

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
April 25, 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 special session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on April 25, 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, except Director Handley. Also attending all or portions of the meeting were Ms. Wendy Austin of District Data Services, Inc., bookkeeper 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. Tracy Riley of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Lieutenant Cupit and Sergeant Blackledge, constables 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 March 28, 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 March 28, 2008, as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on resident emails to the District website. He stated that he forwarded to Eagle Water a request for a reconnect. Director Bryant reported that he forwarded to Director Handley an email regarding long grass in Cypress Mill Park II along the detention pond. He stated that Director Handley is coordinating clean out of the drainage channel with Storm Water Solutions. Director Bryant reported that the Cypress Mill Homeowners Association ("HOA") emailed requesting

removal of the graffiti on the fence by the lift station on US Highway 290. He stated that there is no access to water at that location and that Eagle Water is working on the removal of the graffiti. Director Bryant reported that the HOA also requested the District mow its land on Arbormont Drive by Water Well No. 1, which Eagle Water has mowed. Director Bryant reported that he has requested that the HOA repair its irrigation leak at Cypress Chase Boulevard, just south of the bridge, as Eagle Water has determined that it belongs to the HOA.

3. **Security report and any necessary action.** The President recognized Sergeant Blackledge, who presented to and reviewed with the Board the Security Report for the month of March, a copy of which is attached hereto as Exhibit "B." He reported that the residents are taking new shortcuts through the District due to the construction on Cypress Rosehill. Sergeant Blackledge reported that the speed trailer will be brought into the District for placement on Cypress Mill Park Drive.

Sergeant Blackledge reported that the news report on Channel 11 last night related to the times the District added deputies to the contract in July 2007 and January 2008. He stated that it takes a couple weeks to train a new deputy and during that time, park deputies were assigned to the contract to cover until the new deputy was ready. Sergeant Blackledge reported that Lieutenant Cupit performed an audit of all time sheets for the deputies that worked for the District. He reported that the deputies worked the following percentages outside of the contract area for July 2007: Deputy Broussard 5%, Deputy Brooks 31%, Deputy Lineberry 28%, Deputy Mills 17%, Deputy Blackledge 8%. He reported that the deputies worked the following percentages outside of the contract area for January 2008: Deputy Gonzalez 25%, Deputy Mills 16%, Deputy Brooks 11%, Deputy Lineberry 21% and Deputy Blackledge 11%. Lieutenant Cupit reported that the contract percentage is based on a monthly average, not a daily average. Lieutenant Cupit reported that in July 2007, there were 25 openings in July 2007 and it is normal to have the park deputies cover contracts while the new deputies are being trained. Lieutenant Cupit reported that there were some errors in the time reports, where the deputies were incorrectly charging time off the contract when they were still on contract time. He stated that in other areas, the supervisors were not closely reviewing the time reports of their deputies. Mr. Pennington stated that the news report accused the Constable's office of falsifying records. Lieutenant Cupit stated that there will be an investigation of these allegations. Sergeant Blackledge reported that the deputies were making errors on the daily time reports and that the Constable's office is the only entity still using the daily time reports. Sergeant Blackledge reported that the daily time reports were going to be eliminated and that the Constable's office would use an entirely computer based timekeeping system. He stated that the deputies would input the number of calls they made each day and whether the calls were contract calls. Sergeant Blackledge reported that the deputy and sergeant will be responsible to monitor the time spent on contracts with the removal of the daily time reports. He stated that the dispatcher will notify the supervisors when a deputy has spent thirty minutes on a non-contract call. Lieutenant Cupit reported that more non-contract calls will be forwarded to the sheriff's office for management to allow the deputies to stay in the contract areas.

Mr. Hixon mentioned design of the new professional building and asked the deputies if they still wanted space in the building. Sergeant Blackledge stated that an accessible bathroom would be appreciated and nothing else. He stated that if the District was interested in a constable substation, the District would have to pay for the associated costs of a substation and

that eventually parking may become an issue due to expansion. Mr. Hixon concurred that twenty to twenty-five patrol cars at one time would present a parking issue for his professional building.

Sergeant Blackledge reported that he is coordinating a contract with Harris County Municipal Utility District No. 391 ("391") as most of the non-contract calls managed by the District's deputies are in 391. He stated that 391 could utilize two deputies now and add more as the area is developed. Sergeant Blackledge stated that ideally each utility district would have a separate contract with the Constable's office and also have a security sharing agreement between the two utility districts as 391 is surrounded by the District and this would facilitate efficient coverage by the deputies.

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.

4. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that construction of the new Alicia's Restaurant is progressing.

Ms. Deitrick reported that Mr. Pappas stated that the Shoppes at Fry Road is progressing and he expects the tenant build-out to begin in a month. She stated that the speculative space is 60% leased.

Mr. Pennington reported that Kimball Hill Homes has filed Chapter 11 for reorganization. He stated that Kimball Hill Homes has paid the 2007 taxes and reportedly has operating funds available. Mr. Pennington stated that the utilities construction in the District is complete and that the developer intends to continue with home construction.

5. **Approve order authorizing application for use of surplus funds for Cymill Partners 8.8 acre tract.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Order Authorizing Application for Approval by Texas Commission on Environmental Quality for Use of Surplus Funds ("Authorizing Order"), a copy of which is attached hereto as Exhibit "C." Mr. Hixon reported that in preparation of the documentation of the expenditures, he identified additional necessary documents which he has requested from the engineer. He stated that once he has all the documentation prepared, he will provide it to Mr. Hirshman for review. 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 Authorizing Order for an amount not to exceed \$110,000 and submittal to the Texas Commission on Environmental Quality once reviewed and approved by Mr. Hirshman.

6. **Easement for CenterPoint Energy for the Shoppes at Fry Road tract**
No action was taken on this item.

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

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 94% of the District's 2007 taxes have been collected as of March 31, 2008.

Mr. Lee reported that check number 1358 would be voided and the refund will be deposited towards payment of delinquent 2006 taxes for that property.

Mr. Lee reported that the delinquent notices informing residents of the additional penalty of 20% effective July 1 will be sent in May.

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.

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 asked if the utilities relocation project on Cypress Rosehill may be paid from the Capital Projects Fund. Mr. Hirshman and Mr. Pennington stated that the \$117,265.75 for the utilities relocation may be paid from the Capital Projects Fund as it is an existing facility.

The President stated that there was a \$16,000 charge for a lift station pump repair which included a \$4,000 charge for damage to a rental pump. He stated that the District should not have to pay for damage caused by Southwest Water Company. Mr. Riley reported that pump #2 is out again at the lift station. He reported that the pump was working when Eagle Water assumed management of the District's operations. The President asked for clarification of the charges and stated that the invoice does not indicate what company repaired the pump, however, the pump should be under warranty and should be repaired for free as it has not even been thirty days. Mr. Riley stated that he will discuss the lift station pump charges with Southwest Water Company. The President asked that a check be prepared to Southwest Water Company for all charges except the lift station pump repair charges.

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 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. Riley, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "F." Mr. Riley reported that the billing information was provided by Southwest Water Company.

Mr. Riley reviewed the repairs performed in the District, included in the Operations Report. He reported that blower #2 is missing from the wastewater treatment plant and asked for confirmation that the blower was at Gardner Denver. The Board believed the blower was at the manufacturer because it was previously repaired by the manufacturer and soon failed after return to the plant. Mr. Riley stated that he will contact Southwest Water Company and work on locating the missing blower. Mr. Hirshman stated that he would prefer to have

Eagle Water manage the wastewater treatment plant for a while with the positive displacement blowers to determine if the switch to centrifugal blowers is really indicated. Mr. Riley stated that the District may require a standby blower in case of an emergency.

The President reported that after obtaining the Storm Water Solutions quote for repair of the sinkhole, it was determined that Eagle Water could perform the repair for less cost to the District. Mr. Riley reported that the underground voids were filled with cement grout.

Upon review of the commercial taps, Mr. Hirshman confirmed that Mr. Riley understood not to connect to the buildings at the Shoppes at Fry Road development. He stated that the entire utility system at the location needs to be complete and inspected before connections are made to the buildings. Mr. Riley stated that he knew not to connect to the buildings. He stated that the taps were made and meters installed.

Mr. Riley reported that there are no water terminations this month due to the transition to a new operator.

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 Operations Report.

11. **Amend Rate Order.** No action was taken on this item.

12. **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 "G." Mr. Hirshman reported that Ms. Harper of F&J has not received a reply from Mr. Drew's attorney to the letter that stated no additional work would be performed on the ditch along the private street.

Mr. Hirshman noted that Texas Commission on Environmental Quality ("TCEQ") has denied the request for the waiver of the elevated storage tank requirement. He stated that the letter by the TCEQ requested that the modeling scenarios be redone utilizing a different flow rate per connection. Mr. Hirshman stated that DEC is preparing the requested revised modeling scenarios and that the response will be submitted to the TCEQ next week.

Mr. Hirshman reported receipt of an invoice for \$117,265.75 for the relocation of the District's utilities as part of Harris County's Cypress Rosehill Road Phase One project. He stated that Harris County was paid.

Mr. Hirshman reported that Mr. Hixon has requested the installation of bollards in front of the above ground water lines located at the northwest corner of the commercial tract entrance by Walgreens. Mr. Hirshman recommended that the bollard installation be delayed until after completion of the Cypress Rosehill Road Project. It was the consensus of the Board to delay the installation of the bollards until the Cypress Rosehill Road project is complete.

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 Engineer's Report.

13. **Attorney's Report.** There was nothing to report on this item.

14. **Begin compilation of Continuing Disclosure Materials.** 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 financial advisor and attorney to begin compilation of the continuing disclosure materials.

15. **Update on purchase of property for off-site rights of way and take any necessary action.** No action was taken on this item.

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 May 16, 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.

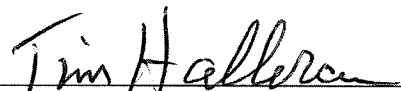
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The attached and foregoing minutes were passed and approved by the Board of Directors on May 16, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

