

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
September 16, 2011

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

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 September 16, 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, except Director Templeton. 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; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Mark Janik of Pulte Homes, developer of land in the District; Mr. Kurt Adkins of Summit; Mr. Jim Moore and Mr. Robert Moore of First General Realty; Ms. Cherie Hyatt Cross and Mr. Scott Ripperger of Environmental Allies; Mr. John Sachs and Mr. Dick Rue of Woodmere Development Company; Mr. Craig Rathmann of Rathmann & Associates, financial advisor for the District; 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 August 19, 2011.** The proposed minutes of the meeting of August 19, 2011, previously distributed to the Board, were presented for review and approval.

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 August 19, 2011, as presented.

2. **Public Comments and letters from residents.** The President recognized Ms. Cross, who explained that Environmental Allies provides detention pond maintenance and mowing to utility districts. Ms. Cross reported that Environmental Allies' services cost approximately \$1,000 per acre for maintenance. She asked that the Board consider Environmental Allies for detention pond maintenance.

Director Bryant reported on emails to the District's website. He reported that a customer emailed for information to complete a Harris County Public Health and Environmental Services form. Director Bryant stated that the email was forwarded to Eagle Water for response.

Director Bryant reported that a resident emailed to complain about the District's online bill pay service fee. Mr. Riley stated that Eagle Water has contacted the customer regarding payment options.

Director Bryant reported that a customer emailed to ask if the District has implemented the Drought Contingency Plan. Mr. Riley stated that the District has not implemented the Drought Contingency Plan.

Director Bryant reported that Legend Homes emailed to request that all its water bills be mailed together. Mr. Riley stated that bundling the bills is not feasible because the billing process is automated.

Director Bryant reported that a resident emailed regarding low water pressure on September 8, 2011. Mr. Riley reported that Eagle Water investigated the area and did not find any reason the water pressure would be low.

Director Bryant reported that a resident emailed regarding the need for fire hydrant painting. Director Bryant stated that the email was forwarded to Eagle Water for response. Mr. Riley reported that the resident was informed of the schedule for painting fire hydrants.

3. **Security report and any necessary action.** The President recognized Director Henry, who presented to and reviewed with the Board the Security Report for the month of August, a copy of which is attached hereto as Exhibit "B." Director Henry reported that six individuals were arrested for burglary of motor vehicles.

The President reported that AT&T is coordinating the installation of the T1 line with the Constable's Office.

4. **Approve solicitation of offers to fund the District's Bond Anticipation Note and take any necessary action.** No action was taken on this item.

5. **Authorize engagement of auditor for Developer Reimbursement Audit and other matters relating to Bond Anticipation Note.** No action was taken on this item.

6. Developer's Report, reimbursement issues and any necessary easements. The President reviewed an email from Mr. Luton of Meritage Homes stating that Cypress Park has 24 net sales to date in 2011 and 29 net sales in the last 12 months.

Mr. Janik stated that Pulte Homes had five sales last month in Cypress Landing and that the rate of sales is increasing.

Ms. Stephenson reported that Raising Cane's is scheduled to open in November, 2011.

7. Mueschke Road beautification and any necessary action. The President stated that he would obtain a cost estimate from KGA DeForest Design.

8. Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters, Greenpros proposals and any necessary maintenance. No action was taken on this item.

9. 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 August 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 requested Board authorization to proceed with water termination to the five delinquent taxpayers who failed to respond to the water termination letter. Ms. Bryant reported that Ms. Johnson has written Perdue requesting a payment plan of \$200 per month and has an outstanding balance of \$1,950. She noted that the letter to Perdue is included in the Tax Assessor-Collector Report. Upon motion by Director Bryant, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the \$200 per month payment plan for Ms. Johnson.

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 approve the Delinquent Tax Report, and to authorize Eagle Water to hang "red tags" at the residences of the delinquent property taxpayers and to terminate water service to the delinquent taxpayers who fail to pay their balances.

10. 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." Ms. Austin reported that the District's Certificates of Deposits ("CD") will mature prior to the next Board meeting. She recommended not renewing the CD at Sterling Bank and purchasing a CD at Plains State Bank for a higher interest rate.

Upon motion by Director Henry, seconded by Director Halloran, after full

discussion and the question being put to the Board, the Board voted unanimously to accept the Bookkeeper's Report, to authorize payment of the checks listed therein, and to authorize the bookkeeper to renew the CDs at Compass Bank, Green Bank, and Central Bank and to purchase a CD at Plains State Bank.

11. Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto. The President recognized Ms. Ellison, who presented to and reviewed with the Board a revised Investment Policy. Ms. Ellison reviewed the proposed changes to the Investment Policy and noted that most of the changes were to comply with recent changes to the Public Funds Investment Act.

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 a Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto, a copy of which is attached hereto as Exhibit "E," thereby approving the modified Investment Policy.

12. 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 61,473,000 gallons of water were pumped in August.

Mr. Riley reported that the lift station #5 meter was replaced. He reported that a homeowner association sprinkler head was spraying on the meter which caused an operating issue. Mr. Riley reported that the sprinkler head has been modified.

Mr. Riley reported that the right angle drive at Water Plant #1 was inspected after it failed to operate and it was determined that the bearings were destroyed. The Board asked for repair cost estimates before proceeding.

Mr. Riley reported that Eagle Water is monitoring water well run times to determine if the Drought Contingency Plan threshold is reached. Mr. Riley stated that he does not anticipate the District reaching the Drought Contingency Plan threshold. He reported that Drought Contingency signs have been created.

Mr. Riley reported that the gate replacement is underway at the Wastewater Treatment Plant.

Upon motion by Director Henry, seconded by Director Halloran, 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.

13. Consider the Financial Advisor's Recommendation for the 2011 Tax Rate and Authorize Publication. The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2011 tax rate, a copy of which is attached hereto as Exhibit "G." Mr. Rathmann reported that the debt tax rate should be maintained at \$0.63 per \$100 assessed valuation. He reported that the developer incentive contract tax rate should be maintained at \$0.16 per \$100 assessed valuation. He stated that the average home value remained constant. Upon review of the calculations, the President noted that

a 16 cent contract tax rate would produce more than the currently estimated contract incentive fee. The Board discussed decreasing the developer contract tax rate to \$0.15 per \$100 assessed valuation, in light of the fact that operating funds could be used to make up any small deficiency that might occur from a \$0.15 contract tax rate. Mr. Rathmann reviewed the District's fund balances and budget and indicated that the balances were sufficient for such purpose.

Ms. Ellison presented to and reviewed with the Board the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2011, a copy of which is attached hereto as Exhibit "H." Ms. Ellison noted that the Order authorizes the tax assessor's office to publish a notice of the proposed tax rate and a public hearing with respect to the tax rate.

Upon motion by Director Koehn, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to propose a total tax rate of \$0.98 per \$100 assessed valuation, with \$0.63 for debt service, \$0.20 for maintenance and operating expenditures, and \$0.15 for the developer incentive fee, to approve the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2011 and to authorize the District's tax assessor collector to publish the proposed tax rate.

14. 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 "I."

Mr. Hirshman reported that DEC is preparing the ninth Bond Issuance Application. He reported that the bond application total will be \$4,370,000, submitted for expedited review by the end of the month, and sold in February or March, 2012. Mr. Hirshman reviewed the Bond Application Report, a copy of which is attached hereto as Exhibit "J." Ms. Ellison asked if all land costs were included in this Bond Application. Mr. Hirshman stated that he did not know but would modify as needed to include all land acquisition costs in the Bond Application.

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. Ms. Ellison stated that the Church has signed the agreement with the District.

Mr. Hirshman reported that the water distribution improvement costs will be included in the next bond issuance. He reported that the improvements will cost approximately \$150,000 and consist of an upgrade of the electrical facilities and new booster pumps.

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 Cypress Auto Center has not provided the required easements.

Mr. Hirshman reported on the wastewater treatment and discharge permit. 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 awaits the final permit from the Texas Commission on Environmental Quality.

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 the Wastewater Treatment Plant fence improvements are underway. He reviewed with the Board the photographs of the fence construction, included in the Engineer's Report.

Mr. Hirshman reported on the CenterPoint Energy request for utility service to a tract on Cypress Church Road. He reported that CenterPoint Energy provided plans to connect to the District's water distribution system and sanitary sewer system. Mr. Hirshman reported that CenterPoint Energy requested a capacity commitment for water and sanitary sewer for 31 equivalent single family connections.

Mr. Hirshman reported on the block wall at the Wastewater Treatment Plant. He reported that construction is scheduled to begin next week.

Mr. Hirshman reported that Panda Express Restaurant requested a capacity commitment for water and sanitary sewer service for nine equivalent single family connections.

Mr. Hirshman reported that the Cypress Landing engineer has requested Board authorization for design of Cypress Landing, Sections Seven and Nine.

Mr. Hirshman reviewed the preliminary summary of annexation costs for the Cypress Lakes Golf Course 184 acres. He reported that the bond issuance requirement for reimbursement of the costs for the facilities to serve the proposed development is approximately \$16,700,000, which includes the third water plant and wastewater treatment plant expansion costs. Mr. Hirshman reported that the bond issuance requirement for reimbursement of the costs for the facilities to serve the proposed development is approximately \$14,650,000 without the third water plant and wastewater treatment plant expansion costs. Mr. Hirshman estimated that the District would have authorization to issue approximately \$13,000,000 in bonds after reimbursing the Developers in Cypress Landing and Cypress Landing Park.

The President recognized Mr. Adkins, who then addressed the Board. Mr. Adkins notified the Board that a law suit was filed to stop the development of the golf course property but that he did not want the District engineer to stop work on the annexation analysis he was preparing. Mr. Adkins estimated that taxable assessed valuation created by the development will be approximately \$119,710,000. He noted that the developer would not receive 100% reimbursement for its costs to develop the golf course property if the District limited debt issued to finance the project to 10% of the value it creates. He asked that the District consider funding portions of the water plant and the wastewater treatment plant expansion costs. He also asked that the District consider using operating funds to pay for such costs, as it has limited bonding authority. The President stated that the District is not willing to be essentially an investor in the project by funding facilities prior to the creation of assessed value. Mr. Hirshman reported that

the need for the wastewater treatment plant expansion would be immediate. He stated that the third water plant construction may depend on the location of the initial home development.

Mr. Hirshman asked if the feasibility study should include the costs of the water plant and wastewater treatment plant expansion. Ms. Ellison stated that the District may not annex property unless it is found that the annexation is to the advantage of the District and if the District's system is sufficient or will be sufficient to supply the added land without injuring the land already within the District. She said all costs to serve the golf course development should be included in the feasibility study unless some of the projects also serve the land already in the District. Mr. Adkins reported that a 184 acre residential development does not require a \$3,200,000 water plant nor a \$1,000,000 wastewater treatment plant expansion. Mr. Hirshman stated that the City of Houston requires that a water plant have at least 1,000 gallons per minute capacity. The President stated that DEC needs to quantify how much of the planned facilities are attributable to the proposed development.

Mr. Riley stated that a third water plant is very advantageous for the entire District. He reported that the District would have significant trouble meeting water demands if a water well failed during the current drought conditions because the surrounding utility districts, which have emergency water interconnects with the District, are pumping near capacity.

Mr. Sachs reported that Woodmere Development has filed a lis pendens against the Cypress Lakes Golf Course and a lawsuit against the bank which foreclosed on the property. He stated that the property was restricted to use as a golf course on the plat.

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 Engineer's Report, to approve capacity commitment for water and sanitary sewer for 31 equivalent single family connections to CenterPoint Energy, and to approve a capacity commitment for water and sanitary sewer service for nine equivalent single family connections to Panda Express Restaurant.

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

16. Requests for annexation by CenterPoint Energy, golf course, Cypress Auto Center and any necessary action. Mr. Hirshman stated that he would review the CenterPoint Energy plans.

17. Request for Out of District service (property in Harris County Municipal Utility District No. 391). Mr. Hirshman reported that he was contacted regarding providing service to a 3.5 acre tract which lies mostly in Harris County Municipal Utility District No. 391. He reported that the proposed development would be for office buildings. Mr. Rue reported that he owns the property under discussion and that he has not been contacted regarding the property. Ms. Ellison stated that the District would require an agreement with Harris County Municipal Utility District No. 391 to provide service to the property.

18. Election procedures and equipment for 2012. Ms. Ellison reported that due to a change in dates for the presidential primary, Harris County will not be renting voting

machines to utility districts for the May 2012 elections. Ms. Ellison said that an equipment vendor, ES&S, provides election equipment to districts. She said ES&S recommended that districts enter into a Rental of Equipment and Sale of Services Contract with ES&S by September 30, 2011 to reserve equipment. Ms. Ellison reported that no costs are anticipated if the election is cancelled and the contract with ES&S is cancelled.

Upon motion by Director Bryant, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Rental of Equipment and Sale of Services Contract with ES&S.

19. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on October 21, 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 October 21, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

