

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
December 19, 2008

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 December 19, 2008, 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  
Angell Swedlund, Treasurer  
Tim Halloran, Secretary  
Jerry Bryant, Assistant Secretary

All members of the Board were present, except Directors Henry and Swedlund. Also attending all or portions of the meeting were 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. Tracy Riley of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Allen Schubert of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors, developer of land within the District; Lieutenant Cupit and Sergeant Blackledge, constables for the District; and Ms. Kathleen Ellison 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 of the meeting of November 21, 2008.** The proposed minutes of the meeting of November 21, 2008, previously distributed to the Board, were presented for review and approval. 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 minutes of November 21, 2008 as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on emails to the Board. He stated that a resident complained about water service termination. Director Bryant reported that the Cypress Mill Homeowners Association ("HOA") emailed. The President reported that he called and left a message with Ms. Trafton but has not spoken with

her. Director Bryant reported that Sergeant Blackledge emailed regarding the fence chain loose at Water Plant No. 2. He said he forwarded the information to Mr. Riley for management. Mr. Riley reported that the fence has been repaired. Mr. Riley reported that he has not yet completed the HOA water meter survey.

3. **Security report and take any necessary action regarding constable substation.** The President recognized Sergeant Blackledge, who presented to and reviewed with the Board the Security Report for the month of November, a copy of which is attached hereto as Exhibit "B."

Ms. Ellison asked the Board if it wanted to respond to Constable Hickman's letter regarding the lack of available resources for a constable substation in the District. The Board asked Ms. Ellison to draft a letter offering the free lease space to the Constable for use as a workspace for the District's deputies.

4. **Developers' Report, reimbursement issues and any necessary easements.** The President recognized Mr. Schubert, who reported that Daria's Italian Restaurant is scheduled to open by the end of January 2009.

Mr. Pappas reported that the Southwest Blood Bank signed a lease. He reported that the space remains available for the constables.

5. **Recreational Facilities Planning/Harris County Flood Control District Partnership and Report on Homeowners Association matters.** The President recognized Ms. Deitrick, who said Director Swedlund asked her to tell the Board that she contacted the HOA about mowing the strip along the U.S. Highway 290 frontage road from the lift to Cypress Chase Boulevard and the HOA indicated that it would clean up and mow the strip by January.

6. **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 "C." Ms. Bryant noted that 2% of the District's 2008 taxes had been collected as of November 30, 2008.

Ms. Bryant provided the Delinquent Tax Report by Perdue, Brandon, Fielder, Collins & Mott, L.L.P. ("Perdue"), a copy of which is attached hereto as Exhibit "D," which indicates that eleven accounts are eligible for water termination for non-payment of taxes. Ms. Bryant reported that notices would be sent out notifying the residents that they have the right to appeal to the Board at the January Board meeting before their water is terminated.

Upon motion by Director Halloran, 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, to authorize the expenditures listed therein, to approve the Delinquent Tax Report and to authorize the water termination letters to the eleven accounts on the Delinquent Tax Report. It was the consensus of the Board that the residents also receive red tags prior to termination of water service.

7. **Delinquent Tax Report and any necessary action.** This item was covered under the Tax Assessor-Collector's Report.

8. **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 reviewed the Quarterly Investment Report included in the Bookkeeper's Report. She stated that she would contact Mr. Herrington to coordinate the change from Reliant Energy to the District's electricity provider, Constellation Energy, for the lift station at The Shoppes at Fry Road.

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, to authorize payment of the checks listed therein and to approve the Quarterly Investment Report.

9. **Review Investment Policy.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Resolution Reviewing Investment Policy and Making Any Desirable Changes Thereto (the "Resolution Reviewing the Investment Policy"), a copy of which is attached hereto as Exhibit "F." Ms. Ellison reported that the Public Funds Investment Act requires the Board to review the District's investment policy annually. She further stated that there are no recommended changes to the current investment policy at this time. Ms. Ellison reviewed the goals of the investment policy. The Board discussed the diversification of the District's investments and requested that Ms. Austin bring information on additional local government investment pools and a Certificate of Deposit ("CD") interest rate sheet to the next Board meeting. Ms. Ellison noted that CDs qualify for Federal Deposit Insurance Corporation coverage, but funds in local government investment pools do not.

Upon motion by Director Halloran, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Resolution Reviewing the Investment Policy and to maintain the current investment policy.

10. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement expenses and grant of easements.** 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 "G." Mr. Hirshman reported on development in Cypress Landing Park. He reported that DEC inspected the Cypress Landing Park detention ponds and that the contractor is addressing the punch list items.

Mr. Hirshman reported that the wastewater treatment plant generator plans are 70% complete. He stated that DEC may be ready to advertise the generator project for bid in February. Ms. Ellison reported that the Federal Emergency Management Agency ("FEMA") has a grant program which may be utilized for generator costs. She stated that if the District chooses to proceed with applying for the grant, it would need to file a notice of interest by January 9, 2009. The President reported that 95% of the grant funds are for flood plain issues and 5% is for generators. Mr. Hirshman reported that the grant funds are not expected until the end of 2009 and that utility districts cannot install the generators until receipt of the grant funds. It was the consensus of the Board to pursue installation of the generator without applying for a FEMA grant.

Mr. Hirshman reported that he received a request for wastewater treatment

capacity from Edminster Hinshaw Russ and Associates, included in the Engineer's Report. He reported that the District does not have the wastewater treatment capacity available. The Board asked Mr. Hirshman to inform Edminster Hinshaw Russ and Associates that the District does not have the capacity available.

Mr. Hirshman presented to and reviewed with the Board a Storm Water Solutions proposal in the amount of \$485 for back slope repairs in connection with removal of the foot bridges.

Mr. Hirshman presented to and reviewed with the Board a request for out of District service to a resident on Cypress Church Road. Mr. Hirshman reported that he informed the resident that he would have to pay the tap fees and out of District water rate. He stated that there would be no costs to the District as the waterline is located in front of the property. Mr. Hirshman stated that water meter access may be an issue and that either the resident would have to provide the access code for the gate or read his water meter and provide the reading to Eagle Water. The Board agreed to notify the resident that the District is willing to provide water service on an out of District basis. The Board asked that Ms. Ellison draft a letter to the resident which specifies the conditions for obtaining service. The Board further asked Ms. Ellison to provide the resident with a copy of the District's Rate Order.

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 Engineer's Report; to inform Edminster Hinshaw Russ and Associates that the District does not have the wastewater treatment capacity; to accept the Storm Water Solutions proposal for back slope repairs in the amount of \$485; and to authorize Ms. Ellison to send a letter to the resident on Cypress Church Road regarding out of District water service.

11. **Consider action on generator funding.** No action was taken on this item.

12. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Riley, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "H." Mr. Riley reported that approximately 74 water terminations were performed last month due to delinquencies.

Mr. Riley reported that the wastewater treatment plant non-potable pumps were clogging the well screen. He stated that Neil Technical Services has installed new screens which seem to have alleviated the problem. Mr. Riley reported that Neil Technical Services replaced the belts on blower #2 at the wastewater treatment plant. He reported that the blower is still under warranty. Mr. Riley reported that all three blowers are operating at the wastewater treatment plant.

Mr. Riley presented to and reviewed with the Board the Usage for HOA Irrigation Accounts, a copy of which is attached hereto as Exhibit "I." He reported that the irrigation meter on Mills Park appears to be for a detention pond. Mr. Riley reported that the HOAs are paying the North Harris County Regional Water Authority fee on their water usage. The President

reported that the Mills Park meter is a District meter. Mr. Riley noted that the meter on Cypress Orchard may also be a District water meter. The President confirmed that the Cypress Orchard meter is a District meter. The President requested that Mr. Riley confirm that the Cypress Estates Detention Pond irrigation meters are in the District's name. Mr. Riley stated that he would stop billing the HOA for the Mills Park and Cypress Orchard water meters. The President requested that Mr. Riley research the large volume of water usage at the Sans Souci Drive water meter in Sydney Harbour.

Upon motion by Director Halloran, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operations Report; to terminate the delinquent accounts in accordance with the Rate Order; and to change the account name for the Mills Park and Cypress Orchard water meters.

13. **Review Water Rates and any necessary action.** No action was taken on this item.

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 16, 2009, 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.

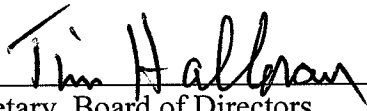
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The attached and foregoing minutes were passed and approved by the Board of Directors on January 16, 2009.



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President, Board of Directors

ATTEST:



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Secretary, Board of Directors

(DISTRICT SEAL)

