

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
September 18, 2009

THE STATE OF TEXAS
COUNTY OF HARRIS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1

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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 September 18, 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 Henry. Also attending all or portions of the meeting were Mr. Alan Hirshman 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; Sergeant Blackledge, constable for the District; Mr. Jim Holcomb of Cymill Partners, developer of land in the District; Mr. Craig Rathmann of Rathmann & Associates, financial advisor for the District; Mr. Nick Luton of Centex Homes, developer of land within the District; Mr. Don Staas and Ms. Dorothy Staas, District residents; 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 August 21, 2009.** The proposed minutes of the meeting of August 21, 2009, previously distributed to the Board, were presented for review and approval. 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 minutes of August 21, 2009, as presented.

2. **Public Comments and letters from residents.** The President recognized Mr. Staas, who encouraged the Board to expedite the wastewater treatment plant generator plan preparation. Mr. Hirshman reported that the Texas Commission on Environmental Quality approved the wastewater treatment plant generator plans. He reported that the plans would be

submitted to Harris County for approval and then City of Houston signature must be obtained. Mr. Staas asked about the high North Harris County Regional Water Authority ("NHCRWA") fee portion of his water bill. Mr. Riley reported that the NHCRWA fee is charged to all utility districts within the NHCRWA. Mr. Hirshman reported that the NHCRWA is responsible for providing surface water to the utility districts within the NHCRWA to reduce groundwater usage and eventually the area must meet 70% of its demand from surface water. The President reported that the District has no control over the NHCRWA fee. Mr. Riley reported that the NHCRWA fee is expected to increase next year.

Director Bryant reported on emails to the District's website. He reported that there were three emails related to water service and billing which were forwarded to Eagle Water for management. Director Bryant reported that one email was related to the NHCRWA fee. He reported that there was an email related to a billing issue; however, the customer did not reside in the District.

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 August, a copy of which is attached hereto as Exhibit "B." Sergeant Blackledge reported that bicycles were stolen from an unlocked garage. He reported that there were five car burglaries.

Sergeant Blackledge reviewed the Extra Patrol Stats, a copy of which is attached hereto as Exhibit "C." He requested Board approval of the addition of Deputy Rogers to the bicycle patrol of the District's detention ponds.

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 Security Report, Extra Stats Patrol and the addition of Deputy Lance Rogers to the bicycle patrol of the District's detention ponds.

4. **Report on constable workspace build out and any necessary action.** The President recognized Mr. Hirshman, who recommended approval and payment of Pay Estimate #1 in the amount of \$36,240.30 from J. H. Premier Construction. He reported that the walls are up and the electrician is working on the electrical gutter and installing fixtures. Mr. Hirshman reported that the painting and door installation will occur next week. He reported that the contractor expects construction to be complete by October 16, 2009. Mr. Hirshman requested approval of Change Order #1 in the amount of \$1,980.00 for the constable space build out for the controlled access hardware, door closer, pull data communications cable and rekeying of all locks. Mr. Hirshman reported that the contractor used the west wall insulation to insulate the east wall. He reported that it will cost \$1,375.00 to insulate the west wall from the floor to the ceiling and \$775.00 to insulate the west well from the floor to a height of ten feet. He asked the Board which insulation height it wanted for the constable space. 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 approve payment of Pay Estimate #1 in the amount of \$36,240.30 from J. H. Premier Construction, to approve Change Order #1 in the amount of \$1,980.00 and to approve insulation of both walls from the floor to the ceiling.

5. **Consider the Financial Advisor's Recommendation for the 2009 Tax Rate and Authorize Publication.** The President recognized Mr. Rathmann, who presented to and reviewed with the Board the recommendation for the 2009 tax rate, a copy of which is attached hereto as Exhibit "D." Mr. Rathmann reported that the debt tax rate should be maintained at \$0.63 per \$100 assessed valuation. Mr. Rathmann reported that he used a \$4,000,000 bond sale in 2010 at 6% interest rate for the cash flow analysis. He reported that the developer incentive may be decreased from \$0.20 to \$0.16. He stated that the most taxpayers in the District would realize a decrease in their tax bills this year. Mr. Rathmann stated that the District has sufficient operating reserves.

Ms. Ellison presented to and reviewed with the Board the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2009, a copy of which is attached hereto as Exhibit "E." Ms. Ellison noted that the Order authorizes the tax assessor's office to publish the notice and proposed tax rate and to hold a public hearing with respect to the tax rates.

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 propose a total tax of \$0.99 per \$100 assessed valuation, with \$0.63 for debt service, \$0.20 for maintenance and operating expenditures, and \$0.16 for developer incentive; to approve the Order Designating Officer to Calculate and Publish Tax Rates and Taking Other Actions in Connection with the Levy of a Tax for 2009 and to authorize the District's tax assessor collector to publish the proposed tax rate.

6. **Developers' Report, reimbursement agreement and any necessary easements.** The President recognized Mr. Holcomb, who noted that the Cypress-Rosehill Beautification Project is a wonderful idea for the area.

Mr. Luton reported that Centex Homes has merged with Pulte Homes. He reported that 58 homes have closed in Cypress Landing. Mr. Luton reported that Centex Homes is averaging two home closings per month. He reported that Centex Homes is proceeding with engineering in Cypress Landing, Sections Three and Four.

7. **Consider Cypress-Rosehill Beautification Project Proposal and any necessary action.** The President recognized Ms. Ellison, who reported that the agreements with the Cypress Mill Homeowners Association and residents are being drafted. Mr. Hirshman reported that Long Lake is the developer for Harris County Municipal Utility District 391 ("MUD 391"). He stated that he would contact Mr. Rue from Long Lake to request participation in the portion of the Cypress-Rosehill beautification project that is adjacent to MUD 391.

8. **Approve District Order Establishing Standards for Recreational Facilities.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Establishing Standards for Recreational Facilities, a copy of which is attached hereto as Exhibit "F." Ms. Ellison stated that the District may provide funding to the neighborhood homeowners associations if the funds are used for a public purpose and the District retains sufficient controls over the expenditure of its funds. 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 Order Establishing Standards for Recreational Facilities.

9. **Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and any necessary maintenance.** The President recognized Director Swedlund, who reported that GreenPros trimmed the trees at the Cypress Estates detention pond.

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 "G." Ms. Bryant noted that 98% of the District's 2008 taxes had been collected as of August 31, 2009.

Ms. Bryant reviewed the Delinquent Tax Report provided by Perdue, Brandon, Fielder, Collins & Mott, L.L.P, included in the Tax Assessor-Collector's Report. She reported that two lawsuits have been filed, there are five bankruptcies and that demand letters have been sent to the remaining delinquent taxpayers.

Ms. Bryant reported that Harris County Appraisal District has certified \$37,054,061 taxable valuation for the District with another \$53,972,895 in uncertified valuation due to owner protests.

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 Tax-Assessor-Collector's Report, to authorize the expenditures listed therein, and to approve the Delinquent Tax Report.

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 "H." Ms. Austin reported that Certificates of Deposit ("CD") in the Operating Fund will mature in September. She asked the Board if it wanted the CDs renewed at the best interest rate available for one-year terms. Ms. Austin recommended CDs from Compass Bank, Central Bank, Amegy Bank, Green Bank and Sterling Bank.

Ms. Austin reported that check #6824 to Southwest Water Company was lost. She reported that a stop payment was issued for the check and a new check prepared.

Ms. Austin reviewed the Amended Budget for fiscal year ending February 28, 2010, included in the Bookkeeper's Report. She reported that the Constable Lease expense and Cypress-Rosehill Beautification Project was added to the Amended Budget. The President asked that the Maintenance Tax be changed to \$840,000 to match the tax rate proposed today. Mr. Hirshman recommended that the Lift Station Rehabilitation expense be changed to \$50,000 and that the wastewater treatment plant generator expense be changed to \$450,000. Ms. Austin noted that the Strategic Partnership Agreement revenue may be changed to \$325,000 to be closer to actual receipts.

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 accept the Bookkeeper's Report, to authorize payment of the checks listed therein, to authorize the bookkeeper to invest the proceeds from the maturing CDs at Compass Bank, Central Bank, Amegy Bank, Green Bank and Sterling Bank for one-year terms, and to approve the Amended Budget with Maintenance Tax of \$840,000, Lift Station Rehabilitation expense of \$50,000, wastewater treatment plant generator expense of \$450,000 and Strategic Partnership Agreement revenue of \$325,000.

12. **Amend Budget for Fiscal Year Ending February 28, 2010.** This item was covered under the Bookkeeper's Report.

13. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, damage claims.** 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 that DEC is working on the new wastewater flows for the wastewater treatment plant expansion. He stated that a lower flow rate will be requested in the next bond application to the Texas Commission on Environmental Quality ("TCEQ").

Mr. Hirshman reported that DEC is working on the bond application and is waiting on documents and costs from the developers.

Mr. Hirshman reported that the TCEQ approved the wastewater treatment plant generator plans. He reported that the plans would be submitted to Harris County for approval and then City of Houston signature must be obtained.

Mr. Hirshman noted that Pay Estimate #1 and Change Order #1 for the Constable Work Space have already been approved.

Mr. Hirshman reported that the insurance values for the District have been submitted and were kept the same as the previous year.

Mr. Hirshman reported that letters were provided that state the District has sufficient water and wastewater treatment capacity available to serve Cypress Landing East, Sections Three and Four, which is required for plat approval.

Mr. Hirshman reported that Cymill Partners has requested reimbursement for the storm sewer line tie-in for the commercial development serving Alicia's Mexican Grill, which cost \$15,400. He stated that the storm sewer is in Jardine Drive. The President noted that Jardine Drive is a private road. Ms. Ellison asked if the District needs an easement for the facility. The President stated that the Board will require additional information prior to making a decision on reimbursement.

Mr. Hirshman reported that DEC is working with Harris County on the wastewater treatment plant drive permit.

Mr. Hirshman reported receipt of the Wal-Mart plans. He stated that the backflow preventer at the back driveway to Walgreens is not shown on the plans. Mr. Hirshman stated that he will confirm with the Wal-Mart engineer that these plans have not been amended. He stated that he is checking with a mechanical engineer to confirm that the backflow preventers can be buried underground. The President noted that the backflow preventers can, at the least, be lowered.

Mr. Hirshman reported that Angel Brothers Enterprises, Ltd. have provided a proposal of \$1,350 and \$1,450 to relocate two of the District's fire hydrants. He stated that Eagle Water is able to relocate the fire hydrants for about the same price. Mr. Hirshman asked the Board if it wanted Eagle Water or Angel Brothers Enterprises, Ltd. to relocate the fire hydrants.

Upon motion by Director Swedlund, seconded by Director Koehn, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Engineer's Report and to authorize Eagle Water to relocate the District's two fire hydrants.

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 "J." Mr. Riley reviewed the Disconnection List with the Board.

Mr. Riley reviewed the Collection Agency Report with the Board. He requested Board authorization to turn the accounts over to a collection agency. He reported that the accounts are for customers who have moved out of the District.

Mr. Riley reviewed the Write-Off Request list with the Board. He requested Board authorization to write off the accounts as uncollectible.

Mr. Riley reported on the customer letter to the Board regarding his driveway repair following a water main leak. A copy of the customer letter is attached hereto as Exhibit "K." Mr. Riley reported that he has been working with the customer since June and that Eagle Water discussed the matter further with the customer yesterday. Mr. Riley reported that a few minor adjustments will be performed to resolve the matter. Director Swedlund requested that a response letter be sent to the customer to inform him that the Board's believes the matter has been resolved unless the Board hears otherwise. Ms. Ellison requested Mr. Riley inform F&J when the matter is resolved so the response letter may be sent.

Mr. Riley reported that GM Services tested the District's water wells. He reported that the water wells are performing well. Mr. Riley reported that the drought has caused a drop in the water aquifers in the area.

Mr. Riley reported that delivery of the lift station pump is expected October 5, 2009. He reported that the control panel is ready and that the lift station work should be completed in October.

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

Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to turn the Collection Agency Report accounts over to a collection agency, to write off the Write-Off Request List accounts as uncollectible and to authorize F&J to send a response letter to the customer with the driveway repair issue upon Eagle Water notification that the matter is resolved.

15. **Update on easement settlement.** Ms. Ellison reported that the property owners have agreed to the settlement and are in the process of signing the releases.

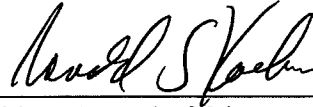
16. **Other matters.** No other matters were discussed.

17. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on October 16, 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.

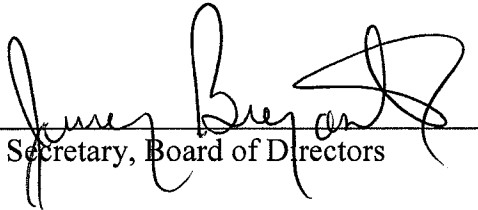
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The attached and foregoing minutes were passed and approved by the Board of Directors on October 16, 2009.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

