

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 15, 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 June 15, 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. 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. Mark Janik of Pulte Homes, developer of land in the District; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Greg Sissel of BKD, L.L.P., auditor for the District; Ms. Stephanie Lee of KGA DeForest Design ("KGA"); 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 May 18, 2012.** The proposed minutes of the meetings of May 18, 2012, previously distributed to the Board, were presented for review and approval. Director Bryant requested that the minutes be amended to state that the board would consider amending its contract with the Constable's Office to add a deputy and to expand its boundaries to include the Lakes of Rosehill Homeowners Association ("Rosehill HOA"), contingent upon (1) F&J review of the legal issues, (2) confirmation from the District's insurance agent that the expansion of the territory under the contract with the Constable's Office will not affect the District's insurance, and (3) success of the HOA election for the addition of a deputy.

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 May 18, 2012, as revised.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported that a resident emailed regarding repair of a sunken sidewalk. He reported that Eagle Water inspected the sidewalk. Mr. Riley reported that the sidewalk repair is not the District's responsibility. The President noted that Harris County is responsible for sidewalk maintenance.

Director Bryant reported that an electricity broker contacted the website and that he responded that the District has an electricity broker.

Director Bryant reported that Mr. Crahan, the new Cypress Mill Homeowners Association ("HOA") representative, emailed regarding tree branch trimming at the detention pond and the mowing schedule. The President reported that he discussed the issue with Stormwater Solutions and they will manage the request.

Director Bryant reported that a resident emailed requesting the solid waste collection dates and holiday schedule. Director Bryant reported that he provided the collection schedule. He noted that the information is on the District web site but is not easy to find. He suggested adding a link.

Director Bryant reported that Mr. Crahan emailed several times regarding irrigation and mowing. The President reported that he contacted Mr. Crahan to answer his questions.

Director Bryant reported that a resident emailed requesting that the District install signs prohibiting bicycling around the detention ponds. It was the consensus of the Board that the pedestrian trails should be open to biking.

Director Bryant reported that the HOA requested maps in preparation for the Skinner Road fence installation, which were provided.

Director Bryant reported that a resident emailed regarding the convenience fee for online payment options. The Board discussed the fact that the convenience fee is a pass-through fee from the vendor providing the online payment option and that the residents utilizing the service should pay the fee. Ms. Ellison offered to respond to the resident's email. The President asked that Mr. Riley confirm the accuracy of the payment options and associated fees described on the District web site.

Director Bryant reported receipt of several emails regarding sprinkler heads that were stuck and spraying water at the Cypress Mill Park 2 detention pond. He reported that the issue has been resolved.

3. **Security report and renewal of extra patrol.** Director Henry reported that the T1 line is operating well. He said there is increased traffic at the Constable Workspace

due to the T1 line. He noted that this will increase the visibility of the Constables in the District. He reviewed personnel changes and reported that there is a new captain.

Director Henry presented to and reviewed with the Board the Security Report for the month of May, a copy of which is attached hereto as Exhibit "B."

4. **Approve audit for fiscal year ending February 28, 2012.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the District's audit for fiscal year ending February 28, 2012 (the "Audit"), a copy of which is attached hereto as Exhibit "C." Mr. Sissel noted that the District has a greater than twelve month reserve for operating expenses. He noted that the District has a greater than one year reserve for debt service. Mr. Sissel noted that issuance of the District's Unlimited Tax Refunding Bonds, Series 2012 and Unlimited Tax Bonds, Series 2012 were included as footnotes to the audit.

Mr. Sissel presented to and reviewed with the Board a draft letter to management from BKD in which BKD reported that there were material weaknesses in the District's internal controls over financial reporting. A copy of the letter is attached hereto as Exhibit "D."

Mr. Sissel presented to and reviewed with the Board a draft letter on the auditor's responsibility under auditing standards. A copy of the letter 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 Audit and to approve the draft Management's Response to the management letter.

5. **Developers Report and reimbursement issues.** Mr. Janik reported that Pulte Homes had eight new homes sales in May. He requested Board authorization for DEC to prepare the next bond application to the Texas Commission on Environmental Quality ("TCEQ"). Mr. Janik reported that he has discussed the bond application with Mr. Craig Rathmann, the District's financial advisor.

Mr. Luton reported that Cypress Park has fourteen new home sales in the second quarter and 20 to date in 2012.

Mr. Moore reported that Harris County has accepted Cypress Park, Sections One and Two. He also requested that the Board authorize DEC to prepare the next bond application.

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 DEC to prepare the bond application report.

6. **Mueschke Road beautification, Agreement for development and maintenance of Mueschke Road median landscape enhancements, and any necessary action.** Mr. Janik stated that the agreement for the Mueschke Road beautification with Meritage Homes will be finalized for the next Board meeting.

Ms. Lee reported that the plans are complete. She reported that KGA requires documentation from Mr. Hirshman to include in the submittal to Harris County for plan approval.

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

8. 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 "F." Ms. Bryant noted that 98% of the District's 2011 taxes had been collected as of May 31, 2012.

Ms. Bryant reported that the Harris County Appraisal District ("HCAD") provided a 2012 preliminary taxable value for the District of \$463,227,592, which includes the addition of the 2011 personal property taxable value. Ms. Bryant reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

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

9. 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 that she received Harris County Municipal Utility District No. 391's payment for its share of the Cypress Chase Boulevard repair.

Ms. Austin reported that she received the funds for the Harvest Bible Church project and has opened a separate account for the project.

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 and to authorize payment of the checks listed therein.

10. Arbitrage Compliance Specialists engagement letter for Bond Management Compliance Program for Series 2012 Bonds. The President recognized Ms. Ellison, who reviewed with the Board the Bond Management Compliance Program Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Unlimited Tax Bonds, Series 2012, a copy of which is attached hereto as Exhibit "H."

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 execute the Bond Management Compliance Program Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Series 2012 Bonds.

11. Operator's Report, authorization of maintenance and hearing on delinquent accounts. The President recognized Mr. Riley, who reported that Eagle Water has

been assisting the contractor on the relocation of the digester basin pumps and that the contractor is near completion. He reported that both aeration basins are in operation. Mr. Riley reported that the leak on the header has been repaired. He reported that NTS repaired a few diffuser leaks. Mr. Riley reported that the basin was tested, found to have no leaks and is in operation.

Mr. Riley reported that Eagle Water is waiting to hear from the TCEQ on the ammonia and chlorine violations. He reported that the TCEQ stated that they would contact Eagle Water regarding the violations.

Mr. Riley presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "I."

Mr. Riley reported that water accountability for May was 92%. He reported that water accountability has been below average since December with no discernible reason.

Mr. Riley reviewed the Disconnection List with the Board. He reported that the customer with the approximate \$900 water bill on the Disconnection List had a leak, paid \$489 and has not asked for relief. Mr. Riley reported that the customer used approximately 100,000 gallons of water the first month and 89,000 gallons the second month.

Mr. Riley reported that Aquasurance paid approximately \$25,000 for the water well motor repairs.

Mr. Riley reported that Eagle Water inspects one-third of the District's fire hydrants every year. He reported that Eagle Water performs necessary repairs and painting after the inspection. Mr. Riley reported that this year approximately fifty fire hydrants require painting. He asked for Board authorization to proceed with painting the fifty fire hydrants.

Mr. Riley presented to and reviewed with the Board the draft 2011 Drinking Water Quality Report, a copy of which is attached hereto as Exhibit "J." He stated that the District is required to distribute this report to the customers by July 1, 2012.

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, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to paint the fifty fire hydrants, and to approve the 2011 Drinking Water Quality Report.

12. **Approve Consumer Confidence Report.** This item was covered under the Operator's Report.

13. **Approve eminent domain notification to Comptroller of Public Accounts.** Ms. Ellison presented to and reviewed with the Board the Required Documentation of Eminent Domain Authority in Texas, a copy of which is attached hereto as Exhibit "K." Ms. Ellison stated that pursuant to recent legislation, the District is required to file this documentation with the Comptroller of Public Accounts to retain the District's eminent domain authority.

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 execution and filing of the Required Documentation of Eminent Domain Authority in Texas with the Comptroller of Public Accounts.

14. 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 "L."

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that the contracts with C.E. Barker are ready for execution. Mr. Hirshman reviewed Change Order #1 which reduces the contract price by \$13,117.26 due to the decreased length of waterline and removal of the driveway cut.

Mr. Hirshman reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that basin #1 is in operation. Mr. Hirshman recommended Board approval of payment of Pay Estimate #1 to B-5 Construction Co. Inc. in the amount of \$49,460.40 for the digester basin pump relocation.

Mr. Hirshman reported on the emergency water interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). He reported that DEC submitted the interconnect plans to the City of Houston. Mr. Hirshman reported that R.G. Miller will prepare the easement documents for the interconnect.

Mr. Hirshman reviewed with the Board the photograph of the new detention pond interceptor pipe in Cypress Mill Park, Section One.

Mr. Hirshman reported that the TCEQ provided the pre-purchase letter for the Centex Homes facilities.

Mr. Hirshman reported that the TCEQ declared the Application for Release of Escrowed Funds to be administratively complete.

Mr. Hirshman reported that the stormwater permit renewal applications for Cypress Landing Park, Sections One and Two have been executed by the President.

Mr. Hirshman reported that DEC completed the surveying for the Water Plant #1 fence replacement. He reported that some lots have dual fences and five to six lots only have the water plant fence. Mr. Hirshman reported that the resident fences are on the property line and that the water plant fence is offset from the property line. The President noted that the residents at lot 43 installed a new fence. Mr. Hirshman noted that at the time of installation, the surveyors may need to set the corners to delineate the property line.

Mr. Luton requested Board authorization to rebid the utilities construction to serve Cypress Landing Park, Section Five and to combine the project with utilities construction for Section Three to realize economies of scale.

Mr. Hirshman requested Board authorization to design the booster pump improvements for Water Plant #1 which will be required prior to the next bond issuance. Mr. Riley stated that if the booster pump replacement is performed in the winter, the District may be able to take Water Plant #1 out of service and shorten the project duration.

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 Engineer's Report, to approve Change Order #1 with a reduction of \$13,117.26 for the decreased length of waterline and removal of the driveway cut for the Harvest Bible Church utility service project; to approve payment of Pay Estimate #1 to B-5 Construction Co. Inc. in the amount of \$49,460.40 for the digester basin pump relocation; to authorize Meritage Homes to rebid for utilities construction to serve Cypress Landing Park, Section Five with Section Three; and to authorize DEC to design the booster pump improvements for Water Plant #1.

15. Imported water fee from West Harris County Regional Water Authority and any necessary action. Ms. Ellison reported that West Harris County Regional Water Authority ("WHCRWA") has granted a waiver of the import fee.

16. Take necessary action to proceed with replacement of fence at Water Plant #1. The President reported receipt of one additional signed Maintenance Area Agreement from District residents living adjacent to Water Plant #1. The Board discussed installing the replacement fence off the property line to forgo the need to obtain agreements from the residents living adjacent to the plant site.

17. Request from Harris County Municipal Utility District No. 391 regarding service to lots partially within Harris County Municipal Utility District No. 391. Ms. Ellison reported that MUD 391 has agreed to the terms offered by the District for providing utility service to the lots that are partially located in the District and partially within No. 391. She noted that the terms provide for the MUD 391 developer to pay for and install a sanitary sewer line to serve the lots with no reimbursement from the District; the District to provide water and sanitary sewer service to the lots; the District to charge a commercial tap fee; both MUD 391 and the District to receive taxes based on the assessed valuation for the portion of the lots within the boundaries of the respective districts; and the District to charge a reduced out-of-district rate to the three lots, subject to the District operator being able to bill on that basis.

Upon motion by Director Bryant, second by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to authorize F&J to proceed with preparation of the necessary agreement to provide utility service to the three lots partially located in the District and partially located within MUD 391.

18. Lakes of Rosehill Homeowners Association request to share security. Ms. Ellison reported that she has asked Sergeant Blackledge to seek Harris County attorney approval to change the District's contract with the Constable to clarify that the coverage area under the contract may include the District and the Lakes of Rosehill HOA.

19. Other Consultant Reports (Attorney Report). No action was taken on this item.

20. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on July 27, 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.

* * *

The foregoing minutes were passed and approved by the Board of Directors on July 27, 2012.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

