

ORDER ADOPTING AN AMENDED AND RESTATED
CODE OF ETHICS, FEES AND EXPENSE POLICY,
POLICY RELATING TO CONSULTING SERVICES,
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS, POLICY RELATING TO ADOPTION OF
ANNUAL OPERATING BUDGET, AND CREATING AN
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

WHEREAS, HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61 (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 54 of the Texas Water Code, as amended, and Section 59 of Article XVI of the Texas Constitution; and

WHEREAS, Section 49.199, Texas Water Code, requires the Board of Directors of the District to formulate and adopt certain rules, regulations and policies concerning a code of ethics for the District's directors, officers, investment officers and employees; and

WHEREAS, Section 49.199, Texas Water Code, requires the Board of Directors of the District to formulate and adopt certain rules, regulations and policies concerning travel expenditures payable or reimbursable by the District; and

WHEREAS, Section 49.199, Texas Water Code, requires the Board of Directors of the District to formulate and adopt certain rules, regulations and policies concerning the selection, monitoring or review and evaluation of professional consultants; and

WHEREAS, Section 49.199, Texas Water Code, requires the Board of Directors of the District to formulate and adopt certain rules, regulations and policies concerning the establishment of uniform methods of accounting and reporting; and

WHEREAS, Section 49.199, Texas Water Code, requires the Board of Directors of the District to formulate and adopt certain rules, regulations and policies concerning the better use of management information;

WHEREAS, the District previously adopted its Order Adopting an Amended and Restated Code of Ethics, Fees and Expense Policy, Policy Relating to Consulting Services, Uniform Financial Accounting and Reporting Standards, Policy Relating to Adoption of Annual Operating Budget, and Creating and Audit Committee of the Board of Directors dated July 12, 2001 (the "Order"); and

WHEREAS, the Board of Directors of the District desires to revoke the Order and to adopt the code, policies, procedures and provisions set forth herein;

NOW, THEREFORE, IT IS ORDERED BY THE BOARD OF DIRECTORS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61 THAT the code, policies, procedures and provisions set forth herein be and are hereby ADOPTED.

ARTICLE I
CODE OF ETHICS

Section 1.01. It is hereby declared the policy of the District that its Board of Directors, officers, investment officers 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 following standards of conduct are hereby established to provide a guideline to the directors, officers, investment officer, and employees of the District in the conduct of normal business and operations of the District:

A. Conflicts of Interest: Pursuant to Section 49.058, Texas Water Code, each Director of the District is subject to the provisions of Chapter 171, Texas Local Government Code, relating to the regulation of conflicts of interest of officers of local governments. Therefore, the District adopts Chapter 171, Texas Local Government Code, as its conflicts of interest policy, the principal provisions of which are as follows:

1) A Director shall abstain from participating in a decision of the Board of Directors which either (a) will have a special economic effect on a business in which the Director or a person related to the Director in the first degree by consanguinity or affinity has a substantial interest that is distinguishable from the effect on the public; or (b) in the case of substantial interest in real property, affects the value of such property in which the Director or a person related to the Director in the first degree by consanguinity or affinity has a substantial interest differently from how it affects the public, except when a majority of the Board of Directors is required to abstain from participation in a particular vote because of a similar conflict of interest. A Director who determines that he or she must abstain from participating in a decision of the

Board of Directors for a reason set forth above must file an affidavit with the Secretary of the Board of Directors, prior to a vote or decision by the Board of Directors on the matter, stating the nature and extent of the Director's interest in the matter.

2) For purpose of this conflicts of interest policy, a Director is considered to have a "substantial interest" in a business if (a) the Director or a person related to the Director in the first degree by consanguinity or affinity 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 \$5,000 or more of the fair market value of the business entity; or (b) funds received from the business exceed ten percent (10%) of the gross income of the Director or of a person related to the Director in the first degree by consanguinity or affinity for the previous year. A Director has a substantial interest in real property if the interest of the Director or of a person related to the Director in the first degree by consanguinity or affinity is an equitable or legal ownership with a market value of \$2,500 or more.

B. Gifts: No director, officer, investment officer 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, from an individual or entity interested in or likely to become interested in any contract, purchase, payment, claim or transaction involving the exercise of his or her discretion, or under other circumstances where a reasonable inference could be drawn that the gift or thing of value was intended to influence such director, officer, investment officer or employee of the District in the performance of his or her official duties or was intended as a reward for any decision, opinion, recommendation or other exercise of discretion 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 or are otherwise allowed by law. Specifically, a director, officer, investment officer 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) Do not impose any sense of obligation on the recipient to the donor;
- 4) Do not result in any form of special or favored treatment for the donor;
- 5) Cannot reasonably be viewed as extravagant, excessive or too frequent considering all the circumstances;
- 6) Do not involve cash, currency, gift certificates, loans or credit arrangements of any kind, or a negotiable instrument described by §3.104 Texas Business & Commerce Code;
- 7) Do not involve any item of property with a fair market value greater than \$49.00;
- 8) Do not involve materials, services, repairs or improvements at no cost or at unreasonably low prices;
- 9) If involving dining, lodging, transportation and/or entertainment, then:
 - (a) The dining, lodging, transportation and/or entertainment is accepted as a guest of the individual or entity providing same (i.e., they must be present); or
 - (b) The dining, lodging and/or transportation is provided in connection with a conference or similar event at which the director, officer, investment officer or employee of the District renders services, such as addressing an audience or engaging in a seminar, to the extent those services are more than merely perfunctory.
- 10) Are made under circumstances where no effort is made to conceal the facts and circumstances related thereto by either the recipient or the donor; and

11) Are properly disclosed in a Conflicts Disclosure Statement as and if required by Chapter 176, Texas Local Government Code.

C. Investments: Except under circumstances permitted by the general or special laws of the State and the rules, regulations and policies of the District, no director, officer, investment officer or employee of the District shall own an interest in or derive compensation or profit from or engage in the management of 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.

D. Confidential Information: No director, officer, investment officer 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, investment officer or employee, or accept employment or engage in any business or professional activity which such director, officer, investment officer 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.

E. Private Employment: No director, officer, investment officer 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, investment officer or employee and upon which he or she must act or make a recommendation.

F. Appearance of Proper Conduct: Each director, officer, investment officer 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 influenced in the performance of his or her official duties, and to such ends, no director, officer, investment officer or employee of the District shall endorse commercial products 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.

G. Investment Officer: An investment officer of the District who has a personal business relationship with an entity seeking to sell an investment to the District shall file a written statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District must file a statement disclosing such relationship. Any statement required to be filed by an investment officer of the District under this subsection must be filed with the Board of Directors of the District and the Texas Ethics Commission.

H. Conflicts Disclosure Statement: In the event the Authority has contracted or is considering doing business with an Interested Person and (i) the Interested Person has an employment or other business relationship with a Director or his/her Family Member that results in the Director or his/her Family Member receiving taxable income, or (ii) the Interested Person has given a Director or his/her Family Member one or more gifts (other than gifts of food, lodging, transportation, or entertainment accepted as a guest) that have an aggregate value of more than \$250 in the 12-month period preceding the date the Director becomes aware that the Authority has executed a contract or is considering doing business with the Interested Person, and such activities are not otherwise prohibited by the provisions of Chapter 171, Texas local Government Code or this ethics policy, the Director must file a conflicts disclosure statement with the person responsible for maintaining the records of the Authority, no later than 5:00 p.m. on the seventh (7th) business day after the date the Director becomes aware of facts that require the filing of the conflicts disclosure statement, disclosing, as applicable, the employment or other business relationship, including the nature and extent of the relationship and/or the gift(s) aggregating more than \$250 in value received by the Director or his/her Family Member from the Interested Person during the preceding 12-month period as described herein, acknowledging that the disclosure applies to each Family Member of the Director and covers the preceding 12-month period as described herein, and containing the signature of the Director acknowledging that the conflicts disclosure statement is made under oath under penalty of perjury, all in accordance with Chapter 176, Texas Local Government Code. For the purposes of this subsection, a person is considered

an "Interested Person" if the person contracts or seeks to contract for the sale or purchase of property, good, or services with the Authority or is the agent of such a person in their business with the Authority. A state, political subdivision of a state, the federal government, or a foreign government (including their employees acting in their official capacity) can not be an "Interested Person." For the purposes of this subsection, "Family Member" means a person related to another person within the first degree of consanguinity or affinity, as described by Chapter 573, Texas Government Code.

ARTICLE II
FEEES AND EXPENSE POLICY

Section 2.01. 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, officers, investment officers, and employees of the District for travel expenditures incurred while conducting official duties and assignments and carrying out 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 attendance at such conventions, conferences, training and trade programs, hearings and meetings related thereto shall be pre-approved and pre-authorized by the Board of Director and further provided 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 all reasonable and actual costs of meals, lodging, transportation and related general expenses, such as registration costs, materials costs, normal gratuities and related expenses and costs. The District shall not pay or reimburse any expenses of persons who have no responsibility or duties to perform for the Board or the District, including any persons whose connection with District matters is based solely on their relationship of blood, marriage or friendship with a director, officer, investment officer or employee of the District. Directors attending meetings or other activities relating to the District and wishing to receive a per diem and/or reimbursement of reasonable and necessary expenses from the District must submit a verified statement showing the number of days actually spent in service to the District and a general description of the duties performed for each day of service. Directors may receive a fee of office (per diem), as established by the Board of Directors but in no event greater than the amount allowed by law, for each day of service necessary to discharge the Directors' obligations on behalf of the District. Directors may not receive more than

the amount allowed by law in any one year regardless of the number of days of necessary service to the District during that year and regardless of when the Director receives payment, with the "year" to be the fiscal year established by the Board of Directors. The fees of office or per diems paid to Directors shall not include the amount of any reimbursement for actual expenses reasonably and necessary incurred while engaging in activities on behalf of the District. To receive reimbursement for expenses, a Director must also submit an itemized expense report which shall be accompanied by receipts, memoranda or similar documentation as to the amount and business purpose of such expenses; provided, however, that any expense incurred on behalf of and to be reimbursed by the District in excess of \$25.00, and all costs and expenses of lodging and airline travel, regardless of amount, shall be accompanied by invoices, receipts or comparable documentation. Items on such itemized expense report shall include lodging, meals, tips, parking and transportation. Directors sharing expense items may split reported expenses in any manner they deem equitable, but the District will pay no more than 100% of the actual total cost of reimbursable expenditures. Any extraordinary expenses for a Director attending a sanctioned activity of the District must be approved by the Board prior to incurring the expense. If a Director receives an advance from the District for expenditures expected to be incurred, any unexpended amount (as evidenced by the detailed expense report described above) shall be repaid to the District simultaneously with the submission of the report.

ARTICLE III CONSULTING SERVICES

Section 3.01. Any contract for professional consulting services, including legal, fiscal, accounting, auditing and/or engineering services shall be initiated, concluded and administered by the Board of Directors of the District pursuant to the procedures provided in Subchapter A, Chapter 2254, Government Code, as amended (the Professional Services Procurement Act).

Section 3.02. Prior to entering into a contract for professional consulting services, the Board of Directors shall review and evaluate proposals submitted by qualified consultants and shall assess: the prior project experience of such consultants that relate directly to the District's needs; the work experience of such consultants with organizations of similar types and sizes; the financial capacity and stability of such consultants; and such other matters and qualifications as the staff and/or Board of Directors of the District may deem appropriate. In evaluating such proposals, the Board of

Directors may make such contacts with current and prior clients of such consultants as they may deem appropriate to obtain accurate assessments of the performance of such consultants. After an evaluation of such proposals and previous performance histories, the Board of Directors shall select and conclude a contract with a 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. 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 shall also monitor the services rendered in connection with all consulting contracts.

Section 3.04. 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 of Texas including, but not limited to, the provisions of Chapter 171, Texas Local Government Code, as amended.

Section 3.05. The District shall require that any officer, employee, or consultant who collects, pays or handles any funds of the District furnish or provide a bond, payable to the District, in an amount determined by the Board of Directors to be sufficient to safeguard the District. Such bond shall be conditioned on the faithful performance of that person's duties and on accounting for all funds and property of the District. The bond shall be signed or endorsed by a surety company authorized to do business in the State of Texas. The Board may pay the premium on such surety bonds required out of any available funds of the District.

ARTICLE IV
UNIFORM FINANCIAL ACCOUNTING AND
REPORTING STANDARDS

Section 4.01. 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 industrial development bonds and pollution control bonds of the

District which complies with the requirements of the State auditor, as promulgated from time to time.

ARTICLE V
ANNUAL OPERATING BUDGET

Section 5.01. Subject to the applicable requirements of the general and special laws of the State of Texas, the District's Board of Directors shall adopt and promulgate an operating budget for the fiscal period beginning on the first day and ending on the last day of the District's 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. Any major proposed expenditure 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. The Board of Directors of the District, in deliberating approval of such major proposed expenditure shall, in addition to other pertinent facts, consider: 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 5.02. 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 VI
AUDIT COMMITTEE

Section 6.01. To assist the Board of Directors of the District in the management of the operations and fiscal affairs of the District, there is hereby appointed an Audit Committee of the Board of Directors consisting of the President and Secretary of the Board of Directors. Such Audit Committee shall periodically review the District's financial statements, fiscal

practices and financial position; shall consult, as and when they deem necessary or appropriate, with representatives of the Texas Commission on Environmental Quality, the District's independent auditors and the District's legal consultants; and shall make periodic recommendations to the Board of Directors of the District on such changes in accounting procedures and controls, fiscal management, investments and related financial matters as the Audit Committee may deem appropriate.

ARTICLE VII
MISCELLANEOUS

Section 7.01. No part, section, paragraph or provision of the rules, regulations and policies contained herein is intended to expand, restrict or modify the legal duties and obligations of any director, officer, investment officer, consultant, contractor or employee 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 7.02. The rules, regulations and policies set forth herein shall be and remain in full force and effect unless and until amended, revised, rescinded or repealed by action of the Board of Directors. Any prior resolutions, orders, rules, regulations or policies which pertain to the subject matter herein or are in conflict herewith, are repealed, revoked, rescinded and of no further force and effect as of the date hereof.

PASSED AND ADOPTED this the 23rd day of April, 2013.

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 61

ATTEST:

By: Whit Beall
President, Board of Directors

By: [Signature]
Secretary, Board of Directors

(SEAL)

