

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 25, 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 special session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on June 25, 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; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Robert Moore of First General Realty; Mr. Nick Luton of Meritage Homes; 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. Daniel Blackledge; 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 May 21, 2010.** The proposed minutes of the meeting of May 21, 2010, previously distributed to the Board, were presented for review and approval. Upon motion by Director Henry, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of May 21, 2010, as presented.

2. **Bondholder request for rating.** The President recognized Ms. Ellison, who reviewed the bondholder request for the District to obtain an underlying rating, a copy of which is attached hereto as Exhibit "B." Ms. Ellison reported that the District's financial

advisor, Mr. Craig Rathmann, has stated that he expects to seek an underlying rating for the District in connection with the issuance of its next series of bonds and at that time he can get the underlying rating for all outstanding bonds but because costs are incurred to obtain a rating, the District should not incur the cost until necessary. Ms. Ellison said that any information concerning bond ratings should be given to all owners of the bonds. It was the consensus of the Board to direct Ms. Ellison to prepare a response to the bondholder regarding the matter.

3. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that a resident emailed the Board regarding an erroneous water termination, which Eagle Water determined was not an error.

Director Bryant reported that one resident emailed regarding not being able to pay the water bill with Visa. He reported that the prepared statement regarding Visa payments was provided to the resident.

Director Bryant reported that one resident emailed regarding moving out of the District and another emailed regarding moving into the District, which were forwarded to Eagle Water for management.

Director Bryant reported that the Water Irrigation System Evaluation ("WISE") Guys emailed about a program to evaluate residential irrigation systems for the District. Director Bryant reported that he discussed the concept with Mr. Riley and determined that the District should not be involved with the program. Director Bryant reported that he informed the WISE Guys that they should contact the residents directly.

4. **Cypress Mill Homeowners' Association request on parking lot.** The Board reviewed the Cypress Mill Homeowners' Association letter regarding Alicia's Mexican Grille parking lot lease, a copy of which is attached hereto as Exhibit "C." The President stated that the restaurant is not maintaining the leased area and the restaurant employees broke the fence from the outside. Ms. Ellison said it appeared that Alicia's was in default of several provisions of the lease. Upon motion by Director Halloran, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to terminate the Lease with Alicia's Mexican Grille and to ask it to vacate the premises within six months.

5. **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 May, a copy of which is attached hereto as Exhibit "D." Sergeant Blackledge reported that the new deputy working nights is very proactive and productive.

Sergeant Blackledge reported that the Harris County Fire Marshal ("Fire Marshal") has accepted the offer to use the Constable Workspace in exchange for providing the T1 line to the workspace. He reported that the Fire Marshal is coordinating relocation of its T1 line to the workspace. Sergeant Blackledge reported that if the fire marshals are not on a fire scene, they are available to assist the deputies. He said that they are peace officers and do carry

guns. Sergeant Blackledge reported that he would not provide access to the fire marshals until the necessary documentation has been provided to Ms. Ellison.

Director Henry reported that he would like to invite the area business owners, homeowner associations and Constable Hickman to an open house at the Constable Workspace. Director Henry reviewed with the Board draft invitation letters to the business owners and Constable Hickman, copies of which are attached hereto as Exhibits "E" and "F," respectively. Director Henry stated that he would coordinate distribution of the letters.

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 and approve the Constable Workspace Open House invitation letters.

6. **Consideration of Illegal Drain.** Sergeant Blackledge reported that the resident at 15720 Stone Oak Estates Court stated that the unauthorized drainage pipes outfalling into the District's Cypress Ridge Detention Pond belong to his neighbor. Mr. Hirshman stated that the portion of outfall pipes on the District's property should be removed and then plugged. It was the consensus of the Board to determine the correct owner of the drainage pipes and send a letter to the homeowner instructing him to remove the drainage pipes within thirty days.

7. **Approve audit for fiscal year ending February 28, 2010.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the District's audit for fiscal year ending February 28, 2010 (the "Audit"), a copy of which is attached hereto as Exhibit "G." Mr. Sissel noted that the District has substantial reserve for expenses and approximately one and one-third years reserve for debt.

Mr. Sissel presented to and reviewed with the Board a draft letter to management from BKD in which BKD reported that there were material weaknesses in the District's internal controls over financial reporting. A copy of the letter is attached hereto as Exhibit "H."

Mr. Sissel presented to and reviewed with the Board a draft letter on the auditor's responsibility under auditing standards. A copy of the letter is attached hereto as Exhibit "I."

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 Audit subject to a ten day review period for Directors and District consultants and to approve the draft Management's Response to the management letter.

8. **Developer's Report, reimbursement issues and any necessary action.** The President recognized Ms. Stephenson, who reported that the AT&T building construction is progressing and that completion is scheduled for August 1, 2010. She reported that Smashburger has signed a lease.

The President recognized Mr. Pappas, who reported that the pad site next to CVS Pharmacy is under contract for a two-story medical building. Mr. Pappas reported that he is not sure why Kentucky Fried Chicken has not begun construction. Mr. Pappas reported that he has assisted DEC with its response to the Texas Commission on Environmental Quality (the "TCEQ") regarding The Shoppes at Fry Road detention pond.

9. **Report on Kimball Hill Homes Houston, L.P. assignment on receivables to First General Realty and any necessary action.** The President recognized Ms. Ellison, who reported that First General Realty Company has a contract to purchase the Kimball Hill Homes land and lots in Cypress Landing Place. She reported that General Realty plans to sell the land and lots to Meritage Homes but to retain the right to receive reimbursement from the District for utility facilities constructed by Kimball Hill. She said that First General has agreed to make necessary repairs to the detention pond for Cypress Landing Place. Ms. Ellison reported that First General Realty Company expects to purchase the land on August 5, 2010. She presented to and reviewed with the Board the Assignment, Assumption and Consent Agreement ("Assignment Agreement"), a copy of which is attached hereto as Exhibit "J." She reported that the Assignment Agreement provides for First General Realty Company to assign certain rights and obligations to Meritage Homes and for the District to consent. Ms. Ellison stated that the Assignment Agreement specifies that the District will not be required to issue bonds to pay the reimbursables if the issuance of bonds will result in an increase in the tax rate.

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 Assignment Agreement.

10. **Cypress-Rosehill Beautification Project and any necessary action.** The President reported that the remaining Maintenance Area Agreements have been signed by the property owners.

The President recognized Ms. Lee, who reported that the contractor will begin boring next week for the Cypress-Rosehill Road median landscaping. Director Henry noted that a portion of the installed fence drops quite significantly. Director Templeton noted that it does stair-step. Ms. Lee stated that she would inspect the area.

11. **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.

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 "K." Ms. Bryant noted that 98% of the District's 2009 taxes had been collected as of May 31, 2010.

Ms. Bryant reported that the Harris County Appraisal District ("HCAD") provided a 2010 preliminary taxable value for the District of \$429,231,349, which includes the addition of the 2009 personal property taxable value. Ms. Bryant reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

Upon review of the Unpaid Accounts Tax Roll, the President asked about the Bethesda Lutheran Homes & Services, Inc. accounts. Ms. Bryant stated that she would research the accounts.

Ms. Bryant reported that Assessments of the Southwest has driven the commercial areas of the District to update the Strategic Partnership Agreement business list for the City of Houston and Texas Comptroller.

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 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 "L." Ms. Austin reported that Pay Estimate No. 1 to Allgreen Associates in the amount of \$7,317.00 is included in the Bookkeeper's Report.

Ms. Austin reported that she purchased a Certificate of Deposit at Texas Capital Bank at an interest rate of 1.4%

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

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 "M."

Upon review of the Disconnection List, Director Bryant expressed concern that in some instances the amount due exceeded the deposit on file by a large amount. Mr. Riley reported that the District's Rate Order allows for Eagle Water to increase the deposit upon reconnection.

Mr. Riley reported that the Wastewater Treatment Plant aeration basin submersible pump failed on June 17, 2010. He reported that NTS was unable to pull the pump on Monday. Mr. Riley reported that temporary pumps have been installed to maintain operation. He reported that Eagle Water will dewater the east aeration basin on June 28, 2010, and remove all debris and sand. Mr. Riley reported that once the east aeration basin is cleaned, Eagle Water will dewater and clean the west aeration basin. Mr. Riley reported that Source Point will use a vactor truck to remove the sand and debris from the basins. He reported that Eagle Water will attempt to determine why the pumps failed. Mr. Riley reported that the Wastewater Treatment Plant Driveway project will be delayed until this issue is resolved.

Mr. Riley reported that the underground vault by the Walgreens driveway is complete. He reported that a fire hydrant at the location needs to be replaced because it is too high.

Mr. Riley reported that Eagle Water tested 48 two-inch commercial and irrigation meters. He reported that four were found to be under-registering with two registering at 94% and two registering at 80%. Mr. Riley asked for Board authorization to replace the two meters registering at 80%.

Mr. Riley reported that the Texas State Energy Conservation Office contractor contacted him to arrange the facility energy assessment for the District's facilities.

The President reported that he inspected the Cypress Landing East, Lift Station #1 after the recent rain and that it was holding water.

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 and to authorize Eagle Water to replace the two two-inch meters.

15. 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 "N." Mr. Hirshman reported that the District's total wastewater treatment flow will be approximately 819,000 gallons per day at full development if the TCEQ approves the 230 gallons per connection flow rate.

Mr. Hirshman reported that the wastewater treatment plant driveway project is delayed until the Wastewater Treatment Plant repairs are complete. He reported that DEC met with Harris County regarding the relocation of an inlet because of a conflict with a force main and water line. Mr. Hirshman reported that it was decided to leave the inlet at its current location and regrade over the curb.

Mr. Hirshman reported that the TCEQ has issued a Notice of Deficiency for the District's eighth Bond Issuance Application. He reviewed DEC's response to the Notice of Deficiency, included in the Engineer's Report.

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 DEC is awaiting Centex Homes documentation and information

Mr. Hirshman requested Board approval of payment by Centex Homes of Pay Estimate #5 to Clearwater Utilities, Inc. in the amount of \$28,572.07 for the water, sanitary sewer and storm sewer to serve Cypress Landing East, Section Three, Phase 1 and Section Four.

Mr. Hirshman requested Board approval of payment by Centex Homes of Pay Estimate #2 to Metro City Construction, LP in the amount of \$53,463.32 for the Cypress Landing East, Lift Station #2.

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 #2 to Hi-Tech Electric, Inc. in the amount of \$150,052.59 for the Wastewater Treatment Plant Generator Installation.

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

Centex Home engineer states that the drainage issue is because of the recent widening of Mueschke Road or the detention construction by Lischke to the south. Mr. Hirshman reported that he suggested a meeting of all parties to determine which party is responsible for the problem and what is the solution. The President stated that the installation of a drain flowing to the detention pond would be the most economical solution.

Mr. Hirshman reported that Harris County Flood Control District has responded to the District's request for cleaning of the drainage ditch behind Bladenboro Drive.

Mr. Hirshman reported that DEC issued capacity commitment letters to Centex Homes for Cypress Landing East, Sections Five and Six.

Mr. Hirshman reported that DEC reviewed the plans for Smashburger, which is to be constructed at US Highway 290 and Cypress-Rosehill Road.

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 by Centex Homes of Pay Estimate #5 to Clearwater Utilities, Inc. in the amount of \$28,572.07 for the water, sanitary sewer and storm sewer to serve Cypress Landing East, Section Three, Phase 1 and Section Four, to approve payment by Centex Homes of Pay Estimate #2 to Metro City Construction, LP in the amount of \$53,463.32 for the Cypress Landing East, Lift Station #2, and to approve payment of Pay Estimate #2 to Hi-Tech Electric, Inc. in the amount of \$150,052.59 for the Wastewater Treatment Plant Generator Installation.

16. **Report on Association of Water Board Directors Conference.** Director Bryant reported that it was a good conference, although the "MUD Litigation" seminar was not that informative.

17. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on July 16, 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.

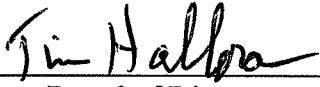
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The foregoing minutes were passed and approved by the Board of Directors on July 16, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

