

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
January 21, 2016

THE STATE OF TEXAS
COUNTY OF HARRIS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1

§
§
§

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 21, 2016, at 1:00 p.m.; whereupon the roll was called of the members of the Board, to-wit:

Ronald S. Koehn, President
Robert Henry, Vice President
Tim Halloran, Secretary
Jerry Bryant, Assistant Secretary
Chris Chester, 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. Chris Oliver 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. Robert Moore of Meritage Homes, developer of land in the District; Mr. Jim Moore of First General Realty; Lieutenant Blackledge, constable for the District; Ms. Stephanie Lee of KGA Deforest Design ("KGA"); Ms. Julie Williams of Rathmann & Associates, L.P., financial advisor for the District; Mr. Brian Krueger of BKD, L.L.P, auditor for the District; and Ms. Kathleen Ellison, Mr. Reginald Wilson, Jr. and Ms. Yvette Deitrick of Norton Rose Fulbright US LLP ("NRF"), 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 18, 2015.** The proposed minutes of the meeting of December 18, 2015, 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 December 18, 2015, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported that three residents emailed regarding the payment option at www.paymyutilitybill.com not functioning. He reported that there is a pilot program now operating and receiving funds.

Director Bryant reported that a resident emailed for a physical address to overnight a tax payment. He reported that Ms. Bryant provided the physical address for the customer.

Director Bryant reported that resident requests regarding lost water bills, terminating service, and transferring accounts were forwarded to Eagle Water for management.

Director Bryant reported that a resident emailed regarding Eagle Water's telephone number not working. He reported that Eagle Water contacted the customer.

Director Bryant reported that a resident emailed to initiate water service; however, he was not located in the District. Director Bryant reported that he notified the customer that he was not located in the District.

Director Bryant reported that a resident emailed about noise at Water Plant No. 2 from a generator. The President reported that he contacted the resident regarding her complaints.

3. 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 "B." Ms. Ellison reported that the Interlocal Agreement is for 70% coverage by five deputies, one sergeant and one lieutenant. She stated that Exhibit A, the District boundaries, was updated for recent annexations. Lieutenant Blackledge reported that someone will be promoted to Sergeant, and that the contract begins March 1, 2016.

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 Interlocal Agreement for Law Enforcement Services.

4. Appoint auditor for fiscal year ending February 29, 2016. The President recognized Mr. Krueger, who presented to and reviewed with the Board an engagement letter for BKD, L.L.P. for fiscal year ending February 29, 2016, a copy of which is attached hereto as Exhibit "C." Mr. Krueger 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 29, 2016, at an estimated cost of \$18,900 plus administrative costs of \$600.

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 engagement letter and authorize the President to execute the letter.

5. Appoint auditor for developer reimbursement audit. Mr. Krueger stated that a developer reimbursement audit is required to enable the District to reimburse the developers with proceeds of its upcoming bond issue. Mr. Krueger presented to and reviewed with the Board a proposal to prepare the developer reimbursement audit, a copy of which is attached hereto as Exhibit "D."

Upon motion by Director Bryant, seconded by Director Chester, 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.

6. **Security report.** Lieutenant Blackledge reviewed with the Board the Security Report for the month of December, a copy of which is attached hereto as Exhibit "E." Lieutenant Blackledge reported that there were vehicle burglaries at retail locations in the District. He reported that there was one robbery at Wal-Mart.

7. **Accept Bid for Unlimited Tax Bonds, Series 2016.** Ms. Williams presented to and reviewed with the Board the Standard & Poor's rating letter, a copy of which is attached hereto as Exhibit "F." Ms. Williams reported that the District's rating is BBB+.

Ms. Williams submitted to the President the bid results for the Unlimited Tax Bonds, Series 2016 (the "Bonds"), a copy of which is attached hereto as Exhibit "G." Ms. Williams reported that six bids were received.

Ms. Williams advised the Board that the bids had been verified and recommended that the Board accept the low bid from Raymond James & Associates, Inc., at a net effective interest rate of 3.419618%. She reported that the bidder chose to purchase bond insurance from National Public Finance Guarantee Corporation.

Upon motion by Director Henry, seconded by Director Chester, after full discussion and the question being put to the Board, the Board voted unanimously to accept the bid from Raymond James & Associates, Inc.

8. **Order Authorizing \$3,525,000 Unlimited Tax Bonds, Series 2016, a Transfer and Paying Agency Agreement, an Official Statement and Other Matters in Connection Therewith.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Authorizing \$3,525,000 Unlimited Tax Bonds, Series 2016, a Transfer and Paying Agency Agreement, and an Official Statement (the "Order"), a copy of which is attached hereto as Exhibit "H." Ms. Ellison presented to and reviewed with the Board the Transfer and Paying Agency Agreement, a copy of which is attached hereto as Exhibit "I." Ms. Ellison reported that The Bank of New York Mellon Trust Company, N.A. will serve as Paying Agent and Registrar for the Bonds if the Order is approved.

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 adopt the Order.

9. **Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2016, a Bond Purchase Agreement, a Transfer and Paying Agency 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.** Ms. Williams presented to and reviewed with the Board the proposed Bond Redemption Summary, a copy of which is attached hereto as Exhibit "J." She said the summary provides for the use of surplus District debt funds to redeem \$500,000 in principal amount of the Series 2007 Bonds maturing on September 1, 2032, as suggested by the President at the last meeting. Ms. Williams reported that the bond redemption will occur at the same time as the closing of the Unlimited Tax Refunding Bonds, Series 2016. Ms. Ellison presented to and reviewed with the Board the Resolution Authorizing Redemption of Bonds ("Redemption Resolution"), a copy of which is attached hereto as Exhibit "K." Ms. Ellison reported that the Resolution provides for the redemption of Bonds described by Ms. Williams.

The President recognized Ms. Williams, who presented to and reviewed with the Board a Summary of Refunding Effects, a copy of which is attached hereto as Exhibit "L." Ms.

Williams noted that the summary shows that the District can save debt service expense by refunding certain maturities of its outstanding bonds. She 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. Ms. Williams noted that last month the summary showed 7% potential savings and that due to lower interest rates, the summary now shows 11% potential savings.

Ms. Williams presented to and reviewed with the Board a Preliminary Official Statement ("POS"), dated January 21, 2016, for the District's proposed Unlimited Tax Refunding Bonds, Series 2016, a copy of which is attached hereto as Exhibit "M." Ms. Williams noted that McCall, Parkhurst & Horton LLP's underwriter's counsel fee increased to \$7,000, which is reflected in the summary.

Ms. Williams asked the Board to consider which underwriter to use for the Series 2016 Refunding Bonds. Ms. Williams recommended SAMCO Capital Markets with RBC Capital Markets, LLC as co-underwriter.

Ms. Williams explained that pursuant to Municipal Securities Rulemaking Board Rule G-17, underwriters must disclose to issuers their role in bond transactions. She reported that each underwriter provides a letter disclosing its role in the transaction.

Ms. Ellison presented to and reviewed with the Board the Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2016, a Bond Purchase Agreement, a Transfer and Paying Agency 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 "Refunding Order"), a copy of which is attached hereto as Exhibit "N." Ms. Ellison explained to the Board that the Order sets parameters for the sale of the bonds, so that Ms. Williams 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, a copy of which is attached hereto as Exhibit "O." Ms. Ellison reported that The Bank of New York Mellon Trust Company, N.A. will serve as Paying Agent and Registrar for the Bonds if the Order is approved.

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 Redemption Resolution; to approve SAMCO Capital Markets and RBC Capital Markets, LLC as the underwriters for the Refunding Bonds; to approve the POS; to authorize the President to acknowledge the underwriter disclosure letters from RBC Capital Markets and SAMCO Capital Markets; to adopt the Refunding Order; and to authorize the President or Vice President to sign the pricing documents if there is a minimum of 7% present value savings.

10. **Developers Report and reimbursement issues.** Ms. Stephenson reported that Cymill Partners is preparing for construction on the 3.7 acre tract.

Mr. Moore reported that Meritage Homes sold its last home in the District.

11. **Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties.** Ms. Lee reported that KGA is ready to hold the pre-construction meeting with Fencrete for Phase Two of the Water Plant fencing.

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 54.46% of the District's 2015 taxes had been collected as of December 31, 2015.

Upon motion by Director Henry, seconded by Director Chester, 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. 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 "Q." 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 Henry, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Resolution.

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 "R." Ms. Austin reported receipt of the Northwest Freeway Municipal Utility District payment for its share of the Harris County Constable T-1 line expense. Ms. Austin reported receipt of the Dalton Wallace deposit for the Joint Facilities Development Financing Agreement ("Joint Agreement") for the shared facilities between M/I Homes and Dalton Wallace. She reported that two payments for Pay Estimates #1 and #2 were released to 5758 Construction for the rough cut detention to serve Fair Meadows and part of the Dalton Wallace tract.

Ms. Austin reported that the Texas Commission on Environmental Quality ("TCEQ") approved the release of escrowed funds for the Wastewater Treatment Plant Improvements, which is reflected in the Bookkeeper's Report.

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

15. Adopt budget for fiscal year ending February 28, 2017. This item was deferred.

16. Approve Eminent Domain Annual Report to Comptroller of Public Accounts. Ms. Ellison presented to and reviewed with the Board the Eminent Domain Report, a copy of which is attached hereto as Exhibit "S." Ms. Ellison reported that a new state law requires annual filing with the Texas Comptroller of Public Accounts by entities that have eminent domain authority.

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 Eminent Domain Report and authorize NRF to file such report with the Texas Comptroller of Public Accounts.

17. Authorize publication of notice of exemption from use of electronic voting system. 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 2016 Directors Election, a copy of which is attached hereto as Exhibit "T." Ms. Ellison reported that the District is permitted to hold a directors election without use of an electronic voting machine unless a voter requests electronic voting at least 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 statute.

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 Resolution Authorizing Publication of Notice of Intent Not to Use an Electronic Voting System for the 2016 Directors Election.

18. Adopt Order Calling Directors Election. Ms. Ellison presented to and reviewed with the Board the Order Calling Directors Election, a copy of which is attached hereto as Exhibit "U." Ms. Ellison informed the Board that a Directors election is scheduled to occur on May 7, 2016.

Upon motion by Director Henry, seconded by Director Chester, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Calling the Directors Election.

19. Operator's Report, authorization of maintenance and hearing on delinquent accounts. The President recognized Mr. Oliver, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "V."

Mr. Oliver reported that the District is repaying water to Harris County Municipal Utility District No. 391.

Mr. Oliver reviewed the Disconnection List with the Board. Mr. Oliver reported that the customer with an outstanding balance of \$909.67 has not paid since June or July. He reported that the customer first contacted Eagle Water disputing a water bill. Mr. Oliver reported that the customer has a son on life-support. Mr. Oliver stated that the customer wrote Eagle Water about a water leak in August or September. Mr. Oliver reported that the customer agreed to a payment plan; however, the customer failed to make payments. He reported that the customer is using significant amounts of water. Mr. Oliver reported that Eagle Water has found no leaks at the home and that the water meter tested accurately. He reported that the customer used 83,000 gallons in November and 75,000 in December. Ms. Ellison stated that NRF would review the paperwork that has been provided to Eagle Water and review the TCEQ requirements for water service in this situation.

Mr. Oliver reported that there was an electrical issue at Water Plant No. 2. He reported that the electricity box with copper plates which is located between the transformer and electrical meter, crossed-phase and caught on fire. Mr. Oliver reported that CenterPoint Energy asked that the District repair the box. Mr. Oliver reported that a generator was used while the

repair was undertaken by NTS. He reported that NTS repaired everything in one day and that an insurance claim has been filed.

Mr. Oliver reported that water well 2A pumping equipment has been reinstalled. He reported that water samples will be taken.

Upon motion by Director Bryant, seconded by Director Chester, 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, except for the customer with a son on life-support.

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

Mr. Hirshman reported on the Wastewater Treatment Plant Improvements. He reported that construction is underway. Mr. Hirshman requested Board approval of the invoice by Paradigm Consultants, Inc. in the amount of \$626.70 for materials testing for the Wastewater Treatment Plant Improvements.

Mr. Hirshman reported that the Water Plant No. 1 Improvements project will be ready for advertisement for bids in late January or early February. He reported that construction will not begin until Water Plant No. 2 construction is complete.

Mr. Hirshman reported on the Water Plant No. 2 improvements. Mr. Hirshman reported that the contractor is painting the facilities. Mr. Hirshman requested Board approval of Pay Estimate #7 to JTR Construction in the amount of \$44,591.40 for the Water Plant No. 2 Improvements.

Mr. Hirshman reported that ten bids were received for utilities construction and to complete the detention pond to serve Fair Meadows. He recommended award to the low bidder, Principal Services, Ltd., in the amount of \$2,020,062.10. Mr. Hirshman reported that the contractor is waiting upon Harris County approval of the plans.

Mr. Hirshman recommended payment of Pay Estimate #3 to Lischka Utilities, LLC in the amount of \$22,249.00 for the utilities construction to serve Cypress Landing East, Section Twelve.

Mr. Hirshman recommended payment of Pay Estimate #3 and Final in the amount of \$14,717.40 to 5758 Construction for the rough cut detention to serve Fair Meadows and part of the Dalton Wallace tract.

Upon motion by Director Henry, seconded by Director Chester, 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 the invoice by Paradigm Consultants, Inc. in the amount of \$626.70 for materials testing for the Wastewater Treatment Plant Improvements; to approve payment of Pay Estimate #7 to JTR Construction in the amount of \$44,591.40 for the Water Plant No. 2 Improvements; to approve award of the contract to Principal Services, Ltd. in the amount of \$2,020,062.10 for the utilities construction and to complete the detention pond to

serve Fair Meadows; to approve payment of Pay Estimate #3 to Lischka Utilities, LLC in the amount of \$22,249.00 for the utilities construction to serve Cypress Landing East, Section Twelve; and to approve payment of Pay Estimate #3 and Final in the amount of \$14,717.40 to 5758 Construction for the rough cut detention to serve Fair Meadows and part of the Dalton Wallace tract.

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

22. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on February 19, 2016, 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.

* * *

The foregoing minutes were passed and approved by the Board of Directors on
February 19, 2016.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

