

**ORDER ADOPTING POLICY REGARDING DIRECTOR PER DIEMS AND FEES OF
OFFICE AND POLICIES RELATING TO ETHICAL CONDUCT, FISCAL MATTERS,
AND CONSULTING SERVICES**

RECITALS

WHEREAS, GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 of Galveston County, Texas (the "District"), is a body politic and corporate and a governmental agency of the State of Texas, operating under and governed by the provisions of Chapters 49 and 51 of the Texas Water Code, as amended, and Section 59 of Article XVI of the Texas Constitution; and

WHEREAS, Section 49.199(a)(1), Texas Water Code, as amended, requires the Board of Directors of the District to formulate and adopt in writing a code of ethics for the District's directors, officers, employees, and persons who are engaged in handling investments for the District; and

WHEREAS, Section 49.199(a)(2), Texas Water Code, as amended, requires the Board of Directors of the District to formulate and adopt in writing a policy concerning travel expenditures; and

WHEREAS, Section 49.199(a)(4), Texas Water Code, as amended, requires the Board of Directors of the District to formulate and adopt in writing policies and procedures for selection, monitoring or review and evaluation of professional services; and

WHEREAS, Section 49.199(a)(5), Texas Water Code, as amended, requires the Board of Directors of the District to formulate and adopt in writing a uniform method of accounting and reporting for industrial development bonds and pollution control bonds that comply with the requirements of the Texas Natural Resource Conservation Commission (the "TNRCC"); and

WHEREAS, Section 49.199(a)(6), Texas Water Code, as amended, requires the Board of Directors of the District to formulate and adopt in writing policies that ensure a better use of management information, including budgets for use in planning and controlling costs, and audit committee of the Board, and uniform reporting requirements that use "Audits of State and Local Governmental Units" as a guide on audit working papers and that use "Governmental Accounting and Financial Reporting Standards"; and

WHEREAS, Section 49.060(a), Texas Water Code, as amended, a director of a district is entitled to receive fees of office of not more than \$150 a day for each day the director actually spends performing the duties of a director, not to exceed \$6,000 per year; and

WHEREAS, Section 49.060(b), Texas Water Code, as amended, provides that each director of a district is entitled to receive reimbursement of actual expenses reasonably and necessarily incurred while engaging in activities on behalf of the district; and

WHEREAS, Section 49.060(c), Texas Water Code, as amended, provides that in order to receive fees of office or reimbursement of expenses, each director shall file with the district a verified statement showing the number of days actually spent in the service of the district and a general description of the duties performed for each day of service; and

WHEREAS, Section 49.060(d), Texas Water Code, as amended, provides that such increased fees of office shall not be effective until the Board of Directors of a district adopts a resolution authorizing payment of the higher fees; and

WHEREAS, the TNRCC has mandated that the District account for payment of fees of office on a fiscal year basis; and

WHEREAS, the District has determined that it is in the public interest to establish a policy relating to director per diems and fees of office and that such policy should be incorporated into the District's Policies Relating to Ethical Conduct, Fiscal Matters and Consulting Services.

NOW, THEREFORE, in compliance with the said provisions of such laws and act,

IT IS ORDERED BY THE BOARD OF DIRECTORS OF GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 OF GALVESTON COUNTY, TEXAS, THAT the code, policies, procedures and provisions set forth herein be and are hereby AMENDED.

ARTICLE 1: CODE OF ETHICS

Section 1.01. General. It is hereby declared the policy of the District that its Board of Directors, officer, consultants, and employees shall conduct themselves so as to give no occasion for distrust of their integrity, impartiality or of their devotion to the best interests of the District and the public purposes for which it was created. Accordingly, the standards of conduct stated in

the following Sections 1.02 – 1.06 are hereby established to provide a guideline to the directors, officers, consultants, and employees of the District in the conduct of normal business and operations of the District.

Section 1.02. Gifts. No director, officer, consultant or employee of the District shall directly or indirectly solicit, accept or receive any gift or thing of value, whether in the form of money, services, credits, loans, travel, entertainment, hospitality, promise or any other form, under circumstances where a reasonable inference could be drawn that the gift or thing of value was intended to influence such director, officer, consultant or employee of the District in the performance of his or her official duties or was intended as a reward for any official action on his or her part. Nothing herein shall be deemed or construed to prohibit normal social practices where gifts among friends or associates are appropriate for certain occasions. Specifically, a director, officer, consultant or employee of the District may accept a gift or thing of value from a person, firm, corporation or other entity having or proposing to have a business or financial relationship with the District only when the offer and the acceptance and receipt of such gift or thing of value:

- 1) Are in keeping with good business ethics;
- 2) Are customary and proper under the circumstances and give no appearance of impropriety;
- 3) Serve a valid business purpose of the District;
- 4) Do not impose any sense of obligation on the recipient to the donor;
- 5) Do not result in any form of special or favored treatment for the donor;
- 6) Cannot reasonably be viewed as extravagant, excessive or too frequent considering all the circumstances;
- 7) Do not involve cash, currency, gift certificates, loans or credit arrangements of any kind, or any item of property of significant value;
- 8) Do not involve materials, services, repairs or improvements at no cost or at unreasonably low prices; and
- 9) Are made under circumstance where no effort is made to conceal the facts and circumstances related thereto by either the recipient or the donor.

Section 1.03. Investments. Except under circumstance permitted by the general or special laws of the State and the rules, regulations and policies of the District, no director, officer, consultant or employee of the District shall own an interest in or derive compensation or profit from or engage in the management or any organization providing services, materials or equipment to the District, except when such interest is comprised solely of securities traded over the counter or listed on a public security exchange, or except when such interest has been fully disclosed to the Board of Directors in the manner required by law.

Section 1.04. Confidential Information. No director, officer, consultant or employee of the District shall disclose confidential information concerning the property, operations, policies or affairs of the District, or use such confidential information to advance the personal interests, financial or otherwise, of such director, officer, consultant or employee, or accept employment or engage in any business or professional activity which such director, officer, consultant or employee might reasonably expect would require or induce him or her to disclose confidential information acquired through or by reason of his or her position with the District.

Section 1.05. Private Employment. No director, officer, consultant or employee of the District shall negotiate for or accept future employment with any person, firm, association or corporation which has a substantial financial interest in any proposed award of contract or decision within the area of responsibility of such director, officer, consultant or employee and upon which he or she must act or make a recommendation.

Section 1.06. Appearance of Proper Conduct. Each director, officer, consultant or employee of the District shall conduct his or her official and personal affairs in such a manner as to clearly demonstrate that he or she cannot be improperly influences in the performance of his or her official duties, and to such ends, no director, officer, consultant or employee of the District shall endorse commercial product or services by permitting the use of pictures, endorsements or quotations in advertisements utilizing or making reference to the properties, operations or affairs of the District.

ARTICLE 2: TRAVEL EXPENDITURES

Section 2.01. Travel Expenditures. It is hereby declared the policy of the District that payment or reimbursement shall be made by the District of all reasonable, actual expenses

incurred by or on behalf of the directors, officer, consultants and employees of the District for travel expenditures relating to the District's operations and business activities, including, without limitation, attendance at conventions, conferences, training and trade programs, hearings and meetings related thereto; provided, however, that all such expenditures shall be subject to review and approval by the Board of Directors. For purposes of this policy, travel expenditures shall mean and include meals, lodging, transportation and related general expenses, such as registration costs, materials costs, normal gratuities and related expenses and costs; provided, however, that costs and expenses incurred on behalf of and to be reimbursed by the District in excess of \$25.00 shall be accompanied by receipts, memoranda or similar documentation as to the amount and business purpose of such expenses, and all costs and expenses of lodging and airline travel, regardless of amount, shall be accompanied by invoices, receipts or comparable documentation.

ARTICLE 3: PROFESSIONAL SERVICES

Section 3.01. Contracts Subject to Review. Any contract for professional consulting services, including legal, fiscal, accounting, auditing and/or engineering services, shall be subject to periodic review, authorization and approval by the Board of Directors of the District.

Section 3.02. Review Process. Prior to entering into a contract for professional consulting services, the President of the Board of Directors or other designated Director shall solicit, review and evaluate proposals submitted by one or more qualified consultants and shall assess: the prior experience of such consultant(s) that relate directly to the District's needs; the work experience of such consultant(s) with organizations or similar types and sizes; the financial capacity and stability of such consultant(s); and such other matters and qualifications as the staff of the District may deem appropriate. In evaluating such proposals, the President of the Board of Directors or other designated Director shall make such contacts with current and prior clients of such consultant(s) as they may deem appropriate to obtain accurate assessments of the performance of such consultant(s). After an evaluation of such proposal(s) and previous performance histories, the board of Directors shall select and conclude a written contract with qualified consultant. All of such contracts shall be in writing and shall set forth the term, scope of work and costs to be incurred.

Section 3.03. Renewal and Evaluation. Prior to renewal, revision or extension of any consulting contract, the Board of Directors shall evaluate the services provided pursuant to such contract. The Board of Directors of the district or a Director of the District appointed by the President shall monitor the services rendered in connection with all consulting contracts.

Section 3.04. Applicable State Law. The procedures for selection of professional consultants herein shall be subject to all other applicable requirements of the general and special laws of the State including, but not limited to, the provisions of Subchapter A, Chapter 2254, Texas Government Code, as amended (Professional Services Procurement Act).

ARTICLE 4: FISCAL YEAR

Section 4.01. Fiscal Year. The fiscal year of the District shall commence on October 1 of each calendar year and shall continue until the following September 30.

ARTICLE 5: ANNUAL OPERATING BUDGET

Section 5.01. Budget Approval. Subject to the applicable requirements of the general and special laws of the State, the District's Board of Directors shall adopt and promulgate on operating budget for the fiscal period beginning each October 1 and ending the following September 30. The bookkeeper or accountant for the District shall present a proposed budget for the subsequent fiscal year for the consideration of the Board of Directors no later than thirty (30) days prior to the end of each fiscal year. Such operating budget shall identify and describe in reasonable detail the anticipated sources of revenues, receipts and income and the proposed expenditures and costs of the District for such fiscal year.

Section 5.02. Excess Expenditures. Any proposed expenditure in excess of the amount \$10,000 which is not itemized, categorized or otherwise described or contemplated in the current approved operating budget of the District shall be subject to the prior approval of the Board of Directors of the District. Any such proposed expenditure shall be submitted to the Board of Directors of the District for its approval together with the fiscal implications of such proposed expenditure; the anticipated sources of new revenue, current revenue or funds on hand or in reserve available or to become available for payment of such proposed expenditure; and the projected implications, if any, of such proposed expenditure on other projected expenditures or

costs of programs or projects of the District already included in the current fiscal year operating budget.

Section 5.03. Budget Not Debt Or Limitation. Except as otherwise provided by the general and special laws of the State and the actions and proceedings of the Board of Directors of the District, nothing herein or in such operating budget shall be deemed or construed to constitute a debt or expenditure limitation or constraint on expenditure authorizations contained in such operating budget or to limit, alter or restrict the power and authority of the Board of Directors of the District to amend, modify or revise the District's current fiscal year operating budget contemporaneously with any proposed expenditure or in arrears thereto.

ARTICLE 6: UNIFORM FINANCIAL REPORTING STANDARDS

Section 6.01. Uniform Standards. It is hereby declared the policy of the District to establish, implement and continue in connection with the District's financial statements, books and records uniform reporting standards and requirements that utilize "Audits of State and Local Government Units" as a guide for audit working papers and that utilize, to the extent not prohibited by the general and special laws of the State, "Governmental Accounting and Financial Reporting Standards". Notwithstanding the foregoing, a uniform method of accounting and reporting shall be established, implemented and continued in connection with all bonds of the District, including, but not limited to, industrial development bonds and pollution control bonds, which complies with the requirements of the State auditor and the Commission, as promulgated from time to time.

ARTICLE 7: AUDIT COMMITTEE

Section 7.01. Audit Committee. There is hereby established an Audit Committee of the Board of Directors consisting of the entire Board of Directors. Such Audit Committee shall periodically review the District's financial statements, fiscal practices and financial position; shall consult with representatives of the Commission, the District's independent auditors and the District's attorney; and shall make periodic recommendations on such changes in accounting procedures and controls, fiscal management, investments and related financial matters as deemed

appropriate. The Board of Directors may change the membership of the Audit Committee at any time.

ARTICLE 8: DIRECTOR PER DIEMS

Section 8.01. Board of Director Meetings. Subject to an annual maximum amount of \$6,000, each directors shall be paid one per diem in the amount of \$150 per day for meetings of the District's Board of Directors, whether a regular, special, or emergency meeting, including time for preparation of such meeting.

Section 8.02. Other Meetings. Directors shall be paid up to \$150 per day for attending meetings or other functions in furtherance of the District's business.

Section 8.03. Special Assignments/Projects. Directors shall be paid per diem of up to \$150 per day for special assignments/projects on behalf of the District involving substantial work, including but not limited to budget preparation, tax rate determinations, newsletter preparation, contract negotiations, training and/or conferences.

Section 8.04. Verification. In order to receive per diems for any meeting or special assignments/projects, the director must submit a director per diem verification form showing the dates of the meeting or assignment/project with an appropriate explanation of the actions performed by such director on behalf of the District.

Section 8.05. Reporting. For administrative and audit reporting purposes, the annual period referred to in Section 8.01 of this Order is a fiscal year; however, for tax reporting purposes, the annual period will by the calendar year.

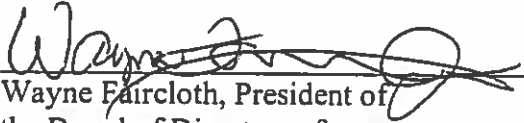
ARTICLE 9: MISCELLANEOUS

Section 9.01. Conflicts. No part, section, paragraph of provision of the rules, regulation and policies contained herein is intended, restrict or modify the legal duties and obligations of any director, officer, investment officer, consultant or contractor of the District beyond the limits of applicable law, and in case of any conflict or inconsistency, such conflict or inconsistency will be resolved in favor of the applicable requirements of law. In the event of any ambiguity or uncertainty as to the intent and application of any part, section, paragraph or provision hereof, a

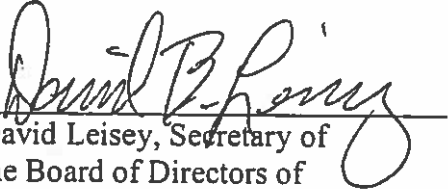
written request for clarification or approval of a proposed action describing such circumstances shall be submitted to the Board of Directors for a decision as to a proper course of action.

Section 9.02. Amendment. The rules, regulations and policies set forth herein shall be and remain in full force and effect unless and until amended, resolved, rescinded or repealed by action of the Board of Directors. All prior resolutions, orders, rules, regulations and policies in conflict herewith, are repealed, revoked, rescinded and of no further force and effect as of the effective date hereof.

ADOPTED this 17th day of December 2001.


Wayne Faircloth, President of
the Board of Directors of
Galveston County Water Control and
Improvement District No. 1

ATTEST:


David Leisey, Secretary of
the Board of Directors of
Galveston County Water Control and
Improvement District No. 1