

RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors
September 13, 2010

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on September 13, 2010 at 312 Spring Hill Drive, Suite 100, West Entrance, Spring, Texas 77386, in accordance with the duly posted notice of the meeting, with a quorum of directors present, as follows:

Jon Vallery, President
Frank Moore, Vice President
Charles Saxe, Secretary
Michael Smith, Assistant Secretary
Paul Alli, Director

and the following absent:

None.

Also present were Bill Russell, Mike McCall, Sergeant Josh Hanson, Bert Keller, Mike Williams, Jason Hajduk, Herman I. Little, Jr. and persons on the attached list.

1. Minutes of the meetings held on August 9 and August 23, 2010, were presented and reviewed. The Board requested corrections of the August 9 minutes, and upon motion by Director Moore, seconded by Director Saxe, the board voted unanimously to approve the minutes as corrected.

2. Sergeant Josh Hanson presented a law enforcement report. During the month there was one burglary of a habitation, seven thefts, ten disturbances, eight criminal mischief incidents, two misdemeanor assaults, two family violence incidents, one drug arrest, two incidents involving firearms, two warrant arrests and 365 traffic enforcement actions. There was discussion, and the Board expressed appreciation for services of the constables in the District and approved the report as presented.

3. 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 will stand at \$1,557,905.75. The capital projects fund balance is \$301,254. The general fund balance is \$881,480.59. The tax account balance is \$20,412.89. Mr. Russell reported that 2009 taxes are 98.9% collected. After discussion, upon motion by Director Saxe, seconded by Director Moore, the Board voted unanimously to approve the bookkeeper's report and to authorize payment of bills listed thereon. Upon motion by Director Moore, seconded by Director Saxe, the Board voted unanimously to approve payment of director fees and expenses as reflected on the report.

4. Bert Keller presented a report on the market for electric power. The District's present contract for electricity is with Hudson Energy at a rate of \$0.06 per kwh. The contract expires on July 6, 2011. Mr. Keller presented proposals that would commence upon

expiration of the current contract with Hudson. Constellation Energy has presented the lowest bid for electricity for a one year period that would result in 20% to 34% savings. Mr. Keller advised the Board that the District can qualify for a Heat Rate contract under which the District could purchase power at wholesale rates off the grid based upon the cost of natural gas. The consultant would follow the natural gas market, and if the market goes up, then the Board would be notified to obtain a fixed rate based on current costs. Mr. Keller stated that a Heat Rate for three years would be good for the District. It is likely that the cost of natural gas will be lower, so the District would have an opportunity to have lower costs of power. There was discussion, and it was mentioned that if the natural gas cost goes below \$5.00, then the District could get a firm contract. Mr. Keller recommended that the Board look at a three year Heat Rate contract but that action be deferred until six to twelve months from now. The Board could hold a special meeting to make a decision, or the Board could authorize a director or consultant to make a decision for the Board. Mr. Keller stated that it will be his responsibility to notify the District of market conditions. There was discussion, and the Board voted unanimously to authorize Bill Russell to make a commitment on behalf of the District upon notification of favorable market conditions. There was discussion of MP2 Energy which has submitted a favorable Heat Rate proposal, and Mr. Keller stated that MP2 is reliable and has a headquarters in Houston. They brought in a lot of people from Champions Energy. MP2 is owned by the Sumatoma Corporation. There was discussion, and in response to a question Mr. Keller stated that the heat rate is calculated to be the cost of production of one kilowatt hour of electricity. There was discussion, and upon motion by Director Saxe, seconded by Director Alli, the Board voted unanimously to accept the MP2 Heat Rate contract for a 36 month term with Bill Russell having authority to review rates and make a decision to fix the price during the contract term. Director Vallery is authorized to sign the contract, which will be sent to Herman Little for review prior to signing.

5. Mike Williams presented an operator's report. The District received revenues of \$202,692.89 for service provided during the month. There are 3,667 connections, of which 3,554 are occupied single family residences. There are 54 vacant homes. Ten bacteriological samples were taken, and all were satisfactory. Twelve leaks were repaired during the month. The wastewater treatment plant operated at 70% of permitted flow, and there were no permit violations. No taps were made during the month, and twelve taps have been made for the year-to-date. Mr. Williams presented a list of delinquent accounts that are uncollectible and recommended that the accounts be written off. There are nine accounts on the list with a total amount due of \$516.58. After discussion, upon motion by Director Smith, seconded by Director Moore, the Board voted unanimously to approve the write off list and to approve the operator's report as presented.

6. Mike Williams presented a report on Imperial Oaks Park. Regular mowing and maintenance was performed. Eleven calls were received for use of facilities, including two for the park and eight for the ball fields. The operator replaced annual flowers in the parks and flower beds during the month. Upon motion by Director Moore, seconded by Director Saxe, the Board voted unanimously to approve the report on Imperial Oaks Park as presented.

7. Jason Hajduk presented an engineer's report. The contractor is waiting for mechanical components of the clarifier project at the wastewater treatment plant. Pay

Application No. 2 and final was received in the amount of \$18,720 for the Water Plant No. 1 rehabilitation project. The engineer has been meeting with Mike Williams concerning the long-term management plan. The engineer presented a proposal from Toulhay Wong materials for testing at the wastewater treatment plant. The proposal is on the same terms as had been previously been approved by the Board. Upon motion duly made, seconded and unanimously carried, the Board approved the proposed services of Toulhay Wong, and the Board approved the engineer's report as presented.

8. Mike McCall presented an audit report for the fiscal year ended May 31, 2010. The auditor is presenting a unqualified opinion as was the case in the previous year. The Board reviewed the Management Discussion and Analysis, which is a report prepared on behalf of District management. It is the Board's report to the public on operations of the District and its facilities. The auditor then described the changes in District fund balances and the statement of activities during the year. The general fund balance declined by \$7,125. The balance is equal to approximately 33% of annual requirements. Mr. McCall advised the Board that this balance is okay, but a major repair could really cause a problem to the District. The fund balance would not be sufficient to cover a major problem with a well failure or a major fault in the utility system. The Board reviewed a budget comparison report and noted that the District had \$92,660 of revenues greater than the budget, and \$8,125 of expenses less than the budget. The Board reviewed schedules included in the report that are required by TCEQ, and the Board reviewed a five-year comparative report on activities in the general fund and debt service fund balance. The District has a very solid debt service fund. The District's investments were satisfactory, and the District has complied with its investment policy and requirements of the Texas Public Funds Investment Act.

Mr. McCall described a management letter that has been issued as in prior years that describes material weaknesses relating to internal controls. The auditor prepares the financial statements, schedules of capital assets and schedules of depreciation, because the District does not have in-house accounting services. This is a typical circumstance for most municipal utility districts, and the TCEQ and bond market do not express concerns under these circumstances. The management's response to the letter is included. Mr. McCall then presented representation letters to confirm the absence of fraud or lost assets. Upon motion duly made, seconded and unanimously carried, the Board approved the representation letter as presented. Upon motion by Director Saxe, seconded by Director Smith, the Board voted unanimously to approve the audit report and to authorize completion of the report and filing of the report with the TCEQ as required by law.

9. The Board reviewed a Resolution Affirming Review of Investment Policy Strategies and Objectives. After discussion, upon motion by Director Smith, seconded by Director Moore, the Board voted unanimously to adopt the Resolution Affirming Review of Investment Policy as presented.

10. The Board reviewed a Rental Equipment and Sale of Services Agreement with Premiere Election Solutions. The Agreement provides for rental of electronic voting equipment for the November 2, 2010 bond election. The cost will be \$4,334. There was discussion, and it was mentioned that the District's cost of the bond election will be less than the anticipated cost of a joint election with Montgomery County if the joint election had been

possible. Upon motion duly made, seconded and unanimously carried, the Board approved and authorized signing the Rental Equipment and Sale of Services Agreement as presented.

11. The Board reviewed an Order Appointing Election Officials and Designating Polling Places for the November 2, 2010 election. The polling place for the election on Election Day and for Early Voting will be at the Imperial Oaks Section 9 Subdivision Recreation Center at 1323 Jander, Spring, Texas. Early voting will occur between the hours of 11:00 a.m. and 7:00 p.m. beginning Monday, October 18, 2010 and continuing through Friday, October 29, 2010. Bill Smith will be the presiding judge, and George Defenbaugh will be the early voting clerk and alternate presiding judge. After discussion, upon motion by Director Saxe, seconded by Director Alli, the Board voted unanimously to adopt the Order Appointing Election Officials and Designation Polling Places, which Order is attached to the minutes.


The Board reviewed a proposed letter to District voters describing the purpose of the election and providing information about polling places and a Town Hall Meeting that will be held on Thursday, October 7, 2010. The Board reviewed the proposed letter, and it was suggested that Directors have an opportunity to suggest changes or revisions prior to its distribution. Lorene Roy addressed the Board and suggested that information be included about the costs of the project and the costs to voters. It was suggested that the cost summary for the election be included on the back of the letter. It was mentioned that the purpose of the election is to authorize funding for Well No. 3. The well is needed because the District has exceeded its water production capacity on numerous occasions during the summer of 2009 and on several occasions during 2010. Also, the District's Well No. 1 is more than 30 years old, and Well No. 2 is 15 years old. The failure of either well would create an emergency in the District's water supply system. Severe water conservation measures would be required for a lengthy period of time if there was a failure of either well. There was discussion, and it was agreed that Directors Alli and Smith will review the proposed letter and submit recommendations for changes for completion of the letter and mailing to all District customers. Upon motion by Director Moore, seconded by Director Smith, the Board voted unanimously to approve preparation of the letter with modifications from Directors Smith and Alli, and the Board authorized the letter to be mailed to all District customers which should not be later than Friday, September 17, 2010.

12. It was mentioned that the District is required to submit continuing disclosure materials about the District's financial condition and operations, and First Southwest Company has provided services for preparation of the District's continuing disclosure in the past. Upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to engage First Southwest Company to prepare the District's continuing disclosure filing for 2010.

13. The Board reviewed a report by Arbitrage Compliance Specialists with regard to arbitrage rebate and yield restriction requirements on the District's outstanding bonds. It was noted that the District is in compliance with applicable treasury regulations, and no rebate is required for District bonds at this time.

Bill Russell advised the Board that he will be preparing an amended budget for consideration by the Board at the next meeting.

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



Secretary