

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 15, 2007

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 June 15, 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; Ms. Donna Bryant of Assessments of the Southwest, tax assessor-collector for the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors; Mr. Mike Harrington of American Enerpower, Inc.; Mr. Greg Wamhoff of Centex Homes, developer of land within the District; and Mr. Oliver Pennington 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. **Minutes.** The proposed minutes of the meeting of May 18, 2007, previously distributed to the Board, were presented for review and approval. Director Koehn stated that in item twelve the dead trees were to be removed. 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 minutes of May 18, 2007, as revised.

2. **Public Comments and letters from residents.** The Board discussed the letter to the President in the Cypress Mill Homeowner Association newsletter by Ms. Cauthen, a copy of which is attached hereto as Exhibit "B." Director Handley stated that Ms. Cauthen should be informed that the funds from the Strategic Partnership Agreement are used to pay for

the security and the increase in trash collection not passed on to the residents. The President offered to contact Ms. Cauthen to address her concerns.

3. **Security report and any necessary action.** Director Handley reviewed the security report for the month of May, a copy of which is attached hereto as Exhibit "C." He stated that car burglaries have increased and other incidences have decreased. He reported that a juvenile was stopped at the pocket park and found to possess drugs.

4. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Pappas, who reported the pre-construction meetings for the on-site and off-site projects, including the lift station and boring under US Highway 290, have been held. He stated that he has entered into contract for the building construction, which is 100% committed. He stated that IHOP and CVS Pharmacy have committed to The Shoppes at Fry Road. Mr. Pennington reported that the easement for Corinthian and Surface Restoration Agreement with Corinthian Fry Road Investors have been finalized and executed.

Mr. Wamhoff reported that model home construction has begun in Cypress Landing, Section Two. He stated that Cypress Landing will open July 1. Mr. Wamhoff reported that construction of the pool and recreation center will begin shortly.

Mr. Hixon reported that Centerpoint has approved the relocation of the power lines to the back of the 3.7 acre tract. He stated that Mr. Hirshman approved moving the force main to Cypress Mill Estates. Mr. Hixon reported that Alicia's had a break in and that a television was stolen. He stated that Alicia's may move to his new construction project and that an Italian restaurant would be where Alicia's is located.

5. **Approve Audit for Fiscal Year Ending February 28, 2007.** This item was deferred.

6. **Consider Electricity Proposals and Take Any Necessary Action.** The President recognized Mr. Harrington, who presented to and reviewed with the Board electricity quotes, a copy of which is attached hereto as Exhibit "D." The Board discussed possibly taking a one year rate and extending the term when the rate lowers. Mr. Harrington stated that the rate has not been below eight cents in over two years. 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 approve a five year contract at a rate of \$0.09110 with Constellation New Energy and to authorize the President to sign the contract later in the day.

7. **Report on Refunding of Bonds and Take Any Necessary Action.** Mr. Pennington presented to and reviewed with the Board the Certificate Regarding Official Statement and Certificate Required by the Bond Purchase Agreement, copies of which are attached hereto as Exhibits "E" and "F," respectively. 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 Certificate Regarding Official Statement and Certificate Required by the Bond Purchase Agreement.

8. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that he will arrange for the removal of the trees hit by

lightning. He reported that the Cypress Mill Homeowner Association and management company are not as communicative with issues that need to be managed by the District, which results in a delay in management of such issues.

9. **Tax Assessor-Collector's Report and payment of bills.** 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 "G." Ms. Bryant noted that 95% of the District's 2006 taxes have been collected as of May 31, 2007.

Ms. Bryant reported that the Harris County Appraisal District ("HCAD") provided a 2007 preliminary taxable value for the District of \$369,142,470. She stated that with the addition of the 2006 personal property taxable value results in an estimated net taxable valuation of \$380,413,698. Ms. Bryant reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

Ms. Bryant presented to and reviewed with the Board a letter requesting waiver of a \$58.50 late fee from Mr. Roy Turner, a copy of which is attached hereto as Exhibit "H." Ms. Bryant reported that Mr. Turner moved into the District in November 2006, but that the tax bills were sent to the builder. Ms. Bryant reported that her office received the ownership change in May. Upon motion by Director Henry, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve waiver of the \$58.50 late penalty for Mr. Roy Turner.

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 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, including the Quarterly Investment Activity, a copy of which is attached hereto as Exhibit "I."

Upon motion by Director Henry, seconded by Director Handley, 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. **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 "J." Mr. Brock reported that Severn Trent, the operator for Harris County Municipal Utility District No. 391, has located the missing valve and that it is now closed.

Mr. Brock reported that twenty-six residents had termination of water service for non-payment last month.

Mr. Brock reported that Lift Station No. 4 was struck by lightning in May, which damaged the controls. He stated that a claim has been filed with the insurance company and that he has arranged for NTS to repair the controls.

Mr. Pennington noted that KB Home has rather large delinquent accounts and asked if KB Home still had a deposit with Aqua Services. Mr. Brock stated that he would research whether KB Home still had a deposit and contact KB Home regarding the delinquent accounts.

Mr. Brock reported that a leak in an irrigation system at Moss Valley and Cypresswood Drive has not been repaired by the Homeowner Association (“HOA”) after discussing the leak for a year. He stated that when he contacted the management company, the Principal Management Group, he was informed \$7,000 was already spent on irrigation repairs and no further repairs were planned. The Board discussed the implication of not repairing the leak and stated that currently the HOA is only being charged a flat fee of \$10 per meter so the waste of water is not an issue for the HOA. The Board discussed the health hazard of the continuous leak and the potential for development of a sinkhole. Mr. Pennington stated that the District has the authority to repair the leak as it is in the county right-of-way and it is a potential health hazard. Mr. Brock reported that the repair should cost approximately \$2,000. 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 repair of the irrigation leak at Moss Valley and Cypresswood Drive, not to exceed \$3,000.

Mr. Brock reported that the bonnet covering and non-reverse ratchet assembly of the water well at Water Plant No. 2 blew off. He stated that after discussion with the engineer, it was decided not to replace the non-reverse ratchet assembly and to run the well with a long time delay. Mr. Brock reported that the assembly will be reinstalled when the well is serviced in the future.

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 Operator’s Report, and to terminate those accounts listed on the delinquent list.

12. **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 “K.” Mr. Hirshman reported that he is reviewing the plans for the second phase of the widening of Cypress Rosehill. He stated that the engineer omitted the District’s water line to the water plant and that he provided comments on the plans to the engineer. Mr. Hirshman reported that the Cypress Rose Hill widening will be bid in June.

Mr. Hirshman reported that the contractor has completed construction and testing of the 12” offsite water line for Cypress Landing, Phase Two. Mr. Hirshman reported that Mr. Drew wants the road re-graded and re-crowned. He stated that Mr. Drew provided the original road plans and the name of the contractor for the original road to facilitate restoration of the road to its original condition.

Mr. Hirshman reported that the contractor has completed the water, sanitary sewer, drainage and detention pond facilities for Cypress Landing, Sections One and Two. He authorized Mr. Brock to provide taps. Mr. Brock and Mr. Hirshman determined that the District will operate the lift station after electricity is available and the Texas Commission on

Environmental Quality (“TCEQ”) has performed the final inspection. The Board instructed Mr. Hirshman to confirm that the lift station was built with a hookup for the generator.

Mr. Hirshman reported that contractor has completed the 12” offsite waterline for Cypress Landing, Phases One and Three.

Mr. Hirshman recommended approval of Pay Estimate No. 5 to Conns’ Construction, Inc. in the amount of \$21,870.00 for the Cypress Landing Lift Station. He stated that Centex Homes is completing three model homes and that the lift station will be completed before occupancy.

Mr. Hirshman reported that the Notice to Proceed was provided to Jaho for street paving of Cypress Landing Park, Section One.

Mr. Hirshman reported that DEC continues work on the new sewer flows for the wastewater treatment plant expansion and the letter to the TCEQ requesting 280 gallons per connection rate.

Mr. Hirshman reported that DEC continues the work for the elevated storage tank variance request and that the request will be submitted next week.

Mr. Hirshman reported that the Notice to Proceed was issued to C.F. McDonald Electric for the water plant generator. He stated that no action will occur for approximately four months as it will take seven to nine months to obtain the generator.

Director Bryant reported to Mr. Hirshman that at Water Well No. 2 there is a burnt box ten to fifteen feet off the ground. Mr. Hirshman stated that he would investigate the matter.

Mr. Hirshman reported that the Texas Commission on Environmental Quality has provided the final wastewater treatment plant permit for publication.

Mr. Hirshman reported that the Notice to Proceed was issued to Crosstex Construction, Inc. for the construction of the on-site water, sanitary sewer and drainage for the Shoppes at Fry Road.

Mr. Hirshman reported that Storm Water Solutions completed the fire ant treatment of the detention ponds and has submitted an invoice of \$2,449.00.

Mr. Hirshman reported that TCB has requested access to the District’s property on behalf of the Texas Department of Transportation for the widening of US Highway 290.

Mr. Hirshman reported that he has discussed with Mr. Brock items to include during the expansion of the wastewater treatment plant to improve the operation of the plant.

Mr. Hirshman reported that the blower manufacturer visited the wastewater treatment plant on June 1. He stated that the manufacturer prepared a list of fixes to improve the operation of the plant. He stated that Mr. Brock and he will work on the fixes and the conversion

to centrifugal blowers. Mr. Brock reported that he is having difficulty getting a proposal from NTS for the conversion to centrifugal blowers.

Mr. Hirshman reported that Carter & Burgess, Inc. has requested 915 gallons per day capacity commitment on behalf of CVS Pharmacy. He stated that this is the same as 3 equivalent single family connections ("ESFC") and that the District has the capacity available to provide 3 ESFC.

Mr. Hirshman reported that at the next Board meeting he will have the price by Storm Water Solutions for a sump pump at the pond at Cypress Mill Park.

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 accept the Engineer's Report; to approve of Pay Estimate No. 5 to Conns' Construction, Inc. in the amount of \$21,870.00 for the Cypress Landing Lift Station; to approve payment of the Storm Water Solutions invoice of \$2,449.00 for the fire ant treatment of the detention ponds; to approve access to the Texas Department of Transportation for the widening of US Highway 290; and to approve the capacity commitment of 3 ESFC to CVS Pharmacy.

13. **Request by Barker Utilities for wastewater treatment capacity.** Mr. Hirshman presented to and reviewed with the Board the request for wastewater treatment capacity by Barker Utilities, a copy of which is attached hereto as Exhibit "L." Upon motion by Director Henry, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously not to provide wastewater treatment capacity to Barker Utilities.

14. **Consider Pine Knobs Estates Water Application for a Certificate of Convenience and Necessity.** Mr. Hirshman presented to and reviewed with the Board the Notice of Application for Certificate of Convenience and Necessity by Pine Knob Estates, a copy of which is attached hereto as Exhibit "M." Mr. Hirshman reported that this will not impact the District. No action was taken by the Board.

15. **Consider Acceptance of Easements.** No action was taken on this item.

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

17. **Update on purchase of property for off-site rights of way and take any necessary action.** There was nothing to report on this item.

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

19. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on July 20, 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.

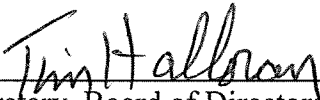
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The attached and foregoing minutes were passed and approved by the Board of Directors on July 20, 2007.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

