

# RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors  
August 13, 2007

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on August 13, 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  
Duane Burrell, Director

and the following absent:

Charles W. Venema, Director

Also present were Vickey Sullivan, Bill Russell, Mike Williams, Mike McCall, Rebecca Marcucci, Jim Holcomb, Lonnie Wright, Jason Hajduk, Drew Masterson, Sergeant Jeff Brown, Herman I. Little, Jr. and persons on the attached list.

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

1. Minutes of the meeting held on July 7, 2007 were presented and reviewed. Upon motion by Director Burrell, seconded by Director Vallery, the Board voted unanimously to approve the minutes as presented.

2. Vickey Sullivan presented a tax assessor/collector's report. 2006 taxes are 97.7% collected. Upon motion by Director Burrell, seconded by Director Vallery, the Board voted unanimously to approve the tax assessor/collector's report as presented.

3. Mike Williams presented an operator's report. The District had revenues from water and waste collection and disposal service of \$170,053.24 and total revenues of \$187,033.48 during the month. The District accounted for 96% of water produced. There were 13 leak repairs during the month. Ten bacteriological samples were taken, and all were satisfactory. The wastewater treatment plant operated properly at 76% of permitted capacity. There were no violations. Eleven taps were made during the month, bringing the total to 111 for the year-to-date. The District has 3,691 taps and 3,381 occupied residences. Mike Williams presented a list of delinquent accounts and requested that the accounts be written off as uncollectible. The Board reviewed the list, and upon motion by Director Burrell, seconded by Director Vallery, the Board voted unanimously to authorize writing off the accounts on the list as recommended by the operator. Upon motion duly made, seconded and unanimously carried, the Board approved the operator's report as presented.

4. Mike Williams presented a report on Imperial Oaks Parks. The operator removed debris from the parks and recreation areas. There were eight calls for use of the facilities. The operator replaced broken lights at the pavilion, and the operator power-washed the park and pavilion. A bid was received for replacement of the fence at the Thorsby Park. The bid amount is \$1,193.20. After discussion, upon motion by Director Burrell, seconded by Director Vallery, the Board voted unanimously to approve replacement of the fence according to the bid submitted by the operator.

5. Lonnie Wright presented correspondence received from a resident of the District with regard to debris that a child found on the ground during a recent party. Mr. Wright advised the Board that cleaning the park is of absolute importance to the District and the operator, and the operator's personnel take the responsibilities very seriously. Approximately six months ago an employee was let go because he had not paid close enough attention to the park. Mr. Wright noted that the back of the pavilion is adjacent to the woods in the Imperial Oaks Park. The object that was found is not a large item and could be easily overlooked. Mr. Wright volunteered to write a letter to the customer providing assurances of the Board's concern and expressing apologies for the inconvenience. After discussion, the Board voted unanimously to authorize the operator to write a letter to the customer.

Lillian Smothers addressed the Board and stated that she wanted to express thanks for the response by the constable after her recent requests. The constables have been patrolling regularly, and the constables have apprehended three young people who have been responsible for misconduct. In response to a question by a member of the audience, it was mentioned that recycling services will commence in September. The recycling bins will be dropped off by the contractor. Herman Little advised the Board that the letter to District customers was revised as directed by the Board and is ready to be mailed with the District's next utility bill.

6. Bill Russell presented a bookkeeper's report, a copy of which is attached to the minutes. After payment of bills at this meeting, the debt service fund balance stands at \$2,410,790.05. The capital projects fund balance is \$1,591,316.07. The general fund balance will stand at \$558,855.52 after deposit of the transfer check approved at this meeting.

7. Mr. Russell noted that five checks are being presented for approval by the Board for payment of utility bills that have not yet been received. A check is presented payable to the Legacy Group for \$2,075.90. This is 35% of the amounts recovered following the Legacy Group's audit of District utility payments. A check is payable to McCall Gibson for additional auditing services that have been provided. A check is being presented for payment for the bicycles and equipment requested by the constables in the amount of \$1,958. A check is submitted for video equipment requested by the constable in the amount of \$1,258. The Board reviewed the report and checks presented for payment of bills. The Board reviewed a budget comparison report and noted that the District has expenses over revenues of \$86,533 for the year-to-date. Upon motion by Director Smith, seconded by Director Burrell, the Board voted unanimously to approve the bookkeeper's report and authorized payment of bills listed thereon.

8. Mike McCall addressed the Board and presented a report dated August 10, 2007. In response to the Board's request, the auditor reviewed six months of activity related to payment of director fees and director expense reimbursements. Expenses for mileage were

checked and have been confirmed to be calculated in accordance with IRS guidelines. A director's expenses of \$576.31 for mileage and \$1,418 for telephone expense had been approved by the Board for payment, but there is no supporting documentation for the expenses. This reflects an absence of good internal controls, and the auditor recommended that the Board require documentation for all expenses incurred by directors. In response to a question by Director Agans, Mike McCall noted that there are no other issues pertaining to the IRS involving the reimbursements. In further response to a question, Mike McCall reported that the District is in full compliance with applicable laws and regulations. Mr. McCall recommended that the Board require documentation for expenses, and if backup documentation is not provided for expenses, then the District will issue a 1099 Form in the normal course of business. There was discussion, and Director Vallery made a motion, seconded by Director Agans, to approve the paragraph at the bottom of Page 2 of the auditor's report to provide documentation supporting expenses and to issue a 1099 in the normal course of business. There was discussion, and the motion and second were withdrawn. Director Vallery then made a motion to require documentation for board expenses to be paid from this point forward. The motion died for lack of a second. It was mentioned that the Board could direct the bookkeeper to issue a 1099 for the year 2006, but it was further stated that this would be normal action for the bookkeeper on behalf of the District. There followed a motion by Director Smith, seconded by Director Burrell, to revise the expense form to include a yes/no box on the form with respect to supporting documentation. After discussion, a vote was called, and the motion passed three in favor, with Director Vallery voting against the motion.

9. Drew Masterson addressed the Board and presented a report on the proposed 2007 tax rate. The financial advisor reviews the business elements relating to the tax rate and addresses the debt service tax only. The report indicates that sufficient taxable value has been added in the District to allow the District to reduce the debt service tax by \$0.10 to \$0.56 per \$100 assessed valuation. This recommendation does not address the maintenance tax. The District is expected to have \$471,674,635 of assessed value for the 2007 tax year. The financial advisor's cash flow schedule reflects that the District will have 50% coverage in the debt service fund. No growth in taxable value is assumed beyond the January 1, 2007 value. If growth occurs in the future, the Board will be able to reduce the debt service rate further.

There followed a discussion of the maintenance tax. Drew Masterson stated that the District's objective in the general fund is to have an adequate balance in the general fund. There is no pat answer as to how much the balance should be, but rating agencies looking at mature districts would expect to have a minimum of 50% of the annual budget requirements at all times. A balance closer to 75% would be preferable in order to protect the District against unanticipated expenditures for repairs and maintenance. Surplus funds that have not been allocated for specific projects can be considered as a part of the reserve fund to cover unforeseen events. There was discussion, and the Board noted that the annual budget is \$2.1 million. \$1.059 million would be 50% coverage, and 75% coverage would be between \$1.6 and \$1.7 million. The construction fund has approximately \$250,000 in surplus funds beyond those funds allocated for projects, and a similar amount would be the District's target for an increase in the fund balance. Drew Masterson noted that if the District continues to have a large balance in the construction fund, then there could be possible problems requiring arbitrage rebate pursuant to IRS regulations. It was mentioned that a \$0.05 increase in the maintenance tax would raise

\$230,000 in one year. In response to a question by Director Vallery, it was noted that possible problems that could include a failure of a well and failures in the sanitary sewer collection system where ABS truss pipe had been used in the original sections in Imperial Oaks.

Herman Little presented an analysis of various maintenance tax rates that indicates the amount of funds that could be added to the general fund assuming budget requirements remain consistent. There was discussion of the schedules and of the importance of increasing the fund balance. If the District raises the maintenance tax rate by \$0.04 or \$0.05, the taxpayers will still enjoy a reduction in the overall tax rate and a reduction in the tax bill as well. After discussion, upon motion by Director Burrell, seconded by Director Smith, the Board voted three in favor and Director Vallery voting nay, to approve a proposal for the 2007 tax rate of \$0.56 for debt service and \$0.082 for maintenance and operations, for a total tax rate of \$0.642.

10. Rebecca Marcucci addressed the Board and reported that the Legacy Group has reviewed some, but not all of the District's electricity bills from TXU, and to date, Legacy has found \$5,931.13 of taxes paid by the District that are subject to refund. TXU has issued a check in that amount, and the check has been received by the District. There are additional bills that have not been processed yet, but the District should expect additional refunds based upon payments to Champion Energy, Constellation Energy and First Choice Energy.

Ms. Marcucci stated that the Legacy Group is interested in working with the District as a consultant to obtain proposals for electric power. The District's present contracts are with Champion Energy for street lights and First Choice for the District's facilities. Both contracts expire in June, 2008. The rate for Champion is presently \$0.083, and the rate for First Choice Energy is \$0.093. The District presently has two accounts with Reliant Energy. It was mentioned that those accounts are for lift stations that have recently been added to the District's system. Ms. Marcucci stated that she would review the energy markets and would try to obtain proposals to blend and extend present contracts, but not at this time, because the market is not favorable. Better rates should be available later in the year, most likely in October. The best rate available in the market today are \$0.087. There was discussion, and upon motion by Director Vallery, seconded by Director Smith, the Board voted unanimously to engage Legacy Energy Management Solutions as the District's energy consultant, and the Board directed that the HGAC Energy Purchasing Corporation be advised of the Board's change in consultants. There was discussion of a person who would be well suited to obtain proposals and make commitments for energy contracts for the District. Upon motion by Director Vallery, seconded by Director Smith, the Board voted unanimously to designate Bill Russell as the Board's official representative for obtaining electric energy contracts.

11. Jason Hajduk presented an engineer's report. The Robinson Road project is still waiting for AT&T to complete relocation of utilities. AT&T did relocate its cable facilities in Imperial Oaks Boulevard where the storm sewer project will be extended. It will be necessary to renew the District's waste discharge permit. The engineer will prepare the application and will assemble information and reports to be included in the application. It was mentioned that Aldine Westfield Road is open now. Upon motion by Director Burrell, seconded by Director Smith, the Board voted unanimously to approve the engineer's report and to authorize preparation of an application for renewal of the District's discharge permit.

12. Jim Holcomb presented a developer's report. 150 homes have been sold in the District, to date. This will add additional taxable value to the District for next year. There are 139 lots remaining to be built in the District. The shopping center is expected to be complete in November. Sales of homes have slowed down, but activity is still good in the District.

13. Sergeant Jeff Brown presented a law enforcement report. There were three burglaries of habitations and one burglary of a vehicle. There is one suspect in one of the cases, and some property has been recovered. There were three criminal mischief calls, three criminal trespass calls and 18 disturbances. Sergeant Brown noted that there are 22 cases requiring follow up investigation in the District. In the future, it would be helpful for the District to add a field investigator to support the officers who patrol the District. There were three narcotics arrests, four felony thefts and five misdemeanor thefts. There were two major accidents in the District and nine DWI arrests. There were 444 traffic contacts.

The bicycle equipment is in, and the bicycle patrols will start very soon. The office in the POA facilities is ready, and the constable is requesting that the District pay for the telephone and internet connections in the office at a cost of \$88 per month. There was discussion, and upon motion by Director Smith, seconded by Director Vallery, the Board voted unanimously to approve the District's paying for the telephone and internet connections in the office used by the Precinct Three constables for patrol in the District. Director Vallery expressed appreciation for good support that has been provided by the constables in Section Nine in recent weeks.

14. There was discussion of the proposed Interlocal Cooperation Agreement with Montgomery County for law enforcement services. The Board requested that an agreement be drafted that will reflect the District's current relationship with the county, including the requirement that all future vehicles be purchased and shared by officers patrolling in the District. The Board requested that the termination provisions be modified to prevent termination of the contract until 90 days before the end of the contract term. Director Vallery stated that he has been hearing good reports from residents of the District concerning law enforcement services. Herman Little will have a draft agreement available for the Board's next meeting.

15. The Board reviewed the District's rate order and noted that the District recently approved recycling services in the District. The Board previously discussed rates and charges for recycling, and it is necessary to incorporate those rates and charges in the rate order. It was mentioned that the Board also should add a charge for the Lone Star Groundwater Conservation District fees that will be assessed for water pumped from the District's wells. The fee will be a direct pass through to District customers, and the fees will provide funding to the Lone Star District for development of a surface water system to serve Montgomery County. After discussion, upon motion by Director Vallery, seconded by Director Burrell, the Board voted unanimously to adopt the Rate Order with changes discussed and approved at this meeting, which Order is attached to the minutes. There was discussion of the recycling program, and upon motion by Director Smith, seconded by Director Vallery, the Board voted unanimously to authorize a letter to be sent to the District's customers regarding recycling services being provided in the District.

16. The Board reviewed an Order Approving Amended Code of Ethics. Herman Little advised the Board that text is to be added to the Code of Ethics referring to conflicts of interest disclosure requirements that have become applicable to local government officials, including directors of utility districts. The Board has already completed requirements applicable to the disclosures, and vendors and contractors of the District have done likewise. Adding the language will indicate that the District is fully in compliance and follows those provisions of the law. The second area of change involves the requirement for local government officials, including directors of utility districts, to receive training in the Texas Open Meetings Act and the Public Information Act. Again, the directors have complied with requirements of the law and have taken the training as required. Addition of the training requirements to the Code of Ethics will indicate that the Board follows those requirements applicable to the District. After discussion, upon motion by Director Burrell, seconded by Director Vallery, the Board voted unanimously to adopt the Order Approving Code of Ethics, which Order is attached to the minutes.

17. The Board reviewed a Resolution Regarding Taxation of Tangible Personal Property in Transit. Herman Little advised the Board that the resolution will express the District's intention of taxing any tangible personal property that may be subject to taxation in the future. The property in question would be brought into the District for a temporary period and stored before being transported out of the District to other locations. Although there are no facilities in the District in which such property could be located, the District would want to be legally qualified to impose taxes on the property if allowed by law. All tax assessor/collectors and county appraisers are recommending that all taxing jurisdictions adopt the resolution, so there can be a common, uniform policy for taxation of such property throughout the state. After discussion, upon motion by Director Agans, seconded by Director Smith, the Board voted unanimously to adopt the Resolution Regarding Taxation of Tangible Personal Property in Transit, which Resolution is attached to the minutes.

18. The Board reviewed correspondence from the Montgomery Central Appraisal District regarding an election of directors. It was noted that the District may vote for a person to run for election to represent utility districts in the county. After discussion, upon motion by Director Vallery, seconded by Director Smith, the Board voted unanimously to authorize the District's votes to be cast for Carmen "Biff" Picone.

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

Assistant Secretary

