

MINUTES OF REGULAR MEETING
OF
CYPRESS FOREST PUBLIC UTILITY DISTRICT

September 5, 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 5th day of September, 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 Smyth, thus constituting a quorum.

Also present at the meeting were the following: Scott J. Winters of the Church of Jesus Christ of Latter-Day Saints; Rozann Janek and Roy Riley of the Champion Forest Maintenance Fund, Inc.; Donna Cox and Jim Reed, residents; John Shipp of the Champion Forest Civic Club; Greg Sissel of BKD, LLP; Norman F. Carnahan of the Carnahan Corporation; Salim Joubran and Nabil Joubran of Pepe Engineering, Ltd. ("Pepe"); Debbie Shelton of First Southwest Company; Kim Shelnuttt of Myrtle Cruz, Inc.; Esther Flores of Tax Tech, Inc.; Kay Divin of Aqua Services, L.P. ("Aqua Services"); Greer Pagan of Allen Boone Humphries Robinson LLP ("ABHR"); and Justine M. Cherne, Recording Secretary.

Director Lynch called the meeting to order.

RECEIVE PUBLIC COMMENTS

Director Lynch opened the meeting to receive public comments. No public comments were made.

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

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

OPERATOR'S REPORT

Upon a motion made by Director Jackson and seconded by Director Petrick, the Board voted unanimously to approve the items on the Consent Agenda. Director Lawrence was not present for the vote. Copies of the tax assessor/collector's report, the bookkeeper's and investment reports, the engineer's report, including Pay Estimate No. 3 payable to C.E. Barker, Ltd. for construction of sanitary and storm sewer facilities to serve a 16-acre tract, Pay Estimate No. 3 payable to Insituform Technologies, Inc. for rehabilitation of sanitary sewer service lines in Champion Forest, Section One, and a utility commitment letter agreement for water and sewer utilities to serve a development of five medical office buildings, and the operator's report are attached.

DISCUSS SOLICITATION OF PROPOSALS FOR AUDITOR TO CONDUCT AUDIT FOR FISCAL YEAR ENDING SEPTEMBER 30, 2006

Director Lynch requested that the Board consider soliciting proposals for auditing services from BKD, LLP and two other firms. He stated that last year, the audit was received six months after engaging the auditor and that BKD, LLP could not promise that the audit would be received by a reasonable date. Mr. Pagan stated that he works with most of the auditing firms within the municipal accounting industry and that the audits are typically completed in January and February. Mr. Sissel addressed the Board and stated that BKD, LLP has historically delivered the audit by the mid-February due date established by the Texas Commission on Environmental Quality (the "TCEQ") except for last year when the audit was delivered in March. He stated that last year's audit required additional research regarding the District's deposit of a capital recovery fee into the incorrect account. He stated that he cannot guarantee delivery of the District's audit in December. Director Jackson noted that last year's delay in delivery of the audit appears to have been caused by the performance of due diligence by BKD, LLP. Following discussion, Director Lynch moved that the Board authorize solicitation of proposals for auditing services from McCall, Gibson & Company, PLLC, BKD, LLP, and one other auditing firm. Director Petrick seconded the motion. The motion failed with Director Lynch for, Directors Petrick and Jackson opposed, and Director Lawrence not present for the vote.

Mr. Sissel next presented to the Board an engagement letter with BKD, LLP for performance of the District's annual audit for fiscal year ending September 30, 2006, for \$11,900.00 plus postage, printing, and delivery costs. He stated that the proposed fee is the same as last year's fee. Following discussion, the Board concurred to consider the engagement letter at next month's meeting.

ENGAGE AUDITOR TO PREPARE DEVELOPER REIMBURSEMENT AUDIT

Mr. Pagan next reported that the TCEQ approved the release of funds 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. He 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 Champion Conservatory, Ltd. (the "Developer") for the advancement of funds for the pay estimates until the escrow funds were released. He stated that the developer is entitled to be fully reimbursed for the funds advanced and that an audit must be performed to determine the amount due. He noted that Pay Estimate No. 3 was submitted for Board approval this month and that approximately \$30,000.00 of work on the project remains. He stated that the developer will not be reimbursed until the project is complete and a purchase approval letter is received from the TCEQ.

In response to Directors' inquiries regarding the District's reimbursement procedures, Mr. Pagan and Mr. Joubran stated that the project was included in the bond application as a 100% reimbursable project. Mr. Joubran stated that the District has previously reimbursed 100% for such projects. Ms. Cherne stated that upon review of the minutes of the District's previous meetings per Director Lynch's request, the record shows that the Developer Financing Agreements and funded bond projects were submitted to the Board for review prior to approval and that there was no discussion regarding less than 100% reimbursement for the project. Following review and discussion, Director Jackson moved that the Board engage the auditor to prepare the developer reimbursement audit for 100% reimbursement and a per diem calculation of interest due. Director Petrick seconded the motion, which was approved by unanimous vote, except for Director Lawrence who was not present for the vote. A copy of BKD, LLP's engagement letter is attached.

ACTION ITEMS FROM THE CONSENT AGENDA, IF ANY

Ms. Shelnutt reported that the check payable to C.E. Barker, Ltd. for Pay Estimate No. 3 for construction of sanitary and storm sewer facilities to serve a 16-acre tract is not included on the bookkeeper's report and that the budget comparison does not include the funds approved for release from escrow.

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.

PROPOSAL FOR SCADA

Mr. N. Joubran requested approval 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 Carnahan Corporation would assist with the data collection and discussed the types of data to be collected. He stated that approximately four to six weeks of data would be analyzed to provide a recommendation to the Board. He was not aware of any additional operator fees for the data collection and stated that the analysis may assist with identifying \$27,000.00 of unexplained electricity costs. Following discussion, Director Petrick moved that the Board authorize the engineer to collect additional data to analyze the electricity and operating systems as discussed in an amount not to exceed \$5,000.00. Director Jackson seconded the motion, which was approved by unanimous vote.

DISCUSS 2006 TAX RATE, SET PUBLIC HEARING DATE AND AUTHORIZE NOTICE OF PUBLIC HEARING REGARDING ADOPTION OF TAX RATE

Ms. Shelton reviewed a tax rate analysis. After review and discussion, Director Lawrence moved to authorize the tax assessor/collector to publish notice of the public hearing regarding the District's tax rate in the *1960 Sun Champions* and *1960 Sun Klein*, reflecting a levy of \$0.25 debt service and \$0.05 operation and maintenance tax and a public hearing date of October 3, 2006. The motion was seconded by Director Petrick and passed unanimously.

ADDITIONAL ACTION ITEMS FROM THE OPERATOR

CONSIDER CUSTOMER CORRESPONDENCE

Ms. Divin reported there was no customer correspondence for consideration.

CONDUCT HEARING ON TERMINATION OF WATER SERVICE

Ms. Divin 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. She reviewed fourteen accounts recommended for forwarding

to collections. Following discussion, Director Jackson 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

Ms. Divin next reviewed a quote in the amount of \$2,980.00 for the repair of the beacon lights located on the top of the District's elevated storage tank, a copy of which is attached. Following review and discussion, Director Jackson moved that the Board approve the quote as presented. Director Petrick seconded the motion, which was approved by unanimous vote.

ADOPT AMENDED RATE ORDER

The Board next considered adopting an Amended Rate Order to address the North Harris County Regional Water Authority (the "NHCRWA") fee increase from \$0.59 to \$0.84 per 1,000 gallons of water pumped by the District. Discussion ensued regarding the amount of water pumped versus the amount of water billed by the District.

Additional Discussion ensued regarding insufficient projected revenues to pay for the District's increased operating costs, including higher electricity and chemical costs. Following review and discussion, the Board requested Aqua Services to create a financial analysis spreadsheet of expected revenues for various rate increases per user category for review at next month's meeting.

Following review and discussion, Director Jackson moved that the Board amend the District's Rate Order to include a separate charge equal to the amount assessed by the NHCRWA to the District plus 10% for each 1,000 gallons of water delivered to each user in a billing cycle. Director Lawrence seconded the motion, which was approved by unanimous vote. A copy of the Amended Rate Order is attached.

ADOPT BUDGET FOR FISCAL YEAR ENDING SEPTEMBER 30, 2007

Ms. Shelnett next reviewed a draft budget for fiscal year ending September 30, 2007. The Board discussed changes to line items including conservation, SCADA, and GIS. Following review and discussion, Director Lawrence moved that the Board adopt the budget for fiscal year ending September 30, 2007, as revised. Director Petrick seconded the motion, which was approved by unanimous vote.

DISCUSS MATTERS RELATED TO NHCRWA

A report on matters related to the NHCRWA was tabled pending the September 11, 2006, meeting of the NHCRWA Board.

DISCUSS OPERATIONS OF KLEINWOOD CENTRAL SEWAGE TREATMENT PLANT JOINT POWERS BOARD MEETING

Director Lynch updated the Board on the operations and maintenance of the Kleinwood Central Sewage Treatment Plant (the "Plant") and the Joint Powers Board meeting. He reported on Raveneaux Country Club's proposed installation of a grey water system for its proposed development and the effluent reuse agreement. No action was taken by the Board.

DISCUSS PROPOSED DEVELOPMENT PROJECT AND POTENTIAL ANNEXATION

Mr. Pagan 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. The Board requested that ABHR contact the owners of the tract to determine when the documents requested by the District will be received.

DISCUSS MATTERS RELATED TO HOMEOWNERS ASSOCIATION MEETINGS

Ms. Janek distributed to the Board a draft survey developed by the Champion Forest Maintenance Fund, Inc. (the "HOA") regarding trash collection services. She asked the Board to provide comments to the draft and requested permission to distribute the final survey in the District's October utility bills. She stated that the HOA hired the communications consultants who work with the District's website, Payne Communications and Texas Networks, to draft the survey, develop a database to analyze survey data, and update the HOA's website. She stated that the HOA plans to distribute a series of surveys to the District's residents to encourage active participation in issues affecting the community's quality of life. She stated that the surveys would cover issues such as security, capital improvements, the HP park project, Raveneaux Country Club development plans, commercial development, and other issues. She stated that the HOA wants to work as a partner with the District to develop future surveys and make the data available for use by the District. She asked that the Board consider contributing to the cost of developing the survey if the Board determines that the survey and data would be beneficial to the District. She reviewed printing, software implementation, and communications consultant costs in the approximate amount of \$1,070.05. Mr. Shipp stated that the Champion Forest Civic Club is responsible for gathering information and will contribute \$1,070.05 to fund the project.

The Board discussed proposed revisions to the draft survey, methods for distributing future surveys, and return postage. Following review and discussion, the

Board concurred with the plan for distribution of surveys and data gathering, provided that there is a system to ensure that one vote is received per household, and requested that the gathered data be shared with the District. The Board concurred that notification of future surveys would be included in the message area of the District's utility bills. Director Lawrence moved that the Board authorize distribution of the trash collection services survey in the District's October utility bills, subject to review and approval by Director Jackson, and payment of return postage in an amount not to exceed \$750.00 for the surveys. Director Petrick seconded the motion, which was approved by unanimous vote.

REPORT ON PARK MATTERS

Director Petrick updated the Board on his activities, on behalf of the District and in coordination with the HP Park Alliance, regarding the proposed development of a public park within the 462 acres of property proposed to be developed by Kickerillo Company. He reported that Kickerillo Company has engaged and will pay for architectural services from Clark Condon Associates for the entire project. He stated that an agreement for the project is expected to be executed between Kickerillo Company and Harris County by February 2007. He stated that Harris County will not proceed with the project until passage of a bond proposition in 2007, and that the park is anticipated to open in 2009.

Director Petrick stated that there were no updates on the development of a trail system within the District due to the pending development project and potential annexation of a portion of the Raveneaux Country Club tract.

PUBLIC COMMUNICATIONS

Director Jackson reported that Barbara Payne of Payne Communications will present proposals for preparation of the District's annual newsletter and an upgrade of the District's website at next month's meeting.

Director Jackson reported that she is not certain whether her article submission for last month made the early deadline for the Champions Women's Newsletter.

The Board next discussed holiday trash collection. Following discussion, Director Lawrence moved that the Board authorize WCA to provide three extra days of trash collection service on the day after Thanksgiving, the day after Christmas, and the day after New Year's Day at the District's expense. Director Petrick seconded the motion, which was approved by unanimous vote. The Board requested that Director Jackson place an article in the Champions Women's Newsletter regarding the extra days of trash collection services and authorized ABHR to contact WCA to request the extra services.

REVIEW ATTORNEY'S CONTRACT

The Board concurred to table this item for six months.

AUTHORIZE DIRECTORS TO ATTEND THE ASSOCIATION OF WATER BOARD DIRECTORS WINTER CONFERENCE

The Board next considered authorizing the Directors to attend the Association of Water Board Directors winter conference. Following discussion, Director Lawrence moved that the Board authorize the Directors to attend the conference. Director Jackson seconded the motion, which was approved by unanimous vote.

DISCUSS ITEMS FOR INCLUSION ON THE NEXT MEETING AGENDA

The Board concurred to hold a Directors' Workshop before the regularly scheduled October 3, 2006, meeting at 4:30 p.m.

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

[SIGNATURE PAGE FOLLOWS]

[SIGNATURE PAGE FOR THE MINUTES OF THE SEPTEMBER 5, 2006, BOARD MEETING]

Secretary, Board of Directors

(SEAL)

ACTION ITEMS

- Auditor to prepare developer reimbursement audit.
- Engineer to collect additional data to analyze the electricity and operating systems.
- Tax assessor/collector to publish notice of the public hearing regarding the District's tax rate.
- Aqua Services to create a financial analysis spreadsheet.
- ABHR to contact owners of the Raveneaux Country Club tract to determine when documents will be received.
- Director Jackson to review and approve trash collection services survey for distribution in the District's October utility bills.
- Director Jackson to place an article in the Champions Women's Newsletter regarding extra days of trash collection services and ABHR to contact WCA to request the extra services.
- Directors' workshop scheduled on October 3, 2006, at 4:30 p.m.

ONGOING

- 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

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