

RESOLUTION NO. 2007-13

APPROVING RESERVE POLICY STATEMENT

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MID-PENINSULA WATER DISTRICT

WHEREAS, the Mid-Peninsula Water District ("District") recognizes that maintenance of reserves to provide funds for urgent but unanticipated expenses is a prudent financial measure; and

WHEREAS, the General Manager, the Treasurer and the General Counsel have developed and presented to the Board of Directors a proposed Reserve Policy Statement, attached hereto as Exhibit A, setting the following reserves at levels indicated:

Capital Reserve	\$2,500,000
Emergency Reserve	\$2,000,000
Working Capital Reserve	\$500,000

WHEREAS, the General Manager, Treasurer and General Counsel recommend replacing the Statement of Reserve Fund Policy, dated February 24, 2005, with the more simple and straight forward policy statement attached which describes each reserve fund, establishes specific funding levels for each reserve and procedures for withdrawal of funds.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Mid-Peninsula Water District that the Reserve Policy Statement, attached hereto as Exhibit A, is hereby approved and replaces any prior policies on this subject.

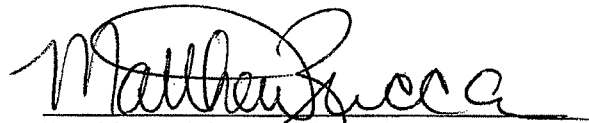
AND BE IT FURTHER RESOLVED that Resolution 2007-6 on this same subject is further repealed.

PASSED AND ADOPTED this 13th day of December, 2007, by the following vote:

AYES: Directors Altscher, Feldman, Linvill, Vella and President Zucca

NOES: None

ABSENT: None


President of the Board of Directors
Mid-Peninsula Water District

ATTEST:

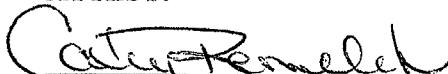

Secretary of the Board

EXHIBIT A

**MID-PENINSULA WATER DISTRICT
RESERVE POLICY STATEMENT
APPROVED: 12/13/07**

The Mid-Peninsula Water District takes pride in the fact that it has constructed, improved and maintained an excellent water distribution, storage and transmission system on a "pay as you go" basis. This approach is the most sound, cost effective and efficient method to finance any capital program.

The Board of Directors desires to continue the "pay as you go" policy, recognizing that the District faces two financial challenges in the immediate future. The first challenge is to complete some major capital projects improving storage at and transmission to and from the Exbourne Tank site. The second challenge involves establishing the District's reserves at reasonable and appropriate levels.

Reserve Levels

To accomplish these goals, the Board of Directors has determined to implement this Reserve Policy. The District will build up its reserves over the next five years to establish the following reserves at the levels indicated:

Capital Reserve	\$2,500,000
Emergency Reserve	\$2,000,000
Working Capital Reserve	\$500,000

Once the Capital and Emergency Reserves reach the designated levels, it is the intent of the Board to maintain them at these levels. This approach requires adjusting rates and fees on a regular basis in an amount that accommodates continuation of the District's capital program without reducing the Capital or Emergency Reserves below the designated levels.

The Working Capital Reserve will be a line item included in the annual operating budget of the District.

Procedure for Using Reserve Funds

Capital Reserve

The purpose of the Capital Reserve is to provide funding for the District's capital needs and is an integral part of the District's ten-year Capital Improvement Program. Prior Board approval is required to withdraw funds from the Capital Reserve.

Emergency Reserve

The purpose of the Emergency Reserve is to provide funding for unplanned capital replacement. In the event funds are required to be withdrawn from the Emergency Reserve, the General Manager will notify the President, or, if the President is not available, the Vice President. In the event both the President and Vice President cannot be contacted by the General Manager, the General Manager will seek to notify another Board member before withdrawing and using the necessary funds. The General Manager will then seek ratification of the expenditure at the next regularly scheduled Board Meeting or Special Board Meeting. Expenditures to be funded by the Emergency Reserve include, but are not limited to, unexpected and unplanned replacement of a broken tank or repairs to water lines.

Working Capital Reserve

The purpose of the Working Capital Reserve is to provide funding for the cash flow requirements of District operations. In the event funds are required to be withdrawn from the Working Capital Reserve, the General Manager will notify the President, or, if the President is not available, the Vice President. In the event both the President and the Vice President cannot be contacted by the General Manager, the General Manager will seek to notify another Board member prior to withdrawing and using the necessary funds. The General Manager will then seek ratification of the expenditure at the next regularly scheduled Board Meeting or Special Board Meeting. The Working Capital Reserve is intended to cover expenditures to address

unanticipated and generally temporary gaps in the operating budget created by such circumstances as, but not limited to, cash flow requirements or short-term income loss or revenue shortage.