

JOHNSON COUNTY SPECIAL UTILITY DISTRICT BYLAWS

(as amended on 9/16/2008)

MISSION STATEMENT

The Board of Directors and staff are united in the long-term commitment to provide adequate safe drinking water to its customers, and appropriately plan for the future growth of the district. The standard for performing this duty is to provide quality service at the fairest reasonable cost while conserving resources.

PREFACE

The Johnson County Special Utility District was created out of the transformation from a water supply corporation after 38 years of operation. In 2003, the 78th legislature of the state of Texas approved Senate Bill-5 that enabled Johnson County Rural Water Supply Corporation to become a Special Utility District. A confirmation vote was passed on November 4, 2003 by voters in the district to consummate the conversion. The reason for transforming to a district was to take full advantage of the economy and financing opportunities to enhance the ability to maintain the stated mission.

ARTICLE I - PURPOSE

Special Utility Districts are created under and subject to the authority, conditions, and restrictions of, and is considered a conservation and reclamation district under Article XVI, Section 59, of the Texas Constitution. The district maintains the rights to purchase, own, hold, lease, and otherwise acquire sources of water supply; to build, operate, and maintain facilities for the transportation of water; and to sell water to towns, cities, and other political subdivisions of this state, to private business entities, and to individuals;

Also, for the protection, preservation, and restoration of the purity and sanitary condition of water within the district. (Gen. Law Dist. Ch. 65.012)

ARTICLE II – DIRECTORS AND OFFICERS

A. Director

1. The Board of Directors shall consist of nine (9) Directors, a majority of whom shall constitute a quorum. For the sake of uniformly staggered elected terms, there will be three (3) groups with (3) directors in each. The terms of the Directors of the first group will expire on the first regular board meeting date after the designated general election day for JCSUD. The terms of the Directors of the second group shall expire the following year and terms of the Directors of the third group shall expire the next year. A full term shall be three (3) years. The Directors shall serve without pay, but may be compensated for actual expenses incurred in performing the duty as director.

To be qualified to serve as a director, a person must be:

- a) at least 18 years old;
 - b) a resident citizen of this state; and
 - c) either own land subject to taxation in the district, be a user of the facilities of the district, or be a qualified voter of the district. (Gen. Law Dist. Ch. 65.102)
2. Except as otherwise provided in this code, all vacancies on the board and in other offices shall be filled for the unexpired term by appointment of the board.
 3. In the event of a failure to elect one or more members of the board of a district, resulting from the absence of, or failure to vote by, the qualified voters in the district, the current members of the board holding the positions not filled at such election shall be deemed to have been re-elected and shall serve an additional term of office. (Gen. Law Dist. Ch. 49.105)

B. Officers

1. The officers of the district shall maintain the titles: President, Vice-President, Secretary-Treasurer, and Assistant Secretary-Treasurer.
2. After each election, or annually, the board shall meet and elect officers.
3. The president is the chief executive officer of the district, and shall execute documents on behalf of the district unless the board by resolution authorizes the general manager or other employee of the district to execute a document or documents on behalf of the district. The vice-president shall act as president in case of the absence or disability of the president. The secretary is responsible for seeing that all records and books of the district are properly kept. The

secretary shall execute documents as appropriate and may attest the president's signature on documents. The position of the Secretary-Treasurer and other positions entrusted with receipt and disbursement of funds shall be placed under a fidelity bond in an amount which shall be set from time to time, but not less than once each year.

The Assistant Secretary/Treasurer shall assist and/or act as Secretary/Treasurer in case of the absence or disability of the Secretary/Treasurer. Any such person shall be entitled to be a signatory for check disbursement and to certify as to the authenticity of any record of the district, including but not limited to all proceedings relating to bonds, contracts, or indebtedness of the district. (Gen. Law Dist. Ch. 49.054)

ARTICLE III - DISQUALIFICATION OF A DIRECTOR

- A. A person is disqualified from serving as a member of the board if that person:
1. is related within the third degree of affinity or consanguinity to a developer of property in the district, any other member of the board, or the manager, engineer, attorney, or other person providing professional services to the district;
 2. is an employee of any developer of property in the district or any director, manager, engineer, attorney, or other person providing professional services to the district or a developer of property in the district in connection with the district or property located in the district;
 3. is a developer of property in the district;
 4. is serving as an attorney, consultant, engineer manager, architect, or in some other professional capacity for the district or a developer of property in the district in connection with the district or property located in the district;
 5. a) is a party to a contract with or along with the district except for the purchase of public services furnished by the district to the public generally; or
b) is a party to a contract with or along with a developer of property in the district relating to the district or to property within the district, other than a contract limited solely to the purpose of purchasing or conveying real property in the district for the purpose of either establishing a permanent residence, establishing a commercial business within the district, or qualifying as a director; or

6. during the term of office, fails to maintain the qualifications required by law to serve as a director.
- B. Within 60 days after the board determines a relationship or employment exists which constitutes a disqualification under Section A, it shall replace the person serving as a member of the board with a person who would not be disqualified.
- C. Any person who willfully occupies an office as a member of a board and exercises the powers and duties of that office when disqualified under the provisions of Section A is guilty of a misdemeanor and, on conviction, shall be fined not less than \$100 nor more than \$1,000.
- D. As used in this section, "developer of property in the district" means any person who owns land located within a district covered under this section and who has divided or proposes to divide the land into two or more parts for the purpose of laying out any subdivision or any tract of land or any addition to any town or city, or for laying out suburban lots or building lots, or any lots, streets, alleys, or parks or other portions intended for public use, or the use of purchasers or owners of lots fronting thereon or adjacent thereto.
- E. Any rights obtained by any third party through official action of a board covered by this section are not impaired or affected by the disqualification under this section of any member of the board to serve, provided that the third party had no knowledge at the time the rights were obtained of the fact that the member of the board was disqualified to serve.
- F. A board by unanimous vote of its remaining members may remove a board member only if that board member has missed one-half or more of the regular meetings scheduled during the prior 12 months. Any board member so removed may file a written appeal with the TCEQ within 30 days after receiving written notice of the board action. The commission may reinstate a removed director if the commission finds that the removal was unwarranted under the circumstances, including the reasons for absences, the time and place of the meetings missed, the business conducted at the meetings missed, and any other facts or circumstances the commission may deem relevant. (Gen. Law Dist. Ch. 49.052)

ARTICLE IV - MEETINGS AND NOTICE

Regular meetings of the Board of Directors shall be held monthly, at the office or other location as the Board may determine, and shall include posting notice of the meeting as required by the Texas Open Meetings Act, Texas Government Code, Chapter 551. Parliamentary procedure shall be observed and followed according to Robert's Rules of Order.

The board shall hold such regular and special meetings as may be necessary for the proper conduct of the district's business. All meetings shall be conducted in accordance with the open meetings law, Chapter 551, Government Code. A meeting of a committee of the board, or a committee composed of representatives of more than one board, where less than a quorum of any one board is present is not subject to the provisions of the open meetings law, Chapter 551, Government Code. (Gen. Law Dist. Ch. 49.064)

ARTICLE V – MANAGEMENT AND CONDUCT OF DUTY

A. Management

1. The board shall be responsible for the management of all 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, engineers, attorneys, financial advisors, operators, bookkeepers, tax assessors and collectors, auditors, and administrative staff.

The board shall adopt an annual budget. All district employees are employed at the will of the district unless the district and employee execute a written employment contract. (Gen. Law Dist. Ch. 49.057)

2. The board may employ or contract with a person to perform such services as general manager for the district as the board may from time to time specify. The board may delegate to the general manager full authority to manage and operate the affairs of the district subject only to orders of the board. (Gen. Law Dist. Ch. 49.056a)
3. The board may delegate to the general manager the authority to employ all persons necessary for the proper handling of the business and operation of the district and to determine the compensation to be paid all employees other than the general manager. (Gen. Law Dist. Ch. 49.056b)
4. Two signatures are needed for payments made by check. Authorized signatories are the General Manager, Controller and Directors that are so designated on the Bank's authorization list.
For checks over \$5,000, at least one of the signatures must be that of a Director.

(Sept. 16, 2008- Amended Article V, A-4)

B. Conduct of Duty

In conducting their duties as members of the board, each director:

1. shall be entitled to rely, in good faith and with ordinary care, on information, opinions, reports, or statements, including financial statements and other financial data, concerning the district or the district's affairs, that have been prepared or presented by one or more officers or employees of the district; or by legal counsel, public accountants, or other persons retained by the district for the development of professional advice and information falling within such person's professional or expert competence;
2. may believe, in good faith and with ordinary care, that the assets of the district are at least that of their book value; and
3. in determining whether the district has made adequate provision for the discharge of its liabilities and obligations; may rely in good faith and with ordinary care on the financial statements of, or other information concerning any person or entity obligated to pay, satisfy or discharge some or all of the district's liabilities or obligations.

ARTICLE VI – INVESTMENTS AND RESERVE FUNDS

A. Investments

1. All district deposits and investments shall be governed by Subchapter A, Chapter 2256, Government Code (Public Funds Investment Act). (Gen. Law Dist. Ch. 49.157)
2. The district will manage all of its investments according to the district's investment policy.
3. The board may provide that an authorized representative of the district may invest and reinvest the funds of the district and provide for money to be withdrawn from the appropriate accounts of the district for the investments on such terms as the board considers advisable. (Gen. Law Dist. Ch. 49.157b)

B. Reserve Fund

The district shall establish and maintain, so long as the district is indebted to the Government, in an institution insured by the State or Federal Government, or invested in readily marketable securities backed by the full faith and credit of the United States of America, a reserve account separate and apart from other fund accounts of the district. There shall be deposited in such fund the sum as required by a total annual payment sum of all loan resolutions executed by the district. Such deposits shall be made monthly and shall continue until the total

amount deposited equals the sum as required by the executed loan resolutions provided, however, that after any withdrawals, such deposits shall be resumed until the amount accumulated in the fund is restored to the sum as required by the executed loan resolutions.

ARTICLE VII – DISSOLUTION

If the board unanimously determines from the evidence that the best interests of the persons and property in the district will be served by dissolving the district, the board shall enter the appropriate findings and order in its records dissolving the district. Otherwise the board shall enter its order providing that the district has not been dissolved. (Gen. Law Dist. Ch. 65.730)

ARTICLE VIII – FISCAL YEAR

The fiscal year of the district shall be January 1 through December 31.

The district may change its fiscal year at any time, provided, however, it may not be changed more than once in any 24-month period. After any change in the district's fiscal year, the district shall notify the TCEQ executive director of the changed fiscal year within 30 days after adoption.

ARTICLE IX – RURAL DEVELOPMENT (formerly FmHA) LOAN COVENANTS

For so long as the district is indebted for a loan or loans made to it by the USDA Rural Development agency, the district shall insure with a reputable insurance company such of its properties and in such amounts as is required by the State Director of the USDA Rural Development agency.

The following provisions apply to be consistent with existing Rural Development Loan Covenants:

1. If at the end of the fiscal year, or in the event of emergency repairs, the Board of Directors determines the total amount derived from the collection of water charges to be insufficient for the payment of all costs incident to the operation of the district during the year in which such charges are collected, the Board shall make and levy an assessment against each customer as the Board may determine or as may be required by Rural Development, so that the sum of such assessments and the amount collected from water and other charges

is sufficient to fully pay all costs of operation, maintenance, replacement and repayment on indebtedness for the year's operations, but this provision shall not operate for the benefit of any third party creditor other than Rural Development without a favorable vote of the majority of the board. Any assessments levied to make up operational deficits in any year shall be levied against the district.

2. In the event a customer of the district should surrender his service agreement properly endorsed, the obligation to pay such assessments shall be limited to assessments made and levied prior to the date of such surrender, provided, however, that this paragraph and the provisions of the service policy shall not apply to relieve a customer of his obligation under special agreements covering multiple deposits held by one customer which may have been required or approved by the USDA Rural Development.

ARTICLE X – DUTY TO AUDIT AND RECORDS

A. Audit

The board shall have the district's fiscal accounts and records audited annually at the expense of the district. In all areas of conflict, the provisions of the Texas Water Code shall take precedence over all prior statutory enactments.

1. The person who performs the audit shall be a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy. The audit required by this section shall be completed within 120 days after the close of the district's fiscal year. (Gen. Law Dist. Ch. 49.191)
2. After the board has approved the audit, it shall submit a copy of the report to the TCEQ executive director for filing within 135 days after the close of the district's fiscal year. If the board does not approve the annual audit report, the board shall submit a copy of the report to the TCEQ executive director for filing within 135 days after the close of the district's fiscal year, accompanied by a statement from the board explaining the reasons for not approving the report. (Sec. 49.194)

B. Records

1. 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.

The records of each district are the property of the district and are subject to the open records law, Chapter 552, Government Code.

The preservation, microfilming, destruction, or other disposition of the records of each district is subject to the requirements of Chapter 201, Local Government Code, and rules adopted under that chapter. (Gen. Law Dist. Ch. 49.065)

2. With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Texas Open Records Act, Texas Government Code Ann., Section 552, et seq., including any amendments thereto, shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to a reasonable charge for the preparation of copies. In the event of any conflict between the provisions of the Texas Open Records Act, Texas Open Meetings Act and the Texas Water Code and the provisions of these by-laws, the provisions of the state law shall prevail.

Amended Article V, A-4 as approved on 6/18/2008 at a Regular Board of Directors Meeting