

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
April 19, 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 special session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on April 19, 2012, at 1:30 p.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. Cathy Drew 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; 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. Nick Luton of Meritage Homes, developer of land in the District; Mr. Greg Sissel of BKD, L.L.P., auditor for the District; Mr. Matthew May of Best Trash; Mr. Craig Rathmann of Rathmann & Associates, L.P., the financial advisor for the District; Ms. Jennifer Landheart, District resident; 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 March 16, 2012.** The proposed minutes of the meetings of March 16, 2012, 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 March 16, 2012, as presented.

2. **Accept Bid for Unlimited Tax Bonds, Series 2012.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the Standard and Poor's Rating Report, a copy of which is attached hereto as Exhibit "B." Mr. Rathmann reported that Standard and Poor's affirmed the District's rating of BBB+.

Mr. Rathmann submitted to the President the bid results for the Unlimited Tax Bonds, Series 2012 (the "Bonds"), a copy of which is attached hereto as Exhibit "C." Mr. Rathmann reported that five bids were received.

Mr. Rathmann advised the Board that the bids had been verified and recommended that the Board accept the low bid from The GMS Group, L.L.C., at a net effective interest rate of 4.316267%. He reported that the bidder chose not to purchase bond insurance.

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 bid from The GMS Group, L.L.C.

3. **Public Comments, letters from residents, Ms. Landheart's comments regarding operations.** The President recognized Ms. Landheart who said she had lived in the District for 13 years and had started a petition drive protesting the District's operating company. Ms. Landheart said that Eagle Water does not have an up to date system for taking payments and requested the ability to make an online payment without a fee.

Ms. Landheart complained about her treatment from Eagle Water. She said that Eagle Water customer service representatives fail to identify themselves when answering the telephone and try to avoid her calls. Ms. Landheart stated that her neighbor had a water leak and when she notified Eagle Water, her call was forwarded to several different people and she was ultimately told that it was not their problem, it was a problem she had to resolve. Ms. Landheart said her problems with Eagle Water started after she complained about water damage from the leak.

Mr. Riley reported on the methods that are available to District customers to pay their bills. Director Bryant reported that he has arranged for his water bill to be paid automatically every month with a direct payment from his bank. He reported that there is a \$1.00 fee associated with that payment method. The President stated that a summary of payment options and fees would be provided to Ms. Landheart. He also provided her with the District's website information.

Ms. Landheart left the meeting.

Mr. Riley reported that Eagle Water does not have caller id and therefore no service representative could be avoiding Ms. Landheart's calls. He said he believed all the representatives had been courteous to Ms. Landheart, who has called Eagle Water repeatedly.

Director Bryant reported that a customer complaint about a cockroach infestation in the manhole in front of his house was forward to Eagle Water for management.

4. **Security report, agreement with and authorize new officer, extra patrol payroll deductions and workers compensation insurance.** Director Henry presented to and reviewed with the Board the Security Report for the month of March, a copy of which is attached hereto as Exhibit "D." He reported that there was a fatality accident at Cypress-Rosehill Road and Cypresswood Drive when a driver exited his vehicle to adjust the load in his trailer and was struck by a vehicle.

Director Henry reviewed his recommended adjustments in the officers' schedule for the summer.

Director Henry reported that Director Bryant has assisted with the T1 line installation. Director Bryant reviewed the quote for the T1 line, a copy of which is attached hereto as Exhibit "E." He reported that the T1 line is scheduled to be installed on April 30, 2012. Director Bryant reported that Harris County will need to install a switch or router at the Constable Work Space to connect to the Harris County network.

5. **Order Authorizing \$4,550,000 Unlimited Tax Bonds, Series 2012, a Transfer and Paying Agency Agreement, an Escrow Agreement, an Official Statement; and Other Matters in Connection Therewith.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Authorizing \$4,550,000 Unlimited Tax Bonds, Series 2012, a Transfer and Paying Agency Agreement, an Escrow Agreement, and an Official Statement (the "Order"), a copy of which is attached hereto as Exhibit "F." Ms. Ellison presented to and reviewed with the Board the Escrow Agreement with Compass Bank, a copy of which is attached hereto as Exhibit "G." She reported that the Texas Commission on Environmental Quality ("TCEQ") report approving the District's bond issue requires the District to escrow certain funds until the District provides additional documentation concerning the offsite water, sewer and drainage facilities. Ms. Ellison presented to and reviewed with the Board the Transfer and Paying Agency Agreement, a copy of which is attached hereto as Exhibit "H." 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.

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.

6. **Authorize engagement of auditor for Developer Reimbursement Audit.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the letter of engagement for the developer reimbursement audit, a copy of which is attached hereto as Exhibit "I."

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 engage BKD to prepare the developer reimbursement audit.

7. **Begin compilation of Continuing Disclosure Materials.** The President recognized Ms. Ellison, who reported that the District's bond orders require the District to file

annual financial and operating information with the Municipal Securities Rulemaking Board. She requested approval for the District's consultants to prepare the disclosure materials. Upon motion by Director Halloran, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the District's consultants to prepare the disclosure materials.

8. **Best Trash rate increase and any necessary action.** The President recognized Mr. May, who reported that under the District's contract the solid waste collection rate will increase to \$15.20 per connection with the April billing cycle. A copy of the Rate Increase letter is attached hereto as Exhibit "J." 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 solid waste collection rate increase to \$15.20 per connection.

9. **Mueschke Road beautification, Agreement for development and maintenance of Mueschke Road median landscape enhancements, and any necessary action.** Mr. Luton reported that the terms of cost allocation between Cypress Landing and Cypress Landing Park Homeowners Associations have not been agreed upon.

10. **Report on Homeowners Association matters, and authorization of maintenance on District properties.** Director Bryant reported that the Cypress Mill Homeowners Association emailed to request mowing of the ditch between Sydney Harbour and Cypress Mill. He reported that the ditch is on the schedule to be mowed by Storm Water Solutions this week.

The President distributed a proposal by Greenpros to provide routine spring top dress of all beds, esplanades and common area with mulch in the amount of \$2,907.00 and to remove 44 dead trees from the Cypress-Rosehill Road esplanade between Cypress Needle and Huffmeister Road in the amount of \$11,700.00, a copy of which is attached hereto as Exhibit "K." The President stated that approximately 15 trees are dead along the esplanade, not 44. The President offered to meet with the contractor to inspect and flag the dead trees to be removed. Upon motion by Director Bryant, seconded by Director Koehn, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Greenpros proposal for spring top dress of all beds, esplanades and common area with mulch in the amount of \$2,907.00, to authorize the President to identify the dead trees on the esplanade that require replacement, and to authorize Greenpros to remove such dead trees at \$50.00 per tree and to replace them with 30-gallon Live Oaks at \$200.00 per tree.

11. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination.** The President recognized Ms. Drew, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "L." Ms. Drew noted that 98% of the District's 2011 taxes had been collected as of March 31, 2012.

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

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 "M." Ms. Austin reported that the deputies are on the District's payroll. She reported that the District contributed \$15,000 to refund bonds in connection with the issuance of the District's Unlimited Tax Refunding Bonds, Series 2012.

The President noted that Harvest Bible Church has a negative balance for the engineering and legal costs associated with the utility service project. Mr. Hirshman stated that Harvest Bible Church will be invoiced for the upcoming construction and the outstanding charges will be invoiced at that time.

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.

13. **Arbitrage Compliance Specialists engagement letters for Bond Management Compliance Program for Series 2012 Bonds and Arbitrage Rebate Report for Series 2001 Bonds.** The President recognized Ms. Ellison, who reviewed with the Board the Bond Management Compliance Program Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Series 2012 Bonds, a copy of which is attached hereto as Exhibit "N" and the Arbitrage Rebate Report Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Series 2001 Bonds, a copy of which is attached hereto as Exhibit "O."

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 execute the Bond Management Compliance Program Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Series 2012 Bonds and the Arbitrage Rebate Report Engagement Letter from Arbitrage Compliance Specialists, Inc. for the Series 2001 Bonds.

14. **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 "P." Mr. Riley reported that the TCEQ contacted the President because the Escherichia Coli ("*e. coli.*") test results were omitted from the December Discharge Monitoring Report submitted to the TCEQ. He reported that the corrected December Report has been submitted to the TCEQ.

Mr. Riley reported that water accountability for March was 93.1%. He reported that water accountability has been below average since December with no discernible reason.

Mr. Riley reviewed the Disconnection List with the Board. He reported that the account with an outstanding balance of approximately \$560 has an average water usage of 40,000 gallons.

Mr. Riley reported that the water well #3 motor at Water Plant #2 shorted out. He reported that Neil Technical Services inspected the controls. He reported that Burke Mechanical installed a rental motor and inspected the motor that failed. Mr. Riley reported that Burke Mechanical provided a cost estimate of \$16,000 to repair the motor and \$23,000 for a new

motor. He reported that the District has a \$5,000 insurance deductible. Mr. Riley reported that a new motor was installed and an insurance claim was filed.

Mr. Riley reported that Southwaste Services, the company managing sludge removal for the District, has sent a letter that it is discontinuing activities in Houston as of May 1, 2012. He reported that upon review of the four months that the District has used the belt press method for sludge removal, costs for sludge removal have not decreased. Mr. Riley reported that Eagle Water will use the previous sludge hauler, Terra Renewal, which charges \$0.055 per gallon.

Mr. Riley reported that Eagle Water has distributed crushed concrete at the wastewater treatment plant.

Mr. Riley reported that the tap installation for CenterPoint Energy is more challenging than anticipated due to several underground utilities that are not listed on plans and not located where marked.

Mr. Riley reported that Eagle Water installed 20 taps in March.

Upon motion by Director Bryant, 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.

15. **Developers Report.** Mr. Luton reported that Cypress Park has 10 net sales to date in 2012 with four sales this month.

Mr. Janik reported that Pulte Homes had six sales in April.

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 "Q." Mr. Hirshman reported that DEC is compiling the documents needed for the application for release of escrowed funds and only requires tax receipts.

Mr. Hirshman reported on the utility service to Harvest Bible Church. He reported that four bids were received on April 11, 2012 to construct the utilities to serve Harvest Bible Church. Mr. Hirshman recommended award to the low bidder, C. E. Barker, in the amount of \$110,164.29. The President noted that the cost was much higher than the estimate given to the church and asked that Mr. Hirshman work on reducing the cost of the project. Ms. Ellison said that under the agreement between the church and the District, the church is only required to pay for utility lines to the north boundary of its property. The President asked Mr. Hirshman to modify the plans to provide for the church to tie-in to utilities at the north boundary of its property. He said he did not think the District would need to extend the line south because of the interconnect with Harris County Municipal Utility District No. 391 ("MUD 391") under design. The President asked Mr. Hirshman to talk to the church about how to proceed.

Mr. Hirshman reported on the exterior pumps for the digester basins at the Wastewater Treatment Plant. He reported that the President signed the contracts for the project.

Mr. Hirshman reported on the emergency water interconnect with MUD 391. Mr. Hirshman reported that DEC is designing the water interconnect.

Mr. Hirshman reported that Harris County is designing Huffmeister Road east of Cypress-Rosehill Road. He stated that the District does not have any utilities within the right-of-way of the proposed construction.

Mr. Hirshman reported that the letter to Northwest Harris County Municipal Utility District No. 10 stating that the District is unable to provide wastewater treatment service is included in the Engineer's Report.

Mr. Hirshman reported that Meritage Homes requested that the District paint the fire hydrants in Cypress Park, Sections One and Two. Mr. Riley reported that Cypress Park is on Eagle Water's schedule for fire hydrant inspection this year and necessary painting will be addressed at the same time that Eagle Water tests and services the fire hydrants.

Mr. Hirshman reported that DEC reviewed the plans for Rice and Beans Cuban Cuisine to be located at the Fry Road Shoppes. He reported that DEC and Eagle Water had no comments on the proposed plans.

Mr. Hirshman reported receipt of the Harris County punch list for Harris County acceptance of Cypress Chase Boulevard. He reported that Camino Services provided a proposal for the necessary repairs in the amount of \$58,744.20. Mr. Hirshman reported that the MUD 391 developer is currently working with Exxon regarding repairs on other projects and offered to manage coordination with Exxon, which has a pipeline crossing Cypress Chase Boulevard. The Board discussed whether the repair project would require bidding if the cost were split between the District and MUD 391. Mr. Hirshman reported that the amount of the proposal is for a worst case scenario. Mr. Hirshman reported that the District has ninety days to perform the repairs or Harris County will have to re-inspect and prepare a new punch list. The Board discussed whether Harris County acceptance of the road was worth the amount of expense. It was the consensus of the Board to have Ms. Ellison discuss splitting the repair cost with the MUD 391 attorney.

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 approve the award of the construction contract for the utility service to Harvest Bible Church to C.E. Barker after DEC reconfigures the service line and DEC obtains a payment from Harvest Bible Church for the construction project per the Agreement Relating to Service between the District and Harvest Bible Church.

Director Rucker reported that a detention pond pipe has completely split horizontally and asked if the issue could be reviewed. Mr. Hirshman stated that he would coordinate inspection of the pipe.

17. **Review and award contract for Harvest Bible Church utilities construction.** This item was covered under the Engineer's Report.

18. **Take necessary action to proceed with replacement of fence at Water Plant #1.** The Board reviewed the KGA Deforest Design, L.L.C. proposal for design and coordination of the Water Plant #1 fence replacement in the amount of \$4,500, a copy of which is attached hereto as Exhibit "R." Mr. Hirshman reported that DEC will need to arrange surveying of the properties surrounding Water Plant #1. The Board reviewed a proposed letter and agreement to be sent to each resident whose property is adjacent to the water plant fence. The President agreed to have his name, email address and phone number listed in the letter, so residents may call him with questions.

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 KGA Deforest Design, L.L.C. proposal for design and coordination of the Water Plant #1 fence replacement in the amount of \$4,500 and to send the letter and agreement to the residents adjacent to the water plant fence.

19. **Request from Harris County Municipal Utility District No. 391 regarding service to lots partially within Harris County Municipal Utility District No. 391.** Ms. Ellison reported that the MUD 391 developer has not provided a response to the MUD 391 attorney regarding the District's proposal for providing utility service to the lots.

20. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on May 18, 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.

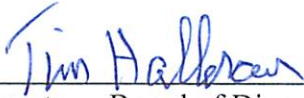
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The foregoing minutes were passed and approved by the Board of Directors on May 18, 2012.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

