



COUNTY ADMINISTRATOR

ROUTE TO:

2010 JAN 15 PM 3: 28

RETURN INSTRUCTIONS:

BY HAND DELIVERY

January 15, 2010

L. J. Lavagnino
Chairman

Fred Lemere
Vice Chairman

William J. Brennan
Executive Director

Brownstein Hyatt
Farber Schreck
General Counsel

Member Agencies

City of Buellton

Carpinteria Valley
Water District

City of Guadalupe

City of Santa Barbara

City of Santa Maria

Goleta Water District

Montecito Water District

Santa Ynez River Water
Conservation District,
Improvement District #1

Associate Member

La Cumbre Mutual
Water Company

Chair Janet Wolf and Members of the Board of Supervisors:
County of Santa Barbara
105 E. Anapamu Street
Santa Barbara, CA 93101

RE: Answers to Supervisor Farr's questions regarding the reacquisition of
12,214 acre-feet of State Water for CCWA drought buffer purposes

Dear Chair Wolf and Members of the Board of Supervisors:

The Central Coast Water Authority respectfully offers the following responses to
Supervisor Farr's questions relating to the proposed reacquisition of State Water for
drought buffer purposes.

**1. Do all CCWA member agencies support the reacquisition? If not, who
doesn't and why?**

Yes, all CCWA project participants are supportive of the reacquisition. This was
confirmed at a meeting of the CCWA Board on January 14, 2010. Some project
participants, may elect not to participate in this supplement to the CCWA drought
buffer program. CCWA intends to offer this supplemental drought buffer
program on a voluntary opt-in basis. Once all of the agreement details are
finalized, CCWA project participants will take the program to their governing
bodies for a decision about participation.

**2. Are individual member agencies holding public hearings and taking this
issue to their Boards or Councils?**

CCWA member agencies will need to seek approval for participation in the
program from their governing bodies, and those decisions will be made at public
meetings of those elected officials.

3. What is COMB's role?

COMB's sole role in regard to State water is to provide record-keeping functions
for water that enters Lake Cachuma. CCWA has an agreement with the Bureau of
Reclamation for storage of non-project water in the lake and to transmit that non-

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project water through the other Cachuma Project facilities (including the Tecolote Tunnel and the South Coast Conduit). COMB is not a party to that agreement.

4. How will the new drought buffer be shared?

The supplemental drought buffer, like the existing drought buffer will be owned by CCWA. The CCWA Board is expected to adopt a policy that will allow project participants the option to participate in the supplemental drought buffer program. Those who opt in will be responsible for a portion of the costs and will receive a corresponding portion of the benefits.

5. How will the costs be shared? How will CCWA fund the costs?

To finance the payment to DWR for past costs, it is expected that CCWA will issue a 30-year bond. If a program participant wishes to pay its share of those past costs with cash, instead of participating in the bond issue, that option will be available. Future costs will be paid by drought buffer program participants on a pro-rata basis.

6. How will this drought buffer work with the other drought buffers?

The supplemental drought buffer will be treated exactly the same as the existing drought buffer, except that project participants will be asked if they wish to opt in. The new drought buffer will be owned by CCWA and those who opt in will be responsible for a defined portion of the costs and will receive the same portion of the benefits.

7. How is Santa Maria selling State water to Nipomo and how does this reacquisition play a part?

Santa Maria is not selling any portion of its State water. Instead, it is delivering to Nipomo CSD water from its citywide water delivery system, and is doing so by court order. The concept of “State water” ceases to apply after water from the State Project passes into a retailer’s water delivery system and is blended with water from other sources, and neither CCWA nor the State have any authority with respect to that retailer’s blended water. The reacquired water and drought buffer program will not impact the delivery of water to Nipomo.

8. Does the County have a role in approving transfers within or outside the County? Why and why not?

A transfer of State Water from a CCWA project participant to a buyer within the County is governed by the 1991 Water Supply Agreements between CCWA and the project participants. Since the County relinquished its State Water contract rights in 1991, it is not a signatory to this Agreement and thus is not a CCWA member. Thus the County has no role in approving State Water transfers within the County.

A transfer of State Water from a CCWA project participant to a buyer outside the County is governed by both the 1991 WSA's and by the 1963 Water Supply Contract with the State of California. There has never been a transfer of State water outside Santa Barbara County, although the Water Supply Agreements do provide for it. Before a water transfer outside the County can take place, it must first be offered to the other CCWA project participants under the same terms and conditions. Additionally, the Water Supply Contract stipulates that DWR must also agree to the transfer.

9. Provide background on the CCWA CAFR and explain how this reacquisition will impact it.

Each year, CCWA publishes a Comprehensive Annual Financial Report to provide our customers, CCWA's Directors, and the investment community with detailed information about CCWA's financial condition and operations. A new drought buffer would show as both an additional asset (the reacquired water) and liability (the bond costs and the ongoing State O&M costs). CCWA would implement appropriate financial protections to ensure payment of both the bonds and ongoing O&M costs. The 1991 Transfer of Financial Responsibility Agreement between the County and CCWA already has provisions that would protect and insulate the County from any financial liability.

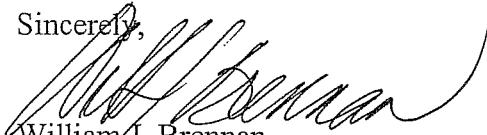
10. Confirm that CCWA voting percentages will not change as a result of this reacquisition.

CCWA's voting percentages are established by the 1991 Joint Powers Agreement that created the Authority. Voting rights are based on the Table A amounts (original Project Allotment excluding drought buffers) of each project participant and will not change with the addition of a supplemental drought buffer.

We trust the foregoing is fully responsive to Supervisor Farr's questions, and would be pleased to answer any other questions the Board of Supervisors may have.

Thank you for your kind attention.

Sincerely,



William J. Brennan
Executive Director

cc Board of Directors, Central Coast Water Authority
Michael Brown
Tom Fayram