

MINUTES
BRAZORIA COUNTY MUNICIPAL UTILITY DISTRICT NO. 26

September 6, 2011

The Board of Directors (the "Board") of Brazoria County Municipal Utility District No. 26 (the "District") met in regular session, open to the public, on the 6th day of September, 2011, at the Village of Emerald Bay Clubhouse, 11814 North Clear Lake Loop, Pearland, Texas, inside the boundaries of the District, and the roll was called of the members of the Board:

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| Michael Parks | President |
| Herbert Fain | Vice President |
| Melissa Slade | Secretary |
| Caralynn Prade | Assistant Vice President |
| Fred E. Weary, Jr. | Assistant Secretary |

and all of the above were present, thus constituting a quorum.

There were no resident members of the public present. Also present at the meeting was Scott Sherman of the City Council of the City of Pearland (the "City"), and the following District consultants: Mark McGrath of McGrath & Co., PLLC ("McGrath"); James Ross of LJA Engineering & Surveying, Inc.; Erin Garcia of Myrtle Cruz, Inc.; David Patterson of Assessments of the Southwest, Inc.; and Lynne B. Humphries, Kristen Hogan, and Michelle Bryan of Allen Boone Humphries Robinson LLP ("ABHR").

MINUTES

The Board considered approving the minutes of the August 2, 2011, regular meeting, which were provided in advance of the meeting. After review and discussion, Director Slade moved to approve the minutes as submitted. Director Prade seconded the motion, which passed unanimously.

AUTHORIZE AUDITOR TO CONDUCT AUDIT FOR FISCAL YEAR ENDING SEPTEMBER 30, 2011

Mr. McGrath discussed new GASB No. 54 auditing standards and estimated a cost of \$10,400 for preparation of the District's audit for the fiscal year ending September 30, 2011. Ms. Humphries noted that the District has an evergreen engagement with McGrath for preparation of annual audits and developer reimbursement reports. After discussion, Director Slade made a motion to authorize McGrath to proceed with preparation of the audit for the fiscal year ending September

30, 2011, pursuant to the District's engagement letter. Director Prade seconded the motion, which passed unanimously.

SUPPLEMENTAL SECURITY SERVICES

Director Prade inquired about any procedures in place to verify hours worked by City police officers who submit monthly reports to the District for payment of the supplemental security services. After discussion, the Board directed Ms. Garcia to send a notice to the officers with their checks instructing them to check in at the Shadow Creek Homeowners Association ("HOA") management office when performing supplemental patrolling in Shadow Creek Ranch. Discussion ensued regarding numerous requests for an officer to attend District meetings held in the evenings within the District. After discussion, Director Parks stated that he will (1) request cell phone numbers for the officers working overtime shifts, (2) contact the City police department to request an officer or representative attend District meetings, and (3) contact the HOA about monitoring patrol activities in the community.

DEVELOPMENT IN THE DISTRICT, APPROVAL OF ANY DEVELOPER REIMBURSEMENT REPORTS, AND DISBURSEMENT OF FUNDS

Ms. Humphries said there was nothing new for consideration on this item.

FINANCIAL AND BOOKKEEPING MATTERS

Ms. Garcia distributed and reviewed the bookkeeper's report, including the investment report and list of checks presented for approval, a copy of which is attached. She presented an additional check to Officer Milner for supplemental security services performed during the prior month, noting that such check will be reflected on next month's report. After review and discussion, Director Slade moved to approve the bookkeeper's report and payment of the bills. Director Prade seconded the motion, which passed unanimously.

2011 TAX RATE, SET PUBLIC HEARING DATE, AUTHORIZE NOTICE OF PUBLIC HEARING, AND BUDGET FOR FISCAL YEAR END SEPTEMBER 30, 2012

The Board reviewed draft budget scenarios for the fiscal year end September 30, 2012, based on maintenance tax rates of \$0.01 to \$0.05 per \$100 assessed valuation. Copies of the draft budget scenarios are attached to the bookkeeper's report. The Board considered budgeting funds for maintenance of drainage channel outfalls, pursuant to discussion at last month's meeting and correspondence received during the previous month from the attorney for the Shadow Creek Ranch Maintenance Association ("SCRMA") to the District and Brazoria-Fort Bend County Municipal Utility District No. 1, providing notice of issues with sloughing and erosion in the detention lakes in

Shadow Creek Ranch. Ms. Humphries discussed the Maintenance and Use Agreement for TIRZ Improvements between SCRMA, the Master Developer of Shadow Creek Ranch (the "Master Developer"), and the City ("SCRMA Agreement"), which provides that SCRMA is solely responsible for maintenance of the drainage channels and lakes. She reported on discussions with Gary Cook of the Master Developer to request they ensure SCRMA is aware that it is responsible for 100% of the costs associated with maintenance of these drainage channels and lakes. Ms. Humphries said Mr. Cook indicated that the statute of limitations on the original construction work is expiring soon and, therefore, notice was sent to all parties associated with the original construction to protect rights in the event of any defects. Mr. Ross said he conducted an inspection of the detention lakes and channels and other facilities maintained by the City, as authorized at last month's meeting. Discussion ensued regarding the level of maintenance being performed by SCRMA and the City, and Mr. Roth said he will review his report under the Engineering Report agenda item. Mr. Sherman said any requested maintenance or repair items should be submitted to the City in March for consideration during the City's budget process. After discussion, the Board concurred not to take any action regarding maintenance of the detention and other facilities until the report from SCRMA is reviewed and evaluated.

Discussion then ensued regarding the District's maintenance tax rate. The Board considered reducing the maintenance tax rate by \$0.02 per \$100 assessed valuation and reviewed the budget scenario based on a maintenance tax rate of \$0.03 per \$100 assessed valuation. The Board discussed revisions to the budget, including an increase in the audit expense and the addition of an expense line item for capital improvements in the amount of \$300,000. After review and discussion, Director Slade moved to adopt the budget for the fiscal year end September 30, 2012, as revised. Director Prade seconded the motion, which passed by unanimous vote.

The Board considered the District's 2011 tax rate and noted the debt service tax rate recommendation from the District's financial advisor at last month's meeting of \$0.66 per \$100 of assessed valuation. After review and discussion, Director Slade moved to authorize the tax assessor/collector to publish notice of the District's meeting on October 4, 2011, to set the proposed 2011 tax rate \$0.69 per \$100 of assessed valuation, with \$0.66 allocated to debt service and \$0.03 allocated to maintenance and operations. Director Prade seconded the motion, which passed unanimously.

CONDUCT ANNUAL REVIEW OF INVESTMENT POLICY AND ADOPT RESOLUTION REGARDING ANNUAL REVIEW OF INVESTMENT POLICY AND ADOPTION OF AMENDED INVESTMENT POLICY

The Board conducted an annual review of the District's Investment Policy. Ms. Humphries reviewed and recommended an adoption of an Amended Investment Policy in order to update several provisions of the current policy, based on recent legislative

changes. Following review and discussion, Director Slade moved to adopt a Resolution Regarding Annual Review of Investment Policy and Adoption of Amended Investment Policy and direct that the Resolution be filed appropriately and retained in the District's official records. Director Prade seconded the motion, which passed by unanimous vote.

REVIEW, REVISE, AND ADOPT RESOLUTION ESTABLISHING THE AUTHORIZED DEPOSITORY INSTITUTIONS AND ADOPTING LIST OF QUALIFIED BROKER/DEALERS WITH WHOM THE DISTRICT MAY ENGAGE IN INVESTMENT TRANSACTIONS

Ms. Humphries next presented a Resolution Establishing the Authorized Depository Institutions and Adopting List of Qualified Broker/Dealers with Whom the District May Engage in Investment Transactions to update the list of qualified banks with which the District may invest funds. She noted that the District's bookkeeper provided the updated list of banks, which is attached as an exhibit to the Resolution. After review and discussion, Director Slade moved to adopt the Resolution Establishing the Authorized Depository Institutions and Adopting List of Qualified Broker/Dealers with Whom the District May Engage in Investment Transactions and direct that the Resolution be filed appropriately and retained in the District's official records. Director Prade seconded the motion, which passed unanimously.

TAX ASSESSMENT AND COLLECTION MATTERS

Mr. Patterson distributed and reviewed the tax assessor/collector's report, including the delinquent tax roll, a copy of which is attached. He noted that the 2010 taxes were 99.59% collected as of August 31, 2011.

Mr. Patterson next presented and reviewed a delinquent tax report from Perdue, Brandon, Fielder, Collins & Mott, L.L.P., a copy of which is included in the tax assessor/collector's report. He noted that account no. 75027102012 was paid in full following preparation of the delinquent tax report.

After review and discussion, Director Slade moved to approve the tax assessor/collector's report and the delinquent tax report. Director Prade seconded the motion, which passed unanimously.

ARTICLES FOR NEWSLETTERS AND WEBSITE

The Board considered information to be included in the District's monthly notice published in the Shadow Creek Area Community Newsletter and the HOA newsletter, *The Current*. Director Prade presented the most recent edition of *The Current*, noting an old notice was published with outdated information. After discussion, the Board directed ABHR to prepare a notice regarding the \$0.02 decrease in the District's 2011 tax rate and associated public hearing to take place at the next meeting along with the

standard monthly message directing residents to the website for information about District meetings.

ENGINEERING MATTERS

Mr. Ross distributed and reviewed the engineering report, a copy of which is attached. He noted there were no action items for the Board's consideration. Mr. Ross reviewed a report on the results of his inspection of the detention lakes and channels and other facilities maintained by the City (the "Inspection Report"), a copy of which is filed in the District's records. After review and discussion, the Board requested that Mr. Ross send a copy of the Inspection Report to the City engineer and SCRMA and email the summary page of the Inspection Report to the Board.

Mr. Ross discussed information he found on the City's website regarding the City's emergency preparedness plan. He stated that he is waiting for a response from the City engineer to obtain further information.

Ms. Humphries reported on a letter that Brazoria-Fort Bend County Municipal Utility District No. 1 ("MUD 1") sent to the City requesting the City consider improving the aesthetic appearance of the water plant on FM 521. In response to a question from Mr. Ross, the Board concurred it had no objection to Mr. Ross providing a copy of the Inspection Report to MUD 1 at MUD 1's next meeting.

After review and discussion, Director Slade moved to approve the engineer's report. Director Prade seconded the motion, which passed unanimously.

COMMENTS FROM DIRECTORS AND THE PUBLIC

Director Prade stated that Director Slade was inducted as an officer (Secretary) of the Lions Club International, an organization that serves and improves communities.

SCHEDULE FOR NEXT MEETING

The Board concurred to schedule next month's regular meeting for October 4, 2011, at 7:00 p.m. at the Village of Emerald Bay Clubhouse, but said, due to lack of resident attendance, the November meeting will be at ABHR at 11:00 a.m.

There being no further business to come before the Board, Director Prade moved to adjourn the meeting. Director Slade seconded the motion, which passed unanimously.



Melissa Slade
Secretary, Board of Directors

ACTION LIST

1. The bookkeeper will send a notice to officers who submit monthly reports to the District for payment of the supplemental security services, instructing them to check in at the HOA management office.
2. Director Parks will contact the City police department to request cell phone numbers for the officers working overtime shifts and request an officer or representative attend District meetings.
3. Director Parks will contact the HOA about monitoring patrol activities in the community.
4. The tax assessor/collector will publish notice of the District's meeting to set the proposed 2011 tax rate.
5. The engineer will send a copy of the Inspection Report to the City engineer and SCRMA and will the summary page of the Inspection Report to the Board.
6. The attorney will prepare the requested notice for the newsletters.

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