

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
August 22, 2013

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

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The Board of Directors (the "Board") of Cypress Hill Municipal Utility District No. 1 (the "District") met in special session, open to the public, at the offices of Norton Rose Fulbright, 1301 McKinney, Houston, Texas, on August 22, 2013, at 1:30 p.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; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Ms. Juanita Orsak of Pulte Homes, developer of land in the District; Mr. Jim Moore of First General Realty; Mr. Greg Sissel of BKD, LLP, auditor for the District; Mr. Billy Sitton and Mr. Mike Feild of Triumph Club Management; Mr. Don Staas and Ms. Dorothy Staas, District residents; 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 LLP, a member of Norton Rose Fulbright, 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. **Accept Bid for Unlimited Tax Bonds, Series 2013.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the Standard and Poor's Rating Report, a copy of which is attached hereto as Exhibit "B." Mr. Rathmann reported that Standard and Poor's affirmed the District's rating of BBB+.

Mr. Rathmann submitted to the President the bid results for the Unlimited Tax Bonds, Series 2013 (the "Bonds"), a copy of which is attached hereto as Exhibit "C." Mr. Rathmann reported that three bids were received.

Mr. Rathmann advised the Board that the bids had been verified and recommended that the Board accept the low bid from RBC Capital Markets, at a net effective interest rate of 5.070307%. He reported that the bidder chose not to purchase bond insurance.

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 bid from RBC Capital Markets.

2. Order Authorizing \$5,565,000 Unlimited Tax Bonds, Series 2013, a Transfer and Paying Agency Agreement, an Escrow Agreement, an Official Statement; and Other Matters in Connection Therewith. The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Authorizing \$5,565,000 Unlimited Tax Bonds, Series 2013, a Transfer and Paying Agency Agreement, an Escrow Agreement, and an Official Statement (the "Order"), a copy of which is attached hereto as Exhibit "D." Ms. Ellison presented to and reviewed with the Board the Transfer and Paying Agency Agreement, a copy of which is attached hereto as Exhibit "E." Ms. Ellison reported that The Bank of New York Mellon Trust Company, N.A. will serve as Paying Agent and Registrar for the Bonds if the Order approving the Transfer and Paying Agency Agreement is approved. She reported that the Texas Commission on Environmental Quality ("TCEQ") report approving the District's bond issue requires the District to escrow certain funds until the District provides approved plans and specifications for the wastewater treatment plant improvements. Ms. Ellison presented to and reviewed with the Board the Escrow Agreement with Compass Bank, a copy of which is attached hereto as Exhibit "F."

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 adopt the Order.

3. Authorize engagement of auditor for Developer Reimbursement Audit. The President recognized Mr. Sissel, who presented to and reviewed with the Board the letter of engagement for the developer reimbursement audit, a copy of which is attached hereto as Exhibit "G."

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 engage BKD to prepare the developer reimbursement audit.

4. Minutes of the meeting of July 19, 2013. The proposed minutes of the meeting of July 19, 2013, 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 July 19, 2013, as presented.

5. Public Comments and letters from residents. Director Bryant reported on emails to the District website. He reported that a resident requested the March and June meeting minutes be posted to the District website which Ms. Deitrick coordinated.

Director Bryant reported that two requests regarding billing and terminating accounts were forwarded to Eagle Water.

Director Bryant reported that a resident had a leak between the water meter and his home. He reported that the resident arranged repair of the leak and requested a water bill adjustment. Mr. Riley stated that it will probably amount to a small amount of water. The Board noted that there is no mechanism in the District Rate Order for water bill adjustment due to water leaks. It was the consensus of the Board to defer the request until the water usage is known.

Mr. Staas reported that the Texas Department of Transportation ("TXDOT") is holding a meeting on September 5, 2013 at 6:30 p.m. at the Cypress Mill Clubhouse to discuss the U.S. 290 noise abatement barrier.

6. **Cypress Lakes Golf Course Request.** The President recognized Mr. Sitton and Mr. Feild of Triumph Club Management. Mr. Sitton reported that DEC researched the possibility of using the District's effluent for the Cypress Lakes Golf Course. Mr. Hirshman reported that the District's Wastewater Treatment Plant meets the requirements for Type 1 effluent to be used for irrigation. He reported that no modifications of the Wastewater Treatment Plant are required. Mr. Hirshman reported that the costs would be to transmit the effluent from the plant to the golf course. The President requested that Mr. Hirshman prepare a cost estimate for the project. Mr. Feild stated that Cypress Lakes Golf Course is willing to consider various payment terms for the construction costs for transmittal of and use of the effluent by Cypress Lakes Golf Course. Mr. Hirshman estimated the infrastructure cost at \$300,000. He reported that a permit will also need to be obtained for the use of the effluent. Director Rucker stated that the golf course should be required to use a certain amount of effluent per year if the District pays for the construction costs. Mr. Feild and Mr. Sitton left the meeting.

7. **Security report.** Director Henry reviewed with the Board the Security Report for the month of July, a copy of which is attached hereto as Exhibit "H." He reported that there was an arrest for a cocaine possession.

8. **Developers Report and reimbursement issues.** Ms. Orsak reported that home construction and sales are very active in Cypress Landing East. Ms. Stephenson reported that there is an excellent 3.7 acre tract available for purchase in the District. The President reviewed Mr. Luton's email, reporting that there were 37 sales in Cypress Park in 2013, with 10 of those sales in the last six weeks.

9. **Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties.** No action was taken on this item.

10. **Wastewater Treatment Plant Landscape Enhancements proposals and award contract.** This item was deferred.

11. **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 "I." Ms. Bryant noted that 99% of the District's 2012 taxes had been collected as of July 31, 2013.

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, review budget, 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 "J." Ms. Austin reported receipt of the SafeSite \$15,000 feasibility study deposit and the payment by Harvest Bible Church. Ms. Austin reported that she completed the wire for the Sydney Harbour lot for Water Plant No. 2 in the amount of \$34,447.00.

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

13. **Approve Continuing Disclosure Report and Authorize Filing.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Resolution of the Board of Directors of the District Approving Continuing Disclosure Materials and the Annual Report on Financial Information and Operating Data ("Continuing Disclosure Report"), a copy of which is attached hereto as Exhibit "K." Ms. Ellison reported that the Continuing Disclosure Report is an annual requirement which updates bondholders on the status of the District and includes the audit. She reported that Ms. Amy Lewis from Rathmann & Associates prepared the Continuing Disclosure Report and F&J reviewed it.

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 Continuing Disclosure Report and authorize its filing.

14. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** Mr. Riley presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "L." The Board discussed the volume at the Wastewater Treatment Plant. Mr. Hirshman stated that the Cypress Lakes Golf Course indicates it would be able to use all of the District's effluent. He reported that if not all of the effluent is provided to the golf course, then it would have to be metered to determine the volume provided to the golf course. Mr. Riley cautioned against a long-term agreement with the golf course with a fixed price for the effluent. He said that the value of the effluent is likely to increase in the future.

Mr. Riley reported that a pump failed at Lift Station No. 1 and the repair cost was \$3,800.

Mr. Riley reported that blower #3 failed at the Wastewater Treatment Plant. He reported that NTS replaced the soft start on the blower for a cost of \$5,125.

Mr. Riley requested Board authorization for Eagle Water to pay the District's laboratory fees directly and include the fees on Eagle Water's invoice to the District. He said there would be no mark-up on the fees.

Mr. Riley reported on the Harris County Huffmeister Road widening project. He reported that the contractor is relocating the District's waterline. Mr. Riley reported that a manhole was found to be too low and will be adjusted. Mr. Riley reported that a six inch waterline which provides water to CenterPoint Energy may have to be relocated. Mr. Hirshman reported that adjustment of the waterline is not in the contract with Harris County. He reported that the Harris County contractor or Eagle Water can relocate the District's waterline. Mr. Riley

stated that he would prefer that Eagle Water relocates the waterline because CenterPoint Energy is provided service with the waterline. Mr. Hirshman reported that CenterPoint Energy is aware that water service will be suspended during the relocation.

Mr. Riley reviewed the Disconnection List with 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 approve the Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to pay the District's laboratory fees directly and include the fees on Eagle Water's invoice to the District, and to authorize Eagle Water to relocate the waterline required for the Huffmeister Road widening project.

15. **Amended Drought Contingency Plan.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Adopting Amended and Restated Water Conservation, Drought and Emergency Contingency Plan, Providing for Implementation and Enforcement Thereof; Providing Penalties for Violations; and Containing Other Provisions Related to the Subject ("Amended Drought Contingency Plan"), a copy of which is attached hereto as Exhibit "M." Ms. Ellison reported that the North Harris County Regional Water Authority ("NHCRWA") amended its Drought Contingency Plan and now requires that NHCRWA customers adopt Drought Contingency Plans with requirements at least as stringent as the requirements of the NHCRWA plan. She reported that the City of Houston provides surface water to the NHCRWA. Ms. Ellison reported that the NHCRWA's Drought Contingency Plan is triggered when the City of Houston triggers its Drought Contingency Plan. Ms. Ellison reported that the District's Drought Contingency Plan may potentially be triggered by action of the City of Houston despite the fact that the District does not receive its water from the City of Houston and there exists sufficient water production capacity to meet water demand in the District. Ms. Ellison reported that the Amended Drought Contingency Plan mirrors the NHCRWA Drought Contingency Plan trigger events and measures.

Mr. Riley stated that he has signs for implementation of the Drought Contingency Plan. Mr. Riley reported that new signs will be made which will direct customers to Eagle Water's website for information on the Drought Contingency measures. 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 Amended Drought Contingency Plan.

Ms. Ellison noted that the Governor issued a proclamation extending the drought emergency. She said that due to the proclamation, state law may require that all water providers in Harris County implement their drought contingency plans if notified to do so by Harris County. 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 implementation of the District's Drought Contingency Plan if such action is required by the Governor's proclamation and state law.

16. **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 "N."

Mr. Hirshman reported that DEC is working with Eagle Water on the booster pump plans.

Mr. Hirshman reported that DEC is preparing the plans for the ground storage tank additions at Water Plant No. 1 and Water Plant No. 2. Mr. Hirshman reported that the Water Plant No. 2 Ground Storage Tank cost estimate is \$876,900. He reported that the Water Plant No. 2 Ground Storage Tank additions will be constructed before the Water Plant No. 1 Ground Storage Tank additions. He requested that F&J provide the deed and title report to DEC so that it can proceed with the replatting of the lot recently purchased in Sydney Harbour.

Mr. Hirshman reported that the Wastewater Treatment Plant Improvement plans are 95% complete. He reported that Eagle Water will review the Wastewater Treatment Plant Improvement plans. Mr. Hirshman reported that the plans include three sequencing batch reactors ("SBR") which will allow the District to maintain compliance if one SBR fails. Mr. Hirshman reviewed the proposed yard piping plan for the Wastewater Treatment Plant, included in the Engineer's Report. Mr. Hirshman reported that he anticipates the construction to begin in January, 2014.

Mr. Hirshman reviewed with the Board the Summary of Costs for the Series 2014 Bonds. He reported that the preliminary cost estimate is for a \$4,000,000 bond issuance.

Mr. Hirshman reported that the Wastewater Treatment Plant Discharge Permit renewal application for the District was submitted to the TCEQ with an additional 150,000 gallons per day, for a total of 950,000 gallons per day for the permit.

Mr. Hirshman reported on the Harris County Huffmeister Road widening project. He reported that the District's waterline and force main were found to be deeper than anticipated and will not have to be relocated. Mr. Hirshman reported that the District's waterline serving Centerpoint Energy is higher than anticipated and will need to be lowered, as discussed and approved in the Operator's Report.

Mr. Hirshman reported that the TCEQ completed the pre-purchase inspection for the District's Unlimited Tax Bonds, Series 2013. He reported that the approval letter has been sent to Austin. Mr. Hirshman noted that the developers paid for repairs necessary for the pre-purchase inspection.

Mr. Hirshman reported that DEC conducted the one year walk-through of the Wastewater Treatment Plant's sludge pump.

Mr. Hirshman requested Board authorization for the President to execute the Storm Water Quality permit renewal application for the Cypress Ridge flood control ditch which was prepared by Storm Water Solutions.

Mr. Hirshman reported that he has not heard from SafeSite, Inc. since he told them he needed more information to proceed with the feasibility study preparation.

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 Engineer's Report and to authorize the President to execute the Storm Water Quality permit renewal application for the Cypress Ridge flood control ditch.

17. **Report on Sydney Harbour drainage easement and any necessary action.** Ms. Ellison reported that she is working on the drainage easement policy.

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

19. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on September 20, 2013, at 11:00 a.m. at the offices of Norton Rose Fulbright, 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
September 20, 2013.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

