

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
ORDER NO. 2018-0515**

AN ORDER AMENDING BYLAWS

THE STATE OF TEXAS §

COUNTIES OF TARRANT AND DENTON §

WHEREAS, Trophy Club Municipal Utility District No. 1 (the "*District*") is a duly created and existing municipal utility district created and operating under Chapters 49 and 54 of the Texas Water Code, as amended;

WHEREAS, Section 49.057(g) of the Texas Water Code provides that the Board of Directors may adopt bylaws to govern the affairs of the District to perform its purposes; and

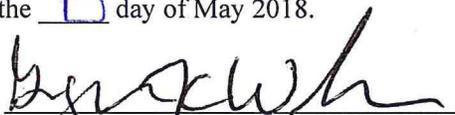
WHEREAS, pursuant to the foregoing authority, the Board of Directors previously adopted Bylaws to govern the affairs of the District, and the Board of Directors now desires to amend such Bylaws; and

WHEREAS, the Board of Directors specifically desires to: (i) revise Section 3.02 of the Bylaws to authorize the election of directors other than during the month of June each year; and (ii) revise Section 5.01(A) of the Bylaws in order to change the regular monthly meeting day of the Board of Directors.

NOW THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1 THAT:

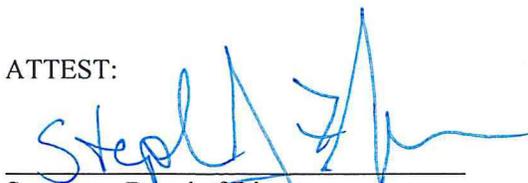
1. The facts and recitations found in the preamble of this Order are hereby found and declared to be true and correct, and are incorporated by reference herein and expressly made a part hereof, as if copied verbatim.
2. The Board of Directors of the District hereby approves the amended Bylaws in the form attached as **Exhibit "A"** hereto.
3. The amended Bylaws attached hereto shall become effective immediately upon adoption of this Order.

ADOPTED, PASSED AND APPROVED this the 15 day of May 2018.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

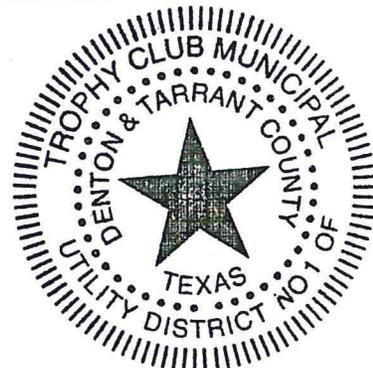


Exhibit "A"
Revised Bylaws

BYLAWS
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Definitions

District. The term “District” shall mean Trophy Club Municipal Utility District No. 1.

Board. The term “Board” shall mean and refer to the District’s governing body.

Director. The term “Director” shall mean a person elected or appointed to serve on the District’s Board of Directors.

District Representatives. The term “District Representatives” shall mean District Directors, officers, employees, and persons, who are engaged in handling investments for the District.

Employee. The term “employee” shall mean any person employed by the District, but it does not include independent contractors or professionals hired by the District as outside consultants.

Substantial Interest. The phrase “substantial interest” shall have the meaning set forth in Chapter 171 of the Texas Local Government Code.

TWC. The term “TWC” shall mean the Texas Water Code.

ARTICLE I

ORGANIZATION, POWERS AND OFFICE

Section 1.01. Organization. Trophy Club Municipal Utility District No. 1 (“the District”) is a political subdivision of the State of Texas created and operating pursuant to Chapters 49 and 54 of the Texas Water Code and Section 59, Article XVI of the Texas Constitution.

Section 1.02. Powers. The District has all of the rights, powers, privileges, authority, functions and duties necessary and convenient to accomplish the purposes established for a municipal utility district as provided by Chapters 49 and 54 of the Texas Water Code.

Section 1.03. Office. The chief administrative office the District shall be located within the boundaries of Trophy Club Municipal Utility District No. 1.

ARTICLE II

BOARD OF DIRECTORS

Section 2.01. General Powers and Number. The District shall be governed by its Board. The business and affairs of the District shall be conducted under the authority and direction of the Board. The number of Directors on the Board shall be five (5). In the event of a vacancy in the office of director, the Board shall appoint a qualified person to the office as required by Texas Water Code 49.105.

Section 2.02. Qualifications of Directors. Each Director, whether elected or appointed, shall qualify by the execution of a bond to be paid by the District, and execution of the Constitutional Oath of Office and Statement of Officer. A person shall not serve as a Director if he or she is not qualified to do so under the provisions of the TWC. Within sixty (60) days after the Board determines that any Director is not qualified to serve on the Board, it shall replace that Director with a person who is qualified. Any Director not qualified to serve on the Board, who willfully occupies an office and exercises the duties and powers of that office, may be subject to penalties under the TWC, as amended, including possible conviction of a misdemeanor and imposition of a fine.

Section 2.03. Tenure. Except as provided by the TWC, each Director shall serve for a period of four (4) years and until his or her successor is elected and qualified. Any Director appointed to the Board shall serve for the remainder of the term of office to which that Director is appointed.

Section 2.04. Policy Role of Directors. The Board will establish policies for the governance and conduct of the District and its operations with the advice, information and analysis provided by the staff, District consultants and public. Except as provided by District Order, Directors therefore shall not interfere with the administrative functions of the District or the professional duties of the District staff; nor shall they impair the ability of staff to implement Board policy decisions and directives. Except as otherwise approved by the Board, individual Directors shall take all requests of staff to the General Manager and shall not contact employees directly. Only the Board, acting as a body, may issue directions to the General Manager.

Section 2.05. Director Advocacy. Directors shall represent the official policies or positions of the Board to the best of their ability when designated as delegates for this purpose.

Section 2.06. Representation of Private Interests. In keeping with their role as stewards of the public interest, Directors shall not appear on behalf of private interests of third parties before the District’s Board of Directors or any other District board, commission, or committee.

Section 2.07. Influencing Boards, Commissions, and Committees. Because of the value of the independent advice of boards, commissions, committees and advisory groups to the public decision making process, Directors shall refrain from using their position to influence the deliberations or outcomes of any board, commission, committee, or advisory group proceedings.

ARTICLE III

OFFICERS OF THE BOARD

Section 3.01. Officers. The officers of the District shall be a President, a Vice President, a Secretary/Treasurer, and other officers as may be elected in accordance with the provisions of this Article. The Board may elect or appoint other officers as it may deem desirable and those officers shall have the authority to perform the duties prescribed from time-to-time by the Board.

Section 3.02. Election and Term of Office. The officers of the District shall be elected annually by the Board on or prior to the last day of June each year, or as otherwise determined by a majority of the Board of Directors due to vacancies, resignations and other circumstances. New offices may be created and filled at any meeting of the Board. Each officer shall hold office until his successor shall have been duly elected.

Section 3.03. Removal. Any Director elected or appointed as an officer of the District by the Board may be removed from that office by the Board whenever the best interests of the District would be served thereby. That removal shall not constitute a removal from the Board.

Section 3.04. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or otherwise must be filled by the Board for the unexpired portion of the term in accordance with Section 49.105 of the Texas Water Code regarding the filling of vacancies.

Section 3.05. President. The President is the chief executive officer and shall be a member of the Board with all the rights and privileges thereof, including the right to introduce motions before the Board and to vote on all matters. The President shall preside at all meetings of the Board. The President shall sign any deeds, mortgages, bonds, contracts, or other instruments which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board to the General Manager; and in general, the President shall perform all duties as may be prescribed by the Board from time-to-time.

Section 3.06. Vice President. The Vice President shall be a member of the Board and shall act as President in the case of the absence or inability of the President to perform the duties of the President. A Vice President shall perform other duties as from time-to-time may be assigned by the Board.

Section 3.07. Secretary/Treasurer. In the role as Secretary, the Secretary/Treasurer is responsible for seeing that all records and books of the District are properly kept and may attest the President's signature on documents. The Board may appoint another director, the General Manager, or any employee as Assistant or Deputy Secretary to assist the Secretary, and any such person shall be entitled to certify as to the authenticity of any record of the district, including but not limited to all proceedings relating to bonds, contracts, or indebtedness of the district. As Secretary, the Secretary/Treasurer shall perform other duties as from time-to-time may be assigned by the Board.

In the role as Treasurer, the Secretary/Treasurer is responsible for monitoring all District funds and securities; reviewing the receipts of all money due and payable to the District; reviewing the deposit of all moneys in the name of the District in banks as shall be selected by the Board; and reviewing the disbursements of the District. As Treasurer, the Secretary/Treasurer shall perform other duties as from time-to-time may be assigned by the Board.

ARTICLE IV

ADMINISTRATIVE SERVICES

Section 4.01 Administrative Departments. The General Manager shall establish administrative departments. The head of each department shall be appointed by the General Manager and shall be subject to the direction and supervision of the General Manager.

Section 4.02 General Manager – Appointment and Qualifications

A. As permitted under Texas Water Code Section 49.056, the Board of Directors shall appoint a General Manager, who shall be the chief administrative officer of the Municipal Utility District.

B. The method of selection shall be left to the discretion of the Board of Directors so long as the method insures orderly, non-partisan action toward securing a competent and qualified person to fill the position. The General Manager shall be chosen on the basis of administrative training, experience, ability, character and other such professional qualifications as determined appropriate by the Board of Directors.

Section 4.03 Compensation. The General Manager shall receive compensation as shall be fixed by the Board of Directors.

Section 4.04 Term and Removal. The General Manager shall not be appointed or retained for a definite term, but may be suspended or removed at the discretion of the Board of Directors in accordance with applicable terms of the District's personnel policies or contract with the General Manager. The action of the Board in suspending or removing the General Manager shall be final. It is the intention of this section to vest all authority and fix all responsibilities of such suspension or removal in the Board of Directors.

Section 4.05 Powers and Duties. The General Manager shall be the chief administrative officer and head of the administrative branch of the District. The General Manager shall be responsible to the Board of Directors for the proper administration of all the affairs of the District and to that end shall, except as otherwise limited by order or contract approved by the Board, have the power and be required to:

A. Oversee the effective enforcement of all applicable laws and resolutions, implement the directives and policies established by Board of Directors and oversee the administration of contracts and franchises to ensure compliance with the terms approved by Board of Directors;

B. Appoint, suspend and/or remove all or any one of the heads of departments and all subordinate officers and employees of the District in accordance with applicable laws and policies. The General Manager may authorize any administrative officer subject to the Manager's direction and supervision to exercise these powers with respect to subordinates in that officer's department, office or agency. Contract General Managers shall obtain preapproval from the Board prior to taking action under this paragraph;

C. Direct and supervise the administration of all departments;

D. Attend all meetings of the Board, except when excused by the Board of Directors. The General Manager shall have the right to take part in discussion but shall not vote;

E. Prepare and submit the annual budget and capital program to the Board of Directors, and implement the final budget approved by the Board of Directors to achieve the goals of the District;

F. On an annual basis, submit to the Board of Directors and make available to the public a complete report on the finances and administrative activities of the District's prior fiscal year;

G. Keep the Board of Directors fully advised as to the financial condition and future needs of the District;

H. Be responsible for all funds and securities of the District; review the receipts of all money due and payable to the District from any source; assure the deposit of all moneys in the name of the District in banks as selected by the Board; and, review the disbursements of the District;

I. Ensure that all records and books of the District are properly kept and that all notices are duly given in accordance with the provisions of these rules or as required by law;

J. Certify as to the authenticity of any record of the District, including but not limited to all proceedings relating to bonds, contracts, or indebtedness of the District;

K. Make recommendations to the Board of Directors concerning affairs of the District and facilitate the work of the Board of Directors in developing policy;

L. Provide staff support services for the Directors of the Board;

M. Assist the Board of Directors in developing goals and strategies for the next fiscal period;

N. Assist the Board of Directors to develop long term goals for the District and develop strategies to implement those goals;

O. Encourage and provide staff support for regional and intergovernmental cooperation;

P. Promote partnerships among Board of Directors, staff, and citizens in developing public policy and building a sense of community;

Q. Perform such other duties as may be prescribed by Board of Directors, by resolution or other law; and,

R. Recommend to the Board of Directors rules and regulations to be adopted by resolution to protect the safety and security of the municipal records.

Section 4.06 Acting General Manager

A. The General Manager, within thirty (30) days after taking office, shall designate, by letter filed with the District Secretary, a qualified administrative officer of the District to perform the duties of the General Manager in his absence or disability. Such designation shall be subject to approval of the Board of Directors. Upon resignation or termination of the General Manager, the Acting General Manager shall perform the duties of the General Manager until a new General Manager or Acting General Manager is appointed by the Board of Directors.

B. Should the need for an Acting General Manager occur prior to the General Manager submitting a designee or prior to the Board of Directors' approval of the General Manager's designee, the Board of Directors shall appoint an Acting General Manager.

C. The General Manager may select a different Acting General Manager, at any time, by repeating the letter of designation and obtaining the Board of Directors' approval for designation of a new Acting General Manager.

Section 4.07 District Secretary. The General Manager shall appoint a District Secretary who shall act as the secretary to the Board. The District Secretary shall be entitled to a seat at the Board table at all official meetings.

Section 4.08 Duties of the District Secretary. The District Secretary shall:

- A. Record the minutes of all official meetings of the Board; provided, however, only the captions of duly enacted resolutions shall be recorded in the minutes;
- B. Hold and maintain the District Seal and affix to all instruments requiring such seal;
- C. Be the custodian of all municipal records of the District; and
- D. Perform such other duties as may be required by the Board of Directors, the General Manager, or the laws of the State of Texas.

Section 4.09 General Legal Counsel. The Board of Directors shall retain an attorney licensed and in good standing to practice in the State of Texas as the General Legal Counsel. General Legal Counsel shall serve at the discretion of the Board of Directors and shall receive compensation as approved by the Board of Directors. The authority to set compensation may be delegated at the discretion of Board of Directors.

Section 4.10 District Committees

- A. Members of committees appointed by the Board shall serve without compensation, provided, however, that they shall be entitled to reimbursement of any reasonable and necessary expenses incurred in the performance of their official duties, when approved by Board of Directors or their designee.
- B. All committees shall maintain minutes of their meetings which shall be public records and which indicate, at a minimum, the member's present, subject of matters considered and the result of any vote taken. The minutes shall also indicate how each member voted on each matter.

ARTICLE V

MEETINGS AND AGENDA

Section 5.01. Meetings. The Board shall establish a regular meeting time and place or places. The Board shall have Regular Board Meetings monthly except upon the occasion when it is determined that no meeting is necessary in a particular month. In any event, the Board shall meet no less than four (4) times each year.

A. Regular Board Meetings are normally held on the third Monday of every month at 6:30 P.M. in the Svore Municipal Building Boardroom located at 100 Municipal Drive, Trophy Club, Texas, 76262. The date, location and time may be changed by vote of the Board of Directors. Meeting locations must be approved by resolution of the District and the Texas Commission on Environmental Quality (TCEQ) must be notified of any permanent change in location.

B. Emergency Meetings may be called when authorized by Section 551.045 of the Texas Government Code. Emergency Meetings are to be called only in situations where an emergency or an urgent public necessity exists and immediate action is required by the Board because of: (1) an imminent threat to public health and safety; or (2) a reasonably unforeseeable situation. The emergency or urgent public necessity shall be clearly identified. The meeting may be called by the President of the Board, the General Manager, or by a majority of the members of the Board, with two (2) hours' notice.

C. Special Board Meetings may be called by the President of the Board or the General Manager at any time with seventy-two (72) hours' notice for the purpose of conducting District

business as may be required between Regular monthly meetings.

D. Joint Meetings with other governmental entities are considered Special meetings but require additional coordination with another governmental entity.

E. Public Hearings may be called with notice as required by State Law. A public hearing is held to allow citizens to learn about, and to comment on, a specific matter under consideration by the District. Normally, no action will be taken during a public hearing, but public hearings may be held during regular or special meetings and action may be taken following the public hearing.

F. Notice of Quorum may be posted when a quorum of the Board is expected to attend an event not called by the District. A quorum notice is not required for social gatherings in which no District business is discussed.

G. Work Sessions may be called prior to a regular meeting to explore one or more matters in detail.

Section 5.02. Quorum. A majority of the Board shall constitute a quorum for the transaction of business at any meeting of the Board. The act of three (3) Directors at a meeting for which a quorum is present shall be the act of the Board.

Section 5.03. Conduct of Meetings. The President shall preside at Board meetings. In the absence of the President, the Vice President shall preside. In the absence of the President and Vice President, the Secretary/Treasurer shall preside. The Board may provide a portion of each meeting for public comments in accordance with the policies established for receipt of public comment. Directors will listen courteously and attentively to all public discussions before the body. They shall refrain from interrupting other speakers, making personal comments not germane to the business of the body, or otherwise interfering with the orderly conduct of meetings. The Board shall generally use Roberts Rules of Order Newly Revised as guidelines for meeting procedures and votes with the exception that discussion may occur prior to a motion being made.

Section 5.04 Agenda Procedure

A. Regular Board Meetings: Any item requested by two (2) Directors, or the President, or the General Manager shall be placed on the agenda by the District Secretary. If a Director would like to place an item on an agenda, the Director must get one additional Director to agree to the item. Each of these Directors should then submit the item and available supporting documents in writing to the General Manager and District Secretary not less than four (4) business days prior to the agenda posting date. Any items received from two Directors with less than four (4) business days' notice prior to posting (72 hours in advance of meeting) will be placed on the next regularly scheduled meeting agenda.

B. At each regular Board meeting, an agenda item shall be included to allow Directors to request items to be placed on future agendas. Director requested agenda items will not be denied, but the future agenda to which it is posted shall be at the discretion of the Board President.

C. Emergency Meetings: Emergency meetings can only be called in accordance with the Open Meetings Act and the agenda must be set and approved by General Legal Counsel. No Director requests for additional agenda items shall be permitted for an emergency meeting.

D. Special Meetings: Special meetings are set for specific purposes only, and agendas shall be drafted by the General Manager and approved by the Board President.

E. Joint Meetings: Joint meeting agendas shall be coordinated and drafted by the General Manager.

F. Public Hearing and Notice of Quorum: A Public Hearing Notice or Notice of Quorum

shall be drafted and approved by the General Manager.

Section 5.05. Posting Agendas and Notice to Directors. The General Manager shall confer with General Legal Counsel prior to each meeting to insure the agenda meets legal requirements. After approval of the agenda by the President and General Manager, the District Secretary shall post the agenda as required by the Texas Open Meetings Act. Notice to the Directors of Regular and Special meetings of the Board shall be given at least seventy-two (72) hours prior to the meeting. A copy of the posted agenda will be placed on the District webpage, and will be available for the public at the meeting.

ARTICLE VI

FEES AND TRAVEL EXPENSE POLICY

Section 6.01. Purpose. The purpose of this Expense Policy is to set forth the policies of Trophy Club Municipal Utility District No. 1 concerning fees and travel expenses for members of the Board of Directors of the District.

Section 6.02. Fees of Office for Directors. Directors shall not receive fees of office for performing the duties of a Director. "Performing the duties of a Director" means performance of the management or business of the District, including participation in Board and committee meetings and other activities involving the deliberation of District business, and in pertinent educational programs.

Section 6.03. Attendance at Meetings and Conduct of Other District Business. Board members may attend conferences and meetings of the Association of Water Board Directors, at the District's expense, whether within or outside the Town of Trophy Club. Attendance at other conferences, hearings, or other meetings outside of Trophy Club by the members of the Board of Directors must be approved by the Board of Directors; attendance at local meetings or conduct of other local District business will be at each Director's discretion. Directors attending any meeting or conducting any District business shall report to the Board concerning the meeting or activity.

Section 6.04. Expenses Outside of Trophy Club. The District will pay a reasonable room rate for a Director's hotel room, if District business approved by the Board requires overnight travel, reasonable tips incurred in making the trip, round-trip mileage at the current IRS mileage rate and parking, if any, for travel by car or round-trip airfare at current commercial rates for standard (not first class) air fare and reasonable rental car or taxi charges. Mileage will be computed by the most direct route. The District will pay for meals actually eaten and paid for by the Director on an approved trip; provided, however, reimbursement for meals will be limited to \$75.00 per day per person. Appropriate documentation listing the person in attendance and a description of the business discussed at the meeting or activity is required. All reimbursement requires receipts of purchase. No reimbursement shall be made for the purchase of entertainment or the purchase of alcoholic beverages. No reimbursement shall be made for expenses of a spouse of a Director.

Section 6.05. Expenses for Local Meetings and Activities. The District will pay for meals directly related to the meeting or activity. Reimbursement for meals will be limited to \$75.00 per day per person. Appropriate documentation listing the person in attendance and a description of the business discussed at the meeting or activity is required. No reimbursement shall be made for the purchase of alcoholic beverages. No reimbursement shall be made for the expenses of a spouse of a Director.

Section 6.06. Reimbursement. To receive reimbursement for expenses, a Director must submit an itemized expense report including receipts, to the District Finance Department before reimbursement is approved by the General Manager. Items on the expense report shall include lodging, meals, tips, mileage, parking and transportation. Directors sharing expense items may split reported expenses in any manner they deem equitable, but the Board will pay no more than 100% of the actual total cost of reimbursable items.

Section 6.07. Extraordinary Expenses. Any extraordinary expenses for a Director attending an approved activity of the District must be approved by the Board prior to incurring the expense.

ARTICLE VII

PROFESSIONAL SERVICES POLICY

Section 7.01. Purpose. This policy has been adopted to provide for the selection, monitoring, review, and evaluation of the District's professional services contracts. Consultants retained by the District to provide professional services include, but are not limited to, legal, engineering, financial advisor, management, bookkeeping, auditing, and tax collecting.

Section 7.02. Selection of Consultants. Selection of consultants shall be based upon their qualifications and experience. Whenever the Board of Directors of the District decides to terminate the services of one or more of its Consultants, the Board, working through staff, shall solicit one or more proposals as required by the Professional Services Procurement Act, Section 2254.001 *et seq.*, Government Code. Selection of consultants is to be conducted by the Board in an open meeting.

Section 7.03. Monitoring of Consultants. The performance of the Consultants providing professional services to the District shall be regularly monitored and reviewed by the General Manager and Board. For those Consultants with annual contracts, the Board of Directors and General Manager of the District will review the performance of the Consultants for the prior year at the time the contract is renewed. The Board of Directors shall review the performance of its other Consultants, upon the request of one or more Directors.

ARTICLE VIII

MANAGEMENT POLICY

Section 8.01. Purpose. The Board desires to adopt a policy to ensure better use of management information, including the use of budgets in planning and controlling costs, the establishment of a functioning audit committee, and the use of uniform reporting requirements.

Section 8.02. Accounting Records. District accounting records shall be prepared on a timely basis and maintained in an orderly manner; to comply with generally accepted accounting principles and the requirements of the Texas Commission on Environmental Quality. Accounting records shall be available for public inspection during regular business hours at the District's office.

Section 8.03. Audit Requirements.

A. The District's fiscal accounts and records shall be audited annually according to state law governing the audits of districts, at the expense of the District, by a certified public accountant familiar with the Texas Commission on Environmental Quality's rules, regulations, standards, and guidelines applicable to district audits. The District hereby directs its auditor to adopt uniform auditing reporting requirements that use "Audits of State and Local Governmental Units" as a guide on audit working papers and that uses "Governmental Accounting and Financial Reporting Standards" for final audit reports.

B. The audit shall be completed and filed within the time limits established by the TWC. A copy of the audit shall be filed with the Texas Commission on Environmental Quality together with an annual filing affidavit in the form prescribed by TWC. In the event the Board refuses to approve the annual audited report, the District shall file a statement with the audit to explain the Board's reasons for disapproving the audit.

Section 8.04. Audit Committee. The Board shall establish an audit committee comprised of not less than two Directors and other persons as the Board may deem appropriate. The persons selected should not be directly responsible for work subject to the audit. The audit committee shall conduct, at a minimum, an annual review of the District's financial status. The committee shall monitor variances from the District's budget and shall review the District's audit report and shall make recommendations to the Board. The final audit must be presented to the entire Board for approval prior to submittal to regulatory agencies.

Section 8.05. Budget. The District shall annually adopt a budget according to Title 30 of the Texas Administrative Code, Section 293.97 for use in planning and controlling District costs. The budget shall take into consideration all District revenues, including, but not limited to, utility fees, taxes and surcharges, if any, and all projected District obligations and expenditures. The budget may be amended at any time but the Board shall approve the amendment in advance. A comparison of the actual operating results to the adopted budget, as amended, shall be presented in the annual report. The budgetary comparison statement shall be included either within the audited financial statements or within a supplementary section.

ARTICLE IX

CODE OF ETHICS

Section 9.01. Purpose. This Code of Ethics has been adopted by the District to: (a) comply with TWC Section 49.199, as amended; (b) encourage high ethical standards in official conduct by District Representatives; and (c) establish guidelines for ethical standards of conduct. Except as otherwise provided, this Code of Ethics shall apply to all District Representatives.

Section 9.02. Policy. It is the policy of the District that District Representatives shall conduct themselves in a manner consistent with sound business and ethical practices; that the public interest shall always be considered in conducting District business; that the appearance of impropriety shall be avoided to ensure and maintain public confidence in the District; and that the Board shall control and manage the affairs of the District fairly, impartially, and without discrimination, and according to the District's purpose.

Section 9.03 Qualification of Directors.

- A.** A person shall not serve as a Director if he is disqualified by law from doing so under the general laws of the State of Texas. Section 49.052, Texas Water Code disqualifies certain persons from serving as Directors of the District.
- B.** TWC Section 49.105 requires that a vacant position on the Board of Directors must be filled within 60 days. Therefore, within sixty (60) days after the Board determines that any Director is disqualified from serving on the Board, it shall replace that Director with a person who is qualified.
- C.** Any Director who is disqualified from serving as a member of the Board under Section 49.052(a) of the Texas Water Code and who willfully occupies an office and exercises the duties and powers of that office may be subject to penalties under Section 49.052(c), Texas Water Code, including possible conviction of a misdemeanor and imposition of a fine.

Section 9.04 Disqualification of Directors. Disqualification and removal of Directors shall be accomplished in accordance with Section 49.052, of the Texas Water Code.

Section 9.05. Conflicts of Interest. The District adopts Chapter 171, Local Government Code, as its Conflict of Interest Policy, the principal provisions of which are as follows: Except where a

majority of the Board of Directors is required to abstain from participation in a vote because of conflict of interest, a Director will abstain from participating in a decision of the Board of Directors which either (1) confers a special economic benefit on a business in which the Director or a close relative has a substantial interest that is distinguishable from the effect on the public, or (2) will have a special economic effect on the value of property in which the Director or a close relative has a substantial interest distinguishable from its effect on the public. For these purposes, a person is considered to have a “substantial interest” in a business if (1) the person owns ten percent (10%) or more of the voting stock or shares of the business entity or owns either ten percent (10%) or more or \$15,000 or more of the fair market value of the business entity; or (2) funds received from the business exceed ten percent (10%) of the person’s gross income for the previous year. A person has a substantial interest in real property if the interest is an equitable or legal interest with a market value of \$2,500 or more. A “close relative” of a Director for these purposes is a person related to the Director within the first degree of affinity or consanguinity as determined under Chapter 573 of the Texas Government Code.

- A. A Director may not act as a surety on any official bond or for a business entity that has work, business, or a contract with the District.
- B. A Director shall not disclose, without written legal authorization, confidential information to advance the financial or other private interests of himself or others on any contract or transaction which is or may be the subject of an official action of the District.
- C. The District may not contract for the purchase of services or personal property directly with a District Representative or with a business entity in which a District Representative has a substantial interest, except as permitted by law.
- D. A Director who has a substantial interest in any matter involving the business entity or real property shall disclose that fact to the other Directors by Affidavit. The Affidavit must be filed with the Secretary of the Board at a posted meeting open to the public. An interested Director shall abstain from further participation in the matter.
- E. The Board shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a Director has a substantial interest. In the event of a separate vote, the Director may not participate in that separate vote, but may vote on a final budget if the Director has complied with Local Government Code Chapter 171 and the matter in which the Director is concerned has been resolved.
- F. As of the date of adoption of this Code of Ethics, Chapter 176, Local Government Code requires the disclosure of certain relationships by Directors or by District Employees who exercise discretion in the planning, recommending, selecting or contracting of a vendor, vendors, and certain prospective vendors to the District, if the District or Employee, or family member of a Director or such Employee, has an employment or business relationship with the vendor that has resulted in taxable income that exceeds certain limits, or has received a gift from the vendor. A Director, Employee, vendor, or prospective vendor who has a relationship that requires disclosure under Chapter 176 shall disclose that relationship by completing the form prescribed by the Texas Ethics Commission and timely filing that form with the Records Administrator. A Director, Employee or vendor violating this Section may be subject to criminal prosecution or termination of employment under Section 176.013 of the Local Government Code.

Section 9.06. Conduct of District Business. Each District Representative will conduct all business of the District in a manner consistent with the requirements of applicable law and the Texas Open Meetings Act.

Section 9.07. Use of District Property. No Board member, officer, or Employee shall permit any personal or unauthorized use of District-owned or District-controlled equipment, materials, supplies, or

property. Directors shall not use public resources unavailable to the public, such as District staff time, equipment, supplies or facilities, for private gain or personal purposes. Directors shall not utilize the District's name, logo, or their position for purposes of endorsing any political candidate, political position or business.

Section 9.08. Nepotism. The Board shall not confirm the appointment to any position, nor award a contract, to a person related to a member of the Board within the second degree by affinity (marriage) or within the third degree by consanguinity (blood) when the salary or other compensation of the appointee is paid, directly or indirectly, from District funds, except as provided by Government Code Chapter 573.

Section 9.09. Acceptance of Gifts. No District Representative shall accept any benefit as consideration for any decision, opinion, recommendation, vote, or other exercise of discretion in carrying out his official acts for the District. No District Representative shall solicit, accept, or agree to accept any benefit from a person known to be interested in or likely to become interested in any contract, purchase, payment, claim, or transaction involving the exercise of the District's Representative's discretion. Section 36.10, Texas Penal Code lists exemptions to the Acceptance of Gifts Policy which are adopted and incorporated into this Code of Ethics.

Section 9.10. Bribery. A District Representative shall not intentionally or knowingly offer, confer, or agree to confer on another, or solicit, accept, or agree to accept from another, any benefit as consideration when to do so is prohibited by law. As of the date of adoption of this Code of Ethics, Section 36.02, Texas Penal Code, lists the offenses that are considered bribery when committed by District Representatives.

Section 9.11. Acceptance of Honoraria. A Director shall not solicit, accept or agree to accept an honorarium as prohibited by law. As of the date of the adoption of this Code of Ethics, Section 36.07, Texas Penal Code, provides the circumstances in which a Director may not accept an honorarium.

Section 9.12. Lobbying. Should the Texas Ethics Commission, by rule require any District Representatives directly communicating with legislative or executive branch officials to register as lobbyists, District Representative's shall comply. See Government Code, Section 305.0051.