

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
November 16, 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 November 16, 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  
Eddie Rucker, 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; Sergeant James Blackledge, deputy for the District; Mr. Jim Moore of First General Realty; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Mark Janik of Pulte Homes, developer of land in the District; Mr. Don Laham, District resident; Mr. Jerry Lavey of HARCO Insurance Services; Mr. Greg Sissel of BKD, L.L.P., auditor 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. **Review insurance proposals and renew District insurance.** The President recognized Mr. Lavey, who presented to and reviewed with the Board the HARCO Insurance Services proposal, a copy of which is attached hereto as Exhibit "B." Mr. Lavey explained that the HARCO proposal offers insurance through Texas Municipal League ("TML"), a Texas local government risk pool, and not through private insurance companies. Mr. Lavey explained some of the advantages of the HARCO proposal. He noted that TML does not cancel policy holders and offers directors and officer's liability coverage by an occurrence instead of a claims made basis. He noted that chlorine and chloramine are not considered pollutants and therefore are not under the more limited pollution liability coverage. Mr. Lavey reported that the

boiler and machinery coverage does not cover normal wear and tear of the equipment, but does cover the resulting damage. He reported that it will cost approximately \$250 to cover the horses used for the mounted patrol for the District. Sergeant Blackledge stated that the horses used for the mounted patrol are owned by the deputies and covered by liability insurance. Mr. Lavey reviewed the optional Supplemental Sewage Back Up coverage. Mr. Lavey left the meeting.

The Board discussed the HARCO Insurance Services proposal and the Aquasurance proposal, a copy of which is attached hereto as Exhibit "C."

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 HARCO Insurance Services proposal with the additional coverage for the horses for the mounted patrol and with the General Liability coverage increased to \$5,000,000, to approve a one year term for the Directors' Bond and Travel Accident Benefits, and to decline the Supplemental Sewage Back Up coverage.

**2. Minutes of the meetings of October 19, 2012 and October 29, 2012.**

The proposed minutes of the meetings of October 19, 2012 and October 29, 2012, 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 October 19, 2012 and October 29, 2012, as presented.

**3. Public Comments and letters from residents.**

The President recognized Director Bryant, who reported on various emails to the District's website.

Director Bryant reported that a resident emailed to request her water bill and the request was forwarded to Eagle Water.

Director Bryant reported that Mr. Crahan, the Cypress Mill Homeowners Association ("HOA") representative, emailed regarding a water leak at Timber Cliff Lane which was forwarded to Eagle Water.

Director Bryant reported that a resident emailed to request waiver of a late fee because he did not receive his water bill. It was the consensus of the Board to waive the late fee if the resident has no history of late payments to the District.

Director Bryant reported that Mr. Crahan forwarded a resident email stating that four to five bicycle riders were in the detention pond on Cascade Bend Lane at 1:00 a.m.

Director Bryant said that Mr. Crahan emailed to report that the HOA is increasing security in 2013 by \$18,900 and requesting that the District consider paying the \$3,500 annual expense for mosquito treatment for Cypress Mill. It was the consensus of the Board to decline the request for the District to pay the HOA's mosquito treatment expense.

Director Bryant reported that Mr. Crahan forwarded a resident email regarding the condition of the play equipment and a large pine tree at the park at Cypress Mill Park II. It was the consensus of the Board to review the condition of parks owned by the District.

The President reported that GreenPros provided a proposal for six 30-gallon Crape Myrtle trees to replace the trees damaged by a vehicle at Rosehill Road and Huffmeister for a cost of \$1,620. 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 GreenPros proposal for six 30-gallon Crape Myrtle trees to replace the trees damaged by a vehicle at Cypress-Rosehill Road and Huffmeister for a cost of \$1,620.

**4. Extension letter for Interlocal Agreement for Law Enforcement Services with Harris County.** 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 Modification to Extend Term of Agreement for Law Enforcement Services through February 28, 2013, a copy of which is attached hereto as Exhibit "D."

**5. Consider renewal of extra patrol.** The President recognized Sergeant Blackledge, who reviewed with the Board the proposed Extra Patrol coverage and costs for 2013 detailed in Exhibit A to the Independent Contractor Agreement, a copy of which is attached hereto as Exhibit "E." He noted that the proposed coverage is the same as the current coverage and will be performed by five deputies.

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 Exhibit A to the Independent Contractor Agreement which extends the extra patrol through June 30, 2013.

**6. Security report.** Sergeant Blackledge presented to and reviewed with the Board the Security Report for the month of October, a copy of which is attached hereto as Exhibit "F."

Director Henry reported that he is continuing his efforts to show the constable space to the new captain. He said he would like to increase activity and visibility at the constable space.

**7. Discuss security of District facilities.** The President recognized Mr. Riley, who reported that some game cameras at each District facility, not including the lift stations, may improve security. He reported that the game cameras will cost approximately \$200 per camera. Mr. Riley recommended door contacts to the access doors to the generator that trigger a loud alarm. He stated that the game cameras and door contacts will cost less than \$1,000 per facility.

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 game cameras and door contacts connected to a loud alarm at the District's Wastewater Treatment Plant and two Water Plants for a cost of less than \$1,000 per facility.

8. **Convene Public Hearing on Proposed Tax Rate for 2012.** The President convened the public hearing on the proposed tax rate for 2012. There were no comments. The hearing was closed.

9. **Adopt Order Setting Tax Rate and Levying Tax for 2012.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2012, a copy of which is attached hereto as Exhibit "G." Ms. Bryant reported that the notice of public hearing was published. 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 Setting Tax Rate and Levying Tax for 2012 with a total tax rate of \$0.96, including a rate of \$0.63 for debt service, \$0.20 for operation and maintenance expenses, and \$0.13 for contract obligations.

10. **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 "H." 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.

11. **Developers Report and reimbursement issues.** Mr. Janik reported six new homes sales in October in Cypress Landing.

12. **Developer Reimbursement Audit and release of escrowed funds.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the Developer Reimbursement Audit, a copy of which is attached hereto as Exhibit "I." Mr. Sissel reported that the total reimbursement amount is \$1,343,049.40. Mr. Hirshman reported receipt of the Texas Commission on Environmental Quality authorization to purchase facilities.

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 developer reimbursement audit and to authorize payment of \$1,343,049.40 to Pulte Group, successor to Centex Homes.

13. **Request for annexation.** Mr. Hirshman reported that he has not received information from Pulte Group on the property proposed for annexation.

14. **Report on Homeowners Association matters, and authorization of maintenance on District properties.** Ms. Ellison reported that the driver that damaged the trees on Cypress-Rosehill Road was provided the invoice for the replacement trees; however, no response has been received.

15. **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 "J." Ms. Bryant noted that 99% of the District's 2011 taxes had been collected as of October 31, 2012.

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

**16. 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 "K."

Upon review of the Annexation Deposits, the Board instructed Ms. Austin and Ms. Ellison to request payment from Driver Auto for the outstanding annexation balance and authorized water service termination if the District does not receive payment on a timely basis. The Board instructed Ms. Austin to return the remainder of the annexation deposit to CenterPoint Energy.

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, to authorize payment of the checks listed therein, and to authorize termination of water service to Driver Auto if it does not pay the outstanding annexation balance in a timely manner.

**17. Operator's Report, authorization of maintenance and hearing on delinquent accounts.** Mr. Riley presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "L."

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reported that the driver who damaged a District fire hydrant on Mueschke Road had no insurance.

Mr. Riley reported that Eagle Water is coordinating replacement of the bearings in the 3A blower motor at the Wastewater Treatment Plant.

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

**18. 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 "M."

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that the utility construction is complete. Mr. Hirshman reported that the contractor is addressing punch list items, including replacement of plants and landscaping that died when the irrigation system was shut off. He requested Board authorization of a Change Order in the amount of \$800 to clean out the sanitary sewer line because Harvest Bible Church connected to the line prior to completion of all required inspections.

Mr. Hirshman reported on the construction of the emergency water interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). He reported eight bids were received on November 7, 2012 to construct the emergency water interconnect between the District and MUD 391. Mr. Hirshman presented to and reviewed with the Board the bid tabulation sheet included in the Engineer's Report. He reported that the low bidder withdrew its bid due to incorrect calculations.

Mr. Hirshman reported that the second and third lowest bidders, Principal Services and Clearwater Utilities, Inc., are within \$50 of each other and MUD 391 has already awarded Clearwater Utilities the contract for installation of the water lines in the section which includes the interconnect line. Mr. Hirshman said that due to these factors he believed Clearwater Utilities is the most advantageous contractor for the District and he recommended awarding the contract to it. Mr. Janik noted the need to complete the interconnect before Harris County begins construction on Huffmeister Road and interrupts water service to Cypress Landing and Cypress Landing Park.

The Board asked Mr. Hirshman to find out when Principal Services can begin the project. Upon motion by Director Koehn, seconded by Director Rucker, after full discussion and the question being put to the Board, the Board voted unanimously to award the contract for the construction of the emergency water interconnect between the District and MUD 391 to the bidder which will be most advantageous to the district and result in the best and most economical completion of the project (Principal Services or Clearwater Utilities, Inc. depending on which contractor can begin work first with Principal Services to be awarded the contract if both contractors can begin work at the same time) and to authorize the President to execute the construction contract.

Mr. Hirshman reported that DEC is preparing the booster pump plans.

Mr. Hirshman reported on the Cypress Chase Boulevard repairs. He reported that no punch list was generated by the final inspection by Harris County. Mr. Hirshman recommended Board approval of payment of the final pay estimate from Camino Services in the amount of \$50,336.55.

Mr. Hirshman reported that DEC is preparing the Wastewater Treatment Plant Improvements plans.

Mr. Hirshman reported that four bids were received on October 26, 2012, to construct the utilities to serve Cypress Landing East, Sections Eight and Nine. Mr. Hirshman reviewed with the Board the bid tabulation sheet included in the Engineer's Report. He

recommended award to the low bidder, American Site Builders LLC, in the amount of \$558,627.11.

Mr. Hirshman reported on the Huffmeister Road widening project. He reported that Eagle Water located the District's water line for Harris County. Mr. Hirshman reported that Centerpoint is working with the Cypress Ridge Homeowners Association to acquire an easement so that its electrical pole can be relocated. He stated that the District's water line may need to be relocated if a new easement is not obtained.

Mr. Hirshman reported on the annexation request. Mr. Hirshman reported that he is awaiting the land plan from Pulte Homes to review service to the tract and economics for development.

Mr. Hirshman reported on the bond issuance. He reported that Mr. Rathmann, the District's financial advisor, increased the bond issuance by \$455,000 for a total bond issuance of \$5,530,000.

Mr. Hirshman reported on the District's Application for Release of Escrowed Funds. He reported that the Texas Commission on Environmental Quality ("TCEQ") has approved release of the escrowed funds, except for \$96,621 for estimated taxes. Mr. Hirshman reported that the TCEQ pre-purchase inspection was held on November 9, 2012 and the authorization to purchase the facilities is included in the Engineer's Report.

Mr. Hirshman reported that a property owner of a tract that is located in both the District and MUD 391 has requested water service from the District for a pediatric clinic. Mr. Hirshman reported that additional plans have been requested from the owner.

Mr. Hirshman reviewed with the Board the engineer's letter supporting Mr. Don Laham's request for consent to encroachment of the 14-foot drainage easement in Sydney Harbour. The Board noted that the engineer should indicate she reviewed the calculations supporting the request and certifies that the planned improvements do not impact the 100-year water surface elevation to meet the requirements of the District Policy on Encroachments within Sydney Harbour Drainage Easement ("Policy").

Mr. Laham reported that the Sydney Harbour developer continues to construct docks that may impact the 100-year water surface elevation. He asked the Board if it would enforce the Policy in connection with such construction. The President stated that the Sydney Harbour Homeowners Association needs to address the situation.

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, to approve the Change Order in the amount of \$800 to clean out the sanitary sewer line for the utility service to service Harvest Bible Church; to approve payment of the final pay estimate from Camino Services in the amount of \$50,336.55 for the Cypress Chase Boulevard repairs; and to award the contract to American Site Builders LLC in the amount of \$558,627.11 for the construction of utilities to serve Cypress Landing East, Sections Eight and Nine.

19. **Review bids and award contract for interconnect with Harris County Municipal Utility District No. 391.** This item was covered under the Engineer's Report.

20. **Replacement of fence at Water Plant #1 and any necessary action.** The President reported that the pre-construction meeting was held on November 13, 2012. He reported that Fencecrete will begin the project in January. The President reported that Fencecrete will remove the shrubs at the entry along the fence line and prune the oak tree. The President stated that the fence will be installed at its current location and that there is no need to have surveyors stake the corners.

21. **Mueschke Road beautification, review bids and award contract, and any necessary action.** The President reported that the pre-construction meeting is scheduled for next week.

22. **Other Consultant Reports.** No action was taken on this item.

23. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on December 21, 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.

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The foregoing minutes were passed and approved by the Board of Directors on December 21, 2012.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

