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February 20, 1998

Lester A. Snow
Executive Director
CALFED Bay-Delta Program
1416 Ninth Street, Suite 1155
Sacramento, CA 95814

Dear Mr. Snow:

The Nature Conservancy is pleased to report that we are making significant progress on the following Category III projects approved for funding in December:

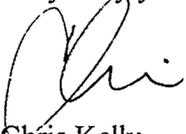
- Cosumnes River Floodplain Acquisitions and Management (\$5,374,300) - H307
- Sacramento River Floodplain Acquisition and Management (\$9,879,800) - G261
- Ecosystem and Natural Process Restoration on the Sacramento River (\$1,292,500) - G278
- Natural Process Restoration on the Sacramento River (\$898,700) - G291
- Mill Creek Riparian Restoration Project (\$69,000) - G292

As you know, we are still awaiting grant agreements, but have had to proceed with these important conservation and restoration projects so as not to lose key opportunities. To date, the Conservancy has acquired the Shaw, Bjelland and Park properties (totaling over 1,426 acres) and plans to close on the Whaley (287 ac.) and Denier (1202 ac.) tracts by the end of April. These properties were described in the approved portion of the Cosumnes River proposal and we expect to receive reimbursement for all or part of the Park, Whaley and Denier acquisition expenses and other budgeted costs. The Conservancy has also moved ahead with plans to acquire property in the Sacramento River project area and currently has 384 acres under option with plans to close on these properties by late March or early April.

In conversations with CALFED staff and at public workshops held last June and July (during the RFP period), we inquired about and were assured that pre-grant agreement expenditures made consistent with proposals approved for funding would be reimbursable. On the basis of those assurances, we have purchased properties and incurred substantial expenses in support of CALFED ecosystem objectives, consistent with the activities described in the aforementioned proposals. We would like to confirm by this letter our understanding that these pre-grant agreement expenditures will be reimbursed.

Thank you for all you and your staff have done to move the program forward. We are anxious to move ahead with these exciting projects. Please call if you have any questions or concerns.

Very truly yours,



Chris Kelly
Acting Director, Conservation Programs

cc: Cindy Darling, CALFED
Kate Hansel, CALFED
Eric Hammerling, NFWF
Leslie Friedman Johnson, TNC