

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
October 18, 2013

THE STATE OF TEXAS  
COUNTY OF HARRIS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1

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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 Norton Rose Fulbright, 1301 McKinney, Houston, Texas, on October 18, 2013, 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. Chris Oliver of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Jim Moore of First General Realty; Ms. Juanita Orsak of Pulte Homes, developer of land in the District; Mr. Craig Rathmann of Rathmann & Associates, L.P., the financial advisor for the District; Sergeant Blackledge; constable for the District; Mr. Clay Roper of Caldwell Companies; and Ms. Kathleen Ellison and Ms. Yvette Deitrick of Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, 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 September 20, 2013.** The proposed minutes of the meeting of September 20, 2013, 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 September 20, 2013, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the District website. Director Bryant reported that a resident requested an explanation of the North Harris County Regional Water Authority ("NHCRWA") fee and why it was so high. He reported that Eagle Water explained the NHCRWA fee to the resident and provided a link to the NHCRWA website.

Director Bryant reported that someone contacted the District to create an account for water service; however, he did not live in the District.

**3. Cypress Lakes Golf Course request.** The Board discussed the suggestion of Cypress Lakes Golf Course that a District representative or committee be formed to work on the details of sale of effluent to the Cypress Lakes Golf Course. Director Bryant recommended that the District not commit to serve Cypress Lakes Golf Course exclusively and not to commit to a minimum or maximum of effluent to be provided. Director Rucker stated that the effluent rate should be equitable to both parties. It was the consensus of the Board to consider reducing the rate initially to take into account the cost of the infrastructure.

Upon motion by Director Koehn, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to appoint Directors Bryant and Rucker as the subcommittee for the Cypress Lakes Golf Course effluent reuse and to provide contract suggestions to the next Board meeting.

**4. Security report.** Sergeant Blackledge reviewed with the Board the Security Report for the month of September, a copy of which is attached hereto as Exhibit "B."

**5. Constable's request for funding for new substation.** Sergeant Blackledge reviewed with the Board the Silver Creek Construction proposal for interior build-out of the Constable's Office substation on Mueschke Road, a copy of which is attached hereto as Exhibit "C." Sergeant Blackledge reported that the build-out would cost \$6,000 and he had commitments for \$3,000. Sergeant Blackledge reported that the Constable's Office expects to begin moving equipment to the substation on December 1, 2013 and to vacate the District's office at The Shoppes at Fry Road no later than December 31, 2013. Director Bryant stated that it may take 90 days to get the T1 line set up at the new location.

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 payment of \$3,000 for the interior build-out of the Constable substation on Mueschke Road.

**6. Developers Report and reimbursement issues.** Ms. Orsak reported that Pulte Homes is modifying Cypress Landing, Section Six, so that all lots are forty feet. She reported that Pulte Homes is introducing a new home product for fifty-foot lots in Cypress Landing, Section Eight.

The President reviewed Mr. Luton's email, reporting that there were six more sales in September in Cypress Landing East, for a third quarter total of 21 net sales. Mr. Luton said there was a total of 44 sales for 2013, for an average of five home sales per month.

**7. Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties.** The President reviewed with the Board the Greenpros proposal for fall mulching and planting of 180 pansies at the District's property at the entrance to Cypress Mill Estates, a copy of which is attached hereto as Exhibit "D." 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 approve the Greenpros proposal for a total cost of \$2,880.00.

**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 "E." Ms. Bryant noted that 99% of the District's 2012 taxes had been collected as of September 30, 2013.

Ms. Bryant reviewed the Delinquent Tax Report provided by Perdue, Brandon, Fielder, Collins & Mott, L.L.P ("Perdue"), included in the Tax Assessor-Collector's Report. She reported that Perdue requested Board authorization to proceed with water termination to the five delinquent taxpayers who failed to respond to the water termination letter. Ms. Bryant reported that Ms. Wagers requested an eight month payment plan, and Mr. and Mrs. Williams requested a four month payment plan. 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 Delinquent Tax Report, to approve the eight month payment plan for Ms. Wagers and the four month payment plan for Mr. and Mrs. Williams, and to authorize Eagle Water to hang "red tags" at the residences of the delinquent property taxpayers and to terminate water service to the delinquent taxpayers who fail to respond.

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

**9. Delinquent Tax Report and Take Any Necessary Action Regarding Delinquent Accounts including Termination of Services.** This item was covered under the Tax Assessor-Collector's Report.

**10. Bookkeeper's Report, payment of bills, review investment report and policy, review budget, 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 "F." Ms. Austin reported that \$1,430,758 was transferred to the Capital Project Fund for the Wastewater Treatment Plant expansion and developer reimbursement.

Ms. Austin reported that she received the \$15,000 deposit from KCS Construction Services for the feasibility study for the 20 acre tract on Mueschke Road.

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

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

Mr. Oliver reviewed the Disconnection List with the Board. He noted that three accounts with high water usage for the previous two months are highlighted in the report. The Board discussed the account with an outstanding balance of \$1,043. Director Henry stated that he would ask Sergeant Blackledge to check the residence. Mr. Oliver stated that he would research the water usage history for the residence.

Mr. Oliver reported that the booster pump #3 seal failed at Water Plant #2. He reported that Burke's Mechanical is performing the repair.

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.

**12. 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. Sheldon, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "H."

Mr. Sheldon reported that DEC is working on the booster pump plans. He reported that the plans will be submitted to the City of Houston for review by the end of October.

Mr. Sheldon reported that DEC is preparing the plans for the ground storage tank additions at Water Plant No. 1 and Water Plant No. 2. Mr. Sheldon reported that DEC is working with the City of Houston on the replat of the recently purchased lot. He reported that the plans will be submitted to the City of Houston for review by the end of November.

Mr. Sheldon reported that the Wastewater Treatment Plant Improvement plans will be submitted to the Texas Commission on Environmental Quality ("TCEQ") by the end of October.

Mr. Sheldon reported that DEC is preparing the Bond Application Report for the Series 2014 Bonds, in the amount of \$4,000,000. He reported that the allocation of the reimbursement among the developers has been settled. Mr. Sheldon reported that DEC expects to submit the Bond Application Report to the TCEQ in December.

Mr. Sheldon reported that DEC addressed TCEQ comments on the District's Wastewater Treatment Plant Discharge Permit renewal application. He reported that there are no issues with the permit renewal application.

Mr. Sheldon reported that Director Rucker asked about the sign saying that Harris County is not responsible for maintenance on Cypress Chase Boulevard. He reported that DEC contacted Harris County and that Harris County will remove the sign.

Mr. Sheldon reported that DEC prepared the feasibility study for annexation of the 20 acre tract located on Mueschke Road. He reported that based on the land plan and projected values, it is economically feasible for the District to annex the 20 acre tract into the District. He noted that the feasibility study is included in the Engineer's Report. Mr. Sheldon reported that the developer projects a taxable valuation from the tract of \$17,427,000 upon full development. He reported that the utilities construction cost to serve the tract, including a private lift station and detention, is estimated at \$622,350. Mr. Sheldon reported that the District has sufficient water and wastewater treatment capacity to meet the needs of the proposed development for the tract. Mr. Roper reported that Caldwell Companies is working with one corporate entity and one daycare with interest in the tract. He reported that the proposed development will not require above average utility service. Mr. Roper reported that he expects that there will be a private roadway with public easements for the utility lines. He reported that he expects that a property owner association will be created and will maintain the private lift station.

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 and to authorize DEC and F&J to proceed with annexation of the 20 acre tract on Mueschke Road.

13. **Sydney Harbour encroachment policy.** Ms. Ellison reported that Sydney Harbour Interests, Ltd. and some Sydney Harbour residents are interested in establishing a consistent homeowner association policy on what improvements within the 14 foot drainage easement would require District consent. Ms. Ellison reviewed with the Board the HOA's proposed policy for construction of improvements in the drainage easement, a copy of which is attached hereto as Exhibit "I." The President stated that flowerbeds with a stone border need to be at grade level. Upon motion by Director Rucker, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to consent to the proposed HOA homeowner policy, as revised to provide that flowerbeds with a stone border need to be at grade level.

14. **Consider need for insurance proposals.** The President recognized Ms. Ellison, who reported that the District's insurance expires in December. She asked the Board if it wanted proposals from more than its current carrier. It was the consensus of the Board to obtain the renewal proposal from Harco Insurance Services.

15. **Convene Public Hearing on Proposed Tax Rate for 2013.** The President convened the public hearing on the proposed tax rate for 2013. There were no comments. The hearing was closed.

16. **Adopt Order Setting Tax Rate and Levying Tax for 2013.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2013 tax rate, a copy of which is attached hereto as Exhibit "J." Mr. Rathmann recommended a debt tax rate of \$0.61 per \$100 assessed valuation to provide the District with sufficient funds to make debt service payments. He reported that the developer incentive contract tax rate may be decreased to \$0.12 per \$100 assessed valuation.

Ms. Ellison presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2013, a copy of which is attached hereto as Exhibit "K." Ms. Bryant reported that the notice of public hearing was published.

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 adopt the Order Setting Tax Rate and Levying Tax for 2013 with a total tax rate of \$0.92, including a rate of \$0.61 for debt service, \$0.19 for operation and maintenance expenses, and \$0.12 for contract obligations.

17. **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 "L." 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 Rucker, 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.

18. **Other Consultant and Director Reports.** Ms. Ellison reported that Acclaim Energy Advisors stated that the demand factor qualification amount has been revised for its DLO365 demand response program and the District now qualifies for such program. Ms. Ellison asked the Board if it wanted Acclaim Energy Advisors to present a new proposal. It was the consensus of the Board not to pursue Acclaim Energy Advisors' Demand Response Program.

19. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on November 15, 2013, at 11:00 a.m. at the offices of Norton Rose Fulbright, 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  
November 15, 2013.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

