

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
October 19, 2007

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 October 19, 2007, 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
Alex Handley, 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. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Calvin Browne of Aqua Services L.P., operator for the District; Mr. Steve Sheldon of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Donna Bryant of Assessments of the Southwest, tax assessor-collector for the District; Mr. Allen Schubert of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas, developer of land within the District; Corporal Blackledge, constable for the District; Mr. Craig Rathmann of Rathmann & Associates, L.P., financial advisor for the District; Ms. Tracey Hayden of Environmental Allies; Mr. Don Staas and Ms. Dorothy Staas, residents of the District; and Mr. Oliver Pennington 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 the 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. **Public Hearing on First Amendment to Strategic Partnership Agreement with City of Houston.** The President convened the public hearing on the proposed Strategic Partnership Agreement with City of Houston. The President recognized Mr. Pennington, who presented to and reviewed with the Board the First Amendment to Strategic Partnership Agreement with the City of Houston, a copy of which is attached hereto as Exhibit "B." Mr. Pennington reported that this amendment would add The Shoppes at Fry Road, the newly annexed eleven acre tract owned by Corinthian Fry Road Investors, to the District's current Strategic Partnership Agreement with the City of Houston. Mr. Pappas reported that CVS Pharmacy and IHOP will be part of The Shoppes at Fry Road. He stated that most of the

upcoming 38,000 retail space has been leased. Mr. Pennington reported that the next public hearing on the First Amendment to Strategic Partnership Agreement will be in the District on October 25, 2007 at 7:00 p.m. The hearing was closed.

2. **Minutes.** The proposed minutes of the meeting of September 20, 2007, 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 September 20, 2007, as presented.

3. **Public Comments and letters from residents.** The President recognized Mr. Staas, who requested the District create and implement a disposal system for household hazardous waste and educate the District residents of proper disposal for household hazardous waste. He reported that Harris County does not offer sufficient opportunities or geographically convenient locations for disposal of hazardous wastes. Mr. Staas reported that the Wal-Mart store in the District does accept used oil for disposal. He requested the District identify existing programs and create a hazardous waste disposal program to supplement the existing programs. Director Handley reported that links to existing hazardous waste programs can be added to the District's web site on the Water Conservation page. He stated that he forwards the Harris County flyer on hazardous waste disposal events to the Homeowners Association ("HOA") so that it may be included in the HOA newsletter. Director Handley stated that the District is not in a position to manage a hazardous waste disposal program in the District and that the HOA is better organized to manage such program as the management company is in the District. He stated that the HOA newsletter is the optimal method of educating the residents on hazardous waste as the residents actually read that versus the water bill. Mr. Browne stated that the District's trash collection company may be able to provide a list of items that should not go in the trash which may be included with the water bill.

The President recognized Ms. Hayden, who requested the District solicit bids for detention pond maintenance for the District.

The President recognized Director Bryant, who reviewed resident emails. Director Bryant reported receipt of a resident email concerned with the use of Round-Up and potential damage to her lemon tree. Director Handley reported that Storm Water Solutions does not use Round-Up in the District. He stated that GreenPros does use Round-Up in the District, but only very judiciously on weeds.

Director Bryant reported receipt of a resident email concerned with a late penalty for underpaying the water bill by \$0.30. He provided the resident information to Mr. Browne. The Board agreed that no penalty would be imposed for non-payment.

Director Bryant reported that he managed a request for a 2004 tax statement by forwarding the request to the District's tax assessor collector.

Director Bryant reported that the Cypress Ridge HOA has requested recycling and that Ms. Deitrick replied that the Board would need an indication it is desired by a majority of

the residents of Cypress Ridge. It was the consensus of the Board that the District should not decide on recycling and leave that decision up to the respective homeowner associations.

4. **Security report and any necessary action.** Director Henry stated that he wants to assume responsibility for District security. Director Handley stated that he would provide Director Henry all the necessary information.

The President recognized Corporal Blackledge, who reviewed the Security Report for the month of September, a copy of which is attached hereto as Exhibit "C." Corporal Blackledge reviewed the incidences on the Security Report. He reported that two teens were involved in an accidental shooting in the Wal-Mart parking lot. Corporal Blackledge reported that Cypress Ridge has more security issues than other subdivisions in the District. He stated that many of the homes are for sale and being rented in Cypress Ridge. Corporal Blackledge reported that he is still waiting for Harris County to accept the streets in Cypress Ridge so he may issue traffic citations. Mr. Sheldon stated that the streets were recently accepted and that he would provide confirmation to Corporal Blackledge. Corporal Blackledge reported that Wal-Mart has added loss prevention managers at the store. Corporal Blackledge recommended that the District contact his captain regarding the constable substation in the professional building being constructed by Cymill Partners. Director Henry stated that he would follow up on contacting the constable captain.

Upon motion by Director Henry, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Security Report and to authorize Director Henry to work on arranging a substation for the District constables.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Schubert, who reported receipt of bids for the detention facilities to serve Cypress Mills Plaza. He stated that four companies bid the job and the lowest bidder was C. E. Barker, Ltd. with a cost of \$174,386.31, a copy of the bid tab is attached hereto as Exhibit "D." He requested Board approval to award the construction contract for the detention facilities to C.E. Barker and authorization to enter into the contract on behalf of the District. Mr. Schubert reported that the final design of the detention facilities is for all grass detention ponds that outfall to Cypress Chase. 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 Cymill Partners to award the construction contract for the detention facilities at Cypress Mills Plaza to C. E. Barker, Ltd for \$174,386.31, to approve Exhibit A to the Sales Agreement and Lease for Utility Services between the District and Cymill Partners for such contract, and to authorize Cymill Partners to enter into the construction contract for the detention facilities at Cypress Mills Plaza on the behalf of the District.

Mr. Pennington reported that Cymill Partners has requested a Waterline Easement as well as a Storm and Utility Easement for the Cypress Mill Commercial Reserve A and Jardine Drive, copies of which are attached hereto as Exhibit "E" and "F," respectively. Upon motion by Director Halloran, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Waterline Easement and Storm and Utility Easement from Cymill Partners.

The President recognized Mr. Pappas, who reported that the on-site utilities construction is near complete. He stated that the storm water detention construction is not complete. Mr. Pappas reported that the force main boring under US Highway 290 has incurred some difficulties but is proceeding. He stated that CVS Pharmacy should begin construction next week. Mr. Pappas reported that IHOP Restaurant will close November 2 and begin construction in mid-November. He stated that the contractor will begin constructing the retail building soon and that construction should take five months. Mr. Pappas reported that a left turn lane will be added to Fry Road for access to The Shoppes at Fry Road. Mr. Pennington presented to and reviewed with the Board the Owner's Ratification of Plat, a copy of which is attached hereto as Exhibit "G." Mr. Pappas reported that he conveyed the lift station site and detention facility site to the District and now requires the District's approval for recordation of the plat. 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 and authorize execution of the Owner's Ratification of Plat.

6. Accept waterline easement and storm and utility easement by Cymill Partners. This item was covered under Developer's Report.

7. Consider the Financial Advisor's Recommendation for the 2007 Tax Rate and Authorize Publication. The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2007 tax rate, a copy of which is attached hereto as Exhibit "H." Mr. Rathmann reported that the debt tax rate may be decreased to \$0.68 per \$100 assessed valuation. He stated that the developer incentive payment decreased from \$941,000 in 2006 to \$809,000 in 2007 thus far. Mr. Rathmann reported that a contract tax rate of \$0.24 would result in \$895,407 to pay the developer incentive fee. He reported that the current maintenance tax rate of \$0.20 may be sufficient to cover the District's operating and maintenance expenses in 2008. Mr. Pennington stated that the District may have some expenditures in the future, including possibly a meter for the interconnect with Harris County Municipal Utility District No. 391, an elevated storage tank if the waiver request is not granted and the wastewater treatment plant expansion. Mr. Pennington presented to and reviewed with the Board the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2007, a copy of which is attached hereto as Exhibit "I." Mr. Pennington noted that the Order authorizes the tax assessor's office to publish the notice and proposed tax rate and to hold a public hearing with respect to the tax rates. Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to propose a total tax of \$1.10 per \$100 assessed valuation, with \$0.68 for debt service, \$0.20 for maintenance and operating expenditures, and \$0.22 for developer incentive; to approve the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2007; and to authorize the District's tax assessor collector to publish the proposed tax rate.

Mr. Rathmann reported that the proposed tax rate of \$1.10 per \$100 assessed valuation will save the average homeowner in the District \$105.

8. Update on Harris County condemnation of Mueschke Road right of way, including the county condemnation of the District's sanitary sewer easement and drainage easement on the property of North Houston Land Company and take any

necessary action. The President recognized Mr. Pennington, who reported that according to Mr. Carroll, North Houston Land Company has provided an easement to Harris County and as a result, Harris County is not pursuing sewer and drainage easements from the District.

9. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that he discussed with the Cypress Hill Homeowners Association (“CMHOA”) the proposed gazebo. He reminded the Board that at the last Board meeting the gazebo was not favored as it was an enhancement only for Cypress Estates. Director Handley reported that the CMHOA still wanted to proceed with the proposed gazebo and that the CMHOA felt the District had worked on other areas in the District so that the gazebo would equalize recreational enhancements provided by the District. Director Handley reported that the \$12,000 cost of the gazebo did not include some additional costs, such as installation. He stated that the District is not in a position to manage the installation of the gazebo. Mr. Pennington recommended that the District obtain a letter agreement with the CMHOA that the District will donate \$12,000 for the purchase of the gazebo and maintain the gazebo, and that the CMHOA will manage the installation of the gazebo and pay any costs above \$12,000. Upon motion by Director Handley, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to authorize \$12,000 to be used for the purchase of a gazebo for Cypress Estates by the CMHOA.

10. **Tax Assessor-Collector’s Report and payment of bills.** 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 “J.” Ms. Bryant noted that 98% of the District’s 2006 taxes have been collected as of September 30, 2007. The Board requested a Delinquent Tax Report at the next Board meeting.

Upon motion by Director Handley, seconded by Director Bryant, 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. **Public Hearing on Taxation of Goods in Transit.** The President convened the public hearing on the proposed taxation of goods in transit. There were no comments.

12. **Resolution Authorizing Taxation of Goods in Transit.** The President recognized Mr. Pennington, who reported that new legislation allows for utility districts to disallow a new exemption from tax for personal property that’s held within a district for less than 175 days. Mr. Pennington presented to and reviewed with the Board the Resolution Authorizing Taxation of Goods in Transit under Section 11.253(j), Tax Code, a copy of which is attached hereto as Exhibit “K.”

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 Resolution Authorizing Taxation of Goods in Transit under Section 11.253(j), Tax Code, and for the tax assessor collector to provide a copy of the Resolution to the Harris County Appraisal District.

