HERE THAT COULD BE PRETTY DESTRUCTIVE IN THE FUTURE. WITH A GROWING POPULATION AND GROWING NEED FOR WATER, WE'RE GOING TO BE BEHOLDEN TO PRIVATE INTERESTS WITH A PROFIT MOTIVE FOR SOMETHING THAT'S SUPPOSED TO BE A PUBLIC RESOURCE.'

Paul Jewell | a policy director for the Washington State Association of Counties

Realty. The company's founders have reported at least \$298 million in investment offerings under the Petrus name, according to U.S. Securities and Exchange Commission filings. The company's website says about half of its capital comes from "retired partners of Goldman, Sachs & Co." and that its real estate arm was founded to "capitalize on distressed investment opportunities following the collapse of the housing bubble."

In Petrus and Crown, Peterson saw opportunity: The companies had money, management experience and enough distance to take a 10,000-foot view.

"They invest in anything that will turn a profit," he said.

And Peterson saw fields of profit along the Columbia.

"Most of the ground in eastern Washington is cultivated, but a lot of it is dry farms. If you irrigate the ground, you can get six, seven times the yield for the land," he said. "People are clamoring for water along the main-stem Columbia."

water? You're going to buy it."

Water rights transactions are notoriously hard to track. The state does not keep centralized data on water sales, said Harry Seely, of the consulting firm West-Water Research. Sales are often tied to land or farm assets. Water rights sales are subject to real-estate excise tax, but they aren't always recorded and categorized in the same way. Market research often relies on word of mouth.

Where there is scarcity in Washington, Seely said water rights sales can fetch between \$500 to \$6,500 per yearly acre-foot, which is roughly equivalent to half the volume of an Olympic-size swimming pool. Crown spent \$3,000 per yearly acre-foot for most of its water in Columbia County, according to a seller.

In other Western states like Colorado, where shortages are more acute, prices have stretched higher, fetching as much as \$60,000 at auction for less than an acre-foot of water each year, according to the Northern Colorado Water Conservancy District.