

MINUTES
CYPRESS FOREST PUBLIC UTILITY DISTRICT

January 8, 2008

The Board of Directors (the "Board") of Cypress Forest Public Utility District, Harris County, Texas (the "District"), met in regular session, open to the public, on the 8th day of January, 2008, at the Cypress Forest Public Utility District's Administrative Building, 16215 Champion Forest Drive, Spring, Texas 77379, inside the boundaries of the District, and the roll was called of the members of the Board:

Michael J. Lynch, Jr.	President
Thomas J. Petrick	Vice President
Deborah L. Jackson	Secretary
Linn Jensen Smyth	Assistant Secretary
Fred P. Jones	Assistant Vice President

and all of the above were present except Director Jackson, thus constituting a quorum.

Also present for all or part of the meeting were the following: Tom Rolen of the North Harris County Regional Water Authority ("NHCRWA"); Mark Roth, CPA; Mark C. Eyring, CPA; Greg DiCioccio, Jim Hughson, Wallace Perry, Wally Bircher, and James Reed, residents of the District; Elisa H. Kaplan of Legacy Energy Management Solutions ("Legacy"); Ross Richardson, Rozann Janek, Cristy Hayes, and Ross Riley of Champion Forest Fund, Inc. ("CFF"); Jacqueline Kern of the Champion Forest Security Committee; Peter Palacios of Raveneaux Country Club; Mark Jordan of JP Partners; Vic Fowler of Kleinwood Municipal Utility District; Esther Flores of Tax Tech, Inc.; Nabil Joubran of Pepe Engineering, Ltd. ("Pepe Engineering"); Kim Shelnett of Myrtle Cruz, Inc.; Gus Gustafson of Aqua Services, L.P. ("Aqua Services"); Barbara Payne of Payne Communications; Greer H. Pagan of Allen Boone Humphries Robinson LLP ("ABHR"); and Kristen Hogan, Recording Secretary.

RECEIVE PUBLIC COMMENTS

Director Lynch opened the meeting to receive public comments. Public Comment Cards were presented by Mr. Perry and Mr. Reed, copies of which are attached. Mr. Perry addressed the Board regarding a water line leak at his home. He presented a letter to the Board with a copy of his October and November bills and a copy of the plumbing bill to replace the leak. A copy of the letter is attached. Mr. Perry requested an adjustment on his November and December bills to allow him to pay amounts equal to or less than the amount of his October bill. The Board discussed the District's policy to bill customers for the usage reflected on the meters, in accordance with the District's Rate Order. The Board concurred to consider granting a time

extension for payment of the bills when considering customer correspondence during the operator's report. The Board informed Mr. Perry that one of the Directors would contact him the next day regarding the Board's decision.

Mr. Reed addressed the Board regarding the lack of information published by the District about the new contract for garbage collection and recycling services with Royal Disposal & Recycling. The Board concurred to discuss the letter to be sent to residents about garbage and recycling service when discussing public communication.

Mr. Reed next discussed concerns regarding the blending of chloramines once the District converts to surface water and asked if any consideration has been given to converting the well water to chloramines prior to conversion. Mr. Gustafson and Mr. Joubran discussed the requirements related to chloramine conversion and indicated that Aqua Services and Pepe Engineering have been coordinating a strategy and have previously presented the Board with a plan for addressing this issue. The District's authorization will be sought in the future to proceed with the plans for the District's conversion to surface water. Director Lynch stated that the District is still in the process of gathering information regarding conversion to surface water and that Mr. Reed can address the Board further regarding the matter after Mr. Rolen's presentation.

NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY PRESENTATION

Mr. Rolen made a presentation regarding surface water conversion matters, including considerations for the blending of surface and ground water. He discussed the Harris-Galveston Subsidence District's groundwater reduction requirements and reviewed a map identifying the timeline for areas within the NHCRWA to be converted to surface water. Mr. Rolen next discussed the NHCRWA's proposed locations for surface water facilities and the associated projects that are currently being designed. He discussed the NHCRWA's transfer program whereby areas are converted in stages and receive credits over time for associated costs. Mr. Rolen stated that he is meeting with the District's engineer on January 9, 2008, to discuss options for connection of the surface water line facilities to the District's system. He stated that the option considered by the NHCRWA is to construct a flow control system at the District's water plant site that will connect to the District's ground storage tank. Mr. Rolen discussed the reasons for using chloramine disinfection instead of other potential disinfectants. He stated that the NHCRWA will provide advance notice of the date for conversion and associated deadlines for the District to complete its necessary modifications prior to conversion.

Mr. Rolen then responded to questions presented by District Directors and meeting attendees. In response to a question from Director Smyth regarding the number of Districts that will be converting at the same time and the ability of the Texas Commission on Environmental Quality ("TCEQ") to process the necessary approvals timely, Mr. Rolen stated that the NHCRWA has met with the TCEQ to discuss the matter and has asked the TCEQ to provide summary guidelines of the proper

procedures for submittal of plans that can be distributed to the engineers of Districts within the NHCRWA. In response to a question from Mr. Riley, Mr. Rolan discussed the City of Houston Northeast Water Plant and stated that the NHCRWA does not expect any issues with the surface water that will come from such Plant. In response to questions from Director Petrick, Mr. Rolan discussed the potential areas of the District that will be affected during construction of the surface water conversion facilities and stated that the NHCRWA will obtain all necessary easements and rights-of-way for the facilities. He stated that the NHCRWA's goal is to have its system complete by the third quarter of 2009 and to begin phasing conversion of Districts in the 4th quarter of 2009.

The Board thanked Mr. Rolan for the presentation. Mr. Rolan noted that he has had success working with Mr. Joubran and appreciates his cooperation.

DISCUSS MATTERS RELATED TO HOMEOWNERS ASSOCIATION MEETINGS

Ms. Kern presented a letter to the Board requesting funding from the District for reflective curbside numbers in front of all of the homes in Champion Forest. A copy of the letter is attached. Ms. Kern discussed the importance of having legible curb markers in emergency situations. She requested that the Board include an item on the District's February agenda to consider the Champion Forest Security Committee's request.

Mr. Richardson presented a letter to the Board as a follow up to CFF's previous letter dated October 19, 2007, requesting funding from the District for street light expenses for the Champion Forest subdivision. A copy of the letter from CFF is attached. Mr. Richardson discussed limits on CFF's assessments to residents and CFF's plans to have a formal study performed to determine future maintenance expenses and the amount of reserve funds necessary for long-term maintenance. The Board discussed the street light expenses attributable to each section and concurred the District could not pass through a set fee on its water and sewer bills since each section has a different pro rata share of the expenses. In response to questions, Mr. Gustafson stated that Aqua Services could adjust its billing system to bill each section differently based on their share of the expenses if the Board decided to amend the District's Rate Order accordingly. After discussion, the Board concurred to table consideration of the request from CFF until next month's meeting. The Board asked Mr. Riley to forward one of CFF's electricity bills to Legacy to determine the costs attributable to each section of Champion Forest.

BOOKKEEPER'S REPORT

The Board next reviewed the bookkeeper's report. Ms. Shelnett reviewed a proposed amended budget for fiscal year ending September 30, 2008, a copy of which is included in the bookkeeper's report. Discussion ensued regarding the new garbage rates and the timing of expenses and revenues to obtain a balanced budget. In response

to a question from Director Lynch, Ms. Shelnutt stated that \$19,000 of the total cost of \$25,000 for the effluent reuse study has been paid to date, which includes the payment to AEI Engineering, Inc. presented this month for the Board's consideration. Following review and discussion, Director Petrick moved to approve the bookkeeper's report and payment of the checks and adopt the amended budget as presented. Director Smyth seconded the motion, which was approved by unanimous vote.

RESOLUTION ADOPTING POLICIES FOR CAPITALIZATION AND DEPRECIATION OF DISTRICT ASSETS

Mr. Roth recommended that the Board adopt a Resolution Adopting Policies for Capitalization and Depreciation of District Assets to comply with requirements from the Texas Commission on Environmental Quality (the "TCEQ"). Following review and discussion, Director Petrick moved to adopt the Resolution as presented and direct that it be filed appropriately and retained in the District's official records. Director Smyth seconded the motion, which was approved by unanimous vote.

AUDIT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2007

Mr. Roth next reviewed with the Board the draft audit for fiscal year ended September 30, 2007. He discussed additional items that will be included in the audit. After review and discussion, Director Smyth moved to approve the audit, subject to final review and approval by the consultants, and direct that the finalized audit be filed appropriately and retained in the District's official records. Director Petrick seconded the motion, which was approved by unanimous vote.

LEGACY ENERGY SOLUTIONS INTERVAL VERIFICATION REPORT

The Board next discussed an Interval Verification Report previously distributed by Legacy, a copy of which is attached. Ms. Kaplan reviewed the Verification Report and stated that Legacy received the District's final electricity bill from the previous provider and verified that the District is being billed properly in accordance with the electricity contract. The Board reviewed the Interval Verification Report and Director Jones noted a discrepancy for Ms. Kaplan to investigate.

Ms. Kaplan stated that the District's current contract with Direct Energy expires in October and that Legacy will present renewal rates and options for the Board's consideration when they believe the market conditions are desirable. After discussion, the Board concurred Legacy should contact Director Jones to consider renewal options when appropriate.

CONSENT AGENDA:

APPROVE MINUTES

TAX ASSESSOR/COLLECTOR'S REPORT, INCLUDING PAYMENT OF BILLS
AND ANY NECESSARY COLLECTION ACTION

ENGINEER'S REPORT, INCLUDING LONG-TERM MAINTENANCE PLAN

OPERATOR'S REPORT

Director Jones requested that the operator's report be removed from the Consent Agenda. Upon a motion made by Director Smyth and seconded by Director Petrick, the Board voted unanimously to approve the items on the Consent Agenda, with the exception of the operators report. Copies of the tax assessor/collector's report and the engineer's report are attached.

In response to a question from Mr. Reed, the Board and Ms. Payne discussed limitations on the District's website space and the Board's decision to not include minute attachments on the website. The Board reiterated that copies of any minute attachments or other public records of the District can be obtained by submitting an open records request to ABHR, the District's records administrator.

ANNUAL DISCLOSURE STATEMENTS OF THE BOOKKEEPER AND INVESTMENT OFFICER

The Board next reviewed the annual disclosure statements of the bookkeeper and Investment Officer. Mr. Pagan stated that the statements are filed annually with the Texas Ethics Commission. Following review and discussion, Director Smyth moved to accept the annual disclosure statements of the bookkeeper and Investment Officer, pursuant to the Public Funds Investment Act and the District's Investment Policy, and direct that the disclosure statements be filed appropriately and retained in the District's official. Director Petrick seconded the motion, which was approved by unanimous vote.

ADDITIONAL ACTION ITEMS FROM THE TAX ASSESSOR/COLLECTOR

Ms. Flores reviewed with the Board a Contract for the Assessment and Collection of Taxes to engage her as the District's new tax assessor/collector. She stated that the Contract includes Greg Ordeneaux's termination of his existing contract with the District effective as of today's meeting. Ms. Flores stated that the only change in the Contract is the name of the tax assessor/collector. Following review and discussion, Director Petrick moved to approve the Contract as presented and direct that the Contract be filed appropriately and retained in the District's official records. Director Jones seconded the motion, which was approved by unanimous vote.

ADDITIONAL ACTION ITEMS FROM THE ENGINEER

There were no additional items from the engineer.

OPERATOR'S REPORT

The Board reviewed the operator's report, a copy of which is attached. Mr. Gustafson reviewed the outstanding builder accounts and stated that he will contact the builders regarding payment of the backcharges.

SUPERIOR WATER SYSTEM RATING PROCESS

Mr. Gustafson stated that he will order new District name signs as recommended by Director Jones. He stated that Aqua Services is proceeding with the District's application to the TCEQ for a Superior Water Rating and that he is unsure why Superior Water Rating signs were previously installed within the District.

REPAIR AND MAINTENANCE ITEMS

There were no additional repair and maintenance items.

ADOPT AMENDED RATE ORDER

Director Jones reviewed an analysis he performed of the District's budget and the impact of the increase in garbage rates for the Board to consider increasing its rates to pass on all or a portion of the garbage rate increase to District customers. Discussion ensued regarding the Board's efforts to obtain customer input on the desired garbage and recycling services prior to obtaining renewal proposals. After review and discussion, the Board concurred with the following rate adjustments: (1) increase the monthly water quantity charge for residential water usage to \$1.25 per 1,000 gallons for 8,001-18,000 gallons usage; (2) increase the flat monthly sewer rate for residential sewer usage to \$37.50; and (3) increase the monthly commercial sewer rates to \$30.00 for 0-8,000 gallons and the minimum monthly charge, \$60.00 for 8,001-18,000 gallons, \$90.00 for 18,001-25,000 gallons, \$120.00 for 25,001-40,000 gallons, and \$150.00 for over 40,000 gallons.

The Board discussed communication regarding the new rates and directed Ms. Payne to send postcards to District customers notifying them of the new rates, effective February 1, 2008. The Board also directed Mr. Gustafson to include an insert with the next water and sewer bills providing notification of the new rates.

Mr. DiCicco discussed complaints regarding back door garbage service. The Board discussed the information the District included in the newsletter explaining the back door service.

CONSIDER CUSTOMER CORRESPONDENCE

The Board considered the request for an adjustment presented by Mr. Perry. After discussion, Director Petrick made a motion to deny the request for an adjustment,

but to allow Mr. Perry 90 days to pay his outstanding water and sewer charges. Director Smyth seconded the motion, which passed unanimously.

TECHNICAL ADVISORY GROUP REPORT

Director Jones reported on responses received to the letter that he distributed to engineers residing within the District to determine whether the engineers would be interested in participating as an ad hoc advisory group for specific projects. He stated that he is waiting for additional responses and will provide an update at next month's meeting.

CONDUCT HEARING ON TERMINATION OF WATER SERVICE

The Board next conducted a hearing on the termination of water service. Mr. Gustafson reported that the customers included on the termination list attached to the operator's report were delinquent by more than 50 days and had been given written notice 10 days prior to this meeting of the opportunity to appear before the Board of Directors to explain, contest, or declare why the utility service should not be terminated for reason of nonpayment. Following discussion, Director Smyth moved that since the residents were neither present at the meeting nor had presented any written statement on the matter, the utility service to those residents be terminated in accordance with the District's Rate Order. Director Jones seconded the motion, which was approved by unanimous vote.

After discussion, Director Smyth moved to approve the operator's report and adopt an Amended Rate Order with the noted rate adjustments, effective as of February 1, 2008. Director Jones seconded the motion, which passed unanimously.

BOND SERIES 2003 ARBITRAGE REBATE ANALYSIS

Mr. Pagan next reported that an arbitrage rebate analysis of the District's Series 2003 Refunding Bonds was necessary. He stated that ABHR recommends engagement of OmniCap Group LLC to perform such an analysis and reviewed the analysis procedures. Following review and discussion, Director Smyth moved to engage OmniCap Group LLC for the amount of \$2,500 to perform an arbitrage rebate analysis of the District's Series 2003 Refunding Bonds as recommended. Director Petrick seconded the motion, which was approved by unanimous vote.

DISCUSS AND REVIEW DIRECTORS' INITIATIVES

The Board concurred to table this item until next month's meeting.

PUBLIC COMMUNICATIONS

Ms. Payne next reported on public communications activities. She reviewed a report on the number of hits to the District's website, a copy of which is attached. Ms. Payne presented the District's proposed winter newsletter and stated that the Board can consider the information to include on the front and back covers of the newsletter. She reported on the District's contest for students to create 2008 water conservation calendars.

EFFLUENT REUSE PROJECT FOR LANDSCAPE IRRIGATION

Director Smyth stated that the participants of the Kleinwood Regional Wastewater Treatment Plant Joint Powers Board were given until the end of January to indicate their intention to participate with the District on the proposed effluent reuse project for landscape irrigation. She stated that she should have a report on the matter at next month's meeting.

REPORT ON PARK MATTERS AND RAVENEAUX DEVELOPMENT

Director Petrick updated the Board on park matters. He stated that Mr. Jordan has not returned his phone call. Director Petrick presented the Memorandum of Understanding that was prepared for development of the Raveneaux Country Club tract and stated that it has not been executed. Discussion ensued regarding ownership of the four tracts included in the proposed trail project through the Raveneaux Country Club property. Director Petrick stated that he was unable to obtain copies of the recorded conveyance instruments related to the tracts from Harris County.

DEVELOPMENT OF A BUSINESS PLAN

Director Jones reported that additional consultants are being contacted to finalize a list of potential candidates to assist the Board with defining the Board's goals and development of a written business plan. He stated that he should have an updated report on the matter at next month's meeting.

DISCUSS MATTERS RELATED TO NHCRWA

Director Smyth reported on discussions at the previous meeting of the Board of Directors of the NHCRWA. She discussed the NHCRWA's plans for conversion to surface water, including efforts to work with the City of Houston to locate potential water sources.

MEETING SCHEDULE AND AGENDA

The Board next discussed the meeting schedule and items for inclusion on the agendas of the scheduled meetings. Following discussion, the Board concurred to

tentatively schedule a special meeting at 9:00 a.m. on Friday, January 18, 2008, to receive a presentation on the Geographical Information System. The Board concurred there will not be a Brown Bag Lunch in January.

DISCUSS OPERATIONS OF KLEINWOOD REGIONAL WASTEWATER TREATMENT PLANT AND JOINT POWERS BOARD MEETING

Director Lynch reported on the Joint Powers Board monthly meeting and the operations and maintenance of the Kleinwood Regional Wastewater Treatment Plant. He noted that the Joint Powers Board renewed its contract with AEI Engineering, Inc.

There being no other matters to come before the Board, the meeting was adjourned.

[SIGNATURE PAGE FOR THE MINUTES OF THE JANUARY 8, 2008, BOARD MEETING]

Secretary, Board of Directors

(SEAL)

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