

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
May 21, 2010

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 21, 2010, 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
David Templeton, 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. 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. Jimmy Pappas of Corinthian Development, developer of land in the District; Mr. Brian Jarrard of Cymill Partners, developer of land in the District; Mr. Jim Moore and Mr. Robert Moore of First General Realty; Ms. Stephanie Lee of KGA Deforest Design; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Sergeant Blackledge, deputy for 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 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. **Accept oaths of elected directors.** Directors Koehn, Henry and Halloran took the oath of office for their new terms as directors of the District.
2. **Election of officers.** 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 maintain the current slate of officers.
3. **Minutes of the meetings of April 16, 2010 and May 11, 2010.** The proposed minutes of the meetings of April 16, 2010 and May 11, 2010, previously distributed to

the Board, were presented for review and approval. Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of April 16, 2010 and May 11, 2010, as presented.

4. **Security report and any necessary action.** The President recognized Director Henry, 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 "B."

Director Henry reviewed the Extra Patrol Stats and Extra Patrol Six Month Summary, a copy of which is attached hereto as Exhibit "C."

Director Henry reported that he has authorized Harris County Fire Marshals to utilize the Constable Workspace. He reported that the Harris County Fire Marshal will provide a letter documenting that it will pay for the monthly expense of the T1 line to the Constable Workspace in exchange for the use of the Constable Workspace.

Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Security Report.

5. **Consider Renewal of Extra Patrol.** The Board discussed renewal of the extra patrol. The Board reviewed Exhibit A to the Independent Contractor Agreement, a copy of which is attached hereto as Exhibit "D." Upon motion by Director Templeton, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve Exhibit A to the Independent Contractor Agreement which extends the extra patrol for six months from June 17, 2010 to December 16, 2010.

6. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that four residents emailed regarding the status of the Cypress-Rosehill Beautification Project. The Board asked Ms. Lee to prepare a status summary for the website.

Director Bryant reported that four residents emailed about water service termination because they moved out of the District.

Director Bryant reported that one resident emailed regarding not being able to pay the water bill with Visa. He reported that he told the resident that Visa has dropped out of all water district credit card payment programs because Texas law prohibits the credit card companies from charging more than 5% of the bill amount.

Director Bryant reported that one resident emailed regarding damage to his trash can and that Best Trash replaced the can.

Director Bryant reported that one resident emailed regarding damage to her sprinkler system by Eagle Water during a water leak repair. Mr. Riley stated that the field supervisor has discussed the matter with the resident; that the issues have been resolved and that the resident is satisfied.

7. Developer's Report, reimbursement issues and any necessary action.

The President recognized Mr. Pappas, who reported that an orthodontist has recently signed a lease. He reported that 80% of the Fry Road Shoppes retail space is leased. He stated that a letter of intent has been signed for a pad site next to CVS Pharmacy.

Mr. Pappas reported that he consults for Acclaim Energy Advisors ("Acclaim"). He reported that Acclaim has an alliance with NRG Energy to provide a revenue generating program for entities that agree to take their facilities offline and utilize backup generators when demand for electricity is greater than supply. Mr. Pappas stated that Acclaim would examine the District's generator system and NRG Energy would assume maintenance of the District's generators. He requested Board authorization to coordinate with the District consultants to prepare a proposal for the Board's consideration. It was Board consensus to authorize the District's consultants to work with Mr. Pappas.

Mr. Jarrard reported that the AT&T building contractor is on site. He reported that it is a 150-day contract.

8. Report on Kimball Hill Homes Houston, L.P. assignment on receivables to First General Realty and any necessary action. Mr. Moore reported that First General Realty Company has a contract to purchase the Kimball Hill Homes land and lots. He reported that the lots will be sold to a home builder after the purchase. Mr. Moore reported that Harris County filed a non-compliance notice on the Kimball Hill detention pond. He reported that he has a bid from Storm Water Solutions to repair the detention basin and resolve the non-compliance. Ms. Ellison reported that Kimball Hill Homes conveyed the detention pond and lift station to the District without notifying the District.

9. Consider Cypress-Rosehill Beautification Project Proposal and any necessary action. The President recognized Ms. Lee, who reported that the contractor is proceeding with the Water Plant No. 2 fence installation.

Ms. Lee reported that the Cypress-Rosehill Road Fence Improvements project is a 180-day project and that the Cypress-Rosehill Road Streetscape Development is a 120-day project. She reported that the Cypress-Rosehill Road Fence Improvements and Cypress-Rosehill Road Streetscape Development contracts are ready for signature.

Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Cypress-Rosehill Road Fence Improvements contract and the Cypress-Rosehill Road Streetscape Development contract.

10. Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and any necessary maintenance. Director Koehn reported that Harris County Flood Control District mowed the drainage ditch behind Bladenboro Drive. He asked if the drainage ditch had been cleaned. Director Henry stated that the debris has not been removed from the drainage ditch. Mr. Hirshman stated that he would follow-up with Harris Country Flood Control District on cleaning of the drainage ditch.

11. **Consider next meeting date as occurs during AWBD Conference.** The Board noted that the next regular monthly Board meeting will be held on June 25, 2010, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

12. **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 "E." Ms. Bryant noted that 97% of the District's 2009 taxes had been collected as of April 30, 2010.

Ms. Bryant reported that the delinquent notices have been mailed to notify the taxpayers that the additional 20% penalty becomes effective July 1, 2010.

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

13. **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 "F." Ms. Austin reported that the Constable Workspace maintenance costs have increased from \$511 to \$627.25 per month.

Ms. Austin reported that Texas Capital Bank is offering Certificates of Deposit ("CD") at an interest rate of 1.4%. Ms. Austin reported that she had revised the District's list of approved brokers to add Texas Capital Bank. A copy of the revised list is attached hereto as Exhibit "G." Ms. Austin requested authorization to purchase a CD at Texas Capital Bank in the amount of \$240,000. She reported that she will transfer a portion of Debt Service funds to the money market account to realize a higher interest rate.

The President asked why the Wastewater Treatment Plan generator installation contractor was being paid from the Operating Fund. Mr. Hirshman stated that he would confirm that the project was not part of a bond issuance.

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 accept the Bookkeeper's Report, to authorize payment of the checks listed therein, to approve the revised list of approved brokers with the addition of Texas Capital Bank and to authorize the bookkeeper to purchase a CD at Texas Capital Bank in the amount of \$240,000.

14. **Approve Participation in Lone Star Local Government Investment Fund.** The Board considered participating in the Lone Star Local Government Investment Fund in order to diversify its investments. Ms. Ellison said a Lone Star representative had stopped by before the meeting and had answered her questions. She said Lone Star participants include large school districts such as Houston Independent School District and Cypress-Fairbanks Independent School District. Ms. Austin said that Lone Star has two types of investment funds and she recommended using the fund that does not invest in commercial paper.

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 authorize the bookkeeper to invest \$500,000 each from the Debt Service, Operating and Capital Projects Funds into Lone Star.

15. **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 contractor for the Wastewater Treatment Plant Driveway project is on site.

Mr. Riley presented to and reviewed with the Board the draft 2009 Drinking Water Quality Report, a copy of which is attached hereto as Exhibit "I." He stated that the District is required to distribute this report to the customers by July 1.

Mr. Riley reported that Eagle Water is working on the replacement of the above-ground pipes and check-valve by the Walgreens driveway with an underground vault. He reported that the project is expected to be complete next week.

Mr. Riley reported that the Texas Commission on Environmental Quality ("TCEQ") will inspect Cypress Landing East on May 25, 2010. He reported that tap installations in the subdivision are pending TCEQ approval.

Mr. Riley reported that the gate installation is complete at lift station #6 on Mueschke Road.

Upon motion by Director Templeton, 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 and to approve the 2009 Drinking Water Quality Report.

16. **Approve Consumer Confidence Report.** This item was covered under the Operator's Report.

17. **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 "J."

Mr. Hirshman reported that the wastewater treatment plant driveway contractor is on-site to begin construction. He reported that the contractor is relocating inlets and will use cement-stabilized sand instead of lime to shorten the project duration.

Mr. Hirshman reported that DEC has submitted the eighth Bond Issuance Application to the TCEQ for review and approval. He reported that the TCEQ has declared the application administratively complete.

Mr. Hirshman reported that DEC is coordinating preparation of the ninth Bond Issuance Application for Cypress Landing East and the first phase of Cypress Landing Place. He

reported that First General Realty Company has provided a list of receivables for Cypress Landing Place and requested four years of interest through November 2010. It was Board consensus to provide the usual developer interest period.

Mr. Hirshman requested Board approval of payment by Centex Homes of Pay Estimate #4 to Clearwater Utilities, Inc. in the amount of \$41,104.13 for the water, sanitary sewer and storm sewer to serve Cypress Landing East, Section Three, Phase 1 and Section Four.

Mr. Hirshman reported that the contractor has installed the foundation for the generator at the Wastewater Treatment Plant. He requested Board approval of payment of Pay Estimate #1 to Hi-Tech Electric, Inc. in the amount of \$110,723.00 for the Wastewater Treatment Plant Generator Installation.

Mr. Hirshman reported that the cost estimate of the interconnect and waterline extension along Mueschke Road to connect to Harris County Municipal Utility District No. 391 is on hold until completion of construction of a new subdivision south of Cypress Landing West.

Mr. Hirshman reported that DEC is coordinating with the Centex Homes engineer to correct a drainage issue at Lift Station #1 in Cypress Landing East.

Mr. Hirshman reported that he will follow-up with Harris County Flood Control District regarding cleaning of the drainage ditch behind Bladenboro Drive.

Mr. Hirshman reported that he spoke with the developer regarding acceptance of the outfall ditch from Cypress Landing East into the Harris County maintenance program.

Mr. Hirshman reported that DEC received the plans for the widening of Cypresswood Drive from Cypress Links Trail East to K 145-05-00. He reported that R.G. Miller, on the behalf of Harris County, has requested that the District relocate its flushing valve at the corner of Cypresswood Chase which conflicts with a wheelchair ramp. Mr. Hirshman requested that Mr. Riley arrange for the relocation of the flushing valve.

Mr. Hirshman reported that The Shoppes at Fry Road detention pond has passed final inspection. Mr. Hirshman reported that he will obtain a Storm Water Solutions proposal for maintenance of the detention pond on behalf of the District.

Mr. Hirshman requested Board approval of the Pay Estimate from Storm Water Solutions in the amount of \$929.73 for the security structure securing the controls for the pump station at Cypress Mill Estates detention pond.

Mr. Hirshman reported that the resident illegally draining into the Cypress Ridge detention pond has failed to remove the drainage pipes. He reported that the resident installed a fence. The Board instructed F&J to coordinate with Sergeant Blackledge the delivery of the letter instructing the resident to remove the illegal drainage pipes.

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; to approve payment by Centex Homes of Pay Estimate #4 to Clearwater

Utilities, Inc. in the amount of \$41,104.13 for the water, sanitary sewer and storm sewer to serve Cypress Landing East, Section Three, Phase 1 and Section Four; to approve payment of Pay Estimate #1 to Hi-Tech Electric, Inc. in the amount of \$110,723.00 for the Wastewater Treatment Plant Generator Installation; to authorize Eagle Water to relocate the flushing valve at the corner of Cypresswood Chase and Cypresswood Drive; and to authorize payment of the Pay Estimate from Storm Water Solutions in the amount of \$929.73 for the security structure securing the controls for the pump station at Cypress Mill Estates detention pond.

18. **Approve Preparation of Bond Application (Centex Homes).** Ms. Ellison reported that it may be more efficient to reimburse First General Realty from surplus funds because it is a relatively small amount of money. Mr. Hirshman asked the Board for authorization to prepare the ninth Bond Issuance Application for Centex Homes only.

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 preparation of the ninth Bond Issuance Application on an expedited basis for Centex Homes and to utilize surplus funds for the First General Realty Company reimbursement.

19. **Review and authorize execution of letter regarding disclosure of Director Information.** The President recognized Ms. Ellison, who reported that each Board member may elect not to release his address, telephone number or social security number to the public by signing a letter to such effect.

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

* * *

The foregoing minutes were passed and approved by the Board of Directors on June 25, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

