

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
February 15, 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 February 15, 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; Mr. Tommy Lee of Assessments of the Southwest, tax assessor-collector for the District; Mr. Gregory Pappas, developer of land within the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Lieutenant Cupit, Sergeant Blackledge and Deputy Uhlig, constables 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 January 18, 2008, 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 January 18, 2008, as presented.
2. **Public Comments and letters from residents.** Director Bryant reported that he did not respond to the resident that emailed concerns that construction of the gazebo in the Cypress Mill Estates is unequal treatment to the District residents. He stated that the email did not pose a question and was more of an opinion.

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. **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 "B." Mr. Lee noted that 86% of the District's 2007 taxes have been collected as of January 31, 2008.

Mr. Lee reported that the delinquent notices would be sent today.

Mr. Lee presented to and reviewed with the Board a resident letter requesting waiver of penalty and interest for the 2007 taxes as the resident was in Florida, a copy of which is attached hereto as Exhibit "C." Mr. Lee stated that he would determine if the resident qualifies for the disability exemption, which would allow him to pay in quarterly installments. The Board discussed whether the resident received the tax bill as the letter states the resident's mail was returned to sender in his absence and he just purchased the house in September 2007. Mr. Lee stated that he would confirm a tax bill was sent to the resident. It was the consensus of the Board to only waive the penalty and interest if a tax bill was not sent to the resident.

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, to authorize the expenditures listed therein, and to waive Mr. Jiralerspong's penalty and interest for the 2007 taxes if a tax bill was not sent to him.

4. **Security report and any necessary action.** Director Henry introduced Lieutenant Cupit and Deputy Uhlig. Sergeant Blackledge reviewed with the Board the Security Report for January, a copy of which is attached hereto as Exhibit "D." Sergeant Blackledge reported that there were purse snatchings occurring in the District; however, the criminals have been apprehended after they were located by use of a stolen credit card. Mr. Hixon informed Sergeant Blackledge that there are cameras on his retail property and monitors for viewing if needed by him.

Sergeant Blackledge reported that as the District has added another deputy for the District, there is another constable vehicle which needs to be equipped with an automated external defibrillator. He stated that the price from Rescue Medical Products for the automated external defibrillator is \$1,384 plus \$99 for the carrying case, for a total of \$1483. Sergeant Blackledge requested authorization to purchase the automated external defibrillator.

Mr. Pennington asked if there is an established protocol for crime prevention. Sergeant Blackledge reported that he has attended the homeowners' association meetings and held Rape Aggression Defense classes. He stated that visibility is the key to preventing crime. Mr. Pennington asked if issuing traffic citations was the most effective method of preventing crime in the District. Lieutenant Cupit reported that traffic stops are the best deterrent of crime as the criminals see the deputies and move on to another area. Sergeant Blackledge noted that criminals are also apprehended during traffic stops, after finding guns, stolen goods and drugs in the vehicles.

Sergeant Blackledge reported that new laws prohibit the purchase of water from private water wells. He stated that when people ask him about purchasing water, he directs them to the attorney to discuss the matter. Mr. Pennington stated that he has not received any recent questions regarding the purchase of water or about annexation to receive water service.

Upon motion by Director Halloran, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Security Report and to approve the purchase of the automated external defibrillator from Rescue Medical Products in the amount of \$1,483.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that construction has begun of the new Alicia's Restaurant. He stated that Centerpoint Energy is not cooperating with the relocation of the power lines. Mr. Hixon reported that construction of the next professional building will begin when he has three letters of intent.

The President reported that parking on one of the District's landscape reserves was discussed with developers in the District. He stated that he informed the developers to request using the landscape reserve for parking of the District. Mr. Hirshman reported that there are twelve inch waterlines in the reserve.

Mr. Pappas reported that CVS Pharmacy is proceeding with construction. He stated that a portion of the foundation for his retail space has been poured. Mr. Hirshman reported that the preliminary inspection of the waterline for The Shoppes at Fry Road has been performed. He stated that he received copies of all the bacteriological test results, which all passed. Mr. Hirshman reported that Corinthian Fry Road can use the water for construction and that once all the necessary inspections have been performed, then the water can be used in the buildings.

6. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that the gazebo and landscaping are complete.

7. **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 the signature card presented is for the Certificate of Deposit purchased at Texas State Bank in the Operating Fund.

Ms. Austin presented to and reviewed with the Board the Operating Fund Proposed Budget for fiscal year ending February 28, 2009, included in the Bookkeeper's Report. She stated that she uses averages and forecasting to prepare the future budget. Director Handley noted that Patrol Services expenses appeared to be low as the District added a deputy. Ms. Austin agreed that Patrol Services should be adjusted to \$360,000. Mr. Hirshman reported that \$110,000 should be in the budget for the relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One. He stated that this would be paid to Harris County and should be listed as a special project.

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 Bookkeeper's Report, to authorize payment of the checks listed therein, and to adopt the proposed budget for fiscal year ending February 28, 2009 with the adjustment of Patrol Services to \$360,000 and the addition of \$110,000 for the relocation of the District's utilities conflicting with the construction of Cypress Rosehill, Phase One.

8. **Adopt Budget for Fiscal Year Ending February 28, 2009.** This item was covered under the Bookkeeper's Report.

9. **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 noted that account Route 10 Number 380 on the termination list is due to high usage. He noted that the Centex Homes accounts on the termination list are from back charges and noted that the builder has a builder deposit on file.

Mr. Browne reported that he is still waiting on a proposal for the centrifugal blower for the wastewater treatment plant.

Mr. Browne reported that the Superior Water sign which has gone missing is in the process of being replaced.

Mr. Browne reported that the emails forwarded by Director Bryant have been investigated and managed by a Southwest Water Company representative.

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

10. **Review operator proposals and take any necessary action.** Director Bryant reported that Director Henry and he reviewed the operator proposals by Southwest Water Company, Municipal District Services and Eagle Water Management, interviewed the operators and prepared a spreadsheet of normal monthly charges, work tickets and tap fees. Director Bryant presented to and reviewed with the Board the spreadsheet comparing the charges by the operators, a copy of which is attached hereto as Exhibit "G." Director Bryant reported that two of the operators had Class AA operators, all had the necessary equipment and all had the necessary software and backup systems for management of the accounts receivables. Director Bryant reported that Director Henry and he recommended hiring of Eagle Water Management for the District due to the company's capabilities, experience and competitive pricing.

Mr. Pennington stated that a thirty day notice must be provided to Southwest Water Company and recommended April 1, 2008 for the contract with Eagle Water Management, Inc. Mr. Browne reported that all the necessary information for management of the District's facilities and accounts would be provided to Eagle Water Management, Inc. Mr. Hirshman recommended that work on the blowers at the wastewater treatment plant be deferred until Eagle Water Management, Inc. becomes the operator. Mr. Browne concurred with the recommendation and stated that pending work orders for the District will be completed but only emergency work will be performed to prepare for the change in operators.

Upon motion by Director Bryant, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted four to zero with Director Koehn abstaining, to approve the engagement of Eagle Water Management, Inc. as the operator for the District effective April 1, 2008.

11. **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 "H." Mr. Hirshman reported that Bay Utilities has added additional sand in the ditch along the private street by Mr. Drew's house. He stated that Mr. Drew is still not satisfied. Mr. Pennington asked that Mr. Hirshman discuss the matter with Ms. Harper of F&J to determine the preferred course of proceeding now that all the work has been performed.

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. 5 to C. F. McDonald in the amount of \$47,846.90 for the generator installation and lift station electrical modifications. He reported that the contractor is completing the punch list.

Mr. Hirshman reported that the waterlines to serve The Shoppes at Fry Road have been inspected and that he received the plans from the developer.

Mr. Hirshman reported that the final inspection of the detention ponds for the 3.7 acre tract has been performed and the punch list completed. He stated that Mr. Hixon has provided Change Order No. 1 in the amount of \$1,920.00 for an articulated concrete block between the detention ponds and Change Order No. 1A which changes the quantities of items and results in no change in amount.

Mr. Hirshman reviewed the bid tab for the widening of Cypress Rosehill Road and the relocation of the District's conflicting utilities. He reported that the low bidder was Pace Services and that Pace Services bid \$103,775 for the District's utility relocation work.

Mr. Hirshman reported that the owner of a one acre tract south of U.S. Highway 290 and east of Fry Road requested utility service. He stated that he informed the landowner that the tract would have to be annexed into the District and reviewed the costs and procedures involved in annexation.

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 Engineer's Report; to approve payment of Pay Estimate No. 5 to C. F. McDonald in the amount of \$47,846.90 for the generator installation and lift station electrical modifications; and to approve Change Order No. 1 in the amount of \$1,920.00 for an articulated concrete block between the detention ponds and Change Order No. 1A for change in the quantity of items with no change in amount for the detention facilities to serve Cypress Mill Plaza.

12. **Sydney Harbour Interests, Ltd. request for reimbursement.** Mr. Hirshman reported that Sydney Harbour Interests has requested reimbursement of \$1,500,000 for Sydney Harbour, Sections Three and Four. The Board discussed the lack of cost effectiveness of such a small bond issue. Mr. Hirshman stated that Centex Homes, Kimball Hill Homes and Corinthian Fry Road Investors will be ready for reimbursement fairly soon. It was the consensus of the Board that it would be better to wait for the other developers and reimburse Sydney Harbour Interests at that time. The Board instructed Mr. Hirshman to notify Sydney Harbour Interests, Ltd. that the reimbursement will be in the next bond issue but that it will not be soon.

13. **Attorney's Report.** Mr. Pennington reported that the ratings of some municipal bond insurers have been downgraded; however, none of the rating downgrades have involved the District's bonds. He stated that if insurers for the District's bonds are downgraded, a notice will be filed pursuant to continuing disclosure requirements of the bonds.

14. **Approve First Amendment to Interim and Emergency Water Supply Contract with Harris County Municipal Utility District No. 391.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the First Amendment to Interim and Emergency Water Supply Contract with Harris County Municipal Utility District No. 391 ("First Amendment"), a copy of which is attached hereto as Exhibit "I." Mr. Pennington reported that the First Amendment terminates the interim water supply provisions of the contract and retains the supply of water in emergency situations, which is all that the District requires at this time. Mr. Hirshman reported that the District has two interconnects with Harris County Municipal Utility District No. 391. The Board discussed the costs involved in installing compound meters at the interconnects. 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 First Amendment.

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

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

17. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on March 28, 2008, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas, 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 March 28, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

