

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
October 19, 2012

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 October 19, 2012, 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
Eddie Rucker, 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. Rhonda Rushton of Assessments of the Southwest, tax assessor-collector for the District; Mr. Mike Plunkett of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Jim Moore and Mr. Robert Moore of First General Realty; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Ms. Shannon Wiesepape of Pulte Homes, developer of land in the District; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Don Laham, Mr. Randy Pennell and Ms. Norma Hulen, District residents; 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 September 21, 2012.** The proposed minutes of the meeting of September 21, 2012, previously distributed to the Board, were presented for review and approval.

Upon motion by Director Bryant, seconded by Director Rucker, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of September 21, 2012, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Laham, who reported that the Sydney Harbour Homeowner Association is requiring residents to obtain District approval for improvements that are located on the 14-foot drainage easement in Sydney Harbour. Mr. Laham reported that he plans to install a pool in his backyard and asked the Board what is required to obtain the District's approval for such construction. The President reported that the 14-foot drainage easement is for flood storage. Mr. Hirshman reported that four residents have requested that the District consent to encroachments on the 14-foot drainage easement. He reviewed the resident requests with the Board. The Board discussed the need for documentation signed by an engineer stating that the planned improvements do not impact the 100-year water surface elevation. It was the consensus of the Board to approve a District policy regarding structures on the 14-foot drainage easement at a special meeting on October 29, 2012 at 6:00 p.m. at 26281 Northwest Freeway, Suite A-550, Cypress, Texas. 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 authorize Mr. Hirshman to approve consents to encroachment if the Sydney Harbour property owners meet the requirements of the policy to be approved at the special Board meeting.

The President recognized Director Bryant, who reported on various emails to the District's website.

Director Bryant reported that a resident emailed to request water service, and the request was forwarded to Eagle Water.

Director Bryant reported that Mr. Crahan, the Cypress Mill Homeowners Association ("HOA") representative, emailed regarding the trees damaged by a driver in the median of Cypress-Rosehill Road. The President reported that GreenPros will replace the damaged trees and Sergeant Blackledge will provide the constable report to F&J to file the claim with the driver's insurance company.

3. **Security report.** Director Henry presented to and reviewed with the Board the Security Report for the month of September, a copy of which is attached hereto as Exhibit "B." Director Henry reported that he would request a meeting with the new captain and Lieutenant Cupit to show the new captain the constable office space. Director Henry reported that Harris County Municipal Utility District No. 391 ("MUD 391") plans to hire another deputy in January 2013.

Upon motion by Director Bryant, seconded by Director Rucker, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Security Report.

4. **Consider the financial advisor's recommendation for the 2012 tax rate and authorize publication.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2012 tax rate, a copy of which is attached hereto as Exhibit "C." 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 may be decreased to \$0.13 per \$100 assessed valuation. He stated that the average home value slightly decreased; however, overall valuation has increased in the last two years. Mr. Rathmann

stated that the tax rate recommendation includes a proposed Series 2013 bond issuance. Mr. Rathmann reviewed the District's fund balances and budget and indicated that the balances were sufficient.

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 2012, a copy of which is attached hereto as Exhibit "D." 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 \$0.96 per \$100 assessed valuation, with \$0.63 for debt service, \$0.20 for maintenance and operating expenditures, and \$0.13 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 2012 and to authorize the District's tax assessor collector to publish the proposed tax rate.

Mr. Hirshman reviewed the preliminary summary of costs for the Series 2013 bond issuance, included in the Engineer's Report. Mr. Rathmann reviewed the calculation used for allocation of the developer reimbursement among Pulte Homes and Meritage Homes. He reported that the allocation would be approximately 78% to Pulte Homes and 22% to Meritage Homes.

5. **Discuss security of District facilities.** Mr. Plunkett reported that door contacts may be installed to initiate the autodialer when the doors are opened at the District's facilities. He reported that the copper thieves know about the autodialers and leave the premises if they are triggered. Mr. Plunkett stated that game cameras may also be installed to document activity at the District's facilities. The Board requested cost estimates for the door contacts and game cameras for the District's facilities.

6. **Developers Report and reimbursement issues.** Ms. Stephenson reported that Alicia's Mexican Grille's exterior has been painted peach.

Ms. Wiesepape reported three new sales, nine closings, and eighteen homes sold in Cypress Landing.

Mr. Luton reported that water, sanitary sewer and drainage facilities construction will begin in Cypress Park, Sections Three and Five. He reported that the plan is for Cypress Park, Sections Three and Five, to be ready for home construction in February 2013.

7. **Request for annexation.** Ms. Wiesepape reported that Pulte Homes is performing due diligence for the purchase of the 40 acre tract north of Cypress Landing. She reported that Pulte Homes will provide the documents for the feasibility study to Mr. Hirshman prior to the next Board meeting.

8. **Mueschke Road beautification, review bids and award contract, and any necessary action.** Ms. Ellison reported that the construction contracts for the Mueschke

Road Median Landscape Improvements are ready for execution. She reported that the contractor will use wooden tree stakes. 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 authorize execution of the construction contracts for the Mueschke Road Median Landscape Improvements.

9. **Report on Homeowners Association matters, and authorization of maintenance on District properties.** No action was taken on this item.

10. **Maintenance of Sydney Harbour detention/drainage easement and consents to encroach.** This item was covered under Public Comments.

11. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination.** The President recognized Ms. Rushton, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "E." Ms. Rushton noted that 99% of the District's 2011 taxes had been collected as of September 30, 2012.

Upon review of the Unpaid Accounts Tax Roll, the Board questioned why there are two Harris County Right-of-Way accounts on the roll. Ms. Rushton stated that she would research the accounts.

Upon motion by Director Rucker, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax Assessor-Collector's Report and to authorize the expenditures listed therein.

12. **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 "F."

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

13. **Delinquent Tax Report and any necessary action on delinquent accounts, including water termination.** Ms. Rushton reviewed with the Board the Delinquent Tax Report prepared by Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue"), a copy of which is attached hereto as Exhibit "G."

Ms. Rushton reviewed with the Board the resident request for a payment plan of \$250 every two weeks.

Ms. Rushton reported that Perdue requested Board authorization to proceed with water termination to the six delinquent taxpayers who failed to respond to the water termination letter.

Upon motion by Director Koehn, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Delinquent Tax Report, to approve the payment plan of \$250 every two weeks 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.

14. Operator's Report, authorization of maintenance and hearing on delinquent accounts. Mr. Plunkett presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "H."

Mr. Plunkett reviewed the Disconnection List with the Board.

Mr. Plunkett reported that three positive displacement blowers are vibrating and will require new bearings.

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

15. Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, issuance of unlimited tax 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 "H."

Mr. Hirshman reported on the District's Application for Release of Escrowed Funds. He reported that DEC met with the Texas Commission on Environmental Quality ("TCEQ") in Austin. Mr. Hirshman reported that the TCEQ has approved release of the escrowed funds, except for \$96,621 for estimated taxes. He reported that Mr. Janik is working on compiling the tax documentation. Mr. Hirshman reported that another pre-purchase inspection and developer reimbursement audit will be necessary to release the funds. Ms. Ellison reported that Comerica Bank will not release the escrowed funds without clarification of the TCEQ letter. Ms. Ellison reported that she would work with Comerica Bank to facilitate release of the escrowed funds at the November Board meeting.

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that the utility construction is complete. Mr. Hirshman reported that the contractor is addressing punch list items, which include landscaping plants that perished during construction due to a line break. He reported that C.E. Barker should replace the shrubbery.

Mr. Hirshman reported on the emergency water interconnect with MUD 391. He reported that the City of Houston and Harris County have approved the plans. Mr. Hirshman reported that DEC will advertise for bids with bid opening on November 7, 2012.

Mr. Hirshman reported that DEC is preparing the booster pump plans.

Mr. Hirshman reported on the Cypress Chase Boulevard repairs. He reported that DEC is coordinating the final inspection by Harris County. The President instructed Mr. Hirshman to remind the bookkeeper to invoice MUD 391 for one-half of the repair costs.

Mr. Hirshman reported on the Wastewater Treatment Plant Improvements. He reported that DEC prepared a cost estimate of \$1,700,000 for the addition of a 400,000 gallons per day sequencing batch reactor ("SBR"), two additional blowers, additional primary and secondary digester units, an additional splitter box and modification of the headworks unit. It was the consensus of the Board to begin design of the Wastewater Treatment Plant Improvements.

Mr. Hirshman reported that DEC has issued the Notice to Proceed for the water, sanitary sewer and drainage facilities construction to serve Cypress Park, Sections Three and Five.

Mr. Hirshman reported on the Huffmeister Road widening project. He reported that the project has been delayed due to a conflict with CenterPoint Energy electrical poles in the right-of-way. Mr. Hirshman reported that Harris County is requesting that the District locate the District's waterline on the south side of Cypress Ridge Drive.

Mr. Hirshman reported on the annexation request. Mr. Hirshman reported that he is awaiting the land plan from Pulte Homes to review service to the tract and economics for development. The President instructed Mr. Hirshman to provide his cost information to Mr. Rathmann so he can complete the feasibility study analysis for the 40 acre tract.

Mr. Hirshman noted that the requests for consent to encroach in the 14-foot drainage easement were discussed under Public Comments.

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 authorize DEC to design the Wastewater Treatment Plant Improvements and to authorize Eagle Water to locate the District's waterline on the south side of Cypress Ridge Drive for Harris County for the Huffmeister Road project.

16. **Consider need for insurance proposals.** The President recognized Ms. Ellison, who reported that the District's insurance expires in December. She asked the Board if it wanted proposals from more than its current carrier. It was the consensus of the Board to obtain proposals from AquaSurance, McDonald & Wessendorff, Highpoint Insurance and Harco Insurance Services.

17. **Replacement of fence at Water Plant #1 and any necessary action.** Ms. Ellison reported that the construction contracts for the Water Plant #1 Fence Replacement are ready for execution. Upon motion by Director Bryant, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to authorize execution of the construction contracts for the Water Plant #1 Fence Replacement.

18. **Other Consultant Reports.** No action was taken on this item.

19. **Next meeting date.** The Board noted a special meeting will be held on October 29, 2012 at 6:00 p.m. at 26281 Northwest Freeway, Suite A-550, Cypress, Texas and that the next regular monthly Board meeting will be held on November 16, 2012, 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 November 16, 2012.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

