

# RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

January 31, 2006

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on January 31, 2006, at 230 Spring Hill Drive, Suite 325, Spring, Texas 77386, in accordance with the duly posted notice of the meeting, with a quorum of Directors present, as follows:

Duane Burrell, President  
Jake L. Kelly, Sr., Vice President  
Rufus Houston, Secretary  
Dwayne Finley, Director  
Charles W. Venema, Director

and the following absent:

None

Also present were Bill Russell, Mike Williams, Drew Masterson, Lorene Roy and Herman I. Little, Jr.

The President called the meeting to order and declared it open for such business as might regularly come before it.

1. Herman Little advised the Board that the meeting is being held in response to the Board's concern for saving taxpayers money and preserving the District's financial standing. Drew Masterson has reviewed the District's bonded indebtedness and will report to the Board on possible steps that can be taken to reduce the District's debt service requirements.

Drew Masterson addressed the Board and presented a schedule showing a summary of bonds that can be refunded and information on a possible refunding bond issue. The District has three series of bonds having interest rates ranging between 5.2% up to 5.7%. Some of the bonds may be called in 2006, but most are not subject to early call until 2010. A refunding is much like a refinancing of a home mortgage, but for the District, the funds received from their funding issue will be used to purchase U.S. Treasury obligations to be placed in an escrow account until the refunded bonds may be called and paid. The transaction would include payment of all costs of issuance, so the savings reflected on the report are net of the bond issue. An issue of approximately \$6,690,000 would provide \$6,360,000 for the escrow, and the balance of funds would be used to pay costs of issuance. The escrow yield will be subject to U.S. Treasury regulations that prohibit the District from receiving arbitrage income. The interest rate on the old bonds will average 5.35%, and the anticipated interest rate on the refunding bonds will be 3.9%. Under current market conditions, the District can achieve a present value savings of \$236,502 and a gross savings of \$593,823 over the life of the bonds. The District will save approximately \$20,000 per year in debt service, and this will be a 3.8% net present value savings.

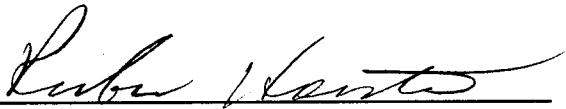
Drew Masterson noted that the bond market had been better when the numbers were originally run on January 9, 2006, and the present value savings was above 4%. Under City of Houston rules, the District must have a minimum 3% net present value savings in order to refinance bonds. If it is the Board's consensus to proceed with a refunding issue, the Board could state its preferences and objectives, and the District could wait for issuance of the bonds until the market produced a savings equal to or better than the Board's stated goal. \$20,000 per year in debt service savings would represent one-half of one cent on the District's tax rate. Director Venema inquired as to how long the refunding issue would extend the District's indebtedness, and Drew Masterson stated that there would be no extension of the District's indebtedness. All District bonds would mature by the dates currently scheduled. There was discussion about possibly reducing the District's tax rate, and it was mentioned that after issuance of the District's construction bonds presently being reviewed by the TCEQ, it will be possible in a future year for the Board to consider a reduction in the debt service rate. The savings to be achieved from the refunding issue will be real and will provide flexibility to the Board for a future tax reduction.

Drew Masterson advised the Board that the refunding issue would be through a negotiated sale as opposed to competitive bidding as used for the District's construction bonds. The District will select an underwriter and will approve interest rates that will be agreed in advance. In the past, First Southwest Company has resigned from its position as financial advisor and has served as underwriter on the District's refunding bonds. Mr. Masterson stated that by serving as the underwriter, the company will receive additional income, however, the Board may have confidence that the Houston office of First Southwest Company will remain unbiased and will present a proposal that will be in the District's best interests. In order to serve as underwriter, it will be necessary for First Southwest Company to submit a temporary resignation from its services as financial advisor. There was discussion, and Herman Little advised the Board that it is very common in utility district refunding issues for the financial advisor to resign temporarily to serve as underwriter on the bond issue. The process is reliable and will result in the District having the best rate available in the market place. It will be necessary, however, for the Board to state in advance its desire for the financial advisor either to continue serving as financial advisor or to resign for the purpose of serving as underwriter.

2. There was discussion of the proposed plan of financing presented by Mr. Masterson. Upon motion by Director Kelly, seconded by Director Finley, the Board voted unanimously to approve the plan of financing and directed that the financial advisor and attorney prepare a preliminary official statement and other documents to enable the District to issue refunding bonds at the February 13, 2006 meeting under parameters that would require a net present value savings of not less than 3.8%. Upon motion by Director Kelly, seconded by Director Finley, the Board voted unanimously to request that the February 13, 2006 agenda include an item for resignation of the financial advisor, so First Southwest Company may serve as underwriter on the refunding bonds.

3. Director Venema reported that he will be updating the District's web site and will want an item on the agenda for consideration of the web site. Director Finley requested that an item be on the agenda for the Board to consider designating numbered positions for the five directors of the District.

There being no further business to come before the Board, the meeting was adjourned.

  
Secretary