

MINUTES OF MEETING OF BOARD OF DIRECTORS  
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1  
March 22, 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 special session, open to the public, at 14710 Mills Park Lane, Cypress Texas, on March 22, 2007, at 7:00 p.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 Mr. John Brock of AquaServices L.P., operator for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Mr. Craig Rathmann of Rathmann & Associates, L.P., financial advisor for the District; Mr. Oliver Pennington, and Ms. Yvette Deitrick of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District; Deputy Mike Combest, Deputy Steve Mills, Deputy James Blackledge, and Deputy William Brooks, deputies for the District; and the following residents of the District: Mr. Larry Ramirez, Ms. Paula Lilienthal, Mr. Ron Wilson, Mr. E.W. Crowder, Mr. Milton Cherrier, Mr. Bob Lilienthal, Ms. Carolyn Hoffmann, Ms. Gail Norris, Mr. Don Staas, Ms. Dorothy Staas, Mr. David Templeton, Ms. Denise Bryant, Mr. Stephen Howard, Mr. Charles Hoffman, Ms. Thelma Slater, Mr. Eddie Rucke, Mr. Robert Whitley, Mr. Christopher Gilbert, Ms. Angell Swedlund, Mr. Bob Burgess, Ms. Jan Burgess, Ms. Letitiac Powers, Ms. Grace Handley.

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. **Introduction of Board Members & Guests.** The President welcomed the residents to the meeting and introduced the District's Directors and Consultants.
2. **Purpose of a Texas MUD and its responsibilities.** The President stated the purpose of municipal utility districts is to provide water, sanitary sewer, drainage and some auxiliary services.

3. **What land is within Cypress Hill Municipal Utility District No. 1.** The President showed the map of the District.

4. **Additional services provided by the District.** Director Handley reported that the District assumed the garbage collection contract from the Homeowners Association (“HOA”) to obtain a lower rate due to simplified billing and the size of the contract.

Director Handley reviewed the park and recreation facilities of the District, including the three detention areas with hiking and biking trails with landscaping and benches; the landscaping along Dry Creek between Moss Valley Drive and Cypress Rosehill, the children’s playground and picnic area located on Cypress Orchard; the picnic area located on Rosehill Park Lane; the greenbelt with walking trail and benches along Carriage Crossing Lane; and the landscaping, fencing and benches at the greenbelt on Heathcrest Court.

Director Handley stated that the District has budgeted \$10,000 in the upcoming year for parks and recreational facilities from the Strategic Partnership Agreement revenues. He reviewed possible future recreational development or greenbelt development in the District, including a park at Cypress Orchard; a reserve at Thicket Hollow; a reserve at Rosehill Park Lane; and a detention area at Park 1. Director Handley stated that he would work with the HOA on these projects.

5. **Planning and status of facilities for the District.** Mr. Hirshman reported that the District recently constructed Water Plant No. 2. He stated that the District is working on installing a generator at Water Plant No. 1 and control modifications for the existing lift stations for generator hookups. He stated that the District inspects the sanitary sewer, as the District ages, for damage and does necessary repairs. Mr. Hirshman reported that the District has an interconnect with Harris County Municipal Utility District No. 391 and will be installing a water meter and vault for the interconnect. Mr. Hirshman stated that the District will be working on odor control at the wastewater treatment plant. He reported that in the future the District will expand the wastewater treatment plant and it will obtain a generator. Mr. Hirshman reported that the District may construct an elevated water storage tank if the Texas Commission on Environmental Quality does not approve the variance request. He stated that the District has three water wells.

6. **Security activities.** Deputy Blackledge reviewed the number of deputies covering the District and their responsibilities.

7. **Discuss current and projected financial obligations, the Strategic Partnership Agreement with the City of Houston, the tax rates and tax exemptions.** Mr. Pennington stated the sources of funds for the District are the water and sewer rates, which include the garbage collection, and the taxes. He stated that the taxes are for paying the debt on the bonds, for maintenance and operation of the District’s facilities, and a contract tax. Mr. Pennington stated that the District was created in the early 1980s, defaulted on bonds, and went bankrupt. He stated that under the bankruptcy plan the District had to charge a tax rate of \$1.50. Mr. Pennington stated that Cymill Partners bought the foreclosed property and committed to continue developing the District. Mr. Rathmann stated that the District came out from the bankruptcy plan when the District sold the 2004 refunding bonds, which paid off the outstanding

bonds. Mr. Rathmann presented to and reviewed with the residents a page from a recent Tax Assessor-Collector Report which shows the decline in the District's tax rate since coming out from bankruptcy, a copy of which is attached hereto as Exhibit "B." Mr. Rathmann reviewed the increase of the District's tax base as the District has been developed which has allowed the decrease in the tax rate. He stated that the District is in excellent financial condition, the residents do not have to worry about a tax rate increase or financial difficulties. Mr. Rathmann stated that the Board has responsibly managed the comeback from bankruptcy, facilitating an increase in the tax base and building sufficient reserves to manage the necessary repairs of the older sections of the District. He stated that the Board is building protection so the District may continue to have financial success in the long term. Mr. Rathmann reviewed the successful commercial areas in the District that generate an additional source of funds for the District through the Strategic Partnership Agreement ("SPA") with the City of Houston which collects an additional 1% sales tax which is divided evenly between the City of Houston and the District. He stated that the SPA also protects the District from being annexed by the City of Houston for the term of the SPA, which is 29 years.

Mr. Rathmann reported that the District's tax structure is more complex than most utility districts due to the bankruptcy. He stated that the District has a contract tax which is consideration for Cymill Partners committing to develop the District at a time when no other developers would make such commitment. Mr. Rathmann reported that as the District has developed and increased its tax base, the percentage of the total tax which goes to the contract tax has decreased. He stated that the current developers in the District, such as Centex Homes and Kimball Hill Homes, will be reimbursed in the future for utilities construction. Mr. Rathmann stated that the maintenance tax rate should decrease as the tax base continues to increase with more residents from these developments. Mr. Rathmann summarized that the District should have continued financial success and decrease in the tax rate.

**8. Public comments and letters from residents.** The President recognized Mr. Ramirez who asked if the District can increase security when there is an increase in criminal activity, such as the graffiti on the stone walls and tennis courts. Deputy Blackledge reviewed the measures the deputies can do to respond to special situations that occur in the District. He stated that when there was an increase in car burglaries a couple years ago, all of the deputies went to the night shift and extra deputies were brought on as well. He stated that two persons were caught and the burglaries stopped. Director Handley stated that the District recently added another deputy and Mr. Ramirez should contact him when a situation arises so arrangements can be made to respond to the need.

Mr. Ramirez asked about maintenance of the easement between Sydney Harbour and Kimball Hill Homes. The President reported that the Board continually requests Academy Development, the property owner and developer of Sydney Harbour, to maintain the property.

The President recognized Ms. Lilienthal, who stated that there are dead trees around the detention pond and asked if they can be removed and perhaps replaced. Director Handley stated that he will review the condition of the trees around all three detention ponds. Director Henry stated that if a resident has an issue, such as the dead trees, it would be helpful to write a letter to the District or attend the Board meetings to the Board can resolve the matter.

The President recognized Mr. Wilson, who reported that the softness of his water has changed in the last year and changes periodically over the weekend. Mr. Brock reported that the change in the water is due to the addition of Water Plant No. 2, which has softer water than Water Plant No. 1. He stated that as the residents use more water during the weekends is the reason his water changes as he is receiving water from Water Plant No. 2 at that time due to demand. Mr. Wilson stated that his water bill includes garbage collection but has not found anyone who can detail the costs for the garbage and recycling. Director Handley stated that the garbage collection costs \$10.00. Mr. Wilson stated that recycling is only provided in the Cypress Mill HOA area. He stated that the residents were not allowed to vote on paying for recycling. Mr. Pennington reported that the recycling is \$2.50 per month and that the contract is due to expire in September 2008. The President reported that the recycling was provided at the request of the HOA and that occurred only because the District had the garbage collection contract. Mr. Howard reported that the HOA did a survey of approximately 1,200 residents on the institution of the recycling program. He stated that approximately 65% of the 300 responses wanted the recycling. Mr. Howard stated that he has been told that the garbage workers throw the recycling materials into the garbage collection truck, although he has not personally witnessed this. Mr. Howard stated that he is now the HOA President and is against the recycling program.

A resident asked the deputy if fingerprints were taken when his cars were burglarized. Deputy Blackledge reported that fingerprints were taken and that a match has not been made yet. In response to a resident question, Mr. Rathmann reported that the District will continue to sell bonds to reimburse the developers for utilities construction. He stated that the Board will continue the policy of managing its debt to maintain the tax rate.

Mr. Howard reported that the apartment development across U.S. Highway 290 is not proceeding. He asked if residents can expect the tax rate to decrease next year. Mr. Rathmann reviewed the process of setting the tax rate annually and informed the residents that the tax rate is influenced by many factors, including the assessed valuation by the Harris County Appraisal District and the projected costs for the upcoming year. He stated that this is determined in September and October every year.

Mr. Howard stated that the District has dead trees, busted sprinklers and the detention ponds are mosquito breeding ponds. He stated that the HOA has to spend \$6,000 a year on mosquito control.

Mr. Staas asked if the tax exemption would be increased. Mr. Rathmann reported that the District's tax exemptions are the highest in the area. He stated that the District's Tax Assessor-Collector researched the neighboring districts tax exemptions and found one district has no exemptions, one had a \$5,000 exemption of appraised value for over 65 years old or disabled, two districts had \$10,000 exemptions of appraised value for over 65 years old or disabled, and one district had no exemption for over 65 years but a \$20,000 exemption of appraised value for disabled.

A resident asked if the area on the map across U.S. Highway 290 is part of the District and if the District will reimburse the developer for the utilities under U.S. Highway 290. The President reported that the area is part of the District and the developer will be reimbursed for the utilities construction. The resident asked if the District will continue to annex land into

the District. The President reported that each proposed annexation is analyzed on a case by case basis.

A resident asked if the Board favored an elevated storage tank which was listed by the engineer as a possible future project. Mr. Hirshman reported that the District is currently preparing the request to waive the elevated storage tank requirement.

Mr. Staas stated that there are significant weeds and fire ants surrounding the detention ponds. The President stated that he would talk to the landscaper about the weeds and fire ants.

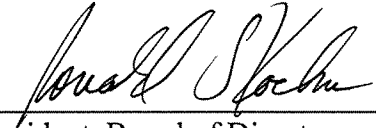
THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

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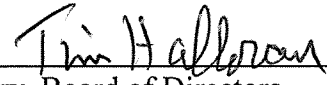
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The attached and foregoing minutes were passed and approved by the Board of Directors on April 20, 2007.

  
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President, Board of Directors

ATTEST:

  
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Secretary, Board of Directors

(DISTRICT SEAL)

