

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
March 20, 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 March 20, 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, except Director Halloran. Also attending all or portions of the meeting were 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; Ms. Stephanie Viator of District Data Services, Inc., bookkeeper for the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors, developer of land within the District; Mr. John Drew; and 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 of the meeting of February 20, 2009.** The proposed minutes of the meeting of February 20, 2009, 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 February 20, 2009 as presented.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the Board. Director Bryant reported that a resident emailed about the maintenance of the easement between Cypress Mill Park and Sydney Harbour. He reported that the resident also noted that a Sydney Harbour developer sign has been in the easement since Hurricane Ike. He reported that he forwarded the email to Director Swedlund for

management. Director Swedlund reported that she discussed the mowing with Storm Water Solutions, which had inadvertently overlooked the area. She stated that Storm Water Solutions reported that the developer sign was not there when they went to mow the area.

Director Bryant reported that a resident emailed for information on District requirements for sprinkler systems. He stated that he forwarded the email to Eagle Water for management. Mr. Riley reported that he talked with the resident.

Director Bryant reported that Cypress Crossings Christian Church emailed asking if it may obtain sanitary sewer service from the District. He stated that he forwarded the email to Mr. Hirshman. Mr. Hirshman reported that he contacted Mr. Johnson. Mr. Hirshman reported that the church is on Cypress-Rosehill north of Huffmeister.

The President recognized Mr. Drew, who reported that he met with Mr. Hirshman yesterday to discuss the condition of the private road off of Cypress Church Road. Mr. Hirshman presented to and reviewed with the Board pictures of the private road and the surrounding area taken on April 19, 2007, prior to construction. He showed pictures of the damage to Mr. Drew's fence taken on April 30, 2007. Mr. Hirshman showed pictures of the road and noted that Mr. Drew contends there was a crown in the road prior to construction which disappeared after the construction. He stated that Mr. Drew contends that due to the lack of a crown in the road, water settles on the road and causes potholes. Mr. Hirshman showed the Board pictures of the surrounding area immediately after the installation of the waterline, including the road, ditch and culvert crossing. He noted that after Mr. Drew's complaints the ditch was recut and showed the Board pictures of the ditch after the recutting. Mr. Hirshman showed pictures taken on March 19, 2009. He stated that the road condition worsens at the Hudson tract and may be due to construction trucks. The President noted that the road is in good condition until the Hudson tract. Mr. Drew stated that the road has been in poor condition prior to the Hudson tract construction began. He stated that there is only one house past the Hudson tract, so there is limited traffic past the Hudson tract. The President stated that gravel roads need to be maintained and that the District should not maintain the road. Mr. Drew stated that the road is more difficult to maintain due to the loss of the crown. Mr. Drew reported that prior to construction he paid \$740 for a load of gravel that was used to maintain the road. Mr. Drew stated that there is a six inch crushed concrete road bed foundation with a crown below the gravel. He stated that gravel is added every six to twelve months depending on the amount of traffic and rain. Mr. Drew reported that the last load of gravel was added in February 2007.

Upon motion by Director Bryant, seconded by Director Henry, the Board voted unanimously to go into executive session at 11:19 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, Ms. Deitrick and Mr. Hirshman. Upon motion by Director Bryant, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously at 11:36 a.m. to reconvene in public session. At that time, those persons attending the meeting, as stated above, reentered the meeting.

Ms. Ellison stated that the Board wants to consult with Mr. Carroll of F&J, who has been handling the matter but is not currently available, prior to a final decision. She reported

that the Board is concerned by the amount of road deterioration caused by the Hudson tract construction. Ms. Ellison stated that the Board would need confirmation that no additional residents on the private road would request a damage payment from the District prior to making an offer to Mr. Drew.

Mr. Drew thanked the Board for its time and consideration and left the meeting.

3. **Bookkeeper's Report, Review Investment Report and payment of bills.** The President recognized Ms. Viator, who presented to and reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "B." Ms. Viator reported that the check to Cymill Partners will be held until Mr. Hirshman approves release of the check.

Ms. Viator reported that a Certificate of Deposit ("CD") with Compass Bank was maturing. She recommended that \$250,000 of the proceeds from the maturing CD be invested in a CD and the remaining proceeds transferred to Texpool.

Ms. Viator reported that the third and fourth quarter payments to the North Harris County Regional Water Authority never cleared. Ms. Viator reported that a stop payment has been issued for the checks and a new check issued to replace them.

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 accept the Bookkeeper's Report, to authorize payment of the checks listed therein and to approve the purchase of a \$250,000 CD at the best interest rate available.

4. **Security report and take any necessary action regarding constable workspace.** The President recognized Director Henry, who presented to and reviewed with the Board the Security Report for the month of February, a copy of which is attached hereto as Exhibit "C." Director Henry reported that the employees at CVS Pharmacy were robbed at gunpoint on March 5, 2009 at 1:00 a.m. Director Henry reported that the incident was handled by the Harris County Sheriff's Office. The Board asked why the District's constables did not handle the incident. Director Henry stated that he would research the matter.

5. **Award constable workspace build out, lease and any necessary action.** Director Henry presented to and reviewed with the Board an Agreement for Provision of Limited Professional Services by Stoker Hoesterey Montenegro ("Agreement"), a copy of which is attached hereto as Exhibit "D." He requested approval of the Agreement for the preparation of the plans for the Constable Workspace. The President recognized Mr. Pappas, who presented to the Board the floor plan for the Constable Workspace, a copy of which is attached hereto as Exhibit "E." Mr. Pappas stated that if the floor plan is satisfactory to the Board, he will notify the architect to proceed with the preparation of the mechanical, electrical and plumbing plans. He stated that as soon as the necessary plans are complete, he will bid the build out work. The President asked about the timing of the T1 line installation. Mr. Pappas stated that he would contact Sergeant Blackledge regarding the T1 line installation.

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 approve the Agreement.

6. **Developers' Report, reimbursement issues and any necessary easements.** The President recognized Mr. Pappas, who reported that a lease has been signed for a sports bar and a letter of intent signed for an Italian restaurant at the Shoppes at Fry Road.

Mr. Hixon reported that Alicia's Mexican Grille continues work on the permit for the temporary parking area. Director Henry noted that the Cypress Mill Homeowner Association ("HOA") has a petition against the parking area. Mr. Hixon stated that he has informed the Alicia's Mexican Grille owner that he needs to find a location for more parking spaces.

7. **Any Necessary Action Regarding Alicia's Parking Lot.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Amended and Restated Lease Agreement with Alicia's Mexican Grille, Inc. ("Amended Lease"), a copy of which is attached hereto as Exhibit "F." Ms. Ellison reported that the current lease automatically renews unless terminated by either party with notice required by May 1, 2009. She stated that the lease has been revised to hold the tenant responsible for costs of repairing the fence or other property if damaged by Alicia's employees or customers. The President requested that the lease be renewed contingent on Alicia's obtaining the permit. Director Bryant requested that no improvements be permitted without prior approval by the Board.

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 approve the Amended Lease with renewal being contingent upon Alicia's Mexican Grille, Inc. obtaining all necessary permits and the addition of a clause specifying that no improvements are permitted without prior Board approval.

8. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and mowing proposals.** Director Swedlund reported that Storm Water Solutions overlooked maintaining the easement between Sydney Harbour and Cypress Mill Park. Director Swedlund stated that the District should obtain written permission to maintain the easement or stop maintaining the easement and inform the nearby residents that the Sydney Harbour developer is responsible for the area. Ms. Ellison suggested obtaining a landscape or drainage easement to allow the District to maintain the area. The Board requested that F&J request such an easement from Sydney Harbour so that the District can maintain the area.

Director Swedlund suggested the District research options to replace the fence that the HOA cannot replace due to legal constraints. The President suggested the District initiate a Cypress-Rosehill beautification project now that the road construction is complete. He stated that the District could request permission to construct the fence from the HOA since most of the lots along Cypress-Rosehill have a landscape easement next to the residents' fences, except for one block. Ms. Ellison stated that the District is not allowed to construct fences on private property. The President asked if the District can construct a fence with the HOA's permission. Ms. Ellison said that she would need more information on the title to the property that is involved. Director Swedlund stated that she would discuss options with the HOA fence subcommittee member.

9. **Consider and Authorize Law Enforcement Liability Insurance Coverage.** After reviewing the information provided by the District's insurance agent, the Board decided to decline the law enforcement liability insurance option.

10. **Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts.** 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 "G." Mr. Lee noted that 91% of the District's 2008 taxes had been collected as of February 28, 2009.

Mr. Lee presented to and reviewed with the Board a customer request to waive penalty and interest due to his timely payment being lost when the apartment complex mailbox was broken into. A copy of the letter is attached hereto as Exhibit "H." Mr. Lee said the District is authorized to waive penalty and interest only in the case of District or Appraisal District errors.

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, to authorize the expenditures listed therein, and to deny the request for waiver of penalty and interest on the late tax payment.

11. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement expenses and grant of easements.** 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 "I." Mr. Hirshman reported on development in Cypress Landing Park. He reported that DEC inspected the Cypress Landing Park detention ponds and that the contractor is addressing the punch list items. Mr. Hirshman reported that DEC is waiting for receipt of the certificate of completion.

Mr. Hirshman reported that DEC is preparing the plans for the wastewater treatment plant generator. He stated that the project may be ready to bid in May.

Mr. Hirshman reported that Cypress Crossings Christian Church has requested sanitary sewer service. He reported that the church is located on Cypress-Rosehill, north of Cypress Church Road, on the west side just north of the service station. Mr. Hirshman recommended that the District not annex the tract. The President stated that the church would need to pay a capital recovery fee. Mr. Hirshman stated that the church would need to pay for the sewer line construction costs and recommended that the District obtain a \$5,000 retainer fee to cover engineering and legal fees associated with the project. The Board asked F&J to send a letter to the church outlining the potential costs and requesting a \$5,000 retainer fee.

Mr. Hirshman reported that F&J sent letters to Interplan Architects and Cypress Land Development, L.L.C. regarding their requests for utility service. He stated that Mr. Holcomb stated that he wants his 3.5 acre tract annexed if the tract on Mueschke Road is annexed. The President noted that the Board would need to know the development plan for the tract prior to proceeding with annexation.

Mr. Hirshman reported that the engineer for the Shoppes at Fry Road requested

acceptance of the water, sanitary sewer, drainage and detention facilities for the Shoppes at Fry Road. Mr. Pappas stated that he will be asking for reimbursement in the near future. Mr. Hirshman reported that Academy Development has requested the District begin work on a bond issue to reimburse it for water, sewer and drainage facilities in Sydney Harbour. It was the consensus of the Board for Mr. Hirshman to begin work on the bond report and to have the District pay the engineering fees for such work.

Mr. Hirshman recommended approval of developer payment of Pay Estimate #3 to Pace Services for water, sanitary sewer and drainage for Sydney Harbour, Section 3 in the amount of \$66,139.52. He noted that the pay estimate is the final and revised.

Mr. Hirshman presented to and reviewed with the Board the Storm Water Solutions proposal for the Cypress Mill Park, Section One Detention Pond Repairs, including tree removal and regrading the bottom of the pond to drain to the pilot channel. He stated that the proposed cost is \$23,960.00 and \$2,390.00 for the additional removal of trees.

Mr. Hirshman presented to and reviewed with the Board the Storm Water Solutions proposal for removal of the Sydney Harbour developer sign in the amount of \$230.00. The Board stated that the sign has disappeared so there is no need for it to be removed.

Mr. Hirshman presented to and reviewed with the Board the Storm Water Solutions proposal to remove the wax myrtle clusters in Cypress Mill Estates in the amount of \$7,475.00.

Mr. Hirshman presented to and reviewed with the Board the Storm Water Solutions proposal to remove two wax myrtle clusters at the east entrance at Cypress Mill Park, Section 2 and to trim two wax myrtle clusters at the pond in the amount of \$1,930.00.

Mr. Hirshman reported that the Cypress Ridge, Section 4 contractor has contacted DEC about a payment owed to him by the developer. Mr. Hirshman stated that he would research the amount the District paid the developer for the development and determine the amount owed the contractor.

Mr. Hirshman reported that the Texas Commission on Environmental Quality ("TCEQ") has approved the use of surplus funds to reimburse Cymill Partners for the waterline extension and storm sewer to serve the Rosehill Retail Center at Jardine Road and Cypress-Rosehill Road. Mr. Hirshman stated that the TCEQ inspection of the facilities is scheduled for next week. Ms. Ellison presented to and reviewed with the Board the Developer Reimbursement Audit and Conveyance of Facilities, copies of which are attached hereto as Exhibits "J" and "K," respectively. She noted that Cymill Partners may not be reimbursed until the TCEQ letter which approves the purchase of the facilities is obtained. Mr. Hirshman stated that he would notify the bookkeeper when she may release the check to Cymill Partners.

Mr. Hirshman reported on the plans for the wastewater treatment plant driveway modification. He reviewed the plans with the Board. The President noted that an inlet will have to be moved and suggested that he meet Mr. Hirshman and Mr. Riley at the location. Mr. Riley reported that the fence will be set back forty feet. Mr. Riley recommended that the driveway modification plans be finalized before the generator plans are finalized because the location of

the generator may change with the relocation of the fence. Mr. Hirshman stated that after meeting with Mr. Riley and the President, he will meet with Harris County to discuss the modifications.

Mr. Hirshman reported on the protection for the backflow preventers at the back driveway to Walgreens. He reported that there is no information on the back flow preventers location in relation to the new road. He stated that he would have the location surveyed. Mr. Hirshman stated that, depending on the height requirement, it may be possible to lower the lines and the landscaping should not obstruct the view of drivers pulling out of the driveway. Mr. Riley stated that he will provide the height criteria for the pipes. Mr. Hirshman stated he would prepare a plan for protecting the pipes.

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 Engineer's Report, to authorize DEC to prepare the bond report for reimbursement to Corinthian Fry Road Investors and Academy Development; to approve developer payment of Pay Estimate #3 to Pace Services for water, sanitary sewer and drainage for Sydney Harbour, Section 3 in the amount of \$66,139.52; to approve the Storm Water Solutions proposal for the Cypress Mill Park, Section One Detention Pond Repairs in the amount of \$23,960.00 and \$2,390.00 for the additional tree removal; to approve the Storm Water Solutions proposal to remove the wax myrtle clusters in Cypress Mill Estates in the amount of \$7,475.00; to approve the Storm Water Solutions proposal to remove two wax myrtle clusters at the east entrance at Cypress Mill Park, Section 2 and to trim two wax myrtle clusters at the pond in the amount of \$1,930.00; to approve the Developer Reimbursement Audit; to approve the Conveyance of Facilities; and to approve payment to Cymill Partners in the amount of \$96,816.31 plus daily interest of \$11.58 upon receipt of the TCEQ approval to purchase the facilities.

12. Approve Developer Reimbursement Audit and Conveyance of Facilities. This was covered under the Engineer's Report.

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 "L." Mr. Riley reported that water accountability is still above 100% and may be related to the Harris County Municipal Utility District No. 391 interconnect. He stated that Eagle Water continues to research the matter.

Mr. Riley reported that Eagle Water is working with Neil Technical Services to determine the necessary pump size for Lift Station #1. He stated that it may need a 10 to 15 horsepower pump.

Mr. Riley requested Board approval for relocation of the fence at the wastewater treatment plant in the amount of \$3,200. Mr. Hirshman stated that the wastewater treatment driveway modification should be complete prior to relocation of the fence. Mr. Riley stated that the fence relocation cost may increase if the gates are widened.

Mr. Riley requested Board approval for gate repairs at the lift station on Mueschke Road in the amount of \$1,200. He requested Board approval for gate and fence repairs at Water Plant No. 2 in the amount of \$1,200. Mr. Riley stated that the gate and fence damage was caused by Hurricane Ike.

Mr. Riley reported that the two inch waterline installation to the wastewater treatment plant is complete.

Mr. Riley reported that the repairs of the electronic program controls at the wastewater treatment plant which triggered the overflow totaled approximately \$14,000. He stated that Source Point Solutions charged approximately \$7,200 for the clean up, Neil Technical Services charged approximately \$5,700 for repair of the program controls and Eagle Water charged \$1,200 for management of the incident. Mr. Riley reported that an insurance claim has been filed for the costs.

Mr. Riley reported that the fire hydrants have been tested and repaired.

Mr. Riley reported that Source Point Solutions is cleaning and televising sanitary sewer lines in Cypress Mill.

Mr. Riley reported that the diesel generators have been serviced and are ready for hurricane season.

Mr. Riley reported that the booster pump at Water Plant No. 1 is old, worn out, rusty and leaking. He recommended replacement of the pump for the approximate cost of \$12,200 by Burke's Mechanical Services.

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 approve relocation of the fence at the wastewater treatment plant in the amount of \$3,200; to approve gate repairs at the lift station on Mueschke Road in the amount of \$1,200; to approve gate and fence repairs at Water Plant No. 2 in the amount of \$1,200 and to approve replacement of the Water Plant No. 1 booster pump by Burke's Mechanical Services in the amount of \$12,200.

14. Adopt Revised Energy Conservation Plan and Consider Energy Assessment. The President recognized Ms. Ellison, who reported that the District had a total annual electric expense greater than \$200,000 in its last fiscal year. She stated that due to spending more than \$200,000 in electricity costs, the District is required to have energy conservation goals and make reports to the State Energy Conservation Office. Ms. Ellison presented to and reviewed with the Board the Resolution Regarding The District's Consumption of Electricity by District Facilities ("Resolution"), a copy of which is attached hereto as Exhibit "M." Ms. Ellison presented to and reviewed with the Board the Preliminary Energy Assessment Service Agreement ("Assessment Agreement"), a copy of which is attached hereto as Exhibit "N." She reported that the State Energy Conservation Office offers a free energy assessment which would assist the District operator identify ways to conserve energy. Ms. Ellison presented to and reviewed with the Board the Senate Bill 12 Report ("Annual Report"), a copy of which is

attached hereto as Exhibit "O." She reported that the District must file the Annual Report each year.

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 Resolution and Assessment Agreement, authorize Eagle Water to arrange for the Preliminary Energy Assessment Service, and authorize the bookkeeper to file the Annual Report with the State Energy Conservation Office.

15. **Discuss and authorize preparation of Identity Theft Program.** The President recognized Ms. Ellison, who reported that the District is required to have an Identity Theft Program in place by May 1, 2009. She stated that F&J is working with Eagle Water on a set of procedures to identify possible fraud.

16. **Review water rates and take any necessary action.** No action was taken on this item.


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

18. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on April 17, 2009, 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 April 17, 2009.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

