

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
May 18, 2007

THE STATE OF TEXAS
COUNTY OF HARRIS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1

§
§
§

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 May 18, 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, except Director Halloran. Also attending all or portions of the meeting were Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. John Brock of AquaServices L.P., operator for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Donna Bryant of Assessments of the Southwest, tax assessor-collector for the District; Mr. Craig Rathmann of Rathmann & Associates, financial advisor to the District; Mr. Bill Hixon and Mr. Allen Schubert of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors; Mr. Matthew May of WCA Waste Corporation, solid waste collection provider for the District; Mr. Mike Harrington of American Enerpower, Inc.; Deputy James Blackledge, deputy for the District; 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. **Minutes.** The proposed minutes of the meeting of April 20, 2007, 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 April 20, 2007, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Staas, who requested no increase in his overall municipal utility district tax bill. He stated that he is aware that the District decreased the tax rate; however, with the increase in his

valuation by the Harris County Appraisal District, his overall tax bill increased. Mr. Staas requested the District also increase the tax exemptions. Mr. Staas stated that the District should not compare exemptions with other utility districts and instead compare to exemptions provided by the school district. Ms. Bryant, the District tax assessor-collector, recommended to Mr. Staas that he contact the Harris County Appraisal District to challenge his valuation. She stated that every year the Board reviews the budget needs of the upcoming year and the total assessment, and then sets the tax rate to meet the District's expected financial requirements. Director Handley stated that the tax rate is set in the fall once the Board has received the certified tax roll from the Harris County Appraisal District. Director Handley reported that the Board favors lowering of taxes and does so when possible. He stated that the Board regularly writes the legislators supporting the lowering of taxes. Mr. Rathmann also agreed to look at the issue if Mr. Staas will send his information to him.

3. **Consider proposed rate increase for solid waste collection contract with WCA Waste Corporation.** The President recognized Mr. May, who presented to and reviewed with the Board the proposed increase of \$1.02 for solid waste collection (comprised of \$0.48 for the CPI-U increase and \$0.54 to offset fuel costs) and \$0.13 for recycling. Mr. May reviewed the prices of current contract prices and reminded the Board that WCA has consistently provided quality service to the District.

The Board discussed whether the Cypress Mill Homeowners Association ("CMHOA") was going to cancel the recycling contract. Mr. May reported that he is calculating the number of residents participating in the recycling program for the CMHOA as it is contemplating canceling the recycling contract. Mr. May recommended extra effort notifying the residents if the recycling contract is going to be terminated.

The Board discussed whether to pass on the increase in the solid waste collection rate to the residents in the Rate Order. It was the consensus of the Board not to pass the increase solid waste collection rate to the residents.

Upon motion by Director Henry, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the increase in the solid waste collection rate to \$10.50 for the neighborhoods without recycling and \$13.26 for the neighborhoods with recycling.

4. **Security report and any necessary action.** The President recognized Deputy Blackledge, who presented the security report for the month of April to the Board, a copy of which is attached hereto as Exhibit "C." Deputy Blackledge reported that thefts have increased at Wal-Mart and the gas station. The Board discussed the expected increase in criminal activity during the summer.

Deputy Blackledge reported that all the defibrillators are in place. He stated that one deputy is an emergency medical technician and that other deputies have been trained in the use of the defibrillator.

Director Handley reported that the Homeowners Association has requested assistance with juveniles in the area of Cobblestone. Deputy Blackledge confirmed that the deputies are providing extra monitoring of that area.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that the Harris County Flood Control District is requiring a detention pond for the construction of the 12,000 square foot building. Mr. Hixon requested the District agree to own and maintain the detention ponds. He also requested the authorization to advertise for the construction of the two detention ponds. Mr. Hixon estimated that the construction cost will be approximately \$150,000.

Mr. Hixon and Mr. Schubert reviewed their efforts to relocate power lines behind certain properties to improve the appearance of the area. Mr. Hixon stated that a ten foot easement is required to the relocation of the power lines. Mr. Hixon reported that the project will also impact the location of the lift station and force main. He stated that Mr. Hirshman will review the plans and determine if it is feasible to move the sanitary sewer out of the Homeowners Association's reserve.

Mr. Hixon requested Board approval for the President to sign a letter to the Harris County Flood Control District that the District will own and main the detention ponds, and operate the force main to allow the force main to be in the Harris County right-of-way.

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 District owning and operating the detentions ponds and force main contingent upon approval of the plans by Mr. Hirshman and to reimburse Cymill Partners for the construction of the detention ponds.

Mr. Pappas reported that Cross Tex was the low bidder for the utilities. He stated that he is working with Mr. Hixon on the easement. He stated that negotiations are proceeding with IHOP and CVS Pharmacy. Mr. Pennington presented to and reviewed with the Board a waterline easement and Surface Restoration Agreement, copies of which are attached hereto as Exhibits "D" and "E," respectively. He reported that the waterline easement form is fine. He stated that the President suggested a surface restoration agreement as the easement is under a parking lot, so if a repair is necessary the parking lot will be resurfaced in a timely manner. Mr. Hirshman recommended a ten calendar limit to for repairs. Mr. Pennington stated that the Surface Restoration Agreement requires a few minor changes but is substantially finalized. Upon motion by Director Handley, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the waterline easement by Cymill Partners to the District and the Surface Restoration Agreement between the District and Corinthian Fry Road Investors.

6. **Consider Electricity Proposals and Take Any Necessary Action.** The President recognized Mr. Harrington, who presented to and reviewed with the Board an Overview of Services and Electricity Market, a copy of which is attached hereto as Exhibit "F." Mr. Harrington reported that the District's current contract is for 10.4 cents per kilowatt while the fixed price is 9.5 cents per kilowatt. He reported on spot pricing, which allows the consumer

to be charged the market clearing price of electricity ("MCPE") plus an adder of approximately two cents. He stated that the spot price for Houston for May was averaging six cents without the adder. Mr. Harrington reported that the fixed price is increasing and the spot price is decreasing. He stated that the MCPE price is established by ERCOT every 15 minutes and that the provider will estimate usage for the District. Mr. Harrington reported that if the District was to enter into a MCPE contract, it would be for one year with the right to convert to a fixed price contract at any time. He stated that the District's current electricity contract does not expire until August. The Board discussed the risks and advantages of the MCPE rate. No action was taken on this item.

7. Consider Order Authorizing Preliminary Official Statement for Refunding Bonds. The President recognized Mr. Rathmann, who presented to and reviewed with the Board the Summary of Refunding Effects, a copy of which is attached hereto as Exhibit "G." Mr. Rathmann reported that in the current market a 5% net present value savings would be achieved. He stated that he added eleven basis points to the current market in the provided summary. Mr. Rathmann reported that he will only refund debt that produces savings. Mr. Rathmann stated that he is planning to price the transaction the first week of June and that the principal amount of the issuance will remain under \$10,000,000 to maintain the bank qualified rate for the bonds. He stated that he has discussed the refunding with Mr. Gregg Jones, a tax attorney with F&J.

Mr. Rathmann presented to and reviewed with the Board a Preliminary Official Statement ("POS"), dated May 18, 2007, for the District's proposed Unlimited Tax Refunding Bonds, Series 2007, a copy of which is attached hereto as Exhibit "H." Mr. Pennington then presented to and reviewed with the Board the Order Authorizing POS, a copy of which is attached hereto as Exhibit "I."

Upon motion by Director Handley, 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 if at least 5% net present value savings can be achieved, and to approve the Order Authorizing the POS

8. Approve Order Authorizing Unlimited Tax Refunding Bonds, Series 2007, and an Escrow Agreement, a Bond Purchase Agreement, a Transfer and Paying Agency Agreement, an Official Statement and Authorizing the President of the Board to Approve the Amounts, Interest Rates, Prices and Terms of the Bonds and Other Matters in Connection Therewith, Bond Insurance and take any other necessary action required to refund District Bonds. Mr. Pennington presented to and reviewed with the Board the Order Authorizing the Issuance of Unlimited Tax Refunding Bonds, Series 2007, a Bond Purchase Agreement, a Transfer and Paying Agency Agreement, an Escrow Agreement, and an Official Statement, and Authorizing the President of the Board to Approve the Amounts, Interest Rates, Prices and Terms of the Bonds, and Other Matters in Connection Therein (the "Order"), a copy of which is attached hereto as Exhibit "J." Mr. Pennington explained to the Board that the Order sets parameters for the sale of the bonds, so that Mr. Rathmann and the President or Vice President can proceed with the sale and commitment of the Bonds once the parameters are met.

Upon motion by Director Handley, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the

Order and authorize the President or Vice President to sign the pricing documents.

9. **Consider Landscaping Proposals for Water Plant No. 2.** The President recognized Mr. Brock, who reported that there is a thirty-five foot fence with limited space for landscaping around Water Plant No. 2 in Sydney Harbour. He stated that the side fences will become resident yards, so the District should not contribute to that portion of the landscaping. No action was taken on this item.

10. **Consider sludge haul matter for Centex Homes and take any necessary action.** The President recognized Mr. Hirshman, who reported that Centex Homes was concerned about the lift station not functioning by the time residents were living in Cypress Landing. He stated that it has been determined that the lift station will be functioning in time so the matter does not need to be considered. No action was taken on this item.

11. **Consider Corinthian Fry Road Investors easement conveyances.** This item was covered under Developer's Report.

12. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that he inspected the two trees that were struck by lightning at the park by Sasher Lane and that the trees do need to be replaced. He stated that he has notified Mr. Lilienthal that the dead trees would be removed.

The President reported that Mr. Seal has contacted him regarding the frequency of mowing of the ponds. He stated that Director Bryant and he inspected the areas and the ponds appeared fine. Mr. Brock stated that the ponds are hard to mow when wet and that recent rain may have prevented timely mowing of the ponds. Director Handley reported that Storm Water Solutions mows once a month and the tops more frequently. Mr. Hirshman reported that there was a pumping problem which also delayed drainage of the ponds which may have exacerbated the delayed mowing. It was the consensus of the Board to monitor the growth over the next month prior to making a decision to increase the mowing frequency.

13. **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 "K." Ms. Bryant noted that 94% of the District's 2006 taxes have been collected as of April 30, 2007.

The Board and Mr. Hirshman noted that accounts on the delinquent list were not in the District. Ms. Bryant explained that the address on the delinquent list is the corporate address for the company that is leasing equipment in the District.

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

14. **Bookkeeper's Report, and payment of bills.** 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 "L."

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.

15. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Brock, who presented to and reviewed with the Board the Operator's Report, a copy of which is attached hereto as Exhibit "M." Mr. Brock reported that he continues his investigation of the high accountability and continues work on the valves with Harris County Municipal Utility District No. 391. He stated that the operator for Harris County Municipal Utility District No. 391 is working on locating all the valves.

Mr. Brock reported that approximately twenty residents have termination of water service for non-payment each month.

Mr. Brock reported that two blowers are currently working at the wastewater treatment plant and one is at the factory. Mr. Hirshman reported that the manufacturer stated that he was never called at start up of the plant to calibrate the settings on the blowers. Mr. Hirshman stated that Schrader Engineering has been notified of the statement by the manufacturer and that a meeting has been arranged at the plant with Schrader Engineering and the manufacturer. Mr. Brock stated that the blowers have not been switched to centrifugal and that the meeting shall determine if centrifugal blowers are recommended.

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 Operator's Report, and to terminate those accounts listed on the delinquent list.

16. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance and reimbursement expenses.** 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 "N." Mr. Hirshman reported that he is reviewing the plans for the second phase of the widening of Cypress Rosehill. He stated that he has requested the engineer include the adjustment for the district facilities in the bid of the first phase of the widening of Cypress Rosehill.

Mr. Hirshman recommended approval of Pay Estimates No. 1 and 2 to Cravens Partners, Ltd. in the amounts of \$29,437.88 and \$413,165.94, respectively for the offsite force main project. Mr. Hirshman recommended approval of Pay Estimate No. 2 to Terbo Construction in the amount of \$249,622.40 for the water, sanitary sewer and drainage to serve Cypress Landing Park, Section Two. Mr. Hirshman recommended approval of Pay Estimate No. 4 to Conn's Construction, Inc. in the amount of \$21,834.00 for the Lift Station for Cypress Landing. He recommended approval of Pay Estimates No. 1 & 2 to Bay Utilities, LLC in the amounts of \$125,719.65 and \$340,242.52, respectively, for the water, sanitary, drainage and detention facilities at Cypress Landing Park, Section One.

Mr. Hirshman reported that DEC continues work on the new sewer flows for the wastewater treatment plant expansion and the letter to the TCEQ requesting 280 gallons per connection rate.

Mr. Hirshman reported that the study for the elevated storage tank variance request is complete and that the request will be submitted.

Mr. Hirshman reported that the wastewater treatment plant permit renewal application will be submitted to the Texas Commission on Environmental Quality.

Mr. Hirshman reported that Harris County requires a letter stating that the District will own and operate the sanitary sewer force main and water lines to get the plans signed for the Shoppes at Fry Road. He asked the Board to authorize the President to sign the letter attached to the Engineer's Report.

Mr. Hirshman reported that at the next Board meeting he will have the price by Storm Water Solutions for a sump pump at the pond at Cypress Mill Park.

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 the Engineer's Report; to approve Pay Estimates No. 1 and 2 to Cravens Partners, Ltd. in the amounts of \$29,437.88 and \$413,165.94, respectively for the offsite force main project; to approve of Pay Estimate No. 2 to Terbo Construction in the amount of \$249,622.40 for the water, sanitary sewer and drainage to serve Cypress Landing Park, Section Two; to approve of Pay Estimate No. 4 to Conn's Construction, Inc. in the amount of \$21,834.00 for the Lift Station for Cypress Landing; to approve of Pay Estimates No. 1 & 2 to Bay Utilities, LLC in the amounts of \$125,719.65 and \$340,242.52, respectively, for the water, sanitary, drainage and detention facilities at Cypress Landing Park, Section One; and to authorize the President to sign the letter to Harris County stating that the District will own and operate the sanitary sewer force main and water lines for the Shoppes at Fry Road.

17. **Award Onsite Utilities for Corinthian Fry Road Investors.** No action was taken on this item.

18. **Consider Acceptance of Force Main Easement from Cymill Partners.** No action was taken on this item.

19. **Consider Acceptance of Other Easements.** No action was taken on this item.

20. **Attorney's Report.** There was nothing to report on this item.

21. **Update on purchase of property for off-site rights of way and take any necessary action.** There was nothing to report on this item.

22. **Other matters.** No other matters were discussed.

23. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on June 15, 2007, 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.


* * *

The attached and foregoing minutes were passed and approved by the Board of Directors on June 15, 2007.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

