

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
January 24, 2014

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 January 24, 2014, 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, except Directors Henry and Halloran. 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. Greg Sissel of BKD, L.L.P., auditor 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. **Minutes of the meeting of December 20, 2013.** The proposed minutes of the meeting of December 20, 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 December 20, 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 were forwarded to Eagle Water.

Director Bryant reported that a resident asked about preventing panhandling at Cypress Rosehill Road and U.S. Highway 290. Director Bryant reported that he contacted Lieutenant Blackledge regarding the resident's questions. He reported that Lieutenant Blackledge said that Harris County is considering enacting an Ordinance to restrict panhandling.

Director Bryant reported that Lieutenant Blackledge said that there are laws covering solicitation from the roadway; however, the Harris County District Attorney will not prosecute these citations at this time. Director Bryant reported that Lieutenant Blackledge stated that panhandlers may be cited for littering. It was the consensus of the Board to forward Lieutenant Blackledge's response to the resident.

Director Bryant reported that a resident in Cypress Landing Park asked if an officer is assigned to Cypress Landing Park on a daily basis. Director Bryant reported that Lieutenant Blackledge detailed the Constable's coverage of the District, which was forwarded to the resident.

3. **Security report.** The Board reviewed the Security Report for the month of December, a copy of which is attached hereto as Exhibit "B."

4. **Renew Interlocal Agreement for Law Enforcement Services with Harris County.** Ms. Ellison reviewed with the Board the Interlocal Agreement for Law Enforcement Services between Harris County and the District, a copy of which is attached hereto as Exhibit "C." Ms. Ellison reported that the Interlocal Agreement is for 70% coverage of four deputies and one lieutenant.

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 Interlocal Agreement for Law Enforcement Services.

5. **Proposal for agent to lease Constable Space and any necessary action.** Ms. Ellison reported that The Shoppes at Fry Road landlord had arranged for a leasing agent to work on getting a replacement tenant in the Constable Space. She reported that the landlord has not provided the agreement for the leasing agent fee. No action was taken on this item.

6. **Appoint auditor for fiscal year ending February 28, 2014.** The President recognized Mr. Sissel, who reported that Governmental Accounting Standards Board ("GASB") Statement No. 65 creates new caption definitions to be utilized in the audit. He reviewed the BKD letter regarding GASB No. 65, a copy of which is attached hereto as Exhibit "D." He reported that bond issuance costs can no longer be amortized over the life of the debt and will now be recognized as an expense in the period incurred. Mr. Sissel reported that implementation of GASB No. 65 will not impact the District's credit rating.

Mr. Sissel presented to and reviewed with the Board an engagement letter for BKD, L.L.P. for fiscal year ending February 28, 2014, a copy of which is attached as Exhibit "E." Mr. Sissel requested that the Board consider engaging the services of BKD, L.L.P. to prepare the District's annual audit for fiscal year ending February 28, 2014, at an estimated cost of \$17,400 plus administrative costs of \$500, plus \$500 for the implementation of GASB No. 65.

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 approve the engagement letter and authorize the President to execute the letter.

7. **Developers Report and reimbursement issues.** Ms. Stephenson reported that the dialysis center is not interested in the commercial tract due to the pipeline in the vicinity of the tract.

8. **Sydney Harbour Water Plant Expansion, including status of lot, fencing and landscaping proposal/cost estimate.** This item was covered under the Engineer's Report.

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. **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 66.36% of the District's 2013 taxes had been collected as of December 31, 2013.

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 approve the Tax Assessor-Collector's Report and to authorize the expenditures listed therein.

11. **Adopt Resolution Authorizing Additional Penalty on Delinquent Taxes.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Resolution Authorizing Additional Penalty on Delinquent Taxes Under Sections 33.07, 33.11 and 33.08, Tax Code (the "Resolution"), a copy of which is attached hereto as Exhibit "G." Ms. Ellison reported that the revenue collected by levying this penalty is used to pay the delinquent tax attorney for the services provided to the District.

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 adopt the Resolution.

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 "H."

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

13. **Adopt budget for fiscal year ending February 28, 2015.** This item was deferred.

14. **Authorize publication of notice of exemption from use of electronic voting system and appointment of election agent and other related matters.** Ms. Ellison presented to and reviewed with the Board the Resolution Authorizing Publication of Notice of Intent Not to Use an Electronic Voting System for the 2014 Directors Election, a copy of which is attached hereto as Exhibit "I." Ms. Ellison reported that due to new legislation the District is permitted to hold a directors election without use of an electronic voting machine, unless a voter requests one not less than 45 days before the election. Ms. Ellison stated that the notice of exemption from use of electronic voting system must be published in a newspaper in general circulation in the District to comply with the new statute.

Ms. Ellison presented to and reviewed with the Board the Appointment of Agent for the 2014 Directors Election, a copy of which is attached hereto as Exhibit "J." She reported that the Appointment of Agent designates Yvette Deitrick of F&J as the Secretary's agent to perform ministerial duties as specified in Election Code 31.123 for the 2014 Directors Election.

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 Resolution Authorizing Publication of Notice of Intent Not to Use an Electronic Voting System for the 2014 Directors Election, and Appointment of Agent for the 2014 Directors Election.

15. 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 "K." Mr. Riley reported that the project to expand the Wastewater Treatment Plant is needed to maintain the Wastewater Treatment Plant's ammonia level below the permit limit.

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reported that the Texas Commission on Environmental Quality has increased the District's required bacteriological tests to ten per month due to increased connections.

Mr. Riley reported that the ground storage tank and hydropneumatic tank five year inspections are complete and that the inspection reports have been provided to Mr. Hirshman. He noted that the tank interiors were included in the inspections.

Mr. Riley reported that Eagle Water is turning off the irrigation system along Cypress-Rosehill Road during cold weather to avoid ice on the road.

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

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 "L."

Mr. Hirshman reported that the plans for improvements at Water Plant No. 1 and Water Plant No. 2 were submitted to the City of Houston. Mr. Hirshman reported that DEC addressed Eagle Water's comments, which are included in the Engineer's Report. He reported that the City of Houston approved the final replat of the lot for the additional ground storage tanks at Water Plant No. 2 on December 19, 2013, and the plat is ready for Board signature.

Mr. Hirshman reported that the ground storage tank and hydropneumatic tank inspection report noted that some rust and barnacles were found in the tanks. He reported that touch-up coating of the tanks will be included in the plans for improvements at Water Plant No. 1 and Water Plant No. 2.

Mr. Hirshman reported that the Wastewater Treatment Plant Improvement plans will be submitted to the Texas Commission on Environmental Quality ("TCEQ") by the end of January.

Mr. Hirshman reported that DEC is preparing the Bond Application Report for the Series 2014 Bonds, in the amount of \$4,000,000. He reported that DEC is acquiring additional information from the financial advisor.

Mr. Hirshman reported that DEC expects the District's Wastewater Treatment Plant Discharge Permit in the next 60 days.

Mr. Hirshman reported that the Houston Galveston Subsidence District ("HGSD") contacted him again regarding water service to the Fountain of Life Church, next to Harvest Bible Church.

Mr. Hirshman reported that Brown & Gay Engineers is requesting Board approval for advertisement and bid of the water, sanitary sewer and drainage facilities to serve Cypress Landing East, Section Six and Cypress Landing Park, Section Four.

Mr. Hirshman reported that DEC is preparing the District boundary map for the 20 acre annexation, which includes the 17 acre tract for KCS Construction and the 4 acre tract for Ewing Irrigation.

Mr. Hirshman reported that DEC is preparing the feasibility study for the proposed 40 acre annexation by SafeSite. He reported that DEC needs additional information from SafeSite for the feasibility study.

Mr. Hirshman reported that a resident contacted him regarding the District's Policy on Encroachment in the Drainage Easement. He reported that DEC is awaiting the resident's final submittal. Mr. Hirshman reported that he reviewed the Policy on Encroachment in the Drainage Easement with the resident.

Mr. Hirshman reviewed with the Board the cost estimate and diagram for the Water Plant No. 2 fencing prepared by KGA Deforest Design, LLC, a copy of which is attached hereto as Exhibit "M." He noted that the diagram includes a metal/framed wood gate for the front of the plant. The President noted that it should be a sliding gate. Mr. Riley reported that the gate should be 30 feet from the curb at the front of the plant. The President asked if the southeast corner of the fence could be moved back for additional landscaping in front of the fence. Mr. Hirshman stated that there needs to be ten feet between the ground storage tank and the fence for future maintenance. The President stated that he would contact KGA Deforest Design regarding revisions to the diagram. The President noted that the pine trees on the east side of the plant site are not on District property.

Mr. Hirshman reported on the effluent usage for Triumph Club Management ("Triumph"). He reported that the tests performed by Eagle Water indicate that a filter is not needed for reuse of the District's effluent. He reported that a filter would cost approximately \$150,000 and that it would be Triumph's expense if future criteria require a filter. Director Bryant reported that Ms. Ellison, Director Rucker and he met with Billy Sitton from Triumph to discuss use of the District's effluent for Triumph's Cypress Lakes Golf Course. Director Bryant reported on the potential contract terms discussed with Triumph. Mr. Riley reported that the

District could utilize 25,000 gallons of effluent per day for irrigation within the District. Director Bryant stated that he would contact Triumph to follow up on pending issues.

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 approve the Engineer's Report, and to approve advertisement and bid of the water, sanitary sewer and drainage facilities to serve Cypress Landing East, Section Six and Cypress Landing Park, Section Four.

17. **Annexation agreement for KCS Construction Services 21 acres.** This item was deferred.

18. **Cypress Lakes Golf Course effluent usage.** 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 February 21, 2014, 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
February 21, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

