

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
May 15, 2009

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 May 15, 2009, 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. Also attending all or portions of the meeting were Ms. Sydney Ealand 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. Bill Hixon of Cymill Partners, developer of land within the District; Sergeant Blackledge, constable for the District; Mr. Aaron Palmer, Mr. Don Staas and Ms. Dorothy Staas, District residents; Mr. John Drew; and Ms. Kathleen Ellison, Mr. Stephen Carroll 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 April 17, 2009.** The proposed minutes of the meeting of April 17, 2009, previously distributed to the Board, were presented for review and approval. Upon motion by Director Bryant, seconded by Director Swedlund, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of April 17, 2009, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Staas, who recommended that the Board make obtaining a generator for the wastewater treatment plant generator a high priority.

Director Bryant reported on emails to the Board. He reported that an email requesting water service initiation was forwarded to Eagle Water for response. Director Bryant reported that a resident emailed asking why the District charged a fee for online and automatic withdrawal payments. Director Bryant proposed telling the resident that the District is a non-profit governmental entity and passes through any fee associated with electronic payment to the customer. The President suggested that Eagle Water respond to the customer.

Director Bryant reported that a resident requested a change in the bank account for automatic withdrawal, which was arranged.

Director Bryant reported that he forwarded a resident email regarding tree removal to Director Swedlund. Director Swedlund reported that she replied to the resident's email.

Director Bryant reported that Ms. Howell emailed to ask if the Wal-Mart parking lot was included in the limited annexation by the City of Houston and consequently could not be a location for the sale of fireworks. He reported that F&J responded to Ms. Howell confirming that the Wal-Mart tract is part of the City of Houston limited annexation.

The President recognized Mr. Palmer, who reported that he purchased his home in the District in July 2008. He stated that he filed for his homestead exemption and change of ownership with Harris County Appraisal District ("HCAD"). Mr. Palmer reported that the mortgage company sent him a check for the District taxes stating that the District returned them. He stated that at that time he found out that HCAD had not changed the name on the account. Mr. Palmer reported that he has contacted HCAD several times in the last few months in an unsuccessful attempt to get the name on the account changed. Mr. Palmer requested waiver of the penalty and interest on the account. Ms. Bryant presented to and reviewed with the Board Mr. Palmer's letter and related information, a copy of which is attached hereto as Exhibit "B." Ms. Bryant reported that the previous owner and mortgage company paid the 2008 taxes and then requested refunds. She reported that the erroneous payment of the taxes made it impossible for Mr. Palmer to pay the taxes as the balance would have been zero. She stated that the tax bill should have been sent to the physical address of the home after her office refunded the tax payments to the previous owner and mortgage company. Ms. Bryant recommended the Board waive Mr. Palmer's penalty and interest for the 2008 taxes. 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 waiver of Mr. Palmer's penalty and interest on the 2008 taxes.

3. Security report and take any necessary action regarding constable workspace. The President recognized Sergeant Blackledge, who presented to and reviewed with the Board the Security Report for the month of April, a copy of which is attached hereto as Exhibit "C." Sergeant Blackledge reported that items continue to be removed from unlocked vehicles at Walgreens.

Director Halloran and Mr. Drew join the meeting.

Sergeant Blackledge reviewed the Constable's policy for making arrests at Wal-Mart.

The President reported that a phased build out of the Constable Workspace is not feasible. Upon motion by Director Henry, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board authorized DEC to work with Stocker Hoesterey Montenegro Architects, P.L.L.C. to prepare documents for public bidding of the build-out of the Constable Workspace and to advertise the project for bid. He said that the plans should omit carpeting in the Constable Workspace.

4. **Executive Sessions under Section 551.071 of the Texas Government Code to discuss contemplated litigation.** 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 go into executive session at 11:25 a.m. to consult with its attorney about pending or contemplated litigation pursuant to Texas Government Code section 551.071. At that time, all persons left the meeting except the Directors, Ms. Ellison, Mr. Carroll, and Ms. Deitrick. Upon motion by Director Bryant, seconded by Director Swedlund, after full discussion and the question being put to the Board, the Board voted unanimously at 11:45 a.m. to reconvene in public session. At that time, those persons attending the meeting, as stated above, reentered the meeting.

Upon motion by Director Koehn, seconded by Director Swedlund, after full discussion and the question being put to the Board, the Board voted four to one, with Director Bryant opposing, to approve a settlement offer to Mr. Drew to settle his claims concerning property damage arising from construction of District facilities in an easement along the private road off of Cypress Church Road, consisting of \$4,531.09 for damages related to damage to Mr. Drew's own property, \$1,000 for additional legal fees and \$7,972.00 for damages to the private road off of Cypress Church Road, contingent upon receiving a full release from Mr. Drew for damage to his property and a full release from all owners of the private road for damages to the private road.

Mr. Carroll and Mr. Drew left the meeting.

5. **Award constable workspace build out, lease and any necessary action.**
This item was deferred.

6. **Developers' Report, reimbursement agreement and any necessary easements.** The President recognized Mr. Hixon, who reported that he is in negotiations with AT&T, Steak N Shake and Mr. Herrera.

Ms. Ellison presented to and reviewed with the Board the Reimbursement Agreement for Detention Facility with Cymill Partners, Ltd. for the 3.7 acre tract at Cypress Mill Plaza and U.S. Highway 290, a copy of which is attached hereto as Exhibit "D." Ms. Ellison reported that the Reimbursement Agreement provides that the District will not maintain or purchase the detention facility until full development of the site and construction of improvements. 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 Reimbursement Agreement.

7. **Consider meeting date.** The Board noted that the next regular monthly Board meeting will be held on June 12, 2009, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

8. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and mowing proposals.** The President recognized Director Swedlund, who reported that the flower bed has been installed where the wax myrtles were removed. She reported that the area requires 100 yards of sod and sprinkler modifications. Director Swedlund presented to and reviewed with the Board a Greenpros proposal for the sod and sprinkler modification in the amount of \$450, a copy of which is attached hereto as Exhibit "E." 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 Greenpros proposal for the sod and sprinkler modifications in the amount of \$450. It was the consensus of the Board to meet in the District to review the wax myrtles.

9. **Consider Cypress-Rosehill Beautification Project.** The President recognized Ms. Ellison, who reported that the District has the authority to finance recreational facilities. She reported that the District may work on beautification of the Cypress-Rosehill public right-of-way and adjacent areas. She said the beautification could include fencing. She said the District would need to make sure it maintained enough control over areas it beautified to make sure the areas were properly maintained. Ms. Ellison reported that the Board should consider having the landscape architect update the District's Master Park Plan for the beautification project. She stated that once the plan was finalized, the District should obtain necessary agreements from property owners where public right-of-way is not available. She stated that the Cypress Mill Homeowners Association ("HOA") attorney provided an agreement used in similar situations. The President reported that the HOA is to maintain the fence and not change the fence without District approval.

Director Swedlund stated that a sidewalk on the west side of Cypress-Rosehill from Cypress Mill Estates to the shopping center with Alicia's Mexican Grille would provide a safe method for the neighborhood children to bike or walk along Cypress-Rosehill.

Upon motion by Director Koehn, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to authorize KGA Deforest Design to update the District's Master Park Plan, with the effort to be coordinated by Directors Koehn and Swedlund.

10. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts.** 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 "F." Ms. Bryant noted that 96% of the District's 2008 taxes had been collected as of April 30, 2009.

Ms. Bryant reported that the delinquent notices have been sent to the taxpayers with notification that the additional penalty is effective as of July 1, 2009.

Upon motion by Director Henry, seconded by Director Swedlund, 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.

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 "G." Ms. Austin asked for an estimate of the cost of the Constable Workspace so that she can amend the budget. The President recommended \$90,000.

Ms. Austin presented to and reviewed with the Board the Depository Pledge Agreements with Wells Fargo Bank, Sterling Bank and Green Bank, copies of which are attached hereto as Exhibits "H," "I," and "J," respectively. She reported that the Depository Pledge Agreements require the banks to secure the District's investments in excess of FDIC coverage.

Upon motion by Director Swedlund, 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 approve the Depository Pledge Agreements with Wells Fargo Bank, Sterling Bank and Green Bank.

12. Approve Depository Pledge Agreements with Wells Fargo Bank, Sterling Bank and Green Bank. This item was covered under the Bookkeeper's Report.

13. Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement expenses and grant of easements. The President recognized Ms. Ealand, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "K." Ms. Ealand reported that DEC is working on the new wastewater flows for the wastewater treatment plant expansion. She stated that a lower flow rate will be requested in the next bond application to the Texas Commission on Environmental Quality ("TCEQ").

Ms. Ealand reported that DEC is preparing the plans for the wastewater treatment plant generator.

Ms. Ealand reported that acceptance of the water, sanitary sewer and drainage facilities at the Shoppes at Fry Road is pending completion of the documents by the developer's engineer.

Ms. Ealand reported that TJ&T has provided Pay Estimate #4 and Final for Cypress Ridge, Section 4 in the amount of \$27,786.33 for the work not reimbursed by the developer. She reported that TJ&T has provided the Affidavit of Bills Paid, Waiver and Lien Release Upon Final Payment.

Director Henry reported that there is trash and debris in the drainage ditch behind

his house and asked if the District is responsible for the ditch. The President reported that the drainage ditch is not owned by the District and should be cleaned out by the Harris County Flood Control District. The Board asked Ms. Ealand to send a letter to Harris County Flood Control District to clean out the drainage ditch.

Mr. Hixon reported that a few punch list items need to be completed for the final TCEQ inspection for the developer reimbursement for the water lines and storm sewer at Fry Road.

Ms. Ealand reported that DEC has begun work on the Bond Application, which is to include Sydney Harbour, Sections Three and Four, and the detention and utilities for The Shoppes at Fry Road. She reported that DEC is waiting for documents and costs from the developers.

Ms. Ealand presented to and reviewed with the Board Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park, Section 2, shrub removal in the amount of \$1,930.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Ridge detention pond repair in the amount of \$5,055.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park detention pond repair in the amount of \$23,960.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Estates shrub removal in the amount of \$747.50 and Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park, Section 1, tree removal in the amount of \$2,930.00.

Ms. Ealand presented to and reviewed with the Board the revised landscaping easement description for the reserve between Cypress Mill Park and Sydney Harbour. Director Bryant stated that the easement needs to be expanded east by approximately four lots.

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 payment of Pay Estimate #4 and Final by TJ&T for Cypress Ridge, Section 4 in the amount of \$27,786.33 contingent upon legal review of the release documentation; to authorize DEC to prepare a letter to Harris County Flood Control District to clean out the drainage ditch; and to approve payment of Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park, Section 2, shrub removal in the amount of \$1,930.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Ridge detention pond repair in the amount of \$5,055.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park detention pond repair in the amount of \$23,960.00; Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Estates shrub removal in the amount of \$747.50 and Pay Estimate #1 from Storm Water Solutions for the Cypress Mill Park, Section 1, tree removal in the amount of \$2,930.00.

14. 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 "L." Mr. Riley noted a significant spike in wastewater flow of 1,225,000 gallons maximum daily flow from the heavy rain event in late April. He reported that lift stations #1 and #4 are the reasons for the significant spike in wastewater flow.

Mr. Riley reported that Eagle Water contacted the Harris County Municipal Utility District No. 391 ("HC MUD 391") operator to discuss possible open interconnects due to the District's continued high water accountability. He reported that Severn Trent, the HC MUD 391 operator, reported that the interconnect valves are all closed; however, also reported that HC MUD 391 has low accountability. Mr. Riley reported that Eagle Water will investigate the matter further by slightly adjusting water pressure.

Mr. Riley reviewed with the Board the TCEQ letter stating that the District has no violations upon a recent compliance investigation, a copy of which is attached hereto as Exhibit "M."

Mr. Riley reported that the wastewater treatment plant chlorinators are old and need to be replaced. Mr. Riley requested Board authorization to have CFI Services replace the two chlorinators for \$4,500. Director Bryant asked if the chlorinators would work for the planned wastewater treatment plant expansion. Mr. Riley stated that the chlorinators should work as the expansion should consist of an additional unit.

Mr. Riley reported that the wastewater treatment plant transducer is currently below the water level. He requested Board authorization to relocate the transducer above the water level. Mr. Riley reported that having the transducer underwater contributed to the recent wastewater treatment plant overflow. He reported that NTS will relocate the transducer above the water level for \$3,250.

Mr. Riley reported that NTS continues work to determine the optimal pump size for lift station #1. He reported that there is an eight inch force main and that either a 5 or 7.5 horse power pump would be best. Mr. Riley reported that the control panel will need modifications as well and that he will provide a proposal at the next Board meeting.

Mr. Riley reported that the fence and gate relocation at the wastewater treatment plant is complete and that operations at the plant are improved.

Mr. Riley reported that a pickup truck knocked over the electricity pole at lift station #6.

Mr. Riley reported that the contractor is replacing water plant booster pump #1. He stated that the booster pump #2 can is weeping and needs to be replaced.

Mr. Riley reported on the protection for the backflow preventers at the back driveway to Walgreens. He reported that the backflow preventers must be eighteen inches above ground. The President reported that dirt could be removed so bushes around the area are lower. Mr. Riley reported that the larger pipe is thought to be the fire line for Wal-Mart, which may be put underground in a vault. He stated that it would be costly to put the fire line in an underground vault. The President reported that Mr. Hirshman is looking for the plans.

Upon motion by Director Swedlund, seconded by Director Henry, 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, to

authorize CFI Services to replace the two chlorinators for \$4,500 and to authorize NTS to relocate the wastewater treatment plant transducer above the water level for \$3,250.

15. **Approve Consumer Confidence Report.** The President recognized Mr. Riley, who presented to and reviewed with the Board the draft 2008 Annual Drinking Water Quality Report, a copy of which is attached hereto as Exhibit "N." He stated that the Drinking Water Quality Report would be distributed to the District's residents by July 1. 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 2008 Annual Drinking Water Quality Report.

Director Bryant noted that the "Superior Water" sign on Cypresswood was down.

16. **Review water, sewer and trash rates and take any necessary action.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the WCA Waste Corporation notice of solid waste collection and recycling rate increase, a copy of which is attached hereto as Exhibit "O." Ms. Ellison reported that the solid waste collection and recycling rate would increase to \$14.48 per resident per month in the May billing cycle. It was the consensus of the Board to absorb the increase in the solid waste collection and recycling rate at this time and not to amend its water, sewer and trash rates. No action was taken on this item.

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

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

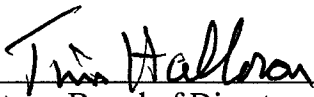
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The attached and foregoing minutes were passed and approved by the Board of Directors on June 12, 2009.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

