

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
August 20, 2010

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 August 20, 2010, 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
David Templeton, 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. 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; Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. Gregory Pappas of Corinthian Development, developer of land in the District; Ms. Heidi Stephenson of Cymill Partners, developer of land in the District; Mr. Jim Moore of First General Realty; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Robert Deforest of KGA Deforest Design ("KGA"); Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; 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 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 of the meeting of July 16, 2010.** The proposed minutes of the meeting of July 16, 2010, 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 July 16, 2010, as presented.

2. **Public Comments and letters from residents.** The President recognized Director Bryant, who reported on emails to the District's website. He reported that a resident emailed requesting refund of her water account deposit because the resident has been living in the District for two years. Mr. Riley confirmed that the District does not return the water

account deposit until the resident has closed the account. He stated that interest is not paid on the deposit. The Board asked that Ms. Ellison respond to the resident's email that the return of the deposit is not permitted under the District's rate order.

Director Bryant reported that a resident emailed to update account information. Director Bryant reported that a resident emailed complaining about the service; however, he did not live in the District. Director Bryant reported that a resident emailed regarding slow processing of check payments and water termination. Mr. Riley reported on the timing of the resident's and noted that her husband paid the balance to get the water reinstated.

Director Bryant reported that Ms. Loughlin emailed regarding dredging of the Cypress Mill detention pond ditch and outflow channel. The Board discussed whether the District or Harris County was responsible for maintenance of the ditch and outflow channel. Mr. Hirshman stated that Harris County Flood Control District is responsible for cleaning of the drainage ditch and outfall.

Director Bryant reported that a resident email about incomplete mowing of the Dry Creek drainage ditch. Mr. Hirshman reported that the District is not responsible for mowing of the Dry Creek ditch. The Board asked Mr. Hirshman to respond to the resident's email.

Director Bryant reported that a resident emailed regarding not being able to pay the water bill with Visa. He reported that he told the resident that Visa has dropped out of all water district credit card payment programs because Texas law prohibits the credit card companies from charging more than 5% of the bill amount.

Director Bryant reported that a resident emailed to request tax statements and he forwarded the request to Assessments of the Southwest. Ms. Bryant reported that the tax statements were provided to the resident.

Director Bryant reported that a resident emailed regarding visibility in the Cypress-Rosehill Road median with the trees planted as part of the Cypress-Rosehill Beautification Project. Director Koehn reported that some residents called Eagle Water regarding the same issue. Mr. Deforest reported that the design and tree setbacks are in compliance with Harris County and Precinct Three requirements. He reported that KGA continues to review the tree planting for maintenance of visibility and is awaiting confirmation by Precinct Three that the trees are satisfactory. Mr. Deforest reported that KGA has instructed Allgreen Associates to trim off the lower limbs. The Board members indicated that they had experienced no visibility problem. It was Board consensus that visibility is satisfactory along Cypress-Rosehill Road.

Mr. Riley reported that the resident who lives adjacent to the Alicia's Mexican Grille parking lot contacted Eagle Water regarding the parking lot activities and damage to his fence. Mr. Riley reported that he informed the resident that Alicia's Mexican Grille was notified to vacate the parking lot by the end of the year and that the District will repair the fence at that time, if Alicia's fails to do so earlier.

3. Security report and any necessary action. The President recognized Director Henry, who presented to and reviewed with the Board the Security Report for the month

of July, a copy of which is attached hereto as Exhibit "B." Director Henry noted that activity is decreased and citation issuance is increased in the District.

Director Henry proposed sending a letter to the Harris County Fire Marshal regarding the offer to allow the constable to use some of the District's leased space in exchange for the fire marshal's installation of the T1 line and payment of the monthly fee for use of the line. It was the consensus of the Board to provide a written offer to share the constable space with the Harris County Fire Marshal in exchange for the payment for the installation and monthly charges of the T1 line. The Board requested that Ms. Ellison, Sergeant Blackledge and Director Henry collaborate on preparation of the written offer to the Harris County Fire Marshal.

4. Developer's Report, reimbursement issues and any necessary action.

The President recognized Mr. Pappas, who reported that 85% of the retail center is leased. He reported that the medical building next to CVS Pharmacy is about to close. Mr. Pappas reported that Kentucky Fried Chicken has begun construction.

Ms. Stephenson reported that the AT&T building construction is complete. She reported that Smashburger is working on the build-out and is expected to open in September.

Mr. Luton reported that First General Realty and Meritage Homes closed on the Kimball Hill Homes land and lots. He reported that Meritage Homes has two model homes under construction in Cypress Park.

Mr. Moore reported that the lift station drainage issue has been resolved with cutting of a curb and drainage into a Harris County Municipal Utility District No. 391 drainage facility. He reported that the detention pond rehabilitation is underway.

5. Approve Order Authorizing Application for Approval by Texas Commission on Environmental Quality for Use of Surplus Funds for First General Reimbursement. The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Authorizing Application for Approval by Texas Commission on Environmental Quality for Use of Surplus Funds (the "Order"), a copy of which is attached hereto as Exhibit "C." Ms. Ellison reported that Ms. Bryant researched the Kimball Hill Homes assessed valuation. She reported that First General Realty has sufficient assessed valuation for reimbursement, but the taxes on the tract are still outstanding. Mr. Moore reported that the Kimball Hill Homes bankruptcy trust is holding sufficient funds for the delinquent taxes and that Stewart Title has guaranteed that the delinquent taxes will be paid if the Kimball Hill Homes bankruptcy trust fails to pay the taxes. 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 Order and authorize the application.

6. Proposal for generator maintenance and grid revenue participation program. This item was deferred.

7. Cypress-Rosehill Beautification Project and any necessary action. The President recognized Mr. Deforest, who reported that the fence installation is expected to be complete in mid-October. He reported that any chips in the fence panels will be addressed at the end of the project.

Mr. Deforest requested Board authorization of payment of Pay Estimate #3 to Allgreen Associates in the amount of \$178,774.45 for the landscaping of the Cypress-Rosehill Beautification Project.

Mr. Deforest reported that there are four locations where the fence posts conflict with natural gas lines to residences. He reported that it will cost approximately \$350 to relocate each gas line. Mr. Deforest reported that there is a \$25,000 allowance for miscellaneous in the landscape contract. He asked the Board if the gas line relocations should be performed as a change order or charged to miscellaneous.

Mr. Deforest reported that there are some sidewalk ramps that have to be modified and rerouted for approximately \$5,800. He asked the Board if the sidewalk modification should be performed as a change order or charged to miscellaneous.

Mr. Deforest asked the Board if the subdivision entrances should be restored with mulch and plantings or left for the Cypress Mill Homeowner Association to restore. The Board instructed Mr. Deforest to restore the subdivision entrances.

Mr. Deforest reported that KGA proposes extension of the sidewalk for tie-in to Walgreen's existing sidewalk ramp for safer walking in the area. The President reported that Walgreen's is reviewing the proposed sidewalk.

The President asked for an update on the grading issue regarding the telephone pedestal at the Water Plant. Mr. Deforest reported that KGA is working on the solution for the grading issue.

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 payment of Pay Estimate #3 to Allgreen Associates in the amount of \$178,774.45 for the landscaping of the Cypress-Rosehill Beautification Project and to charge the gas line relocation costs and sidewalk ramp modifications to the miscellaneous allowance in the contract.

8. Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and any necessary maintenance. The President stated that pursuant to its lease, Alicia's Mexican Grille is required to repair the resident fence adjacent to the premises it leases from the District; however, if Alicia's does not do so by the time it vacates the premises, the District will make the repair and back charge Alicia's for the cost.

9. Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts. 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 "D." Ms. Bryant noted that 98% of the District's 2009 taxes had been collected as of July 31, 2010.

Ms. Bryant reported that Bethesda Lutheran Homes & Services, Inc. has paid the accounts previously listed on the Unpaid Accounts Tax Roll.

Upon motion by Director Templeton, 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.

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 Henry, seconded by Director Templeton, 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. **Approve Continuing Disclosure Report and Authorize Filing.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Continuing Disclosure Report, a copy of which is attached hereto as Exhibit "F." Ms. Ellison reported that the Continuing Disclosure Report is an annual requirement which updates bondholders on the status of the District and includes the audit. She reported that Ms. Amy Lewis from Rathmann & Associates prepared the Continuing Disclosure Report and F&J reviewed it. 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 Continuing Disclosure Report and authorize its filing.

12. **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 "G." Mr. Riley reported that the Wastewater Treatment Plant generator installation is complete and that the start-up was performed. He reported that the Wastewater Treatment Plant Driveway project is complete and in service.

Mr. Riley reported that Eagle Water removed the drainage pipes on the District's property and plugged the pipes draining into the District's Cypress Ridge Detention Pond. He reported that Eagle Water provided an invoice to the homeowner for the work.

Upon motion by Director Templeton, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operations Report and to terminate the delinquent accounts in accordance with the Rate Order.

13. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, bonds.** 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 "H." Mr. Hirshman reported that DEC will perform the final inspection of the Wastewater Treatment Plant Driveway.

Mr. Hirshman reported on the eighth Bond Issuance Application. He reported that DEC is awaiting a response by the TCEQ to DEC's response to the Notice of Deficiency.

Mr. Hirshman reported on the ninth Bond Issuance Application for Cypress Landing East. He reported that DEC is awaiting documentation from the developer and engineer. Mr. Hirshman reported that DEC will begin work on the surplus funds request for reimbursement for Cypress Landing West, first phase.

Mr. Hirshman requested Board approval of payment by Centex Homes of Pay Estimate #4 to Metro City Construction, LP in the amount of \$2,493.37 for the Cypress Landing East, Lift Station #2.

Mr. Hirshman requested Board approval of payment by Centex Homes of Pay Estimate #6 to Clearwater Utilities, Inc. in the amount of \$2,092.30 for the water, sanitary sewer and storm sewer facilities to serve Cypress Landing East, Section Three, Phase 1 and Section Four.

Mr. Hirshman reported that the Wastewater Treatment Plant Generator Installation is complete.

Mr. Hirshman requested Board authorization for DEC to discuss with Harris County Municipal Utility District No. 391 the installation of an additional interconnect and waterline extension along Mueschke Road.

Mr. Hirshman reported that Harvest Bible Church has requested cost estimates for fire protection water service, and possibly water and sanitary sewer service. He reported that the District does not benefit from annexation of a church into the District. Mr. Hirshman asked the Board whether the District or church would be responsible for the costs to extend the lines to the tract. He stated that the church should provide a deposit to cover engineering and attorney fees for the preliminary work on analyzing the feasibility of providing service to the church. Ms. Ellison stated that the District may charge a capital cost to the church. Mr. Hirshman stated that the District may have to expand the Wastewater Treatment Plant with the addition of service to the church. He stated that the wastewater treatment capacity allocations will need to be reviewed. It was the consensus of the Board that if the District provided utility service to the church, it should be for sanitary sewer, water and fire protection water and that the church should pay for all costs incurred to serve the tract. The Board requested that F&J request a \$2,500 deposit from the church for the preliminary work by the District engineer and attorney.

Mr. Hirshman reported that the Cypress Ridge Detention Pond Storm Water Quality permit renewal was forwarded to Storm Water Solutions for management.

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 Engineer's Report; to approve payment by Centex Homes of Pay Estimate #4 to Metro City Construction, LP in the amount of \$2,493.37 for the Cypress Landing East, Lift Station #2, to approve payment by Centex Homes of Pay Estimate #6 to Clearwater Utilities, Inc. in the amount of \$2,092.30 for the water, sanitary sewer and storm sewer to serve Cypress Landing East, Section Three, Phase 1 and Section Four, to authorize DEC to discuss the installation of an additional interconnect and waterline extension along Mueschke Road with Harris County

Municipal Utility District No. 391 and to authorize F&J to request a \$2,500 deposit from the Harvest Bible for the preliminary work by the District engineer and attorney

14. **Consider Harvest Bible Church request for utility service and any necessary action.** This item was covered under the Engineer's Report.

15. **Next meeting date.** The Board noted that the next regular monthly Board meeting will be held on September 17, 2010, 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 foregoing minutes were passed and approved by the Board of Directors on September 17, 2010.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

