

BYLAWS
OF
EAST RIO HONDO WATER SUPPLY CORPORATION

Bylaws of East Rio Hondo Water Supply Corporation, having been presented to the Board of Directors of said Corporation and duly adopted as follows:

ARTICLE I

The President shall preside and vote at all Members' and Directors' meetings. The President shall perform all other duties that usually pertain to the office or are delegated by the Board of Directors.

ARTICLE II

The Vice-President shall, in case of the absence or disability of the President, perform the duties of the President.

ARTICLE III

The Secretary-Treasurer shall have the custody of all monies, records and securities of the Corporation. The Secretary-Treasurer shall keep minutes of all meetings of the Corporation. All monies of the Corporation shall be deposited by the Secretary-Treasurer in such depository as shall be selected by the Directors. Checks must be signed by the Secretary-Treasurer or assistant or deputy secretary, and the President or a designee of that office. The Secretary-Treasurer shall have custody of the seal of the Corporation and affix it as directed hereby or by resolution passed by the Board of Directors or Members. The Board of Directors may appoint an employee as assistant or deputy secretary to assist the Secretary-Treasurer in all official duties pertaining to that office.

The position of the Secretary-Treasurer, and other Board positions and/or employees 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 a year, by the Board of Directors. The fidelity bond coverage amount shall approximate the total annual debt service requirements for all USDA Rural Development, Rural Utilities Service (RUS) loans and be evidenced by a position fidelity schedule bond as acceptable to the USDA Rural Development, RUS, or its successor agencies and assigns.

ARTICLE IV

Section 1. The Board of Directors shall consist of nine (9) Directors, each elected from a District of equal land area, plus or minus ten percent, within the Corporation's Certificate of Convenience and Necessity (CCN), as issued by the Public Utility Commission of Texas, and areas served immediately adjacent thereto. District boundaries will be set by the Board of Directors and may be changed at most one-time per year, if necessary, during a period beginning

120 days prior to and ending 60 days prior to the regular annual Membership meeting. Corporation Membership is required to be a Director. Nominees for Director must have Membership within the boundaries of the District for which they seek election and a Director may represent only one District at any time. A majority of the Directors shall constitute a quorum. Annually, on the first regularly scheduled Board meeting following the Members regular annual meeting, the Board of Directors shall elect a President, Vice-President and a Secretary-Treasurer. The Director from each District shall be elected by the Members from all Districts at the Members' regular meeting provided for in Article VI of the Bylaws. The Directors shall be divided into three (3) classes, each class to be as near equal in number as possible. The Directors shall serve staggered terms of three years, so as to provide that in future elections, one-third (each class) of the Directors are up for election each year. At the annual meeting of the members, there shall be held an election of directors to fill the vacancies to the Board of Directors whose term expires at that time. Each Director elected to fill such vacancy shall serve for a term of three years and until his successor is duly elected and qualified.

(a) To be qualified for election or appointment as a director, a person must be:

- (1) 18 years of age or older on the first day of the term to be filled at the election or on the date of appointment, as applicable; and
- (2) a member of the Corporation.

(b) In addition to the qualifications prescribed by Subsection (A), a person is not qualified to serve as a director if the person:

- (1) has been determined by a final judgment of a court exercising probate jurisdiction to be:
 - (i) totally mentally incapacitated; or
 - (ii) partially mentally incapacitated without the right to vote; or
- (2) has been finally convicted of a felony from which the person has not been pardoned or otherwise released from the resulting disabilities.

(c) If the Board determines that a person serving as a Director does not have the qualifications prescribed by Subsections (A) and (B), the Board shall, not later than the 60th day after the date the Board makes that determination, remove the Director and fill the vacancy by appointing a person who has the qualifications prescribed above. No member shall be eligible to become or remain a director or to hold any position of trust in the Corporation who is not a bona fide resident and member in the area served by the Corporation and must reside in the district from which he is elected. When a membership is held jointly by husband and wife, either one, but not both, may be elected a director.

(d) Directors, as such, shall not receive any stated salary for their services, except as provided for by state law.

(e) Upon the death or resignation of a Director or any other cause which creates a vacant Director's position on the Board of Directors, a successor shall be appointed by a majority of the existing Directors to serve until the next regular or special Membership meeting at which time the general Membership shall elect a successor for the remaining balance of the previously vacated term.

Section 2. Officers and Directors may be removed from office in the following manner except as otherwise provided in Article V: Any Member, Officer or Director may present charges against a Director or Officer by filing such charges in writing with the Secretary-Treasurer of the Corporation. If presented by a Member, the charges must be accompanied by a petition signed by at least ten (10) percent of the Members of the Corporation. Such removal shall be voted on at the next regular or special meeting of the Membership and shall be effective if approved by a vote of 2/3 majority of those voting if a quorum is present. The Director(s) or Officer(s) against whom such charges have been presented shall be informed in writing of such charges at least twenty (20) days prior to the meeting, and shall have the opportunity at such meeting to be heard in person or by counsel and to present witnesses; and the person or persons presenting such charges shall have the same opportunity. If the removal of a Director(s) is approved, such action shall also vacate any other office(s) held by the removed Director(s) in the Corporation. A vacancy in the Board thus created shall immediately be filled by a qualified person other than the removed Director upon a vote of a majority of the Members present and voting at such meeting, in accordance with the written annual and/or special meetings procedures as adopted by the Board. A vacancy in any office thus created shall be filled by the Board of Directors from among their number so constituted after the vacancy in the Board has been filled.

Section 3. The President of the Board, or Vice-President, shall preside at any meeting of the Members convened to consider removal of an Officer or Director as provided under Section 2, unless the President is subject of charges, in which event the Vice-President shall preside. In the event both the President and Vice-President are the subject of charges, those Directors who are not the subject of any charges shall appoint one of their number to preside over the meeting. Any meeting convened to consider the removal of an Officer or Director shall be conducted in accordance with the procedures prescribed by the Board. The fact that the President, Vice-President, or any other Officer or Director has been made the subject of charges does not otherwise prevent such individual from continuing to act in his capacity as an Officer or Director of the Corporation. Any Director that has been removed under the provisions of this Article shall not be precluded from subsequent election to the position of the Board of Directors.

Section 4. The Board of Directors shall adopt and maintain a conflict of interest policy designed to promote the business of the Corporation and serve the interests of the Membership. Such policy, at a minimum, shall be in conformance with the provisions of the Texas Nonprofit Corporation Act pertaining to duties and responsibilities of the Board of Directors.

Section 5.

a) At least 90 days before the date of the annual or special member's meeting, the Board will receive and adopt the election procedures as required by Texas Water Code Sections 67.007, 67.0052, 67.0053, and 67.0054. The procedures shall include the following:

- (1) notification to eligible Members of the proposed agenda, location, and date of the meeting;
- (2) director election procedures, including candidate application procedures;
- (3) approval of the proxy and ballot form to be used; and
- (4) validation of eligible voters, proxies, ballots, and election results.

(b) To be listed on the ballot as a candidate for a director's position, a person must file an application with the Corporation that includes:

- (1) the director's position sought, including any position number or other distinguishing number;
- (2) a petition signed by the lesser of 20 Members or five percent of the Members, requesting that the person's name be placed on the ballot as a candidate for that position;
- (3) the person's written consent to serve, if elected;
- (4) biographical information about the person; and
- (5) a statement of the person's qualifications, including a statement that the person has the qualifications prescribed by the Bylaws.

(c) The application must be filed with the Corporation not later than the 45th day before the date of the annual meeting. The Corporation shall notify the members or shareholders of the application deadline not later than the 30th day before the deadline.

(d) The Corporation shall make available director candidate application forms at the Corporation's main office and shall provide application forms by mail or electronically on request.

Section 6.

(a) Not later than the 30th day before the date of an annual meeting, the Corporation shall mail to each Member of record:

- (1) written notice of the meeting;

- (2) the election ballot and proxy form; and
 - (3) a statement of each candidate's qualifications, including biographical information as provided in each candidate's application.
- (b) The election ballot and proxy form must include:
- (1) the number of directors to be elected; and
 - (2) the names of the candidates for each position.
 - (3) the other business of the Corporation requiring a vote of the Members.

Section 7.

- (a) A Member may vote:
- (1) in person at the annual meeting, but if a Member attends the meeting and has already submitted proxy and/or ballot forms, that Member may participate in the meeting, but may not change or submit another proxy or ballot or be counted again in establishing a quorum;
 - (2) by mailing a completed ballot to the office of the Independent Election Auditor or to the Corporation's main office, which ballot must be received by the Corporation not later than noon on the business day before the date of the annual meeting; or
 - (3) by delivering a completed ballot to the office of the Independent Election Auditor or to the Corporation's main office not later than noon on the business day before the date of the annual meeting.
- (b) The Independent Election Auditor shall receive and count the ballots before the annual meeting is adjourned.
- (c) For each director's position, the candidate who receives the highest number of votes is elected.
- (d) If two or more candidates for the same position tie for the highest number of votes for that position, those candidates shall draw lots to determine who is elected.
- (e) The Independent Election Auditor shall provide the Board with a written report of the election results.
- (f) Except for the election of directors, voting by proxy shall be permitted.

Section 8. The Board shall select an Independent Election Auditor not later than the 30th day before the scheduled date of the annual meeting. The Independent Election Auditor is not required to be an experienced election judge or auditor and may serve as an unpaid volunteer. At the time of selection and while serving in the capacity of an Independent Election Auditor, the Independent Election Auditor may not be associated with the Corporation as:

- (1) an employee;
- (2) a Director or candidate for Director; or
- (3) an independent contractor engaged by the Corporation as part of the Corporation's regular course of business.

Section 9. If an election for a director's position results in a candidate who is to appear on the ballot for the position and who is unopposed:

(a) The board by resolution may declare a candidate elected to a director's position if the board certifies in writing that the candidate is unopposed for the position. A copy of the resolution shall be posted at the corporation's main office, at least 30 days before the date of the annual meeting.

(b) If a declaration is made under Subsection (a), the election for that position is not held.

(c) If the election for the unopposed candidate would have been held with an annual meeting of the members or shareholders of the corporation, the text of the declaration described by Subsection (a) shall be read in to the record at the annual meeting.

(d) The ballots used at a separate election that is held at the same time as an election for an unopposed candidate would have been held shall include after measures or contested races the position and name of a candidate declared elected under this section, under the heading "Unopposed Candidates Declared Elected".

(e) A person may not, by intimidation or by means of coercion, influence or attempt to influence a person to withdraw as a candidate or not to file an application for a place on the ballot so that an election may be cancelled.

(f) In the event candidates for all open positions are unopposed an election auditor will not be required.

Section 10. Election of Board of Director Officers. Annually, following the annual meeting of the membership, the Board of Directors shall elect a President, a Vice-President, a Secretary-Treasurer and such additional Assistant Secretaries as may be required or desired.

ARTICLE V

Section 1. Meetings of the Board of Directors shall be held at such time and place as the Board may determine at the previous regular meeting, and shall include posting of the meeting as required by Texas Open Meetings Act. The Board of Directors shall ensure that all meetings comply with the requirements of the Open Meetings Act, Chapter 551, Texas Government Code, including any subsequent amendment thereto. In the event of any conflict between the provisions of these Bylaws and the requirements of the Open Meetings Act, the provisions of the Open Meetings Act shall prevail.

Section 2. Any Director failing to attend two (2) consecutive meetings may be given written notice by the balance of the Board of Directors that failure by said Director to attend a third consecutive monthly meeting, without justifiable cause acceptable to the balance of the Board of Directors, shall give rise to removal of said Director from the Board. A successor shall be appointed by a majority vote of the Directors remaining to serve until the next regular or special Membership meeting, at which time the general Membership shall elect a successor for the balance of the term.

Section 3. The Board of Directors shall provide access to the public, new service applicants, and/or Members at the meetings of the Board of Directors by setting aside a time for hearing of suggestions, proposals, or grievances; however, there shall be no deliberations or actions by the Board unless such has first been noticed in accordance with the Texas Open Meetings Act. The Board of Directors shall establish reasonable rules for access to such meetings.

Section 4. The Board of Directors may, upon lawful notice to the public, meet in executive session when permitted, in the manner and for such limited purposes as provided for in the Texas Open Meetings Act, as amended, and for no other reason. All proceedings of any meeting at which a quorum of Directors is present to discuss the business of the Corporation shall be recorded in the manner required by the Texas Open Meetings Act.

Section 5. In conducting their duties as members of the Board, Directors: (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 Corporation or the Corporation's affairs, that have been prepared or presented by one or more officers or employees of the Corporation; or by legal counsel, public accountants, or other persons retained by the Corporation 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 Corporation are at least that of their book value; and (3) in determining whether the Corporation 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 Corporation's liabilities or obligations; and may rely in good faith on

information, opinions, reports or statements, including financial statements and other financial data, prepared or presented by one or more officers or employees of the Corporation; legal counsel, public accountants, or other persons provided the Directors reasonably believe such matters to fall within such person's professional or expert competence. Nevertheless, Directors must disclose any knowledge he or she may have concerning a matter in questions that makes reliance otherwise provided herein to be unwarranted.

Section 6. The Corporation shall indemnify any person ("**Indemnified Person**") who was a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was at any time a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, against and for reasonable expenses (including attorney's fees), judgments, fines, penalties, amounts paid in settlement and other liabilities actually and reasonably incurred by such person in connection with such action, suit, or proceeding, to the full extent allowed, but only to the extent such indemnification is permitted under the Texas Non-Profit Corporation Act, as set forth in Article 1396-2.22a, as amended ("**Indemnified Expenses**").

An expense which may become an Indemnified Expense may be paid by the Corporation prior to a final determination of responsibility for such expense if: (a) the Board of Directors, after receiving a written affirmation by the Director of his good faith belief that he has met the standard of conduct necessary for indemnification, authorizes specific payment of the expense and (b) the person incurring the expense agrees in writing to repay the Corporation if it is ultimately determined that he is not entitled to indemnification by the Corporation. The Corporation may purchase and maintain insurance covering an Indemnified Person for and against Indemnified Expenses. The protection and indemnification provided hereunder shall not be deemed exclusive of any other rights to which an Indemnified Person may be entitled under any agreement, insurance policy or vote of the members or otherwise, so long as it conforms to the requirements of the Texas Non-Profit Corporation Act as set forth in Article 1396-2.22a, as amended.

ARTICLE VI

Section 1. There shall be a regular meeting of the Members annually, on the 4th Tuesday in March, to transact all business that may be properly brought before it. The Secretary-Treasurer shall give at least thirty (30) days written notice of such annual meeting to the Membership indicating the time, place and purpose of such meeting, and shall address and mail the notice to each Member at the address last known to the Corporation. In order to be considered at the annual meeting, these agenda items shall be in writing and shall be received in the Corporation's principle business office no later than 45 days before the annual meeting or the last business day prior to 45 days prior to the annual meeting, if the 45th day is not a business day. Any item to be placed on the agenda for the annual meeting shall be provided in sufficient detail to satisfy the requirements of the Texas Open Meetings Act, Texas Revised Civil Statutes,

article 6252-17. Failure to hold or call an annual or special meeting in accordance with these Bylaws shall give each Member rights to compel the Board of Directors to properly hold an annual or special meeting of the Membership. A quorum for the election of directors and for the transaction of business at a meeting of the members is a majority of the members present. In determining whether a quorum is present, all members who mailed or delivered ballots on occasions for the election of directors and ballots and/or proxies for all other business to the Independent Election Auditor or the Corporation on a matter submitted to a vote at the meeting are counted as present.

Section 2. The Board of Directors shall adopt, and from time to time may revise, written procedures for conducting annual or special Membership meetings, including the proxy and/or ballot form which shall be the official proxy and/or ballot for such meetings; procedures for proper notification of the Membership of such meetings and delivery of the Corporation's official proxy and/or ballot forms to the Membership; procedures to determine, qualify and register the eligible voters for such meetings; and procedures for canvassing all votes and recording the results of all elections at such meetings of the Membership.

Section 3. Credentials/Proxy Committee. Not less than ninety (90) days nor more than one hundred twenty (120) days before the annual member meeting, the Board of Directors shall appoint, for a twelve (12) month period, a three (3) person Credentials/Proxy Committee comprised of three (3) of the directors who were elected at the most recent annual member meeting to:

- (a) collectively vote all proxy votes during their term on the proxy committee;
- (b) recommend for approval the election procedures, proxy and ballot forms director application forms, and meeting notices;
- (c) ensure that the election procedures are implemented; and
- (d) Serve other functions as so indicated by the Board.

Section 4. Proxies. Except for the election of directors, voting by proxy shall be permitted. Members may only use the proxy form that has been approved and adopted by the Board. All executed proxy forms are subject to verification by the Secretary or Assistant Secretary of the Corporation before exercise thereof. If a member attends the meeting, but has already submitted Proxy and/or Ballot Forms, that member may participate in the meeting, but may not change or submit another ballot or proxy form or be counted again in establishing a quorum.

Section 5. After fixing a date for the notice of a meeting, the Board of Directors shall prepare an alphabetical list of the names of all voting Members who are entitled to vote as of the record date of the meeting. The list must show the address of each voting Member. No later

than two (2) business days after the date notice is given of the meeting, and continuing through the meeting, the list of voting Members must be available for inspection by any Member entitled to vote at the meeting for the purpose of the communication with other Members concerning the meeting at the Corporation's principal office or at a reasonable place identified in the meeting notice in the city where the meeting will be held. Any voting Member, or voting Member's agent or attorney, shall be allowed, on written demand, to inspect, and, at a reasonable time and at their expense, copy the list. Further, the board shall make the list of voting Members available at the meeting, and shall allow inspection of such list by any voting Member or voting Member's agent or attorney at any time during the meeting, including any adjournments thereof.

ARTICLE VII

Section 1. A special meeting of the Members or Directors may be called by the President, or by demand by a majority of the Board members or one-third (1/3) of the Members. Such special meetings shall be held upon giving notice as required by the Texas Open Meetings Act.

Section 2. Prior to convening any special meeting of the Members, the President shall request in writing that the Secretary-Treasurer give at least ten (10) days prior to notice to the Members, and that such special meeting is otherwise noticed, as required under Article 1396-2.11, Texas Revised Civil Statute, and as provided under Article V of these Bylaws. Such notice shall specify the time, place and purpose of the meeting, and shall be given to each of the members by at least one of the following methods: addressed and mailed to the Member at the address last known to the Corporation, or personally delivered to the member, or shall be published in a newspaper of general circulation in Cameron County, Texas at least once on each of two consecutive weekends, the last time of publication to occur not more than thirty (30) days, nor less than ten (10) days, prior to the date of the special meeting.

Section 3. Emergency meetings of the Directors may be held on rare occasions and only when clearly authorized by the Texas Open Meetings Act. Notice of such emergency meeting shall be provided under Article V of these Bylaws and the Texas Open Meetings Act, at least two hours before the meeting is convened. It shall be the responsibility of the President, or a designee of that office, to ensure that proper notice is posted and Directors are properly notified. In no event shall any emergency meeting of the Directors be convened where the business of such meeting could be considered at a regular or special meeting of the Directors receiving at least seventy-two (72) hours notice as provided under Article V of these Bylaws.

ARTICLE VIII

The Corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the Memberships of such Corporation. All profits arising from the operation of such business shall be annually paid out to the persons who have, during the past year, transacted business with the Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the

Corporation remains unpaid and, provided also, that the Directors of the Corporation may allocate to sinking fund(s) and reserve accounts such amount of profits as they deem necessary for maintenance, operation, capital improvements, expansions and replacements of all facility components, as provided by Section 67.008 (d) of the Texas Water Code. Funds allocated by the Board to a sinking fund for replacement amortization of debts, and the payment of interest that are not required to be spent in the year in which deposited shall be invested in accordance with the provisions of Section 67.014(b) of the Texas Water Code.

ARTICLE IX

The Directors of the Corporation shall establish and maintain, so long as the Corporation 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 Corporation. Securities so purchased shall be deemed at all times to be part of the reserve fund account. There shall be deposited in such fund the sum as required by a total of all loan resolutions executed by the Corporation. 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 executed loan resolutions.

Withdrawals may be made from this fund only upon prior written approval from USDA Rural Development, RUS. Approval shall be made only for emergency repairs, obsolescence of equipment, improvements to facility, and for making up any deficiencies in revenue for loan payments.

ARTICLE X

Section 1. The Corporation shall have Members as defined by the Texas Water Code. All customers of the Corporation must hold a Membership or obtain their service through a Membership. A person or entity that holds an interest in property solely as security for the performance of an obligation or that only builds on or develops the property for sale to others is not required to hold a Membership as a condition to receive service on a limited basis. Every person (which includes any legal entity) owing or having a legal right to the control, possession or occupancy of property served or which may reasonably be served by the Corporation, shall have the right to become a Member of the Corporation upon payment of the Membership fee hereinafter provided and upon compliance with the Corporation's conditions of water and/or sewer service as provided for in its published charges, rates and conditions of service. Membership shall not be denied because of the applicant's race, color, religion, sex, age, marital status, familial status, handicap, income from Public Assistance, disability or national origin. It is the intent of the Corporation to provide service on a nondiscriminatory basis

Section 2. The Membership fee shall be as determined by the Board of Directors. Payment of Membership fee or transfer of Membership shall entitle an applicant to further qualify for on (1) connection to the system or shall entitle a transferee of Membership to

continue to qualify for service to an existing connection to the system by meeting the conditions for water and/or sewer as provided in the Corporation's published rates, charges, and conditions of service. A person may own more than one Membership but each Member shall be entitled to one vote regardless of the number of Memberships owned. Membership certificated shall be in such form as shall be determined by the Board of Directors.

Section 3. The Membership fee may be revised by the Board of Directors as the Board may determine to be appropriate. (In determining the amount of the Membership fee, however, the Board shall ensure that the fee is sufficient to establish the potential Member as being legitimately interested in securing water and/or sewer service from the Corporation for such potential Members' own needs.) Furthermore, the Board shall determine and administer such fee in a manner or in an amount that does not unreasonably deny service to financially deprived potential Members. In no event, however, shall the Membership fee exceed an amount equal to the sum of twelve (12) charges of the Corporation's minimum monthly water rate unless previously approved by USDA Rural Development, RUS. Membership fees will be refundable.

ARTICLE XI

Where necessary for determining those Members entitled to notice of, or those Members entitled to vote at any meeting or any adjournment thereof, or where necessary to make a determination of Members for any other purpose, ownership of Memberships shall be deemed to be vested in those persons who are the record owners of Memberships as evidenced by the Membership transfer book on the 15th day of the month preceding the month of the date upon which the action requiring such determination is to taken. Nothing herein shall preclude the holder of a Membership from mortgaging such Membership, or upon notification of the Corporation, preclude the holder of such mortgages from exercising legal rights pursuant to such mortgages upon proper notice to the Corporation.

ARTICLE XII

Section 1. In order to ensure that business done by the Corporation shall continue within the capacity of its facilities and to prevent undue financial burden on the Members of the Corporation, Membership in the Corporation shall be transferred in accordance with following:

- (a) Except as herein provided, Membership in the Corporation shall be deemed personal estate and a person or entity that owns any stock of, is a Member of, or has some other right of stock, Membership, or other right of participation to another person or entity except: (1) by will to a transferee who is a person related to the testator within the second degree by consanguinity; (2) by transfer without compensation to a transferee who is a person related to the owner of the stock or other interest within the second degree by consanguinity; or (3) by transfer without compensation or by sale to the Corporation.

- (b) Subsection (a) of this section does not apply to a person or entity that transfers the Membership or other right of participation to another person or entity as part of conveyance of real estate from which the Membership or other right of participation arose.
- (c) The transfer of stock, Membership, or another right of participation under this section does not entitle the transferee to water and/or sewer service unless each condition for water and/or sewer service is met as provided in the Corporation's published rates, charges, and conditions of service. Water and/or sewer service provided by the Corporation as a result of stock, Membership, or other right of participation may be conditioned on ownership of the real estate designated to receive service and from which the Membership or other right of participation arose.
- (d) The Corporation may cancel a person's or other entity's stock, Membership, or other right of participation if the person or other entity fails to meet the conditions for water and/or sewer service prescribed by the Corporation's published rates, charges, and conditions of service, or fails to comply with any other condition placed on the receipt of water and/or sewer service under the stock, Membership or other right of participation authorized under Subsection (c) of this section. The Corporation may, consistent with the limitations prescribed by Subsection (a) of this section and as provided in the Corporation's tariff, reassign cancelled stock, or a cancelled Membership or other right of participation to any person or entity that has legal title to the real estate from which the canceled Membership or other right of participation arose and for which water and/or sewer service requested, subject to compliance with the conditions for water and/or sewer service prescribed by Corporation's published rates, charges, and conditions of service.

Section 2. Notwithstanding anything to the contrary hereinabove provided, the consideration for the transfer of any Membership in the Corporation from the original Members, their transferees, pledges, administrators or executors, or other persons shall never exceed the amount of the original costs of such Membership. No gain or profit shall ever be realized from the sale or transfer of a Membership.

ARTICLE XIII

The Board may employ a manager to handle the business of the Corporation under the direction of the Board. The Board shall set the salary for the manager.

ARTICLE XIV

Notwithstanding the ownership of the Membership certificate, all Members shall be billed, disconnected or reconnected, and otherwise shall receive service in accordance with the

written policies of the Corporation, including the tariff of the Corporation. In the event a Member should surrender his Membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, the water and/or sewer service shall be discontinued and the obligation to pay for water and/or sewer service shall terminate except as for the minimum charge for the current month and the charge for water and/or sewer used during the current month, and except as for any prior unpaid amounts due the Corporation. Any remaining balance from the Membership fee will be refunded to the former Member. In the event Membership is terminated, canceled, withdrawn or surrendered, whether voluntarily or involuntarily, the former Member's rights and interest in the assets of the Corporation will not be forfeited.

ARTICLE XV

Upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation shall be distributed among the Members and former Members in direct proportion to the amount of their patronage with the Corporation insofar as practicable. Any indebtedness due the Corporation by a Member for water and/or sewer service or otherwise shall be deducted from such Member's share prior to final distribution. By application for and acceptance of Membership in the Corporation, each Member agrees that, upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation transferred to that Member shall be in turn immediately transferred by the individual Member to an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation. By application for an acceptance of membership in the Corporation, each Member grants the Corporation's Board of Directors that Member's permission to execute all instruments and documents necessary to effectuate such transfers in order to preserve the Corporation's statutory rights to exemption from income and ad valorem taxation.

ARTICLE XVI

The fiscal year of the Corporation shall be January 1 to December 31 of each year.

ARTICLE XVII

For so long as the Corporation is indebted for a loan or loans made to it by the United State of America through the USDA Rural Development, RUS, the Corporation 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, RUS, for the State of Texas.

ARTICLE XVIII

Section 1. If at the end of any 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 Corporation's system during the year in which such charges are collected, the Board shall make any levy an

assessment against each Member of the Corporation as the Board may determine or as may be required by USDA Rural Development, RUS, so that the sum of such assessments and the amount collected from water and/or sewer 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 USDA Rural Development, RUS without a favorable vote of the majority of the Members. Any assessments levied to make up operational deficits in any year shall be levied against Members in proportion to their patronage with the Corporation.

Section 2. In the event a Member should surrender their Membership certificate properly endorsed by the Secretary-Treasurer of the Corporation, the obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of the Membership certificate, provided, however, that this paragraph and the second sentence of Article XIV shall not apply to relieve a Member of their obligation under special arrangements covering multiple Membership certificates held by one Member which may have been required or approved by the USDA Rural Development, RUS.

ARTICLE XIX

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its Members, Board of Directors, and committees, and shall keep a record of the name and addresses of its Members entitled to vote at its registered office of principle office in Texas.

Annually the Board of Directors shall prepare or cause to be prepared a report of the financial activity of the Corporation of for the preceding year including a statement of support, revenue, and expenses and changes in fund balances, a statement of functional expenses, and balance sheets for all funds or such financial reports as required by USDA Rural Development, RUS. Such report shall be approved by the Board of Directors

With prior written request, corporate records, books and annual reports, subject to exceptions provided by the Public Information Act, Chapter 552, Texas Government Code, 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 Public Information Act and the provisions of the Bylaws, the provisions of the Public Information Act shall prevail.

ARTICLE XX

These Bylaws may be altered, amended, or repealed by a vote of majority of the Members present, whether in person or by proxy, at any regular meeting of the Members, or at

any special meeting of the Members called for that purpose, except that the Members shall not have the power to change purpose of the Corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirements of bond or other provisions for the safety and security of the property and funds of the Corporation or its Members, or to deprive any Member of rights and privileges then existing, or so to amend the Bylaws as to effect a fundamental change in the intents and purposes of the Corporation. Notice of any amendment to be made at special meeting of the Members must be given at least (10) days before such meeting and must set forth the amendments to be considered. For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, these Bylaws shall not be altered, amended or repealed without the prior written consent of State Director of USDA Rural Development, RUS for the State of Texas. For so long as the Corporation is indebted for a loan or loans made by the Texas Water Development Board, these Bylaws shall not be altered, amended or repealed without the prior written consent of the Executive Administrator of the Texas Water Development Board.

ARTICLE XXI

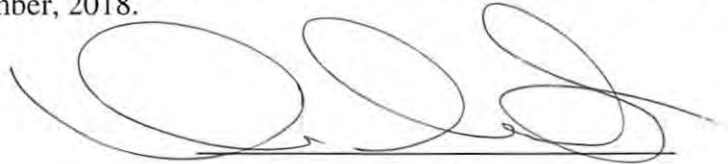
The seal of the Corporation shall consist of a circle within shall be inscribed "EAST RIO HONDO WATER SUPPLY CORPORATION".

ARTICLE XXII

The Corporation pledges its assets for use in performing the functions of the Corporation as provided by law and the Corporation's Articles of Incorporation.

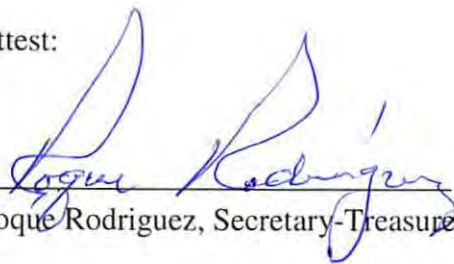
ARTICLE XXIII

The above Bylaws and regulations were unanimously adopted by the Membership of the EAST RIO HONDO WATER SUPPLY CORPORATION at a meeting in the offices of the Corporation on the 10th day of December, 2018.

A handwritten signature in black ink, consisting of several large, overlapping loops and a long horizontal stroke at the end.

Minerva Martinez, President

Attest:

A handwritten signature in blue ink, appearing to read 'Roque Rodriguez' with a stylized flourish at the end.

Roque Rodriguez, Secretary-Treasurer