

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
May 16, 2008

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 May 16, 2008, 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. 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. Tracy Riley of Eagle Water Management, Inc. ("Eagle Water"), operator for the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors, developer of land within the District; Mr. Don Staas and Ms. Dorothy Staas, District residents; 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 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. **Accept oath of office of elected directors.** Ms. Ellison stated that Director Bryant had taken the oath of office and was qualified to serve another term.
2. **Election of Officers.** It was the consensus of the Board to maintain the current slate of officers.
3. **Minutes.** The proposed minutes of the meeting of April 25, 2008, previously distributed to the Board, were presented for review and approval. 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 April 25, 2008 as presented.

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

5. **Security report and any necessary action.** Director Henry reviewed the Security Report for the month of April, a copy of which is attached hereto as Exhibit "B." He reported that the Wal-Mart security guard has resigned.

Director Henry reported that Sergeant Blackledge had notified him that Harris County Municipal Utility District No. 391 ("MUD 391") will be approaching the District regarding a joint security agreement. He reported that MUD 391 has a contract for two constables.

Director Handley noted that burglaries have increased in the past month and that this should be monitored.

6. **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 "C." Mr. Lee noted that 95% of the District's 2007 taxes had been collected as of April 30, 2008.

Mr. Lee reported that the District's preliminary values from the Harris County Appraisal District are expected in the next week.

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.

7. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that construction of the new Alicia's Restaurant is progressing. He reported that there is a possible tenant for the building located on the 3.7 acre tract.

Mr. Hixon reported that the owner of Alicia's Restaurant, Mr. David Herrera, would like to lease a strip of land running along the feeder road of U.S. Highway 290 from the District to use as a parking area. He stated that the President met with David Herrera and the architect for Alicia's Restaurant to discuss the details. Mr. Hixon presented to and reviewed with the Board the architect's drawing of the proposed area to be leased, a copy of which is attached hereto as Exhibit "D." Mr. Hixon reported that Mr. Herrera stated that a rail would be installed to protect the fencing and irrigation for the landscaping. Mr. Hirshman said he believed that the land is a landscape reserve with easements. The President noted that the District would need to consent to encroachment over its easements if that is the case. Mr. Hixon reported that his leasing agent recommended a rent of \$0.25 to \$0.30 per square foot as the property has no other potential use. He stated that this would amount to approximately \$2,000 to \$3,000 a year for approximately 9,000 to 10,000 square feet. Mr. Hixon reported that Mr. Pennington, the attorney for the District, recommended a year to year lease in case a situation arises that would make the lease undesirable. Director Handley stated that if the lease was to occur, the District would want Alicia's Restaurant to assume mowing of the landscaping on the leased area and the remaining land to the lift station. Mr. Hixon stated that that is probably agreeable to Mr.

Herrera. Director Halloran stated that additional lighting in the parking lot may be desirable for safety purposes. Director Handley recommended the parking be reserved for employees so there is not constant traffic in the area. Mr. Hixon stated that the attorney for Alicia's Restaurant should draft the necessary documents for Mr. Pennington's review. 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 idea of leasing the strip of land along U.S. Highway 290 at Cypress Rosehill to Alicia's Restaurant and to proceed with review of the necessary documents.

Mr. Pappas reported that IHOP and CVS Pharmacy are expected to open in a month. He stated that Centerpoint Energy installed 50% of the facilities and is expected to complete the remaining facilities this weekend. Mr. Pappas reported that the waterline taps are being set today and that the space will be delivered to the tenant on May 19, 2008. He stated that Mattress Giant, a title company and Shipley Do-Nuts are some of the future tenants. Mr. Pappas reported that the tenants are expected to open in the late summer after their build out. Mr. Pappas reported that no further graffiti has occurred. He stated that the contractor's cameras have deterred graffiti and criminal activity at the site.

Mr. Hirshman stated that Centex Homes reported that thirty homes have been constructed and fifteen homes have closed in Cypress Landing.

8. **Easement for CenterPoint Energy for the Shoppes at Fry Road tract**
No action was taken on this item.

9. **Recreational Facilities Planning/Harris County Flood Control District Partnership.** Director Handley reported that Greenpros is inspecting the District's irrigation system for leaks and broken sprinkler heads. He stated that he instructed Greenpros to remove the dead tree by the detention pond by Moss Valley. He stated that the easement behind Cypress Mill Park will be mowed.

Director Handley reported that Academy Development has failed to mow the easement between Cypress Mill Park and Sydney Harbour. Mr. Hirshman suggested that F&J send a letter to Academy Development stating that if it does not maintain the easement, the District will maintain it and charge Academy Development for the costs. The Board discussed the need for a regular maintenance schedule for the easement and the failure of Academy Development to maintain the easement on a regular basis.

The President reported that the detention pond in Cypress Mill Park, Section One does not appear to be in good condition. Director Handley reported that he checked and confirmed that the pump in the detention pond is still operating. He reported that there is a beaver dam which is hindering the operation of the pump. Mr. Hirshman stated that he would contact Storm Water Solutions regarding removing the beaver and its dam from the detention pond.

Director Henry asked why the District has three companies managing the landscaping for the District. Director Handley reported that Storm Water Solutions maintains the detention ponds, Southwest Land Maintenance does tractor mowing and Greenpros does the

remaining mowing. Mr. Hirshman reported that Storm Water Solutions is able to do tractor mowing and offered to obtain a quote from Storm Water Solutions for the area covered by Southwest Land Maintenance.

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 "E."

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 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. Riley, who presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "F." Mr. Riley reviewed the Arrears Analysis and reported that he expects it will take some time for the billing and payments from the old operating company to be worked out. He stated that 453 termination notices have been sent this month. Mr. Riley stated that the accounts with no activity will be disconnected. He reported that a 10% penalty on the outstanding balance is incurred on delinquent water bills. Mr. Riley reviewed the Summary of Process to Disconnect Service included in the Operations Report.

Mr. Riley requested authorization to turn over 65 accounts totaling approximately \$8,700 to Business Creditors, Inc. for 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 Terra Renewal, the sludge hauling contractor, has notified Eagle Water that a \$35 fuel surcharge will be charged effective June 1, 2008.

Mr. Riley reported that the wastewater treatment plant blower #2 has been located at Gardner Denver and that it has declined warranty coverage on the blower. He stated that the Duraflow Blower is known for leaking seals. Mr. Riley recommended replacing blower #2 with a Roots positive displacement blower. He estimated that it will cost approximately \$10,000 to install the new blower and that he will have a more definitive cost estimate at the next board meeting.

Mr. Riley reported that the chlorine system at the wastewater treatment plant is currently not compliant with the standby unit rule. He stated that the chlorine units are currently operating on a parallel basis and that there is no backup if both units become empty. Mr. Riley stated that he is researching the pricing to modify the system to attain compliance.

Mr. Riley reported that the automatic composite sampler at the wastewater treatment plant was never wired to the flow meter. He stated that Eagle Water is working on resolving the issue.

Mr. Riley reported that Eagle Water attempted to remove the graffiti at Lift Station No. 2 with power washing and a chemical remover. He stated that the graffiti faded but

still remains. Mr. Riley reported that Eagle Water is obtaining a cost proposal from a professional service. He stated that there is also graffiti on the tunnel abutments at the detention pond at Cypress Mill Park and he is obtaining a cost proposal for removal.

Mr. Riley reported that pump #2 at Lift Station No. 6 has a defective electronic module and asked if it is still under warranty. Mr. Hirshman stated that Lift Station No. 6 is still under warranty and that he would provide Mr. Riley the contact at Brown & Gay to assist with resolution of that issue.

Director Handley asked if Eagle Water will continue the sanitary sewer maintenance program under its contract. Director Bryant reported that Source Point Solutions performed the inspections of the sanitary sewer lines. Mr. Riley stated that he would contact Source Point Solutions to determine which sections of the District have already been inspected and which are in need of inspection.

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 Operations Report; to terminate the delinquent accounts in accordance with the Rate Order; and to turn over 65 accounts totaling approximately \$8,700 to Business Creditors, Inc. for collection.

12. **Approve Consumer Confidence Report.** The President recognized Mr. Riley, who presented to and reviewed with the Board the draft 2007 Annual Drinking Water Quality Report, a copy of which is attached hereto as Exhibit "G." He stated that the Drinking Water Quality Report would be distributed to the District's residents by July 1. 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 the 2007 Annual Drinking Water Quality Report.

13. **Amend Rate Order.** The President opened discussion to the proposed changes to the Rate Order.

The Board discussed the elimination of door hanger notification for water termination. It was the consensus of the Board to eliminate the door hanger notification; however, the Board requested that Eagle Water put a note on the water bill that the door hanger notification is being eliminated.

The Board discussed whether to increase the residential sewer rate to \$11.02 per month per residence for those without recycling and \$13.91 per month for those residents with recycling service due to the trash increase from WCA Waste Corporation. 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 maintain the current rates and absorb the cost increase from WCA Waste Corporation. The Board asked Eagle Water to provide a notice to the District residents that the District is absorbing the increase in the solid waste collection costs.

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 approve the Order Amending and Restating Consolidated Rate and Service Order, a copy of which is attached hereto as Exhibit "H."

14. **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 "I." Mr. Hirshman reported that Cypress Landing, Section Five, is under design.

Mr. Hirshman reported that the sanitary sewer flows are being monitored and when the District approaches the 75% threshold of capacity, then design of the wastewater treatment plant expansion will be warranted.

Mr. Hirshman noted that additional information has been provided to the Texas Commission on Environmental Quality ("TCEQ") in response to the TCEQ denial of the request for the waiver of the elevated storage tank requirement.

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.

15. **Approve engagement letter for arbitrage rebate report for Series 2004 Bonds with Arbitrage Compliance Specialists.** Ms. Ellison presented to and reviewed with the Board the engagement letter with Arbitrage Compliance Specialists for the Arbitrage Rebate Report for the Series 2004 Bonds. She stated that the arbitrage rebate report is required every five years for bond issues greater than five million dollars. 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 engagement letter.

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.** No action was taken on this item.

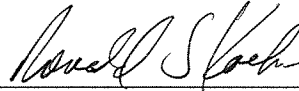
18. **Other matters.** No other matters were discussed.

19. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on June 20, 2008, 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.

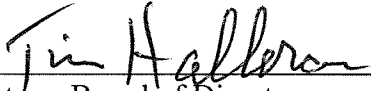
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The attached and foregoing minutes were passed and approved by the Board of Directors on June 20, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

