

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
February 17, 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 February 17, 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
- 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; Mr. Alan Hirshman of Dannenbaum Engineering Corp. (“DEC”), engineer for the District; Mr. Jim Moore of First General Realty; Ms. Heidi Stephenson of Cymill Partners, developer of land in 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; Ms. Stephanie Lee of KGA DeForest Design (“KGA”); Sergeant Blackledge and Deputy Norton, deputies for the District; Eddie Rucker, District resident; 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 meetings of January 20, 2012, and January 30, 2012.** The proposed minutes of the meetings of January 20, 2012, and January 30, 2012, previously distributed to the Board, were presented for review and approval.

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 minutes of January 20, 2012, and January 30, 2012, as presented.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that three customers had billing questions which were forwarded to Eagle Water.

Director Bryant reported that a resident complimented the Board for the mounted patrol in the District and requested an increase in such patrol in the District. Director Bryant reported that Sergeant Blackledge prepared a response to the resident's email which was provided to the resident.

Director Bryant reported that Ms. Angelo complained about the process of setting up an account with Eagle Water upon moving into a newly constructed home. Mr. Riley reported that the customer was instructed on the steps necessary to create an account with Water Eagle; however, the customer failed to perform such actions. He reported that the customer was upset when the home builder account was closed and water service was terminated. Mr. Riley reported that the issue has been resolved.

The President recognized Mr. Rucker, who reported that he is a District resident interested in serving on the Board of Directors.

3. **Security report and any necessary action.** The President recognized Director Henry who reported that the T1 line installation at the constable space has been delayed. Director Henry reported that efforts will continue for successful installation of the T1 line at the constable space in the District.

Sergeant Blackledge presented to and reviewed with the Board the Security Report for the month of January, a copy of which is attached hereto as Exhibit "B." Sergeant Blackledge reported that extra patrol has been brought in to deter an increase in tire theft in the District.

Ms. Austin reported that an auditor brought to her attention a settlement agreement between the Internal Revenue Service and a utility district in Travis County, which stated that the district must deduct FICA and other withholdings from its deputy compensation because the deputies are considered employees for tax purposes. Ms. Ellison reported that the Internal Revenue Service definition of an independent contractor is not clear cut in this situation. Sergeant Blackledge stated that he preferred that the District deduct withholding from his compensation. The Board discussed additional implications of the extra patrol deputies being District employees and requested an estimate of the workers compensation insurance cost.

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 Security Report.

4. **Report on Refunding Bonds and any necessary action.** Ms. Ellison reported that the District's Refunding Bonds will go to market next week. She reported receipt of the insurance commitment for the Refunding Bonds. 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 authorize the President to sign the Assured Guaranty Municipal Corporation

insurance commitment, the Bond Purchase Agreement and Officer's Pricing Certificate contingent upon a minimum of 4% present value savings.

5. **Developer's Report, and reimbursement issues.** Mr. Janik reported that Pulte Homes has had a burst of home sales and the contractor is paving Cypress Landing, Section Seven, due to demand. He reported that there were ten new home sales in Cypress Landing in January.

Mr. Janik reported that a contractor mistakenly crossed over into private property with his bulldozer near Cypress Landing. He reported that the contractor is trying to make amends to the homeowner.

Mr. Luton reported that Cypress Landing Park, Section Three, will be ready for new home construction later this year.

6. **Temporary Access Easement and Agreement with Meritage Homes.** Mr. Luton reported that the City of Houston would not accept the proposed temporary access easement by the District. He reported that other options are being investigated.

7. **Mueschke Road beautification and any necessary action.** The President recognized Ms. Ellison, who reported that she prepared a draft agreement for review by Mr. Luton and Mr. Janik for the cost sharing of the Mueschke Road enhancements. She reported that the draft agreement has the Cypress Landing and Cypress Landing Park homeowner associations paying all maintenance costs and 50% of the water costs of the Mueschke Road enhancements. Discussion ensued on allocation of the costs between Cypress Landing and Cypress Landing Park Homeowners Associations. Mr. Luton and Mr. Janik said they would discuss the cost allocation between the two homeowner associations and report back to the Board.

Ms. Lee reported that no pine trees would be planted as part of the Mueschke Road Beautification project.

8. **Agreement to Assist with Skinner Road Beautification with Cypress Mill Homeowners' Association, Inc.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Agreement to Assist with Skinner Road Beautification ("Skinner Road Agreement"), a copy of which is attached hereto as Exhibit "C." Ms. Ellison reported that the Cypress Mill Homeowners' Association, Inc. agreed to the terms of the Skinner Road Agreement.

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 Skinner Road Agreement.

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

10. **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 "D." Ms. Bryant noted that 91% of the District's 2011 taxes had been collected as of January 31, 2012. Ms. Bryant reported that Harris County Appraisal District has estimated the assessed valuation for the District as of January 1, 2012, at \$457,866,773.

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 and to authorize the expenditures listed therein.

11. **Consider property tax exemptions.** The President recognized Ms. Bryant, who reported that last year the Board granted a \$20,000 homestead property tax exemption for owners who are 65 years of age or older or who are disabled. Ms. Ellison presented to and reviewed with the Board the Order Adopting Exemption from Taxation for Individuals Who Are Disabled or are 65 Years of Age or Older, a copy of which is attached hereto as Exhibit "E."

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 grant a \$20,000 homestead property tax exemption for those who are 65 years of age or older or who are disabled.

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."

Ms. Austin presented to and reviewed with the Board the proposed budget for fiscal year ending February 28, 2013, included in the Bookkeeper's Report. She stated that \$230,000 would be added for the Mueschke Road Median project. Director Bryant asked if the relocation of the digester basin pumps was included in the budget. Ms. Austin stated that it was not. Mr. Hirshman stated that he would provide budget information to Ms. Austin.

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, to authorize payment of the checks listed therein, and to adopt the budget for fiscal year ending February 28, 2013, with the addition of \$230,000 for the Mueschke Road Median project.

13. **Adopt budget for fiscal year ending February 28, 2013.** This item was covered under the Bookkeeper's Report.

14. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Riley, who reported that Compass Bank has requested approval of an updated agreement for processing customer payments. Ms. Ellison stated that she would review the proposed agreement.

Mr. Riley presented to and reviewed with the Board the Operations Report, a

copy of which is attached hereto as Exhibit "G." Mr. Riley reported that there was an excursion at the wastewater treatment plant in January due to a high level of ammonia in the discharge. He reported that the third blower has been delivered and has helped to reduce the ammonia concentration.

Mr. Riley reported that Eagle Water is researching the decrease in accountability. He stated that 91% accountability is acceptable but not consistent with the accountability history for the District.

Mr. Riley reported that the Cypress Auto Center tap was installed. He reported that Eagle Water provided a tap fee letter to Panda Express and that Eagle Water will proceed with the tap installation upon receipt of the tap fee.

Mr. Riley reported that the fence surrounding Water Plant #1 is in need of replacement. He reported that there are two fences about a foot apart with one fence in need of replacement. Mr. Riley noted that the Water Plant abuts residential property and that the second fence is the residents' fence and is taller than the water plant fence. The Board requested cost estimates for a wood fence and precast concrete fence. The President noted that the Texas Commission on Environmental Quality requires the fence to be eight feet high.

Mr. Riley reported that Eagle Water will research options for removal of the diesel engine for the right angle drive. He reported that the engine operates well.

Mr. Riley stated that it is premature to prepare a cost comparison of the old and new sludge removal processes.

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 Operations Report and to terminate the delinquent accounts in accordance with the Rate Order.

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 that the Texas Commission on Environmental Quality ("TCEQ") has declared the ninth Bond Issuance Application administratively complete and the staff memorandum is expected soon.

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that the plans were submitted to the governmental agencies for review. Mr. Hirshman reported that F&J is working to obtain easements from the property owners. He reported that when the easements are recorded, the plans will be resubmitted to the City of Houston for signature. Mr. Hirshman reported that Harvest Bible Church and Fountain of Life Fellowship have monument signs in the easements. He reported that the contractor will bore under the signs to avoid any possible damage.

Mr. Hirshman reported that Cypress Auto Center construction is complete.

Mr. Hirshman reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that bids will be opened on February 23, 2012, for the project.

Mr. Hirshman reported on the potential emergency water interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). Mr. Hirshman reported that he has exchanged emails with the MUD 391 engineer. He reported that MUD 391 is agreeable to the proposed interconnect at the connection west of Mueschke Road. Mr. Hirshman stated that the MUD 391 attorney and F&J should begin discussing cost sharing for the interconnect.

Mr. Hirshman reported that Harris County has provided an agreement for relocation of the District's water line and force main in connection with the County's widening of Huffmeister Road. He reported that Ms. Ellison has reviewed and commented on the contract. Mr. Hirshman reported that if the low bid for the District's work is in excess of \$149,480, the District may decline the bid and arrange the relocation of the facilities separate from the Harris County project.

Mr. Hirshman reported that DEC completed the boundary map for the CenterPoint Energy and Cypress Auto Center annexations.

Mr. Hirshman reported that the road repair of Cypress Chase Boulevard, also known as Cypress Mill Place Boulevard, is complete. He reported that Harris County thanked the District for repairing the road. The President reported that cost sharing of the road repair and future work to have the road accepted by Harris County is under discussion with MUD 391.

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 approve the Engineer's Report.

16. Agreement with Harris County for relocation of district facilities. Ms. Ellison reported that the Agreement with Harris County was discussed under the Engineer's Report. 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 Agreement, a copy of which is attached hereto as Exhibit "I."

17. Accept BTS-Fry Road, LLC Petition for Addition of Land and Approve Petition for City Consent. The President recognized Ms. Ellison, who presented to and reviewed with the Board the BTS-Fry Road, LLC Petition for Addition of Land and the Petition to the City of Houston for Consent to Addition of Land, copies of which are attached hereto as Exhibits "J" and "K," respectively.

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 accept the BTS-Fry Road, LLC Petition for Addition of Land and approve the Petition for City Consent for annexation of 0.7485 acres.

18. Status report on service to Harvest Bible Church and authorize necessary easements and compensation. The President recognized Ms. Ellison, who reported

that the Fountain of Life Fellowship and William H. Noble and Nettie M. Noble Revocable Living Trust have accepted the District's offer for the water line and sanitary sewer easements needed to serve Harvest Bible Church. She reported that the Mueschke Road Cypress Landing Homeowners Association, Inc. has provided a water line easement, and Harvest Bible Church is providing water line and sanitary sewer easements to the District. Ms. Ellison reported that she has prepared two instruments to dedicate a water line easement and a sanitary sewer easement to the public on property owned by the District.

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 accept the easements and dedication instruments described above, copies of which are attached hereto as Exhibits "L" through "T."

19. **Adopt Order Calling Directors Election.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Calling Directors Election, a copy of which is attached hereto as Exhibit "U."

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 adopt the Order Calling Directors Election.

20. **Order Ratifying the Appointment of a Records Management Officer and Establishing an Amended and Restated Records Management Program.** Ms. Ellison reported that the District's Records Management Plan specified the secretary of the Board as the records management officer and named former Director Brewer. She reported that upon updating the designation of the records management officer with the Texas State Library and Archives Commission, F&J was informed not to name the records management officer in the records management plan. Ms. Ellison reported that the District's Records Management Plan has been amended to state that the Board Secretary shall be the records management officer for the District.

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 Order Ratifying the Appointment of a Records Management Officer and Establishing an Amended and Restated Records Management Program, a copy of which is attached hereto as Exhibit "V."

21. **Report on Association of Water Board Directors Conference.** Director Bryant reported that the seminars thoroughly covered the drought.

22. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on March 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 March 16, 2012.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

