

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
October 17, 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 regular session, open to the public, at the offices of Norton Rose Fulbright, 1301 McKinney, Houston, Texas, on October 17, 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 Director Henry. 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. Jason Schultz of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Ryan Day of Pulte Homes, developer of land in the District; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Jim Moore of First General Realty; Mr. Greg Sissel of BKD, LLP, auditor for the District; Sergeant Blackledge, Constable 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 meetings of September 19, 2014 and September 24, 2014.** The proposed minutes of the meetings of September 19, 2014 and September 24, 2014, previously distributed to the Board, were presented for review and approval. 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 minutes of September 19, 2014 and September 24, 2014, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the District website. Director Bryant reported that requests regarding billing, new accounts and new contact information were forwarded to Eagle Water.

Director Bryant reported that Ms. Young requested mowing of the creek behind Cypress Mill Estates to reduce mosquitos. Mr. Riley reported that the area is mowed monthly

by the District despite it being the responsibility of Harris County Flood Control District. He reported that the area was mowed the week after the request was submitted to the Board.

Director Bryant reported that Mr. Xiong requested a recycling cart. He reported that the request was forwarded to Best Trash for management.

Director Bryant reported that Mr. Ram requested information on the hardness of the District's water. He reported that the request was forwarded to Eagle Water for management.

Director Bryant said that Ms. Thomas reported a billing issue with Eagle Water. Director Bryant stated that Ms. Thomas reported that she did not receive her August water bill and that Eagle Water informed her many residents did not receive a water bill due to a computer glitch. Director Bryant reported that Ms. Bryant stated that Eagle Water was unprofessional. He reported that the email was forwarded to Eagle Water. Mr. Riley reported that there were no computer glitches and that the District's water bills were distributed without issue. He reported that perhaps Ms. Thomas' water termination letter was lost in the mail. Mr. Riley reported that he waived Ms. Thomas' late fee to resolve the issue.

Director Bryant said that Mr. White reported that Eagle Water terminated his water service after he paid his bill in full. Mr. Riley reported that Mr. White opened an account on July 12, 2014, and that his first water bill was mailed July 31, 2014. He reported that Mr. White's second water bill was mailed September 2, 2014 and a water termination letter was mailed on September 9, 2014, with a deadline of September 25, 2014. Mr. Riley reported that Mr. White notified his bank to process payment on September 26, 2014, and that Mr. White's water service was terminated on September 30, 2014. Mr. Riley reported that Mr. White's payment was received on October 2, 2014.

Director Bryant said that Mr. Thomas reported that use of the District's water to wash clothes was bleaching them. Mr. Riley reported that Eagle Water tested the chlorine level in Mr. Thomas' water and it was satisfactory.

Director Bryant reported that DK emailed the District regarding the settlement between the Texas Attorney General and the District's financial advisor, Rathmann & Associates. He reported that DK requested a rebate from the \$37,000 payment to be made to the District.

3. Convene Public Hearing on Proposed Tax Rate for 2014. The President convened the public hearing on the proposed tax rate for 2014. There were no comments. The hearing was closed.

4. Adopt Order Setting Tax Rate and Levying Tax for 2014. The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2014, a copy of which is attached hereto as Exhibit "B." Ms. Bryant reported that the notice of public hearing was published. 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 Order Setting Tax Rate and Levying Tax for 2014 with a total tax rate of \$0.87, comprised of a rate of \$0.55 for debt service, \$0.21 for operation and maintenance expenses, and \$0.11 for contract obligations.

5. **Approve Amended District Information Form.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Amendment to Amended and Restated District Information Form, a copy of which is attached hereto as Exhibit "C." Ms. Ellison reported that this document is recorded in the Harris County Real Property Records to provide notice to purchasers of property in the District of the current tax rate in the District and the increased District debt due to the closing of the District's Unlimited Tax Bonds, Series 2014 (the "Bonds") the previous day.

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 Amendment to Amended and Restated District Information Form.

6. **Approve Developer Reimbursement Audit, accept conveyances and authorize payment to developers.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the Developer Reimbursement Audit, a copy of which is attached hereto as Exhibit "D." Mr. Sissel reported that the total reimbursement amount to Pulte Homes is \$1,614,853.53, as of today. He reported that the total reimbursement amount to First General Realty is \$492,397.32. Mr. Sissel reported the total reimbursement amount to Meritage Homes is \$386,076.14, as of today.

Ms. Ellison stated that payment to developers is subject to receipt of the Texas Commission on Environmental Quality ("TCEQ") authorization to purchase the facilities. She reported that Mr. Hirshman had advised her that the TCEQ inspection is scheduled for October 27, 2014.

Mr. Sissel reported that the amount of daily interest for each project is included in the Independent Accountants' Report.

Ms. Ellison presented to and reviewed with the Board the Conveyance of Facilities for Water, Sewer, and Drainage Facilities to Serve Cypress Landing East, Sections 3 (Phase 1) and 4 from Pulte Homes ("Pulte Conveyance"), Conveyance of Facilities for Water, Sewer, and Drainage Facilities to Serve Cypress Landing East, Sections 8 and 9 (partial) from Pulte Homes ("Pulte Conveyance 2"), and Receipt and Conveyance from Pulte Homes for the lift station ("Pulte Receipt"), copies of which are attached hereto as Exhibits "E," "F," and "G," respectively. She noted that the District was paying for these facilities with the Bond proceeds and that Pulte Homes was conveying them to the District.

Ms. Ellison presented to and reviewed with the Board the Conveyance of Facilities for Water, Sewer, and Drainage Facilities to Serve Cypress Landing Park, Sections 3 and 5 (partial) from Meritage Homes ("Meritage Conveyance"), a copy of which is attached hereto as Exhibit "H." She noted that the District was paying for these facilities with the Bond proceeds and that Meritage Homes was conveying them to the District.

Ms. Ellison presented to and reviewed with the Board the Receipt and Conveyance from First General Holdings ("First General Receipt"), a copy of which is attached hereto as Exhibit "I." She noted that the District was paying for a portion of the Cypress Landing Park detention basin with the Bond.

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 developer reimbursement audit, to authorize payment of \$1,614,853.53 to Pulte Homes and

\$386,076.14 to Meritage Homes, plus the daily interest until receipt of the TCEQ authorization to purchase the facilities, to authorize payment of \$492,397.32 to First General Realty, and to accept the Pulte Conveyance, Pulte Conveyance 2, Pulte Receipt, Meritage Conveyance and First General Receipt.

7. **Supplemental developer reimbursement audit and authorization of payment to developer.** Mr. Sissel presented to and reviewed with the Board the Independent Accountants' Report on Application of Agreed-Upon Procedures ("Supplemental Audit"), a copy of which is attached hereto as Exhibit "J." He reported that the Supplemental Audit is a supplement to the audit performed in connection with the District's Series 2013 Bonds. Mr. Sissel reported that he required additional information from Pulte Homes to complete the audit of the items in the supplemental audit. He reported that the total reimbursement amount to Pulte Homes is \$24,661.05. Mr. Sissel reported that interest is accrued through the funding of the Series 2013 Bonds.

Ms. Ellison presented to and reviewed with the Board the Receipt and Conveyance for certain facilities from the Series 2013 Bonds from Pulte Homes ("Pulte Receipt 2"), a copy of which is attached hereto as Exhibit "K."

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 approve the Supplemental Audit, to authorize payment of \$24,661.05 to Pulte Homes, and to accept Pulte Receipt 2.

8. **Developers Report and reimbursement issues.** Mr. Day reported that Cypress Landing East had seven new home sales in October and 101 to date.

Mr. Day presented to and reviewed with the Board a letter to Harris County for the Acceptance and Maintenance of the Cypress Landing East, Section 11 Detention Pond, a copy of which is attached hereto as Exhibit "L." The President noted that Harris County requires the District to agree to maintain the detention pond; however, the District will require mowing to be handled by Cypress Landing Homeowner Association. Ms. Ellison reported that the Annexation Agreement between the District and Pulte Homes specifies that the Cypress Landing Homeowner Association will maintain the detention pond. 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 authorize the President to execute the letter to Harris County for the Acceptance and Maintenance of the Cypress Landing East, Section 11 Detention Pond.

Mr. Luton reported that Cypress Landing Park had six sales and six closings in September, and 61 sales to date in 2014.

9. **Security report.** Sergeant Blackledge reviewed with the Board the Security Report for the month of September, a copy of which is attached hereto as Exhibit "M."

Sergeant Blackledge presented to and reviewed with the Board the District's Historical Security Calls Since 2011, a copy of which is attached hereto as Exhibit "N." Sergeant Blackledge reported that the number of calls to the Constable has increased in the past few years. He recommended the Board add an additional deputy to return the District to the number of deputies it had prior to a decrease in 2011. Sergeant Blackledge reported that Fairfield will have twelve constables patrolling Fairfield in 2015 and that Harris County Municipal

Utility District No. 391 will have four constables patrolling in 2015. The President requested a map of the surrounding areas covered by the Harris County Constables Office and the number of constables patrolling those areas. It was the consensus of the Board to consider the request at the next Board meeting.

10. Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties; including possible landscaping at Cypress Ridge detention pond. The President reported that KGA DeForest Design is preparing the Cypress Ridge detention pond landscaping plan for the Board's consideration.

The President reported that Greenpros provided a quote for eight live oaks at \$250 per oak for the Cypress-Rosehill Road median and yellow pansies for \$405 for annual landscaping. The President noted that there is some tree over-crowding in the median and that perhaps not all of the live oaks need to be planted. 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 authorize the President to meet with Greenpros to discuss and authorize the appropriate number of live oak trees to be planted in the median and the Cypress Mill Park Two detention pond and to approve the planting of the yellow pansies.

11. Sydney Harbour Water Plant Expansion, including status of lot, fencing and landscaping proposal/cost estimate. The President presented to and reviewed with the Board the KGA DeForest Design Water Plant No. 2 Proposed Landscape Improvements and Cost Estimate in the amount of \$119,203.98, a copy of which is attached hereto as Exhibit "O." 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 authorize the President to meet with the Sydney Harbour Homeowner Association Landscape Chairman ("HOA") to present the proposed Water Plant No. 2 Landscape Improvements and to authorize KGA DeForest to proceed with preparation of bidding materials if the HOA approves the plan.

12. 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 "P." Ms. Bryant noted that 99% of the District's 2013 taxes had been collected as of September 30, 2014.

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.

13. Delinquent Tax Report and take any necessary action regarding delinquent accounts including termination of services. Ms. Bryant reviewed the Delinquent Tax Report provided by Perdue, Brandon, Fielder, Collins & Mott, L.L.P ("Perdue"), included in the Tax Assessor-Collector's Report. She reported that the water termination letters were sent to the delinquent taxpayers, and one taxpayer paid in full and another taxpayer has committed to a payment plan of three installments.

Ms. Bryant reported that Perdue requested Board authorization to proceed with water termination to the eight delinquent taxpayers who failed to respond to the water termination letter. Upon motion by Director Rucker, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to approve

the Delinquent Tax Report, and to authorize Eagle Water to hang "red tags" at the residences of the delinquent property taxpayers and to terminate water service to the delinquent taxpayers who fail to respond.

14. **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 "Q." Ms. Austin noted that KCS Construction has exceeded its annexation deposit and she would bill them.

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.

15. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Riley, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "R." Mr. Riley reported that the semiannual water well test was performed. Mr. Riley reported that the wells are operating satisfactorily and that the static levels have not decreased since 2013.

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reported that a Water Plant No. 1 booster pump motor failed. He reported that NTS has picked up the motor for repair.

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, preparation of annexation analyses.** The President recognized Mr. Schultz, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "S."

Mr. Schultz reported on the plans for improvements at Water Plant No. 1 and Water Plant No. 2. He reported that the City of Houston has approved the Water Plant No. 2 improvement plans. Mr. Schultz reported that DEC will advertise for bids for the Water Plant No. 2 improvements for receipt prior to the November Board meeting. He reported that the plat is at Harris County for signature and recordation.

Mr. Schultz reported that DEC is addressing agency comments on the Wastewater Treatment Plant Improvement plans.

Mr. Schultz recommended payment of Pay Estimate No. 3 from Jaho, Inc. in the amounts of \$9,682.40, for the utilities construction to serve Cypress Landing Park, Section Four.

Mr. Schultz reported that DEC prepared the District boundary map for the Pulte Homes 40-acre tract annexation for Board signature.

Mr. Schultz reported that DEC requested the TCEQ pre-purchase inspection of the projects in the bond issuance. He reported that the inspection is scheduled for October 27, 2014.

Mr. Schultz requested Board authorization for Pulte Homes to advertise for bids for mass clearing and grubbing for Cypress Landing East, Section 11 and mass grading for the detention pond.

Mr. Schultz reported that DEC received the cost estimate for the utility construction to serve the SafeSite 40-acre tract. He reported that the utility construction cost is \$927,170. Mr. Schultz reviewed the construction cost estimate with the Board. The President stated that a feasibility study needs to be prepared for the proposed SafeSite annexation tract. Ms. Ellison reported that she would provide the SafeSite construction cost estimate and site plan to Mr. Craig Rathmann, the District's financial advisor, in order to calculate the economic feasibility analysis for annexation and reimbursement for utilities to the tract.

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, to approve payment of Pay Estimate No. 3 from Jaho, Inc. in the amounts of \$9,682.40, for the utilities construction to serve Cypress Landing Park, Section Four, to authorize Pulte Homes to advertise for bids for mass clearing and grubbing for Cypress Landing East, Section 11 and mass grading for the detention pond, and to authorize F&J to submit the SafeSite construction cost estimate and site plan to Mr. Craig Rathmann, in order to calculate the economic feasibility analysis for annexation and reimbursement for utilities to the tract.

17. Annexation requests of KCS Construction, SafeSite, M/I Homes and any necessary action. Ms. Ellison reported that M/I Homes expects to purchase the 40-acre tract in November. She reported that F&J had prepared sanitary sewer easements and a storm sewer easement to extend facilities to the M/I Homes 40 acre tract.

18. Consider need for insurance proposals. The President recognized Ms. Ellison, who reported that the District's insurance expires in December. She asked the Board if it wanted proposals from more than its current carrier. It was the consensus of the Board to obtain proposals from AquaSurance, SIG McDonald & Wessendorff, Highpoint Insurance and Harco Insurance Services.

19. Other Consultant and Director Reports. The Board discussed the Attorney General Antitrust Settlement with RBC Capital Markets, LLC and the Settlement of Lawsuit Brought by R. Craig Rathmann and Rathmann & Associates, L.P., against the Texas Attorney General. The Board requested that F&J invite Mr. Rathmann to attend the next Board meeting to answer Board questions.

20. Next meeting date. The Board noted that the next regular monthly Board meeting will be held on November 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.

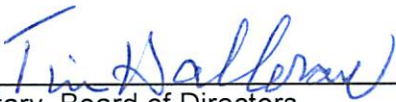
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The foregoing minutes were passed and approved by the Board of Directors on
November 21, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

