

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
November 16, 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 November 16, 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 Henry. 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. Delia Yanez of Assessments of the Southwest, tax assessor-collector for the District; Mr. Jimmy Pappas, developer of land within the District; Mr. Greg Wamhoff of Centex Homes, developer of land within the District; Corporal Blackledge, constable for the District; Mr. Don Staas, Ms. Dorothy Staas, Ms. Takesha Thomas and Mr. Brian Thomas, 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 meetings of October 19, 2007, and October 25, 2007, previously distributed to the Board, were presented for review and approval. 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 approve the minutes of October 19, 2007, and October 25, 2007, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Staas, who requested the Board consider including lighting and trees along the detention pond between Skinner Road and Cypress-Rosehill in the 2008 budget. He stated that he has heard several residents speak at the Homeowner Association meetings about installing lights

along the walking trails along the detention ponds. Director Handley reported that the current recreational budget is only for maintenance and replacement of trees. He stated that the Board is welcome to ideas and would review any plans presented. Director Handley noted that there are three detention ponds in the District. He stated that a priority is to provide equal treatment to all neighborhoods in the District. He noted that the fiscal year for the District is March 1, 2008 and that the budget can be amended at any time.

The President recognized Mr. and Mrs. Thomas. Ms. Thomas reported that when she went to pay her water bill she was informed the balance was approximately \$200, which included charges for disconnecting her service. Ms. Thomas stated that her water had not been terminated. She stated that she paid all of her bill except the \$75.00 in charges for termination of service. Ms. Thomas noted that when she asked to speak with a manager, she was instructed to write a letter to the Board or attend the Board meeting to discuss removal of the disconnect charge. Mr. Browne stated that he will need to research the account regarding work orders for disconnect. The Board instructed Mr. Browne to research the account and to discuss the request for waiver of the disconnect charges at the next Board meeting.

Director Handley presented to and reviewed with the Board a hand-out on Household Hazardous Waste which has been added to the District's web site in response to Mr. Staas's request, a copy of which is attached hereto as Exhibit "B." He noted that there is a link on the web site page to the Harris County household hazardous waste information and collection events.

The President recognized Director Bryant, who reviewed resident emails. Director Bryant reported receipt of a resident email concerned with his water bill payment being posted and the 5% credit card charge. Director Bryant noted that Aqua Services has provided the residents with many payments options so it is easy to avoid the 5% credit card charge.

Director Bryant reported receipt of a resident email seeking information regarding a bill for \$2,063.81 for damage to a waterline. Mr. Browne reported that this charge is for damage to a sewer line by North Houston Pole. Mr. Browne stated that he has called North Houston Pole and provided further information regarding the matter.

3. **Security report and any necessary action.** The President recognized Corporal Blackledge, who reviewed with the Board the Security Report for the month of October, a copy of which is attached hereto as Exhibit "C." Corporal Blackledge reported that there was a robbery at Wal-Mart where the suspect pulled a pellet gun on the loss prevention officers. He noted that there were three motor vehicle burglaries, three cars stolen and one break-in of a home during the day in Sydney Harbour.

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 Security Report.

4. **Renew Interlocal Agreement for Law Enforcement Service with Harris County.** The President recognized Mr. Pennington, who reviewed with the Board the provided Interlocal Agreement for Law Enforcement Services between Harris County and the

District, a copy of which is attached hereto as Exhibit "D." The President reported that Corporal Blackledge is in line for promotion to sergeant and asked the Board if it wanted to switch one of the deputies in the contract to sergeant to retain Corporal Blackledge in the District. The Board asked Corporal Blackledge what the additional cost is for a sergeant. Corporal Blackledge reported that the cost difference is approximately \$6,500. He noted that the District would need to approve a new agreement for one sergeant and send a letter to the Constable's Office requesting that he fill the sergeant position. 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 Interlocal Agreement for Law Enforcement Services between Harris County and the District and to approve the change from six deputies to five deputies and one sergeant in the Interlocal Agreement for Law Enforcement Services between Harris County and the District when Corporal Blackledge is promoted to sergeant.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Pennington, who stated that Cymill Partners reports that the contract for the detention work on the 3.7 acres should be signed soon; and Alicia's Restaurant hopes to finalize the lease agreement that week and start construction of the new restaurant within a few weeks.

The President recognized Mr. Pappas, who reported that the waterline and force main connection under US Highway 290 has been made. He stated that the final grading is near completion. Mr. Pappas reported that IHOP is set to close that afternoon. He stated that the construction of the retail space will begin in the next few weeks and that the IHOP construction will begin in approximately six weeks. Mr. Pappas reported that three pad sites are still available.

Mr. Wamhoff reported that Centex Homes expects to close on the first home this week. He stated that home sales are doing well and that approximately eleven homes have sold thus far. Mr. Wamhoff stated that all the projects are complete and that section five is being designed, which will include an amenity lake.

6. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that he met with the Cypress Hill Homeowners Association ("CMHOA") to determine a location for the gazebo. He stated that the gazebo will have an electricity kit, but currently there is no electricity to that location.

7. **Convene Public Hearing on Proposed Tax Rate for 2007.** The President convened the public hearing on the proposed tax rate for 2007. There were no comments.

8. **Adopt Order Setting Tax Rate and Levying Tax for 2007.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2007, a copy of which is attached hereto as Exhibit "E." Ms. Yanez reported that the hearing on the proposed tax rate was published. Mr. Pennington informed the Board that this order authorizes the District to levy the tax for 2007.

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 adopt the

Order Setting Tax Rate and Levying Tax for 2007 with a total tax rate of \$1.10 per \$100 assessed valuation, including a rate of \$0.68 for debt service, \$0.22 for contractual obligations, and \$0.20 for operation and maintenance expenses.

9. **Approve Amended District Information Form.** The President recognized Mr. Pennington, presented to and reviewed with the Board the Amendment to Amended and Restated District Information Form, a copy of which is attached hereto as Exhibit "F." He reported that this document is recorded in the Harris County Real Property Records to provide notice to purchasers of property in the District of the current tax rate in the District.

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 Amendment to Amended and Restated District Information Form and to authorize it to be filed in the Harris County Real Property Records.

10. **Tax Assessor-Collector's Report and payment of bills.** The President recognized Ms. Yanez, 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. Yanez noted that 98% of the District's 2006 taxes have been collected as of October 31, 2007.

Ms. Yanez provided the Delinquent Tax Report by Perdue, Brandon, Fielder, Collins & Mott, L.L.P., a copy of which is attached hereto as Exhibit "H." The report detailed the planned collection activity for the delinquent 2006 accounts, including a final demand letter in January and filing suit in February. The Board was fine with the proposed collection plan.

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. **Delinquent Tax Report.** This item was covered under the Tax Assessor-Collector's Report.

12. **Bookkeeper's Report, Review Investment 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 "I."

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 accept the Bookkeeper's Report and to authorize payment of the checks listed therein.

13. **Amend Budget.** No action was taken on this item.

14. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Browne, who presented to and reviewed with the Board the Operator's Report, a copy of which is attached hereto as Exhibit "J." Mr. Browne reported that not many residents had their water service terminated last month, even though the water termination list was large.

Mr. Browne reported that the new blowers at the wastewater treatment plant are still operational. He reported that Mr. Hirshman is researching the horse power needed for the centrifugal blowers.

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

15. **Appointment of committee to review operator proposals.** The President recognized Mr. Pennington, who reported that Director Henry requested formation of a committee to review operator proposals. He stated that he has drafted a list of minimal services the District may desire the operator provide and a list of operators from whom to solicit proposals. Director Bryant volunteered to be on the committee to review operator proposals.

16. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance and reimbursement expenses.** 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 "K." Mr. Sheldon reported that Bay Utilities has completed the regrading of the ditch along the private street by Mr. Drews house. He stated that Mr. Drew will review the project and that DEC will attempt to obtain a letter from Mr. Drew stating the project is complete.

Mr. Sheldon reported on utility construction in Cypress Landing and Cypress Landing Park. He presented for approval Pay Estimate No. 6 for payment by the developer to Bay Utilities in the amount of \$37,462.11 for the water, sanitary sewer and drainage facilities to serve Cypress Landing Park, Section One. Mr. Sheldon presented for approval Pay Estimate No. 2 for payment by the developer to Terbo Construction in the amount of \$22,417.91 for the water, sanitary sewer and drainage facilities to serve Cypress Landing Park, Section Two.

Mr. Sheldon reported that DEC continues work on the new sewer flows for the wastewater treatment plant expansion and the letter to the TCEQ requesting that it allow the District to use a rate of 280 gallons per connection.

Mr. Sheldon reported that DEC is preparing a response to the Texas Commission on Environmental Quality ("TCEQ") denial of the request for an elevated storage tank requirement waiver. Mr. Pennington stated that the District is close to 2,300 connections and that the District will need the waiver in the near future. Mr. Pennington asked whether the TCEQ letter mentioned the interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). He stated that, if necessary, the District could participate in the construction of a meter for the interconnect with MUD 391. Mr. Sheldon stated that he did not recall if the interconnect was mentioned in the TCEQ letter.

Mr. Sheldon reported that C.F. McDonald Electric has completed the electrical installation of generator at the water plant. He stated that the foundation at the water plant is complete.

Mr. Sheldon presented for approval Pay Estimate No. 2 for payment by the developer to Big State Excavation in the amount of \$279,384.93 for the water and sanitary sewer

facilities to serve The Shoppes at Fry Road.

Mr. Sheldon presented for approval Pay Estimate No. 2 for payment by the developer to Big State Excavation in the amount of \$2,347.60 for the water line extension at Jardine Drive and US Highway 290.

Mr. Sheldon presented for approval an agreement provided by Harris County for the relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One. He stated that the estimated cost of the relocation is \$122,684.10. He stated that the cost will be finalized once the bids are received for the project.

Mr. Sheldon reported receipt of a request for utility service for a new Certificate of Convenience and Necessity ("CCN") that will be located west of Telge Road and south of US Highway 290. He recommended that the response be that the District does not have sufficient capacity to serve the CCN.

Mr. Sheldon reported receipt of a wastewater treatment effluent reuse policy by the West Harris County Regional Water Authority which would provide a 50% credit for five years to participants who reuse effluent. The Board discussed the potential savings and whether it would be cost effective to provide effluent reuse to the golf course. Mr. Sheldon reviewed the necessary equipment for using effluent reuse for irrigation of the District's medians.

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 approve the Engineer's Report, to approve Pay Estimate No. 6 for payment by the developer to Bay Utilities in the amount of \$37,462.11 for the water, sanitary sewer and drainage facilities to serve Cypress Landing Park, Section One; to approve Pay Estimate No. 2 for payment by the developer to Terbo Construction in the amount of \$22,417.91 for the water, sanitary sewer and drainage facilities to serve Cypress Landing Park, Section Two; to approve Pay Estimate No. 2 for payment by the developer to Big State Excavation in the amount of \$279,384.93 for the water and sanitary sewer facilities to serve The Shoppes at Fry Road; to approve Pay Estimate No. 2 for payment by the developer to Big State Excavation in the amount of \$2,347.60 for the water line extension at Jardine Drive and US Highway 290; to approve the agreement with Harris County for the relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One for an estimated cost of \$122,684.10; and to approve the response that the District does not have sufficient capacity to serve the new CCN located west of Telge Road and south of US Highway 290.

17. Review Investment Policy and accept related party disclosures from Investment officer and bookkeeper. The President recognized Mr. Pennington, who presented to and reviewed with the Board the Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto, a copy of which is attached hereto as Exhibit "L." Mr. Pennington stated that it is an annual requirement to review the District's investment policy to decide if any changes should be made to the current policy. He stated that the District bookkeeper is the investment officer for the District and there are no recommended changes to the policy. 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 Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto with no changes.

18. **Attorney's Report.** Mr. Pennington reminded the Board that an election judge has to be arranged for the upcoming director elections in May 2008. Director Handley stated that he would contact Ms. Nichols regarding the position and reserve the recreational center for the May 10, 2008 election.

19. **Renew District Insurance.** The President opened discussion to the Insurance Proposal by AquaSurance, a copy of which is attached hereto as Exhibit "M." The Board asked that the lift station on Mueschke Road be added to the insurance policy. The Board asked that it be confirmed that both water wells at Water Well No. 1 are included in the coverage. It was the consensus of the Board to increase the Public Employee Blanket Bond from \$10,000 to \$100,000.

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 accept the Insurance Proposal by AquaSurance with the Public Employee Blanket Bond coverage increased to \$100,000 and the addition of the lift station on Mueschke Road to the policy.

20. **Update on purchase of property for off-site rights of way and take any necessary action.** This was covered under the Engineer's Report.

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

22. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on December 21, 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.

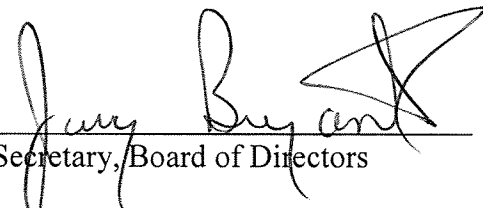
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The attached and foregoing minutes were passed and approved by the Board of Directors on December 21, 2007.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

