

RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

May 3, 2007

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on May 3, 2007, 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:

Danny E. Agans, President
Michael Smith, Vice President
Jon Vallery, Secretary
Charles W. Venema, Director
Duane Burrell, Director

and the following absent:

None.

Also present were Vickey Sullivan, Bill Russell, Lonnie Wright, Randy Rothrock 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. Director Agans noted that the purpose of the meeting is to conduct a workshop on the District's proposed budget for the coming year. Director Vallery had requested that the Board conduct the workshop.

Bill Russell presented a report on the budget for the fiscal year ending May 31, 2007 that includes data for actual budget activity through ten months of the fiscal year and that shows the projected year end numbers for revenues and expenses. Mr. Russell asked if there are any areas of concern, and then noted that revenues from water, sewer, garbage and law enforcement services are below budget at this time, and they are expected to be below the annual budget at year end. This probably relates to rainy weather that has occurred throughout the year. The Board then reviewed the record of expenditures. Expenses of the water distribution and utilities are over budget. There was discussion of the expenses of the water distribution system and of electric utilities. Mr. Russell noted that the costs of electricity should be lower in the future because the District recently contracted for better rates. Lonnie Wright noted that the building program in the District is slowing down, and the costs of taps and inspections will be decreasing, as will the revenues associated with new construction. Bill Russell noted that the costs of law enforcement services is presently below budget because the budget anticipates six officers on duty, but all positions have not yet been filled. The budget as adopted anticipates a surplus at year end of \$45,500, and the bookkeeper anticipates that the actual year end result will be surplus revenues of \$49,290.

Bill Russell stated that he takes an overly conservative approach in the budgeting process to protect the District against surprises during the year. It was mentioned that the District's net revenues from water taps and inspections is presently approximately \$70,000, and this revenue will be decreasing as homebuilding comes to an end in the District. There was discussion of the Kroger shopping center. Herman Little advised the Board that development of the shopping center will result in substantial tap revenues. The District's tap fee for commercial property is cost plus 200%. This will be a significant amount of revenue for one time only. Additionally, the District will have increased tax revenues from the center as it is built out. The increased maintenance tax revenues will affect the general fund.

There was discussion of the District's tap fees. Lonnie Wright noted that his company charges \$325 for a residential water tap, and the District charges the builders \$500. The District has net revenue from each tap of approximately \$175, but this revenue will decline as all lots are built out. There was discussion of the operator's charges to the District. It was mentioned that the District experiences revenue from water taps and inspection fees, but most services provided by the operator that are billed to customers are covered at cost without any additional funds. It was mentioned that the costs of sludge hauling are over budget. This is due to fuel surcharges that are passed on by the sludge hauler. Bill Russell summarized the budget and stated that utility costs should be lower, but costs of garbage service and fees to the Lone Star Groundwater Conservation District will increase over the year.

There was discussion of the Lone Star Groundwater Conservation District and its charges to the District. The District pays for permits to pump groundwater, and the District pays a small surcharge for groundwater pumpage during the year. Lonnie Wright suggested that the Board will want to pass the surcharge on to District customers as the charges increase. There was discussion of the Lone Star District's plans for the future. Herman Little advised the Board that the Lone Star District was created to address the issue of over pumpage of aquifers in Montgomery County. In contrast to conditions in Harris, Galveston and Fort Bend Counties, where ground subsidence has resulted from over pumping from wells, in Montgomery County the problem is associated with pumpage above the rate of replenishment of the aquifers. Without a regulatory program, the entire county would experience a water shortage in the future.

The Lone Star District's program will result in development of a surface water supply system that will serve areas in the county that have the most concentrated groundwater pumpage. The surface water system will be very costly, and customers in the areas served by that system will pay higher fees for their water supply. The Lone Star District will impose pumpage fees on all other consumers in the county to equalize the cost of water supply for everyone in the county. The Lone Star District is combining efforts with the San Jacinto River Authority for development of surface water supplies from Lake Conroe. The Board will consider a resolution regarding support for the the program at the next regular meeting. The Board will consider a groundwater pumpage surcharge for District customers in a future amendment of the rate order.

Director Vallery stated that one concern that has been expressed by taxpayers is the cost of tax assessor services. In response to a question by Director Vallery, Vickey Sullivan reported that the costs of the tax office are paid from tax revenues. The tax collection expenses are not included within the District's budget. Ms. Sullivan then presented a report comparing

costs of District tax collections to the cost of collections by the county tax assessor/collector. The District's tax assessor is compensated by a charge of \$0.90 per item. The tax assessor's charges increase only when additional tax accounts are added. It was mentioned that when land is initially subdivided into lots, then the number of tax accounts increases by the number of lots in the subdivision. As homes are built in the new section, there is no increase in compensation for the tax assessor/collector. Increases in value do not affect the tax assessor's compensation. Ms. Sullivan requested that the Board review the cost comparison and stated that the District receives services and support from the District tax office that would not be available if tax collection was provided by the county.

Randy Rothrock addressed the Board and stated that tax collection by the county would be a good choice for the District. It would provide simplification of the tax bill because all taxing jurisdictions would be included on the single bill, and it would provide a cost savings to the District. Ms. Sullivan stated that the costs cannot be compared, but the services provided by the District tax office are superior to those provided by the county. It was mentioned that the costs of collection services by the county are not presently available to the District. Herman Little reported that the cost of tax collection services for Montgomery County Drainage District No. 6, a district similar in size to the District, is approximately \$500 per year. Bill Russell stated that if the comparison is made on the basis of costs, then there is no comparison because the county is so inexpensive. The procedure for reporting by the county tax office is different, and additional work would be required for the bookkeeper or the attorney if the District changed to the tax office. Director Vallery suggested that the District seek more information about the county's collection services. Director Smith stated that he saw no reason to change the way the taxes are handled.

Director Burrell stated that the tax office provides an important service by helping District taxpayers. The board of directors is responsible for governance of the District, and the tax assessor/collector is the Board's representative with regard to tax issues. Herman Little addressed the Board and stated that the costs are clearly quite different, but the differences between Drainage District 6 and the District are also very different. Taxpayers receive no specific services from Drainage District 6, and they very seldom have any issues about the Drainage District's business or taxes. On the other hand, the District provides water, sewer, garbage and law enforcement services and provides parks for the taxpayers. People who live in the District are well aware of the District's role in providing services and billing and taxing for the services. It is not unusual for taxpayers to have issues or concerns, and the District tax assessor/collector is available at all times to respond to taxpayer concerns and bring those to the Board when necessary. The county tax office can provide very efficient tax assessing and collecting services, but it cannot provide responses to customer concerns and inform the Board in the way that the District tax assessor does.

Director Vallery stated that he had questions about the District's legal fees, including the number of contacts the attorneys have with customers and persons who call about the District. Herman Little stated that because the District does not have an office or an office staff, the District's consultants are the Board's representatives to customers and taxpayers. Many times, calls received by the tax office or the operator are directed to the attorney, and all calls are accepted, and responses are made whenever it is possible to do so. Herman Little stated that he would not decline to take calls from members of the public concerning the District

because he represents the District and the board of directors. The attorney does not make decisions on behalf of the District, but the attorney is in a position to bring matters to the Board for action at meetings when necessary. The amount of work performed by the attorneys varies from time-to-time based upon activity in the District. The legal expense should be less in the future after home construction and building activity have concluded.

One project that has required attention recently is the storm sewer project to serve Imperial Oaks, Sections One and Two. Homeowners from whom easements are needed contacted an attorney, and Herman Little has had a meeting with the attorney and the clients. Subsequently, those homeowners filed a suit against the prior property owners, and the attorney representing the prior owners has also contacted Mr. Little. In response to a question by Director Vallery, Herman Little stated that it is impossible to predict when the work will be completed or the cost. The District has made a commitment to property owners in Sections One and Two to solve the problem with flooding, and the project will be worked until the appropriate conclusion. The priority that has been expressed by the Board is that the flooding problem be eliminated. Construction of the relief storm sewer will solve the problem in those areas.

Director Vallery stated that he had concerns about costs that are being put on the taxpayers. Director Venema stated that he and the other directors are likewise concerned about costs. There was further discussion about the directors' concerns on behalf of the taxpayers. Director Agans stated that the meeting has been very helpful in providing information about several areas of the District's business.

2. In response to a question by the Board, Bill Russell reported that there are no bills for review or payment at the meeting.

3. Bill Russell advised the Board that he has been talking to the energy consultants. They do intend to attend the next meeting and address the Board about possible savings on energy costs. The consultant has agreed to waive a preliminary fee and to charge 35% of amounts recovered for the District. This matter will be on the agenda for the next meeting.

Director Venema reported that a resident of the District has been polling the community about recycling services. A questionnaire has been distributed in the community, and it appears that several hundred customers have expressed an interest in recycling. It was mentioned that the Board has inquired on several occasions about recycling, and the cost has been too high to provide the services. There was further discussion, and the Board requested that the attorney obtain information from Republic Waste on the cost of recycling services and on the cost of using 96 gallon containers. This matter will be on the agenda for the next meeting.

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

Secretary 