

RESOLUTION ADOPTING AN AMENDED
CODE OF ETHICS, FEES AND EXPENSE POLICY,
INVESTMENT POLICY, POLICIES AND PROCEDURES
FOR SELECTION AND REVIEW OF CONSULTANTS,
POLICIES CONCERNING THE USE OF MANAGEMENT
INFORMATION INCLUDING THE FORMATION OF AN AUDIT
COMMITTEE, APPOINTING INVESTMENT OFFICER,
AND CERTAIN OTHER MATTERS

WHEREAS, Harris County Municipal Utility District No. 136 (the “District”) is a water district operating pursuant to chapter 54 of the Texas Water Code; and

WHEREAS, Tex. Water Code Ann. §49.199 requires that the Board of Directors of the District adopt certain policies and procedures in writing, including a code of ethics, an expense policy, an investment policy, policies and procedures for selection and review of consultants, and policies concerning the use of management information and the formation of an audit committee; and

WHEREAS, Tex. Government Code §2256.005 (the “Act”) requires that the Board of Directors of the District adopt rules governing the investment of District Funds (defined herein as those funds in the custody of the District that the District has the legal authority to invest); and

WHEREAS, the Board of Directors from time to time elects a Treasurer and deems it necessary and advisable to designate the member of the Board of Directors holding the office of Treasurer as the officer of the District responsible for the investment of District Funds;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 136 THAT:

I.

The Board of Directors hereby adopts Attachments A through E hereof as its written policies and procedures required by Tex. Water Code Ann. §49.199 and the Act.

II.

The Board of Directors hereby authorizes the Treasurer and any successor Treasurer to be the District’s investment officer and to exercise responsibility for the investment of District Funds in accordance with the provisions of the Act.

III.

The President and the Secretary of the Board of Directors are authorized to evidence adoption of this Resolution on behalf of the Board of Directors and to do all other things proper and necessary to carry out the intent hereof. This resolution supersedes all previous Resolutions adopting any of the following: a Code of Ethics, a Travel Expense Policy, an Investment Policy, Policies and Procedures for Selection and Review of Consultants, or Policies Concerning the Use of Management Information Including the Formation of an Audit Committee, and shall be effective June 12, 2002.

ATTACHMENT A

CODE OF ETHICS

SECTION 1. *Purpose.* The purpose of this Code of Ethics is to set forth the standards of conduct and behavior for the members of the Board of Directors of Harris County Municipal Utility District No. 136 (the “District”), and its officers, employees, and persons handling investments for the District (collectively with the Directors, the “District Officials”).

SECTION 2. *Conflicts of Interest.* The District adopts Chapter 171, Government Code, as its Conflict of Interest Policy, the principal provisions of which are as follows: Except where a majority of the Board of Directors is required to abstain from participation in a vote because of conflict of interest, a Director will abstain from participating in a decision of the Board of Directors which either (1) confers an economic benefit on a business in which the Director or a close relative has a substantial interest, or (2) affects the value of property in which the Director or a close relative has a substantial interest differently from how it affects other real property in the District. For these purposes, a person is considered to have a “substantial interest” in a business if (1) he owns 10% or more of the voting stock or shares of the business entity or owns either 10% or more or \$5,000 or more of the fair market value of the business entity; or (2) funds received from the business exceed 10% of his gross income for the previous year. A Person has a substantial interest in real property if the interest is an equitable or legal interest with a market value of \$2,500 or more. A “close relative” of a Director for these purposes is a person related to the Director within the first degree of affinity or consanguinity.

SECTION 3. *Conduct of District Business.* Each District Official will conduct all business of the District in a manner consistent with the requirements of applicable law.

SECTION 4. *Acceptance of Gifts.* No District Official shall accept any benefit as consideration for any decision, opinion, recommendation, vote, or other exercise of discretion in carrying out his official acts for the District. No District Official shall solicit, accept, or agree to accept any benefit from a person known to be interested in or likely to become interested in any contract, purchase, payment, claim, or transaction involving the exercise of the District’s Official’s discretion. As used herein, “benefit” shall not include:

- (1) A fee prescribed by law to be received by a public servant or any other benefit to which the District Official is lawfully entitled or for which he gives legitimate consideration in a capacity other than as a District Official;
- (2) A gift or other benefit conferred on account of kinship or a personal, professional, or business relationship independent of the status of the recipient as a District Official;
- (3) A political contribution, as defined by the Election Code;
- (4) A benefit consisting of food, lodging, transportation, or entertainment accepted as a guest; or

(5) A benefit to a District Official required to file a financial statement under the Texas Election Code that is derived from a function in honor or appreciation of the recipient if

(A) The benefit and the source of any benefit in excess of \$50.00 is reported in the required financial statement;

(B) The benefit is used solely to defray the expenses that accrue in the performance of duties or activities in connection with its official duties for the District which are non-reimbursable by the District; or

(6) An item with value of less than \$50, excluding cash or a negotiable instrument; or

(7) An item issued by a governmental entity that allows the use of property or facilities owned, leased, or operated by the governmental entity.

SECTION 5. *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 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 shall file statement disclosing that relationship. A statement required under this section must be filed with the Board and the Texas Ethics Commission.

ATTACHMENT B

FEES AND EXPENSE POLICY

SECTION 1. *Purpose.* The purpose of this Expense Policy is to set forth the policies of Harris County Municipal Utility District No. 136 (the "District") concerning per diem and travel expenses for members of the Board of Directors of the District.

SECTION 2. *Per Diem for Directors.* The Directors are entitled to receive as fees of office \$100 a day for each day of service necessary to discharge their duties; provided the fees shall not exceed a sum of \$6,000 per annum.

SECTION 3. *Attendance at Meetings and Conduct of Other District Business.* Board members may attend conferences and meetings of the Association of Water Board Directors, at the District's expense, whether within or outside the City of Houston. Attendance at other conferences, hearings, or other meetings outside the Houston metropolitan area by the members of the Board of Directors must be sanctioned by the Board of Directors; attendance at local meetings or conduct of other local District business will be at each Director's discretion. Directors attending any meeting or conducting any District business shall report to the Board concerning the meeting or activity.

SECTION 4. *Expenses Outside of Metropolitan Houston.* The District will pay a reasonable room rate for a director's hotel room, if District business requires that the director be out of Metropolitan Houston, reasonable tips incurred in making the trip, roundtrip mileage at the current IRS mileage rate and parking, if any, for travel by car or roundtrip airfare at current commercial rates for standard (not first class) air fare and reasonable rental car or taxi charges. The District will pay for meals actually eaten and paid for by the Director on a sanctioned trip outside of Metropolitan Houston; provided, however, reimbursement for meals will be limited to \$50 per day.

SECTION 5. *Expenses for Local Meetings and Activities.* The District will pay for roundtrip mileage at the current IRS rate for travel by car, parking, and will pay meals directly related to the meeting or activity. Reimbursement for meals will be limited to \$50 per day.

SECTION 6. *Reimbursement.* Directors attending meetings or other activities and wishing to receive a per diem and/or expenses 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. To receive reimbursement for expenses, a Director must also submit an itemized expense report to the bookkeeper before reimbursement is approved by vote of the Board. Items on the expense report shall include lodging, meals, tips, parking and transportation. Directors sharing expense items may split reported expenses in any matter they deem equitable, but the Board will pay no more than 100% of the actual total cost of reimbursable items.

SECTION 7. *Extraordinary Expenses.* Any extraordinary expenses for a Director attending a sanctioned activity of the District must be approved by the Board prior to incurring the expense.

ATTACHMENT C

INVESTMENT POLICY

SECTION 1. *Purpose.* The purpose of this Investment Policy is to adopt rules and regulations which clearly set forth the District's investment strategy for each of the accounts under its control, emphasize safety of principal and liquidity, address investment diversification, investment limitations, and the quality and capability of investment management, to specify the scope of authority of those officers or employees of the District designated to invest District Funds (defined herein as those funds in the custody of the District and that the District has the legal authority to invest), to designate one or more officers or employees of the District to be responsible for the investment of such District Funds, and to provide for periodic review of the investment of District Funds.

SECTION 2. *Investment Rules.* The Board of Directors of the District adopts the rules attached to this Attachment C as Exhibits 1 through 5 to govern the investment of District Funds and to specify the scope of authority of those officers and employees of the District designated to invest District Funds, which rules shall supersede any investment rules previously adopted by the District. The Board of Directors directs that its Investment Officer, the Bookkeeper for the District, and the Tax Assessor/Collector for the District maintain the investments of the District in a manner consistent with those rules and regulations, and with the Public Fund Investment Act, Chapter 2256, Government Code.

SECTION 3. *Review of District Investments.* The Bookkeeper for the District will report to the Board of Directors of the District at each of their regular meetings concerning the status of District investments.

SECTION 4. *Review of Policy.* The Board shall review this Investment Policy and its investment strategies at least once on an annual basis.

EXHIBIT “1”

GENERAL

The following rules shall apply to those funds in the custody of the District that the District has the legal authority to invest (“District Funds”).

A. General Principles

The investment policy of the district is to invest District Funds only in instruments which maintain the principal and liquidity of District Funds, to the extent necessary for District activities. Yield earned on District Funds is a secondary consideration compared to safety of principal and liquidity; however, if safety of principal and liquidity needs are met, the District will invest in instruments which give it the highest yield, except when it must limit yield to comply with any limitations on the investment of District Funds imposed on the District in connection with the issuance of bonds in order to comply with the provisions of section 148 of the Internal Revenue Code of 1986, as amended, or any regulations or rulings pertaining thereto.

B. Diversification

The District will continuously attempt to diversify its portfolio to reduce risk. The portion of its investment portfolio invested in direct obligations of the U.S. Government or certificates of deposit insured by the Federal Deposit Insurance Corporation will be diversified in terms of maturity. If the portion of the District’s portfolio invested in obligations of federal agencies and instrumentality exceeds \$500,000, the District will attempt to invest in instruments of various maturities. The District will not invest more than \$500,000 in a certificate of deposit or deposits issued by the same financial institution. The District recognizes that by investing District Funds in investment pools, it can diversify its portfolio because each participant in the pool has a pro rata share of a number of instruments, such as repurchase agreements with various providers.

C. Maturity

The District will not invest in an obligation which matures more than two years from the date of purchase.

D. Quality and Capability of Investment Management

The district will employ a Bookkeeper who is experienced in investing public funds and will consult with the Bookkeeper on investment opportunities. The District will consult with its financial adviser before investing in any investments which are new to it. The Board also recognizes that it may take advantage of professional investment advice by investing in investment pools.

E. Depositories

All uninvested District Funds shall be deposited in the District's depository bank or banks unless otherwise required by orders or resolutions authorizing the issuance of the District's bonds. To the extent such District Funds in the depository bank or banks are not insured by the Federal Deposit Insurance Corporation, they shall be secured in the manner provided by law for the security of District funds.

F. Disbursements

Any transfer of District Funds for the benefit of a third person shall, after approval by the Board, be made by a draft executed by at least three directors or by wire transfer pursuant to the District's Wire Transfer Agreement with its depository bank.

G. Amendment

In the event State law changes and the District cannot invest in the investments described in this policy, this policy shall automatically be conformed to existing law.

EXHIBIT “2”

A. Authorized Investments

District Funds may be invested in any category of investments authorized under the Public Funds Investment Act, which has been approved by the Board. The following categories are approved:

1. Obligations of the United States or its agencies and instrumentalities;
2. 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 if the obligation is not:
 - a. an obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
 - b. an obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - c. a collateralized mortgage obligation that has a stated final maturity date of greater than 10 years; and
 - d. a collateralized mortgage obligation the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit or, this state or the United States or their respective agencies and instrumentalities;
4. Certificates of deposit issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state which are (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or (2) secured by (a) obligations described in subcaptions 1, 2, or 3 above, or (b) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, or (c) secured in any other manner and amount provided by law for deposits of the District; provided such obligations are marked to market at least monthly, which have a market value at least equal to the deposit and are pledged to the District only and held by a third-party custodian;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
6. An investment pool that meets the requirements of Public Funds Investment Act;

7. Other investments authorized by law and approved by the Board by resolution or minute entry;

B. Monitoring Market Price of Investments

1. The Bookkeeper will monitor the market price of the District's investments at least quarterly and such information shall be included on each investment report. The following methods of monitoring investments shall be utilized:

a. Certificates of deposit may be valued at their face value plus any accrued but unpaid interest.

b. Shares in money market funds and investment pools may be valued at the current share price.

c. Other investment securities may be valued in any of the following ways, at the discretion of the bookkeeper:

(i) the lower of two bids for such investment securities from securities dealers;

(ii) the average of the bid and asked prices for such investment securities as published in The Wall Street Journal or The New York Times;

(iii) the bid price published by a nationally recognized pricing service;
or

(iv) such other method as may be approved by the Board.

2. All transactions, except investments in investment pools and mutual funds, shall be settled on a delivery versus payment basis.

C. Approved Brokers

The Board hereby adopts the brokers listed in Table A as those brokers that are authorized to engage in investment transactions with the District.

Table A		
1. Alief Alamo	24. First National Bank Bellaire	47. Norwest Bank
2. American Bank	25. First Prosperity Bank	48. Paine Webber, Inc.
3. Bank of Houston	26. Fiserv Investment	49. Prime Bank
4. Bank of America	27. Frost Bank	50. Republic National Bank
5. Bank of West University	28. Guaranty Federal Bank	51. Security State Bank
6. Bank One Texas, N.A.	29. Heritage Bank	52. Southern National Bank
7. Bank United	30. Highlands State Bank	53. Southtrust
8. Bluebonnet Savings	31. Houston Community Bank	54. Southwest Bank of Texas
9. Central Bank	32. Houston Savings	55. Southwest Securities, Inc.
10. Chase Bank of Texas	33. Independence Bank	56. Sterling Bank
11. Chase Securities	34. International Bank of Commerce	57. Sun America Securities, Inc.
12. Chasewood Bank	35. Klein Bank	58. Tex Pool
13. Citizens Bank Bellaire	36. Legg Mason Wood Walker, Inc.	59. Texas First National Bank Bellaire
14. Citizens National Bank	37. Logic Investment	60. Texas State Bank (Riverway)
15. Coastal Banc	38. Lone Star Bank	61. Texas Guaranty Bank
16. Comerica Bank	39. Lone Star Investment	62. Tri-star Financial
17. Community Bank	40. MBIA Texas Class	63. Union Planters Bank
18. Community State Bank	41. Merrill Lynch, Inc.	64. Wallis State Bank
19. Compass Bank	42. Metro Bank	65. Washington Mutual Bank F.A.
20. Crosby State Bank	43. Moody National Bank	66. Wells Fargo
21. Dain Rauscher Inc.	44. Morgan Keegan, Inc.	67. Woocreek Bank
22. Dean Witter, Inc.	45. Navigation Bank	68. Woodforest Bank
23. First Bank of Missouri City	46. Northwest Bank	

EXHIBIT “3”

INVESTMENT STRATEGIES

The District’s investment strategy for each of its account follows:

1. Operating Account. The Operating Account is used for all operations and maintenance needs of the District. The highest priority for this account is safety of principal and liquidity; when these are met, yield is considered. An amount equal to two months of normal operations costs must be kept extremely liquid for normal use; the amount in excess of two months of normal operational costs should be kept in investments that may be liquidated easily if the need arises. The District’s general guidelines for diversification and maturity apply to this account.

2. Debt Service Account. The Debt Service Account is used to pay the District’s debt service. The highest priority for this account is safety of principal. Since the District knows the amount of its debt service and when it becomes due, investments for this account should be structured so that they match debt service needs. When safety of principal and liquidity to match debt service are assured, yield is considered. Since District Funds in this account may not be needed for a year or more, longer term instruments should be considered, within the general guideline for maturity set forth in this investment policy, to increase yield. Since the amount of District Funds in this account will probably be quite large, diversification of investments may be necessary and the District’s general policy on diversification should be used. Since investment pools are short-term in nature, they would normally be used for District Funds in this account only for the time gaps between longer-term investments; however, on some occasions the yield on these funds is higher than longer-term investments, so their use should not be circumscribed.

3. Capital Projects Account. The Capital Projects Account is used to pay for capital projects of the district. The highest priority for this account is safety of principal. The District believes that it will know ahead of time when disbursements need to be made from this account. Therefore, investments in this account should be structured so they mature or can be liquidated on the dates disbursements must be made. When safety of principal and liquidity to match disbursement dates are assured, yield is considered. Since District Funds in this account may not be needed for a year or more, longer term instruments should be considered, within the general guideline for maturity set forth in this investment policy, to increase yield. Alternatively, bond proceeds which will reimburse the developer may only be in the account for a day or two; in this case, an investment pool should be utilized. Investment diversification for the large amount of District Funds that may be deposited to this account for a day or two can be achieved through use of an investment pool. In cases where the District has a large amount of District Funds in this account for longer periods, the District’s general policy on diversification should be used. Since investment pools are short-term in nature, they would normally be used for District Funds in this account only if the District know it will be disbursing funds shortly; however, on some occasions the yield on these funds is higher than longer-term investments, so their use should not be circumscribed.

EXHIBIT “4”

AUTHORITY AND DUTIES OF OFFICERS AND EMPLOYEES

The following rules shall apply to the officers and employees of the District designated to invest District Funds.

1. No person may deposit, withdraw, invest, transfer, or otherwise manage District Funds without express written authority of the Board of Directors of the District (the “Board”).

2. The bookkeeper for the District, under the supervision of the Treasurer, shall invest and reinvest District Funds only in those investments authorized under this investment policy or by the Board.

3. The bookkeeper for the District, under the supervision of the Treasurer, shall prepare, at the end of each fiscal year, a written report concerning the District’s investment transactions for such year and describing in detail the investment position of the District as of the date of the report. The report shall be made to the Treasurer, who shall review, approve, and sign such report and deliver to the Board.

4. In the event District Funds are invested in certificates of deposit, the bookkeeper shall solicit bids from at least two bidders. Bids may be obtained orally, in writing, electronically, or in any combination of those methods.

5. The bookkeeper for the District shall secure an executed copy of the form attached as Exhibit “5” from any securities dealer before the District purchases securities for the District from such securities dealer.

EXHIBIT "5"

ACKNOWLEDGEMENT OF RECEIPT OF INVESTMENT POLICY

1. I am a registered principal of _____
(the "Seller").
2. The Seller proposes to sell certain investments to _____

_____ (the "Government").
3. I acknowledge that I have received and thoroughly reviewed the Government's investment policy.
4. I acknowledge that the Seller has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the Seller and the Government.

Dated this _____ day of _____, 20__.

Title: _____

Business: _____

ATTACHMENT D

POLICY CONCERNING SELECTION, MONITORING, REVIEW, AND EVALUATION OF PROFESSIONAL CONSULTANTS

SECTION 1. *Purpose.* The purpose of this Policy Concerning Selection, Monitoring, Review, and Evaluation of Professional Consultants is to set guidelines for the Board of Directors for Harris County Municipal Utility District No. 136 (the “District”) concerning its Professional Consultants.

SECTION 2. *Definition of Professional Consultant.* “Professional Consultant” shall include the District’s attorney, auditor, bookkeeper, financial advisor, and tax assessor/collector, and such other consultants other than employees that the District may hereafter engage.

SECTION 3. *Selection of Consultants.* Whenever the Board of Directors of the District decides to terminate the services of one or more of its Professional Consultants, the Board shall request one or more proposals as required by the Professional Services Procurement Act, Section 2254.001 *et seq.*, Government Code, except where selection of professional consultants is to be conducted by the Board in an open meeting, shall appoint a committee of one or two Directors to review any proposals received by the Board, to interview applicants, and to make a recommendation to the entire Board of Directors concerning the selection.

SECTION 4. *Monitoring of Professional Consultants.* For those Professional Consultants with annual contracts, the Board of Directors of the District will review the performance of the Professional Consultants for the prior year at the time the contract is renewed. The Board of Directors shall review the performance of its other Professional Consultants, upon the request of one or more Directors.

ATTACHMENT E

POLICIES RELATING TO USE OF MANAGEMENT
INFORMATION AND FORMATION OF AN AUDIT COMMITTEE

SECTION 1. *Purpose.* The purpose of this Policy Relating to the Use of Management Information and Formation of an Audit Committee for Harris County Municipal Utility District No. 136 (the “District”) is to provide written policies concerning the use of management information.

SECTION 2. *Annual Budget.* Prior to each fiscal year, the Board of Directors of the District shall adopt an annual budget for the next fiscal year for use in planning and controlling of costs.

SECTION 3. *Audit Committee.* The District hereby appoints its Board of Directors as an audit committee to review the annual audit prepared by the District Auditor.

SECTION 4. *Accounting Standards.* The District hereby directs its auditor to adopt uniform auditing reporting requirements that use “Audits of State and Local Governmental Units” as a guide on audit working papers and that uses “Governmental Accounting and Financial Reporting Standards” for final audit reports (subject to the standards for audits prescribed by applicable Texas Natural Resource Conservation Commission Rules).