

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
August 19, 2011

THE STATE OF TEXAS
COUNTY OF HARRIS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1

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The Board of Directors (the "Board") of Cypress Hill Municipal Utility District No. 1 (the "District") met in regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on August 19, 2011, at 11:00 a.m.; whereupon the roll was called of the members of the Board, to-wit:

Ronald S. Koehn, President
Robert Henry, Vice President
David Templeton, Treasurer
Tim Halloran, Secretary
Jerry Bryant, Assistant Secretary

All members of the Board were present. Also attending all or portions of the meeting were Ms. Donna Bryant of Assessments of the Southwest, tax assessor-collector for the District; Mr. Tracy Riley of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Bill Hixon of Cymill Partners, developer of land in the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Mark Janik of Pulte Homes, developer of land in the District; Mr. Kurt Adkins of Summit; Sergeant Blackledge, deputy for the District; Mr. Daniel Blackledge; and Ms. Kathleen Ellison and Ms. Yvette Deitrick of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

The meeting was called to order in accordance with notice posted pursuant to law: Chapter 551, Texas Government Code and Section 49.063, Texas Water Code (copies of certificates of posting or mailing are attached hereto as Exhibit "A"); and the following business was transacted:

1. **Minutes of the meeting of July 15, 2011.** The proposed minutes of the meeting of July 15, 2011, previously distributed to the Board, were presented for review and approval. Director Bryant suggested under item #3, the wording be modified to clarify that the annexation of 184 acres of single family development would require both an expansion of wastewater treatment capacity and a third water plant.

Upon motion by Director Henry, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of July 15, 2011, as revised.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the District's website. He reported that Meritage Homes emailed asking why they have two accounts. Director Bryant stated that the email was forwarded to Eagle Water for response.

Director Bryant reported that a resident emailed regarding a damaged fire hydrant and an irrigation leak. He reported that both issues have been resolved.

Director Bryant reported that the Cypress Ridge Homeowner Association president emailed asking if there were any watering restrictions in place. The President reported that he attempted to contact the resident.

Director Bryant reported that a resident emailed asking if there were any watering restrictions in effect. He reported that the email was forwarded to Eagle Water for response.

The President reported that a resident emailed asking the Board to consider requesting proposals for a new operator because residents now have to drive to Spring to pay their water bills. It was the consensus of the Board not to request operator proposals.

3. **Security report and any necessary action.** The President recognized Director Henry, who reported that he and Director Bryant attended a Constable event with Sergeant Blackledge. Director Henry said that he had a good talk with Chief Foreman.

Sergeant Blackledge presented to and reviewed with the Board the Security Report for the month of July, a copy of which is attached hereto as Exhibit "B." Sergeant Blackledge reported that incidents are increased, possibly due to the weather.

The President reported that he is coordinating the installation of the T1 line with AT&T and the Constable's Office. He reported that the T1 line should be installed next month.

4. **Developer's Report, reimbursement issues and any necessary easements.** The President recognized Mr. Hixon, who reported that Raising Cane's is under construction. He reported that the building is expected to be complete within ninety days.

Mr. Luton reported that Meritage Homes has 19 sales to date for 2011 in Cypress Park and 24 new home sales total.

Mr. Janik reported that Pulte Homes is installing a new model park east of the amenity lake. He reported that Pulte Homes has 32 sales to date for 2011 in Cypress Landing. Mr. Janik reported that Pulte Homes has created approximately \$35,000,000 in taxable value in the District. He requested that the Board consider proceeding with a Bond Anticipation Note which would be cost neutral to the District. Mr. Janik reported that he has discussed the possibility of a Bond Anticipation Note with the District's financial advisor. Ms. Ellison reported that a district must have filed the bond application with the Texas Commission on Environmental Quality to proceed with a Bond Anticipation Note. Mr. Hirshman stated that the developer is paid 70% of reimbursables with the Bond Anticipation Note and developer interest stops accruing at that time.

Director Halloran joined the meeting.

Upon motion by Director Henry, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve proceeding with a Bond Anticipation Note for reimbursement to Pulte Homes.

5. **Mueschke Road beautification and any necessary action.** Ms. Ellison reported that Harris County Municipal Utility District No. 391 ("MUD 391") is interested in the Mueschke Road beautification project; however MUD 391 wants to review cost estimates prior to making a commitment. The President stated that he would obtain a cost estimate from KGA DeForest Design.

6. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters, Greenpros proposals and any necessary maintenance.** The President reported that he met with Harris County regarding the widening of Huffmeister Road. He reported that seven trees will be removed for the project. The President reported that he will coordinate with Greenpros to relocate the trees prior to the time the trees are scheduled to be removed, which is around Thanksgiving.

7. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination.** The President recognized Ms. Bryant, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "C." Ms. Bryant noted that 99% of the District's 2010 taxes had been collected as of July 31, 2011.

Ms. Bryant reviewed the Delinquent Tax Report provided by Perdue, Brandon, Fielder, Collins & Mott, L.L.P ("Perdue"), included in the Tax Assessor-Collector's Report. She reported that Perdue recommends that the Board consider sending water termination letters to fifteen delinquent taxpayers, for water termination after the September Board meeting. Ms. Bryant reported that the District intervened in a lawsuit against Kelly Conley. She reported that the lawsuit was set for trial in June; however, it was passed. Ms. Bryant reported that Perdue recommends transfer of two accounts to the Uncollectible Roll. Mr. Janik reported that he would pay the delinquent taxes for one of such accounts, which was owned by Centex prior to the time it was deeded to Harris County.

Upon motion by Director Henry, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax Assessor-Collector's Report, to authorize the expenditures listed therein, to authorize Perdue to send water termination letters to the fifteen delinquent taxpayers and to authorize Perdue to transfer the one account to the Uncollectible Roll.

8. **Bookkeeper's Report, payment of bills, review investment report and policy, and any necessary changes.** The President recognized Ms. Austin, who presented to and reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "D."

Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to accept the

Bookkeeper's Report and to authorize payment of the checks listed therein.

9. **Approve Continuing Disclosure Report and Authorize Filing.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Continuing Disclosure Report, a copy of which is attached hereto as Exhibit "E." Ms. Ellison reported that the Continuing Disclosure Report is an annual requirement which updates bondholders on the status of the District and includes the audit. She reported that Ms. Amy Lewis from Rathmann & Associates prepared the Continuing Disclosure Report and F&J reviewed it.

Upon motion by Director Henry, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Continuing Disclosure Report and authorize its filing.

10. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Riley, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "F." Mr. Riley reported that 58,802,000 gallons of water were pumped in July. He reported that Eagle Water has amended the groundwater pumpage permit.

Mr. Riley reported that the new gate at the Wastewater Treatment Plant was damaged by the mowing contractor. He reported that a replacement gate has been ordered.

Mr. Riley reviewed the Disconnection List with the Board. He reported that the five customers with the highest outstanding balances have paid or are expected to pay.

Mr. Riley reviewed the GM Services water well tests results with the Board. He reported that the District's water wells are operating satisfactorily. Mr. Riley reported that the static water level has decreased to the 2008 level. He noted that the utility districts receiving surface water are also pumping water from the ground to meet demand.

Mr. Riley reported that Eagle Water is monitoring water well run times for the Drought Contingency Plan threshold. He reported that the water well run times exceeded the 18 hour threshold last Friday and Saturday. Mr. Riley reported that it rained on Sunday. He reported that the Drought Contingency signs have been ordered and that Eagle Water will place the signs at subdivision entrances when necessary. Mr. Riley reported that he has spoken with the developers and homeowner associations in the District to reduce irrigation as much as possible.

Mr. Riley reported that water well 2A can be operated with a back-up generator, if necessary.

Mr. Riley reported that Eagle Water installed No Trespassing signs along District's detention pond behind Walgreen's.

Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operations Report and to terminate the delinquent accounts in accordance with the Rate Order.

11. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, bonds.** The President recognized Mr. Hirshman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "G."

Mr. Hirshman reported that DEC is preparing the ninth Bond Issuance Application. He reported that the bond application total will be \$4,500,000. Mr. Hirshman reported that there remains approximately \$2,100,000 paid by the Developers to date, as well as future costs for the development of Cypress Landing and Cypress Park.

Mr. Hirshman reported on the utility service to Harvest Bible Church ("Church"). He reported that DEC is waiting for an agreement between the District and the Church to proceed with the project.

Mr. Hirshman reported that the water distribution improvement costs will be included in the next bond issuance. He reported that the improvements will include upgrade of the electrical facilities, including two starters. Mr. Hirshman reviewed the possible options for increasing ground storage capacity. Mr. Riley stated that if a third water plant is not constructed, the existing ground storage tanks should be replaced and increased in capacity.

Mr. Hirshman reported that a proposed annexation tract, Cypress Auto Center, has provided construction plans to DEC for review. He reported that final DEC plan approval is pending receipt of water and sewer easements. Mr. Hirshman reported that F&J prepared an easement to the purchaser of the Cypress Auto Center tract, BTS-Fry Road, L.L.C. ("BTS"). He reported that BTS is researching other options because of an inability to obtain the easement from Kentucky Fried Chicken. Director Bryant reported that the contractor has broken ground on construction. Director Templeton reported that the contractor is pouring foundation. Mr. Hirshman reported that he told the contractor that he cannot install utility lines on the District property until the easement is provided and that the District will not grant an easement to BTS until the other required easements are obtained. Mr. Hirshman asked that the Board contact him if the contractor is observed constructing under Fry Road.

Mr. Hirshman reported that Texas Commission on Environmental Quality has declared the District's wastewater treatment and discharge permit application administratively complete. He reported that the notice was published on August 5, 2011 in the Houston Chronicle and a Spanish language newspaper.

Mr. Hirshman reported that DEC is designing the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that DEC will obtain three proposals for the relocation of the pumps.

Mr. Hirshman reported that DEC has received two proposals for the Wastewater Treatment Plant fence improvements. He reviewed with the Board the Commercial Fence Co. proposal in the amount of \$12,708 and the Gateman, Inc. proposal in the amount of \$12,597. Mr. Hirshman noted that the plans include the installation of two gates to provide access.

Mr. Hirshman reported on the CenterPoint Energy request for utility service to a tract on Cypress Church Road. He reported that CenterPoint Energy is requesting approval to

connect its force main with the District's force main in Cypress Ridge. It was the consensus of the Board not to approve such connection and for CenterPoint Energy to connect its force main to a District manhole.

Mr. Hirshman reported on the Huffmeister Road Improvements. He reported that Harris County should not disturb the District's backslope interceptor when constructing the Huffmeister Road Improvements. Mr. Hirshman reported that the pine trees in the right-of-way will be removed by Harris County.

Mr. Hirshman reported that Storm Water Solutions invoiced the District for the restoration of the temporary parking lot at Alicia's Mexican Grille in the amount of \$14,043.00, which includes an additional \$250 for repair of a broken manhole. The President reported that Storm Water Solutions will seed the area again once the weather is favorable for the establishment of grass. The Board requested that F&J send the charge to Alicia's Mexican Grille.

Mr. Hirshman reviewed with the Board two proposals for regrading of the slope of the berm at the Wastewater Treatment Plant. He reviewed the Storm Water Solutions proposal in the amount of \$1,181.25, plus an additional \$285 to remove the remaining resident fence. Mr. Hirshman reviewed the Division 3 proposal in the amount of \$2,800.00 for a block wall, plus an additional \$350 to remove the remaining resident fence. The President stated that he would ask KGA DeForest Design to review the irrigation system along the top of the berm at the Wastewater Treatment Plant. Upon motion by Director Templeton, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Division 3 proposal in the amount of \$2,800.00 for a block wall and to remove the resident's fence in the amount of \$350. The Board requested that Mr. Hirshman obtain in writing, an email being acceptable, the resident's approval to remove the old fence.

Mr. Hirshman reported that the Cypress Ridge Detention Pond Storm Water Quality permit renewal application is complete and ready for signature by the President.

Mr. Hirshman reviewed the preliminary summary of annexation costs for the Cypress Lakes Golf Course 184 acres. He reported that the bond issuance for reimbursement of the costs for the facilities to serve the proposed development is approximately \$15,580,000. He reviewed the current proposed location of the third water plant; however, he noted it may change due to the requirement that two water plants be at least 2,000 feet apart. Mr. Hirshman stated that Mr. Adkins estimated that taxable assessed valuation created by the development will be approximately \$119,000,000, which would not be sufficient at a ten to one debt ratio to cover all of the district reimbursable costs to be incurred by the developer. Mr. Adkins asked that two issues be clarified by September 30, 2011—will the District own the detention ponds if the homeowner's association maintains them and will the District require the developer to fully fund a wastewater treatment plant expansion and third water plant if they provide benefits to the remainder of the District, as well as the annexed tract. Mr. Hirshman reported that he would determine the remaining development costs for Cypress Park and Cypress Landing to determine the remaining bond authorization amount. Mr. Hirshman reported that he would provide the calculations to the District's financial advisor for review to determine if the proposed annexation is a benefit to the District.

Upon motion by Director Templeton, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's Report, to approve the Gateman, Inc.'s proposal for \$12,597 for the Wastewater Treatment Plant fence improvements, and to approve payment of the Storm Water Solutions invoice for the restoration of the temporary parking lot at Alicia's Mexican Grille in the amount of \$14,043.00.

12. **Easement to Harris County.** The President recognized Ms. Ellison, who reviewed with the Board the Harris County Offer to Purchase Roadway Easement for the Huffmeister Road project, a copy of which is attached hereto as Exhibit "H." Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Harris County offer of \$15,008 for the 0.1077 acre Roadway Easement.

13. **Agreement for out-of-District service to Harvest Bible Church and any necessary action.** This item was deferred.

14. **Requests for annexation by CenterPoint Energy, golf course, Cypress Auto Center and any necessary action.** Ms. Ellison asked the Board if it wanted F&J to proceed with preparation of the CenterPoint Energy annexation petitions. Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to authorize F&J to prepare the annexation documents for the CenterPoint Energy annexation. The Board noted that the annexation would be contingent upon CenterPoint Energy paying all utility construction costs and connecting its force main to a District manhole.

Ms. Ellison presented to and reviewed with the Board the Water and Sanitary Sewer Easement to BTS, a copy of which is attached hereto as Exhibit "I." Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board approved the Water and Sanitary Sewer Easement to BTS, contingent upon BTS obtaining the other necessary easements for the development of its property and receipt of the annexation documents from BTS.

15. **Wastewater Treatment Plant pump relocation proposals and any necessary action.** This item was deferred.

16. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on September 16, 2011, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

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The foregoing minutes were passed and approved by the Board of Directors on September 16, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

