

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
April 25, 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 April 25, 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. 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. Craig Rathmann of Rathmann & Associates, financial advisor for the District; Mr. Jim Moore of First General Realty; Mr. Matthew May of Best Trash; Ms. Juanita Orsak of Pulte Homes, a developer in the District; Ms. Michelle Bryant; 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 March 21, 2014.** The proposed minutes of the meeting of March 21, 2014, previously distributed to the Board, were presented for review and approval. 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 minutes of March 21, 2014, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. May, who reported that under the District's contract the solid waste collection rate will increase to \$17.05 per connection with the April billing cycle. A copy of the Rate Increase letter is attached hereto as Exhibit "B." 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 solid waste collection rate increase to \$17.05 per connection.

3. **Security report.** Director Henry reviewed with the Board the Security Report for the month of March, a copy of which is attached hereto as Exhibit "C." Director Henry reported that the extra patrol made an arrest at one of the District's detention pond for the sale of narcotics.

Director Henry reported that the constables vacated the Constable Space on April 5, 2014. He reported that the constables expect to move into the substation on Mueschke Road on May 5, 2014. He reported that transfer of the T1 line is delayed but the line is expected to be operational the week of May 12, 2014. Director Henry reported that Captain Whitten will be working at the constable substation.

Ms. Ellison presented to and reviewed with the Board the Agreement Terminating Lease between the District and 290 Real Estate Fund LP, a copy of which is attached hereto as Exhibit "D." Ms. Ellison reported that the Agreement Terminating Lease specifies that the District agrees to pay the rent through August and its share of the common area costs, insurance and taxes. 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 Agreement Terminating Lease and the final payment to 290 Real Estate Fund LP in the amount of \$8,440.26.

4. **Developers Report and reimbursement issues.** Ms. Orsak reported the Notice to Proceed was issued to Jaho, Inc. for utilities construction in Cypress Landing East, Sections Six and Ten. She reported that Pulte Homes is having a grand opening in Cypress Landing East, Section Eight.

Ms. Stephenson reported that a restaurant expressed interest in a portion of the 3.7 acre lot.

5. **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 presented to and reviewed with the Board the Greenpros proposal for mulching in Cypress Mill Estates, Cypress Rosehill Esplanades and Cypress Mill II and planting begonias in Cypress Mill Estates in the amount of \$4,228.00, a copy of which is attached hereto as Exhibit "E."

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 Greenpros proposal for mulching in the amount of \$4,228.00

6. **Sydney Harbour Water Plant Expansion, including status of lot, fencing and landscaping proposal/cost estimate.** Mr. Hirshman reported that the Ground Storage Tank plans were submitted to the agencies for review. Mr. Hirshman reported that a meeting with the City of Houston will be arranged to discuss City of Houston requirements.

7. **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 97.94% of the District's 2013 taxes had been collected as of March 31, 2014. Ms. Bryant reported that delinquent tax statements will be distributed in May.

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

8. 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 "G."

Ms. Austin reviewed with the Board the Quarterly Investment Report, included in the Bookkeeper's Report.

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, to authorize payment of the checks listed therein, and to approve the Quarterly Investment Report.

9. 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 "H." Mr. Riley reported that Eagle Water installed 38 water taps in March.

Mr. Riley reviewed the Disconnection List with the Board. He reported that water service was terminated to 51 residents last month for non-payment.

Mr. Riley reported that the annual drinking water quality report will be distributed soon. He reported that the District does not need to send the report to all residents if an Internet link is provided on the water bill which leads directly to the drinking water quality report. He reported that the District's drinking water quality report would be on Eagle Water's website. Mr. Riley reported that the District will reduce distribution costs if it switches to electronic publication. He asked the Board for authorization to electronically publish the District's annual drinking water quality report.

Mr. Riley reported that rebuilding booster pump #2 at Water Plant No. 2 will cost \$10,600. Mr. Riley reported that the booster pump rebuild is underway.

Mr. Riley reported that Acclaim Energy Advisors continues to ask him if the Board is interested in its programs. It was the consensus of the Board not to pursue programs with Acclaim Energy Advisors at this time.

Mr. Riley reported that there is an unused diesel engine at Water Plant No. 1 which was previously used for a right angle drive gear box. He reported that the gear box was removed. Mr. Riley reported that another utility district can use the engine and asked the Board if it wanted to sell the diesel engine to get it off the Water Plant No. 1 site. He suggested selling the engine for \$1,000 in "as is" condition and requiring that the purchaser pay for moving the engine.

Mr. Riley presented to and reviewed with the Board an Eagle Water request for an increase in rates, a copy of which is attached hereto as Exhibit "I." He reported that the costs for personnel and health insurance have risen in the past three years.

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 approve electronic publication of the District's annual drinking water quality report, to approve the sale of the District's diesel engine for \$1,000, and to approve the proposed Eagle Water rate increase.

10. Eagle Water Management, Inc. Rate Increase and any necessary action. This item was covered under the Operator's Report.

11. Public Comments and letters from residents. Director Bryant reported on emails to the District website. Director Bryant reported that a resident asked if the District had rules against garage sales. Director Bryant reported that informed the resident that the District does not have a policy against garage sales.

Director Bryant reported that a resident emailed to ask why his water service was terminated when he had not received a water bill. He reported that the resident's email was forwarded to Eagle Water.

Director Bryant reported that a resident requested a copy of the Interlocal Agreement for Law Enforcement Services between Harris County and the District. He reported that F&J provided the agreement to the resident.

Director Bryant reported that someone moving into the District requested a copy of the homeowner association's deed restrictions. Director Bryant reported that he directed the resident to the Cypress Mill Homeowner Association.

Director Bryant reported that a resident requested return of her \$50 water service deposit because she has lived in the District for 16 years and paid her water bills on time. Mr. Riley reported that he informed the resident that there are no provisions in the District's Rate Order for return of the water service deposit.

12. Authorize compilation of Continuing Disclosure Materials. The President recognized Ms. Ellison, who reported that the District's bond orders require the District to file annual financial and operating information with the Municipal Securities Rulemaking Board. She requested approval for the District's consultants to prepare the disclosure materials. 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 authorize the District's consultants to prepare the disclosure materials.

13. 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 "J."

Mr. Hirshman reported that the revised plans for improvements at Water Plant No. 1 and Water Plant No. 2 were submitted to the City of Houston and Harris County. He reported that the recordation of the replat of the lot for the additional ground storage tanks at Water Plant No. 2 is contingent upon the approval of the Water Plant No. 2 plans.

Mr. Hirshman reported that the Wastewater Treatment Plant Improvement plans will be submitted to the agencies next week.

Mr. Hirshman reported that the Bond Application Report for the Series 2014 Bonds in the amount of \$4,000,000 was submitted to the TCEQ. Mr. Hirshman reported that he will coordinate a conference call between the Texas Commission on Environmental Quality ("TCEQ") and Brown & Gay Engineers, Inc. regarding documents included in the Bond Application Report.

Mr. Hirshman reported that DEC received the final notice for the District's Wastewater Treatment Plant Discharge Permit which will be published next week.

Mr. Hirshman reported that Brown & Gay Engineers issued the Notice to Proceed to Jaho, Inc. for the utilities construction to serve Cypress Landing East, Sections Six and Ten.

Mr. Hirshman reported that DEC received an inquiry about utility service for a multifamily development on 16 acres within the proposed 20 acre annexation.

Mr. Hirshman reported that he met with SafeSite regarding the proposed 40 acre annexation. He reported that SafeSite will want the utilities to be District facilities and to be reimbursed for all eligible costs.

Mr. Hirshman reported that Storm Water Solutions was delayed but will repair the washout next to the outfall pipe in Cypress Landing East prior to the next Board meeting.

Mr. Hirshman reported receipt of a request for a utility commitment for 4 equivalent single family connections ("ESFC") to serve the last vacant lot at the Shoppes at Fry Road. He said the plans showed a retail building with a Mattress One, nail salon and swim school.

Mr. Hirshman reported that Harris County Municipal Utility District No. 391 ("MUD 391") will include \$129,817 in its next bond application to reimburse the District for costs incurred by the District for the engineering and construction of the water line connecting MUD 391's system to the District's system in Cypress Park. He reported that 80% of the waterline is located within MUD 391.

Mr. Hirshman reported that MUD 391 has constructed a water plant just south of Cypress Landing East and it would be beneficial to the District to connect its system with MUD 391's system at the water plant. He asked for Board authorization to broach the subject with MUD 391.

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 the utility commitment of 4 ESFC to serve the vacant lot at the Shoppes at Fry Road; and to authorize Mr. Hirshman to discuss another interconnect with MUD 391.

14. Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2014, a Bond Purchase Agreement, a Transfer and Paying Agency Agreement, an Escrow Agreement and an Official Statement, and Authorizing the President or Vice President of the Board to Approve the Amounts, Interest Rates, Prices and Terms of the

Bonds, and Other Matters in Connection Therewith. The President recognized Mr. Rathmann, who presented to and reviewed with the Board a Summary of Refunding Effects, a copy of which is attached hereto as Exhibit "K." Mr. Rathmann noted that the summary shows that the District can save debt service expense by refunding certain maturities of its outstanding bonds. He noted that such savings are net of the costs to issue refunding bonds and must meet the minimum savings requirement set by the City of Houston.

Mr. Rathmann reported that RBC Capital Markets and First Southwest Company have underwritten previous District bond issuances and recommended utilizing them again for underwriting of the District's Refunding Bonds. He reported that SAMCO Capital Markets is another underwriter active in the market.

Mr. Rathmann reported that there are two municipal bond insurance companies available to insure the District's Refunding Bonds. He reported that both insurance companies will be considered for insuring the District's Refunding Bonds.

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 proceeding with the issuance of Refunding Bonds.

Ms. Ellison presented to and reviewed with the Board the Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2014, a Bond Purchase Agreement, a Transfer and Paying Agency Agreement, an Escrow Agreement and an Official Statement, and Authorizing the President or Vice President of the Board to Approve the Amounts, Interest Rates, Prices and Terms of the Bonds, and Other Matters in Connection Therewith (the "Order"), a copy of which is attached hereto as Exhibit "L." Ms. Ellison explained to the Board that the Order sets parameters for the sale of the bonds, so that Mr. Rathmann and the President or Vice President can proceed with the sale of the Bonds once the parameters are met. Ms. Ellison presented to and reviewed with the Board the Transfer and Paying Agency Agreement and Escrow Agreement, copies of which are attached hereto as Exhibits "M" and "N," respectively. Ms. Ellison reported that The Bank of New York Mellon Trust Company, N.A. will serve as Paying Agent and Registrar and Escrow Agent if the Order is approved. 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 and to authorize the President or Vice President to execute the pricing documents if there is a minimum of 4% present value savings.

Mr. Rathmann presented to and reviewed with the Board a Preliminary Official Statement ("POS"), dated April 25, 2014, for the District's proposed Unlimited Tax Refunding Bonds, Series 2014, a copy of which is attached hereto as Exhibit "O." The President asked that Mr. Rathmann update the director terms in the POS.

Mr. Rathmann explained that pursuant to Municipal Securities Rulemaking Board Rule G-17, underwriters must disclose to issuers their role in bond transactions. He reported that each underwriter provides a letter disclosing its role in the transaction. Mr. Rathmann requested Board authorization for the President to acknowledge such letters from RBC Capital Markets and First Southwest Company. 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 acknowledge the underwriter disclosure letters from RBC Capital Markets and First Southwest Company.

15. **Sydney Harbour Consent to Encroachment Policy/Maintenance of Amenity Detention Ponds.** Ms. Ellison reported that the Sydney Harbour Homeowner Association has requested a clarification of whether the District objects to the installation of 2.5 inch hollow PVC pipe at the end of a dock because of the District's drainage easement. It was the consensus of the Board not to take action on this item.

16. **Annexation agreement for KCS Construction Services 21 acres.** Ms. Ellison reported receipt of the annexation petitions from KCS Construction Services and Ewing Irrigation Products. Ms. Ellison reported that pursuant to the Board's instructions at the last meeting she wrote KCS Construction Services requesting a final development plan and clarification of its expectations for reimbursement. She reported that KCS Construction Services has not responded to her request.

17. **Cypress Lakes Golf Course effluent usage.** Director Bryant presented to and reviewed with the Board the Contract Terms for Effluent Use Agreement with Cypress Lakes Management, LLC, a copy of which is attached hereto as Exhibit "P." He said that he and Director Rucker had been negotiating terms of the contract with Cypress Lakes Management, LLC. Director Bryant said that the District needs to have a mortgage on the golf course in the amount of the credits the District receives from North Harris County Regional Water Authority (the "Authority") in case the owners sell the golf course and do not use effluent for 20 years, triggering the Authority to seek repayment of the credits from the District. Director Halloran asked if the District had sufficient insurance coverage for any potential pollution claim, and Ms. Ellison said the District's insurance agent would be consulted. It was the consensus of the Board to annually increase the effluent rate by the greater of \$0.05 or the percentage increase in the groundwater rate set by the Authority and to add an indemnification clause. The Board requested that Ms. Ellison prepare the Effluent Use Agreement per the proposed terms.

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 May 16, 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
May 16, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

