

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
January 18, 2008

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 January 18, 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
- 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 Southwest Water Company, 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. Jimmy Pappas, developer of land within the District; Mr. Allen Schubert of Cymill Partners, developer of land within the District; Mr. Greg Wamhoff of Centex Homes, developer of land within the District; Mr. Greg Sissel of BKD, L.L.P. ("BKD"), auditor for 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 December 21, 2007, 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 December 21, 2007, as presented.
2. **Public Comments and letters from residents.** Director Bryant reported that a resident emailed the District web site concerns that construction of the gazebo in the Cypress Mill Estates is unequal treatment to the District residents. Director Bryant stated that he wanted to discuss the email with the Board and has not responded to the email. The Board discussed that the gazebo was requested by the Cypress Mill Homeowners' Association

("HOA") and that the Board first rejected the request due to concern of uneven treatment of the subdivisions in the District; however, the HOA maintained that the District had worked on other areas in the District and that the gazebo would equalize recreational enhancements provided by the District. Upon motion by Director Henry, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board authorized Director Bryant to relay this information to the resident and to suggest to the resident to discuss any additional recreational enhancements with the HOA.

Director Bryant reported that there were a couple of emails from the District web site regarding moving in or out of the District, which he forwarded to Mr. Browne for management.

3. **Security report and any necessary action.** Director Henry reported that he met the two new deputies that Corporal Blackledge is training. He reported that Cypress Ridge has a Homeowners' Association which has requested the crime statistics for the District, which he has provided. Director Henry reviewed the Security Report for the month of December, a copy of which is attached hereto as Exhibit "B."

4. **Appoint Auditor for Fiscal Year Ending February 28, 2008.** The President recognized Mr. Sissel, who reviewed with the Board the letter by the Water District Auditor Working Group on the new auditing standards, a copy of which is attached hereto as Exhibit "C." Mr. Sissel reported that the primary objective of new Statements on Auditing Standards Nos. 104-111 (the "Risk Assessment Suite") is to enhance the auditor's ability to identify and respond to risks of material misstatement. He noted that the Risk Assessment Suite requires the auditor to do more. Mr. Pennington asked if BKD would be providing written procedures for the District's consultants to reduce risks in management of the District's finances. Mr. Sissel reported that questionnaires would be distributed to determine the existing procedures used by the District's consultants. He stated that after testing the existing procedures, BKD will make determinations on areas for improvement. Mr. Sissel reported that BKD would report to the Board any procedures that impact the District's financials and may advise the District's consultants on opportunities to improve the procedures.

Mr. Sissel presented to and reviewed with the Board an engagement letter for BKD, L.L.P. for fiscal year ending February 28, 2008, a copy of which is attached as Exhibit "D." Mr. Sissel requested that the Board consider engaging the services of BKD, L.L.P. to prepare the District's annual audit for fiscal year ending February 28, 2008, at an estimated cost of \$13,800, with an additional \$2,000 to \$3,000 for the set-up work to implement the Risk Assessment Suite.

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 engagement letter and authorize the President to execute the letter.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Wamhoff, who reported that Centex Homes has closed on four homes and sold ten homes. He stated that the recreation center, pool and park are complete. Mr. Wamhoff reported that Centex Homes is beginning design of the next section with sixty foot lots. He

reported that overall home sales are decreased by approximately 20% compared to last year; however, he stated that it is location specific. The Board and consultants discussed the impact of the subprime market on the housing market.

Mr. Schubert stated that there is trash in the detention pond behind his retail center and requested that Mr. Hirshman inspect the detention pond to determine whether it needs to be cleaned out. Mr. Hirshman reported that the District just paid \$10,000 to clean out the detention pond last summer. He stated that the detention pond will fill in with silt and debris as long as construction is occurring. Mr. Schubert reported that Mr. David Herrera would be providing a proposal for additional parking and landscaping for the Board's consideration.

Mr. Pappas reported that CVS Pharmacy has prepared its pad. He stated that IHOP Restaurant is on site and is expected to mobilize next week. Mr. Pappas reported that the foundation for the retail buildings is expected to be poured next week. Mr. Hirshman stated that he has not seen the plans for the retail buildings and requested two sets of plans so the operator may have a set. Mr. Pappas stated that he would have his engineer provide the necessary plans.

6. Recreational Facilities Planning/Harris County Flood Control District Partnership. No action was taken on this item.

7. 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 "E." Ms. Bryant noted that 33% of the District's 2007 taxes have been collected as of December 31, 2007.

Ms. Bryant reported that check numbers 1268, 1283 and 1290 have been voided as they are stale dated.

Ms. Bryant reviewed with the Board the Developer Incentive Fee Report and Delinquent Tax Roll.

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.

8. Consider Property Tax Exemptions. Mr. Pennington presented to and reviewed with the Board the Order Adopting Exemption from Taxation for Individuals Who are Disabled or are 65 Years of Age or Older (the "Order"), a copy of which is attached hereto as Exhibit "F." Ms. Bryant informed the Board that in 2007 the District offered an exemption of \$20,000 of the appraised value of residence homesteads within the District for individuals who were disabled or were 65 years of age or older. Ms. Bryant reported that 126 accounts qualify for these exemptions 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 Order with an exemption of \$20,000 of the appraised value of residence homesteads within in the District for individuals that are disabled or 65 years of age or older

9. **Authorize contract with delinquent tax attorney to enforce the collection of delinquent taxes.** The President recognized Mr. Pennington who reported that the District has an evergreen contract with Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 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 extension of the contract with Perdue, Brandon, Fielder, Collins & Mott, L.L.P. for the collection of delinquent taxes.

10. **Authorization of additional 20% penalty on taxes, penalty, and interest remaining delinquent.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Resolution Authorizing Additional Penalty on Delinquent Taxes under Sections 33.07, 33.11 and 33.08, Tax Code, a copy of which is attached hereto as Exhibit "G." Mr. Pennington reported that due to recent legislation, delinquent taxes on personal property can incur an additional penalty as of April 1 to pay for the delinquent tax attorney to pursue collection. 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 authorize the Resolution Authorizing Additional Penalty on Delinquent Taxes under Sections 33.07, 33.11 and 33.08, Tax Code.

11. **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 "H."

Mr. Pennington reported that a Florida governmental entity investment pool recently had a liquidity issue. He stated that it has come to his attention that Texpool may have some risk and advised that it may be imprudent to keep all of the District's liquid funds in Texpool. He reported that Texpool invested in AAA commercial paper, which at this time may not be as stable and safe as believed due to recent events with financial companies. Mr. Pennington stated that the Board may want to consider diversifying the District's funds into another investment pool and short term certificates of deposit ("CD"). Ms. Austin stated that she will research long term CDs and money markets to diversify the District's funds.

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 Bookkeeper's Report, to authorize payment of the checks listed therein, to authorize the transfer of \$1,000,000 of the District's funds into CDs, another investment pool and money markets and the execution of necessary documents to accomplish said transfer.

12. **Adopt Budget for Fiscal Year Ending February 28, 2009.** This item was deferred.

13. **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 "I." Mr. Browne reported that he has submitted the wastewater treatment plant blower horse power requirements to two companies requesting proposals for the centrifugal blowers and has received one proposal. He noted that currently there are the two repaired positive displacement blowers and one free rental centrifugal blower at the wastewater treatment plant. Mr. Browne reported

that the blower manufacturer has been contacted regarding return of the blower at the manufacturer for repair; however, he has not heard back.

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

14. **Review operator proposals and take any necessary action.** Director Bryant reported that Director Henry and he began reviewing the proposals before today's Board meeting and that they would require more time before being able to make a recommendation to the Board, copies of which are attached hereto as Exhibits "J," "K" and "L." He asked the Board if it wanted the operators to attend the next Board meeting to discuss their proposals. The consensus of the Board was not to have the operators present their proposals. Mr. Hirshman questioned if the operators being considered would know how to operate the wastewater treatment plant. Mr. Pennington noted that two of the operators being considered have operated the plant and that Mr. Dannenbaum's contact information was in the request for proposal. No action was taken on this item.

15. **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 "M." 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 it is a very small and shallow amount of water in the ditch. He reported that he would request Bay Utilities add some sand in the area of the standing water. He reported that Mr. Drew has emailed Ms. Harper at F&J regarding the ditch.

Mr. Hirshman reported on Cypress Landing and Cypress Landing Park. He reported that the utilities construction and detention facilities are complete in Cypress Landing Park, Section One, and that the certificate of completion has been issued. Mr. Hirshman reported that the utilities construction is completed and certificate of completion has been issued for Cypress Landing Park, Section Two.

Mr. Hirshman noted that the last submittal for the waiver of the elevated storage tank requirement was on December 13, 2007. He stated that no further action has been taken.

Mr. Hirshman recommended approval of payment of Pay Estimate No. 4 to C. F. McDonald in the amount of \$260,100.00 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 needs a modification of the plug which is currently not compatible with the portable generator. Mr. Hirshman reported that the operator has been provided the operation and maintenance manual for the generator. He reported that the contractor should complete the punch list by next month.

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

line construction and review the bacteriological test results.

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

Mr. Hirshman reported that the final inspection of the detention ponds for the 3.7 acre tract is scheduled for next week.

Mr. Hirshman reported that Harris County received bids on January 14, 2008 for the widening of Cypress Rosehill and relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One. He stated that work is expected to begin by March 1, 2008, and that the project is expected to take at least eighteen months. Mr. Hirshman reported that he has not reviewed the bids or is aware of which contractor got the project.

Mr. Hirshman reported that Cypress Lakes Golf Course has not recontacted him regarding effluent reuse on the golf course.

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; to approve completion of Cypress Landing Park, Sections One and Two; and to approve payment of Pay Estimate No. 4 to C. F. McDonald in the amount of \$260,100.00 for the generator installation and lift station electrical modifications.

16. **Attorney's Report.** There was no Attorney's Report.

17. **Adopt Order Calling Directors Election.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Order Calling Directors Election, a copy of which is attached hereto as Exhibit "N." Mr. Pennington reported that the early voting has been arranged to be held at Ms. Nichols' house. Director Handley stated that he would reserve the recreational center for election day. Mr. Pennington stated that electronic voting machines are available from Harris County and Diebold Election Systems. He stated that the cost is approximately \$2,000 for Harris County and \$4,500 for Diebold Election Systems. Mr. Pennington recommended rental of the voting machine from Diebold Election Systems as it will provide a turnkey service with training and support on election day. Mr. Pennington stated that notice of the election may be published or posted in the District. 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 Order Calling Directors Election, publication of the Notice of Election in the District, and rental of the electronic voting machine from Diebold Election Systems, if necessary.

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

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

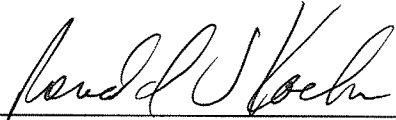
20. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on February 15, 2008, at 11:00 a.m. at the offices of Fulbright &

Jaworski L.L.P., 1301 McKinney, Houston, Texas, and the March board meeting will be on March 28, 2008 and the April board meeting will be April 25, 2008.

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 February 15, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

