

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
February 15, 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 Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on February 15, 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. 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; Ms. Stephanie Lee of KGA DeForest Design; 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. Randy Morgan of Royal Recycle and Disposal; Mr. Matthew May of Best Trash; Sergeant Blackledge and Deputy Ballard, deputies for the District; Mr. Craig Rathmann of Rathmann & Associates, L.P., the 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 January 18, 2013.** The proposed minutes of the meeting of January 18, 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 January 18, 2013, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Morgan, who stated that Royal Recycle and Disposal is interested in providing the District's recycling and solid waste collection services and offered to provide a proposal. Mr. Morgan left the meeting.

Director Bryant reported that Mr. Crahan, the Cypress Mill Homeowners Association ("HOA") representative, emailed regarding a large hole in the ground at the park on Cascade Bend Lane. Director Bryant reported that he referred the email to Eagle Water for management.

Director Bryant reported that a resident requested his tax statement. Director Bryant reported that the request was forwarded to Assessments of the Southwest.

Director Bryant reported that Eagle Water handled emails regarding a billing issue and closing the utility account.

Director Bryant reported that a resident requested information on the hardness of the District's water. Director Bryant reported that the request was forwarded to Eagle Water. Mr. Riley reported that the resident was provided the water hardness from the District's two water wells.

Director Bryant reported that a resident emailed offering to poison fire ants along the District's detention pond walking trail if the District reimburses him for the cost of the poison. Mr. Hirshman reported that Stormwater Solutions can treat for fire ants. It was the consensus of the Board to direct Stormwater Solutions to treat the walking trails for fire ants. Director Bryant stated that he would inform the resident that the District is arranging for treatment of the fire ants.

Mr. Riley reported that a resident on Pebble Meadow sustained a leak under his driveway. He reported that Eagle Water relocated the water line and poured the driveway. Mr. Riley reported that the resident sustained another leak by the driveway and a portion of the driveway settled. He reported that Eagle Water has re-poured the driveway and only landscaping remains to be installed.

3. **Recycling containers and any necessary action.** The President recognized Mr. May, who presented to and reviewed with the Board the proposal to provide 48-gallon recycling carts to the District, a copy of which is attached hereto as Exhibit "B." He reported that the carts would be delivered at the end of April with collections beginning May 1, 2013. Mr. May stated that a letter will be included with the water bill providing information regarding the new recycling cart and noting that the resident has the option to retain or return the old recycling bin.

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 Best Trash's proposal to provide 48-gallon recycling carts for a five year term for an additional \$1.00 per month per residential connection.

4. **Security report.** Sergeant Blackledge presented to and reviewed with the Board the Security Report for the month of January, a copy of which is attached hereto as Exhibit "C." He reported that burglars are kicking in doors and breaking windows to break into homes during the daytime. Sergeant Blackledge reported that the people who robbed a person in Cypress Ridge are in jail.

Director Henry reported that Wal-Mart is utilizing the Sheriff's Office. Sergeant Blackledge reported that there is no need to revise the District's contract with the Harris County Constable because the constables are still responding to citizen requests for assistance in the Wal-Mart parking lot and are patrolling the Wal-Mart parking lot.

Director Henry reported that Fairfield will be switching from the Sheriff's Office to the Constable's Office on March 1, 2013. He reported that Deputy Rogers will be moved to Fairfield. Director Bryant asked if Fairfield wants to participate in paying for the office space the District has provided for the constables. Sergeant Blackledge stated that he would ask. Director Henry reported that the District has already spent approximately \$173,000 on the constable office space. Director Henry requested that the District send a letter to Constable Hickman requesting that the office space be designated a Substation. He noted that a lieutenant must head a substation. Director Henry suggested that the District recommend that Sergeant Blackledge head the Substation because of his longevity serving the District, familiarity with the area and excellent service to the District.

Director Henry reported that No Parking signs were installed along Cypresswood Drive.

Sergeant Blackledge reported that there is a furnace at the constable office space but it is not connected and requires some repair. He reported that the repairs will cost \$750 and requested Board authorization for the repairs.

Sergeant Blackledge reported that Deputy Walker was promoted to Sergeant. He introduced Deputy Ballard, who is replacing Deputy Walker. Director Henry reported that Deputy Cupit was replaced by Deputy Schultz.

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 a letter to Constable Hickman as discussed above and to authorize the furnace repairs at the constable office space in the amount of \$750.

5. **Appoint auditor for fiscal year ending February 28, 2013.** 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 28, 2013, a copy of which is attached as Exhibit "D." 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 28, 2013, at an estimated cost of \$16,900 plus administrative expenses.

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 engagement letter and authorize the President to execute the letter.

6. **Developers Report and reimbursement issues.** Mr. Luton reported that Cypress Park had 35 sales in 2012 and five sales in January. He reported that the utilities construction in Cypress Park, Sections Three and Five, are complete and that home construction is expected to begin soon.

Mr. Janik reported that Cypress Landing had five new home sales and six closings in January. He reported that 25 homes are under construction and 27 homes are backlogged. Mr. Janik reported that the annexation is on hold temporarily.

7. **Report on Homeowners Association matters, and authorization of maintenance on District properties.** No action was taken on this item.

8. **Update on District parks and authorization of any necessary repairs.** Director Bryant reviewed with the Board a photograph of the District's park on Cypress Orchard Lane, a copy of which is attached hereto as Exhibit "E." He reported that the playground equipment company returned his call and provided recommendations for the District's park. Director Bryant reported that Mr. Fragosa of Kraftsman Commercial stated that there is insufficient mulch under the playground equipment. Director Bryant reported that Mr. Fragosa recommended 45 cubic yards of wood pine fiber for a cost of \$1,305. He reported that Mr. Fragosa provided a proposal totaling \$3,276 for repairs and additional parts, including bolts and baby swing seats.

Mr. Riley reported that CRC Concrete Raising Corporation provided a proposal to fill the voids on the slopes by the park for \$3,200. He reported that the voids will continue to occur until an irrigation system is installed and grass established which will hold the slopes in place.

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 Kraftsman Commercial proposal for repairs and parts in the amount of \$3,276 and the CRC Concrete Raising Corporation proposal for \$3,200 to fill the voids at the District's park on Cypress Orchard Lane.

9. **Update on U.S. Highway 290 sound barrier wall and any necessary action.** Director Bryant reported that he did not have an update at this time.

10. **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 "F." Ms. Bryant noted that 87% of the District's 2012 taxes had been collected as of January 31, 2013. Ms. Bryant reported that she would coordinate removal of the Harris County Right-of-Way accounts from the Unpaid Tax Accounts Roll included in the Tax Assessor-Collector's Report.

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

11. **Consider Property Tax Exemptions.** Ms. Ellison reported that the Board has previously granted an exemption of \$20,000 of the appraised value of residence homesteads within the District for individuals who are disabled or are 65 years of age or older. Ms. Ellison presented to and reviewed with the Board the Order Adopting Exemption from Taxation for Individuals Who are Disabled or are 65 Years of Age or Older (the "Order"), a copy of which is attached hereto as Exhibit "G," which would continue the exemption for the 2013 tax year.

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 Order.

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 "H." Ms. Austin reported that a check to Cymill Partners for the developer incentive fee for December and January, in the amount of \$485,697, is not included in the Bookkeeper's Report.

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 Bookkeeper's Report and to authorize payment of the checks listed therein and the check to Cymill Partners.

13. **Adopt budget for fiscal year ending February 28, 2014.** Ms. Austin presented to and reviewed with the Board the proposed budget for fiscal year ending February 28, 2014, included in the Bookkeeper's Report.

Upon motion by Director Rucker, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the proposed budget for fiscal year ending February 28, 2014.

14. **Request to City of Houston for limited purpose annexation of commercial tracts.** The President suggested that the District request that the City of Houston annex for limited purposes the three commercial tracts on Cypress Mill Place Boulevard that are shared with Harris County Municipal Utility District No. 391 ("MUD 391"), the Jin's Tae Kwon Do tract, the Auto Driver's Repair tract, and the CenterPoint Energy tract. 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 authorize F&J and DEC to proceed with the request to the City of Houston for limited purpose annexation of the tracts described above.

15. **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 "I." Mr. Riley reported that accountability for January was 93%.

Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley requested authorization to turn the Collection Accounts List over to collections, included in the Operations Report.

Mr. Riley reported that Alsay is rebuilding of a positive displacement blower for a cost of \$8,400. He reported that a new positive displacement blower costs approximately \$15,000. Mr. Riley requested that Mr. Hirshman consider the installation of centrifugal blowers as part of the Wastewater Treatment Plant Improvements plans because the positive displacement blowers continue to fail over time.

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 Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to turn the Collection Accounts List over to collection, and to transfer the designated accounts to the Uncollectible Roll.

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 "J."

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 awaiting Pulte Home's approval of the replacement of plants and landscaping.

Mr. Hirshman reported on the construction of the emergency water interconnect with MUD 391. He reported that Clearwater Utilities, Inc. completed construction of the interconnect. Mr. Hirshman recommended payment of Pay Estimate #2 and Final from Clearwater Utilities, LLC in the amount of \$6,184.25 for the emergency water interconnect with MUD 391.

Mr. Hirshman reported that DEC is preparing the Wastewater Treatment Plant Improvements plans. He asked if the original blowers on the digesters should be retained or replaced. Mr. Riley stated that the blowers should be retained if they provide sufficient air and pressure for the new equipment. Mr. Riley noted that the depth of the basins will be increased. He requested that DEC evaluate the existing electrical equipment to identify any needed improvements.

Mr. Hirshman reported on the waterline relocation for the Huffmeister Road widening project. He reported that Eagle Water will relocate the waterline next week.

Mr. Hirshman reported that DEC is preparing the bond issuance application. The Board directed Mr. Hirshman to finalize the bond application for presentation at the next meeting.

Mr. Hirshman reported that DEC provided comments on the construction plans for the proposed daycare center and pediatric clinic at the corner of Cypresswood Drive and

Cypress Mill Place Boulevard. He reported that DEC is awaiting revised plans addressing the comments.

Mr. Hirshman reported receipt of notice of the expiration of the Wastewater Treatment Plant Discharge Permit on January 31, 2014. He reported that DEC will submit the renewal application before the deadline of 180 days prior to January 31, 2014.

Mr. Hirshman reported that DEC mapped the tracts for the City of Houston for the proposed limited purpose annexation.

Mr. Hirshman reported receipt of the final certificates of completion for Cypress Landing Park, Sections Three and Five.

Mr. Hirshman reported that DEC completed the booster pump plans. He reported that Eagle Water experienced issues with water supply at Water Plant #2 during the drought two years ago. Mr. Hirshman reported that the only method to increase capacity at Water Plant #2 is to replace the 100,000 gallon ground storage tank with a 225,000 gallon ground storage tank. He reported that a 250,000 gallon ground storage tank may be added at Water Plant #1. Mr. Riley stated that Water Plant #1 will be out of service during the booster pump improvement project. He stated that Water Plant #2 does not have sufficient capacity to meet the District's water needs without Water Plant #1 unless it is winter. Mr. Riley stated that the Water Plant #1 booster pump improvement project should not occur until capacity has been increased at Water Plant #2. Mr. Riley stated that the District meets Texas Commission on Environmental Quality capacity requirements but the District continues to add connections for new development and esplanade improvements. Mr. Hirshman estimated that installation of a ground storage tank at Water Plant #2 would take one week and that the Water Plant #1 booster pump improvement project would take six to eight weeks. The President suggested purchasing the lot south of Water Plant #2 so that the ground storage tank can be installed there with minimal interruption of service from Water Plant #2. The Board asked that Mr. Hirshman research options and provide a cost estimate at the next Board meeting. Mr. Riley stated that an additional ground storage tank at Water Plant #1 is needed. It was the consensus of the Board to add a ground storage tank at Water Plant #1. The Board directed Mr. Hirshman to provide a new cost estimate and to proceed with the plans for the ground storage tanks at Water Plant #1 and Water Plant #2.

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, to approve payment of Pay Estimate #2 and Final from Clearwater Utilities, LLC in the amount of \$6,184.25 for the emergency water interconnect with MUD 391 and to authorize DEC to proceed with the plans for the addition of ground storage tanks at Water Plant #1 and Water Plant #2.

17. Replacement of fence at Water Plant #1 and any necessary action.

Ms. Lee presented to and reviewed with the Board the photographs of the new fence at Water Plant #1, a copy of which is attached hereto as Exhibit "K." She reported that one resident has contacted KGA Deforest Design with issues and that a meeting has been scheduled for February 19, 2013. Ms. Lee invited the Directors to attend the meeting with the resident. Ms. Lee

reported that grass needs will be assessed next week. She reported that grass was not included in the original plan.

18. **Mueschke Road beautification, review bids and award contract, and any necessary action.** Ms. Lee reported that the project is complete. She requested Board authorization of payment of Pay Application #1 in the amount of \$128,206.80 to Westco Grounds Maintenance Co., Inc. for the Mueschke Road Beautification. She requested Board authorization of two change orders, Change Order #1 for traffic control and Change Order #2 for a deduction. Ms. Lee reported that the contractor installed T-posts for the trees instead of the requested wood posts. She reported that the contractor will install wood posts for free if the T-posts are stolen. Mr. Luton reported that the area looks nice and he is receiving good feedback from the Cypress Landing Park residents.

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 payment of Pay Application #1 in the amount of \$128,206.80 to Westco Grounds Maintenance Co., Inc. for the Mueschke Road Beautification and to approve Change Order #1 in the amount of \$3,675.00 for traffic control and Change Order #2 for a deduction of \$1,650.00.

19. **Report on Association of Water Board Directors mid-winter conference.** Director Bryant reported on the Copper Theft seminar. Director Rucker reported on the plan for future water needs discussed at the legislative session.

20. **Other Consultant Reports.** 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 "L." 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. Mr. Rathmann stated that the Refunding Bonds will be sized so that the District does not issue more than \$10,000,000 in bonds in 2013, so that the bonds remain bank-qualified. He noted that he expects the costs of the bond insurance, underwriting discount and financial advisory fee to be lower than they were in 2012.

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 authorize proceeding with the Refunding Bonds.

21. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on March 15, 2013, 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 March 15, 2013.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

