

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
December 21, 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 December 21, 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. Calvin Browne of Southwest Water Company, operator for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Tommy Lee of Assessments of the Southwest, tax assessor-collector for the District; Mr. Jimmy Pappas, developer of land within the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Corporal Blackledge, constable for the District; Mr. Don Staas and Ms. Dorothy Staas, District residents; 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 November 16, 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 November 16, 2007, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported that a resident emailed regarding a refund check after moving out of the District, which was forwarded to the operator. He stated that an email by a resident regarding meter reading accuracy was also forwarded to the operator for management. Director Bryant reported a resident emailed requesting the meeting minutes from the November Board meeting and that the

resident was informed that the minutes will be posted on the web site after the Board approves the minutes at the December board meeting.

The President recognized Mr. Staas, who informed the board that there were violent break-ins near the District. The Board requested that the matter be discussed under the Security Report.

3. **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 "B." Mr. Hirshman reported that Bay Utilities has completed the regrading of the ditch along the private street by Mr. Drew's house. He stated that Mr. Drew has an issue of standing water in the ditch. Mr. Hirshman reported that he will have it inspected today, which is two days after a rain, to observe if there is standing water. If there is no standing water, he will notify Mr. Drew that the work on the ditch is complete. Mr. Pennington asked Mr. Hirshman to contact Mindy Harper of F&J to prepare a release for Mr. Drew to sign regarding the work on the ditch.

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 that it allow the District to use a rate of 280 gallons per connection.

Mr. Hirshman reported that DEC has performed timing tests for the time between power shut off and generator start up at the water plant. He stated that it took 3.7 seconds for the generator to start up. Mr. Hirshman reported that the response to the Texas Commission on Environmental Quality ("TCEQ") denial of the request for an elevated storage tank requirement waiver has been submitted on December 13, 2007. Mr. Hirshman reviewed four water plant improvements totaling \$289,000 that may be requested by the TCEQ for the elevated storage tank requirement waiver. He estimated that the elevated storage tank would cost approximately \$950,000. Mr. Hirshman reported that the water plant improvements would be advisable only if the TCEQ is going to approve the waiver request. Mr. Pennington stated that the District is close to 2,400 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"). Mr. Hirshman stated that in the response by DEC, the interconnect was mentioned as in place and active.

Mr. Hirshman recommended approval of payment of Pay Estimate No. 3 to C. F. McDonald in the amount of \$130,022.10 for the generator installation and lift station electrical modifications. Mr. Hirshman reported that five of the District's six lift stations have been tested on the portable generator. He stated that the sixth lift station will be tested by an independent contractor. Mr. Hirshman reported that the generator at Water Plant No. 1 will be tested next week and that the fuel tank holds 2,000 gallons, which should manage the District's needs for close to one week. He stated that Water Plant No. 2 has a 1,000 gallon fuel tank for the generator.

Mr. Hirshman reported that the water and sanitary sewer facilities construction to serve The Shoppes at Fry Road is complete.

Mr. Hirshman stated that the waterline extension construction at Jardine Drive and US Highway 290 is complete.

Mr. Hirshman reported that Harris County is taking bids in January for the relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One.

Mr. Hirshman reported that Cypress Lakes Golf Course contacted him regarding effluent reuse on the golf course. He stated that he informed the caller that the District was not interested in spending the money on such project. Mr. Hirshman reported that the District never agreed to provide sanitary sewer service to the Cypress Lakes Golf Course and that he informed the golf course that the District would be willing to receive the wastewater if it constructs the utility lines to transport the wastewater at the golf course's expense.

Mr. Hirshman reported that the pump has been installed in the Cypress Mill Park One detention pond. He stated that the pump will be tested.

Mr. Hirshman reported that he sent Mr. Browne the horse power requirements for the wastewater treatment plant blowers.

Mr. Hirshman reported that the lift station on Mueschke Road was added to the insurance policy at the value of \$290,000, which was the construction cost.

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 Engineer's Report and to approve payment of Pay Estimate No. 3 to C. F. McDonald in the amount of \$130,022.10 for the generator installation and lift station electrical modifications.

4. **Security report and any necessary action.** The President recognized Corporal Blackledge, who reviewed with the Board the Security Report for the month of November, a copy of which is attached hereto as Exhibit "C." Corporal Blackledge reported that three Hispanic males broke into several houses near the District and made an attempt on one house in the District in Sydney Harbour. He reported that the break-ins occurred between 5:00 and 9:00 p.m., and that the suspects would knock on the door and kick the front door in if no one answered. Corporal Blackledge reported that the suspects obtained several guns from one house and used the guns to shoot up another house after the homeowner shot at them. He stated that no one was injured. Corporal Blackledge reported that the three suspects have been apprehended. He reported that he has notified the Homeowner Association that the suspects have been apprehended.

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 Security Report.

5. **Authorize President to execute revised Interlocal Agreement for Law Enforcement Service with Harris County.** The President recognized Mr. Pennington, who reported that Harris County will be providing a revised Interlocal Agreement for Law Enforcement Services between Harris County and the District for Corporal Blackledge's

promotion to sergeant. Corporal Blacklege reported that his promotion becomes effective February 2, 2008.

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 the President and Secretary to review and execute the Interlocal Agreement for Law Enforcement Services between Harris County and the District for five deputies and one sergeant.

6. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that the detention pond on the 3.7 acre site is complete. He stated that he continues to coordinate with Centerpoint Energy the relocation of the electricity poles. Mr. Hixon reported that Alicia's Restaurant is about to sign the lease for the new site for the restaurant and that the current location will become an Italian restaurant.

The President recognized Mr. Pappas, who reported that he has closed with IHOP. He reported that the waterline and force main connection under US Highway 290 has been made. Mr. Pappas reported that the on-site utilities are complete and that he is waiting on power for the on-site lift station. He reported that CVS Pharmacy has accepted the site and will begin the dirt work in the near future. Mr. Pappas reported that Burton Construction will construct the retail buildings, one 12,000 square feet and another 18,000 square feet. He reported that the retail building construction will begin after January 1, 2008.

7. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that the foundation has been constructed for the gazebo. He reported that the electricity for the gazebo will be addressed at a later time.

8. **Tax Assessor-Collector's Report and payment of bills.** The President recognized Mr. Lee, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "D." Mr. Lee noted that 1.86% of the District's 2007 taxes have been collected as of November 30, 2007.

Mr. Lee reported that check numbers 1301 through 1304 should be listed as refunds, not developer incentive fee.

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

9. **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 "E." Ms. Austin reported that she would contact Mr. Harrington to switch the electricity contract for the Mueschke Road lift station to the District's electricity contract.

Upon inquiry by Mr. Hixon on the funding pool panic in Florida, Ms. Austin reported that Texpool has issued a letter on the safety of its investments. She stated that the funding pools in Texas are secure and liquid as they invest only in the safest investments.

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

10. **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 "F." Mr. Browne reported that in response to the email by the resident regarding the meter reading accuracy, he arranged for the meter to be tested. He stated that the meter tested accurately and that he has notified billing to closely monitor the meter readings for that account.

Mr. Browne reported in response to the resident email regarding a refund, that the refund check has been issued for \$22.73.

Mr. Browne reported in follow-up to Ms. Thomas' request for removal of charges for water termination that did not occur; he reported that the payment came in at the same time the termination list was being generated and that Southwest Water Company accidentally identified her house for termination. Mr. Browne reported that Ms. Thomas has been credited for the charges caused by the error of Southwest Water Company. He stated that he has discussed the credit with Ms. Thomas and that she is satisfied.

Mr. Browne reported that Southwest Water Company has new phone numbers which will be on the resident water bills.

Mr. Browne reported that he has submitted the wastewater treatment plant blower horse power requirements to two companies requesting proposals for the centrifugal blowers.

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.

11. **Discuss solicitation of operator proposals and take any necessary action.** Director Bryant reported that three operators have been selected for requesting proposals, specifically Southwest Water Company, Municipal District Services and Eagle Water Management. It was the consensus of the Board to request the proposals for the next Board meeting and proceed accordingly. Upon motion by Director Henry, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted three to one, with Director Koehn abstaining, to authorize F&J to request the proposals from the specified operators.

12. **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.

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

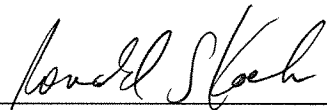
14. **Other matters.** No other matters were discussed.

15. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on January 18, 2008, 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 January 18, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

