

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 17, 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 June 17, 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. 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. Jason Schultz of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Greg Sissel of BKD, LLP, auditor for the District; Sergeant Blackledge, deputy for the District; Mr. Daniel Blackledge; Mr. Jim Moore and Mr. Robert Moore of First General Realty; Mr. Don Staas and Ms. Dorothy Staas, District residents; and Ms. Kathleen Ellison 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 May 20, 2011.** The proposed minutes of the meeting of May 20, 2011, previously distributed to the Board, were presented for review and approval. Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of May 20, 2011, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Staas, who reported that the "reserve" park in Cypress Mill Park, Section Five, on Cypress Orchard Lane, requires irrigation. He reported that the Loblolly Pines in the larger park on

Cypress Orchard Lane are dying due to the drought. Mr. Staas requested removal of a dead tree, located behind 17310 Heathcrest Court. He requested additional mulch in the play area.

The President reported that he met with GreenPros yesterday and that Greenpros stated that the Loblolly Pines are not in danger at this time. He stated that Greenpros provided a proposal to remove the dead tree in the amount of \$300 (stump removal not included), a proposal to add mulch for the play area in the amount of \$504, and a proposal to install irrigation pipe to the park in the amount of \$1,350, copies of which are attached hereto as Exhibit "B." The President noted that the irrigation pipe would require a person to hook up a sprinkler and irrigate the area. It was the consensus of the Board not to proceed with the irrigation pipe installation and to investigate the cost to install an irrigation system at the park. It was the consensus of the Board to have the tree stump removed.

Upon motion by Director Koehn, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the GreenPros proposals to remove the dead tree and add mulch for the play area and to remove the tree stump.

Director Bryant reported on emails to the District's website. He reported that the Walgreen's contractor emailed requesting return of the deposit for construction at Walgreen's. Director Bryant stated that the request was forwarded to Eagle Water for management.

Director Bryant reported that a resident emailed requesting a change of address for a District account. He stated that the request was forwarded to Eagle Water for management.

Director Bryant reported that a resident emailed with a billing issue. He reported that he forwarded the email to Eagle Water for management.

3. **Security report and any necessary action.** The President recognized Sergeant Blackledge, who presented to and reviewed with the Board the Security Report for the month of May, a copy of which is attached hereto as Exhibit "C."

4. **Consider constable workspace lease and T1 line.** Director Henry reported that he had not been able to speak with the leasing company regarding extension of the Constable Office lease.

Sergeant Blackledge reported that the Harris County Constable's Office is beginning to accept contracts at 100% coverage. He reported that deputies on 70% contracts are being required to spend more time outside of their contract areas. Sergeant Blackledge reported that deputies had been spending approximately 85% of their time in the District and now are spending approximately 70% due to recent layoffs and increased call volume. He reported that it would cost the District an additional \$135,000 to convert the contract with the Harris County Constable's Office to 100% coverage.

Sergeant Blackledge reviewed the time the deputies spend traveling to the Louetta Road substation for access to a T1 line. The Board discussed T1 line installation at the District's constable space and the need to secure the lease extension prior to arranging the T1 line lease. Ms. Ellison reviewed the leasing company offer of extension of the lease through 2016 with an

annual rent of \$10,800 per year or extension of the rent free period through 2014, at which time the rent would go to market rate, which is currently \$27,000 per year. 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 extension of the lease through 2016 with an annual rent of \$10,800 per year and to authorize the installation and five year lease of a T1 line for the Constable Office. A copy of the T1 line proposal is attached hereto as Exhibit "D." It was the consensus of the Board to proceed with the T1 line installation upon execution of the lease extension.

5. **Approve audit for fiscal year ending February 28, 2011.** 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, 2011 (the "Audit"), a copy of which is attached hereto as Exhibit "E." Mr. Sissel noted that the District has approximately a fifteen month reserve for expenses and approximately two years reserve for debt service. Mr. Sissel noted that issuance of the District's Unlimited Tax Refunding Bonds, Series 2011 will be included in a footnote to the audit, since it is occurring after the fiscal year of the audit.

Ms. Ellison asked for additional information regarding the advance of \$54,832 by a developer for repairs to the District's lift station, described in footnote 4. Mr. Sissel stated that he would research the matter.

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 "F."

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 "G."

Upon motion by Director Henry, seconded by Director Templeton, 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.

6. **Developer's Report, reimbursement issues and any necessary easements.** The President recognized Ms. Stephenson, who reported that Raising Cane's is working on the permitting. She reported that minors are skateboarding in the District's detention pond behind Walgreen's. Director Henry stated that he would ask Sergeant Blackledge to monitor the area and keep the skateboarders off the District's facilities. The Board discussed installing No Trespassing signs on the detention pond to deter skateboarding. The Board asked Director Henry to obtain the required language for the signs from Sergeant Blackledge.

7. **Mueschke Road beautification and any necessary action.** No action was taken on this item.

8. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters, Greenpros proposals and any necessary maintenance.** No action was taken on this item.

9. **Alicia's Mexican Grille temporary parking lot restoration proposals and any necessary action.** The President recognized Mr. Schultz, who reported that DEC obtained two proposals for the restoration of Alicia's Mexican Grille temporary parking lot. He reported that the Storm Water Solutions proposal for the removal and restoration of the site was in the amount of \$13,793.00 and included delivery of the crushed stone to the District's Wastewater Treatment Plant. Mr. Schultz reported that Storm Water Solutions will charge an additional \$3,420 if the Board wants the crushed stone spread at the Wastewater Treatment Plant. Mr. Schultz reported that the Hassell Construction proposal for the project is \$24,000.00. The Board discussed access to the site and restoration of the curb. The President noted that the contractor can access the site by the District's lift station without going on Alicia's Mexican Grille property. Ms. Stephenson stated that she would review the ground lease with Alicia's Mexican Grille to determine the rights Cymill Partners has under the lease.

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 approve the Storm Water Solutions proposal in the amount of \$13,793.00 with the crushed stone to be deposited at the Wastewater Treatment Plant for Eagle Water to spread. The President asked DEC to inform Storm Water Solutions to proceed with the project without entering Alicia's Mexican Grille property. The President further noted that the cost would be backcharged to Alicia's Mexican Grille.

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 "H." Ms. Bryant noted that 98% of the District's 2010 taxes had been collected as of May 31, 2011.

Ms. Bryant reported that the Harris County Appraisal District ("HCAD") provided a 2011 preliminary taxable value for the District of \$449,319,448, which includes the addition of the 2010 personal property taxable value. Ms. Bryant reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

Upon review of the Unpaid Accounts Tax Roll, the Board asked for additional information on the Comcast of Houston delinquencies. Ms. Bryant stated that she would research the delinquent Comcast accounts.

Upon motion by Director Bryant, seconded by Director Templeton, 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. **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 "I." Ms. Austin reported that the Texas Capital Bank Certificate of Deposit ("CD") in the District's Debt Fund expired June 14, 2011. She asked the Board whether it wanted another CD purchased with the proceeds, noting that current CD interest rates were unimpressive.

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 authorize the bookkeeper to invest the CD proceeds in the bank account, CD or investment pool which provides the best interest rate.

12. **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 "J." Mr. Riley reported that approximately 36,000,000 gallons of water have been pumped in June to date. He reported that Eagle Water will coordinate amendment of the pumped water permit. Mr. Riley reported that the District pumped 52,543,000 gallons of water in May.

Mr. Riley reported that Eagle Water responded to the Texas Commission on Environmental Quality ("TCEQ") Notice of Violation at the Wastewater Treatment Plant. Ms. Ellison reported that the TCEQ sent a letter accepting the documentation provided by Eagle Water, a copy of which is attached hereto as Exhibit "K."

Mr. Riley reported that the Cypress Lakes Golf Club was foreclosed upon by its lender. He reported that Cypress Lakes Golf Club's outstanding balance is \$2,263 after applying the deposit. Mr. Riley reported that Eagle Water will pursue collection from Middleton Properties.

Mr. Riley reported that the first threshold for the District's Drought Contingency Plan is three consecutive days of 18 hour pump run times at the water wells. He reported that the homeowner association accounts pumped at least 5,300,000 gallons in May with one meter registering 1,200,000 gallons on Tacoma Springs. Mr. Moore reported that Meritage opened a splash pad in Cypress Park. Mr. Riley reported that the homeowner associations may voluntarily reduce water consumption upon receipt of the water bills.

He reported that the District's Drought Contingency Plan is difficult to implement. The Board discussed review and possible revision of the District's Drought Contingency Plan for easier implementation. Ms. Ellison and Mr. Riley stated that they would coordinate review and possible revision of the District's Drought Contingency Plan with compliance of all appropriate regulations. Mr. Riley noted that when Drought Implementation signs are posted, water usage actually increases. He noted that Water Conservation signs may be more helpful. Mr. Riley stated that he reduced water pressure at both water plants which will reduce overall water usage in the District.

Mr. Riley reported that the smaller water well at Water Plant #1, water well 2A, is currently not being utilized as both water wells at the plant cannot be operated on electricity at the same time. He reported that the larger water well, water well #1, pumps approximately 1,200 gallons per minute. Mr. Riley reported that he will have water well 2A exercised regularly. He reported that well #1 still has a right angle drive. Mr. Riley recommended that the Board investigate the cost of making any necessary changes so that water well #1 can be operated with a diesel engine using the right angle drive and water well 2A can be operated with a back-up generator during power outages. The Board requested that Mr. Riley obtain a cost estimate.

Mr. Riley reported that during inspection of the Wastewater Treatment Plant the inspector stated that the chlorine room exhaust fan required replacement. He reported that NTS provided a proposal for \$1,850 to replace the exhaust fan in the chlorine room at the Wastewater Treatment Plant and requested Board authorization of the replacement.

Mr. Riley presented to and reviewed with the Board the draft 2010 Drinking Water Quality Report, a copy of which is attached hereto as Exhibit "L." He stated that the District is required to distribute this report to the customers by July 1, 2011.

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 Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize NTS to replace the chlorine room exhaust fan for the cost of \$1,850, and to approve the 2010 Drinking Water Quality Report.

13. **Approve Consumer Confidence Report.** This item was covered under the Operator's Report.

14. **Report on refunding bonds and any necessary action.** Ms. Ellison reported that the District's refunding bonds priced better than expected.

15. **Report on Release of Escrowed Funds and any necessary action.** Ms. Ellison reported that the TCEQ is expected to approve the District's request for TCEQ approval of release of escrowed funds. She reported that the District will owe Sydney Harbour Interests, Ltd. approximately \$23,000 for interest. No action was taken on this item.

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

Mr. Schultz reported that DEC is preparing the ninth Bond Issuance Application. He reported that the total for Cypress Landing East, as submitted to DEC, is \$6,063,155.49, not including the land costs for the detention and lift station site. Mr. Schultz reported that Mr. Rathmann, the District's financial advisor, will determine the bond issuance amount supported by the taxable valuation.

Mr. Schultz reported on the proposed interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). He reported that MUD 391 wants to delay the proposed interconnect until the last section in the northern tract in MUD 391 is developed. Mr. Schultz reported that MUD 391 did not provide a timeline for the development of that section.

Mr. Schultz reported on the utility service to Harvest Bible Church. He reported that the cost estimate of \$89,031.50 to provide water and sanitary sewer service to the Harvest Bible Church was provided to Harvest Bible Church. Mr. Schultz noted that the utility service to the church is based on no interconnect with MUD 391. He reported that Harvest Bible Church has provided a letter requesting that the District proceed, included in the Engineer's Report.

Mr. Schultz reported that the water distribution improvement costs will be included in the next bond issuance.

Mr. Schultz reported that a proposed annexation tract, Cypress Auto Center, has provided construction plans to DEC for review. He reported that Cypress Auto Center will need to acquire an easement from the District. Ms. Ellison reported that the Cypress Auto Center has not returned the annexation petitions.

Mr. Schultz reported that the wastewater treatment and discharge permit application is ready for signature by the President.

Mr. Schultz reported that DEC provided comments on the Raising Cane's construction plans.

Mr. Schultz reported that DEC will obtain three proposals for the relocation of the pumps at the Wastewater Treatment Plant to the exterior of the digester basins.

Mr. Schultz reported that DEC recommends the installation of two gates and 340 feet of fencing to secure the Wastewater Treatment Plant site and provide access for maintenance.

Mr. Schultz reported on the CenterPoint Energy request for utility service to a tract on Cypress Church Road. He reported that DEC provided information to the CenterPoint Energy engineer regarding requirements for water and sanitary sewer service and annexation. Mr. Schultz reported that DEC is waiting on a reply by CenterPoint Energy. It was the consensus of the Board that installments or other payment options of the annexation deposit would be acceptable.

Mr. Schultz reported that the application for transfer of the Cypress Landing Park detention pond to the District is ready for signature by the President.

Mr. Schultz reported that Harris County will acquire land from the District for the widening of Huffmeister Road. He reported that DEC met with the Harris County appraiser at the site of the proposed land acquisition.

Mr. Schultz requested Board approval of payment by Pulte Group of Pay Estimate #4 and Final to Reddico Construction Co., Inc. in the amount of \$21,857.95 for Cypress Landing East, Section Three, Phase Two.

Mr. Schultz reported that a fast food restaurant located on the southwest corner of the Wal-Mart tract has requested water and sanitary sewer service. He reported that DEC has provided basic requirements to the architect.

Director Bryant reported that the median on Cypress-Rosehill Road at Huffmeister Road has been closed. The President stated that he would have GreenPros review the median to identify potential landscaping options.

Ms. Ellison presented to and reviewed with the Board the Utility Easement by

Cymill Partners, Ltd. for the Raising Cane's development, a copy of which is attached hereto as Exhibit "N." She reported that the Utility Easement conveys the existing utility lines 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 approve the Utility Easement.

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 payment by Pulte Group of Pay Estimate #4 and Final to Reddico Construction Co., Inc. in the amount of \$21,857.95 for Cypress Landing East, Section Three, Phase Two.

17. **Request for out-of-District service – Harvest Bible Church and any necessary action.** Ms. Ellison reported that the District will need an agreement with Harvest Bible for the construction of the lines to the church's property and utility service. Mr. Riley noted that if the water line went through the church's property, it would eliminate the need for an easement for the future interconnect with MUD 391. It was the consensus of the Board to have the church provide a deposit for the engineering fees initially and subsequently have the church provide a deposit for the construction costs. It was the consensus of the Board to continue the current out-of-District rate of 2.5 times in-District utility service rates. The President requested that the agreement contain permission for the District to construct facilities on the church property for the future interconnect.

18. **CenterPoint Energy/Raising Cane utility capacity commitment requests and any necessary action.** Ms. Ellison reported that Mr. Hirshman provided a capacity commitment letter to Raising Cane's. She reported that DEC is waiting for a reply by CenterPoint Energy regarding platting and annexation.

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

20. **Approve Order Authorizing Application for Expedited Consideration of Approval by TCEQ of Project and Issuance of Bonds.** Ms. Ellison presented to and reviewed with the Board the Order Authorizing the Application (the "Order"), and the Application for Expedited Approval by Texas Commission on Environmental Quality of Project and Issuance of Bonds (the "Application"), a copy of which is attached hereto as Exhibit "O." Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Order and Application.

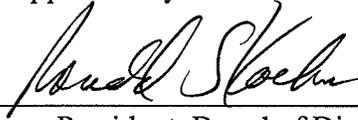
21. **Report on Association of Water Board Directors Conference.** The President reported that the conference seminars were informational and interesting. Ms. Ellison reviewed the bill regarding eminent domain and the Board discussed the possibility districts would become responsible for road maintenance.

22. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on July 15, 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 July 15, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

