

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
October 21, 2011

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 regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on October 21, 2011, 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
David Templeton, Treasurer
Tim Halloran, Secretary
Jerry Bryant, Assistant Secretary

All members of the Board were present, except Director Templeton. 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; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Shannon Wiesepape of Pulte Group, developer of land in the District; Mr. Kurt Adkins of Summit; Mr. Robert Moore of First General Realty; Mr. John Sachs and Mr. Dick Rue of Woodmere Development Company; Ms. Stephanie Lee of KGA Deforest Design ("KGA"); Mr. Nathan Giessinger of Storm Water Solutions, L.P.; Mr. Ken Young of Sludge Net; and Ms. Kathleen Ellison, Mr. Jason Williams and Ms. Yvette Deitrick of Fulbright & Jaworski L.L.P. ("F&J"), 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 September 16, 2011.** The proposed minutes of the meeting of September 16, 2011, previously distributed to the Board, were presented for review and approval.

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 minutes of September 16, 2011, as presented.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that a customer emailed regarding Eagle Water customer service and management of water termination. Ms. Deitrick reported that Laura Krolczyk, whose account was the subject of the email, sent letters to the Board regarding Eagle Water customer service.

Director Bryant reported Mr. Westmoreland of the Lakes of Rosehill subdivision emailed regarding possible water supply options.

Director Bryant reported that a customer emailed to confirm termination of her water account because she sold her home. He reported that the email was forwarded to Eagle Water for response.

3. **Security report and any necessary action.** The President recognized Director Henry, who presented to and reviewed with the Board the Security Report for the month of September, a copy of which is attached hereto as Exhibit "B." Director Henry reported that Sergeant Blackledge is coordinating installation of the T1 line and that it is expected to be complete by October 31, 2011.

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 Security Report.

4. **Convene Public Hearing on Proposed Tax Rate for 2011.** The President convened the public hearing on the proposed tax rate for 2011. There were no comments. The hearing was closed.

5. **Adopt Order Setting Tax Rate and Levying Tax for 2011.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2011, a copy of which is attached hereto as Exhibit "C." Ms. Bryant reported that the notice of public hearing was published. 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 adopt the Order Setting Tax Rate and Levying Tax for 2011 with a total tax rate of \$0.98, including a rate of \$0.63 for debt service, \$0.20 for operation and maintenance expenses, and \$0.15 for contract obligations.

6. **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 "D." 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.

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 Amendment to Amended and Restated District Information Form.

7. **Developer's Report, reimbursement issues and consideration of bond anticipation note.** The President recognized Ms. Stephenson, who reported that Raising Cane's is scheduled to open November 16, 2011.

Ms. Wiesepape reported that Pulte Homes had five sales and five closings in September. She reported that Pulte Homes had an additional three new home sales in October.

The President reviewed an email from Mr. Luton of Meritage Homes stating that Cypress Park has 27 net sales to date in 2011.

8. **Mueschke Road beautification and any necessary action.** The President recognized Ms. Lee, who presented to and reviewed with the Board the preliminary cost estimate for the Mueschke Road Median Landscape Enhancements, a copy of which is attached hereto as Exhibit "E." She reported that the total estimated cost is \$337,838.77, with \$177,316.40 allocated to the District and \$107,682.08 allocated to Harris County Municipal Utility District No. 391. Ms. Ellison stated that she would provide the cost estimate to Harris County Municipal Utility District No. 391.

9. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters, Greenpros proposals and any necessary maintenance.** Director Bryant reported that there is a damaged tree in the Cypress-Rosehill Road esplanade by the water plant. The President stated that he would contact Greenpros regarding the tree.

The President asked Ms. Lee to inspect a polyvinyl chloride irrigation system blow off pipe sticking up approximately two inches in the Cypress-Rosehill Road median.

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 99% of the District's 2010 taxes had been collected as of September 30, 2011.

Upon review of the Unpaid Accounts Tax Roll, Ms. Bryant stated that she would research the Kimball Hill Homes accounts.

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

11. **Detention Pond Overseeding Program of Storm Water Solutions.** The President recognized Mr. Giessinger, who presented to and reviewed with the Board a photographic summary of the condition of the District's Detention Ponds, a copy of which is attached hereto as Exhibit "G." He reported that the detention basin is in satisfactory condition considering the extreme drought conditions. Mr. Giessinger reported that \$5,000 is budgeted for the fall seeding of rye grass and fertilization. He reported that the seeding will not be performed unless there is a significant rainfall in the near future. Mr. Giessinger reported that the seed will not survive without significant rain. He reported that Storm Water Solutions will perform the

fall fertilization. Mr. Giessinger reported that Storm Water Solutions will seed the problem areas in an effort to protect against erosion.

12. Bookkeeper's Report, payment of bills, review investment report and policy, 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." Ms. Austin reported that Plains State Bank requested the driver license and social security number of three Directors to proceed with the purchase of a Certificate of Deposit for the District. Ms. Austin stated that she would continue to look for investment opportunities for the District's funds.

Ms. Austin reported that the District has a debt payment on March 1, 2012.

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

Director Bryant stated that the Kentan Corporation deposit has been used and will need to be replenished for completion of the feasibility study. Mr. Adkins stated that he would like to review the DEC backup for the invoicing.

Ms. Ellison stated that she would contact Centerpoint Energy for an additional deposit.

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

13. 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 "I." Mr. Riley reported that 49,048,000 gallons of water were pumped in September.

Mr. Riley reported on the email and Ms. Krolczyk's letter regarding Eagle Water customer service. He disputed the statements made in the email. Mr. Riley reported that both customers have had their water service terminated for non-payment and received several water termination notices. He stated that the Eagle Water customer service is not similar to that depicted in the correspondence.

Mr. Riley reported that Mr. Young of Sludge Net estimated that Sludge Net's cost for gravity dewatering of sludge is \$0.05 per gallon. He reported that the District's current sludge hauler, Terra Renewal, charges \$0.055 per gallon. Mr. Riley reported that Southwaste Services utilizes a mobile belt press to remove the water at an estimated cost of \$0.043 per gallon. Mr. Riley noted that the belt press method would increase electricity costs. He noted that if the filters utilized in the dewatering process failed, solids will be placed back into the wastewater treatment plant. It was the consensus of the Board to try Southwaste Services.

Mr. Riley reported that the proposal to repair the right angle drive at Water Plant #1 is for \$10,760 and the proposal to replace the right angle drive is for \$16,400. Mr. Riley said he would discuss the proposals with Mr. Hirshman.

Mr. Riley reported that a company is placing flyers on District resident homes titled Water Contamination Update. He reported that a Sydney Harbour resident provided the flyer to Eagle Water. Mr. Riley stated that he would contact the company on the flyer to dissuade the company from additional distribution of the flyers. Ms. Ellison noted that Eagle Water could alert the Texas Attorney General Consumer Protection department.

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 Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, and to authorize Eagle Water to retain Southwaste Services for sludge removal for the District.

14. **Consider need for insurance proposals.** The President reviewed the renewal insurance proposal from AquaSurance, L.L.C., a copy of which is attached hereto as Exhibit "J." He reported that the premium increased due to a \$900,000 increase in the Water Plant #2 valuation. Director Halloran said the increase seemed reasonable. 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 accept the insurance proposal by AquaSurance, L.L.C.

15. **Requests for annexation by CenterPoint Energy, golf course, Cypress Auto Center and any necessary action.** The President recognized Mr. Adkins, who discussed the need for an allocation of the costs of the water plant and the sewer plant expansion between the golf course developer and the District. Mr. Adkins stated that he wanted to continue with the feasibility study regardless of the pending lawsuit. Mr. Adkins reported that he provided the expected valuations from the golf course development development to Mr. Rathmann.

Mr. Sheldon joined the meeting. He reported that the feasibility analysis is not complete.

16. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, 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 "K."

Mr. Sheldon reported that DEC is preparing the ninth Bond Issuance Application. He reported that the bond application total will be \$4,600,000, and submitted for expedited review soon. Ms. Ellison stated that she asked Mr. Hirshman to confirm with the Texas Commission on Environmental Quality ("TCEQ") whether the District had to escrow operating funds to pay the costs of the booster pumps described in the bond application. Mr. Sheldon stated he would check with Mr. Hirshman. He reported that the bond application would be distributed for review prior to submission to the TCEQ.

Mr. Sheldon reported on the utility service to Harvest Bible Church. He reported that the field topography and survey work is complete. Mr. Sheldon reported that the plans will

be submitted to the governmental agencies for review by November 11, 2011. He reported that the surveyor is still preparing the ten foot waterline easement along Mueschke Road.

Mr. Sheldon reported that a proposed annexation tract, Cypress Auto Center, has provided construction plans to DEC for review. He reported that final DEC plan approval is pending receipt of water and sewer easements. Mr. Sheldon reported that Cypress Auto Center has not provided the required easements.

Mr. Sheldon reported on the wastewater treatment and discharge permit. He reported that the second notice was published on October 14, 2011. Mr. Sheldon reported that DEC is waiting for the final permit from the TCEQ.

Mr. Sheldon reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that DEC has submitted plans to the City of Houston for approval and that specifications should be complete by the end of October.

Mr. Sheldon reported that the Wastewater Treatment Plant fence improvements are complete.

Mr. Sheldon reported that the block wall at the Wastewater Treatment Plant is complete.

Mr. Sheldon reported that DEC is waiting to review plans for the Panda Express Restaurant.

Mr. Sheldon reported that Meritage Homes requested Board authorization for the design and advertisement for water, sanitary sewer and drainage facilities to serve Cypress Park, Section Three.

Mr. Sheldon reported that he had no information to provide regarding the Lakes of Rosehill resident request for water service.

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 Engineer's Report, and to authorize the design and advertisement for water, sanitary sewer and drainage facilities to serve Cypress Park, Section Three

17. Wastewater Treatment Plant pump relocation proposals and any necessary action. This item was deferred.

18. Request for Water Service from Lakes of Rosehill homeowner. No action was taken on this item.

19. Executive Session for Contemplated Litigation. Upon motion by Director Bryant, seconded by Director Henry, the Board voted unanimously to go into executive session at 12:06 p.m. to consult with its attorney about pending or contemplated litigation pursuant to Texas Government Code section 551.071. At that time, all persons left the meeting except the Directors, Ms. Ellison, Mr. Williams and Ms. Deitrick.

Upon motion by Director Bryant, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously at 12:33 p.m. to reconvene in public session.

19. **Review back charge to Alicia's and any necessary action.** The Board directed F&J to prepare a response to Mr. Flores' letter regarding payment of the back charge for restoration of the previously leased space.

20. **Review subpoena in Woodmere Development v. CRE LJ and any necessary action.** No action was taken on this item.

21. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on November 18, 2011, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 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 18, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

