

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
December 20, 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 December 20, 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, except Director Henry. 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 and Mr. Chris Oliver of Eagle Water Management, Inc. ("Eagle Water"), operators for the District; Ms. Stephanie Viator of District Data Services, Inc., bookkeeper for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Lieutenant Blackledge, constable for the District; Mr. Clay Roper of Caldwell Companies; Mr. H. Dalton Wallace of Safesite; Mr. John Tyler, attorney for Safesite; Mr. Don Laham, Mr. Douglas McCullough, Ms. Jackie Warren, Ms. Norma Hulen, and Ms. Linda Holmes, District residents; Ms. Megan Oliver; 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 November 15, 2013.** The proposed minutes of the meeting of November 15, 2013, previously distributed to the Board, were presented for review and approval. 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 minutes of November 15, 2013, as presented.

2. **Correction of Prior Minutes.** Ms. Ellison reported that prior meeting minutes said Mr. Hirshman reported that the Sydney Harbour Homeowner Association approved a waiver of the deed restrictions on the lot recently purchased by the District in Sydney Harbour. She stated that the homeowner association did not approve the waiver. 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 correction of the minutes.

3. Public Comments and letters from residents. Director Bryant reported on emails to the District website. Director Bryant reported that two requests regarding billing were forwarded to Eagle Water.

Director Bryant reported that a new resident purchased a home in the District and requested his 2013 tax statement. Director Bryant reported that the request was forwarded to Assessments of the Southwest.

Director Bryant reported that the Cypress Ridge Homeowner Association management company reported that Best Trash is collecting trash prior to 7:00 a.m. and driving rapidly through the District at the same time the school buses are picking up and dropping off school children in the District. Director Bryant reported that he contacted Matthew May at Best Trash, who stated that the truck drivers do not begin collecting trash until 7:00 a.m. and that Best Trash cannot avoid collecting trash in the District when school buses are present. The Board asked that Director Bryant forward Mr. May's response to the Cypress Ridge Homeowner Association management company.

4. Sydney Harbour Water Plant Expansion, including status of lot, fencing and landscaping proposal/cost estimate. The President recognized Mr. McCullough, who stated that he is on the Sydney Harbour Homeowner Association. He reported that a waiver of the deed restrictions for the lot recently purchased by the District was never presented to the Sydney Harbour Homeowner Association. He said the homeowners association was caught by surprise when a sign was posted regarding the proposed replat of the lot to make it part of the water plant.

The President reported that the District needs more ground storage tank capacity and the lot just south of Water Plant No. 2 is the most feasible location for the additional ground storage tanks. He stated that the District will work with the Sydney Harbour residents to make the Water Plant No. 2 expansion as minimally intrusive as possible.

Mr. McCullough expressed concern regarding the impact from the Water Plant No. 2 expansion on the Sydney Harbour community and property valuations. Ms. Holmes stated that the property values will decrease and the view from the lake will be blocked. Ms. Warren stated that the Water Plant No. 2 expansion will impact the quality of life in Sydney Harbour. The President noted that Water Plant No. 2 is already located in the community. Mr. Hirshman reported that there is a significant cost difference in the lot purchased at \$0.50 per square foot and the commercial tract to the north at \$15.00 per square foot, for a price difference of \$35,000 versus \$135,000. He stated that the analysis also assumes that the property owner would allow the commercial tract to the north to be split. Mr. Hirshman reported that it would cost \$1,300,000 to buy the entire commercial tract to the north of Water Plant No. 2. He reported that the construction cost would be greater to the east or north of Water Plant No. 2 due to the layout of the facilities. Ms. Holmes asked what will happen if the District requires additional water facilities in five years. Mr. Hirshman stated that if the District required additional water facilities in the future due to annexation of land, the water facilities would be constructed in the annexed property.

The President reported that an eight-foot tall, brick fence, similar to the fencing along Cypress-Rosehill Road, will be constructed around all of Water Plant No. 2. He reported that the engineer and landscape architect are reviewing the Water Plant tract to determine if the front fence can be moved back from the road to permit landscaping in front of the plant. Mr. Laham noted that the existing ground storage tanks at Water Plant No. 2 are rusting. The

President reported that the existing ground storage tanks will be painted when the new tanks are painted. Mr. Hirshman estimated that the Water Plant No. 2 expansion construction may begin in March or April of 2014. He reported that there will be no new pumps or motors added at Water Plant No. 2. Mr. Laham asked if Mr. Hirshman and the Directors could meet with the Sydney Harbour residents. The President suggested waiting until the landscape renderings are ready before setting up a meeting with Sydney Harbour residents.

Ms. Holmes reported a recurring diesel smell at her home from Water Plant No. 2, as well as significant noise. Mr. Riley reported that the only diesel tank is for the generator at Water Plant No. 2. He reported that when Ms. Holmes contacted Eagle Water the generator was being serviced which may have increased diesel smell and noise. Mr. Riley stated that the proposed eight-foot brick fence will improve the noise from the plant.

Ms. Holmes expressed concern about construction traffic. Mr. Hirshman reported that there will be 18-wheeler trucks delivering tank materials and a crane to off-load the materials. Mr. Hirshman stated that he will instruct the crews not to park on the street. He estimated that the construction will take three to four months. Ms. Holmes said her home was being devalued.

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 authorize the landscape architect and engineer to prepare plans for the eight foot fence and landscaping at Water Plant #2.

5. Security report. Lieutenant Blackledge reviewed with the Board the Security Report for the month of November, a copy of which is attached hereto as Exhibit "B."

Lieutenant Blackledge reported that the Constable Substation will open February 1, 2014. He asked that Director Bryant coordinate the relocation of the T1 line to the Constable Substation. Lieutenant Blackledge reported that Fairfield and Harris County Municipal Utility District No. 69 have agreed to contribute \$1,200 for the T1 line cost. He stated that the District will need to bill Fairfield and Harris County Municipal Utility District No. 69 once a year. Lieutenant Blackledge reported that he would ask Harris County Municipal Utility District No. 391 to contribute for the T1 line cost.

6. Proposal for agent to lease Constable Space and any necessary action. Ms. Ellison reported that The Shoppes at Fry Road landlord had arranged for a leasing agent to work on getting a replacement tenant in the Constable Space. She reported that the landlord is asking that the District pay the leasing agent a fee of \$4,000. The Board asked for some written documentation concerning this arrangement. No action was taken on this item.

7. Developers Report and reimbursement issues. Ms. Stephenson reported that a broker contacted Cymill Partners regarding the commercial tract for a possible dialysis center.

The President reviewed Mr. Luton's email, reporting that there were 47 net sales and 39 home closings in Cypress Park in 2013.

8. Report on Homeowners Association matters, US 290 Noise Abatement Barrier, and authorization of maintenance on District properties. Mr. Hirshman reported that Texas Department of Transportation ("TXDOT") requested access for field survey

topographical work for the U.S. Highway 290 project. Mr. Hirshman reported that he signed the approval for access on the District property for the survey work.

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 "C." Ms. Bryant noted that 3.89% of the District's 2013 taxes had been collected as of November 30, 2013.

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.

10. Bookkeeper's Report, payment of bills, review investment report and policy, review budget, and any necessary changes. The President recognized Ms. Viator, who presented to and reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "D." Ms. Viator reported that the City of Houston has begun providing the backup documentation for the Strategic Partnership Agreement ("SPA") receipts electronically. She reported the City of Houston is requesting authorization to pay the District's SPA receipts via direct deposit. Ms. Ellison stated that she would review the City of Houston's direct deposit agreement prior to the next Board meeting. Director Bryant requested that a separate account be opened for such deposits if the District does proceed with direct deposits from the City of Houston.

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. Review Investment Policy. The President recognized Ms. Ellison, who presented to and reviewed with the Board the Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto (the "Resolution Reviewing the Investment Policy"), a copy of which is attached hereto as Exhibit "E."

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 approve the Resolution Reviewing the Investment Policy and to maintain the current investment policy.

12. Consider January meeting date due to conflict with Association of Water Board Directors Conference. Due to scheduling conflicts, it was the consensus of the Board to hold the January Board meeting on January 24, 2014, at 11:00 a.m. at the offices of Norton Rose Fulbright, 1301 McKinney, Houston, Texas.

13. Engagement letter for Arbitrage Compliance Services for Unlimited Tax Refunding Bonds, Series 2004 and Engagement Letter for Bond Management Compliance Program for Unlimited Tax Refunding Bonds, Series 2013 and Unlimited Tax Bonds, Series 2013. The President recognized Ms. Ellison, who reviewed with the Board the Engagement Letter from Arbitrage Compliance Specialists, Inc. for Arbitrage Compliance Services for Unlimited Tax Refunding Bonds, Series 2004 and Engagement Letter for Bond Management Compliance Program for Unlimited Tax Refunding Bonds, Series 2013 and Unlimited Tax Bonds, Series 2013, a copy of which is attached hereto as Exhibit "F." She noted that an arbitrage rebate analysis is required by the tax covenants in the District's bond orders.

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 execute the Engagement Letter authorizing Arbitrage Compliance Specialists, Inc. to prepare the District's Arbitrage Rebate Reports for the Series 2004 Bonds and Bond Management Compliance Reports for the Series 2013 Bonds.

14. 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 "G."

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reviewed the Fire Hydrant Inspection List with the Board, included in the Operations Report.

Mr. Riley reported that the North Harris County Regional Water Authority ("NHCRWA") approved an increase in the pumpage fee effective April 1, 2014. He reported that the pumped water fee will increase from \$1.75 per 1,000 gallons to \$2.00 per 1,000 gallons, and the surface water fee will increase from \$2.20 per 1,000 gallons to \$2.45 gallons per 1,000 gallons. Mr. Riley stated that Eagle Water will place a note on the water bill about the upcoming increase in April of 2014.

Mr. Riley reported that Eagle Water inspects the District's ground storage tanks and hydropneumatic tanks every five years. He reported that Water Plant No. 1 was recently inspected and that the inspection report was provided to Mr. Hirshman. Mr. Hirshman reported that the inspection report indicated that the District's tanks are in good condition except for pitting. He recommended aquatic epoxy coating for the tanks. He estimated that the coating will cost approximately \$31,000 and that the coating is expected to last 30 to 40 years. Mr. Hirshman reported that regular coating will cost about the same. He reported that the contractor will perform a medium sandblast, which will not be down to the metal. Mr. Riley reported that Water Plant No. 2 will be inspected after January 1, 2014. Mr. Hirshman reported that the existing ground storage tanks and hydropneumatic tanks at Water Plant No. 2 will be painted on the exterior to match the new ground storage tanks. Director Rucker suggested revising the color of the tanks to blend into the surrounding area.

Mr. Riley reported that the booster pump and motor were installed at Water Plant No. 2. He reported that the motor failed because the breaker was single-phasing. Mr. Riley reported that NTS has ordered a new breaker and that the new motor will be put into operation when the new breaker is installed.

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

15. 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 "H."

Mr. Hirshman reported that the plans for improvements at Water Plant No. 1 and Water Plant No. 2 were submitted to the City of Houston. He reported that the City of Houston approved the final replat of the lot for the additional ground storage tanks at Water Plant No. 2 on December 19, 2013.

Mr. Hirshman reported that DEC is preparing the Bond Application Report for the Series 2014 Bonds, in the amount of \$4,000,000. He reported that DEC is acquiring additional information from the developer. He reported that the Brown & Gay Engineers invoice for the tenth bond issuance may be presented to the District again.

Mr. Hirshman reported that DEC expects the District's Wastewater Treatment Plant Discharge Permit in the next 60 days.

Mr. Hirshman reported that the Fountain of Life Church and Houston Galveston Subsidence District ("HGSD") contacted him regarding the estimated cost for water service to the Fountain of Life Church, next to Harvest Bible Church. He reported that Ms. Ellison responded to the Fountain of Life Church regarding the cost of service to the church.

Mr. Hirshman reported receipt of revised plans from Caldwell Companies regarding the site plan for the 20 acre tract proposed for annexation. He reported that a 4 acre portion of the 20 acre tract was sold to Ewing Irrigation. Mr. Roper presented to and reviewed with the Board photographs of a Ewing Irrigation building, a copy of which is attached hereto as Exhibit "1." Mr. Roper reported that a portion of the 17 acre tract may be developed for senior housing. Mr. Hirshman reported that the new site plan is included in the Engineer's Report. Mr. Roper reported that the senior housing would not involve tax credits. He stated that the senior housing would increase the potential valuation of the tract. Mr. Roper stated that the District should use the KCS Construction annexation deposit for the Ewing Irrigation annexation costs.

Mr. Hirshman reported that Safesite has provided a site plan for its 40 acre tract, north of Cypress Landing on Mueschke Road, included in the Engineer's Report. He reported that water from the District may be accessed directly across Mueschke Road. He reported that the tract would require a lift station. Mr. Hirshman stated that DEC will determine if the District's lift station would require upgrading to serve the tract. The President stated that the Board needs to review expected valuations to determine whether the annexation is feasible. Mr. Wallace stated that Building E on the site plan, not including property, is expected to have a valuation between \$8,000,000 and \$10,000,000. He reported that the other buildings will be constructed in later phases. The President stated that the Board does not want to annex property that will be developed into apartments, motels or trailer parks. Mr. Hirshman told Mr. Wallace to contact the utility district to the west regarding drainage outfall into the Fairfield channel. Mr. Wallace stated that he does not expect reimbursement for the internal utilities. Mr. Wallace stated that he would prefer to sell the tract on Mueschke Road. The Board directed DEC to prepare the annexation feasibility study.

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 approve the Engineer's Report.

16. **Annexation agreement for KCS Construction Services 21 acres.** This item was deferred.

17. **Cypress Lakes Golf Course effluent usage.** Director Bryant reported that he and Director Rucker met with Triumph Club Management ("Triumph"). He reported that Triumph is willing to fund the construction costs for the infrastructure to transport the District's effluent to the Cypress Lakes Golf Course. Director Bryant reported that Triumph wants full reimbursement for the construction costs over a period of time. Ms. Ellison reported that the NHCRWA has approved an Effluent Reuse and Other Alternative Water Use Incentive Program. Director Bryant reported that Triumph is amenable to the NHCRWA credit going to the District if the District takes the credit into account in its pricing. Mr. Hirshman reported that usually the entity that funded the infrastructure construction costs realizes full reimbursement via a discounted rate for the effluent. The Board discussed Triumph's current water costs and the appropriate rate to charge Triumph. Mr. Riley reported that the District could utilize 25,000 gallons of effluent per day for irrigation within the District. Mr. Hirshman reported that the District should operate and maintain the effluent facilities. He stated that Triumph should not be involved in the design or construction of the effluent infrastructure. Director Bryant stated that he would contact Triumph to follow up on pending issues.

18. **Other Consultant and Director Reports.** No action was taken on this item.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD,
the meeting was adjourned.

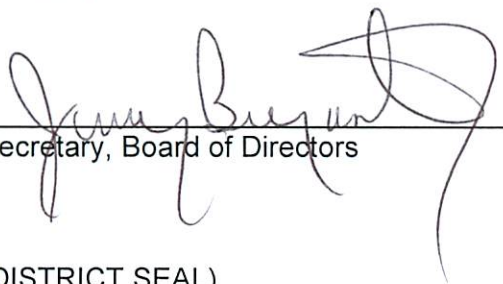
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The foregoing minutes were passed and approved by the Board of Directors on
January 24, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

