

RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors
February 11, 2008

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on February 11, 2008, 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, Mike Williams, Constable Tim Holifield, Jason Hajduk, 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 of January 14, 2008 were presented and reviewed. Upon motion by Director Burrell, seconded by Director Venema, the Board voted unanimously to approve the minutes as presented.

2. Vickey Sullivan presented a tax assessor/collector's report. The Board reviewed the report and noted the status of tax collections and bills that have been presented for payment. Upon motion by Director Burrell, seconded by Director Smith, the Board voted unanimously to approve the tax assessor/collector's report as presented.

3. Constable Tim Holifield presented a law enforcement report. Constable Holifield had presented a written report to the Board electronically. There were seven vehicular burglaries during the month. This has been happening all over South Montgomery County, and Constable Holifield recommended that the Board approve additional law enforcement coverage on an overtime basis for approximately 20 hours per week to establish surveillance to address the problem. There was discussion. It was mentioned that there was one burglary during the last weekend. A citizen heard noises and chased the intruder away. In response to a question by the Board, Constable Holifield suggested that the additional overtime not be greater than three weeks. Upon motion by Director Burrell, seconded by Director Venema, the Board voted unanimously to add 20 hours of law enforcement service on an overtime basis, and the Board further directed that an item be placed in a newsletter to notify residents of the importance of keeping vehicles locked.

4. The Board reviewed an Interlocal Contract with Montgomery County for Law Enforcement Service. This is the third time the Board has reviewed a proposed contract for law enforcement service for the current year. On two occasions, the county has had additional changes in wording of the contract after having told the District that it was acceptable. Herman Little advised the Board of the most recent changes that have been requested in the current version, particularly those involving payment of costs for vehicles purchased for law enforcement service in the District. After discussion, upon motion by Director Smith, seconded by Director Venema, the Board voted unanimously to approve and authorize signing an Interlocal Contract with Montgomery County for Law Enforcement Service as presented.

Director Venema addressed the Board and expressed the need for additional law enforcement resources and described the benefits of a Community Patrol Program in which citizens would provide observation to supplement the presence of law enforcement officers. Constable Holifield suggested that the Board authorize a Community Patrol Program to be conducted by volunteers. Volunteers would wear identifying clothing and use a vehicle, but at little cost to the District. There was discussion, and it was mentioned that the item for Community Patrol should be on the agenda for the Board's next meeting.

5. Mike Williams presented an operator's report. The District collected \$191,230.81 for service provided during the month. There are 3,725 connections with 43 vacant residences at this time. Ten bacteriological samples were taken, and all were satisfactory. The District accounted for 101% of water produced. Two taps were made during the month. The wastewater treatment plant operated properly at 77% of permitted flow. Mr. Williams presented a list of delinquent accounts that are uncollectible because customers have moved away from the District. The list has seven accounts totaling \$857.19. Upon motion by Director Venema, seconded by Director Vallery, the Board voted unanimously to approve the operator's report and to approve writing off uncollectible accounts on the list presented by the operator.

6. Mike Williams presented a report on Imperial Oaks Park. There were five reservations for the pavilion and two for the ball fields. The pavilion was pressure washed, and lights were replaced. Also, basketball nets were replaced, and ant bait was applied. It was mentioned that additional sand is needed for the volleyball court and that fertilizer is needed on green areas in the park. Upon motion by Director Venema, seconded by Director Vallery, the Board voted unanimously to approve installation of sand and fertilizer as recommended by the operator. Director Venema noted that at Thorsby Park, a resident adjacent to the wastewater treatment plant has reported damage to a fence. The operator will look into the situation and recommend action to the Board.

7. The Chair called for customer inquiries. A resident of the District, Mr. Levine, inquired concerning a recent article in the news media concerning the requirement to reduce groundwater pumpage in Montgomery County by 30%. Mr. Levine inquired as to the Board's actions taken to accomplish this goal and the cost meeting the requirements. Herman Little advised the Board concerning the responsibilities of the Lone Star Groundwater Conservation District and a requirement that large groundwater users in Montgomery County find alternate sources of water supply to reduce reliance upon the aquifers. The District will be required to reduce groundwater pumpage, but it is too early to know what specific elements of a water supply system will be required or the costs of the system.

There was a question concerning the District's recycling program. Herman Little

advised the Board that Republic Waste Services had provided information that although recycling materials may not be collected in a green truck, all recycling materials are collected and sorted before being delivered to the recycling destination. The recycling materials collected in trucks other than green trucks are not taken to the landfill. It was mentioned that a representative of Republic Waste should have attended the meeting. Herman Little reported that Mr. Lacy has been ill, but Republic will be asked to have a representative at the next meeting. It was mentioned that Republic had promised to give a report on the percentage of participation in recycling in the District, and this should be given at least every six months. There was a question concerning newspaper and cardboard and as to whether they can be collected.

8. Bill Russell presented bookkeeper's report, a copy of which is attached to the minutes. After payment of bills at this meeting, the debt service fund balance will stand at \$3,756,870.45. The capital projects fund balance is \$1,602,670.65. The general fund balance will stand at \$370,605.79 after deposit of a transfer check to be approved at this meeting. Mr. Russell noted that during the past eight months, the District has fallen short of budgeted revenues by \$172,000, and expenses have been \$88,000 less than anticipated. The District should end up the year in satisfactory condition, but the budget reserve is insufficient for good financial purposes. Mr. Russell reported that Director Agans had called and expressed concern about the low fund balance, which is in the 7% to 8% range. Mr. Russell agreed that the concern is well founded, and a district with a budget of \$2.5 million should have a substantially greater reserve on hand. The reserve should be between 35% and 50% of annual requirements. Mr. Russell reviewed the District's finances and prepared a report with several points. First, tax revenues are not fully collected yet. \$117,000 will be transferred as of tonight's meeting, and that will help. Second, it has been a very wet year, so revenues for sale of water and sanitary sewer service have been low. If the wet weather continues, the District's revenues will be short of previous expectations. Third, the District has had a history of increasing services without increasing the general fund reserves. The District has added law enforcement services without increasing the reserve. The District added recycling service without increasing the reserve.

Mr. Russell then discussed several possible solutions. First, the Board could consider a rate increase. This is not recommended at this time, but it may become necessary to offset future increased expenses. Second, the maintenance tax revenue could be increased again, but this will only occur later in the year when taxes are levied. The maintenance tax rate could be increased, offsetting in whole or in part a reduction in the debt service rate if taxable values increase sufficiently. Third, TCEQ rules will allow the District to utilize surplus bond funds for repairs or maintenance of facilities previously financed with District bonds. During the period January, 2006 through February, 2008, the District expended \$493,426.42 for repairs and maintenance of District facilities financed with bonds. Mr. Russell stated that he had not looked at every item but selected only substantial items of expense. In contacting the District's auditor, Mr. Russell learned that the Board should pass a resolution authorizing the transfer, and the resolution should include backup information concerning funds being expended. Mr. Russell therefore recommended that the Board adopt a resolution authorizing the transfer, and he will keep track of similar expenditures in the future. By transferring maintenance tax revenues and the transfer check at this meeting, the general fund balance should increase to approximately 42% of annual requirements. There was discussion, and Director Vallery stated that we should not use our surplus bond money to increase our reserve fund because the Board voted for a 100% increase in maintenance tax to increase our reserve fund over a period of time. Director Venema noted that the proposal does not involve borrowing funds, but it is simply utilizing funds that the

District has on hand for the designated purpose. There was further discussion, and upon motion by Director Venema, seconded by Director Burrell, the Board voted four in favor, with Director Vallery voting against the motion to authorize and approve a resolution authorizing transfer of surplus bond funds to the general fund as recommended by the bookkeeper. Director Vallery expressed concern about the Board's increasing spending without worrying how the money is being spent. It was mentioned that the Board's resolution does not authorize expenditure of any funds, but it is merely a transfer of District funds from one account to another account. The District will approve spending on an item by item basis at monthly meetings, so the Board retains complete control over expenditures.

9. The Board reviewed a proposal from Municipal Risk Management Group, L.L.C. for a Yield Restriction and Rebate Calculation Analysis. It was mentioned that the analysis will enable the Board to ensure that the District is fully in compliance with bond covenants and rules of the U. S. Treasury Department with regard to the District's outstanding bonds. After discussion, upon motion by Director Vallery, seconded by Director Burrell, the Board voted unanimously to engage Municipal Risk Management Group, L.L.C. to perform a Yield Restriction and Rebate Calculation Analysis according to the proposal presented at the meeting.

10. Jason Hajduk presented an engineer's report. Drainage District 10 has approved a project for de-silting the detention basin to provide benefits to Imperial Oaks Park, Sections Ten and Eleven. The engineer attended a meeting of the Lone Star Groundwater Conservation District concerning reduction of groundwater usage. The San Jacinto River Authority is proposing to perform a water resources assessment plan that would involve other participants to meet the Lone Star District's requirements. Mr. Hajduk recommended that the Board approve participation in the SJRA plan. The San Jacinto River Authority is a governmental agency and will have the best resources to address the problem. This matter will be on the agenda for Board approval at the next meeting.

The Tennessee Gas Pipeline Company will approve an agreement for construction of drainage swales to improve drainage in Imperial Oaks Park, Section Nine.

11. No action was taken on an Interlocal Agreement with Montgomery County Drainage District No. 6, because it has previously been approved by the Board.

12. There was discussion of development activity in the District, including plans for the completion and opening of the Kroger store scheduled for March 2, 2008. There is another elementary school proposed for construction in new sections of Imperial Oaks being developed in Montgomery County MUD No. 115.

13. The Board reviewed a proposal for Amendment of the Order Establishing Policies and Rates for Water and Waste Collection and Disposal Service and Rules and Regulations for the Imperial Oaks Park, Pavilion, Greenbelt and Ball Fields. Herman Little described procedures that are recommended for inclusion in the District's rules to establish clear procedures for identifying and reporting violations of the District's rules. The proposed changes will allow the Board to identify violations and conduct hearings to determine the persons responsible for violations and to assess penalties upon determination that violations have occurred. The rules will enable a party who has been assessed a penalty to appeal the Board's decision, if necessary. The proposed changes are intended to provide clarity and fairness to all

parties with regard to the District's rules and to clarify circumstances that involve violations. Changes will include approval of a violation report that will be used by the operator to record information about violations and a violations notice that can be sent to the party thought to be responsible for the violation. After discussion, upon motion by Director Vallery, seconded by Director Burrell, the Board voted unanimously to approve the amendments to the District's Order Establishing Policies and Rates for Water and Waste Disposal Service and the Rules and Regulations for the Imperial Oaks Parks and Related Facilities.

14. It was mentioned that the Board should conduct an election of directors on Saturday, May 10, 2008. The Board reviewed an Order Calling Election, and it was mentioned that the Board will need to identify a polling place for election procedures, both on election day and during the period of early voting. Director Venema described problems that have been expressed in the community about the polling places. Director Venema stated that the Board could select polling places from among a list, including the community center on Imperial Oaks Boulevard, the community building at the Havehouse pool, Kaufman Elementary School or the Imperial Oaks, Section Nine clubhouse. There was discussion of the elementary school, and it was noted that the school would charge \$55 per hour for use of its facilities. School will be in session during the period of early voting, but schools typically make arrangements for voting procedures while school is underway. There was further discussion, and upon motion by Director Burrell, seconded by Director Smith, the Board voted four in favor, with Director Vallery voting against the motion to designate the polling place for the District's election at the Imperial Oaks, Section Nine clubhouse. It was mentioned that the Board will need to identify qualified persons to serve as election officers during early voting and on election day.

15. It was mentioned that changes in the District's polling place and other procedures will require a submission to the United States Department of Justice under the Voting Rights Act. After discussion, upon motion by Director Burrell, seconded by Director Venema, the Board voted unanimously to authorize the District's attorneys to prepare and file a submission of materials under the voting rights act as required by law.

16. Director Agans reported that correspondence had been received from Randy Rothrock concerning certain matters involving the District. Director Agans then read a statement for the benefit of the District and the public. At the January 14, 2008, meeting, statements were made that the District does not follow appropriate procedures for payments of director fees and expenses. A majority of the Board agreed that they were in compliance with the law. This is not the first time the individual has made accusations against the District. Last year, the individual reported that there was fraud in the District's records. The District's auditor investigated the allegations of fraud and reported to the Board that no fraud had been identified. The District's attorney, auditor and bookkeeper have all advised the Board that the District is in full compliance with all requirements of law applicable to payment of expenses and fees. The Board of Directors welcomes comments from the public at all times and is pleased to respond to public needs. In the past, the Board has responded to public requests for recreational facilities, and a system of parks and recreational facilities has been built to serve the community. In response to requests by the public, the District has instituted a program of recycling. Further, the District has added additional constables, so full time law enforcement service is being provided in the District. The District has created a website and maintains a website for the convenience of the public.

Director Vallery stated that the letter was asking for the District to change

procedures for payment of fees and expenses. The directors do not write down the dates or purpose of work that they perform for the District. Director Vallery requested that the Board write down days of service and the purpose of work provided. Director Agans stated that he emails Bill Russell each month with a report with dates, places and purposes of actions taken on behalf of the District.

Bill Russell stated that he has reports attached to the monthly reimbursement forms, and they are available every month. Each month the directors make sworn statements with regard to their compensation and expenses. If there are other work days during the month, a director can put those items into the report. Director Vallery stated the gentleman was just asking for those items. Bill Russell stated that he has been following the direction of the District Board of Directors and District's auditor and will continue to do so.

There was discussion of procedures for payment of director fees. Upon motion by Director Vallery, seconded by Director Burrell, the Board voted unanimously to require directors to give a description and date of all work they perform for the District each month.

Director Venema stated that the person who wrote the letter has stated that the District is not in compliance with law, but that is not a correct statement. The District operates within all laws and regulations applicable to the District. If a person wants the District to do more than that, then that is a separate matter. Director Venema stated that it has been 26 days since the last Board meeting, and on 19 of those days, Director Venema did District business. Director Venema stated that he has no problem in complying with the law, but he has a problem with such accusations.

Director Vallery stated that the writer of the letter is not a lawyer, and he only asked to discuss the matter with the Board. His desire is to make the Board accountable for what we do. Director Vallery stated that he hasn't done it either, but he can and will.

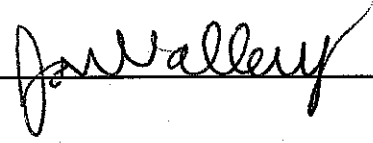
Director Burrell stated that the person has made false accusations about the District and the directors. There was discussion about the letter and issues raised in the letter. Tom Roy addressed the Board and stated that this should not become a personal issue. The Board has done an excellent job, and the District has gotten better and better with its business. Mr. Roy stated that he knows what the Board does, and these items simply should not become personal. Personal issues should not be part of a public record.

Director Agans reported that the District's directors have been compensated a total of \$22,836 for their services to the District during 2007. This is only 1% of the District's total budget, and it is not out of line.

17. The Chair called for director comments, and Director Venema commented on problems at a pocket park within the District.

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

Secretary

A handwritten signature in cursive script, appearing to read "J. Waller", written over a horizontal line.