

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 14, 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 special session, open to the public, at the offices of Norton Rose Fulbright, 1301 McKinney, Houston, Texas, on June 14, 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. Cathy Brittain-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. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Ms. Rosie Escobar and Mr. Andrew Vieth of Pulte Homes, developers of land in the District; Mr. Jim Moore of First General Realty; Mr. Jacky Hill of Safesite, Inc.; Mr. Mike Anderson of Cypress Village Homeowner Association; Mr. Greg Sissel of BKD, L.L.P., auditor for the District; 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 May 17, 2013.** The proposed minutes of the meeting of May 17, 2013, 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 May 17, 2013, as presented.

2. **Public Comments and letters from residents.** Mr. Anderson reported that the Cypress Village Homeowners Association is attempting to prevent commercial entities from operating in the residential area of Cypress Village adjacent to the District. Mr. Anderson requested that the Board not provide utility service to the entities in Cypress Village. The Board reported that no one from Cypress Village has requested utility service and Cypress Village is not within the boundaries of the District.

Director Bryant reported on emails to the District website. He reported that four requests regarding billing were forwarded to Eagle Water.

Director Bryant reported that a resident complained that the U.S. Postal Service is delivering the water bills so late that there is not sufficient time to make timely payment. She requested a method to view the water bill balance online so she could make timely payment. Director Bryant reported that he forwarded the request to Eagle Water.

Director Bryant reported that Mr. Crahan, the Cypress Mill Homeowners Association ("HOA") representative, requested the mowing schedule for the land between Sydney Harbour and Cypress Mill. He reported that Storm Water Solutions provided its mowing schedule for the property.

Director Bryant reported that a resident requested removal of trash that was dumped by the District's lift station. Director Bryant reported that he requested Eagle Water remove the trash.

Director Bryant reported that a resident noted some maintenance deficiencies with the landscaping at the lift station in Cypress Mill Park Section Three. The Board requested that Mr. Riley review the landscape maintenance at the lift station.

3. Comments from Cypress Village Homeowner Association regarding commercial tracts. This item was covered under Public Comments.

4. Request for annexation (40 acres west of Mueschke Road). The President recognized Mr. Hill, who reported that Safesite, Inc. is under contract to purchase 40 acres west of Mueschke Road. He reported that Safesite, Inc. is requesting annexation to the District. The President reported that a feasibility study is required before the Board will consider annexation of property. Mr. Hill reported that Safesite, Inc. would not initially develop the full 40 acres and may, at some point, sell a portion of the 40 acres. Mr. Sheldon reported that Safesite, Inc. requested 7 equivalent single family connections ("ESFC").

The Board discussed the issues with annexing property without a clear development plan. Mr. Sheldon reported that Safesite, Inc. would require a private lift station and force main. The Board stated that a \$15,000 deposit would be required for the feasibility study and annexation costs. Director Rucker stated that the feasibility study should be for more than 7 ESFC since the property will eventually utilize more than 7 ESFC. Mr. Sheldon stated that one option would be to annex only the property planned to be developed for the initial development. Mr. Hill reported that Safesite, Inc. is willing to consider restrictions on the type of development of the property if needed for annexation into the District.

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 authorize DEC to prepare the feasibility study of annexation of the 40 acres west of Mueschke Road upon receipt of the \$15,000 deposit from Safesite, Inc.

5. Report on Sydney Harbour drainage easement. Ms. Ellison reported that Mr. Laham has contacted her to follow up on whether the Sydney Harbour developer has blanket approval to build docks and sidewalks in the District's drainage easement. Ms. Ellison reported that she wrote a letter to the Sydney Harbour Homeowner Association requesting documentation of the blanket approval and has not received a response.

6. **Security report.** Director Henry reviewed with the Board the Security Report for the month of May, a copy of which is attached hereto as Exhibit "B." He reported that 109 citations were issued in May.

Director Henry reviewed with the Board the proposed letter to Captain Whitton requesting that the Constable Workspace be converted to a substation, a copy of which is attached hereto as Exhibit "C." 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 letter to Captain Whitton.

7. **Approve audit for fiscal year ending February 28, 2013.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the District's audit for fiscal year ending February 28, 2013 (the "Audit"), a copy of which is attached hereto as Exhibit "D." Mr. Sissel noted that the District has a greater than twelve month reserve for operating expenses. He noted that the District has a greater than two year reserve for debt service. Mr. Sissel noted that issuance of the District's Unlimited Tax Refunding Bonds, Series 2012 and Unlimited Tax Refunding Bonds, Series 2013 were included as footnotes to the audit.

Mr. Sissel presented to and reviewed with the Board a draft letter to management from BKD in which BKD reported that there were material weaknesses in the District's internal controls over financial reporting. A copy of the letter is attached hereto as Exhibit "E."

Mr. Sissel presented to and reviewed with the Board a draft letter on the auditor's responsibility under auditing standards. A copy of the letter is attached hereto as Exhibit "F."

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 Audit and to approve the draft Management's Response to the management letter.

8. **Developers Report and reimbursement issues.** Mr. Vieth reported 25 closings and 22 contracts in Cypress Landing for 2013.

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

10. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination.** The President recognized Ms. Brittain-Drew, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "G." Ms. Brittain-Drew noted that 99% of the District's 2012 taxes had been collected as of May 31, 2013.

Ms. Brittain-Drew reviewed the Delinquent Tax Report prepared by Perdue, Brandon, Fielder, Collins & Mott, L.L.P., included in the Tax Assessor-Collector's Report.

Mr. Brittain-Drew reported that the Harris County Appraisal District ("HCAD") provided a 2013 preliminary taxable value for the District of \$513,413,562, which is an increase from 2012.

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

11. Delinquent Tax Report and any necessary action regarding delinquent accounts including termination of service. This item was covered under the Tax Assessor-Collector's Report.

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 there are two checks to 290 Real Estate Fund, L.P., the Constable Workspace rental, and that one check is to replace a lost payment.

Ms. Austin reported that Harvest Bible Church stated it would pay its invoice today.

Ms. Austin reported that Harris County requested a revised invoice of \$5,700 for the waterline relocation work for the Harris County Huffmeister Road widening project. She reported that Harris County limited payment to \$2,500 for design and \$3,200 for excavation. Ms. Austin reported that she submitted the revised invoice to Harris County.

Ms. Austin reported receipt of an invoice from Brown & Gay Engineers, Inc. for \$6,817.37 for preparation for the developers for Bond Application #10. The Board discussed the fact that developers normally pay their engineers for bond application work and are subsequently reimbursed by the District from the bond proceeds. Upon motion by Director Koehn, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously not to pay the Brown & Gay Engineers, Inc. invoice.

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.

13. 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 water accountability was 97% in May. He reported that Mr. Plunkett has drafted a submission to the Texas Commission on Environmental Quality ("TCEQ") pursuant to the requirements of the Settlement Order.

Mr. Riley reported that the sidewalk extension at the Cypress Mill Estates detention pond on Grove Estates Lane will be completed today. He reported that the uneven sidewalk has been repaired.

Mr. Riley reported that the construction plans for the proposed daycare center, which is partially located in Harris County Municipal Utility District No. 391, conflict with the HOA irrigation equipment. He reported that the HOA contact information was provided to the contractor to coordinate resolution.

Mr. Riley reviewed the Disconnection List with the Board.

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

14. 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 "J."

Mr. Sheldon reported that DEC is working with Eagle Water on the booster pump plans.

Mr. Sheldon reported that DEC prepared the survey of Lot 11, Block 1 Sydney Harbour Section 2 for the lot purchase for the additional Ground Storage Tank for Water Plant No. 2.

Mr. Sheldon reported that the new cost estimate for the Wastewater Treatment Plant Improvement plans is \$2,380,750.

Mr. Sheldon reported that the bond application report was submitted to the TCEQ.

Mr. Sheldon reported that DEC is preparing the Wastewater Treatment Plant Discharge Permit renewal application for the District.

Mr. Sheldon reported on the feasibility study for the use of the District's effluent for the Cypress Lakes Golf Club. He reported that the effluent needs to be tested for four weeks to determine if it meets TCEQ requirements for use of effluent. Mr. Sheldon reported that the Cypress Lakes Golf Club will pay Eagle Water for the testing.

Mr. Sheldon requested Board authorization of execution by the President of the stormwater permit renewal application for Cypress Landing Park, Sections One and Two.

Mr. Sheldon reported that the Wastewater Treatment Plant Improvement costs will be included in the next bond application report. He reported that DEC is waiting on the financial advisor's review of the feasibility of the next bond application to determine the reimbursements available to the developers.

Mr. Sheldon reported that DEC is coordinating with KGA DeForest Design to ensure that the irrigation system of the berm at the Wastewater Treatment Plant is designed so that it will not be impacted by the improvements planned for the Wastewater Treatment Plant.

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 Engineer's Report, and to authorize the President to execute the stormwater permit renewal application for Cypress Landing Park, Sections One and Two.

15. Purchase of lot adjacent to Water Plant No. 2 and any necessary action. The President recognized Ms. Ellison, who presented to and reviewed with the Board the Amendment to Unimproved Property Contract between the District and Sydney Harbour Interests, Ltd. ("Amendment"), a copy of which is attached hereto as Exhibit "K."

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 Amendment.

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

17. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on July 19, 2013, at 11:00 a.m. at the offices of Fulbright & Jaworski LLP, 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
July 19, 2013.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

