

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
July 15, 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 July 15, 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. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Robert Moore of First General Realty; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Mark Janik of Pulte Homes, developer of land in the District; Mr. Kurt Adkins of Summit; Ms. Cindy Fields of Jones & Carter; 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 June 17, 2011.** The proposed minutes of the meeting of June 17, 2011, 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 June 17, 2011, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the District's website. He reported that a resident emailed regarding required equipment for a sprinkler system. Director Bryant stated that the email was forwarded to Eagle

Water for response. Director Bryant reported that there were three emails regarding billing which were forwarded to Eagle Water for response.

3. **Requests for annexation by CenterPoint Energy, golf course, Cypress Auto Center and any necessary action.** The President recognized Mr. Adkins, who reported that his company is under contract to purchase the 184 acre golf course by the District. He reported that he has provided a \$10,000 deposit to Ms. Austin for the District to undertake an annexation feasibility study. Mr. Adkins reported that it was his understanding that the District has limited wastewater treatment capacity available and also would require a third water plant to meet the demands of 184 acres of single family homes. Mr. Adkins reported that he understood that Summit would have to participate in the wastewater treatment plant expansion costs as well as third water plant, if the project proceeds and is annexed into the District. He asked that the District consider funding a portion of the water plant. Ms. Fields reported that the current plan is for a gated community. Mr. Adkins reported that the homeowner association would maintain the streets and that a gated community should increase the home values. Ms. Fields reported that Summit needs to decide in September on whether to purchase the property. She reported that the current plan is to retain the golf course clubhouse but remove the pavilion. Mr. Hirshman reported that approximately \$11,000,000 to \$13,000,000 in bond authorization will remain after reimbursements to the current developers.

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 DEC to prepare the annexation feasibility study, with input from the District's financial advisor and tax assessor-collector.

4. **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 June, a copy of which is attached hereto as Exhibit "B." Director Henry reported that Deputy Lance Rogers was promoted to Corporal. He reported that Sergeant Blackledge has arranged for Corporal Rogers to remain on the District's contract for no additional charge.

The President reported that the Constable Space lease extension has been completed. The President reported that he is coordinating the T1 line installation at the Constable Space.

5. **Developer's Report, reimbursement issues and any necessary easements.** The President recognized Mr. Luton, who reported that Meritage Homes has 18 sales to date in Cypress Park, with five in July.

Mr. Janik reported that Pulte Homes has approximately 25 home sales to date in Cypress Landing. He reported that Pulte Homes is completing landscaping along Mueschke Road. Mr. Janik reported that Pulte Homes will begin development of two more sections in Cypress Landing.

Ms. Stephenson reported that Raising Cane's is working on the permitting for its restaurant. She reported that minors are still skateboarding in the District's detention pond behind Walgreen's. The President reported that Sergeant Blackledge did not provide the internet

link for the sample language for the No Trespassing signs for the detention pond. Director Henry stated that he will contact Sergeant Blackledge regarding the language for the signs.

6. **Mueschke Road beautification and any necessary action.** The President reported that he met with Mr. Luton, Mr. Janik and Ms. Ellison prior to the Board meeting to discuss the beautification project. He reported that Ms. Ellison will contact Harris County Municipal Utility District No. 391 ("MUD 391") to see if it will participate in the project. The President stated that he would arrange for a cost estimate from KGA DeForest Design. The President reported that responsibility for ongoing maintenance of the landscaping would be determined later.

7. **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.

8. **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 "C." Ms. Bryant noted that 98% of the District's 2010 taxes had been collected as of June 30, 2011. She reported that Assessments of the Southwest provided an updated business list to the City of Houston for its use in calculating payments to the District under the Strategic Partnership Agreement.

Upon review of the Unpaid Accounts Tax Roll, Ms. Bryant reported that Comcast is on the Unpaid Accounts Tax Roll because it is protesting its personal property valuation and has only paid the portion of the valuation it is not protesting. The President requested an update on the lawsuit against Kelly Conley. Mr. Hirshman noted that the detention pond conveyed by First General Realty to the District is on the Unpaid Accounts Tax Roll. Ms. Ellison stated that the delinquency is for the period prior to conveyance 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 Tax Assessor-Collector's Report and to authorize the expenditures listed therein.

9. **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 "D." Ms. Austin reported receipt of the CenterPoint Energy \$2,500 annexation deposit. Ms. Austin reported that \$123,000 was paid from the Debt Fund in connection with the District's Unlimited Tax Refunding Bonds, Series 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 accept the Bookkeeper's Report and to authorize payment of the checks listed therein.

10. **Termination of Escrow and Payment of Funds.** Ms. Ellison reported that the Texas Commission on Environmental Quality ("TCEQ") has approved release of the \$72,293 in escrowed funds and the reimbursement to Sydney Harbour of \$23,556.58 in

developer interest. 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 authorize payment of \$23,556.58 to Sydney Harbour.

11. **Arbitrage Compliance Specialists engagement letters for Series 2001, Series 2006 and Series 2011 Bonds.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Arbitrage Compliance Specialists (“ACS”) engagement letters for Arbitrage Rebate Reports for the Series 2001 and 2006 Bonds, copies of which are attached hereto as Exhibits “E” and “F,” respectively. She presented to and reviewed with the Board the ACS engagement letter for the Bond Management Compliance Program for the Series 2011 Bonds, a copy of which is attached hereto as Exhibit “G.”

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 ACS engagement letters for Arbitrage Rebate Reports for the Series 2001 and 2006 Bonds and the Bond Management Compliance Program for the Series 2011 Bonds.

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 “H.” Mr. Riley reported that 59,089,000 gallons of water were pumped in June. He reported that Eagle Water is arranging amendment of the groundwater pumpage permit.

Mr. Riley presented to the Board the Honor Our Fallen Heroes flyer, a copy of which is attached hereto as Exhibit “I.” He reported that the flyer is for a monument honoring soldiers from Harris County and surrounding counties who have died in Iraq and Afghanistan. Mr. Riley reported that the monument is to be erected at Cy-Champ Park on Cutten Road near Cypresswood Drive. He requested Board authorization to include the flyer in the District’s water bills with no additional charge to the District.

Mr. Riley reported that Eagle Water repaired one main waterline break. He reported that most waterline breaks are occurring under driveways. Mr. Riley reported that the water wells are averaging approximately 13 to 14 hours of run time per day.

Mr. Riley reported that he has begun investigation of the 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. Mr. Riley reported that a gear seized in the right angle drive and that Jim Burke will inspect the right angle drive. Mr. Hirshman reported that water wells #1 and 2A were designed so that they could not operate at the same time due to criteria by the City of Houston.

Mr. Riley reported that Eagle Water is coordinating repair of a leaking booster pump seal at Water Plant #2.

Mr. Riley reported that the crushed concrete from the temporary parking lot has been delivered to the Wastewater Treatment Plant.

Mr. Riley reported that Eagle Water is researching the reason for the different run times between the lift station pumps.

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, and to authorize inclusion of the Honor Our Fallen Heroes flyers with the water bills.

13. **Review Drought Contingency Plan and any necessary action.** Ms. Ellison presented to and reviewed with the Board the Amended and Restated Water Conservation, Drought and Emergency Contingency Plan, Providing for Implementation and Enforcement Thereof; Providing Penalties for Violations; and Containing Other Provisions related to the Subject ("Amended Drought Plan"), a copy of which is attached hereto as Exhibit "J." Ms. Ellison reported that the Amended Drought Plan eliminates billing surcharges for high water usage during a drought because they would be very difficult for Eagle Water to implement. She reported that the responsibility of enforcing the Amended Drought Plan was transferred from Eagle Water to the District's constables.

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 Amended Drought Plan.

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

Mr. Hirshman 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. Hirshman reported that Mr. Rathmann, the District's financial advisor, will determine the bond issuance amount supported by the taxable valuation.

Mr. Hirshman reported on the utility service to Harvest Bible Church ("Church"). He reported that DEC is waiting for an agreement between the District and the Church to proceed with the project.

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

Mr. Hirshman 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. Hirshman reported that DEC addressed TCEQ comments on the District's wastewater treatment and discharge permit application.

Mr. Hirshman reported that DEC provided comments on the Raising Cane's

construction plans.

Mr. Hirshman reported that DEC will meet with Eagle Water to discuss design of the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that DEC will obtain three proposals for the relocation of the pumps.

Mr. Hirshman reported that DEC is waiting on proposals for the Wastewater Treatment Plant fence improvements.

Mr. Hirshman 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. Hirshman reported that DEC is waiting on a reply by CenterPoint Energy.

Mr. Hirshman reported that Harris County will acquire land from the District for the widening of Huffmeister Road. He reported that the project is in preliminary design.

Mr. Hirshman reported that removal of the temporary parking lot at Alicia's Mexican Grille and restoration of the area is near complete.

Mr. Hirshman 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.

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 Engineer's Report.

Agreement for out-of-District service to Harvest Bible Church. Ms. Ellison presented to and reviewed with the Board a draft Agreement Relating to Service, a copy of which is attached hereto as Exhibit "L." She said that the proposed agreement requires the Church to provide a deposit for the engineering fees for the project initially and after the project is bid to provide a deposit for the construction costs. She reported that the draft agreement grants the District a waterline easement along the Church's property for the future interconnect with MUD 391. Ms. Ellison reported that the agreement calls for additional charges if the Church exceeds the allocated water supply.

The Board requested that the agreement not allow assignment. Mr. Riley stated that the agreement should include language prohibiting cross connection between the Church's water well and the District's waterlines. He stated that Eagle Water should be allowed to inspect the utilities. The President stated that the agreement could require the Church to plug its private water well to prevent any occurrence of cross connection.

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 Agreement Relating to Service with Harvest Bible Church as amended to incorporate the changes discussed.

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

16. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on August 19, 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.


* * *

The foregoing minutes were passed and approved by the Board of Directors on August 19, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

