

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 20, 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 June 20, 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 Mr. Tommy Lee 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. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Ms. Juanita Orsak and Mr. Brian Munger of Pulte Homes, developer of land in the District; Mr. Brannon Boozer of M/I Homes; Mr. Jim Moore of First General Realty; Sergeant Blackledge, constable for the District; Mr. Greg Sissel of BKD, LLP, 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 May 16, 2014.** The proposed minutes of the meeting of May 16, 2014, previously distributed to the Board, were presented for review and approval. 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 minutes of May 16, 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.

3. **Approve audit for fiscal year ending February 28, 2014.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the

District's audit for fiscal year ending February 28, 2014 (the "Audit"), a copy of which is attached hereto as Exhibit "B." Mr. Sissel noted that the District has a greater than eighteen-month reserve for debt service.

Mr. Sissel presented to and reviewed with the Board a draft letter to management from BKD in which BKD reported that there were material weaknesses in the District's internal controls over financial reporting. A copy of the letter is attached hereto as Exhibit "C."

Mr. Sissel presented to and reviewed with the Board a draft letter on the auditor's responsibility under auditing standards. A copy of the letter is attached hereto as Exhibit "D."

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 Audit and to approve the draft Management's Response to the management letter.

4. Developers Report and reimbursement issues. Ms. Orsak reported that new home sales in Cypress Landing are great. She reported that the contractor is starting street paving in Cypress Landing, Sections Six and Ten.

Ms. Ellison reported that Mr. Luton reported that new home sales are great in Cypress Park and that lot inventory is dwindling.

Ms. Stephenson reported that a restaurant is still considering 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 reviewed with the Board the email from Mr. Crahan, the Cypress Mill Homeowners Association ("HOA") representative, seeking funds to repair the concrete fence at 18007 Pinson Drive, a copy of which is attached hereto as Exhibit "E." The President reported that the fence repair is the responsibility of the HOA under its agreement with the District concerning beautification of Cypress-Rosehill and the HOA is supposed to maintain insurance to pay for such repairs. Upon motion by Director Koehn, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to authorize F&J to inform the HOA that the District will not pay for repair of the fence, which is the responsibility of the HOA.

6. Sydney Harbour Water Plant Expansion, including status of lot, fencing and landscaping proposal/cost estimate. No action was taken on this item.

7. Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination. The President recognized Mr. Lee, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "F." Mr. Lee noted that 98.96% of the District's 2013 taxes had been collected as of May 31, 2014.

Mr. Lee reported that the Harris County Appraisal District ("HCAD") provided a 2014 preliminary taxable value for the District of \$600,246,079, which includes the addition of the 2013 personal property taxable value. Mr. Lee reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

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 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 reported receipt of a \$129,817 payment for the shared waterline interconnect construction costs from Harris County Municipal Utility District No. 391, and a \$1,000 payment for the diesel engine from Harris County Municipal Utility District No. 18.

Ms. Austin reported that check no. 9970 is to the State Comptroller and consists of unclaimed customer refunds to be escheated to the State.

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

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 inflow was increased at the Wastewater Treatment Plant due to the 17 inches of rainfall in May.

Mr. Riley reviewed the Disconnection List with the Board. He reported that the account with a \$441.77 balance used 49,000 gallons and 46,000 gallons of water, respectively, in the last two months.

Mr. Riley reported that Eagle Water installed a water tap in the lot south of Water Plant No. 2 in Sydney Harbour. He reported that a one-inch irrigation line to serve the future Water Plant landscaping was installed at that time since the neighbor's yard was already disturbed with the tap installation.

Mr. Riley reported that the District's 2013 Drinking Water Quality Report ("Water Report") is on the Eagle Water website and that the website address will be on the water bill. He reported that the Water Report notes that the District failed to provide lead tap water sample results to the customers who collected the water samples within thirty days. Mr. Riley said that the 30-day notice period is a new requirement and that the test results have now been provided to the customers who collected the water samples.

Mr. Riley reported that a booster pump seal is leaking at Water Plant No. 2. He reported that the booster pumps were replaced in 2010. Mr. Riley reported that booster pumps can operate for 15 to 20 years without failures and that the recurrent leaking seals are concerning.

Director Bryant asked if there is a diesel engine stand or fuel tank for the diesel engine that was just sold, which needs to be cleared from the Water Plant No. 1 site in preparation for the upcoming construction. Mr. Riley reported that he will review the plant site for extraneous equipment.

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.

10. Security report and any necessary action regarding Interlocal Agreement for Law Enforcement Services. Sergeant Blackledge reviewed with the Board the Security Report for the month of May, a copy of which is attached hereto as Exhibit "I."

Sergeant Blackledge reported that the Constable Substation is operational. He reported that Harris County Municipal Utility District No. 69 ("MUD 69") committed to an annual payment of \$700 for the T1 line costs and that the Fairfield Homeowner Association ("Fairfield") committed to an annual payment of \$1,000 for the T1 line costs. Ms. Austin stated that she would bill MUD 69 and Fairfield with an invoice for June to June.

Director Henry requested that the Board consider refunding Sergeant Blackledge in the amount of \$162.80 for expenses related to preparing the Constable Substation to cover the expenses from Home Depot and Lowe's.

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 Security Report, to approve payment of \$162.80 to Sergeant Blackledge for Constable Substation preparation expenses, and to authorize Ms. Austin to distribute invoices to MUD 69 and Fairfield.

11. Consider renewal of extra patrol. The President opened discussion to renewal of the Extra Patrol coverage for July 1, 2014 through December 31, 2014 detailed in Exhibit A to the Independent Contractor Agreement, a copy of which is attached hereto as Exhibit "J." Sergeant Blackledge reported the Extra Patrol coverage has changed to meet the coverage detailed in Exhibit A, which specifies coverage of the retention ponds, flood control facilities and District facilities. He reported that motor vehicles, bicycles and horses are used for patrolling. Sergeant Blackledge reported that the proposed coverage is the same as the current coverage and will be performed by four deputies.

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 Exhibit A to the Independent Contractor Agreement which extends the extra patrol through December 31, 2014.

12. Amended Rate Order (return check fee). Mr. Riley requested that the Board authorize an increase in the dishonored check fee from \$20 to \$30 because residents are using insufficient checks to delay water termination.

Upon motion by Director Koehn, seconded by Director Rucker, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Consolidated Rate and Service Order with an increase in the dishonored check fee to \$30.00 or the maximum amount permitted by law. A copy of the Consolidated Rate and Service Order is attached hereto as Exhibit "K."

13. Sydney Harbour Homeowner Association request for coordination of policies on fourteen foot drainage easement. The President reported that he met with a

Sydney Harbour Homeowner Association ("Sydney Harbour HOA") representative to discuss the District's drainage easement in Sydney Harbour. The President reported that the Sydney Harbour HOA wants to work with the District to manage the drainage easement. The Board discussed the difficulty of enforcement. The President reported that he requested that DEC provide a layman's explanation of how the Sydney Harbour lakes and outfall drainage operate which can be provided to the Sydney Harbour HOA. The President requested that Ms. Ellison speak with the Sydney Harbour HOA attorney to discuss options regarding the drainage easement.

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

Mr. Sheldon reported that DEC addressed Eagle Water comments on the plans for improvements at Water Plant No. 1 and Water Plant No. 2. He reported that the City of Houston is reviewing the plans. 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. The President requested that DEC provide a construction schedule for Water Plant No. 2 to provide to the Sydney Harbour HOA for inclusion in its newsletter.

Mr. Sheldon reported that the Wastewater Treatment Plant Improvement plans were submitted to the agencies.

Mr. Sheldon reported that the Bond Application Report for the Series 2014 Bonds in the amount of \$4,000,000 was submitted to the Texas Commission on Environmental Quality ("TCEQ"). Mr. Sheldon reported that DEC is managing questions by the TCEQ reviewer.

Mr. Sheldon reported that the District's Wastewater Treatment Plant Discharge Permit was renewed.

Mr. Sheldon recommended payment of Pay Estimate No. 2 from Jaho, Inc. in the amount of \$507,384.03 for the utilities construction to serve Cypress Landing East, Sections Six and Ten.

Mr. Sheldon recommended payment of Pay Estimate No. 1 from Jaho, Inc. in the amount of \$214,329.99 for the utilities construction to serve Cypress Landing Park, Section Four.

Mr. Sheldon reported that DEC is preparing the District boundary map for the 20 acre and 40 acre (Safe Site) annexation.

Mr. Sheldon reported that the District's elevated storage tank waiver sets a maximum number of equivalent single family connections ("ESFC") the District may have under the waiver. He said that the limit may be 3,280 ESFC. Mr. Sheldon reported that review of the total District connection count is required to determine how close to the maximum the District is. Ms. Ellison reported that DEC was already authorized to prepare an analysis of available water capacity for the District.

Mr. Sheldon reported that Storm Water Solutions is addressing punch list items for the repair of the sinkhole at the Cypress Mill Park detention pond.

Mr. Sheldon requested Board authorization for the President's execution of the Stormwater Quality Permit Application for Cypress Landing Park, Sections One and Two, included in the Engineer's Report.

Ms. Orsak presented to and reviewed with the Board the land plan for the 40 acre annexation north of Cypress Landing, a copy of which is attached hereto as Exhibit "M." She reported that Pulte Homes expects to complete the land purchase within ninety days. Ms. Orsak asked if the District has utility capacity to serve the 40 acre tract and if the Board would consider annexation of the tract. She reported that Pulte Homes plans to develop the property in two phases, with 77 lots developed in the first phase and 82 lots developed in the second phase. The President stated that DEC will need to prepare a feasibility study of the proposed annexation which requires a \$15,000 deposit. He stated that the Board will consider the annexation upon completion of the feasibility study.

Mr. Boozer requested that the Board consider annexation of a 40.4 acre tract west of Mueschke Road. He reported that the land plan for the tract is for 111 homes on 60 foot lots in the price range of \$320,000 to \$400,000. The President stated that DEC will need to prepare a feasibility study of the proposed annexation which requires a \$15,000 deposit. He stated that the Board will consider the annexation upon completion of the feasibility study.

The Board discussed the TCEQ elevated storage tank waiver. Mr. Riley noted that the District has generators and interconnects that did not exist when the TCEQ granted the waiver in 2008. The President instructed DEC to prepare an accurate count for the Board's review.

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 Engineer's Report, to approve payment of Pay Estimate No. 2 from Jaho, Inc. in the amount of \$507,384.03 for the utilities construction to serve Cypress Landing East, Sections Six and Ten, to approve payment of Pay Estimate No. 1 from Jaho, Inc. in the amount of \$214,329.99 for the utilities construction to serve Cypress Landing Park, Section Four, and to authorize the President to execute the Stormwater Quality Permit Application for Cypress Landing Park, Sections One and Two.

15. Update on Refunding Bonds. Ms. Ellison referred the Board to the letter from Rathmann & Associates on the savings from the District's Refunding Bonds, Series 2014, a copy of which is attached hereto as Exhibit "N."

16. Annexation agreement for KCS Construction Services 21 acres. No action was taken on this item.

17. Effluent Water Use Agreement with Cypress Lakes Management, LLC. No action was taken on this item.

18. Report on Association of Water Board Directors Conference. Director Bryant reported that the seminar on the 1927 flood was informative and interesting. He described the two theories of drainage management at the time of the flood and which one proved to be successful. He reported that the seminar on use of effluent for a golf course was

interesting. Director Bryant reported on the different types of reclaimed water and appropriate uses for the different types of reclaimed water. Director Rucker stated that he wanted to research the speaker's statement that the effluent holding tank could not be in a flood way. Director Bryant reported that the Drought Seminar focused on desalination.

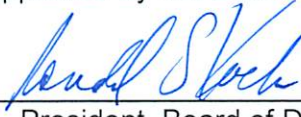
19. **Other Consultant and Director Reports.** No action was taken on this item.

20. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on July 18, 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.

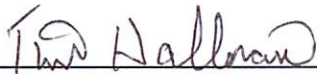
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The foregoing minutes were passed and approved by the Board of Directors on
July 18, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

