

MINUTES OF REGULAR MEETING
OF
CYPRESS FOREST PUBLIC UTILITY DISTRICT

October 3, 2006

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

The Board of Directors of Cypress Forest Public Utility District, Harris County, Texas, met in regular session, open to the public, on the 3rd day of October, 2006, at the Cypress Forest Public Utility District's Administrative Building, 16215 Champion Forest Drive, Spring, Texas 77379, within the boundaries of the District, and the roll was called of the duly constituted officers and members of the Board, to-wit:

Michael J. Lynch, Jr.	President
Thomas J. Petrick	Vice President
Deborah L. Jackson	Secretary
William J. Lawrence	Assistant Vice President
Linn Jensen Smyth	Assistant Secretary

all of said Directors were present except Director Lawrence, thus constituting a quorum.

Also present for all or part of the meeting were the following: Rozann Janek and Roy Riley of the Champion Forest Maintenance Fund, Inc.; Donna Cox, Wendy Fryfogle, Debbie Donahue, and Jim Reed, residents; S. A. Mercer of Mercer Controls, Inc.; Barbara Payne of Payne Communications; Salim Joubran and Nabil Joubran of Pepe Engineering, Ltd. ("Pepe"); Kim Shelnett of Myrtle Cruz, Inc.; Esther Flores of Tax Tech, Inc.; Bob Haas of Aqua Services, L.P. ("Aqua Services"); Steve Robinson of Allen Boone Humphries Robinson LLP ("ABHR"); and Justine M. Cherne, Recording Secretary.

Director Lynch called the meeting to order.

CONDUCT DIRECTORS' WORKSHOP

The Board conducted a Director's workshop on laws, rules, responsibilities, and procedures for utility district business. No action was taken by the Board.

RECEIVE PUBLIC COMMENTS

Director Lynch opened the meeting to receive public comments. Ms. Cox addressed the Board and read a statement regarding the proposed annexation and development of the Raveneaux Golf Club tract, and placing garbage collection dates and the changed District meeting time of 5:30 p.m. onto the District's website. Copies of Ms. Cox's comment card and statement are attached. No action was taken by the Board.

CONDUCT PUBLIC HEARING REGARDING DISTRICT TAX RATE, ADOPT ORDER LEVYING TAXES

Director Lynch opened the meeting for a public hearing regarding the District tax rate and upon no comment from the public, the Board concurred to close the public hearing. After review and discussion, Director Jackson moved that the Board adopt the Order Levying Taxes for the 2006 tax year, levying a District debt service rate of \$0.25, and a maintenance and operation tax of \$0.05, for a total tax rate of 0.30 per \$100 assessed valuation. Director Smyth seconded the motion, which passed by unanimous vote. The Board confirmed its intention that the 2006 tax levy includes a debt service component for the calendar year ending December 31, 2007, and a maintenance tax component for the fiscal year ending September 30, 2007. A copy of the Order Levying Taxes is attached.

CONSENT AGENDA:

APPROVE MINUTES

TAX ASSESSOR/COLLECTOR'S REPORT, INCLUDING PAYMENT OF BILLS AND ANY NECESSARY COLLECTION ACTION

BOOKKEEPER'S REPORT, INCLUDING PAYMENT OF BILLS AND REVIEW OF INVESTMENTS AND BUDGET

ENGINEER'S REPORT, INCLUDING APPROVAL OF PAY ESTIMATES, TIME EXTENSIONS AND CHANGE ORDERS

OPERATOR'S REPORT

Director Smyth requested that the bookkeeper's report be removed from the Consent Agenda. Upon a motion made by Director Jackson and seconded by Director Petrick, the Board voted unanimously to approve the remaining items on the Consent Agenda. Copies of the tax assessor/collector's report, the engineer's report, including Pay Estimate No. 4 in the amount of \$6,369.75 payable to C.E. Barker, Ltd. for construction of sanitary and storm sewer facilities to serve a 16-acre tract, and Pay Estimate No. 4 in the amount of \$72,712.35 payable to Insituform Technologies, Inc. for rehabilitation of sanitary sewer service lines in Champion Forest, Section One, and the operator's report are attached.

The Board next considered the bookkeeper's report. Discussion ensued regarding whether to remove the bookkeeper's report from the Consent Agenda for future meetings and the process for removing and discussing items from the Consent Agenda. In response to Director Smyth's questions regarding invoices included on the bookkeeper's report, Mr. Joubran explained that the cost of manhole covers range between \$3,000.00 and \$9,000.00, Ms. Shelnutt explained that ABHR's bill for July was not submitted previously, and Mr. Robinson explained that the charges from ABHR for annexation matters are invoiced separately and paid from the deposit received from the developers of the Raveneaux Golf Club tract. Following review and discussion, Director Smyth moved that the Board approve the bookkeeper's report. Director Jackson seconded the motion, which was approved by unanimous vote. Copies of the bookkeeper's and investment reports are attached.

PUBLIC COMMUNICATIONS

Ms. Payne next presented a proposal in the amount of \$650.00 a month for a communications consulting program including ten services, a copy of which is attached. She reviewed proposed upgrades to the District's website, preparation of quarterly newsletters, and proposed conservation efforts. Following review and discussion, Director Smyth moved that the Board accept the proposal as presented. Discussion ensued regarding the annual managed hosting fee for the website. Following discussion, Director Jackson seconded the motion. Director Lynch requested comments from the public on the proposal. Following public comments and discussion, the motion was approved by unanimous vote

ENGAGE AUDITOR TO CONDUCT AUDIT FOR FISCAL YEAR ENDING SEPTEMBER 30, 2006

The Board next reviewed an engagement letter with BKD, LLP for performance of the District's annual audit for fiscal year ending September 30, 2006, in the amount of \$11,900.00 plus postage, printing, and delivery costs, a copy of which is attached. The proposed fee is the same as last year's fee. Following review and discussion, Director Jackson moved that the Board approve execution of the engagement letter. Director Petrick seconded the motion, which was approved by unanimous vote.

REVIEW DEVELOPER REIMBURSEMENT AUDIT

Mr. Robinson next reviewed a draft developer reimbursement audit prepared by BKD, LLP, a copy of which is attached. The audit indicates that \$265,322.02, plus \$26.55 of interest per day after October 3, 2006, is owed to Champion Conservatory, Ltd. for payments made for the construction of the District's sanitary sewer and storm sewer trunk line facilities to serve a 16-acre tract for the Conservatory Senior Living Development and future development. Mr. Robinson reminded the Board that the project was pre-funded with bond funds from the District's Series 2004 Bonds placed

into escrow. He stated that earlier this year, the Board agreed to award the contract for the project and entered into a Financing Agreement with (the "Developer") for the advancement of funds for the pay estimates until the escrow funds were released. The Texas Commission on Environmental Quality (the "TCEQ") approved the District's application for the release of the escrow funds. He stated that the developer is entitled to be fully reimbursed for the funds advanced per the audit. He stated that the developer will not be reimbursed until the project is complete, a purchase approval letter is received from the TCEQ, and a receipt is executed. Mr. Joubran stated that a request for inspection of the project has been forwarded to the TCEQ. Following review and discussion, Director Jackson moved that the Board approve the developer reimbursement audit as presented. Director Smyth seconded the motion, which was approved by unanimous vote.

ACTION ITEMS FROM THE CONSENT AGENDA, IF ANY

Ms. Shelnutt reported that she will hold the check payable to Champion Conservatory, Ltd. until the purchase approval letter and receipt are received. She stated that she voided check no. 2011 which was inadvertently posted to the August invoice. She stated that a new check for the September invoice is being circulated for execution and will be reflected on next month's report. She reported that she added a check in the amount of \$22,500.00 payable to Earth Data Solutions for the installment payment due. Following review and discussion, Director Smyth moved that the Board approve the supplemental bookkeeper's items as reported. Director Petrick seconded the motion, which was approved by unanimous vote.

REVIEW THE FINANCIAL ADVISOR'S CONTRACT

Ms. Shelton next stated that there were no changes proposed to the current financial advisor's contract and that First Southwest Company would like to continue as the District's financial advisor. The Board thanked Ms. Shelton for her services. After discussion, Director Jackson moved that the Board continue its contract with First Southwest Company as the District's financial advisor. Director Petrick seconded the motion, which was approved by unanimous vote.

DISCUSS LONG-TERM MAINTENANCE PLAN

There was no update to the Summary of Yearly Budget Requirements for the 20-Year Maintenance Plan or the projected cash flow analysis reviewed previously by the Board. The Board concurred to include this item in the Consent Agenda for future meetings.

PROPOSAL FOR SCADA

Mr. N. Joubran reminded the Board that the engineers received approval last month to collect additional data over a period of time to confirm and quantify the

potential savings from implementation of one or more items from the proposal for Electric Utility Cost Savings through the implementation of Supervisory Control and Data Acquisition Systems (“SCADA systems”) presented at the May meeting by Mercer Controls. He stated that the scope of the data collection has been modified to accommodate field conditions. He stated that a report should be ready for presentation at next month’s meeting. He discussed the types of data to be collected. No action was taken by the Board.

CONDUCT ANNUAL REVIEW OF INVESTMENT POLICY AND ADOPT RESOLUTION REGARDING ANNUAL REVIEW OF INVESTMENT POLICY, ADOPT RESOLUTION ESTABLISHING AUTHORIZED DEPOSITORY INSTITUTIONS AND ADOPTING LIST OF QUALIFIED BROKER/DEALERS

The Board next conducted an annual review of the District’s Investment Policy and discussed the District’s authorized depository institutions and list of qualified broker/dealers. No changes to the Investment Policy were recommended by the District’s consultants. Mr. Robinson reported that the District’s bookkeeper provided updates to the institutional names of the District’s current authorized depository institutions and list of qualified broker/dealers. Director Lynch noted that Ms. Shelnut and Mary Jarmon, the District’s Investment Officer, were doing a fine job. Mr. Robinson reported that an Annual Fund Review with recommendations regarding specific accounts to comply with Federal regulations regarding arbitrage and yield restriction will be included on next month’s agenda.

Following review and discussion, Director Petrick moved that the Board adopt a Resolution Regarding Annual Review of Investment Policy without amendment to the District’s Investment Policy and adopt a Resolution Establishing Authorized Depository Institutions and Adopting List of Qualified Broker/Dealers as presented. Director Smyth seconded the motion, which was approved by unanimous vote. Copies of the resolutions are attached.

ACCEPT ANNUAL DISCLOSURE STATEMENTS OF THE BOOKKEEPER AND INVESTMENT OFFICER

Ms. Shelnut presented to the Board the annual disclosure statements of the bookkeeper and investment officer. Following review and discussion, Director Jackson moved that the Board accept the annual disclosure statements of the bookkeeper and investment officer. Director Petrick, seconded the motion, which was approved by unanimous vote.

ADDITIONAL ACTION ITEMS FROM THE OPERATOR

CONSIDER CUSTOMER CORRESPONDENCE

Mr. Haas reported that customer correspondence was received from 16011 Stratton Park requesting reimbursement in the amount of \$6,233.77 for damages caused by a sewer back-up. He stated that there is no record of the back-up, all repairs were completed at the time the letter was received, and no photographs of the damages have been received. He stated that a letter has been sent to the customer to request additional information. Director Jackson requested that a report from a plumber or other workman be submitted to determine the source of the damages.

CONDUCT HEARING ON TERMINATION OF WATER SERVICE

Mr. Haas reported that the customers on the termination list were delinquent by more than 50 days and had been given written notice 10 days prior to this meeting of the opportunity to appear before the Board of Directors to explain, contest or correct the utility service bill and to show reason why the utility service should not be terminated because of nonpayment. Following discussion, Director Smyth moved that since the residents were neither present at the meeting nor had presented any written statement on the matter, the utility service to those residents be terminated in accordance with the District's Rate Order, and the accounts be forwarded to collections as recommended. Director Petrick seconded the motion, which was approved by unanimous vote.

AUTHORIZE REPAIR AND MAINTENANCE ITEMS

Mr. Haas next reported that the beacon lights located on the top of the District's elevated storage tank have been repaired.

Director Petrick next recommended approval of the relocation of a fire hydrant that was damaged by a car. He stated that future damage by cars is likely to occur to the fire hydrant due to its location near a residential driveway. He recommended that the cost of the damage be invoiced to the resident who caused the damage. Following discussion, Director Smyth moved that the Board authorize relocation of the hydrant in an amount not to exceed \$1,000.00. Director Petrick seconded the motion, which was approved by unanimous vote.

ADOPT AMENDED RATE ORDER

The Board concurred to table this item pending additional review of a financial analysis spreadsheet of expected revenues for various rate increases per user category.

DISCUSS MATTERS RELATED TO NHCRWA

Director Smyth distributed a report on the October 2, 2006, meeting of the North Harris County Regional Water Authority ("NHCRWA") Board, a copy of which is attached. She discussed the NHCRWA's water conservation outreach program and encouraged the Board members to review the water conservation information contained on the NHCRWA's website. She encouraged the District to participate as a sponsor of the mobile lab trailer and purchase water conservation brochures for distribution. Mr. Haas stated that he will report on the District's number of accumulated groundwater credits from participation in the Water Wise Program. Director Smyth reported that water and water reuse are expected to be big issues in the Texas legislature this year. No action was taken by the Board.

DISCUSS WATER REUSE PROPOSAL FOR LANDSCAPE IRRIGATION AND OPERATIONS OF KLEINWOOD CENTRAL SEWAGE TREATMENT PLANT JOINT POWERS BOARD MEETING

Director Lynch reported that Director Smyth has been researching implementation of an effluent water reuse system, also known as grey water system, for landscape irrigation for the District. He stated that the next step is to request proposals for obtaining a permit from the TCEQ and an engineering scope of work. He recommended requesting the proposals from the engineer and attorney who work with the Kleinwood Central Sewage Treatment Plant (the "Plant") and who have assisted Raveneaux Country Club in this manner. He reported that Raveneaux Country Club's installation of a grey water system for its proposed development has been approved by the TCEQ. He stated that the cost for installation of Raveneaux Country Club's grey water system is \$250,000.00.

Director Lynch next updated the Board on the operations and maintenance of the Plant and the Joint Powers Board meeting. He reported that there have been no excursions at the Plant and that the District's share of capacity is adequate to meet its needs.

Director Smyth noted that the cost of drinking water will become significantly higher. She stated that she has had discussions with Tony Kindred of the Raveneaux Country Club regarding possibly combining the District's effluent reuse system with his. She stated that a project scope would need to be determined before applying to the NHCRWA for funding for the installation of the system. Mr. Robinson noted that if analysis of the installation could be done by February of 2007, the Board could determine whether to include the cost in a proposed bond election. Following review and discussion, Director Smyth moved that the Board authorize requests for proposals from Nancy Blackwell of AEI Engineering, Inc. for an engineering scope of services and from Mark Brooks of Young & Brooks for legal services related to obtaining approval of

the installation of an effluent reuse system within the District. Director Petrick seconded the motion, which was approved by unanimous vote.

DISCUSS PROPOSED DEVELOPMENT PROJECT AND POTENTIAL ANNEXATION

Mr. Robinson reported that no additional information has been received regarding the proposed development project and potential annexation of a portion of the Raveneaux Country Club tract.

Directors Jackson and Smyth reported on a meeting held with Mr. Kindred and review of a draft Metro Study report. They expressed frustration with the lack of communication and the non-responsiveness to the request for documents. They reported that they told Mr. Kindred that it is critical for the District's performance of due diligence for a developer representative to attend the District's meetings and for the requested documents regarding the development to be forwarded to the District for review. They stated that December 1, 2006, was the latest that such material could be received to allow enough time for performance of due diligence. Director Smyth reported that she left a message for Mark Jordan of Kera Development requesting dialogue and negotiation. Director Lynch stated that there is a rumor that the developers have requested Kleinwood MUD to annex the proposed development. Mr. Robinson stated that the District does not have jurisdiction to control property located outside of the boundaries of the District. Following review and discussion, Director Smyth moved that the Board authorize the development project committee, Directors Smyth and Jackson, to work with ABHR to draft and forward a letter to the developers of the Raveneaux Country Club tract outlining the District's expectations for communication and documentation on the proposed development. Director Jackson seconded the motion, which was approved by unanimous vote.

DISCUSS MATTERS RELATED TO HOMEOWNERS ASSOCIATION MEETINGS

Director Jackson addressed Ms. Cox's questions regarding the proposed development of the Raveneaux Country Club tract. Director Jackson stated that it was her understanding from Mr. Kindred that there were no obligations for pre-sales and that once the majority of the brownstones and condominiums are sold at acceptable prices, the project will begin. She stated that the clubhouse is not expected to be built until the end of Phase I of the development plan. Mr. Robinson stated that the residents' expectations for communication and town hall meetings can be included in the letter being forwarded to the developers.

REPORT ON PARK MATTERS

There was no update on park matters.

DISCUSS HOLIDAY TRASH COLLECTION

The Board next reviewed rates quoted by WCA for collection of trash in the amount of \$2,602.00 for each collection performed on Thanksgiving Day, Christmas Day, and New Years Day, and for recycling collection in the amount of \$1,385.00 for each collection performed on Christmas Day and New Years Day. Following review and discussion, Director Lynch moved that the Board approve trash collection on all of the quoted holidays. The motion died for lack of a second.

DISCUSS ITEMS FOR INCLUSION ON THE NEXT MEETING AGENDA

Director Lynch moved that the Board request that Joe B. Allen attend next month's meeting to discuss the annexation process and pitfalls. The motion died for lack of a second.

There being no other matters to come before the Board, the meeting was adjourned

[SIGNATURE PAGE FOLLOWS]

[SIGNATURE PAGE FOR THE MINUTES OF THE OCTOBER 3, 2006, BOARD MEETING]

Secretary, Board of Directors

(SEAL)

ACTION ITEMS

- Requests for proposals from Nancy Blackwell of AEI Engineering, Inc. for an engineering scope of services and from Mark Brooks of Young & Brooks for legal services related to obtaining approval of the installation of an effluent reuse system within the District.
- The development project committee, Directors Smyth and Jackson, to work with ABHR to draft and forward a letter to the developers of the Raveneaux Country Club tract outlining the District's expectations for communication and documentation on the proposed development.

ONGOING

- Engineer collecting additional data to analyze the electricity and operating systems.
- Director Petrick working on the construction of a proposed trail within the District. Director Petrick working on behalf of the District and in coordination with the HP Park Alliance on the proposed development of a public park within the 462 acres of property proposed to be developed by Kickerillo Company.

LIST OF ATTACHMENTS TO MINUTES

	Minutes
	<u>Page</u>
comment card and statement	2
Order Levying Taxes	2
tax assessor/collector's report	2
engineer's report and Pay Estimate No. 4	2
Pay Estimate No. 4	2
operator's report.....	2
bookkeeper's and investment reports.....	3
communications consulting program proposal	3
engagement letter with BKD, LLP.....	3
draft developer reimbursement audit.....	3
Resolution Regarding Annual Review of Investment Policy	5
Resolution Establishing Authorized Depository Institutions and Adopting List of Qualified Broker/Dealers.....	5
annual disclosure statements of the bookkeeper and investment officer.....	5
NHCRWA report	7