

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
February 11, 2011

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 the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on February 11, 2011, 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 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; Ms. Lynnette Tujague of District Data Services, Inc., bookkeeper for the District; Mr. Bill Hixon and Ms. Heidi Stephenson of Cymill Partners, developers of land in the District; Mr. Jim Moore and Mr. Robert Moore of First General Realty; Mr. Nick Luton of Meritage Homes, developer of land in the District; Mr. Jason Schultz of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Stephanie Lee of KGA Deforest Design ("KGA"); Mr. Greg Sissel of BKD, L.L.P., auditor 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 January 21, 2011.** The proposed minutes of the meeting of January 21, 2011, previously distributed to the Board, were presented for review and approval. 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 minutes of January 21, 2011, 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 to coordinate a change in his bank routing information, which was forwarded to Eagle Water.

Director Bryant reported that Mr. Martin emailed to convey his disappointment in the Board for asking the Sydney Harbour Homeowner Association to maintain the Cypress-Rosehill medians adjacent to Sydney Harbour in exchange for the District installing replacement trees in the Cypress-Rosehill right-of-way adjacent to Sydney Harbour. The Board noted that Cypress Mill Homeowner Association was asked to maintain the medians adjacent to Cypress Mill. Director Bryant stated that he would inform Mr. Martin that the same maintenance was requested of the Cypress Mill Homeowner Association.

Director Bryant reported that Mr. Taylor emailed to report that the irrigation on the Cypress-Rosehill median is excessive and causing run-off into the street. Ms. Lee stated that the contractor is inspecting the irrigation system to eliminate the run-off into the street.

The President reported that the Cypress Mill Homeowner Association emailed requesting mileage markers on the District's detention pond trail. It was the consensus of the Board that any potential mileage markers should be financed and installed by the Cypress Mill Homeowner Association, and that the District would not object to the placement of the markers on the District's detention pond trail. The President stated that he would inform the Cypress Mill Homeowner Association.

The President reported that the Cypress Mill Homeowner Association emailed regarding the fence boards kicked in at Cypress Mill Park, Section Four leading to Dry Creek. He stated that the Cypress Mill Homeowner Association requested placement of a gate, a wrought iron fence or boards that cannot be kicked in by juveniles. The President requested that the Directors inspect the location and asked that the issue be discussed at the next meeting.

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 January, a copy of which is attached hereto as Exhibit "B."

4. **Update on Lakes of Rosehill Homeowner Association request regarding security and any necessary action.** No action was taken on this item.

5. **Developer's Report, reimbursement issues and any necessary easements.** The President recognized Mr. Hixon, who reported that Raising Cane's has signed a letter of intent for a ground lease.

Mr. Luton reported that ten to eleven homes are under construction in Cypress Park, with seven homes sold and two homes expected to close this month. He reported that the landscaping work is complete and that the first Homeowner Association meeting was held.

6. **Reimbursement Agreement for Storm Sewer and Conveyance of Facilities.** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Reimbursement Agreement for Storm Sewer, a copy of which is attached hereto as Exhibit "C." Mr. Shultz reported that DEC performed a pre-Texas Commission on Environmental Quality ("TCEQ") purchase inspection, noted an inlet issue and has arranged for correction of the inlet.

Ms. Ellison presented to and reviewed with the Board the Conveyance of Facilities by Cymill Partners, Ltd. for the storm sewer from Commercial Reserve C to existing manhole, a copy of which is attached hereto as Exhibit "D."

Upon motion by Director Templeton, seconded by Director Henry, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Reimbursement Agreement for Storm Sewer, to approve the Conveyance of Facilities and reimbursement to Cymill Partners, Ltd. in the amount of \$15,400 upon receipt of the TCEQ authorization to purchase the storm sewer.

7. **Approve Request for Release of Escrow (interest on Sydney Harbour detention).** The President recognized Ms. Ellison, who presented to and reviewed with the Board the Order Authorizing the Application ("Order") and the Application for Approval by the Texas Commission on Environmental Quality for Release of Escrowed Funds and Use of Surplus Funds for Sydney Harbour Detention Pond ("Application"), a copy of which is attached hereto as Exhibit "E." Ms. Ellison stated that the Order and Application are for the release of \$72,293, which is escrowed to pay interest on land acquisition costs for a portion of the Sydney Harbour detention pond. She said approximately \$23,556 is owed to Sydney Harbour.

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 Application.

8. **Approve Developer Reimbursement Audit, Payment to First General Realty and Conveyance of Facilities.** The President recognized Mr. Sissel, who presented to and reviewed with the Board the draft of the Developer Reimbursement Audit, a copy of which is attached hereto as Exhibit "F." Mr. Sissel reported that the total reimbursement amount is \$701,776.49; however, \$616,405.50 is due at this time because of the agreed upon limit of 10% of the value added.

Mr. Sissel reported that the easement acquisition costs for which First General Holdings, L.L.C. is seeking reimbursement were paid to the District under an agreement to advance funds for that purpose. He reported that the TCEQ limits the interest a district may pay a developer on advances made to the district to two years, whereas the interest a district may pay a developer for land acquisition costs is not limited. The Board discussed the fact that usually developers acquire easements but in this case the easements were obtained via condemnation and could not be acquired by the developer. Mr. Robert Moore stated that the Board's decision on whether to limit the interest on the easement acquisition costs to two years will also impact the reimbursement to Centex Homes. Mr. Sissel reported that the difference in interest to be reimbursed to First General for easement acquisition costs is \$11,377.57.

Upon motion by Director Bryant, seconded by Director Templeton, after full discussion and the question being put to the Board, the Board voted unanimously to approve the developer reimbursement audit, to authorize payment of \$616,405.50 to First General Holdings, L.L.C. upon receipt of the TCEQ authorization to purchase the facilities, and to defer a decision on the amount of interest to reimburse First General Holdings, L.L.C. for the easement acquisition costs.

9. Cypress-Rosehill Beautification Project and any necessary action.

The President reported that the District's constable observed Harris County Precinct Three removing the tree stakes for the trees recently planted along Cypress-Rosehill Road as part of the Cypress-Rosehill Beautification Project. He reported that Allgreen Associates will not provide a warranty of the trees if they are not staked. Ms. Lee reported that she is coordinating with Allgreen Associates to obtain a reinstatement of the tree warranty if the stakes are reinstalled promptly. The Board reviewed the Allgreen Associates proposal for installation of 1,329 tree stakes for the cost of \$16,080.90, a copy of which is attached hereto as Exhibit "G."

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 Allgreen Associates proposal for installation of 1,329 tree stakes for the cost of \$16,080.90 upon receipt of a letter from Allgreen Associates reinstating the tree warranty.

Ms. Lee reported that she is assembling all the documentation to transfer the fence and maintenance of the medians to the Cypress Mill Homeowner Association.

a) **Discuss street light costs and any necessary action.** No action was taken on this item.

10. Recreational Facilities Planning/Harris County Flood Control District Partnership, Report on Homeowners Association matters and any necessary maintenance. No action was taken on this item.

11. Tax Assessor-Collector's Report, payment of bills and any necessary action on delinquent accounts, including water termination. 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 "H." Mr. Lee noted that 86% of the District's 2010 taxes had been collected as of January 31, 2011. He reported that delinquent statements would be distributed in February.

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.

12. Consider Property Tax Exemptions. Mr. Lee reported that the District has an exemption of \$20,000 of the appraised value of residence homesteads within the District for individuals who are disabled or are 65 years of age or older. Ms. Ellison presented to and reviewed with the Board the Order Adopting Exemption from Taxation for Individuals Who are Disabled or are 65 Years of Age or Older (the "Order"), a copy of which is attached hereto as Exhibit "I."

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 with an exemption of \$20,000 of the appraised value of residence homesteads within the District for individuals who are disabled or 65 years of age or older.

13. **Bookkeeper's Report, Review Investment Report and payment of bills.** The President recognized Ms. Tujague, 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 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.

14. **Adopt budget for fiscal year ending February 29, 2012.** Ms. Tujague presented to and reviewed with the Board the proposed budget for fiscal year ending February 29, 2012, included in the Bookkeeper's Report.

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 adopt the proposed budget for fiscal year ending February 29, 2012.

15. **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 there was an incident at the Wastewater Treatment Plant where the transfer line to the digester was clogged, resulting in a spill over the wall. He reported that Eagle Water cleaned up the spill.

Mr. Riley reported that Eagle Water will meet with DEC to discuss relocation of the pumps at the Wastewater Treatment Plant to the exterior of the digester basins.

Mr. Riley reported that Eagle Water performed two sanitary sewer point repairs.

Mr. Riley reported that Eagle Water terminated water service to the Cypress-Rosehill Road irrigation system during the cold weather to avoid ice in the street, as requested by the Harris County Constable's Office.

Upon motion by Director Templeton, seconded by Director Halloran, 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.

16. **Engineer's Report and any necessary action regarding construction projects, detention pond maintenance, reimbursement agreements, grant of easements, bonds.** The President recognized Mr. Schultz, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "L." Mr. Schultz reported that DEC is preparing the ninth Bond Issuance Application for Cypress Landing East.

Mr. Schultz reported that the TCEQ approved the use of surplus funds for the First General Holdings reimbursement. He reported that DEC will schedule the TCEQ pre-purchase inspection.

Mr. Schultz reported on the proposed interconnect with Harris County Municipal Utility District No. 391 ("MUD 391"). He reported that DEC is coordinating the interconnect location with the MUD 391 engineer.

Mr. Schultz reported on the feasibility study for utility service to Harvest Bible Church. He reported that DEC has begun preparation of the cost estimate for connection to the District's utility system.

Mr. Schultz reported that the District requires an additional 1,600 gallons per minute ("gpm") of additional booster pump capacity based on the TCEQ requirements. He reported that the District has a total pumping capacity of 5,500 gpm comprised of 1,500 gpm at Water Plant #1 and 3,000 gpm at Water Plant #2. Mr. Schultz reported that DEC will review the existing pumps and configurations to determine the optimal configuration to meet TCEQ requirements. He reported that the costs for the additional capacity will be included in the next bond application. Mr. Shultz reported that there are no other District facilities that require additional improvement for full development of the District.

Mr. Schultz reported that a proposed annexation tract, Cypress Auto Center, has requested utility service and provided a preliminary diagram of the desired utility line placement, included in the Engineer's Report. He reported that Cypress Auto Center will need to acquire an easement. Ms. Ellison noted that the District has not received the annexation deposit from the Cypress Auto Center.

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 Engineer's Report.

The Board reviewed the letter by Braun Enterprises regarding portable fire extinguishers at the Constable Workspace on Fry Road, a copy of which is attached hereto as Exhibit "M." Director Henry stated that he would provide the letter to Sergeant Blackledge for management.

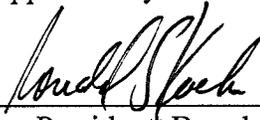
17. Report on Association of Water Board Directors Mid-Winter Conference. The President reported that the "Close Encounters of the AWBD Kind" seminar was humorous.

18. Next meeting date. The Board noted that the next regular monthly Board meeting will be held on March 18, 2011, 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.

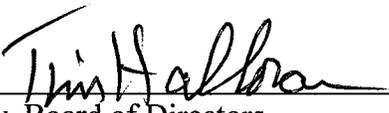
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The foregoing minutes were passed and approved by the Board of Directors on March 18, 2011.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

