

BYLAWS
OF THE CULBERSON COUNTY
GROUNDWATER CONSERVATION DISTRICT
November 8, 2023

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ARTICLE I DEFINITIONS

1.01 Definitions

(a) The “Act” is the enabling legislation for the Culberson County Groundwater Conservation District, Texas Special District Local Laws Code Chapter 8816, as may be amended.

(b) The “District” is the Culberson County Groundwater Conservation District.

(c) The “board” is the board of directors of the District.

(d) A “director” or a “board member” is a person elected or appointed to the office of director of the District pursuant to the Act. Unless otherwise indicated, “director” or “board member” includes temporary directors and initial directors.

(e) The “administrative office” of the District is located at 1300 W. Broadway Street, Van Horn, Texas 79855. Such address and office may be changed from time to time by the board.

(f) The “Open Meetings Act” is Chapter 551 of the Texas Government Code, as amended.

(g) The “Public Information Act” is Chapter 552 of the Texas Government Code, as amended.

(h) As provided by Section 36.053 and 49,053, Texas Water Code, a “quorum” with respect to meetings of the board means the presence of three (3) or more directors at a duly called meeting of the board.

(i) The term “general manager” means the employee of the District who is in charge of the administrative affairs of the District.

(j) A “vacancy” on the board occurs when the person elected or appointed to the board fails to take office as soon as practicable after being appointed, or resigns or abandons the office, or under other circumstances where the position becomes vacant in accordance with Texas law.

ARTICLE II DIRECTORS AND OFFICERS

2.01 Board of Directors

(a) The board of directors is the governing body of the District and is responsible for all affairs of the District. The board's rights powers, duties, and responsibilities are provided in the Act and Chapters 36 and 49 of the Texas Water Code. The board is composed of five directors, elected in even years on the uniform Election Day in May.

(b) The directors will each serve staggered four-year terms.

2.02 Notice of Election; Sworn Statement; Oath of Office; Bond

(a) Within 30 days after the election of any director, the District shall notify the Executive Director of the Texas Commission on Environmental Quality of the name and mailing address of the director chosen and the date the director's term of office expires. The Executive Director shall provide forms to the district for such purposes.

(b) As soon as practicable after a director is elected, that director shall make the sworn statement prescribed for public officers in Section 1, Article XVI, of the Texas Constitution.

(c) As soon as practicable after a director has made the sworn statement, and before beginning to perform the duties of office, the director shall take the oath of office prescribed for public officers in Section I, Article XVI of the Texas Constitution.

(d) Before beginning to perform the duties of office, each director shall execute a bond for \$10,000 payable to the District and conditioned on the faithful performance of that director's duties. All bonds of the directors shall be approved by the board and paid for by the District.

(e) The sworn statement, oath, and bond shall be filed with the District and retained in its records. The sworn statement, oath, and bond shall be filed with the District and retained in its records. A duplicate of the original oath shall also be filed with the Texas Secretary of State within 10 days after its execution.

2.03 Officers; Election of Officers; Terms of Office

At the initial meeting of the board following the election of new directors, the following officers shall be elected by the board: President, Vice President, and Secretary. Officers shall serve two-year terms commencing on the date of the board meeting at which the election occurred and continuing until their successors have been elected.

2.04 Fees of Office

Pursuant to Section 36.060(a) of the Texas Water Code, each director of the District may receive fees of office of not more than \$250 a day for each day the director spends performing the duties of a director, not to exceed \$9,000 a year. However, the policy of the board of

directors is to receive no fee of office for meetings. This is to include regular and special meetings of the board or hearings that are held on separate occasions. The directors shall be entitled to reimbursement of actual expenses reasonably and necessarily incurred while engaging in activities on behalf of the District. The process for obtaining such reimbursement is set forth in Article X of these Bylaws.

2.05 Ex Parte Communications

A board member may not communicate ex parte with the general manager or a party in a contested matter before the District if such communication would violate state law.

2.06 Board Vacancies

(a) The filling of vacancies is within the jurisdiction of the board. If a director's position becomes vacant, the board shall appoint a qualified person to serve until the first election of directors following the appointment. If the position is not scheduled to be filled in that election, the board shall additionally provide for a director to be elected at that election for the remainder of the unexpired term. The District may not commence the filling of a board vacancy until the director has filed or provided: (1) a letter of resignation; or (2) a notice of his or her intent to resign.

(b) A vacancy on the board occurs upon the date of:

(1) death of a board member;

(2) acceptance by the board of a signed, written notice of resignation to the board filed with the President or the Secretary, or by operation of law at 5:00 p.m. of the eighth day after receipt of a written or oral notice of resignation, whichever is earlier, as provided by Section 201.023, Texas Election Code;

(3) disqualification of the director by operation of law; or

(4) removal of a director by the board, as may be provided by law.

(c) The board shall take action as soon as practicable.

(d) The board will fill vacancies for directors in accordance with the following procedure:

(1) For a vacancy under Subsection (b)(2), the board shall accept a duly filed written or oral notice of resignation from a director at its next regularly scheduled meeting and declare a director vacancy by majority vote of the board. For all other vacancies, the declaration of vacancy shall be made by the board at the meeting at which the general manager presents facts to the board reasonably supporting a declaration of vacancy.

(2) In the event of a vacancy on the board, the general manager must give notice of the vacant (or potentially vacant) position, and that the District is accepting applications

from qualified persons to fill the vacancy. The notice of vacancy (or potential vacancy) shall be posted on the District's website. The notice shall contain the following information:

- (A) the minimum qualifications to serve as a member of the board;
- (B) the manner in which an interested member of the public may apply to fill the vacancy (or potential vacancy);
- (C) the identification of, and manner of obtaining, any forms that may be required to properly apply for the vacant (or potentially vacant) director position;
- (D) the deadline for filing an application to fill the vacant (or potentially vacant) director position;
- (E) the name and telephone number of the District contact person for further information; and
- (F) any other information that in the judgment of the general manager may be useful to the board in filling the vacancy.

(3) All applications to fill a vacant director position shall be received and date stamped by the District no later than 5:00 p.m. on the filing deadline stated in the notice posted on the District's website. For any applications that are not timely filed, the general manager shall report to the board the fact that an untimely filed application was filed. The board may not consider any untimely applications in its vacancy deliberations. The board shall review the timely applications received and determine how many qualified candidates to interview.

(4) If the resigning board member so chooses, that member may recommend an applicant to be interviewed by the board. The recommendation and application of the recommended person must be received no later than 5:00 p.m. on the filing deadline stated in the notice posted on the District's website.

(5) The board shall interview the selected applicants and then vote on a replacement director as it may choose. After review by the board, the board may vote not to accept any of the applications and direct the general manager to reopen the application process and post another notice of vacancy according to the procedures set out in this subsection.

(6) The person receiving a majority vote of the board will be declared the new director.

(e) After the board has made a selection, the new director shall, as soon as practicable, fully perform all acts required by law to be duly qualified to be seated as a member of the board. Once these actions have been completed, the new director shall be entitled to participate in and perform all duties of office.

(f) A director may withdraw a written notice of resignation prior to final action by the board in accepting the resignation, or prior to 5:00 p.m. of the eighth day after the date of receipt by the District, whichever is earlier. A director may withdraw in writing a written or oral

notice of intent to resign prior to the filing of a letter of resignation.

ARTICLE III DUTIES OF OFFICERS

3.01 President

The President shall preside at all meetings of the board. The President is the chief executive officer of the District. Except as provided by Section 4.07, the President shall execute contracts, obligations, undertakings, conveyances and other instruments on behalf of the board when so authorized and when directed to do so by the board. The President may appoint committees of the board, and shall exercise such other powers and duties as may from time to time be prescribed by action of the board. The President may appoint a Parliamentarian from among the directors, who shall serve at the pleasure of the President. The board may authorize the District's general manager or other employee to execute documents on behalf of the District.

3.02 Vice President

The Vice President will perform the duties of the President if the President becomes incapacitated or otherwise unable or unavailable. The Vice President will perform such other duties and exercise such other authority and powers as the board may from time to time prescribe, or as the President may from time to time delegate.

3.03 Secretary

The Secretary shall attest to the President's signature on all contracts, obligations, undertakings, conveyances and other instruments signed by the President, including the minutes of meetings of the board, after such instruments have been approved by the board, and shall perform such other duties as may be prescribed by the board. The general manager is appointed to serve as the assistant to the Secretary and shall be entitled to certify the authenticity of any record of the District, including but not limited to all proceedings relating to bonds, contracts, or indebtedness of the District.

ARTICLE IV MANAGEMENT OF THE DISTRICT

4.01 Management of the District

(a) The board shall be responsible for overseeing the affairs of the District. The District shall employ or contract with all persons, firms, partnerships, corporations, or other entities, public or private, deemed necessary by the board for the conduct of the affairs of the District, including, but not limited to, a general manager, engineers, attorneys, financial advisors, operators, bookkeepers, tax assessors and collectors, auditors, and administrative staff.

(b) The board shall have the right to purchase all materials, supplies, equipment, vehicles, and machinery needed by the District to perform its purposes.

4.02 Legal Consultant Services

(a) The board shall hire all legal consultants for the District. It is the policy of the board not to engage the services of any attorney or firm which has a conflict of interest with the District. The selected individual/firm shall serve at the pleasure of the board and shall agree to conduct all activities in accordance with the guidelines established in this policy. Legal consultants shall only perform work which has been authorized by one or more members of the board, or the District's general manager.

(b) With regard to matters discussed in closed session, materials distributed to directors labeled "Privileged and Confidential Communication between Attorney and Client" or similar verbiage will be collected at the end of the closed session to preserve the confidential nature of the material and to protect the interests of the District.

4.03 Guidelines for Selecting and Managing Auditor Consultants

The board will approve the compensation and terms for auditor consultants. The scope of auditor consulting services and the compensation to be paid will be specified by written contract. It is the policy of the board not to engage the services of any individual or firm that has a conflict of interest with the District. The selected individual/firm serves at the pleasure of the board and must agree to conduct all activities in accordance with these guidelines. The auditor consultants will only perform work that has been expressly authorized by the board.

4.04 Consultant Services

The board shall approve the compensation and terms for consultants. In selecting, attorneys, engineers, auditors, financial advisors, or other listed professional consultants, the District shall comply with the Professional Services Procurement Act, Chapter 2254, Subchapter A, Texas Government Code. The scope of consulting services and the compensation to be paid therefore shall be specified by written contract.

4.05 Bond Required

The board shall require any officer, employee, or consultant who collects, pays, or handles any funds of the District to furnish good and sufficient bond, payable to the District, in

an amount determined by the board to be sufficient to safeguard the District. The bond shall be conditioned on the faithful performance of that person's duties and on accounting for all funds and property of the District. Such bond shall be signed or endorsed by a surety company authorized to do business in the State. The board shall pay the premium on surety bonds required of officials, employees, or consultants of the District out of any available funds of the District.

4.06 Minutes and Records of the District

(a) The board shall keep a complete account of all its meetings and proceedings and shall preserve its minutes, contracts, records, notices, accounts, receipts, and other records in a safe place.

(b) The records of the District are the property of the District and are subject to Chapter 552, Texas Government Code, the Public Information Act. Persons who are furnished copies of District records pursuant to the Public Information Act may be assessed a copying charge, pursuant to policies established by the board or general manager.

(c) The preservation, storage, destruction, or other disposition of the records of the District is subject to the requirements of Chapter 201, Texas Local Government Code, and rules adopted thereunder.

4.07 General Manager and Employees

(a) The board may hire a general manager to be the chief executive officer of the District. The general manager shall be responsible for general and active management of the business of the District and shall have all those duties and responsibilities delegated by the board. The general manager is responsible for submitting a proposed budget to the board, as well as seeing that all financial records of the District are properly kept and administrative matters are reported to the board.

(b) The general manager shall serve at the pleasure of the board. The employment status of the general manager shall not be altered in any respect, and no cause shall be required for termination of the general manager, except as expressly provided to the contrary by written order or resolution of the board.

(c) Except as provided by Sections 4.02, 4.03 and 4.04, all contractors and employees of the District, shall be selected and hired by the general manager and shall conduct their work under the general manager's supervision and direction. The general manager may hire on behalf of the District all such employees and consultants for which allocation has been made in the annual budget.

(d) Except as provided by Sections 4.02, 4.03 and 4.04, the general manager may execute on behalf of the District, without further authorization by the board, any contract for a project involving the expenditure of an amount no greater than fifteen thousand dollars (\$15,000) for which general allocation for such type of contract has been made in the annual budget. This limit also applies to multiple contracts for the same project. Unless it is necessary in order to perform a procedural requirement mandated by law for the District to implement one of its activities, the general manager may not execute on behalf of the District, without further

authorization by the board, multiple contracts totaling more than thirty thousand dollars (\$30,000) with the same party for different projects in one calendar year. The general manager shall execute other contracts, obligations, undertakings, conveyances and other instruments when so authorized and directed by the board.

ARTICLE V MEETINGS OF THE BOARD

5.01 Meetings

(a) Regular meetings of the board shall be held at such time and at such public locations as determined by the board. Regular meetings shall be held at least quarterly.

(b) Special meetings of the board may be called by the President or by the joint action of at least three directors. Special meetings must be called at such times and at such locations as are convenient to the directors.

(c) Public comment may be made before or during the board's discussion or consideration of an item.

(d) All board meetings and work sessions shall be held in accordance with the Open Meetings Act.

(e) Board meetings should generally be conducted under Robert's Rules of Order.

5.02 Notice of Meetings

Written notice of all regular meetings, special meetings, and board work sessions, stating the place, day and hour of the meeting, and the agenda therefor shall be posted in compliance with the Open Meetings Act and will be transmitted to each director no less than 72 hours prior to the meeting.

5.03 Agenda of Meeting

(a) Notices of meetings will contain an agenda stating the matters to be considered or acted upon at such meetings, and matters not stated in the agenda or properly added to the agenda shall not be deliberated or acted upon.

(b) The agenda will be set by the President, with input from other board members and the general manager.

(c) Items the President determines require action by the board, but which do not normally require briefing by the staff or board discussion, may be placed on a "consent agenda."

(1) Any board member shall have the right to remove an item from the consent agenda during consideration of the consent agenda.

(2) All items removed from the consent agenda shall be considered individually in the order in which they were removed, immediately following consideration of the consent agenda.

(3) The consent agenda shall be introduced by a motion to approve the consent agenda.

(4) Approval of a motion to approve the consent agenda shall be equivalent to approving each item as if it had been acted on individually.

5.04 Quorum

If a quorum of the board is not present at a meeting, the directors present may postpone or recess the meeting for a reasonable time until a quorum is present. At the reconvened meeting when a quorum is present, any business may be transacted which may have been transacted had a quorum been present at the initial convening of the meeting.

5.05 Voting

An act of the board is not valid unless adopted by the affirmative vote of a majority of the entire membership of the board. There shall be no voting by proxy.

5.06 Conduct of Meetings

Meetings of the board shall be presided over by the President, or in the President's absence, the Vice President, or in the absence of both, the President and the Vice President, the Secretary.

5.07 Public Participation at Board Meetings

Pursuant to the Texas Open Meetings Act, the board shall allow each member of the public who desires to address the board regarding an item on the board's open meeting agenda to address the board regarding the item at the meeting. The board may decide whether the opportunity for public comment will occur either as part of a single public comment period at the beginning of an open meeting to address all items on the agenda or before its discussion of an agenda item. The board may set reasonable limits on the number, frequency, and length of presentations before it, but shall not unfairly discriminate among speakers based on their point of view. Members of the public who wish to provide public comments shall provide the following information to the board at the beginning of the board meeting: name, address, telephone number, county of residence, and agenda item to be addressed, if any. A registration form shall be provided for this purpose. Members of the public who wish to provide general public comment, rather than address a particular agenda item, shall so indicate on the registration form. At the board's discretion, it may seek public comment or ask questions of any member of the public in attendance.

5.08 Board Action

Unless otherwise required by law or these Bylaws, the board may act by motion or by resolution and order adopted by the board.

5.09 Minutes

Actions taken in meetings will be incorporated in written minutes taken by the Secretary or assistant to the Secretary, and signed by at least the Secretary. A copy of the minutes will be

submitted for approval to the members of the board at the next meeting of the board. The Secretary is responsible for the meeting minutes.

5.10 Closed Sessions

(a) In accordance with the Open Meetings Act, the board, or a committee of the board, may go into a closed session in order to have attorney-client privileged communication with its attorney, to consult with its attorney about pending or contemplated litigation, to consult with its attorney about settlement offers, to deliberate regarding real property, to deliberate regarding personnel matters or to deliberate regarding security devices or a security audit.

(b) Directors may not participate in a closed session the purpose of which is to discuss with the board's attorney a lawsuit that the director intends to or has filed against the District.

(c) As provided in Section 10.04(a), directors may not participate in a closed session related to the matter for which the director is required to file an affidavit under Chapter 171, Texas Local Government Code.

ARTICLE VI FISCAL POLICY

6.01 Fiscal Year

The fiscal year of the District shall commence on the first day of October.

6.02 Annual Budget

(a) Prior to the commencement of each fiscal year, the board shall prepare and approve an annual budget.

(b) The budget shall contain a complete financial statement, including a statement of:

- (1) the outstanding obligations of the District;
- (2) the amount of cash on hand to the credit of each fund of the District;
- (3) the amount of money received by the District from all sources during the previous year;
- (4) the amount of money available to the District from all sources during the ensuing year;
- (5) the balance expected at the end of the year in which the budget is being prepared;
- (6) the estimated amount of revenues and year-end balance available to cover the proposed budget; and
- (7) the estimated tax rate or fee revenues that will be required.

(c) The annual budget may be amended after its adoption on the board's approval at any meeting of the board.

(d) Except as provided in Section 4.07, the general manager shall have full authority, without further authorization of the board, to expend funds of the District budgeted for that purpose in amounts up to, but not exceeding the annual budget unless a budget amendment is approved by the board and reserve funds are available.

6.03 Contracts; Instruments; Documents

In addition to as provided by Sections 4.07 and 6.02, the board may authorize the President or the general manager to enter into any contract or to execute and deliver any instrument or document in the name of and on behalf of the District, and such authority may be general or confined to specific instances. All such contracts shall be executed by either the President or the general manager, and, if deemed necessary by the board, approved by the District's legal counsel.

6.04 Loans

No loan shall be contracted on behalf of the District and no evidence of indebtedness shall be issued in its name unless authorized by resolution of the board, executed by the President, and attested to by the Secretary.

6.05 Checks, Drafts, etc.

All checks, drafts, notes, or other orders for the payment of money issued in the name of the District in the amount greater than \$500 shall be signed by two directors or one director and the general manager, with the exception of monthly office rental payments and payroll tax liability payments which shall be authorized and/or signed by the general manager either by check or ACH. All checks, drafts, notes, or other orders for the payment of money issued in the name of the District in the amount not greater than \$500 shall be signed by the general manager or two directors.

6.06 Depositories

All funds of the District shall be deposited from time to time to the credit of the District in such banks or accounts as the board may designate and upon such terms and conditions as shall be fixed by the board, unless otherwise required by order or resolution authorizing the issuance of the District's bonds or notes. The board may, from time to time, authorize the opening and maintaining of general and special accounts within any such depository as it may designate, and may make such special rules and regulations with respect thereto as it may deem expedient. To the extent that funds in the depository bank or banks are not insured by the Federal Deposit Insurance Corporation, they shall be secured as provided by Texas Water Code, Sections 36.155 and 49.156. The depository shall be located within Culberson County unless the board determines that a suitable depository cannot be found within the County.

6.07 Annual Audit

After the end of each fiscal year, the board shall have an audit of its affairs prepared by an independent certified public accountant. This audit shall be available for public inspection. Such auditors shall have no personal interest directly or indirectly in the fiscal affairs of the District and shall be experienced and qualified in the accounting and auditing of public bodies. The audit shall be performed in accordance with generally accepted auditing standards and shall satisfy all requirements imposed by Chapters 36 and 49, Texas Water Code. The District's auditors may undertake consulting services for the District in addition to their duties in connection with the annual audit.

6.08 Investment Policy

The board shall comply with the District's adopted investment policy set forth in Article VII.

**ARTICLE VII INVESTMENT POLICY AND INVESTMENT STRATEGY
STATEMENT**

7.01 Purpose; Introduction

(a) The District has developed this policy to satisfy the statutory requirements of Chapters 36 and 49, Texas Water Code and the Public Funds Investment Act, Chapter 2256, Texas Government Code and the Public Funds Collateral Act, Chapter 2257, Texas Government Code, requiring local governments to define and adopt a formal written investment policy and written investment strategies for each fund under its control.

(b) It is the policy of the board that all available funds are to be invested to the maximum extent possible at the highest possible rates obtainable at the time of the investment in conformance with the legal and administrative guidelines outlined herein for each of the District's funds.

(c) The board shall review its investment policy and investment strategies not less than annually and adopt a written resolution memorializing the review and recording any changes made to the policies and strategies, which may occur at the same time as the board's consideration of its annual budget. In conjunction with its annual financial audit, the District shall also perform a compliance audit of management controls on investments and adherence to this policy.

7.02 Objectives

The District recognizes that an effective investment policy is an essential element of sound fiscal management. To achieve this goal, the District states that its primary investment objectives, in the order of priority, are the preservation and safety of the principal, liquidity, investment diversification, reasonable yield, appropriate maturity dates, and the enhanced quality and capability of investment management.

(a) The board and staff shall strive to ensure the preservation of principal in each investment transaction, achieve and maintain liquidity by matching investment maturities with forecasted cash flow requirements, and maximize return on the District's investment portfolio through sound investment management.

7.03 Investment Strategy

(a) For all investments, the District will stagger maturity dates in accordance with cash flow expectations and analysis to meet liquidity and operation requirements.

(b) The general fund provides monies for the basic operating functions of the District and accounts for all financial resources for which a separate fund has not been established. Investment revenue from this fund shall supplement existing revenues. On general fund investments, the District will limit the investment to the short term (two years or less). Intermediate term (more than two years) investments of monies held in the general fund are not appropriate to the District's objectives because of their inability to supplement the current year's operations.

(c) From time to time, additional funds may be created by the District for specific District needs.

7.04 Investment Officer

(a) The board designates the general manager as the District's investment officer. The board delegates to the investment officer of the District the authority and responsibility to manage the District's investment program subject to all applicable laws, the District's written investment policy, including all amendments, and directions, policies and resolutions adopted by the board.

(1) It is understood that implicit in this grant of authority is authorization for the investment officer to make further delegations of investment duties as are appropriate and necessary to satisfy the District's and investment officer's investment responsibilities.

(2) The investment officer shall carry out his or her duties exercising the judgment and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

(3) The District retains ultimate responsibility as a fiduciary of the District's assets. The investment officer, and his/her designees, acting in accordance with this policy and written strategies, and exercising due diligence shall be relieved of personal responsibility and liability in the management of the portfolio, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse market effects.

(4) If the investment officer is not otherwise subject to the requirements of Section 10.04, the investment officer, if he or she has a personal business relationship with an entity seeking to engage in an investment transaction with the District, shall file a statement disclosing that personal business relationship with the Texas Ethics Commission and the board of the District. A personal business relationship will exist if:

(A) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(B) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(C) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(5) The investment officer, if he/she is related to an individual seeking to sell an investment to the District within the second degree of affinity or consanguinity as determined under Chapter 573 of the Texas Government Code, shall file a statement disclosing the relationship with the Texas Ethics Commission and the board.

7.05 Authorized Investment Securities

The District may invest in investments as authorized by the Public Funds Investment Act, Texas Government Code, Chapter 2256.

7.06 Safekeeping and Custodial Agreements

(a) The District may contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio, or held as collateral to secure demand or time deposits. Securities owned by the District shall be held in the District's name as evidenced by safekeeping receipts of the institution holding the securities.

(b) Collateral for deposits will be held by a third-party custodian designated by the District and pledged to the District as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third-party bank approved by the District.

(c) Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the District to require full collateralization of all District funds on deposit with a depository bank increased by the amount of any interest accrued, less any amount insured by the Federal Deposit Insurance Corporation or any successor organization. At its discretion, the District reserves the right to accept or reject any specific pledged security as collateral, or to require a higher level of collateralization for certain pledged securities.

(d) Securities pledged as collateral shall be held by an independent third party with whom the District has a current custodial agreement. The investment officer is responsible for entering into collateralization agreements with third party custodians in compliance with this policy. The agreements are to specify the acceptable securities for collateral, including provisions relating to possession of the collateral, the substitution or release of pledged securities, ownership of securities, and the method of valuation of securities. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the District and retained. Collateral shall be reviewed by the custodian at least monthly to assure that the market value of the pledged securities is adequate. The result of such valuations shall be reported to the District's Finance/Administrative Committee at least semi-annually.

(e) The District shall accept only the following types of collateral:

- (1) obligations of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm as not less than “A” or its equivalent with a remaining maturity of ten (10) years or less;

(5) a surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm as not less than “A”; and

(6) a letter of credit issued to the District by the Federal Home Loan Bank.

(f) All collateral shall be subject to inspection and audit by the investment officer or the District’s independent auditors.

(g) Banking institutions serving as depositories will be required to sign a depository contract with the District. The collateralized deposit portion of the contract shall define the District’s rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with federal and state regulations. Additionally, the contract must be approved by the board of directors or designated committee of the depository and a copy of the meeting minutes or adopted resolution must be delivered to the District.

7.07 Payment for Investment

Payment shall be made by the District for investments authorized by this policy upon delivery thereof to the District or to a custodial bank, or in the case of a book-entry transactions shall be done on a delivery versus payment basis and shall be credited to the custodial bank’s Federal Reserve System account held in favor of the District. All transactions shall be confirmed in writing to the District.

7.08 Investment Reporting

The investment officer shall provide, at least quarterly, reports to the board regarding investment transactions during the reporting period. The report must comply with Texas Government Code, Chapter 2256.

ARTICLE VIII PURCHASING AND CONTRACTING

8.01 Compliance with Legal Requirements and Principles of Conduct

The District, its directors, employees, and agents shall comply with all applicable procurement law and with the principles stated herein regarding the fair, unbiased, and inclusive manner by which the agency hereby commits itself to conduct all business.

8.02 Purchasing

(a) Expenditures to acquire goods or services valued at greater than \$500 require approval by the board in advance, unless an emergency acquisition requiring expenditure greater than \$500 shall be presented to the board for approval and validation at its next meeting.

(b) No expenditures may be made that are not authorized by the budget. This requirement shall not, however, prevent the board from amending the budget at the same time that it authorizes an expenditure, provided that the expenditure does not result in total expenditures for the year that exceed the budget, unless a budget amendment is approved by the board and reserve funds or other source of funding is available.

8.03 Procurement Responsibilities and Authorization

(a) The District shall secure the highest quality goods and services for the funds available. The District shall award contracts to responsible vendors, suppliers, and contractors that, in the judgment of District, will promote the mission and goals of the District, and result in the best and most economical completion of the District's proposed plants, improvements, facilities, works, equipment and appliances.

(b) For construction contracts for over \$25,000, the District shall comply with the requirements of Chapter 49, Subchapter I, Texas Water Code.

8.04 Conflicts of Interest Policy Regarding Consultant Services

(a) It is the policy of the board not to engage the services of any firm or individual consultant that may have a direct or indirect conflict of interest with the District.

(b) At all times, any firm or individual consultant must abide by all applicable rules of professional conduct regarding conflicts of interest – including any notice requirements contained therein. Examples of such rules include, but are not limited to: the Texas Disciplinary Rules of Professional Conduct (for legal consultants); Chapter 305 of the Texas Government Code (for legislative consultants); Chapter 851, Title 22 of the Texas Administrative Code (for professional geoscientists); and Chapter 137, Title 22 of the Texas Administrative Code (for professional engineers). Failure to adhere to such rules may result in immediate termination of the District's association with any individual or firm providing consulting services to the District, including any work in progress at the time notice is given by the District.

ARTICLE IX COMMITTEES

9.01 Board Committees

(a) The President may appoint members of the board to serve on advisory committees to consider and make recommendations to the full board concerning the policies and activities of the District, including on the Financial/Audit Committee.

(b) If a committee's membership comprises a quorum of the board, the meeting shall be held in compliance with the Open Meetings Act.

9.02 Notice of Committee Meetings

(a) Committee meetings may be called at any time by the chair of the committee.

(b) The general manager will notify all members of a committee by mail, telephone, or electronic mail stating the place, date, time, and agenda of the meeting no less than 72 hours prior to the meeting.

(c) Notices of committee meetings will contain an agenda stating the matters to be considered at such meetings. The agenda will be set by the chair of the committee in consultation with the general manager.

9.03 Financial/Audit Committee

The Financial/Audit Committee shall be established as a committee of the full board. The board shall select an auditor to perform the annual audit, and, if applicable, recommend to the general manager specific actions needed to address recommendations or concerns raised by the auditor in the audit report. The board acting as the Financial/Audit Committee shall also review annually the District's investment policies and strategies.

ARTICLE X CODE OF ETHICS

10.01 Purpose

The purposes of this Code of Ethics (“Code”) are to:

- (a) ensure a high level of public confidence;
- (b) establish guidelines for ethical standards of conduct for all directors as public servants;
- (c) encourage high ethical standards in official conduct by the officials of the District;
- (d) establish guidelines for such ethical standards of conduct; and
- (e) satisfy Texas Water Code, Sections 36.061(a)(1) and 49.199(a)(1), which require that the board adopt in writing a code of ethics for District directors, officers, employees, and persons who are engaged in handling investments for the District.

10.02 Statement of Policy

(a) It is the policy of the District that all directors and employees conduct themselves in a manner consistent with sound business and ethical practices, in compliance with applicable laws, and in a manner that excludes considerations of personal advantage; that the public interest always be considered in conducting District business; that the appearance of impropriety be avoided to ensure and maintain public confidence in the District; and that the board control and manage the affairs of the District fairly, impartially, without discrimination, and in accordance with the stated purpose of the District.

(b) No director or employee of the District should accept or solicit any gift, favor, or service that might reasonably tend to influence him/her in the discharge of his/her official duties or that he/she knows or should know is being offered him/her with the intent to influence his/her official conduct.

(c) No director or employee of the District shall accept other employment or engage in any business or professional activity that he/she might reasonably expect would require or induce him/her to disclose confidential information acquired by reason of his/her official position.

(d) No director or employee of the District should accept other employment or compensation that could reasonably be expected to impair his/her independence of judgment in the performance of his/her official duties.

(e) No director or employee of the District should make personal investments that could reasonably be expected to create a substantial conflict between his/her private interest and the public interest.

(f) No director or employee of the District should intentionally or knowingly solicit,

accept, or agree to accept any benefit for having exercised his/her official powers or performed his/her official duties in favor of another.

(g) With respect to honoraria, a director or employee of the District may not solicit, accept, or agree to accept an honorarium in consideration for services the director or employee would not have been asked to provide but for his or her official position. A director or employee may, however, accept food, transportation and lodging in connection with a conference or similar event in which the director or employee renders services, such as addressing an audience or engaging in a seminar.

(h) Each director shall conduct himself/herself in accordance with his/her duties as stated in the Act and his/her Oath of Office.

10.03 Qualification of Directors

(a) Each director shall comply with all statutes applicable to them as governmental officials.

(b) To be qualified as a director, a person must be a registered voter in the District.

(c) A person shall not serve as a director if he or she is not qualified to do so under the provisions of the Act or other applicable law.

10.04 Conflict of Interest; Affidavits; Disclosures

(a) Directors are subject to the provisions of Chapter 171 of the Texas Local Government Code relating to the regulation of conflicts of interest of officers of local governments. A director who has a substantial interest in a business entity or in real property (equal to 10% or more of voting stock or shares of a business entity or who owns 10% or more or \$15,000 or more of the fair market value of a business entity or the funds received from the entity exceed 10% of the director's gross income for the previous year) shall file an affidavit with the District stating the nature and extent of the interest before any vote, act or decision on any matter involving the business entity or real property that will be economically affected by the action in a way distinguishable from the effect on the public, or if real property, will be economically affected by the action in a way distinguishable from the effect on the public. A director required to file an affidavit under Chapter 171 may not attend a closed session related to the matter for which the director is required to file the affidavit and shall abstain from a vote on the matter unless a majority of the directors are also required to file an affidavit related to a similar interest on the same official action.

(b) Each director and the general manager shall comply with the conflict of interest disclosure requirements of Chapter 176, Texas Local Government Code, which requires that a vendor or a director or the general manager file a conflicts disclosure statement with respect to a vendor if the vendor enters into or is considering entering into a contract with the District and: (1) the vendor has an employment of other business relationship with the director or general manager or a family member of the director or general manager that results in the director or general manager or the family member receiving taxable income that exceeds \$2,500 during the 12-month prior to the director or general manager becoming aware that a contract between the

District and vendor has been executed or is being considered; or (2) the vendor has given to the director or general manager or the family member one or more gifts with an aggregate value of more than \$100 in the 12-month period before the director or general manager becomes aware that a contract between the District and vendor has been executed or is being considered; or (3) if the vendor has a family relationship, within the third degree of consanguinity or second degree of affinity, with the director or general manager. A director or general manager is also a vendor is required to file a conflicts disclosure questionnaire only if the director or general manager enters or seeks to enter into a contract with the District or is an agent of a person who enters or seeks to enter into a contract with the District.

(c) Prior to a business entity entering into a contract either: (1) involving lobbyist services, legal consultants, auditors, investment management firms, or financial institutes holding District securities or funds, regardless of the value of the contract, (2) requiring board approval, or (3) valued at \$1 million or more, the business entity must file a disclosure of interested parties form with the Texas Ethics Commission and must file a copy of the form filed with the Texas Ethics Commission with the District, in accordance with Section 2252.908, Texas Government Code, and 1 Texas Administrative Code Chapter 46. A new disclosure form should be filed by the business entity if there has been a change in interested parties in the existing contract after the disclosure form has been submitted, the change requires an action or vote by the board, or the value of the changed contract is at least \$1 million.

10.05 Nepotism

In accordance with Chapter 573, Texas Government Code, no board member may appoint, or confirm the appointment, of a person to a position that is to be directly or indirectly compensated from District funds if the appointee is related to director within the second degree by affinity or within the third degree by consanguinity.

10.06 Use of District Property

No director or employee of the District shall permit unauthorized use of District-owned or District-controlled equipment, materials, supplies or property.

ARTICLE XI REIMBURSEMENT OF DIRECTORS

11.01 Purpose

(a) The purpose of this policy is to establish procedures and guidelines for the reimbursement of expenses incurred by directors of the District. This policy applies to those actual expenses reasonably and necessarily incurred while engaging in activities on behalf of the District. As stewards of public funds, directors should consider the cost of all expenses they incur and be frugal. Only directors who have qualified for office are entitled to reimbursement of expenses by the District.

(b) To receive reimbursements, directors must complete a director reimbursement form together with all supporting receipts and invoices. Directors are encouraged to submit completed vouchers by the 15th day of the following month.

11.02 Transportation

(a) Each director shall be reimbursed for round-trip mileage for attendance at meetings or hearings of governmental bodies or agencies where matters directly affecting the District are under consideration, and for attendance at conferences where the subject matter is directly related to the business of the District, and the director is attending in his or her official capacity as a member of the board.

(b) Mileage will be paid from point of departure to the meeting, conference or seminar whether point of departure is home, place of employment, or other location, to the extent the mileage would not have been traveled but for attendance at the meeting. Directors shall be reimbursed for District use of a personal vehicle at the maximum rate allowed by the United States Internal Revenue Service.

(c) Directors traveling by commercial transportation are entitled to reimbursement of the actual cost of necessary transportation for performing official business, except the reimbursement for air transportation will not exceed the next lowest available airline fare below first class unless first class is the only available fare. Mileage reimbursements for long trips may not exceed the amount charged for commercial transportation if those rates are more economical.

11.03 Meals

(a) Each director shall be reimbursed for the actual cost of meals associated with meetings or hearings of governmental bodies or agencies where matters directly affecting the District are under consideration, and for attendance at conferences where the subject matter is directly related to the business of the District, and the director is attending in his or her official capacity as a member of the board.

(b) Directors will be reimbursed for the actual cost of the meals incurred by the director. Directors will not be reimbursed for expenses for his/her spouse, family or personal guest's meals. Charges for alcoholic beverages are not reimbursable.

11.04 Lodging

(a) Each director shall be reimbursed for lodging expenses associated with attendance at meetings or hearings of governmental bodies or agencies where matters directly affecting the District are under consideration, and for attendance at conferences where the subject matter is directly related to the business of the District, and the director is attending in his or her official capacity as a member of the board.

(b) Each director will be responsible for costs for spouses, family members or personal guests. Other personal expenses will not be reimbursed by the District.

11.05 Other Expenses; Memberships; District Publications; Reimbursement for Personal Expenses Prohibited

(a) Other expenses incurred in the course of conducting District business are reimbursable. Charges for such things as telephone and photocopier must be submitted with an appropriate bill or receipt. Reasonable non-documented expenses will also be reimbursed.

(b) Directors may be reimbursed up to \$250 per fiscal year for expenses not discussed above for activities directly related to and benefiting the District and its policies and objectives. Requests for approval to the Board for such reimbursements should include sufficient information to demonstrate the specific purpose advanced by the expenditure, and where necessary, information providing specific assurance that the purpose will be accomplished.

(c) Personal expenses are not reimbursable.

11.06 Board Discretion

The board may at its discretion approve exceptions from this policy on a case-by-case basis. The District will not reimburse directors or employees for unreasonable or unnecessary expenses, or in excess of a reasonable amount.

ARTICLE XII GENERAL PROVISIONS

12.01 Effect of Bylaws

These Bylaws shall be construed in connection with and so as to conform in all respects to the provisions of the Act and the general laws of the State of Texas applicable to the District and its affairs.

12.02 Amendment of Bylaws

Bylaws may be altered, amended, repealed, or replaced by a majority vote of the total membership of the board at any regular meeting of the board. No such action may be taken unless a copy of the proposed alteration, amendment or repeal or copy of the proposed new Bylaws is submitted to each of the directors at least ten (10) days prior to the meeting date.

12.03 Severability

If any provision of these Bylaws is rendered invalid in whole or in part by an order of a court of competent jurisdiction or other law, such provision shall be severed from these Bylaws and deemed inapplicable to the extent and during the time it is rendered invalid. All remaining provisions of these Bylaws shall continue in effect except to the extent they are rendered unworkable by the severance.

12.04 Seal

The Seal of the District shall have inscribed thereon the name of the District and words indicating that it is a Texas groundwater conservation district. Said seal may be impressed by causing a facsimile thereof to be printed, affixed, or otherwise reproduced.