

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
January 19, 2007

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 January 19, 2007, 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
Alex Handley, 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. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. John Brock of AquaServices L.P., operator for the District; 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. Bill Hixon of Cymill Partners, developer of land within the District; Mr. Wayne McLane of Kimball Hill Homes, developer of land within the District; Mr. Gregory Wamhoff of Centex Homes, developer of land within the District; Ms. Patsy Waldrop of BKD, L.L.P., auditor for the District; and Mr. Oliver Pennington, Mr. Steve Carroll, 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. **Authorize purchase of property for off-site rights of way.** The President recognized Mr. Carroll, who presented to and reviewed with the Board the Memorandum on the Acquisition of Drainage, Sanitary Sewer and Water Line Easements, a copy of which is attached hereto as Exhibit "B." Mr. Carroll reported that all the drainage and sanitary sewer easements have been acquired without the need to file eminent domain proceedings. Mr. Carroll reported that one landowner requested the trees on his property not be destroyed. He reported that the landowner was to coordinate with the contractor the moving of the trees before construction begun. Mr. Carroll reported that the contractor removed the trees and that the landowner is seeking reimbursement. Mr. Carroll reported that the drainage

easement provided for removal of the trees and that he did not believe the District is liable for the lost trees.

Mr. Carroll reported that the Domingues waterline easement has been acquired following a Special Commissioners Court hearing and the award of \$450 to the Domingues. Mr. Carroll reported that there is one waterline construction easement left to acquire, which was set for a hearing but was cancelled. He stated that the landowner is now willing to listen to the plans for his property and if the landowner fails to cooperate, the hearing will be rescheduled.

Mr. Pennington reported that Mr. David Wolff signed the necessary document for the sanitary sewer easement for Cypress Landing which conveys the interest from Cypress Hill, Ltd. to the District. Mr. Pennington stated that after five years, the conveyance will be uncontestable.

2. **Minutes.** The proposed minutes of the meeting of December 15, 2006, previously distributed to the Board, were presented for review and approval. 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 minutes of December 15, 2006, as revised.

3. **Public Comments and letters from residents.** There were no public comments or letters from residents.

4. **Security report and any necessary action.** Director Handley reviewed the provided Security Report with the Board, a copy of which is attached hereto as Exhibit "C." The Board discussed the burglary of a truck and the apprehension of the suspect.

5. **Developers' Report and reimbursement issues.** Mr. Hixon stated that Compass Bank has signed and Whitney Bank is a possibility as tenants. Mr. Hixon reported that he has hired an architect for the 12,000 square foot professional building he intends to construct. He stated that it will require a lift station and that sewer line easements will need to be obtained from the Homeowners Association. He stated that he wanted to convey the lift station and sewer line to the District.

Mr. McLane reported that utilities construction will begin in February for Cypress Landing Park and that the offsite work has been bid. Mr. McLane reported that the widening of Mueschke Road will be bid as well.

Mr. Wamhoff reported that the utilities construction is complete and that the street paving will be bid for Cypress Landing.

Ms. Deitrick reported that Mr. Pappas has signed IHOP for the far western tract and that he is in negotiations with a pharmacy for the hard corner. She stated that 60% of the retail space is committed.

6. **Appoint auditor for fiscal year ending February 28, 2007.** The President recognized Ms. Waldrop, who presented to and reviewed with the Board an engagement letter for BKD, L.L.P. to prepare the District's audit for fiscal year ending February

28, 2007, a copy of which is attached hereto as Exhibit "D." Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to engage the services of BKD, L.L.P. to prepare the District's audit for fiscal year ending February 28, 2007.

7. **Authorize Cymill Partners to solicit bids for office/professional building on 3.7 acres.** No action was taken on this item.

8. **Approve Reimbursement Agreement with Cymill Partners.** Mr. Pennington stated that he will prepare an operation agreement for the lift station and sewer line, instead of a reimbursement agreement unless the facilities are dedicated to the District. No action was taken on this item.

9. **Consider Corinthian Fry Road Investors petition for annexation and submission to the City of Houston.** No action was taken on this item.

10. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that he will obtain proposals for the clearing of the 15 foot easement between Sydney Harbour and Cypress Mill Park subdivision.

Director Henry suggested meeting in the District quarterly to enable more dialogue with the residents of the District. The Board discussed availability and decided to have a special meeting on March 22, 2007, at 7:00 p.m. at the recreation center.

11. **Tax Assessor-Collector's Report and payment of bills.** 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 "E." Mr. Lee noted that 37% of the District's 2006 taxes have been collected as of December 31, 2006, and as of now 70% to 75% is collected. Upon motion by Director Handley, seconded by Director Henry, 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.

12. **Consider Property Tax Exemptions.** No action was taken on this item.

13. **Authorize Amendment to Contract with Delinquent Tax Attorney to Enforce the Collection of Delinquent Taxes.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Addendum to Delinquent Tax Contract, a copy of which is attached hereto as Exhibit "F." Mr. Pennington reported that due to a new statute, delinquent taxes on personal property are now collectible as of April 1. 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 Addendum to the Delinquent Tax Contract with Perdue, Brandon, Fielder, Collins & Mott, L.L.P.

14. **Authorization of additional 20% penalty on taxes, penalty, and interest remaining delinquent.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Resolution Authorizing Additional Penalty on Delinquent Taxes under Sections 33.07, 33.11 and 33.08, Tax Code, a copy of which is attached hereto as Exhibit "G." Upon motion by Director Handley, seconded by Director Bryant, after full

discussion and the question being put to the Board, the Board voted unanimously to authorize the Resolution Authorizing Additional Penalty on Delinquent Taxes under Sections 33.07, 33.11 and 33.08, Tax Code.

15. **Bookkeeper's 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 stated she would provide Mr. Lee a copy of the Strategic Partnership Agreement Payment Report to confirm all the commercial businesses in the District are paying the sales tax according to the Strategic Partnership Agreement.

Mr. Lee reported that the incentive fee paid to Cymill Partners is for December tax collections.

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, and to authorize payment of the checks listed therein.

16. **Adopt Budget for Fiscal Year Ending February 28, 2008.** No action was taken on this item.

17. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Brock, who presented to and reviewed with the Board the Operator's Report, a copy of which is attached hereto as Exhibit "I." Mr. Brock reported that the District again had high accountability. He stated that the interconnect with Harris County MUD No. 391 ("MUD 391") was opened again. Mr. Brock reported that there is significant construction occurring in MUD 391. He stated that he has discussed the interconnect with the MUD 391 operator.

Mr. Brock reported on a new rule by the Environmental Protection Agency which will be adopted by the Texas Commission on Environmental Quality ("TCEQ"). He stated that the rule requires monitoring of chlorine residual at the water plants and significant sampling if a Total Coliform Rule collection comes back positive.

Upon review of the termination list, Mr. Brock reported that the Homeowner Association changed management companies and the water bills were sent to the old company. He stated that this has been corrected.

Mr. Brock presented to and reviewed with the Board the Flushing Valve Report, a copy of which is attached hereto as Exhibit "J." He reviewed the breakdown for repairs, reflectors and painting. Mr. Brock stated that the Board could authorize the repairs and wait on the painting.

Mr. Brock reported that Water Well No. 1 was televised and showed that the lower screens were clogged. The contractor recommended acidization of the screens which would cost \$44,000. Mr. Hirshman reported that the TCEQ has approved the emergency request to spend \$100,000 on the water well repair. Mr. Brock reported that the contractor will sonar jet the lower screens to stay within the \$100,000 budget. Mr. Brock presented to the Board the proposal by Alsay, Inc. to repair Water Well No. 1, a copy of which is attached hereto as Exhibit

“K.”

Upon motion by Director Henry, seconded Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operator’s Report, to terminate those accounts listed on the delinquent list, to authorize repair of the flushing valves and to authorize the Water Well No. 1 repairs.

18. **Authorize Use of Surplus Funds for Water Well No. 1 Repairs.** Mr. Pennington reported that the District is allowed to use surplus funds to perform repairs on projects that have already been approved by the TCEQ. 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 authorize the use of surplus funds for Water Well No. 1 repairs.

19. **Engineer’s Report and any necessary action regarding construction projects, detention pond maintenance and reimbursement expenses.** 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 “L.”

Mr. Hirshman reported that the collection attorney has filed suit against Centerpoint and subcontractor. He stated that Insituform performed the repair and the taps were recut. Mr. Hirshman reported that the residents were notified not to flush during the repair, however, one resident did flush during the repair and had the sewer backup into his house.

Mr. Hirshman reported that he has reviewed the 100% plans for the widening of Cypress Rosehill and that the District will need to make adjustments to certain facilities for the project, such as moving a waterline, fire hydrants and a force main. He stated that Harris County will advertise in March and begin construction in the second quarter of 2007. The Board discussed the costs and options of relocating the force main.

Mr. Hirshman recommended approval of award of the 10” Offsite Force Main for Cypress Landing, to Cravens Partners, Ltd., the low bidder at \$591,448.50. He recommended approval of Pay Estimate No. 3 to Lindsey Construction in the amount of \$21,513.93 for the Mass Grading and Spoil Disposal for Cypress Landing Park. Mr. Hirshman recommended approval of Pay Estimate No. 1 to Big State Excavation in the amount of \$210,167.10 for the Offsite Water Line, Phases One and Three. He stated that the Notice to Proceed has been provided to B&D Construction for the Cypress Landing Offsite Drainage Channel.

Mr. Hirshman reported that DEC is working on the new sewer flows for the expansion of the sanitary sewer treatment plant and on the letter to the TCEQ requesting a 280 gallons per connection rate as previously approved.

Mr. Hirshman reported that DEC has completed the field work for the elevated storage tank variance request and is now preparing the model. He stated that the final submittal should be within the next thirty days.

Mr. Hirshman reported that D. L. Meacham, L.P. has completed the grading and seeding along the sidewalk at Valley Stone Court and Cypress Orchard to the detention pond.

Mr. Hirshman reported that DEC is preparing the design for the generator at Water Plant No. One and the lift station controls for the generator hookups. He reported that the plans are at Harris County for final signatures, and that advertising and bidding will begin in February. Mr. Hirshman reported that the plans are at TCEQ.

Mr. Hirshman reported that DEC has received plans from the Cy-Fair Volunteer Fire Station #4 on Huffmeister Road and that the plans will be reviewed.

Mr. Hirshman reported that the final inspection of Sydney Harbour, Section Three, was done, the punch list has been completed and taps are now authorized.

Mr. Hirshman reported that DEC requested TCEQ approval of emergency expenditure for repairs to Water Well No. 1 and the TCEQ approved the expenditure on January 9, 2007.

Mr. Hirshman reported that Cymill Partners is requesting that the District own and operate the lift station and sewer lines for the 3.7 acre development at Cypress Mill Place Drive and US Highway 290. He stated that the Cymill Partners is seeking reimbursement for the construction and engineering.

Mr. Hirshman reported that Water Plant No. 2 had the one year inspection. He stated that there is a short punch list. Mr. Hirshman reported that the contractor suggested that the Board consider creating a central control system which would involve networking of the District's two water plants and wastewater treatment plant. He stated that this would allow the operator to monitor and control all of the facilities while at the one control system location. Mr. Hirshman stated that it would cost approximately \$200,000 to \$300,000 for the project, which would include wiring Water Plant No. 1, connecting all of the facilities and creating the control center.

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 Engineer's Report; to approve award of the 10" Offsite Force Main for Cypress Landing, to Cravens Partners, Ltd., for the proposed amount of \$591,448.50; to approve Pay Estimate No. 3 to Lindsey Construction in the amount of \$21,513.93 for the Mass Grading and Spoil Disposal for Cypress Landing Park; and to approve Pay Estimate No. 1 to Big State Excavation in the amount of \$210,167.10 for the Offsite Water Line, Phases One and Three.

20. Consider Utilities Investment Company, Inc. letter regarding TCEQ Waste Discharge Permit. The President recognized Mr. Pennington, who reported that companies are required to send these letters to neighboring facilities when amending a discharge permit, a copy of which is attached hereto as Exhibit "M." Mr. Hirshman recommended the District reply that it does not have the sewer capacity. Upon motion by Director Handley, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to authorize the engineer to reply to Utilities Investment Company, Inc. that the District does not have the sewer capacity.

21. **Authorize Award of Bid by Developer for ten inch Offsite Force Main for Cypress Landing and Exhibit A to Sales Agreement for Utility Facilities.** This was covered under the Engineer's Report.

22. **Discuss Proposed Decertification of Certificate of Convenience and Necessity Nos. 12902 and 20867 by Aqua Development, Inc.** The President recognized Mr. Hirshman, who stated that three letters were sent and only the third letter had the proper map and location description, a copy of which is attached hereto as Exhibit "N." Mr. Hirshman reported that the map correctly shows that the District is not in the area of the Certificate of Convenience and Necessity ("CCN"), and thus the District does not need to be concerned.

23. **Update on collection attorney to collect from Centerpoint Energy.** The President recognized Mr. Pennington, who reported that a suit has been filed against Centerpoint and the subcontractor, a copy of which is attached hereto as Exhibit "O."

24. **Attorney's Report.** There was nothing to report on this item.

25. **Consider announcement of closed meeting for consideration of purchase of real property pursuant to Section 551.072 of the Texas Government Code.** No action was taken on this item.

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

27. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on February 16, 2007, 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 February 16, 2007.

Robert A. Perry Jr.

President, Board of Directors
via [unclear]

ATTEST:

Tim Halbra

Secretary, Board of Directors

(DISTRICT SEAL)

