

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
March 16, 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 March 16, 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. 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. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Jim Moore of First General Realty; Mr. Bill Hixon of Cymill Partners, developer of land in the District; Mr. Sawyer Blackburn of Pulte Homes, developer of land in the District; Eddie Rucker, District resident; Mr. Craig Rathmann of Rathmann & Associates, L.P., the 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 February 17, 2012.** The proposed minutes of the meetings of February 17, 2012, 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 February 17, 2012, as presented.

2. **Public Comments, letters from residents, Ms. Landheart's comments regarding Eagle Water Management, Inc.** Ms. Ellison read Ms. Landheart's email regarding

her lost payment to Eagle Water and her desire to have the ability to make electronic payments so her payments to Eagle Water can be traced. Mr. Plunkett reported that Eagle Water has not found Ms. Landheart's check.

Director Bryant reported that a customer email about payment issues was forwarded to Eagle Water.

Director Bryant reported that a customer emailed that his attempt to institute an automatic draft did not work and that payment was in the mail. He said he forwarded the email to Eagle Water.

Director Bryant reported that a customer complained about Eagle Water not investigating a leak at the residence to determine who was responsible for the repair. Mr. Plunkett reported that the maintenance manager received the telephone call and discerned from the information provided that the leak was the customer's responsibility to repair. Mr. Plunkett reported that the maintenance manager was informed to investigate the leak in person in the future. He reported that Eagle Water usually repairs the leak if it is located near the water meter box, even if it is on the customer's side of the water meter. Mr. Plunkett reported that Mr. Riley has spoken with the customer regarding the matter and that the customer is satisfied.

Director Bryant reported that a customer's inquiry concerning the procedure for a sprinkler installation was forwarded to Eagle Water.

3. **Accept Director Templeton's resignation.** Upon motion by Director Bryant, seconded by Director Henry, after full discussion and having had the question put to the Board, the Board voted unanimously to accept Director Templeton's resignation.

4. **Qualify and Appoint Director.** The President recognized Mr. Rucker, who reported that he lives in the District and would like to serve on the Board. Ms. Ellison said that Mr. Rucker had completed his oath of office and statement of appointed officer and was qualified to serve on the Board. 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 appoint Mr. Rucker to the Board.

5. **Election of Officers.** 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 elect Director Rucker as Treasurer.

6. **Security report, agreement with and authorize new officer, extra patrol payroll deductions and workers compensation insurance.** The President recognized Director Henry who reported that Compass Bank was robbed last week at approximately 5:00 p.m. but that there were no injuries. He reported that the Federal Bureau of Investigation is conducting the robbery investigation. Director Henry presented to and reviewed with the Board the Security Report for the month of February, a copy of which is attached hereto as Exhibit "B."

Director Henry reported that Sergeant Blackledge is on light duty following his surgery. Ms. Ellison presented to and reviewed with the Board the Peace Officer Agreement with Johnnie Whiteley for Extra Patrol coverage while Sergeant Blackledge recuperates from

surgery, a copy of which is attached hereto as Exhibit "C." Ms. Ellison reported that the Peace Officer Agreement specifies that the District will deduct FICA and other withholdings from his compensation. Ms. Ellison presented to and reviewed with the Board the Workers' Compensation insurance proposal by AquaSurance, a copy of which is attached hereto as Exhibit "D."

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 and the Peace Officer Agreement with Johnnie Whiteley through June 30, 2012, to authorize the bookkeeper to deduct withholding from the compensation for the Extra Patrol coverage, and to approve the insurance proposal. Ms. Austin said she would talk to the deputies about the withholding.

**7. Order Authorizing Application for Approval by Texas Commission on Environmental Quality for Release of Escrowed Funds.** The President reported that the Texas Commission on Environmental Quality ("TCEQ") report approving the District's bond issue escrows certain funds until the District provides additional documentation concerning the offsite water, sewer and drainage facilities. Ms. Ellison presented to and reviewed with the Board the Order Authorizing the Application (the "Order"), and the Application for Approval by the Texas Commission on Environmental Quality for Release of Escrowed Funds ("Application"), a copy of which is attached hereto as Exhibit "E."

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 Order and Application.

**8. Developer's Report, and reimbursement issues.** Mr. Blackburn reported that more than thirty new home sales have sold in Cypress Landing and the sales representative for Cypress Landing is the top producer in the nation for the Pulte Group.

**9. Mueschke Road beautification, Agreement for development and maintenance of Mueschke Road median landscape enhancements, and any necessary action.** Mr. Blackburn reported that the terms of cost allocation between Cypress Landing and Cypress Landing Park Homeowners Associations are being negotiated. It was the consensus of the Board that design may proceed but construction will not begin until the cost allocation has been agreed upon.

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

**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 "F." Ms. Rushton noted that 96% of the District's 2011 taxes had been collected as of February 29, 2012.

Ms. Rushton reviewed a customer request for waiver of penalty and interest on a late tax payment, included in the Tax Assessor-Collector's Report. She stated that the customer

paid the taxes in early January with online banking. Ms. Rushton reported that the bank prepared and mailed the check to the correct address; however, the check was lost in the mail. She reported that the penalty and interest amount to \$110.61. 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 waiver of the customer's penalty and interest.

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 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 "G." Ms. Austin reported receipt of a \$2,500 payment by CenterPoint Energy for annexation costs.

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. Authorize bookkeeper to file annual energy report with the State Energy Conservation Office.** 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 bookkeeper to file the annual energy report with the Texas Energy Conservation Office.

**14. Adopt Order Declaring Unopposed Candidates Elected to Office.** Ms. Ellison stated that both candidates were unopposed and reviewed with the Board an Order Declaring Unopposed Candidates Elected to Office, a copy of which is attached hereto as Exhibit "H."

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 such Order, thereby canceling the 2012 Directors Election and declaring the unopposed candidates, Directors Bryant and Rucker, elected to office.

**15. Order Adopting and Authorizing Official Notice of Sale and Bid Form, Authorizing Distribution Thereof and of a Preliminary Official Statement and Authorizing Publication of Notice of Sale.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board a draft Preliminary Official Statement ("POS") and Notice of Sale for the proposed sale of the District's Unlimited Tax Bonds, Series 2012, a copy of which is attached hereto as Exhibit "I." Mr. Rathmann reported that the TCEQ approved the issuance of \$4,550,000 in bonds. He informed the Board that the POS would be used to market the District's bonds. Mr. Rathmann stated that the Board will receive bids to buy the Bonds on April 19, 2012, at a special Board meeting.

Ms. Ellison presented to and reviewed with the Board the Order Adopting and Authorizing Official Notice of Sale and Bid Form, Authorizing Distribution Thereof and of a

POS and Authorizing Publication of Notice of Sale (“Authorizing Order”), a copy of which is attached hereto as Exhibit “J.”

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 POS, the Notice of Sale, and the Authorizing Order.

**16. Operator’s Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Plunkett, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit “K.” Mr. Plunkett reported that NTS completed the modifications at Water Plant #1 so that both water well pumps can operate at the same time.

Mr. Plunkett reported that there were no excursions at the wastewater treatment plant in February and none in March thus far.

Mr. Plunkett reported that Eagle Water is researching the decrease in accountability. He stated that 92% accountability is not consistent with the accountability history for the District.

Mr. Plunkett reported that Eagle Water provided a tap fee invoice to CenterPoint Energy in the amount of \$113,340. He reported that Eagle Water will proceed with the tap installation when the tap fee is paid.

The Board reviewed the Water Plant #1 fence renovation cost estimate by KGA DeForest Design, LLC, a copy of which is attached hereto as Exhibit “L.” The President noted that the District will require agreements with the residents adjacent to Water Plant #1 to remove their fence abutting the plant and install a new fence. Mr. Plunkett reported that the plant site is secure at this time, so there is no urgent need for replacement. 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 approve proceeding with the precast concrete fence.

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

**17. 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. Sheldon, who presented to and reviewed with the Board the Engineer’s Report, a copy of which is attached hereto as Exhibit “M.” Mr. Sheldon reported that the TCEQ has approved the ninth bond issuance. He reported that DEC is compiling the documents needed for the application for release of escrowed funds and only needs a couple more items.

Mr. Sheldon reported on the utility service to Harvest Bible Church. He reported that the plans are approved and bids will be opened on April 11, 2012.

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

Mr. Sheldon reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that bids were opened on February 23, 2012, for the project. Mr. Sheldon recommended award to the low bidder, B-5 Construction Co., Inc., in the amount of \$90,216.00.

Mr. Sheldon reported on the potential emergency water interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). Mr. Sheldon reported that he does not have a cost estimate for the interconnect. He asked the Board if it wanted a water meter at the interconnect. It was the consensus of the Board that a meter would not be beneficial given that the two existing interconnects do not have water meters.

Mr. Sheldon requested Board authorization for the President to sign the two storm water quality permit renewal applications for the detentions ponds at the Shoppes at Fry Road.

Mr. Sheldon reported that Northwest Harris County Municipal Utility District No. 10 ("MUD 10") has requested wastewater treatment service as part of its wastewater treatment discharge permit application. He recommended that the Board inform MUD 10 that the District is unable to provide service.

Mr. Sheldon requested Board authorization for Meritage Homes to advertise for bids for utilities construction for Cypress Landing Park, Section Five.

Mr. Sheldon reported that Storm Water Solutions has reseeded the former parking lot of Alicia's Mexican Grill.

Mr. Sheldon recommended Board acceptance of the offsite drainage ditch from Cypress Landing East detention pond to Dry Creek. He reported that Pulte Group has completed the necessary repairs.

Mr. Sheldon reported that an attorney representing a buyer for the Cypress Lakes Golf Course asked if the District would consider providing effluent for the golf course irrigation. Mr. Sheldon reported that he informed the attorney to make a formal request with sufficient detail for the Board's consideration.

Mr. Sheldon reported that the MUD 391 developer is requesting utility service to three lots that are located in both the District and MUD 391. Mr. Sheldon recommended that the MUD 391 attorney and F&J discuss the terms of the utility service and any reimbursement for the utility construction. The Board discussed how the tax revenue is split when lots are in both districts. The Board requested additional information on the taxing of lots split between two districts. The Board discussed the impact on property values if the back of the properties are not maintained properly.

Mr. Sheldon reported that DEC prepared a preliminary cost estimate of \$2,300,000 for expansion of the wastewater treatment plant which was requested by the operator. He reported that DEC is reviewing the cost estimate to identify potential cost reduction.

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

Engineer's Report, to approve the award of the construction contract for the relocation of exterior pumps for the digester basins at the Wastewater Treatment Plant to B-5 Construction Co., Inc., in the amount of \$90,216.00; to authorize DEC to notify MUD 10 that the District does not have capacity to provide wastewater treatment service to MUD 10; to authorize Meritage Homes to advertise for bids for utilities construction for Cypress Landing Park, Section Five; and to approve acceptance of the offsite drainage ditch from Cypress Landing East detention pond to Dry Creek.

18. **Authorize bids on Cypress Landing Park, Section Five.** This item was covered under the Engineer's Report.

19. **Authorize bids and award contract for Wastewater Treatment Plant aeration basin pumps.** This item was covered under the Engineer's Report.

20. **Request from Harris County Municipal Utility District No. 391 regarding service to lots partially within Harris County Municipal Utility District No. 391.** This item was covered under the Engineer's Report.

21. **Amended and Restated Emergency Water Supply Contract with Harris County Municipal Utility District No. 391.** Ms. Ellison presented to and reviewed with the Board the draft Amended and Restated Emergency Water Supply Contract with MUD 391 ("Water Supply Contract"), a copy of which is attached hereto as Exhibit "N." Ms. Ellison reported that the draft Water Supply Contract adds the third interconnect location with MUD 391. She stated that the Water Supply Contract specifies the District will design and construct the interconnect and water line extension to MUD 391's current water distribution system. Ms. Ellison reviewed the maintenance and reimbursement terms with the Board.

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 Water Supply Contract.

22. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on April 19, 2012, at 1:30 p.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 April 19, 2012.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

