

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
September 20, 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 regular session, open to the public, at the offices of Norton Rose Fulbright, 1301 McKinney, Houston, Texas, on September 20, 2013, 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; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Jim Moore of First General Realty; Mr. Greg Sissel of BKD, LLP, auditor for the District; Mr. Craig Rathmann of Rathmann & Associates, L.P., the financial advisor for the District; Ms. Stephanie Lee of KGA DeForest Design ("KGA"); Captain Whitton and Sergeant Blackledge; constables for the District; Mr. Jason Keeton of KCS Construction Services; Mr. Clay Roper and Mr. Nathan Gaines of Caldwell Companies; and Ms. Jana Cogburn 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. **Minutes of the meeting of August 22, 2013.** The proposed minutes of the meeting of August 22, 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 August 22, 2013, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the District website. Director Bryant reported that two requests regarding billing and initiating water service were forwarded to Eagle Water. Director Bryant reported that a District resident contacted a Harris County Commissioner regarding water service termination.

He reported that Eagle Water will revise the water service termination door hanger to reduce confusion for the District residents.

Director Bryant reported that Eagle Water turned off water service to an irrigation system that appeared to be leaking. He reported that Mr. Crahan, the Cypress Mill HOA representative, contacted the District requesting notification of water termination due to leaks because in this case there was no leak.

Director Bryant reported that Ms. Young requested the trees around the Cypress Mill Estates greenbelt and detention pond be trimmed. The President reported that Stormwater Solutions is researching the tree trimming needs in the area.

Mr. Hirshman reported that a resident contacted F&J regarding trees threatening her backyard fence. He reported that the trees are not on District property. Mr. Hirshman reported that F&J has notified the resident that the trees are not on District property.

3. **Security report.** Sergeant Blackledge reviewed with the Board the Security Report for the month of August, a copy of which is attached hereto as Exhibit "B." Captain Whitton reported that Constable Hickman wanted a substation location with secure parking. He reported that Sergeant Blackledge has a location on Mueschke Road, south of Harvest Bible Church, for a substation. Sergeant Blackledge reported that Harvest Bible Church has refurbished an old farmhouse and is willing to provide the building to the Constable's Office for a substation. Director Henry reviewed the current expenses associated with the Constable Office in the District. Sergeant Blackledge reported that the landlord will allow termination of the District's lease for the Constable Office. Sergeant Blackledge requested financial assistance for the T1 line and phone line for the new location and for the installation of two walls and doors at the new location. The Board requested that Sergeant Blackledge request assistance from the other entities with Constable contracts in the vicinity of the proposed substation and provide a cost estimate for the wall and door construction for the Board's consideration.

Director Halloran joined the meeting.

4. **First Amendment to Agreement for Law Enforcement Services with Harris County.** The Board reviewed the First Amendment to Agreement for Law Enforcement Services with Harris County ("First Amendment"), a copy of which is attached hereto as Exhibit "C." 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 First Amendment.

5. **Consider annexation of 20 acres.** Mr. Roper reported that Caldwell Companies plans to develop 20 acres on the east side of Mueschke Road, two miles north of U.S. Highway 290 for office condos. He reported that the development is expected to generate approximately \$17,500,000 in taxable assessed valuation. Mr. Roper reviewed with the Board the information on the tract, a copy of which is attached hereto as Exhibit "D." Mr. Roper requested the Board consider annexation of the tract into the District and providing utility service to the tract. Mr. Hirshman reported that the District's waterline is at the north corner of the tract and that the District's sanitary sewer line is approximately 20 feet from the tract. The President requested a deposit of \$15,000 for the District's engineer to prepare a feasibility study for the proposed annexation.

Upon motion by Director Halloran, 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 feasibility study for the proposed 20 acre annexation upon receipt of the \$15,000 deposit by Caldwell Companies.

**6. Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2013.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2013 tax rate, a copy of which is attached hereto as Exhibit "E." Mr. Rathmann recommended a debt tax rate of \$0.61 per \$100 assessed valuation to provide the District with sufficient funds to make debt service payments. He reported that the developer incentive contract tax rate should be maintained at \$0.13 per \$100 assessed valuation. He stated that the average home value increased. Mr. Rathmann reviewed the District's fund balances and budget and indicated that the balances were sufficient. Mr. Rathmann reviewed with the Board the Subdivision Analysis detailing the impact on the average homeowner tax bill in the District's various subdivisions, a copy of which is attached hereto as Exhibit "F."

Ms. Cogburn 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 2013, a copy of which is attached hereto as Exhibit "G." Ms. Cogburn 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 Henry, 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 \$0.92 per \$100 assessed valuation, with \$0.61 for debt service, \$0.18 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 2013 and to authorize the District's tax assessor collector to publish the proposed tax rate.

**7. Approve Developer Reimbursement Audit and payment to developers.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft Developer Reimbursement Audit, a copy of which is attached hereto as Exhibit "H." Mr. Sissel reported that the total reimbursement amount is \$901,779.89 to First General Realty and \$3,264,148.08 to Pulte Homes. Mr. Sissel reported that the Texas Commission on Environmental Quality ("TCEQ") did not approve the use of bond proceeds to pay for all the developer interest due because the bond application did not ask for the full amount of developer interest. He stated that the interest due the developers which is not payable from bond proceeds is \$65,723 (\$51,788.30 to Pulte Homes and \$13,934.70 to First General Realty). Mr. Sissel reported that he discussed the interest shortage with Ms. Ellison and that Ms. Ellison said the District is legally authorized to pay the \$65,723 in interest to the developers from the General Fund. Mr. Sissel reported that the District will also utilize funds from the General Fund for the Wastewater Treatment Plant improvements and that there will be no surplus funds from the bond issuance.

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 developer reimbursement audit and to authorize payment of \$901,779.89 to First General Realty and \$3,264,163.75 to Pulte Homes, including \$65,723 in interest to the developers from the General Fund upon receipt of the Bond proceeds.

**8. Accept Pulte Homes Conveyance of Facilities for Sections 1, 2, 3 (Phase II), 5 and 7 and Conveyance of Lift Station.** Ms. Deitrick presented to and reviewed with the Board the Conveyance of Facilities for Cypress Landing East, Sections 1, 2, 3 (Phase II), 5 and 7 and Conveyance of Lift Station prepared by F&J, copies of which are attached hereto as Exhibits "I," and "J." She noted that the District was paying for the water, sanitary sewer, drainage and detention facilities to serve Cypress Landing East, Sections 1, 2, 3 (Phase II), 5 and 7 with the Bond proceeds and that Pulte Homes was conveying them to the District, along with the Cypress Landing East Lift Station.

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 Pulte Homes Conveyance of Facilities for Cypress Landing East, Sections 1, 2, 3 (Phase II), 5 and 7 and Conveyance of Lift Station.

**9. Accept First General Holdings Receipt and Conveyance.** Ms. Deitrick presented to and reviewed with the Board the First General Holdings Receipt and Conveyance prepared by F&J, a copy of which is attached hereto as Exhibit "K." 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 First General Holdings Receipt and Conveyance.

**10. Developers Report and reimbursement issues.** The President reviewed Mr. Luton's email, reporting that there were 39 sales in Cypress Park in 2013, with seven of those sales in July and eight of those sales in August.

**11. Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties.** Director Rucker reported that the Texas Department of Transportation stated at the US 290 Noise Abatement Barrier meeting that the noise abatement wall could not be installed behind the commercial area that includes Walgreen's and Alicia's Mexican Grille. He stated that it is unclear at this time whether Harris County or the District will be responsible for maintenance of the noise abatement wall on the District property.

**12. Wastewater Treatment Plant Landscape Enhancements proposals and award contract.** The President recognized Ms. Lee, who presented to and reviewed with the Board the Wastewater Treatment Plant Landscape Enhancement contract with Allgreen Associates in the amount of \$24,525.00, a copy of which is attached hereto as Exhibit "L." She reported that the contract is for the landscaping, and irrigation system installation upon the berm at the Wastewater Treatment Plant. 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 Wastewater Treatment Plant Landscape Enhancement contract with Allgreen Associates.

**13. Mueschke Road Median Landscape Improvements Certificate of Substantial Completion.** Ms. Lee presented to and reviewed with the Board the Certificate of Substantial Completion for the Mueschke Road Median Landscape Improvements, a copy of which is attached hereto as Exhibit "M." 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 authorize the President's execution of the Certificate of Substantial Completion for the Mueschke Road Median Landscape Improvements.

**14. 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 "N." Ms. Bryant noted that 99% of the District's 2012 taxes had been collected as of August 31, 2013.

Ms. Bryant reviewed with the Board the Delinquent Tax Report provided by Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue"), included in the Tax Assessor-Collector's Report. Ms. Bryant asked the Board if it wanted Water Termination Letters sent to the list of Water Termination Letter Candidates on the Delinquent Tax Report. Ms. Bryant reported that the letter would provide the delinquent taxpayers with notice of the next Board meeting, so that they would have an opportunity to address the Board prior to their water service being terminated.

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, to authorize the expenditures listed therein, and to authorize Perdue to provide the Water Termination Letters to the Water Termination Letter Candidates on the Delinquent Tax Report.

**15. 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 "O." Ms. Austin reported that two Certificates of Deposit ("CD") will mature at Compass Bank and Green Bank prior to the next Board meeting. She asked the Board if it wanted to purchase replacement CDs at the highest interest rate available. Ms. Austin reported that the wires and checks prepared for the closing of the Series 2013 Bonds on September 26, 2013 are not included in the Bookkeeper's Report.

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

**16. 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 "P."

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reviewed the List of Accounts for Collection with the Board.

Mr. Riley reported that a customer has requested adjustment of his water bill due to an irrigation leak. He reported that the customer's water usage was 74,000 gallons due to the leak which has been repaired. Mr. Riley reported that the water bill is for \$321. He recommended waiver of the sanitary sewer portion of the bill.

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 Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to transfer the List of Accounts for Collection to the collection company, and to approve waiver of the sanitary sewer portion of the bill for the customer with

the water leak.

**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. Hirshman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "Q."

Mr. Hirshman reported that DEC is working with Eagle Water on the booster pump plans. He reported that the plans are 90% complete.

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 he will meet with the City of Houston to determine if a replat is necessary since Sydney Harbour Homeowners Association removed the deed restrictions on the lot the District recently purchased for the ground storage tank additions at Water Plant No. 2. The President stated that the back fence on the lot will need to be redone so that the Water Plant No. 2 fence is of a consistent height.

Mr. Hirshman reported that the Wastewater Treatment Plant Improvement plans will be submitted by the end of October.

Mr. Hirshman reported that DEC is preparing the Bond Application Report for the Series 2014 Bonds, in the amount of \$4,000,000.

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 reviewed with the Board the Cypress Lakes Golf Course letter regarding the use of the District's effluent for irrigation. He reported that the estimated cost for construction of the infrastructure to transport the effluent to Cypress Lakes Golf Course is \$363,750. Mr. Hirshman reported that the District would have sufficient effluent to meet the Cypress Lakes Golf Course's irrigation needs for most months of the year. It was the consensus of the Board not to fund the construction costs for the infrastructure to transport the District's effluent to the Cypress Lakes Golf Course. Mr. Riley and Mr. Hirshman noted that the Cypress Lakes Golf Course will not incur the North Harris County Regional Water Authority fee of \$1.75 per gallon if it receives the District's effluent. Mr. Hirshman stated that the District would own and maintain the facilities utilized for transportation of the effluent to the Cypress Lakes Golf Course, if constructed.

Mr. Hirshman reported that the TCEQ is holding a public hearing regarding changes to surface water quality standards and that the hearing details are included in the Engineer's Report.

Mr. Hirshman reported that the Fountain of Life Church requested a cost estimate to receive water service from the District. He reported that F&J provided a response to the request which is included in the Engineer's Report.

Upon motion by Director Halloran, 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 and to authorize F&J to send a letter to Cypress Lakes Golf Course advising it that the District will not fund the construction costs for the facilities to transport the effluent to Cypress Lakes Golf Course, the District will own and maintain the facilities, and that the District may consider discounting the cost of effluent initially, in consideration for the facilities cost paid by Cypress Lakes Golf Course.

18. **Cypress Lakes Golf Course Request.** This item was covered under the Engineer's Report.

19. **Other Consultant and Director Reports.** 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 October 18, 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  
October 18, 2013.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

