

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
October 15, 2010

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 October 15, 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. Bill Hixon and Ms. Heidi Stephenson of Cymill Partners, developers of land in the District; Ms. Shannon Wiesepape of Pulte Group, developers of land in the District; Mr. Robert Moore of First General Realty; Ms. Stephanie Lee of KGA Deforest Design ("KGA"); Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Beverley Bates of the Owners of Sasher Lane; 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. **Minutes of the meeting of September 17, 2010.** The proposed minutes of the meeting of September 17, 2010, previously distributed to the Board, were presented for review and approval. 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 minutes of September 17, 2010, as presented.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that one resident emailed regarding not being able to pay the water bill with Visa and stating that HEB Grocery and Kroger would not accept water bill payments for the District. Director Bryant reported that

he forwarded the email to Eagle Water. Mr. Riley reported that HEB Grocery and Kroger accept water bill payments for the District. He reported that he discussed the problem with Compass Bank, which set up the payment option program, and the issue should be resolved.

Director Bryant reported that one resident requested the mailing address be added to the District web site to assist people who have misplaced their payment envelopes. He reported that the mailing address has been added to the District web site.

Director Bryant reported that one resident complimented the mounted patrol in the District.

Director Bryant reported that Ms. Loughlin emailed regarding clean out of the Cypress Mill Estates Detention Pond. He reported that Storm Water Solutions is scheduled to clean out the detention pond prior to the seeding and fertilizing, which is to occur in the next couple of weeks.

Director Bryant reported that Legend Homes emailed to request consolidation of all the water bills into one envelope. Mr. Riley reported that such consolidation is not practical.

The President recognized Ms. Bates of the Owners of Sasher Lane. Mr. Hirshman reviewed Ms. Bates' letter with the Board, a copy of which is attached hereto as Exhibit "B." He reported that the Harris-Galveston Subsidence District ("HGSD") indicated that the Owners of Sasher Lane may have to discontinue well use. Mr. Hirshman reported that approximately five to six years ago the District wrote the Sasher Lane residents asking if they wanted utility service by the District. He reported that the District received no response at that time. Mr. Hirshman reported that the Sasher Lane residents are conveniently located for service; however, he would need to research whether their water line meets Texas Commission on Environmental Quality ("TCEQ") requirements. Mr. Hirshman reported that if the District annexes the Sasher Lane properties, the TCEQ requires the District provide sanitary sewer service to the residents as well as water service. Mr. Hirshman stated that DEC would need to research if out-of-District water can be provided to customers on a septic system. Mr. Hirshman estimated that the installation of a new water line, new sanitary sewer line, connection and new lift station may cost approximately \$150,000. Mr. Hirshman stated that the District is not permitted to provide utility service to nonplatted property. He reported that the HGSD stated that the District qualifies to serve the Sasher Lane residents, even though the District is not on surface water, because the District is part of the North Harris County Regional Water Authority Groundwater Reduction Plan. The Board discussed serving the Sasher Lane properties. The Board requested that Mr. Hirshman research utility service options and associated costs for the Board's consideration.

Mr. Hirshman reported that the owner of a 1.33 acre tract just south of the Sasher Lane properties asked about utility service to the tract. Mr. Hirshman reported that he informed the potential buyer that the tract would have to be annexed into the District to obtain utility service. He reported that the tract was incorrectly included on the District's tax roll and the owner had received tax bills but had not paid them.

3. Security report and any necessary action. Director Henry reviewed the Security Report for the month of September, a copy of which is attached hereto as Exhibit "C."

4. **Convene Public Hearing on Proposed Tax Rate for 2010.** The President convened the public hearing on the proposed tax rate for 2010. There were no comments. The hearing was closed.

5. **Adopt Order Setting Tax Rate and Levying Tax for 2010.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Setting Tax Rate and Levying Tax for 2010, a copy of which is attached hereto as Exhibit "D." Ms. Bryant reported that the notice of public hearing was published. 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 adopt the Order Setting Tax Rate and Levying Tax for 2010 with a total tax rate of \$0.99, including a rate of \$0.63 for debt service, \$0.20 for operation and maintenance expenses, and \$0.16 for contract obligations.

6. **Developer's Report, reimbursement issues and any necessary easements.** The President reviewed Mr. Luton's email, stating that the Cypress Park models are open and bids have been received to upgrade the landscape reserves with the intent to start construction within a month.

Mr. Hixon reported that the sidewalk installation by Walgreen's enhanced the area, increased safety and receives plenty of foot traffic. He reported that Smashburger has been open for three weeks and had record sales. Mr. Hixon reported that AT&T is completing the build out and expected to open by November 1, 2010. He reported that the 3.7 acre tract will be developed for an office/professional space. Mr. Hixon stated that an imaging center and daycare center are considering space in the tract. He reported that two restaurants may be added to the retail center that includes Alicia's Mexican Grille, one possibly serving fried chicken.

Mr. Moore reported that the closing documents between Kimball Hill Homes and First General include an escrow agreement under which \$55,000 was escrowed for back taxes for the Kimball Hill properties in Cypress Park, including approximately \$29,000 for District taxes. He reported that the escrow agreement was sent to the Kimball Hill Homes' attorney and bookkeeper. Ms. Bryant reported that she has not heard from the Kimball Hill Homes bankruptcy representatives or Stewart Title regarding the payment of the delinquent taxes.

Ms. Wiesepape reported that Cypress Landing East had two sales and two closings with a total of 52 sales and 43 closings in 2010. She reported that utilities construction in Cypress Landing East, Section Three, Phase Two and Section Five, is underway.

7. **Cypress-Rosehill Beautification Project and any necessary action.** The President recognized Ms. Lee, who presented to and reviewed with the Board the Project Status Report, a copy of which is attached hereto as Exhibit "E." Ms. Lee requested Board authorization of payment of Pay Estimate #5 to Allgreen Associates in the amount of \$19,345.14 for the landscaping of the Cypress-Rosehill Beautification Project.

Ms. Lee requested Board authorization of payment of Pay Estimate #3 to Fencecrete America, Inc. in the amount of \$74,526.52 for the fencing of the Cypress-Rosehill Beautification Project.

Ms. Lee requested Board authorization of a change order to the Fencecrete

America, Inc. contract in the amount of \$1,400.00 for the four lateral natural gas line relocations.

Ms. Lee asked if the Board wanted Allgreen Associates to continue repairing sod disturbed by trucks riding over the curb across from the Wastewater Treatment Plant. It was the consensus of the Board to continue to repair the sod. Mr. Riley reported that he would contact the contractors accessing the Wastewater Treatment Plant.

Mr. Riley reported that Fencecrete America, Inc. broke a four inch water line in the process of the fence installation. He asked the Board whether to charge Fencecrete America, Inc. for the repair. It was the consensus of the Board not to charge Fencecrete America, Inc. for the repair.

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 payment of Pay Estimate #5 to Allgreen Associates in the amount of \$19,345.14 for the landscaping of the Cypress-Rosehill Beautification Project, to approve payment of Pay Estimate #3 to Fencecrete America, Inc. in the amount of \$74,526.52 for the fencing of the Cypress-Rosehill Beautification Project, and to approve the Change Order to the Fencecrete America, Inc. contract in the amount of \$1,400.00 for the four lateral natural gas line relocations.

8. Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and any necessary maintenance. No action was taken on this item.

9. 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 99% of the District's 2009 taxes had been collected as of September 30, 2010.

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

10. 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 reported that the maturing Certificates of Deposit ("CD") in the Operating Fund were renewed at Green Bank, Central Bank and Sterling Bank for one year terms.

Ms. Austin requested Board approval of the Amended Budget which changes Maintenance Tax Revenue to \$841,450.

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 accept the Bookkeeper's Report and to authorize payment of the checks listed therein.

11. **Amend budget for fiscal year ending February 28, 2011.** Upon motion by Director Halloran, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Amended Budget for fiscal year ending February 28, 2011, with a change in Maintenance Tax Revenue to \$841,450.

12. **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 accountability has decreased to 89%. Mr. Riley reported that he would research the decreased accountability if it continues next month.

Mr. Riley requested authorization to turn the Collection List accounts over to collection. He noted the list of the accounts is detailed in the Operations Report. Mr. Riley reported that these are accounts for residents who have moved out of the District and new residents have moved into the homes.

Mr. Riley reported that the wastewater treatment plant blower #1 has failed and is unrepairable due to a cracked housing. He reported that it was a Gardner Denver blower and he would recommend replacing it with a Roots positive displacement blower. Mr. Riley reported that Neil Technical Services has provided a quote of \$10,775 for installation of a Roots blower, which includes all necessary work. He reported that it will take three weeks for delivery of the blower. Mr. Riley requested Board authorization to replace blower #1 with the Roots positive displacement blower in the amount of \$10,775.

Mr. Riley reported that the Wastewater Treatment Plant digesters should be cleaned for an approximate cost of \$20,000. He reported that the cost cannot be confirmed until the clean-out begins and the amount of material to be removed is determined. Mr. Riley reported that the digester clean-out will reduce the sludge haul costs due to improved digester operation. Mr. Riley reported that a proper digester/thickener unit should be installed at the Wastewater Treatment Plant in the future. He requested Board authorization for Eagle Water to perform the digester clean out.

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 Operations Report, to terminate the delinquent accounts in accordance with the Rate Order, to authorize Eagle Water to turn over the Collection List accounts for collection, to approve the Neil Technical Services proposal for a Roots positive displacement blower installation in the amount of \$10,775, and to authorize Eagle Water to clean out the Wastewater Treatment Plant digesters.

13. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, bonds.** 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 the TCEQ has approved a sanitary sewer flow rate of 230 gallons per day per equivalent single family connection. He reported that the District will

have sufficient wastewater treatment capacity at full build out at this reduced flow rate.

Mr. Hirshman reported that the TCEQ has approved the eighth bond issuance in the amount of \$2,875,000 with use of Surplus Funds in the amount of \$530,000.

Mr. Hirshman reported on the ninth Bond Issuance Application for Cypress Landing East. He reported that DEC received the documentation from the developer and engineer. Mr. Hirshman reported that DEC is working on the surplus funds request for reimbursement for Cypress Landing West, first phase.

Mr. Hirshman reported that the Notice to Proceed was issued for the utility construction in Cypress Landing East, Section Three, Phase Two and Section Five, to Reddico Construction.

Mr. Hirshman reported on the proposed interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). Mr. Hirshman reviewed the diagram and cost estimate for the twelve inch water line along Mueschke Road, included in the Engineer's Report. He reported that the water line would begin at the entrance to Cypress Landing and extend along Mueschke Road to MUD 391's Village of Cypress Lakes, Section Fifteen. Mr. Hirshman reported that water service to Harvest Bible Church may be from the proposed water line. He reported that the water line would create a loop in the water distribution line so that water service to Cypress Landing and Cypress Park may continue if there is a break in the water line. The President asked if MUD 391 was interested in participating in the interconnect. It was the consensus of the Board to have F&J request MUD 391's participation in the interconnect planning and costs.

Mr. Hirshman reported that DEC is preparing the feasibility study for sanitary sewer service to Harvest Bible Church.

Mr. Hirshman reported that the owner of a 1.33 acre tract just south of the Sasher Lane properties asked about utility service to the tract. Mr. Hirshman reported that he informed the owner to contact Ms. Ellison if the owner was interested in annexation and utility service. He stated that the owner was informed of the required annexation deposit.

Mr. Hirshman reported that the installation of a 16,000 gallon hydropneumatic tank and a booster pump will be needed to meet TCEQ requirements prior to the next bond issuance. He reported that Water Plant #2 has space for the hydropneumatic tank. Mr. Hirshman requested Board authorization to research the water supply upgrades.

Mr. Hirshman reported that the Surplus Funds application for Cypress Landing West is for \$755,092.42. He stated that there is approximately \$1,000,000 in surplus funds in the Capital Projects Fund and \$530,000 is allocated for the items in the upcoming bond issuance, which results in less than the amount of the Cypress Landing West surplus funds application. He asked the Board whether it wanted to utilize money from the Capital Projects Fund or Operating Fund to reimburse First General. It was the consensus of the Board to utilize Capital Projects Fund money, to the extent feasible, and to reimburse First General as taxable values increase.

Ms. Ellison reported that Craig Rathmann, the District's financial advisor,

requested a Resolution Authorizing Request to Harris County Appraisal District for an estimate of assessed valuation as of October 1, 2010, for the recently approved bond issuance.

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 authorize F&J to request MUD 391's participation in the interconnect planning and costs, to approve the Resolution Authorizing Request to Harris County Appraisal District for an estimate of assessed valuation as of October 1, 2010, and to authorize DEC to research the water supply upgrades.

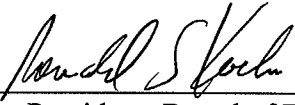
14. **Consider need for insurance proposals.** The President recognized Ms. Ellison, who reported that the District's insurance expires in December. She asked the Board if it wanted proposals from other insurance companies. The Board requested the renewal proposal from Aquasurance.

15. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on November 19, 2010, 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 foregoing minutes were passed and approved by the Board of Directors on November 19, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

