

RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors

September 9, 2019

The Board of Directors (“Board”) of Rayford Road Municipal Utility District (“District”) met at 27316 Spectrum Way, Oak Ridge, Texas, on September 9, 2019, in accordance with the duly posted notice of the meeting, with a quorum of directors present, as follows:

Jon Vallery, President
Charles Saxe, Secretary
James Ridgway, Director
Glenn Kourik, Director

and the following absent:

Frank Moore, Vice President.

Also present were Bill Russell, Mike Williams, Kevin Tokarski, Michael Others, Matt Corley, Mark Smith, Christie Leighton, Dick Milstead, Kammy Reece, George Easton, and Lori G. Aylett.

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

1. The President read the following announcement of recording and publication of recording on the District’s website: “The District records its meetings and at the conclusion of the meeting posts the recording on the District’s website. The audio recording can be found under the ‘Meetings’ tab of the website, www.rayfordroadmud.com. Members of the Board of Directors and attendees of the Board meeting may also be recording the meeting.”

2. Director Saxe expressed his opinion that it was improper for Director Ridgway to live stream the meetings. Director Ridgway responded that the law stated that any person in attendance is entitled to record a meeting.

3. The chair called for public comments. A resident asked if the District paid for the water that is used to water playing fields. The operator responded that the District does pay for the water. The resident followed up to ask why watering was done at 2 p.m. The operator responded that there were number of factors that were involved in the timing of watering the playing fields.

Another resident asked why there appeared to be so much animosity between the Board members. Director Saxe responded that it was his position that Director Ridgway was costing the District a lot of money unnecessarily. Director Ridgway asked Director Saxe about his place of employment, and Director Saxe confirmed that he worked at McDermott Energy. Director Ridgway disclosed that he also worked at McDermott Energy. The attorney noted that there was no legal issue with two directors working at the same place of employment.

4. Minutes of the meeting held August 12, 2019 were presented for the Board's review and approval. The Board noted several corrections, and the attorney will make revisions.

5. The Board noted that there was a vacancy in the office of Secretary, due to Brendon Keith's resignation. Director Ridgway made a motion for the following slate of officers: Director Ridgway - President; Director Saxe - Vice President; and Director Kourik - Secretary. The motion died for lack of a second.

Director Vallery noted that the only current vacancy is in the office of Secretary and thus nominated Director Saxe as Secretary. The nomination was seconded, and carried by a vote of 3-1, with Director Ridgway opposing.

6. The Board reviewed a law enforcement report and the following statistics: there were no District calls; 372 contract calls; 510 traffic contacts; 61 reports taken; zero felony arrests; six misdemeanor arrests; zero crashes; and nine charges filed. The new vehicles are in service. The Board discussed taking down the stale dated Constable reports from the website.

7. The chair opened a public hearing regarding the District's proposed 2019 tax rate. The tax assessor/collector had published notice of the proposed rate of \$0.50. A resident asked about that rate, and it was reported that this was a \$0.01 reduction from last year's tax rate. Because the average value of the homestead increased this year, the amount of tax paid by the average homestead utilizing the \$0.50 rate would be \$36.73 more than last year. The percentage increase on that average homestead was 3.78%. The Board members had some general discussions regarding the implication of Senate Bill 2 on tax rates and the tax levy. Director Ridgway asked the bookkeeper to provide information on how much maintenance taxes would be generated by the \$0.15 levy. It was noted that information regarding the proposed levy was discussed in detail by the financial advisor at the prior month's meeting. At the conclusion of public comments, the chair closed the public hearing.

8. There was presented a proposed Order Setting Tax Rate, Approving Tax Roll, and Levying Debt Service Tax and Maintenance and Operation Tax for the Year 2019 and a corresponding amendment to statement of directors. Director Ridgway began a discussion of the SJRA rate charged to customers by the District. Director Ridgway commented that the District charges the SJRA surface water rate plus a mark up of 10% to customers for all water used, even though the District pumps some groundwater. Director Ridgway noted that this could be an issue due to the marked difference in groundwater and surface water rates that the SJRA implemented in September and could result in the District collecting a surplus of funds. Director Vallery noted that all funds collected by the District for water, including for surface water, go into the general fund and are used by the District for District purposes. Currently, the District has an operating deficit so overall the District was not collecting excessive revenues from customers. Bill Russell reminded the Board that the District had intended to establish a policy of maintaining a year's reserve, and the District currently has only seven months of operating costs in reserve. Director Ridgway suggested that a recalibration of the rates was necessary if the District is to maintain the same overall revenues but decrease the SJRA rate to more accurately reflect the costs being assessed by SJRA. Director Vallery reminded the Board members that there was an agenda item concerning water rates further down on the agenda, and the Board was considering the tax rate at this time. Director Ridgway noted that all of the items related to the

District's rates and finances were related. The attorney reminded the Board that the District had published the notice of the effective rate and conducted a public hearing. The Montgomery County Tax Assessor has requested that the District set its rates in the month of September, so that tax bills can go out in a timely fashion. The attorney also reminded the Board members that tax rates are set once a year, but water and sewer rates can be amended by the Board at any time. The chair called for a vote, and upon motion duly made, seconded, and carried with a vote of 3-0, with Director Ridgway abstaining, the Board voted to adopt the attached Order Setting Tax Rate, Approving Tax Roll, and Levying Debt Service Tax and Maintenance and Operation Tax for the Year 2019, which order reflects the levy of a debt service tax of \$0.35 per \$100 assessed valuation and maintenance and operations tax of \$0.15 per \$100 assessed valuation.

9. There was presented the Amendment to Statement of Directors Furnishing Information Required by Section 49.455(b), Texas Water Code, as Amended. The attorney noted that the Amendment to Statement of Directors is updated anytime the District adopts a new tax rate and is filed in the real property records of Montgomery County. Potential purchasers of property are on notice that they are located in a water district and they are on notice as to the current tax rate of the District and other related District information. Upon motion duly made, seconded, and carried with a vote of 3-0, with Director Ridgway abstaining, the Board approved the Amendment to Statement of Directors as presented and authorized its execution by all Board members present.

10. Christie Leighton presented a Best Trash quarterly report. The Board noted no major problems with trash collection.

11. Bill Russell presented the bookkeeper's report, a copy of which is attached. After this meeting, the debt service fund balance will stand at \$1,112,129.53. The capital projects fund will stand at \$0. The general fund will stand at \$1,701,888.17. Expenses exceeded revenues for the first three months of the fiscal year by \$228,771.91. After discussion, upon unanimous vote, the Board approved the bookkeeper's report as presented and authorized payment of the District's bills.

12. Michael Others presented an audit of the District's books and records for the fiscal year ended May 31, 2019. He stated that his firm was issuing an unmodified "clean" opinion. He reviewed the audit and the management discussion and analysis with the Board in some detail. Mr. Others reported that the District should attempt to maintain at least twelve months of operating reserves for the District, because the District has no remaining voted authority. After review, upon unanimous vote, the Board approved the audit and authorized its filing as required by law.

13. There was presented the attached Resolution Affirming Review of Investment Policy, Strategies and Objectives. The attorney noted that according to the Public Funds Investment Act, the District is annually required to review its investment policy to assure its compliance with Texas law. The attorney recommended no revisions to the investment policy, and the auditor's report noted no deficiencies with respect to how the District's investments are handled. Upon unanimous vote, the Board adopted the resolution as presented.

The attorney reviewed with the Board a list of qualified brokers in connection with review of the investment policy, strategies and objectives and the District's audit. No

changes were recommended to the broker list provided by the bookkeeper, and upon unanimous vote, the Board approved the broker list as presented.

14. The Board noted the necessity to authorize preparation of continuing disclosure documents. The attorney noted that the District is required by federal securities law to update certain financial information that would be of interest to bondholders of the District. In previous years, the District had engaged the financial advisor to perform the necessary continuing disclosure obligation. The Board reviewed a proposed contract with Masterson Advisors to perform continuing disclosure services. Upon unanimous vote, the Board engaged Masterson Advisors and authorized them to prepare and file the necessary continuing disclosure in accordance with their contract.

15. The Board considered the requirement to file a Special Purpose District Financial and Tax Report. The attorney noted that the District can comply with the law by filing its audit and certain related information with the Texas Comptroller. Upon motion duly made, seconded and unanimously carried, the Board voted unanimously to authorize the attorney to make the required filing.

16. The Board considered review of the District's investments for compliance with Senate Bill 253. The attorney reminded the Board that Senate Bill 253 prohibits the District from investing with entities that support terrorist organizations. The District's investment officer must periodically review a list of such entities that is prepared by the Texas Comptroller of Public Accounts and made available on their website. The Board authorized the investment officer to perform periodic reviews to confirm compliance with Senate Bill 253.

17. Matt Corley and Mark Smith addressed the Board to discuss SJRA matters related to groundwater issues. The SJRA GPP had to increase rates again this year for three primary reasons: 1) some participants, including the City of Conroe, continue to pay 2016 rates; 2) demand for surface water has been low because it has been a wet year; and 3) there have been increased expenses for chemicals. As most people already know, Lone Star's rule regarding groundwater reduction has been stricken due to a lawsuit settlement, but in the absence of rules, the SJRA is continuing to operate under the rule previously in effect. Studies continue to demonstrate that there is subsidence in Montgomery County, and Mr. Smith presented an exhibit that demonstrates this fact. The plant is running at 12,000,000 gallons per day, which is the minimum amount of production that can be achieved while keeping operations efficient. On October 3, 2019, the Texas Water Development Board will consider the appeal of Lone Star. The TWDB rejected Lone Star's groundwater management plan because it does not have any desired future conditions and is therefore not administratively complete. The SJRA representatives provided a list of upcoming public meetings that might be of interest to the Board. In response to questions from the Board regarding the SJRA's position on continuing to provide water to the City of Conroe, the SJRA representatives noted that Conroe was the second largest rate payer in the GRP group. Limiting their consumption of surface water would hurt the overall revenue stream of the SJRA GRP.

18. Mike Williams presented an operator's report. The District billed \$305,855.05 to customers for services rendered. The operator took 10 bacteriological samples, all of which were acceptable. The District accounted for 93% of the water produced. The

District served 3,821 customers, and 3,602 customers received all services including garbage. The sewage treatment plant operated at 54% of capacity with no permit violations.

The operator reported he repaired several water line leaks. Director Ridgway commended the operator for getting a leak repaired quickly.

After discussion, upon unanimous vote, the Board approved the operator's report as presented.

19. The Board had a discussion regarding the Rate Order and the District's water and sewer rates. Director Ridgway reiterated his concern that the way the District charges for the SJRA surface water rate causes the District to collect more money than it pays to the SJRA. He noted that the District should consider adjusting its water rates. He further noted that a significant portion of the District's population uses less than 6,000 gallons of water, and it was his opinion that those persons were subsidizing larger water users. Director Ridgway noted that he would like to see the District charge for each 1,000 gallons of water used. Director Vallery expressed concern that the District needed to maintain its current revenues at the very least, and if the District charged a base charge that was the same, and then charged an incremental rate per thousand starting at 1,000 gallons, customers using less than 6,000 gallons would be in effect experiencing a rate increase. The Board members noted that the minimum rate was meant to encompass all basic services of the District, including water service, sewer service, trash collection, and law enforcement. Director Ridgway suggested that the District consider charging a base rate for all District services, and then charging a per 1,000 gallon rate. Director Vallery noted that this would cause every customer who uses more than 1,000 gallons to experience a rate increase, if the District charges the same minimum rate as its base rate. A lengthy discussion ensued regarding various proposals for rate structure. Bill Russell suggested that the District could consider charging a base rate for all District services. After a full discussion, the Board agreed to table the matter and discuss it more at the next meeting.

20. Mike Williams presented a parks and recreational facilities report. There were 18 calls regarding issues in the parks. Four calls were for the pavilion, 13 calls were for the ball fields, and one call was received for information. Mr. Williams reported there has been heavy use of the ball fields. The operator reported there is a water feature that will need to be replaced. The feature will have to be replaced with a handicap accessible fountain.

21. Kevin Tokarski presented an engineer's report. The engineer reviewed the long-term management plan with the Board. The engineer reported he will begin advertising for bids for the Phase 3 sanitary sewer clean-out and television videos for Imperial Oaks, Section 5.

The engineer reported they received a request from the insurance carrier to update the estimate of value of all the District's insured property. The engineer is working to complete the information.

Mr. Milstead entered the meeting in progress and addressed the Board. He asked the Board to reconsider provision of out-of-District sewer service to his property, as well as the Kadiwal Investments tract. The attorney noted that the item was not on the agenda for tonight's meeting, and the Board directed Mr. Milstead to discuss all matters concerning the feasibility analysis with the District's engineer.

After discussion, upon unanimous vote, the Board approved the engineer's report as presented.

22. There was no action taken on the SJRA conveyance of facilities and easements agenda item.

23. Lori Aylett presented an attorney's report. Litigation counsel is working on the amicus brief and hopes to have it filed within the next week. The attorney noted that there are three other participants in the amicus brief.

The attorney reported that the District had received a Public Information Act Request from Mr. Ridgway after the last Board meeting. Her firm devoted substantial time and resources to responding to the request. The attorney requested clarification on one of the items that Mr. Ridgway had requested, and the attorney sought the opinion of the Attorney General of the State of Texas on certain matters that were related to attorney-client privilege. A lengthy discussion ensued among the Directors regarding the Public Information Act request. Director Ridgway explained his reasons for seeking the information. Director Saxe noted that he objected to the request for public information from him from a time when he was a private citizen and noted that he was not a Board member until August 12, 2019.

The attorney reported that a second Public Information Act request was made for information being held by Director Ridgway in his capacity as a Director. Director Ridgway committed to providing any responsive information to the attorney in a timely manner. In addition, the attorney noted that the request for public information had included audio recordings. Director Ridgway has responded to the attorney that he does not have any audio recordings available, because he has live streamed the meetings on his Facebook page, and all of the audio recordings are on the Facebook website and are not accessible for downloading by him. He confirmed that he does not upload any content and instead live streams it.

24. Under pending business, the attorney requested that any Board members who want to place an item on the next agenda please notify her at this time in the Board meeting. Director Saxe stated that he would like an item placed on the next agenda to vote to censure Director Ridgway for wasting taxpayer dollars with an Public Information Act request. The attorney noted that there was not a legal action of censure available to water board directors, but the Board agreed that the matter should be placed on the agenda. Director Saxe also stated that he wanted an item on the agenda to discuss Board member representation of the District outside of District Board meetings. Director Ridgway requested that an item be placed on the next agenda regarding transparency best practices.

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



Secretary