

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
July 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 July 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. 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. Jimmy Pappas of Corinthian Fry Road Investors, developer of land within the District; Ms. Angell Swedlund, Mr. Don Staas, and Ms. Dorothy Staas, District residents; and Mr. Oliver Pennington, 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.** The proposed minutes of the meeting of June 20, 2008, previously distributed to the Board, were presented for review and approval. Upon motion by Director Henry, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of June 20, 2008 as presented.

2. **Public Comments and letters from residents.** Director Bryant reported on resident emails to the District web site. He reported receipt of an email from Mr. Howard stating his dissatisfaction with the continuation of recycling in Cypress Mill. Director Bryant reported receipt of three emails regarding billing issues which were forwarded to the operator for management. Director Bryant reported receipt of an email from Ms. Dellinger regarding the large increase in the North Harris County Regional Water Authority ("NHCRWA") fee, which

he noted he forwarded to Mr. Riley for management. Mr. Riley reported that he explained to Ms. Dellinger that the NHCRWA fee is not set by the District and is a fee that is charged to the District which is passed on to the residents. Director Bryant reported receipt of an email from Ms. Slater regarding the need to prune bushes and trees which have dying limbs and to fix irrigation heads not working properly in the Cypress Mill Estates detention pond. He stated he forwarded the email to Director Handley for management. Director Bryant reported that Mr. Howard invited a Board member to the Cypress Mill Homeowners Association (“HOA”) meeting on July 23 and that Director Henry and he attended the meeting. Director Bryant noted that at the Cypress Mill HOA meeting, confirmation of receipt of emails sent to the District web site was requested. Director Bryant reported that after the HOA meeting, an email was sent as a test and he acknowledged receipt of the email for the Cypress Mill HOA board member.

Director Bryant reported that a resident sent a letter to Eagle Water expressing opposition to having to pay for recycling when he did not have newspapers or soda cans to recycle.

Director Henry reported that at the Cypress Mill HOA meeting, the HOA President asked why the recycling program was continued and several residents asked how the District made its decision. Director Henry reported that the attendees of the Cypress Mill HOA meeting discussed the advantages and disadvantages of recycling programs. Director Henry reported that some of the participants at the HOA meeting said the Board should meet in the District and that the Board does not follow up on repairs which it says it will do.

Director Handley reported that he used to attend the Cypress Mill HOA meetings until a couple of months ago. He stated that he has attempted to facilitate communication between the HOA and the District regarding recreational issues.

Director Henry reported that he suggested that the Cypress Mill HOA express their views on recycling in a letter to the District. Director Henry reported that the Cypress Mill HOA stated it would survey the residents on recycling and provide the results to the District. Director Henry reported that the Cypress Mill HOA President, Mr. Howard, resigned at the HOA meeting.

Mr. Staas reported that there are two recycling issues: whether to have recycling and whether there is a better program. He stated that the current recycling program only collects #1 and #2 plastics, while the City of Houston collects #1 through #7 plastics. Mr. Staas stated that some residents question whether the recycling cost is fair and if another provider would give a recycling rebate.

3. **Security report and any necessary action.** Director Henry reviewed the Security Report for the month of June, a copy of which is attached hereto as Exhibit “B.” He reported that motor vehicle burglaries increased.

4. **Discuss Security Joint Agreement with Harris County Municipal Utility District No. 391.** Mr. Pennington reported that Harris County Municipal Utility District No. 391 has not contacted the District regarding security. Director Henry reported that Harris

County has currently stopped new contracts due to the lack of constables. No action was taken on this item.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Pappas, who reported that CVS Pharmacy and IHOP Restaurant are open. He reported that Century 21 and Pappa John's are being constructed. He stated that he has three self-standing pad sites left. Mr. Pappas reported that he continues to work with the Texas Department of Transportation on the driveway to the tract from U.S. Highway 290.

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 and Report on Homeowners Association matters.** Director Handley reported that Greenpros has been unresponsive recently and that Board should consider obtaining proposals for landscaping services. Director Henry complimented Director Handley for all his work on the recreational facilities in the District.

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 "C." Mr. Lee noted that 98% of the District's 2007 taxes had been collected as of June 30, 2008.

Mr. Lee noted inclusion of the Delinquent Tax Report by Perdue, Brandon, Fielder, Collins & Mott, L.L.P. in the Tax Assessor-Collector's Report.

Mr. Lee reported that he again contacted the Harris County Appraisal District ("HCAD") regarding removal of Philly Connection from the District's tax roll as it is not located in the District. He stated that he may write off the account just to remove it from the roll.

Mr. Lee reported that HCAD stated that the certified tax roll will be available on August 22, 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 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 "D." Ms. Austin reported that a Certificate of Deposit was renewed at Texas State Bank.

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. **Authorize transfer of safekeeping custodial contract.** The President recognized Mr. Pennington, who reported that Texas State Bank merged with Compass Bank.

He stated that the District has a depository pledge agreement with Texas State Bank that requires deposits greater than \$100,000 to be collateralized. Mr. Pennington reported that the safekeeping bank for the District's Depository Pledge Agreement with Texas State Bank will transfer from the Federal Home Loan Bank of Dallas to the Federal Home Loan Bank of Atlanta. Mr. Pennington reported that Texas State Bank has provided an acknowledgement of notification of the change in safekeeping institutions for signature by the Board, a copy of which is attached hereto as Exhibit "E." He presented to and reviewed with the Board the Depository Pledge Agreement with Compass Bank, a copy of which is attached hereto as Exhibit "F." 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 acknowledge the notification in the change in safekeeping institutions and to approve the Depository Pledge Agreement with Compass Bank.

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 "G." Mr. Hirshman presented a proposal by Storm Water Solutions to clean the Cypress Mill Park detention pond pilot channel, to cut the bleeder ditch from the overly vegetated area in the pond to dry out the area and to seed all disturbed areas.

Mr. Hirshman noted that additional information has been provided to the Texas Commission on Environmental Quality ("TCEQ") in response to the TCEQ denial of the request for the waiver of the elevated storage requirement. Mr. Hirshman reviewed the projected water demands for the District upon full build out. He stated that the ultimate connection count for the District may reach 3,680 equivalent single family connections ("ESFC"). He stated that if a rate of 300 gallons per ESFC is used, the District will use slightly over one million gallons of water per day. Mr. Hirshman stated that he will apply for a reduced flow rate of 280 gallons per day per ESFC. He stated that the District is currently at 50% of the 800,000 gallons water capacity of the District. Mr. Hirshman reported that if necessary, he will work with Eagle Water to reassess the water capacity allocations as some of the commercial properties may not be using the amount allocated to the tracts.

Mr. Hirshman reported that the final inspection of Sydney Harbour, Section Two will be held on July 28, 2008.

Mr. Hirshman requested approval of a proposal by DEC for design of a generator for the wastewater treatment plant for power outages.

Mr. Hirshman reported that a developer owning approximately 200 acres south of U.S. Highway 290 wanted to know if the District would consider annexing the land. It was the consensus of the Board to consider the feasibility of such undertaking. Mr. Hirshman stated that he would inform the developer

Director Bryant asked if the District had a long term plan for the future and whether it should consider annexations. Mr. Hirshman reported that the previous District operator had a maintenance plan for the existing District facilities. He stated that only a small portion of the District has utility lines older than ten years. He stated that there is no evidence of

infiltration of the sanitary sewer lines in the District. Mr. Riley recommended changing out water meters over two million gallons.

Upon motion by Director Henry, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's Report; to approve the proposal by Storm Water Solutions in the amount of \$8,960 to clean the Cypress Mill Park detention pond pilot channel, to cut the bleeder ditch from the overly vegetated area in the pond to dry out the area and to seed all disturbed areas; and to approve the proposal by DEC for design of a generator for the wastewater treatment plant in the amount of \$75,080.00.

12. **Attorney's Report.** Mr. Pennington reported that the District has the authority to adopt a landscape irrigation program and regulate irrigation systems in the District. No action was taken on this item.

13. **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 the Roots positive displacement blower has been delivered to Neil Technical Services and that the blower is expected to be installed next week.

Mr. Riley reviewed the Arrears Analysis and reported that the arrears have greatly improved. He stated that Eagle Water has only terminated residents who have not made a partial payment on their account.

Mr. Riley reported that Centex Homes has a back charge bill from Southwest Water Company on behalf of the District in the amount of \$832.75 and that Centex Homes does not know what it is for. Mr. Riley reported that he is unable to find documentation for the back charge, which is from February. 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 writing off the \$832.75 receivable from Centex Homes.

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 Operations Report and to terminate the delinquent accounts in accordance with the Rate Order.

14. **Amend Rate Order for Recycling.** The President opened discussion to adding recycling to trash collection service in the entire District. Director Bryant stated that he favored tabling the motion. The President stated that he is in favor of adding recycling and that the program can be cancelled if 51% of the entire District, not just Cypress Mill, opposes it. Mr. Staas stated that some residents do not object to recycling but thought that the District was not obtaining the best price for the recycling service. The President reported that recycling is not a service that is offered separately from trash collection. Mr. Hirshman noted that the District's trash collection cost was significantly lower than other utility districts cost. Director Bryant noted that recycling is good for the environment and that the District has absorbed the recent increases in the trash collection costs and not passed the increases on to the residents. Director Bryant noted that a letter regarding the recycling has been mailed twice to the residents and the

Board has received only a few remarks against recycling. It was the consensus of the Board to send a letter to the HOA and to ask that it be placed in the Cypress Mill Newsletter to explain the Board's reasons for maintaining the recycling program in Cypress Mill.

Upon motion by Director Koehn, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Order Amending and Restating Consolidated Rate and Service Order, attached hereto as Exhibit "I."

15. **Approve Addendum to Residential Solid Waste Hauling Contract with WCA Waste Corporation of Texas.** The President opened discussion to the Addendum to Contract by and between Waste Corporation of Texas and the District, which adds recycling to the entire District effective September 1, 2008 at a cost of \$2.89 per connection per month for a total of \$13.91 per connection per month, a copy of which is attached hereto as Exhibit "J." 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 recycling for the entire District for a minimum of six months and to approve the Addendum to Contract by and between Waste Corporation of Texas and the District.

16. **Approve Continuing Disclosure Report and Authorize Filing.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Continuing Disclosure Report, a copy of which is attached hereto as Exhibit "K." Ms. Ellison reported that the Continuing Disclosure Report is an annual requirement which updates bondholders on the status of the District and includes the audit. She reported that Ms. Amy Lewis from Rathmann & Associates prepared the Continuing Disclosure Report and F&J reviewed it. Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Continuing Disclosure Report and authorize its filing.

17. **Report on Association of Water Board Directors Conference.** Director Bryant stated that the Elevated Storage Tank seminar was very informative. He reported that the Demographic Transitions seminar speaker indicated that Houston was doing well during the recent decline in the real estate market.

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

19. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on August 15, 2008, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

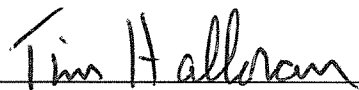
THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

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The attached and foregoing minutes were passed and approved by the Board of Directors on August 15, 2008.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

