

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
January 20, 2012

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 January 20, 2012, 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; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Jim Moore of First General Realty; Mr. Bill Hixon and Ms. Heidi Stephenson of Cymill Partners, developers of land in the District; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Mark Janik of Pulte Homes, developer of land in the District; Ms. Stephanie Lee of KGA DeForest Design ("KGA"); Mr. Greg Sissel of BKD, L.L.P., auditor for the District; Mr. Craig Rathmann of Rathmann & Associates, financial advisor for the District; 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 December 16, 2011.** The proposed minutes of the meeting of December 16, 2011, previously distributed to the Board, were presented for review and approval.

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 minutes of December 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 three customer had billing questions which were forwarded to Eagle Water.

Director Bryant reported that a customer's request for a tax bill was forwarded to Assessments of the Southwest for response.

Director Bryant reported that Harvest Bible Church requested the November minutes. He reported that the meeting minutes were posted a short time after the email.

Director Bryant reported that a resident contacted Eagle Water regarding a tree that fell on his fence. He reported that the resident's home backs up to U.S. Highway 290. Director Bryant reported that the fence is the responsibility of the Cypress Mill Homeowner's Association.

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 December, a copy of which is attached hereto as Exhibit "B."

Director Henry reported that he contacted Constable Hickman regarding the T1 line installation. Director Henry reported that Constable Hickman stated he would assist with getting the T1 line installed.

4. **Appoint auditor for fiscal year ending February 29, 2012.** The President recognized Mr. Sissel, who presented to and reviewed with the Board an engagement letter for BKD, L.L.P. for fiscal year ending February 29, 2012, a copy of which is attached as Exhibit "C." Mr. Sissel 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, 2012, at an estimated cost of \$16,500 plus administrative expenses, the same fee as the last two years.

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 engagement letter and authorize the President to execute the letter.

5. **Developer's Report, and reimbursement issues.** Mr. Hixon reported that Raising Cane's traffic has reduced since the initial opening.

Mr. Janik reported that Pulte Homes had 59 total sales in 2011. He reported that Pulte Homes is building homes in the second to last section. Mr. Janik stressed the importance of a second water source for Cypress Landing residents.

6. **Mueschke Road beautification and any necessary action.** The President recognized Ms. Lee, who reported that KGA is preparing the Mueschke Road Median Landscape Enhancements plans.

7. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters, Greenpros proposals and any necessary maintenance.** The President reported that the Cypress Mill Homeowners Association

("HOA") is proceeding with the "North Side Option" of the proposal for the fence installation along Skinner Road, a copy of which is attached hereto as Exhibit "D." The Board discussed the advantages of participating in the Skinner Road Fence Project. Ms. Ellison suggested that the District enter into an agreement with the HOA, if it decides to participate in the Skinner Road Fence Project. 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 provide funding of \$20,000 to the project and to authorize F&J to proceed with an agreement with the HOA.

8. Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2012, a Bond Purchase Agreement, a Transfer and Paying Agency Agreement, an Escrow 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 Therein. The President recognized Mr. Rathmann, who presented to and reviewed with the Board a Summary of Refunding Effects, a copy of which is attached hereto as Exhibit "E." Mr. Rathmann noted that the summary shows that the District can save debt service expense by refunding certain maturities of its outstanding bonds. He 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. Ellison presented to and reviewed with the Board the Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2012, 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 Therein (the "Order"), a copy of which is attached hereto as Exhibit "F." Ms. Ellison explained to the Board that the Order sets parameters for the sale of the bonds, so that Mr. Rathmann and the President or Vice President can proceed with the sale and commitment 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 "G." 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 approving the Transfer and Paying Agency Agreement is approved.

Mr. Rathmann presented to and reviewed with the Board a Preliminary Official Statement ("POS"), dated January 20, 2012, for the District's proposed Unlimited Tax Refunding Bonds, Series 2012, a copy of which is attached hereto as Exhibit "H."

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 adopt the Order, to approve the POS, and to authorize the President or Vice President to sign the pricing documents if there is a minimum of 4% present value savings.

9. 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 "I." Ms. Bryant noted that 58% of the District's 2011 taxes had been collected as of December 31, 2011.

Upon motion by Director Templeton, 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.

10. Resolution Authorizing Request for Certificate of Estimated Assessed Valuation. Ms. Ellison presented to and reviewed with the Board the Resolution Authorizing Request for Certificate of Estimated Assessed Valuation ("Authorizing Resolution"), a copy of which is attached hereto as Exhibit "J." Ms. Ellison reported that Mr. Rathmann requested an estimated assessed valuation as of January 1, 2012, from Harris County Appraisal District for use in connection with the Refunding Bonds.

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 Authorizing Resolution.

11. Authorize additional penalty on taxes, penalty and interest remaining delinquent. 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 "K." 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 approve the Resolution.

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 "L."

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

13. Adopt budget for fiscal year ending February 28, 2013. This item was deferred.

14. Approve engagement for Bond Management Compliance Program for Series 2011 Bonds and engagement for preparation of arbitrage report for Series 2002 Bonds and Series 2007 Bonds with Arbitrage Compliance Specialists. The Board reviewed the engagement letters for the Bond Management Compliance Program for the Series 2011 Bonds and for preparation of arbitrage reports for the Series 2002 Bonds and Series 2007 Bonds from Arbitrage Compliance Specialists, copies of which are attached hereto as Exhibit "M."

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 execute the

engagement letters for the Bond Management Compliance Program for the Series 2011 Bonds and for preparation of arbitrage report for the Series 2002 Bonds and Series 2007 Bonds.

15. 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 "N." Mr. Riley reported that there is an air leak in the aeration basin at the wastewater treatment plant which contributed to a high level of ammonia in the discharge. Mr. Riley reported that there were two discharge excursions at the wastewater treatment plant during the month of December due to the high level of ammonia. He reported that there will also be discharge excursions in January. He reported that de-watering the aeration basin is expensive and that it would be most cost effective to investigate the air leak at the time of the relocation of the pumps for the digester basins. Mr. Riley reported that blower #3 is expected to be delivered next week and that Eagle Water will operate all three blowers to remove ammonia as needed.

Mr. Riley reported that the wastewater treatment plant is marginal at ammonia removal. He requested that the Board consider capital improvements to the wastewater treatment plant and possibly adding a third basin. Mr. Hirshman estimated that a basin would cost approximately \$600,000. He stated that DEC is working on a cost estimate for the Board's consideration.

Mr. Riley reported that Cypress Auto Center paid the tap fee. Mr. Ellison stated that Cypress Auto Center has not provided the corrected easements for dedication to the proper entity. Mr. Riley stated that he would wait for F&J to approve proceeding with the tap installation for Cypress Auto Center.

Mr. Riley reported that the waterline on Mueschke Road was closed off due to the Huffmeister Road project. He reported that Eagle Water distributed door hangers informing residents of the loss of water service at 10:00 p.m. Mr. Riley reported that water service to Cypress Landing was turned off at 10:00 p.m. and re-established at 2:15 a.m.

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 Operations Report and to terminate the delinquent accounts in accordance with the Rate Order.

16. 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. Hirshman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "O." Mr. Hirshman reported that the Texas Commission on Environmental Quality ("TCEQ") has declared the ninth Bond Issuance Application administratively complete. He reported that the TCEQ inspection is complete and the staff memorandum is expected soon.

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that the plans were submitted to the governmental agencies for review. He reported that DEC prepared nine easements and is coordinating with F&J to notify the property owners.

Mr. Hirshman reported that Cypress Auto Center construction is near completion.

Mr. Hirshman reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that the City of Houston is signing the plans. Mr. Hirshman reported that DEC will begin bidding of the project.

Mr. Hirshman reported on the potential emergency water interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). Mr. Hirshman reported that MUD 391 will construct a second water plant near the east side of Cypress Landing, which would provide a good location for an emergency interconnect. He stated that MUD 391 does not know when the second water plant will be constructed. He reported that the MUD 391 engineer reported that MUD 391 is considering a 20 acre annexation, which would make a proposed interconnect between the District and MUD 391 on Mueschke Road advantageous to both districts.

Mr. Hirshman reported that DEC notified Harris County to include the relocation of the District's water line and force main in the Harris County Huffmeister Road project.

Mr. Hirshman reported that DEC completed the boundary map for the CenterPoint Energy and Cypress Auto Center annexations.

Mr. Hirshman reported that Brown & Gay Engineers issued the Notice to Proceed for the water, sanitary sewer and drainage utilities to serve Cypress Landing East, Section Seven.

Mr. Hirshman reported that Meritage Homes is requesting Board approval of an access easement along the north maintenance berm of the detention pond for a temporary second access point for Cypress Park, Section Three, if required. Mr. Luton stated that he expects the City of Houston to require the second access point to Cypress Park, Section Three. He reported that a permanent second access point will exist upon development of Long Lake. Mr. Luton reported that the access would be a temporary gravel road and that the berm would be restored to original condition upon termination of the access easement. Mr. Luton stated that the temporary road will only be constructed if it is required and that less expensive options are being researched.

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 Engineer's Report and to approve a temporary access easement to Meritage Homes along the north maintenance berm of the detention pond, if needed.

17. Approve Resolution Authorizing Condemnation (easements on Mueschke Road). The President recognized Ms. Ellison, who reported that the City of Houston required the proposed sanitary sewer easement to serve Harvest Bible Church to be twenty feet in width instead of fifteen. She reported that DEC revised the easements presented at the last Board meeting. Ms. Ellison presented to and reviewed with the Board the Resolution Authorizing Condemnation ("Condemnation Resolution"), a copy of which is attached hereto as Exhibit "P." Ms. Ellison reported that the property owners have been provided the information of their rights under Texas law and that Harvest Bible Church is assisting with obtaining the easements. Mr. Hirshman asked the Board if utility service may be offered to the property owners in exchange for the easements. It was the consensus of the Board that the District would

be willing to provide utility service to the property owners consistent with the same conditions the District is offering utility service to Harvest Bible Church.

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 an offer to the property owners based on the Harris County Appraisal District valuation of their tracts.

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 Condemnation Resolution.

18. **Requests for annexation by CenterPoint Energy, Cypress Auto Center and any necessary action.** Ms. Ellison reported that F&J received the annexation documents from CenterPoint Energy. Ms. Ellison reported that she would contact Cypress Auto Center regarding the required corrected easements.

19. **Discuss polling place and election judges.** The President reported that the 2010 election judge has agreed to serve again if there is a 2012 Directors Election.

20. **Review back charge to Alicia's and any necessary action.** The Board noted that no action was needed on this item, as Alicia's had sent a check for the agreed upon amount.

21. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on February 17, 2012, 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 February 17, 2012.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

