

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
June 20, 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 June 20, 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; 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; Mr. Greg Sissel of BKD, L.L.P., auditor for the District; Mr. Matthew May of WCA Waste Corporation of Texas; 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. Greg Wamhoff of Centex Homes, developer of land within the District; Sergeant Blackledge and Deputy Rogers, constables for 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 16, 2008, 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 May 16, 2008 as presented.
2. **Public Comments and letters from residents.** Director Bryant reported on resident emails to the District web site. He reported that he provided information on solid waste collection that was requested by a new resident. Director Bryant reported that he forwarded emails to the operator regarding water bill payment history, online payment issues,

sending water payments to incorrect address, request for water termination and request for initiation of water service. Director Bryant reported that Ms. Loughlin wrote that the grass on the inside slope of the detention pond is drying up. Director Handley noted that the irrigation system only covers the top of the detention pond. Director Bryant reported that Ms. Loughlin wrote again to note a wasp's nest and that trees were dying due to lack of water. Director Handley reported that last month when the irrigation system was inspected, it was accidentally left off and that it has since been turned back on. Director Handley reported that GreenPros is inspecting the trees and shrubs managed by the District and he will report the findings. Mr. Riley reported that he is arranging for the removal of the wasp's nest. Mr. Riley reported that people are walking through an opening in a fence at the southeast corner of Cypress Mill Park, Section Four. Sergeant Blackledge reported that the school children take a short cut through the fence from Cypress Point. The Board discussed if the shortcut is safer for the school children. Deputy Blackledge stated that the short cut is safer than the road they would walk on. The Board authorized Eagle Water to remove a section of the fence from post to post to leave the fence open for pedestrians.

3. **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 "B." Sergeant Blackledge reported that Spec's Liquor was robbed in May. Sergeant Blackledge reported that Wal-Mart has hired a loss prevention officer. Sergeant Blackledge reported that a car was found to have \$450,000 in cash during a traffic stop.

Sergeant Blackledge introduced Deputy Rogers, who is replacing Deputy Uhlig.

Sergeant Blackledge reported that Harris County Municipal Utility District No. 391 ("MUD 391") approved a contract with Harris County for one deputy. He stated that MUD 391 will hire an additional deputy as the district develops. Sergeant Blackledge reported that MUD 391 was instructed to send a letter to the District requesting an agreement to share the deputies among the two districts. He stated that currently most of the non-contract calls managed by the District's deputies are in MUD 391.

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 Security Report.

4. **Approve audit for fiscal year ending February 29, 2008.** 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 29, 2008 (the "Audit"), a copy of which is attached hereto as Exhibit "C." Mr. Sissel noted that the District has one year of reserve for expenses and one and a half year 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 which is attached hereto as Exhibit "D." He also noted that the Board has addressed such issue as required by the Financial Accounting Standards and has replied regarding the deficiency.

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

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 Audit and to approve the draft Management's Response to the management letter.

5. **Consider recycling issues and take any necessary action.** The President recognized Mr. May, who reported that the new management company for the Cypress Mill Homeowners Association contacted him to discontinue the recycling service at the end of the recycling contract. He reported that the Cypress Ridge Homeowners Association contacted him requesting recycling service. Mr. May reported that the current cost for recycling is \$2.89 per resident per month. He offered to provide recycling without requiring the homeowner associations to be part of the contract and without the District having a liability for the cost of the recycle bins. Directors Koehn and Bryant favored recycling for the entire District to simplify billing for the operator and add consistency of service to the District residents. Mr. May reported that there is good recycling participation by the Cypress Mill residents. Director Handley stated that he would like to know the Cypress Mill Homeowners Association intent regarding recycling. Mr. May stated that the Cypress Hill Homeowners Association did not want the liability for the recycling bins. Director Handley stated that the homeowner associations should decide whether to have recycling. Upon motion by Director Koehn, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted four to zero with Director Handley abstaining, to approve the addition of recycling to the entire District effective September 1, 2008. Mr. May stated that he would provide the operator a notice on recycling to be included with the water bills.

6. **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 the plans for Compass Bank have been approved and that construction is expected to begin by the end of the year.

Mr. Pennington reported that the auditor has prepared the developer's reimbursement audit for Cymill Partners, Ltd. for utility construction in Reserve A. Mr. Sissel presented to and reviewed with the board the Developer's Reimbursement Audit, a copy of which is attached hereto as Exhibit "F." Mr. Sissel reported that the amount reimbursable is \$94,835.87 plus interest of \$11.98 per day after September 30, 2008. 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 approve the Developer Reimbursement Audit and to authorize requesting approval by the Texas Commission on Environmental Quality for use of surplus funds to reimburse Cymill Partners, Ltd.

Mr. Pappas reported that CVS Pharmacy is stocking the store. He reported that the buildings and lift station have electricity. Mr. Pappas reported that the District's engineer and operator are inspecting the site on Monday. He reported that IHOP will be obtaining its Certificate of Occupancy next week. Mr. Pappas reported that TSO, Century 21, a title company and Mattress Giant are building out their retail spaces. He stated that Shipley Do-Nuts will begin the tenant build out soon. Mr. Pappas reported that 60% of the speculative space is leased.

Mr. Wamhoff reported that Centex Homes reported that thirteen homes are under construction and sixteen homes have closed in Cypress Landing.

7. **Approve Lease Agreement with Alicia's Restaurant and any necessary action.** The President recognized Mr. Pennington, who presented to and reviewed with the Board the Lease Agreement with Alicia's Mexican Grille, Inc., a copy of which is attached hereto as Exhibit "G." The President stated that the Lease Agreement needs to state that Alicia's Mexican Grille, Inc. will maintain the reserve up to the lift station. 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 the Lease Agreement with the added language that Alicia's Mexican Grille, Inc. will maintain the reserve up to the lift station.

8. **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 "H." Ms. Bryant noted that 96% of the District's 2007 taxes had been collected as of May 31, 2008.

Ms. Bryant presented to the Board a resident request to waive the penalty and interest on his taxes as he assumed a homestead exemption and deducted such exemption from his payment in January, a copy of which is attached hereto as Exhibit "I." Ms. Bryant reported that the initial payment was returned as it was short. She stated that the resident reported making a payment in February; however, Assessments of the Southwest did not receive the payment. Ms. Bryant reported that the resident has mailed two checks, one for the base amount and another for the penalty and interest of \$238.51. She noted that there is no reason the District has to waive the penalty and interest as no error was performed on its part in the tax collection process.

Ms. Bryant reported that the Harris County Appraisal District ("HCAD") provided a 2008 preliminary taxable value for the District of \$419,707,368, which includes the addition of the 2007 personal property taxable value. Ms. Bryant reported that the certified tax roll is usually a little less than the preliminary valuation due to appeals.

Director Handley noted that Philly Connection is on the Delinquent Tax Roll even though it is not located in the District. Ms. Bryant stated she would have Philly Connection removed from the Delinquent Tax Roll.

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, to authorize the expenditures listed therein, and not to waive the penalty and interest for the resident that paid less than due in January.

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

10. **Recreational Facilities Planning/Harris County Flood Control District Partnership and Report on Homeowners Association matters.** Director Handley reported that Greenpros is inspecting the District's trees and shrubs. He stated that the one dead tree by the detention pond by Moss Valley has been removed.

11. **Approach Harris Count regarding gray water irrigation on Cypress Rosehill Road by District.** Director Handley stated that it may be cost efficient to approach Harris County while Cypress Rosehill construction is underway regarding the installation of irrigation sleeves for effluent reuse for the esplanades on Cypress Rosehill Road. Mr. Hirshman stated that a cost analysis should be performed initially as effluent reuse is costly to install and has rigorous notification requirements as well. No action was taken on this item at this time.

12. **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 "J."

Upon motion by Director Henry, 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.

13. **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 "K." Mr. Riley reported that the Roots positive displacement blower has been ordered for the wastewater treatment plant. He stated that due a backlog, it will take six to eight weeks for delivery.

Mr. Riley reviewed the Arrears Analysis and reported that the arrears have greatly improved from last month. He stated that eighty-two accounts were terminated last month.

Mr. Riley reported that there were two commercial taps for The Shoppes at Fry Road.

Mr. Riley reported that Neil Technical Services replaced two level transducers at the wastewater treatment plant for \$3,000. He stated that one failed and that the remaining level transducer will be utilized as backup.

Mr. Riley reported that he contacted Source Point to investigate the extent of prior sanitary sewer line cleaning and televising in the District. He reported that Source Point previously cleaned and televised the sanitary sewer line in Cypress Mill, Section One and the line along Cypresswood Drive and Plains River Drive. Mr. Hirshman stated that Cypress Mill, Sections Two and Three are the oldest sections that should be cleaned and televised. It was the consensus of the Board to obtain the results of the televising of these sections before deciding whether further televising is necessary.

Director Bryant asked if the lift station plug for Cypress Landing was revised for the portable generator. Mr. Hirshman stated that he is following up on it. The President stated that there is no generator at the wastewater treatment plant. Mr. Hirshman stated that the District is only at 50% of wastewater treatment capacity and that the generator will be in the expansion of the plant. The President stated that the portable generator could be used at the wastewater treatment plant. Mr. Riley stated that the District has seven lift stations and will need the portable generator at the lift stations in the event of a power failure.

Upon motion by Director Handley, seconded by Director Halloran, 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 the cleaning and televising of the sanitary sewer line of Cypress Mill, Sections Two and Three.

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 "L." Mr. Hirshman presented a proposal by Storm Water Solutions for the mowing performed by Southwest Land Maintenance, included in the Engineer's Report. Mr. Hirshman stated that the proposal is for monthly mowing and biannual over seeding and fertilizing. Upon review of the proposal, it was determined that it included the reserve that will be maintained by Alicia's Mexican Grille, Inc. per the Lease Agreement. The Board requested that the easement between Cypress Mill Park and Sydney Harbour be added to the mowing agreement and to remove the over seeding and fertilizing. 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 Drainage Channel Maintenance with the addition of the easement between Cypress Mill Park and Sydney Harbour, the removal of the reserve to be maintained by Alicia's Mexican Grille, Inc. when the parking lot is complete and not to include the over seeding and fertilizing effective July 1, 2008.

Mr. Hirshman presented for approval of Pay Estimate No. 7 from Bay Utilities for water, sanitary sewer and drainage for Cypress Landing Park, Section One in the amount of \$13,203.82.

Mr. Hirshman stated that DEC will research the wastewater treatment plant expansion and get a proposal for a generator for the plant.

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. He stated that the District may approach the City of Houston to attempt to get a statement by the City of Houston that it does not want the District to have an elevated storage tank. Mr. Pennington asked how close the District is to the 2,500 connections limit. Mr. Riley stated that the District has 2,246 connections.

Mr. Hirshman reported that the final inspection of Sydney Harbour, Section Three was held on June 17, 2008.

Mr. Hirshman reported that the Shoppes at Fry Road will be inspected on June 23, 2008.

Mr. Hirshman reported that Harris County contacted him regarding a District waterline that conflicts with a box culvert for the Cypress Rosehill Road expansion. He requested approval of a \$4,700 change to the contract to install a twelve inch offset on the District waterline.

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 Pay Estimate No. 7 from Bay Utilities for water, sanitary sewer and drainage for Cypress Landing Park, Section One in the amount of \$13,203.82; and to approve the \$4,700 change in the Cypress Rosehill Road expansion for the waterline offset.

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


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

17. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on July 25, 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 July 25, 2008.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

