

501 LIABILITY INSURANCE AND INDEMNIFICATION POLICY

It is the policy of TRWD to protect and indemnify its Directors, officials, and employees (“Covered Individuals”) from claims and lawsuits for damages or other relief sought against them for acts or omissions arising out of the good faith discharge of their official duties for TRWD to the extent allowed by law. For TRWD to fulfill its public purpose and to attract and maintain quality individuals in all required positions it is necessary that Covered Individuals serving TRWD not incur the expense and liability for acts or omissions arising out of the good faith discharge of their duties performed in the course and scope of TRWD’s business.

501.1 Purpose. The purpose of this Policy is to define the scope of TRWD’s payment of the cost and expense of defending litigation brought against Covered Individuals and indemnifying Covered Individuals. This includes providing a framework for making decisions regarding payment of defense litigation costs for and indemnification of Covered Individuals that complies with all applicable laws, rules, and regulations.

501.2 Scope. This Liability Insurance and Indemnification Policy applies to all TRWD Directors, officials, and employees and relates to all claims and lawsuits for damages for acts or omissions of TRWD Directors, officials, and employees that arise from the good faith discharge of their official duties.

501.3 Insurance. TRWD may purchase insurance or may self-insure, to protect itself and its Covered Individuals from the cost and expense of defending against claims and litigation brought against TRWD or its Covered Individuals individually for acts or omissions occurring during, or arising out of, the course and scope of their duties for TRWD and undertaken in the good faith discharge of their duties for TRWD.

501.4 Defense and Indemnification of Directors, Officials, and Employees. To the extent that the cost and expense of defending against claims asserted, or lawsuits brought, against the Covered Individuals of TRWD are not covered by the applicable policies of insurance purchased by TRWD under this Policy, and to the extent permitted by applicable law, TRWD may defend, hold harmless, and indemnify Covered Individuals from any and all demands, claims, suits, actions, judgments, expenses and reasonable attorneys’ fees incurred in any legal proceedings brought against them in their individual or official capacities as a Covered Individual, provided that the allegations which form the basis of such demand, claim, or action arose from an act or omission of the Covered Individual, acting in good faith and within the course and scope of their duties with TRWD. TRWD will not indemnify any demand, claim, suit, action, judgment, expense, or reimbursement for attorneys’ fees for any claim or cause of action where it is determined that the Covered Individual (1) committed official misconduct; (2) committed a willful or wrongful act or omission constituting gross negligence; or (3) acted in bad faith, with

conscious indifference or reckless disregard to the rights of others. Further, TRWD will not indemnify the Covered Individual if the claim or cause of action arose out of the Covered Individual's self-dealing or involves a defense of his/her private interests, or for a criminal act absent a finding of not guilty or dismissal of the criminal case (except when the dismissal does not indicate innocence, such as dismissal after a guilty plea, nolo contendere or deferred adjudication).

501.5 Procedures for Providing Defense and Indemnification Against Civil Claims. In the event a claim or demand for monetary or other relief is made or a civil lawsuit instituted against a Covered Individual arising out of acts or omissions taken in good faith and occurring in the course and scope a Covered Individual's employment for TRWD, and in the discharge of the Covered Individual's duties for TRWD, the General Manager or designee may provide for legal counsel for the Covered Individual under TRWD's applicable insurance policy. If the claim or demand is outside the coverage of TRWD's insurance policies, the General Manager or designee may either notify the Board of the General Manager's decision to provide legal counsel to the Covered Individual or present a request to the Board for the provision of legal counsel to the Covered Individual for the Board's review and approval. The General Manager or the Board may approve payment of the cost and expenses of defending litigation against a Covered Individual so long as the claim or demand arises out of acts or omissions taken by them in the good faith discharge of their official duties.

In the event of a judgment for money damages against a Covered Individual, TRWD, through its insurer, may pay the judgment for a Covered Individual to the extent the payment is within the coverage of TRWD's insurance policies. If the judgment for money damages falls outside the coverage of TRWD's insurance policies or exceeds the liability limits of TRWD's insurance policies, the General Manager or designee may present a request for payment of the judgment to the Board for review and approval. The Board may approve payment of the judgment against a Covered Individual so long as the judgment is based on acts or omissions taken by the Covered Individual in the good faith discharge of their official duties. In evaluating approval of payment of such a judgment, the Board should consider whether TRWD is itself exposed, actually or potentially, to a similar liability.

501.6 Procedures for Providing Defense and Indemnification in Criminal Matters. This subsection applies in the event a criminal complaint, indictment, or information is filed against TRWD or a Covered Individual, or grand jury proceedings are convened to investigate allegations of potential criminal conduct by TRWD or a Covered Individual arising out of an alleged act or omission related to the good faith discharge of a Covered Individual's official duties for TRWD.

The General Manager or designee may retain counsel and TRWD may pay the reasonable attorneys' fees, costs, and expenses of legal representation for any Covered

Individual who is not a target or potential target of a criminal complaint, indictment, or grand jury proceeding in connection with their participation in the proceedings if the Covered Individual's participation in the proceedings arise from or relate to the good faith discharge of the Covered Individual's official duties for TRWD.

If a Covered Individual is a target or potential target of the criminal proceeding, TRWD will not retain counsel for the Covered Individual or pay the reasonable attorneys' fees, costs, and expenses of legal representation for the Covered individual until there is a finding of not guilty after a trial or appeal, or the complaint, information, or indictment is dismissed without a plea of guilty or nolo contendere being entered, or a no-bill is entered by a grand jury. Upon a finding of not guilty after a trial or appeal, or the complaint, information, or indictment is dismissed without a plea of guilty or nolo contendere being entered, or a no-bill is entered by a grand jury regarding a TRWD official or employee, the General Manager or designee may reimburse a TRWD official or employee for the reasonable attorneys' fees, costs, and expenses incurred by the Covered Individual for legal representation to the extent allowed by law. Upon a finding of not guilty after a trial or appeal, or the complaint, information, or indictment is dismissed without a plea of guilty or nolo contendere being entered, or a no-bill is entered by a grand jury regarding a Director, the Administration and Policy Committee may present a request for reimbursement of the Director's reasonable attorneys' fees, costs, and expenses incurred by the Covered Individual for legal representation to the Board. The Board may approve payment of the reasonable cost and expenses incurred by the Director if (1) the act or omission giving rise to the claim, demand, or legal proceeding was made in good faith and occurred as a result of the performance of the Director's official duties for TRWD, and (2) the defense of the claims, demands, or legal proceedings is in furtherance of the public interest of TRWD.

If a request for reimbursement is made by a Director, the disinterested members of the Board shall determine (1) if the act or omission giving rise to the claim, demand, or legal proceeding was made in good faith and occurred within the course and scope of the Director's official duties for TRWD, and (2) whether the defense of the claims, demands, or legal proceedings is in furtherance of the public interest of TRWD. Upon a majority of disinterested Board members making findings that the act or omission giving rise to the claim, demand, or legal proceeding was made in good faith and occurred within the course and scope of the Director's official duties for TRWD, and that the defense of the claims, demands, or legal proceedings is in furtherance of the public interest of TRWD, TRWD shall reimburse the Director for reasonable attorneys' fees, costs, and expenses associated with defending against those claims, demand, and legal proceedings.

501.7 Selection of Legal Counsel. In all circumstances other than criminal contexts where reasonable attorneys' fees, costs, and expenses may only be reimbursed on a finding of no guilt, TRWD or its applicable insurance provider shall select the legal representative(s) for the Covered Individual. In such circumstances, if a Covered Individual seeks different or alternative legal representation, he or she must do so at their own cost and expense unless otherwise expressly approved by the Board.

If a legal defense is provided through insurance coverage, the Covered Individual's right to select legal counsel shall depend on the terms of the applicable insurance contract. To the extent this policy of indemnification exceeds the authority provided and limitations imposed by Texas Civil Practice & Remedies Code, Chapter 102, it shall be construed and modified to the extent necessary to not exceed such authority and limitations.

501.8 No Waiver of Immunity. This Policy is solely for the protection of TRWD and the Covered Individuals and does not grant or confer any rights on any third party, nor does it provide any rights or causes of action not expressly provided for under the laws of the State of Texas and the United States, including the Texas Tort Claim Act. Nothing in this Policy shall be construed to be a waiver of governmental immunity by TRWD or its Covered Individuals.