

Attachment F

(Proposed Official Statement)

OFFICIAL NOTICE OF SALE

\$3,500,000

SHADY HOLLOW MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)

UNLIMITED TAX BONDS, SERIES 2011

Selling: _____, 2011 at 12:00, Noon, local time

The Bonds are obligations solely of Shady Hollow Municipal Utility District, formerly known as Southwest Travis county Municipal Utility District No. 1, and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas or any entity other than the District.

THE DISTRICT WILL DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

THE SALE

Bonds Offered for Sale at Competitive Bidding . . . Shady Hollow Municipal Utility District, formerly known as Southwest Travis County Municipal Utility District No. 1 (the "District") is offering for sale \$3,500,000 Unlimited Tax Bonds, Series 2011 (the "Bonds").

Place and Time of Bid Opening . . . The Board of Directors of the District (the "Board") will open and publicly read sealed bids for purchase of the Bonds at the designated meeting place within the boundaries of the District at the District's offices at 3910 Capistrano Trail, Austin, Texas 78739 at 12:00 Noon, local time.

Award of Bonds . . . The District will take action to award the Bonds or reject all bids promptly upon the opening of bids. Upon awarding the Bonds, the District will also adopt the order authorizing issuance of the Bonds (the "Bond Order") and will approve the Official Statement, which will be an amended form of the Preliminary Official Statement. Sale of the Bonds will be made subject to the terms, conditions and provisions of the Bond Order to which Bond Order reference is hereby made for all purposes.

Address of Bids/Bids Delivered in Person . . . Sealed bids, plainly marked "Bid for Bonds," should be addressed to the Board of Directors of Shady Hollow Municipal Utility District, and if delivered in person, delivered at the designated meeting place within the boundaries of the District, at the District's offices at 3910 Capistrano Trail, Austin, Texas, 78739 **by 12:00 Noon, local time**, on the date of the bid opening. All bids must be submitted on the "Official Bid Form" without alteration or interlineation. Copies of the Official Bid Form accompany the Preliminary Official Statement.

Electronic Bidding Procedure . . . NOTICE IS HEREBY GIVEN that electronic proposals will be received via **PARITY**, in the manner described below, **until 12:00 Noon**, local time, on [____], 2011. Bids may be submitted electronically via **PARITY** pursuant to this Notice of Sale, **until 12:00 Noon local time**, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Notice, the terms of this Notice shall control. For further information about **PARITY**, potential bidders may contact the financial advisor to the District or **PARITY** at (212) 849-5021.

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale and the Official Bid Form.

Bids by Facsimile ...Bidders that choose to exercise the facsimile bidding options **MUST SUBMIT SIGNED Official Bid Forms to Chris Lane, SAMCO Capital Markets, Inc. 6805 Capital of Texas Highway, Suite 350 Austin, Texas 78731** and submit their bid by facsimile on the date of the sale. Any bids received by facsimile will be attached to the signed Official Bid Form previously submitted.

Facsimile bids will be accepted at (512) 282-4853 **between 11:30 a.m. and Noon, Local time** on the date of sale to the attention of Valarie Wheeler.

The District and SAMCO Capital Markets, Inc. are not responsible if such facsimile number is busy or malfunctioning which prevents a bid or bids from being submitted on a timely basis. **Bidders who fax bids do so at their own risk. All such bids shall be binding on the bidder. The District and SAMCO Capital Markets, Inc. will not be responsible for submitting**

any bids received after the above deadlines. The District and SAMCO Capital Markets, Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of bids if the facsimile bid option is exercised.

THE BONDS

Description of Bonds . . . The Bonds will be dated _____ 1, 2011, and interest on the Bonds will be payable on September 1, 2011, and semiannually thereafter on each March 1 and September 1 (each an "Interest Payment Date") until maturity or earlier redemption. The Bonds will be registered to the Initial Purchaser as one Bond for each maturity, in fully registered form. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described in the PRELIMINARY OFFICIAL STATEMENT. No physical delivery of the Bonds will be made to the owners thereof. The initial paying agent/registrar (the "Paying Agent/Registrar") is _____ Bank, _____, Texas. Payment of the principal and semiannual interest shall be handled at the offices of the Paying Agent/Registrar in _____, Texas. Principal and semi-annual interest will be paid to DTC on each applicable payment date. DTC will be responsible for distributing the amounts so paid to the beneficial owners of the Bonds. Interest on the Bonds will be payable by check or draft, dated as of the Interest Payment Date, and mailed on or before each Interest Payment Date by the Paying Agent/Registrar to each registered owner of record as of the Record Date (as defined herein). The Bonds mature serially on September 1 in the years and amounts shown below.

| <u>Principal Amount Maturing</u> | <u>Principal Year of Maturity</u> | <u>Amount Maturity</u> | <u>Year of Maturity</u> |
|--|---|----------------------------|-----------------------------|
| \$ 145,000 | 2011 | \$190,000 | 2020 (i)(ii) |
| 120,000 | 2012 | 200,000 | 2021 (i)(ii) |
| 125,000 | 2013 | 210,000 | 2022 (i)(ii) |
| 135,000 | 2014 | 225,000 | 2023 (i)(ii) |
| 140,000 | 2015 | 240,000 | 2024 (i)(ii) |
| 150,000 | 2016 | 255,000 | 2025 (i)(ii) |
| 160,000 | 2017 | 270,000 | 2026 (i)(ii) |
| 170,000 | 2018 (i)(ii) | 285,000 | 2027 (i)(ii) |
| 180,000 | 2019 (i)(ii) | 300,000 | 2028 (i)(ii) |

- (i) The District reserves the right to redeem prior to maturity those Bonds maturing on September 1 in each of the years 2018 through 2028, both inclusive, in whole or from time to time in part on September 1, 2017, or any date thereafter, in integral multiples of \$5,000 at a price of par plus accrued interest from the most recent Interest Payment Date to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the particular Bonds thereof shall be selected and designated by the District, and if less than all of the Bonds within a maturity are redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by the Paying Agent/Registrar by random method as the Paying Agent/Registrar deems fair and appropriate.
- (ii) Of such principal maturities set forth above, the bidder has the option to create term bonds as reflected on the bid form.

Source of Payment . . . The Bonds, when issued, will constitute valid and binding obligations of the District payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax levied against taxable property located within the District, without legal limitation as to rate or amount, as described in the Preliminary Official Statement. The Bonds are further payable from and secured by a pledge of and lien on surplus revenues, if any, available to the District from the lease of the fire station after payment of any or all operation and maintenance costs relating to the fire station.

Other Terms and Covenants . . . Other terms of the Bonds and various covenants of the District contained in the Bond Order under which the Bonds are to be issued are described in the Preliminary Official Statement, to which reference is made for all purposes.

CONDITIONS OF SALE

Types of Bids and Interest Rates . . . The Bonds will be sold in one block, on an all or none basis, and no bid of less than 97% of par value plus accrued interest to the date fixed for delivery. The net effective interest rate shall not exceed 2% above the highest average interest rate reported by the Daily Bond Buyer in its weekly "20 Bond Index" during the one month period preceding the date of this Notice of Sale. Bidders must specify the rate or rates of interest the Bonds will bear, provided that each interest rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1%. Subject to the conditions below, no limitation will be imposed upon bidders as to the number of interest rates that may be used, but each rate of interest specified for the Bonds of any maturity shall not be less than the rate of interest specified for any earlier maturity and the highest interest rate bid may not exceed the lowest interest rate bid by more than 2% in rate. All Bonds maturing within a single year must bear the same rate of interest. No bids for the Bonds involving supplemental interest rates will be considered. Each bidder shall state in its bid the total and net interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid.

Basis of Award . . . For the purpose of awarding the sale of the Bonds, the total interest cost of each bid will be computed by determining, at the rate or rates specified, the total dollar value of all interest on the Bonds from the date thereof to their respective maturities and adding thereto the dollar amount of the discount bid, if any, or deducting there from the premium bid, if any. Subject to the right of the District to reject any or all bids, the Bonds will be awarded to the bidder whose bid, based on the above computation, produces the lowest interest cost to the District. In the event of mathematical discrepancies between the interest rates and the interest costs determined therefrom, as both appear on the "Official Bid Form," the bid will be determined solely from the interest rates shown on the "Official Bid Form."

Good Faith Deposit . . . Each bid must be accompanied by a bank cashier's check payable to the order of "Shady Hollow Municipal Utility District" in the amount of \$70,000, which is 2% of the par value of the Bonds. The check will be considered as a Good Faith Deposit, and the check of the successful bidder (the "Initial Purchaser") will be retained un-cashed by the District until the Bonds are delivered. Upon payment for and delivery of the Bonds, the Good Faith Deposit will be returned to the Initial Purchaser un-cashed. If the Initial Purchaser should fail or refuse to make payment for or accept delivery of the Bonds in accordance with its bid, then the check will be cashed and accepted by the District as full and complete liquidated damages. Such check may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the District prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn, which authorize its use as a Good Faith Deposit. The checks of the unsuccessful bidders will be returned immediately after bids are opened and sale of the Bonds has been awarded.

Purchase of Insurance . . . The District has made application to a bond insurance company for a guarantee insurance policy insuring timely payment of the principal and interest on the Bonds. **Purchase of insurance by the Initial Purchaser is at the bidder's option and bidder's risk, including the payment of premium for such insurance and any associated rating fees.**

Financial Advisor's Reservation of Rights . . . The District's Financial Advisor, SAMCO Capital Markets, Inc. has requested the right to bid on the Bonds, and the District has given its consent.

OFFICIAL STATEMENT

By accepting the winning bid, the District agrees to the following representations and covenants to assist the Initial Purchaser in complying with Rule 15c2-12 of the Securities and Exchange Commission ("SEC").

Final Official Statement . . . The District has prepared the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but will not prepare any other document or version for such purpose, except as described below. The District will be responsible for completing the Official Statement by inserting the interest rates bid, the purchase price bid, the ratings assigned to the Bonds (if not currently included) if applicable, the purchase of municipal bond insurance, if any, the initial public offering yields as set forth in the Official Bid Form, or otherwise supplied by the Initial Purchaser, and for preparing and inserting the final debt service schedule. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of SEC Rule 15c2-12(b)(1), except for the omission of the foregoing items. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the District represents the same to be complete as of such date, within the meaning of SEC Rule 15c2-12(e)(3). Notwithstanding the foregoing, the only representations concerning the absence of material misstatements or omissions from the Official Statement which are or will be made by the District are those described in the Official Statement under "OFFICIAL STATEMENT - Certification as to Official Statement."

Changes to Official Statement During Underwriting Period . . . If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to SEC Rule 15c2-12 (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule 15c2-12) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement, which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as, described below. See "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS – Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule 15c2-12), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional 25 days after all the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule 15c2-12.

Delivery of Official Statements . . . The District will furnish to the Initial Purchaser (and to each other participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements requested but not in excess of 50 copies. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may request prior to the 90th day after the end of the underwriting period referred to in SEC Rule 15c2-12(e)(2). The District will pay the expense of preparing up to 100 copies of the Official Statement and all copies of any supplement or amendment issued on or before the delivery date, but the Initial Purchaser must pay for all other copies of the Official Statement or any supplement or amendment thereto.

Rule G-36 Requirements . . . It is the responsibility of the Initial Purchaser to comply with the Municipal Securities Rule Making Board's Rule G-36 within the required time frame. The Initial Purchaser must send two copies of the "Official Statement" along with two complete Form G-36's to the appropriate address.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

Delivery . . . The Bonds will be tendered to the Initial Purchaser as a single typewritten, photocopied or otherwise reproduced bond for each maturity in fully registered form in the aggregate principal amount of \$3,500,000 payable to the Initial Purchaser or its representative as designated in the Official Bid Form, manually signed by the President and Secretary of the Board of Directors, or executed by the facsimile signatures of the President and Secretary of the Board of Directors, and approved by the Attorney General of the State of Texas and registered and manually signed by the Comptroller of Public Accounts of the State of Texas. Upon delivery of the Initial Bond, it shall be immediately canceled and one definitive Bond for each maturity will be registered to Cede & Co., and deposited with DTC in connection with DTC's Book-Entry-Only System. Initial delivery will be at the designated office for payment of the Paying Agent/Registrar in _____ Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that initial delivery can be made on or about _____, 2011, and it is understood and agreed that the Initial Purchaser will accept delivery and make payment for the Bonds no later than 10:00 a.m., Local time on _____, 2011 or thereafter on the date the Bonds are tendered for delivery up to and including _____, 2011. If for any reason the District is unable to make delivery on or before _____, 2011, then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend his offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend its offer within five (5) business days thereafter, then the Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

CUSIP Numbers . . . It is anticipated that CUSIP identification numbers will be printed or otherwise reproduced on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause of a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and the terms of the Official Bid Form. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the District. However, the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Initial Purchaser.

Conditions to Delivery . . . The obligation of the Initial Purchaser to take up and pay for the Bonds is subject to the Initial Purchaser's receipt of the legal opinion of the Attorney General of Texas and the legal opinion of Winstead PC., Austin, Texas, Bond Counsel for the District ("Bond Counsel"), the no-litigation certificate, as described below, and the non-occurrence of the events described below under "No Material Adverse Change." In addition, if the District fails to comply with its obligations under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the

Bonds by delivering written notice to the District within five (5) days thereafter.

Legal Opinions . . . The District will furnish the Initial Purchaser a transcript of certain proceedings held incident to the authorization and issuance of the Bonds, including a certified copy or original of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District. The District also will furnish the legal opinion of Winstead PC., Bond Counsel, to the effect that, based upon an examination of such transcript, (1) the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, (2) the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against taxable property within the District and (3) pursuant to the Internal Revenue Code of 1986, (the "Code") then in effect and existing law and assuming continuing compliance by the District with the provisions of the Bond Order, the interest on the Bonds will be excludable from gross income, and will not be subject to the alternative minimum tax on individuals for federal income tax purposes. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. Neither the opinion of the Attorney General nor the opinion of Bond Counsel will express any opinion or make any comment with respect to the sufficiency of the security for or the marketability of the Bonds.

The opinion of Bond Counsel is expected to be attached to the definitive Bonds over a certification by the facsimile signature of the Secretary of the Board attesting that such reproduction is a true and correct copy of the original opinion. The failure to print such legal opinion on any Bond shall not constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds.

Certification of Issue Price . . . In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended, relating to the exemption of interest on the Bonds from the gross income of their owners, the Initial Purchaser will be required to complete, execute, and deliver to the District (on or before the date of delivery of the Bonds) a certification as to the "issue price" of the Bonds substantially in the form accompanying this "Notice of Sale" of the Bonds. To the extent that such "issue price" certificate is not adequate for inclusion the District's federal tax certificate, the undersigned agrees to execute an issue price certificate as may be required by the District's Bond Counsel. In the event the successful bidder will not re-offer the Bonds for sale or is unable to sell a substantial amount of the Bonds of any maturity by the date of delivery, such certificate may be modified in a manner approved by the District and Bond Counsel. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate by the date of delivery of the Bonds, if its bid is accepted by the District. It will be the responsibility of the Initial Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel. In no event will the District fail to deliver the Bonds as a result of the Initial Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery.

Qualified Tax-Exempt Obligations for Financial Institutions . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," which are designated by an "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the 2011 calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The District expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action, which would assure or to refrain from such action which would adversely affect the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public (or, in the case of discount bonds, the amount payable at maturity) exceeds \$10,000,000, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be "qualified tax-exempt obligations."

No Material Adverse Change . . . The obligations of the District to deliver the Bonds and of the Initial Purchaser to accept delivery of and pay for the Bonds are subject to the condition that at the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition of the District from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

No-Litigation Certificate . . . On the date of delivery of the Bonds to the Initial Purchaser, the District will deliver to the Initial Purchaser a certificate, as of the same date, to the effect that to the best of the District's knowledge no litigation of any nature is pending or, to the best of the certifying officers' knowledge or belief, threatened against the District, contesting or affecting the Bonds; restraining or enjoining the authorization, execution, or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers and directors of the District.

CONTINUING DISCLOSURE AGREEMENT

The District will agree in the Bond Order to provide certain periodic information and notices of material events in accordance with SEC Rule 15c2-12, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Initial Purchaser's (s) or its (their) agent's obligation to accept and pay for the Bonds is conditioned upon delivery to the Initial Purchaser of a certified copy of the Bond Order containing the agreement described under such heading.

GENERAL CONSIDERATIONS

Future Registration . . . In the event that the Book-Entry-Only System should be discontinued the Bonds may be transferred, registered and exchanged on the registration books of the Paying Agent/Registrar, and such registration shall be at the expense of the District though the District or Paying Agent/Registrar may require payment by an owner of the Bonds requesting a transfer or exchange of Bonds of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of any Bond. A Bond may be transferred or exchanged upon surrender to the Paying Agent/Registrar accompanied by a written instrument of transfer acceptable to the Paying Agent/Registrar duly executed by the registered owner thereof or his attorney duly authorized in writing. Upon surrender for transfer of any Bond to the Paying Agent/Registrar, the District shall execute and the Paying Agent/Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same stated maturity and of any authorized denomination, and of a like aggregate principal amount.

Record Date . . . The record date ("Record Date") for the interest payable on any Interest Payment Date means the 15th calendar day of the month next preceding such Interest Payment Date.

Record Date for Bonds to be Redeemed . . . Neither the District nor the Paying Agent/Registrar shall be required (1) to issue, transfer, or exchange any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal on interest payment date, or (2) to transfer or exchange, in whole or in part, any Bond or any portion thereof selected for redemption prior to maturity, within forty-five (45) calendar days prior to its redemption date.

Investment Risks . . . The Bonds involve certain investment considerations and all prospective bidders are urged to examine carefully the Preliminary Official Statement with respect to the investment considerations associated with the Bonds. Particular attention should be given to the information set forth therein under the caption "INVESTMENT RISKS."

Insurance . . . The District has made application to a bond insurance company for a guarantee insurance policy insuring timely payment of the principal and interest on the Bonds. **Purchase of insurance by the Initial Purchaser is at the bidder's option and bidder's risk, including the payment of premium for such insurance and any associated rating fees.**

Reservation of Rights . . . The District reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

Not an Offer to Sell . . . This Official Notice of Sale does not alone constitute an offer to sell the Bonds but is merely notice of sale of the Bonds. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form

Registration and Qualification Under Securities Laws . . . The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

By submission of a bid, the Initial Purchaser represents that its sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or qualification or, where necessary, the Initial Purchaser will register and qualify the Bonds in accordance with the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Initial Purchaser's written request and expense, in registering or qualifying the Bonds, or in obtaining exemption from registration or qualification, in any state where such action is necessary, provided that the District shall not be required to file a general or special consent to service or process in any jurisdiction.

Copies of Documents . . . Copies of the Official Notice of Sale, the Preliminary Official Statement, the Official Bid Form, Audits, and the pro forma Bond Order may be obtained at the offices of SAMCO Capital Markets, Inc. 6805 Capital of Texas Highway, Suite 350, Austin, Texas 78731, Financial Advisor to the District.

Ronald O. Stried D.V. M., President
Board of Directors
Shady Hollow Municipal Utility District

_____, 2011

OFFICIAL BID FORM

President and Board of Directors
Shady Hollow Municipal Utility District
3910 Capistrano Trail
Austin, Texas 78739

Directors:

We have read in detail the Official Notice of Sale and Preliminary Official Statement of Shady Hollow Municipal Utility District (the "District") relating to its \$3,500,000 Unlimited Tax Bonds, Series 2011 (the "Bonds"), which by reference are made a part hereof. We recognize the special investment considerations involved in these securities, and have made such inspections and investigations as we deem necessary in order to evaluate the investment quality of the Bonds. Accordingly, we offer to purchase the District's legally issued Bonds, upon the terms and conditions set forth in the Bond Order, the Official Notice of Sale and the Preliminary Official Statement, for a cash price of \$_____ (which represents _____% of par value) plus accrued interest to the date of delivery of the Bonds to us, provided such Bonds mature September 1 and bear interest in each year at the following rates:

| <u>Maturity (September 1)</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Mandatory Sinking Fund Installment</u> | <u>Maturity (September 1)</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Mandatory Sinking Fund Installment</u> |
|-----------------------------------|---------------|--------------------------|---|-----------------------------------|---------------|--------------------------|---|
| 2011 | \$ 145,000 | _____ | _____ | 2020 (i)(ii) | \$190,000 | _____ | _____ |
| 2012 | 120,000 | _____ | _____ | 2021 (i)(ii) | 200,000 | _____ | _____ |
| 2013 | 125,000 | _____ | _____ | 2022 (i)(ii) | 210,000 | _____ | _____ |
| 2014 | 135,000 | _____ | _____ | 2023 (i)(ii) | 225,000 | _____ | _____ |
| 2015 | 140,000 | _____ | _____ | 2024 (i)(ii) | 240,000 | _____ | _____ |
| 2016 | 150,000 | _____ | _____ | 2025 (i)(ii) | 255,000 | _____ | _____ |
| 2017 | 160,000 | _____ | _____ | 2026 (i)(ii) | 270,000 | _____ | _____ |
| 2018 (i)(ii) | 170,000 | _____ | _____ | 2027 (i)(ii) | 285,000 | _____ | _____ |
| 2019 (i)(ii) | 180,000 | _____ | _____ | 2028 (i)(ii) | 300,000 | _____ | _____ |

- (i) The District reserves the right to redeem, prior to maturity, those Bonds maturing September 1, 2018 through 2028, both inclusive, in whole or from time to time in part on September 1, 2017 and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.
- (ii) Of such principal maturities set forth above, we have created term bonds as indicated in the following table (which may include multiple term bonds, one term bond, or no term bonds if none is indicated). For those years, which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years. The term bonds created are as follows.

| <u>Term Bonds Maturity Date (September 1)</u> | <u>Year of First Maturity Redemption</u> | <u>Principal Amount of Term Bonds</u> | <u>Interest Rate</u> |
|---|--|---|--------------------------|
| _____ | _____ | _____ | _____ % |
| _____ | _____ | _____ | _____ % |
| _____ | _____ | _____ | _____ % |
| _____ | _____ | _____ | _____ % |
| _____ | _____ | _____ | _____ % |
| _____ | _____ | _____ | _____ % |

Our calculation (which is not a part of this bid) of the interest cost from the above bid is:

| | |
|-----------------------------------|----------|
| Total Interest Cost | \$ _____ |
| Plus: Cash Discount | \$ _____ |
| Net Interest Cost | \$ _____ |
| Net Effective Interest Rate | _____ % |

The initial bond shall be registered in the name of _____ (syndicate manager). We will advise the office for payment of _____, in _____, _____ the Paying Agent/Registrar, on forms to be provided by the Paying Agent/Registrar, of our registration instructions at least five (5) business days prior to the date set for initial delivery of Bonds on the closing date. We will not ask the Paying Agent/Registrar to accept any registration instructions after the five (5) day period for delivery of Bonds on the closing date.

We are having all maturities of the Bonds insured by _____, at a premium of \$ _____, said premium to be paid by the Initial Purchaser. Any fees to be paid to the rating agencies as a result of such insurance will be paid by the Initial Purchaser.

Cashier's Check No. _____, issued by _____ Bank, _____, Texas and payable to your order in the amount of \$70,000 (is attached hereto) (has been made available to you prior to the opening of this bid) as the Good Faith Deposit for disposition in accordance with the terms and conditions set forth in the Official Notice of Sale. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions of such Official Notice of Sale, such check shall be cashed and the proceeds retained as complete liquidated damages against us. We hereby represent that sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or qualification and that, where necessary, we will register or qualify the Bonds in accordance with the securities laws of the states in which the Bonds are offered or sold.

The undersigned agrees to complete, execute, and deliver to the District, at least six (6) business days prior to the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District. To the extent that such "issue price" certificate is not adequate for inclusion in the District's federal tax certificate, the undersigned agrees to execute an issue price certificate as may be required by the District's Bond Counsel. The undersigned further agrees to provide in writing the initial reoffering prices and other terms, if any, to SAMCO Capital Markets, Inc. by the close of the next business day after the award.

(Syndicate members, if any)

Respectfully submitted,

By: _____

Authorized Representative

Phone Number: _____

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby accepted by Shady Hollow Municipal Utility District this _____ day
of _____, 2011.

ATTEST:

Secretary, Board of Directors

President, Board of Directors

ISSUE PRICE CERTIFICATE

The undersigned hereby certifies with respect to the bid and purchase of the \$3,500,000 Shady Hollow Municipal Utility District, Unlimited Tax Bonds, Series 2011 (the "Bonds"):

1. The undersigned is duly authorized representative of the purchaser (the "Purchaser") of the Bonds from Shady Hollow Municipal Utility District (the "Issuer").
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Purchaser or members of the selling group or persons that are related to or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

| <u>Maturity</u> | <u>Principal Amount at Maturity</u> | <u>Price/ Yield</u> | <u>Maturity</u> | <u>Principal Amount at Maturity</u> | <u>Price/ Yield</u> |
|-----------------|---|-------------------------|-----------------|---|-------------------------|
| 2011 | \$ _____ | _____ | 2020 | \$ _____ | _____ |
| 2012 | _____ | _____ | 2021 | _____ | _____ |
| 2013 | _____ | _____ | 2022 | _____ | _____ |
| 2014 | _____ | _____ | 2023 | _____ | _____ |
| 2015 | _____ | _____ | 2024 | _____ | _____ |
| 2016 | _____ | _____ | 2025 | _____ | _____ |
| 2017 | _____ | _____ | 2026 | _____ | _____ |
| 2018 | _____ | _____ | 2027 | _____ | _____ |
| 2019 | _____ | _____ | 2028 | _____ | _____ |

5. In the case of the Retained Maturities, the Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

| <u>Principal Maturity</u> | <u>Amount at Maturity</u> | <u>Price/ Yield</u> | <u>Principal Maturity</u> | <u>Amount at Maturity</u> | <u>Price/ Yield</u> |
|-------------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------------|-------------------------|
| 2011 | \$ _____ | _____ | 2020 | \$ _____ | _____ |
| 2012 | _____ | _____ | 2021 | _____ | _____ |
| 2013 | _____ | _____ | 2022 | _____ | _____ |
| 2014 | _____ | _____ | 2023 | _____ | _____ |
| 2015 | _____ | _____ | 2024 | _____ | _____ |
| 2016 | _____ | _____ | 2025 | _____ | _____ |
| 2017 | _____ | _____ | 2026 | _____ | _____ |
| 2018 | _____ | _____ | 2027 | _____ | _____ |
| 2019 | _____ | _____ | 2028 | _____ | _____ |

6. Please choose the appropriate statement:

() The Purchaser will purchase bond insurance from _____ (the "Insurer") for a fee/premium of \$ _____ (the "Fee"). The Fee is a reasonable amount payable solely for the Transfer of credit risk for the payment of debt service on the Bonds and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Bonds to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Bonds. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceed of the Bonds. In determining present value for this purpose, the yield of the Bonds (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any Bonds in an amount which would exceed the portion of such Fee that has not been earned.

7. The Purchaser understands that the statements made herein will be relied upon, by the Issuer in its efforts to comply with the conditions imposed by the Internal Revenue Code of 1986, and by Bond Counsel in rendering their opinion that the interest on the Bonds is excludable from the gross income of the owners thereof.

EXECUTED AND DELIVERED this _____ day of _____, 2011.

(Name of Purchaser)

By: _____

Title: _____

NEW ISSUE BOOK-ENTRY-ONLY

See "MUNICIPAL BOND RATINGS AND INSURANCE"

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS - Opinion" herein, including the alternative minimum tax on corporations. The District will designate the Bonds as Qualified Tax-Exempt Obligations for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations".

\$3,500,000

SHADY HOLLOW MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
UNLIMITED TAX BONDS, SERIES 2011

Dated: _____, 1, 2011

Due: September 1, as shown below

Interest on the herein described bonds (the "Bonds") will accrue from _____, 1, 2011 and is payable on _____, 2011 and on each March 1 and September 1 (each an "Interest Payment Date"), thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar for the Bonds is _____, Texas (the "Paying Agent/Registrar"). The Bonds are obligations solely of the Shady Hollow Municipal Utility District, formerly known as Southwest Travis County Municipal Utility District No. 1, (the "District") and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District. The proceeds of the Bonds will be used by the District to finance the construction of a fire station for the District (the "Project").

MATURITIES

(Due September 1)

CUSIP Prefix: [_____] ^(c)

| Principal Amount | Interest Rate (a) | Due | Initial Reoffering Yield (b) | CUSIP Suffix | Principal Amount | Interest Rate (a) | Due | Initial Reoffering Yield (b) | CUSIP Suffix |
|---------------------|----------------------|-------|------------------------------------|-----------------|---------------------|----------------------|-------|------------------------------------|-----------------|
| \$ 145,000 | _____ | 2011 | _____ | _____ | \$ 190,000 | _____ | 2020* | _____ | _____ |
| 120,000 | _____ | 2012 | _____ | _____ | 200,000 | _____ | 2021* | _____ | _____ |
| 125,000 | _____ | 2013 | _____ | _____ | 210,000 | _____ | 2022* | _____ | _____ |
| 135,000 | _____ | 2014 | _____ | _____ | 225,000 | _____ | 2023* | _____ | _____ |
| 140,000 | _____ | 2015 | _____ | _____ | 240,000 | _____ | 2024* | _____ | _____ |
| 150,000 | _____ | 2016 | _____ | _____ | 255,000 | _____ | 2025* | _____ | _____ |
| 160,000 | _____ | 2017 | _____ | _____ | 270,000 | _____ | 2026* | _____ | _____ |
| 170,000 | _____ | 2018* | _____ | _____ | 285,000 | _____ | 2027* | _____ | _____ |
| 180,000 | _____ | 2019* | _____ | _____ | 300,000 | _____ | 2028* | _____ | _____ |

* Optional Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing September 1, 2018 through 2028, both inclusive, in whole or from time to time in part, on September 1, 2017, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2018 through September 1, 2028 may be subject to mandatory sinking fund redemption. See "THE BONDS - Redemption Provisions".

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of _____% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of _____%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from _____, 1, 2011 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.
- (c) "CUSIP" is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. The CUSIP numbers listed on this cover page are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds, and the Authority makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the services provided by CUSIP Global Services. The Underwriters and the Authority are not responsible for the selection or correctness of the CUSIP numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation to rate or amount, levied against taxable property within the District (as defined in the Bond Order). The Bonds are further payable from and secured by a pledge of and lien on surplus revenues, if any, available to the District from the lease of the fire station after payment of any or all operation and maintenance costs relating to the fire station. See "THE BONDS - Source of Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are

encouraged to read this entire Official Statement prior to making an investment decision, including particularly the section titled "INVESTMENT RISKS. The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by and the approving opinion of the Attorney General of Texas and the opinion of Winstead PC, Austin, Texas, Bond Counsel, and certain legal matters will be passed upon for the District by Johnson Radcliffe Petrov & Bobbitt, PLLC, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on or about _____, 2011, in Austin, Texas.

**Selling: _____, 2011 at Noon, local time
at 600 Congress Ave., Suite 2100, Austin Texas 78701**

TABLE OF CONTENTS

| | | | |
|--|----|---|----|
| USE OF INFORMATION IN OFFICIAL STATEMENT..... | 3 | General | 28 |
| SALE AND DISTRIBUTION OF THE BONDS..... | 3 | Water System | 28 |
| Award of the Bonds | 3 | Wastewater System | 28 |
| Prices and Marketability | 3 | Drainage System | 28 |
| Securities Laws..... | 4 | Out of District Service..... | 28 |
| MUNICIPAL BOND RATINGS AND INSURANCE..... | 4 | 100-year Flood Plain | 29 |
| OFFICIAL STATEMENT SUMMARY..... | 5 | Future Debt..... | 29 |
| THE DISTRICT | 5 | Water and Wastewater Operations..... | 29 |
| THE BONDS..... | 6 | Water and Wastewater Operating Statement..... | 30 |
| INVESTMENT CONSIDERATIONS..... | 7 | PROJECTED DEBT SERVICE REQUIREMENTS | 31 |
| SELECTED FINANCIAL INFORMATION..... | 8 | FINANCIAL STATEMENT..... | 32 |
| INTRODUCTION | 9 | Assessed Value..... | 32 |
| THE BONDS..... | 9 | Unlimited Tax Bonds Authorized but Unissued | 32 |
| General Description..... | 9 | Outstanding Bonds..... | 32 |
| Redemption Provisions..... | 10 | Cash and Investment Balances..... | 33 |
| Termination of Book-Entry-Only System | 10 | Investment Authority and Investment Practices | |
| Source of Payment | 11 | of the District..... | 33 |
| Perfection of Security Interest in Pledged Revenues | 12 | Current Investments | 33 |
| Payment Record | 12 | Estimated Overlapping Debt Statement | 34 |
| Funds | 12 | Overlapping Taxes | 34 |
| Authority for Issuance..... | 12 | TAX DATA..... | 35 |
| Registration and Transfer | 13 | Classification of Assessed Valuation | 35 |
| Replacement of Paying Agent/Registrar | 13 | Tax Collections..... | 35 |
| Lost, Stolen or Destroyed Bonds | 14 | District Tax Rates..... | 35 |
| Issuance of Additional Debt | 13 | Tax Rate Limitation..... | 35 |
| Consolidation | 14 | Maintenance Tax..... | 35 |
| Remedies in Event of Default..... | 14 | Principal Taxpayers..... | 36 |
| Legal Investment and Eligibility to Secure | | Tax Adequacy for Debt Service..... | 36 |
| Public Funds in Texas | 15 | TAXING PROCEDURES | 36 |
| Defeasance | 15 | Authority to Levy Taxes..... | 36 |
| Specific Tax Covenants..... | 16 | Property Tax Code and County-Wide Appraisal District..... | 37 |
| Additional Covenants..... | 16 | Property Subject to Taxation by the District | 37 |
| Amendment to the Bond Order..... | 16 | Valuation of Property for Taxation..... | 38 |
| Alteration of Boundaries | 16 | District and Taxpayer Remedies..... | 38 |
| Approval of Bonds..... | 16 | Levy and Collection of Taxes..... | 38 |
| BOOK-ENTRY-ONLY SYSTEM..... | 16 | Districts' Rights in the Event of Tax Delinquencies..... | 39 |
| EXTRATERRITORIAL JURISDICTION AND ANNEXATION | 18 | MUNICIPAL BOND RATINGS AND INSURANCE..... | 39 |
| USE AND DISTRIBUTION OF BOND PROCEEDS | 19 | LEGAL MATTERS..... | 39 |
| INVESTMENT CONSIDERATIONS..... | 20 | Legal Proceedings | 39 |
| General | 20 | No Material Adverse Change..... | 40 |
| Factors Affecting Taxable Values and Tax Payments | 20 | No-Litigation Certificate | 40 |
| Tax Collections and Foreclosure Remedies | 20 | TAX MATTERS | 40 |
| Owners' Remedies..... | 20 | Legal Opinion | 40 |
| Bankruptcy Limitation to Owners' Rights | 21 | Original Issue Discount | 41 |
| The Effect of Financial Institutions Act of 1989 | | Original Issue Premium | 42 |
| on Tax Collections of the District | 21 | Qualified Tax-Exempt Obligations For Financial Institutions | 42 |
| Marketability..... | 22 | CONTINUING DISCLOSURE OF INFORMATION | 43 |
| Continuing Compliance with Certain Covenants..... | 22 | Annual Reports | 43 |
| Future Debt..... | 22 | Event Notices..... | 43 |
| Approval of Bonds..... | 22 | Availability of Information from MSRB and SID | 44 |
| DISTRICT MAP | 23 | Limitations and Amendments..... | 44 |
| THE DISTRICT | 24 | Compliance with Prior Undertakings | 44 |
| General | 24 | FINANCIAL ADVISOR | 44 |
| Location..... | 24 | OTHER INFORMATION | 45 |
| Management of the District | 24 | Registration and Qualification of Bonds for Sale..... | 45 |
| Historical and Current Status of Development..... | 25 | Authenticity of Financial Information..... | 45 |
| Future Development..... | 25 | Forward Looking Statements..... | 45 |
| Annexation of the District | 25 | OFFICIAL STATEMENT | 45 |
| THE DISTRICT'S FIRE PROTECTION PLAN | 26 | Preparation..... | 45 |
| Authority of Municipal Utility Districts to | | Experts..... | 46 |
| Provide Fire-Fighting Services | 26 | Updating the Official Statement During | |
| The District's Fire Protection Plan | 26 | Underwriting Period..... | 46 |
| Implementation of the District's Fire Protection Plan..... | 26 | Certification as to Official Statement | 46 |
| Lease of the Project | 27 | Official Statement "Deemed Final"..... | 47 |
| THE SYSTEM | 28 | PHOTOGRAPHS- | |
| | | APPENDIX A - District - Audited Financial Statements | |

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Initial Purchaser.

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from SAMCO Capital Markets, Inc. for further information.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this "Official Statement" nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof. However, the District has agreed to keep this "Official Statement" current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the "Official Statement" until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of _____ (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 1 of this Official Statement at a price of _____% of par plus accrued interest to date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Initial Purchaser may over - allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other "jurisdiction". The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATINGS AND INSURANCE

The District has made application to Standard & Poor's Rating Service, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating in connection with the Bonds. The District has also made application to a bond insurance company for a guaranty insurance policy insuring the timely payment of the principal of and interest on the Bonds. **The premium for such insurance and any associated rating fees will be paid by the Initial Purchaser. The purchase of insurance by the initial purchaser is at bidders option and bidders risk.**

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT

- The Issuer Shady Hollow Municipal Utility District (the "District"), is a political subdivision of the State of Texas, as authorized by Article XVI, Section 59 of the Texas Constitution. The District was originally created as Southwest Travis County Municipal Utility District No. 1 by Order of the Texas Water Commission, a predecessor agency of the Texas Commission on Environmental Quality ("TCEQ"), on December 15, 1980. The District was confirmed at an election on January 17, 1981. On October 20, 1995, the TCEQ approved the change of the name of the District to Shady Hollow Municipal Utility District. See "THE DISTRICT – General."
- Location..... The District, which encompasses approximately 451 acres of land, is located in southwest Travis County. The District is approximately ten miles southwest of downtown Austin and is located on both sides of Brodie Lane near its southern end and the intersection with Farm to Market Road 1626. The District lies within the extraterritorial jurisdiction of the City of Austin, Texas, and wholly within the boundaries of the Austin Independent School District. See "THE DISTRICT."
- Developers/Landowners..... The District is completely built out.
- Development within
The District..... Of the approximately 451 acres within the District, approximately 377 acres are developed. Approximately 377 acres is developable acreage in the District and is 100% developed with completed single-family homes. The District provides service to approximately 356 homes outside the District's boundaries. In addition to the single-family development, the development includes a Community Center, District Office, Jr. Olympic pool, four tennis courts and approximately 16.61 acres of parks and greenbelt.

THE BONDS

| | |
|--|--|
| Description | The Bonds in the aggregate principal amount of \$3,500,000 maturing annually in varying amounts on September 1 of each year from 2011 through 2028. Interest accrues from _____ 1, 2011 at the rates per annum set forth on the cover page hereof and is payable on _____ 1, 2011 and on each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS – General Description." |
| Redemption | Bonds maturing in the years 2018 through 2028, inclusive, are subject to redemption, in whole or from time to time in part, at the option of the District on September 1, 2017, and on any interest payment date thereafter at par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Redemption Provisions". |
| Source of Payment | Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. The Bonds are further payable from and secured by a pledge of and lien on surplus revenues, if any, available to the District from the lease of the fire station after payment of any or all operation and maintenance cost relating to the fire station. The Bonds are obligations solely of the Shady Hollow Municipal Utility District and are not obligations of the State of Texas; Travis County, Texas; the City of Austin, Texas or any other political subdivision or entity other than the District. See "THE BONDS - Source of Payment." |
| Payment Record | This is the District's fourth issuance of Bonds, but the first issuance for the new voted authorization of \$3,500,000 for a fire station. The District has never defaulted on the payment of any bond obligation and it currently has no debt outstanding. See "FINANCIAL STATEMENT – Outstanding Bonds". |
| Authority for Issuance | The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, an order of the TCEQ, and pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District. In addition, as required by the consent agreement entered in by the District and the City of Austin, Texas (the "City"), the City has approved the issuance of the Bonds. See "THE BONDS - Authority for Issuance." |
| Use of Proceeds | The proceeds of the Bonds will be used for (i) land acquisition and for the construction of a fire station and (ii) to finance certain engineering and legal costs. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS." |
| Bonds Authorized But Unissued | On April 4, 1981, the voters of the District authorized the issuance of \$7,310,000 in bonds for water, wastewater and drainage. In 1984 (\$1,300,000) and 1986 (\$3,200,000) the District issued bonds for such purposes. In 1991 the District issued refunding bonds to refund certain maturities of the bonds issued in 1984. The bonds issued in 1984, 1986, and 1991 have been paid in full. There remains \$2,810,000 in bonds authorized but unissued for water, wastewater and drainage purposes which the District currently does not plan on issuing. On May 7, 2005, the voters of the District authorized the issuance of \$3,500,000 in bonds for the purpose or purposes of purchasing land and the construction of a fire station. After the sale of the Bonds, no bonds will remain authorized for the purpose of constructing a fire station. |

Municipal Bond Ratings

and Insurance..... In connection with the sale of the Bonds, the District has made application to Standard & Poor's Rating Service, a Standard & Poor's Financial Services LLC business, for a municipal bond rating. The District has also made application to a guaranty insurance company insuring the timely payment of the principal of and interest on the Bonds. **The premium for such insurance and any associated rating fees will be paid by the Initial Purchaser. The purchase of insurance by initial purchaser is at the option of the bidder and at the bidder's risk.**

Qualified Tax-Exempt

Obligations The District is expected to designate the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2011 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations".

General Counsel McGinnis, Lochridge & Kilgore L.L.P., Austin, Texas

Bond Counsel Winstead PC, Austin, Texas.

Disclosure Counsel..... Johnson Radcliffe Petrov & Bobbitt PLLC, Houston, Texas

Financial Advisor SAMCO Capital Markets, Inc., Austin, Texas.

District Engineer Schroeder Engineering Company, Austin, Texas

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations, and all prospective purchasers are urged to examine carefully this Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds and other factors described therein.

SELECTED FINANCIAL INFORMATION

(Unaudited as of _____, 2011)

| | | |
|---|-------------------|-----|
| 2010 Assessed Valuation as of January 1, 2010 (100% of estimated market value)..... | \$252,376,285 | (a) |
| Gross Debt Outstanding (after issuance of the Bonds)..... | \$ 3,500,000 | (c) |
| Ratio of Gross Debt to 2010 Assessed Valuation as of January 1, 2010..... | 1.39% | |
| 2010 Tax Rate | | |
| Debt Service..... | \$0.00 | |
| Maintenance & Operation | \$0.05 | |
| Total | \$0.05 | |
| Debt Service Fund Balance (As of December 30, 2010)..... | \$1,010,570 | (c) |
| Average percentage of current tax collections - Tax Years 2005/2010..... | 97.91% | |
| Average percentage of total tax collections - Tax Years 2005/010..... | 99.35% | |
| Projected Average Annual Debt Service Requirement (2012/2028) of the Bonds and the Outstanding Bonds ("Projected Average Requirement") | \$320,159 | |
| Tax rate required to pay Projected Average Requirement based upon 2010 Assessed Valuation at 95% collections as of January 1, 2010 | \$0.14/\$100 A.V. | |
| Projected Maximum Annual Debt Service Requirement (2014) of the Bonds and the Outstanding Bonds ("Projected Maximum Requirement") | \$321,600 | |
| Tax rate required to pay Projected Maximum Requirement based upon 2010 Assessed Valuation at 95% collections as of January 1, 2010 | \$0.14/\$100 A.V. | |
| Number of active single-family connections served by the District as of January 2011 | 1,410 | (d) |
| Estimated population as of January 2011 | 4,935 | (e) |

(a) Certified Taxable Assessed Value within the District on January 1, 2010 as provided by the Travis County Appraisal District ("TCAD") . See "TAXING PROCEDURES."

(b) Includes the Bonds. See "FINANCIAL STATEMENT – Outstanding Bonds."

(c) As of December 30, 2010. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

(d) Includes approximately 356 connections outside the District's boundaries that are provided service by the District.

(e) Based on 3.5 residents per completed single-family connections.

OFFICIAL STATEMENT

relating to

\$3,500,000

SHADY HOLLOW MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
Unlimited Tax Bonds, Series 2011

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Shady Hollow Municipal Utility District, formerly known as Southwest Travis County Municipal Utility District No. 1, (the "District") of its \$3,500,000 Unlimited Tax Bonds, Series 2011 (the "Bonds").

The District intends to establish, operate, and maintain a fire department to perform all fire-fighting and emergency medical services (as described in Section 49.351(k) of the Texas Water Code, as amended) within the District, and to issue the Bonds to finance the construction of a new fire station for the District (the "Project"). The District will finance the Project, and as permitted by Section 49.351 of the Texas Water Code, as amended, will provide enhanced fire-fighting and emergency medical services to its residents by entering into the "Contract for Fire-Fighting Services and Lease Agreement for Fire Station" dated as May 15, 2008 (the "Lease") with the Travis County Emergency Services District No. 5 (the "ESD"). Pursuant to the Lease, the ESD has agreed to provide enhanced fire-fighting and emergency medical services to District residents, and the District has agreed to construct the Project and Lease it to the ESD. The ESD has entered into a contract with the Manchaca Volunteer Fire Department (the "MVFD"), pursuant to which the MVFD will provide the trained personnel and equipment to the ESD needed to provide the fire-fighting and emergency medical services to District residents. SEE "THE DISTRICT'S FIRE PROTECTION PLAN" herein.

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, and pursuant an approving order of the Texas Commission on Environmental Quality (the "TCEQ"). In addition, as required by the consent agreement entered in by the District and the City of Austin, Texas (the "City"), the City has approved the issuance of the Bonds.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District at McGinnis, Lochridge & Kilgore L.L.P., 600 Congress Avenue, Suite 2100, Austin, Texas 78701 or during the offering period from the District's Financial Advisor, SAMCO Capital Markets, Inc., Attn: Christina M. Lane, 6805 Capital of Texas Highway, Suite 350, Austin, Texas 78731 upon payment of reasonable copying, mailing and handling charges.

THE BONDS

General Description

The \$3,500,000 Shady Hollow Municipal Utility District Unlimited Tax Bonds, Series 2011 will bear interest from _____ 1, 2011 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on _____ 1, 2011 and on each March 1 and September 1 (each an "Interest Payment Date") thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in the denomination of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So

long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar/registrars for the Bonds is _____ Bank, _____, Texas ("Paying Agent/Registrar").

Redemption Provisions

Optional Redemption...The Bonds maturing on and after September 1, 2018, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2017, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption...In addition to being subject to optional redemption, as provided above, the Bonds maturing September 1, _____ and September 1, _____ (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Interest and Sinking Fund:

Bonds Maturing September 1,
Mandatory Principal
Redemption Date Amount

Bonds Maturing September 1,
Mandatory Principal
Redemption Date Amount

At least 30 days prior to the mandatory redemption date for the Term Bonds, the Paying Agent/Registrar will select at random the Term Bonds to be redeemed. Any Term Bonds not selected for prior redemption will be paid on the date of final maturity. To the extent, however, that the Term Bonds of a maturity which at least 45 days prior to a mandatory redemption date (i) have been previously purchased by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) called for optional redemption in part and other than from a sinking fund redemption payment, the annual sinking fund payments therefore will be reduced by the amount obtained by multiplying the principal amount of the Term Bonds of such maturity so purchased or redeemed by the ratio which each remaining annual sinking fund redemption payment therefore bears to the total sinking fund payments for such maturity, and by rounding each such payment to the nearest \$5,000 integral.

Notice of Redemption... The Paying Agent/Registrar will give written notice of redemption, by first class mail, overnight delivery, or other comparably secure means, not less than thirty (30) days prior to the redemption date, to the Owner of each Bond to be redeemed in whole or in part at the address shown on the registrar, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to the Owner as hereinabove stated. The Paying Agent/Registrar may provide written notice of redemption to DTC by facsimile.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed will be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent/Registrar is required to select the Bonds of such maturity to be redeemed by such random method as Paying Agent/Registrar shall deem fair and appropriate.

Termination of Book-Entry-Only System

The Bonds are subject to the book-entry-only system administered by DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the book-entry-only system is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

Payment ...Principal of the Bonds will be payable at maturity to the Owners as shown by the registration books maintained by the Paying Agent/Registrar upon presentation and surrender of the Bonds to the Paying Agent/Registrar at the designated office for payment of the Paying Agent/Registrar in _____, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent/Registrar by United States mail, first class, postage prepaid, to the Owners at their respective addresses shown on such records, or by such other method acceptable to the Owner and the Paying Agent/Registrar at the risk and expense of such Owner. Notwithstanding the foregoing paying procedures, upon written request to the District and the Paying Agent/Registrar, the Owner of at least

\$1,000,000 in principal amount may receive all payments of principal and interest hereon by wire transfer on each payment date. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding business day, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration... If the book-entry-only system is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of same maturity and interest and having a like aggregate principal amount or maturity amount, as the case may be, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the Owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent/Registrar. Transfer and exchange for Bonds will be without expense or service charged to the Owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent/Registrar to the Owner, at the Designated Payment/Transfer Office of the Paying Agent/Registrar or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in the denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds... Neither the District nor the Paying Agent/Registrar shall be required to make any transfer, conversion or exchange to an assignee of the Owner of the Bonds (i) during the period commencing on the close of business on the 15th calendar day of the month preceding each Interest Payment Date (the "Record Date") and ending with the opening of business on the next following principal or Interest Payment Date, or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Owner of the uncalled balance of a Bond.

Replacement Bonds... If a Bond is mutilated, the Paying Agent/Registrar will provide a replacement Bond in exchange for the mutilated Bond. If a Bond is lost, stolen, or destroyed the Paying Agent/Registrar will provide a replacement Bond upon (i) the filing by the Owner with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of the Bond and the authenticity of the Owner's ownership, and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the District and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the Owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

Source of Payment

During each year while any of the principal of or interest on or maturing amounts of the Bonds are outstanding and unpaid, the Board will determine the rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the Bonds and the principal on the Bonds as such principal matures, taking into consideration whether the Board reasonably expects to have Surplus Revenues or revenue or receipts from other sources which are legally available for payment of principal of and interest on the Bonds. The tax levied will be based on the latest approved tax rolls of the District, with full allowances being made for tax delinquencies and the cost of collection. Ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due and such principal matures, must be deposited into the Interest and Sinking Fund, and are pledged irrevocably for such payment.

In addition, Surplus Revenues, if any, are pledged to payment of the principal of and interest on the Bonds. "Surplus Revenues" are the revenues, if any, available to the District from the lease of the Project to the ESD, after payment of any and all operation and maintenance expenses of the District relating to the Project. Surplus Revenues budgeted to pay principal of or interest on the Bonds, if any, must be deposited to the credit of the Interest and Sinking Fund one business day prior to each Interest Payment Date, and once so deposited, are pledged irrevocably for such payment.

The Bonds are obligations of the District and are not the obligations of the State of Texas; Travis County, Texas; the

ESD; the City of Austin, Texas; or any other political subdivision or any entity other than the District.

Perfection of Security Interest in Pledged Revenues

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the taxes and Surplus Revenues as security therefor, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the taxes and Surplus Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the District has agreed in the Bond Order to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Payment Record

This will be the District's first installment from a voter authorized issuance of \$3,500,000 for a fire station. The District has never defaulted on any of its payments.

Funds

Interest and Sinking Fund; Tax Levy. The Bond Order establishes the District's Interest and Sinking Fund. The Interest and Sinking Fund will be kept separate and apart from all other funds and accounts of the District and will be used only for paying the interest on and principal of the Bonds. Proceeds of the Bonds consisting of accrued interest and the net proceeds of all ad valorem taxes levied and collected for and on account of the Bonds will be deposited, as collected, to the credit of the Interest and Sinking Fund. In addition, Surplus Revenues budgeted to make payments of principal of and interest on the Bonds, must be deposited into the Interest and Sinking Fund one business day prior to the Interest Payment Date on which such payments are due. Upon the receipt by the District of the purchase price for the Bonds, the accrued interest on the Bonds will be deposited in to the Interest and Sinking Fund upon receipt. During each year while any of the principal of or interest on or maturing amounts of (as appropriate) the Bonds are outstanding and unpaid, the District will compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the Bonds as such interest becomes due and the principal on the Bonds as such principal matures, taking into consideration whether the District reasonably expects to have surplus revenues or other revenue or receipts from other sources which are legally available for payment of principal and interest; the tax will be based on the latest approved tax rolls of the District, with full allowances being made for tax delinquencies and the cost of tax collection. The ad valorem tax will be levied against all taxable property in the District, for each year while any of the Bonds are outstanding and unpaid, and the tax will be assessed and collected each year and deposited to the credit of the Interest and Sinking Fund.

Escrow Fund. The Bond Order establishes the District's Escrow Fund. The Escrow Fund is the fund into which a portion of the proceeds of the Bonds shall be placed until the TCEQ has approved the release of money from the Escrow Fund, from time to time, for deposit into the Capital Projects Fund.

Capital Projects Fund. The Bond Order establishes the District's Capital Projects Fund. The Capital Projects Fund is the fund into which a portion of the proceeds of the Bonds shall be placed on the date of delivery of the Bonds, and into which the money in the Escrow Fund will be deposited, from time to time, upon approval of the TCEQ. The Capital Projects Fund shall be used to pay the cost of the Project. Amounts remaining in the Capital Projects Fund upon completion of the Project, subject to the TCEQ's approval and that of nationally-recognized bond counsel, will be transferred to the Interest and Sinking Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds and the projects related thereto.

Authority for Issuance

By adoption of an order dated December 21, 2004 the TCEQ approved the District's fire protection plan and fire protection agreement with the Travis County Emergency Service District No. 5 (the "EDS") and the Manchaca Volunteer Fire Department (the "VFD") for firefighting services within the District (the "Operating Agreement"). On May 7, 2005 the voters of the District authorized (i) the District's fire prevention plan and (ii) the issuance of \$3,500,000 in bonds for the purchase of land and construction of a fire station (the "Project"). The District and the EDS have entered in to Fire Fighting Services and Lease Agreement dated May 15, 2008 (the "Fire Protection Agreement"), pursuant to which the District has agreed to construct the Project and the ESD has agreed to provide to the District fire fighting services in accordance with the Operating Agreement and to lease the Project

By adoption of an order dated August, 2008, as extended on October 13, 2009 and November 10, 2010 (the "TCEQ Order"), the TCEQ approved the issuance and sale of the Bonds by the District subject to certain restrictions, including restrictions on the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS".

The Bonds are issued by the District pursuant to the TCEQ Order, the terms and conditions of the Bond Order; Article XVI, Section 59 of the Constitution of the State of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

The District lies within the extraterritorial jurisdiction of the City of Austin, Texas (the "City" or "Austin") and is subject to a consent ordinance adopted by the City (the "Consent Ordinance") and an agreement concerning creation of the District (the "Consent Agreement"). Pursuant to Consent Ordinance and the Consent Agreement, the City by resolution on [____], 2011, approved the issuance of the Bonds.

Before the Bonds can be issued, the Attorney General of Texas must initially pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Registration and Transfer

So long as the Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal corporate trust office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

Each Bond will be transferable, to the extent possible and under reasonable circumstances, within three business days after request, but only upon the presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Owner or his authorized representative in the form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar will authenticate and deliver in exchange therefor, to the extent possible and under reasonable circumstances within three business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations, of the same maturity, in the appropriate principal amount, and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds will be exchangeable, to the extent possible and under reasonable circumstances, within three business days upon presentation and surrender thereof at the appropriate corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in an aggregate principal amount or maturing amounts, as appropriate, equal to the unpaid principal amount or maturing amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar will be authorized to authenticate and deliver exchange Bonds in accordance with this Order and each Bond so delivered will be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar will be required (i) to issue, transfer, or exchange any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) to transfer or exchange, in whole or in part, any Bond or any portion thereof selected for redemption prior to maturity, within 45 calendar days prior to its redemption date.

The District or the Paying Agent/Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connections with the transfer or exchange of such Bond(s). Any fee or charge of the Paying Agent/Registrar for such transfer or exchange will be paid by the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar by the District. If the Paying Agent/Registrar is replaced by the District the new Paying Agent/Registrar will act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the District must be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Lost, Stolen or Destroyed Bonds

Upon presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar will authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, will, upon receipt of certain documentation from the Owner requested by the District or the Paying Agent/Registrar and an indemnity bond, and such other security or indemnity as is satisfactory to the District and the Paying Agent/Registrar to hold them harmless, and satisfaction by the Owner of any other reasonable requirements of the District and the Paying Agent/Registrar, execute and the Paying Agent/Registrar will authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Owners of lost, stolen or destroyed Bonds will be required to pay the District's cost to replace such Bonds (including, but not limited to the fees and expenses of the Paying Agent/Registrar). In addition, the District or the Paying Agent/Registrar may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ and the City, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT - General." The District's voters have authorized the issuance of \$7,310,000 of unlimited tax bonds and could authorize additional amounts. Any additional bonds sold would be on parity with or subordinate, to the Bonds. Following the issuance of the Bonds, the District will have \$2,810,000 of unlimited tax bonds authorized but unissued.

The District may issue additional bonds payable from ad valorem taxes to establish its fire department to perform fire-fighting services within the District. The District's fire protection plan and fire protection agreement with the EDS and the VFD for firefighting services were approved by TCEQ. If the District materially alters its fire protection plan and/or its fire protection agreement, the District is required to obtain TCEQ and voter approval of such alterations. After the issuance of the Bonds, the District will have no more voted authorization for fire-fighting services purposes and, therefore, will be required to seek voter approval prior to issuing additional bonds for fire-fighting service. The issuance of any additional bonds for fire-fighting services will also require the prior approval of TCEQ and the City.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "INVESTMENT RISKS - Future Debt."

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of the district(s) with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Remedies in Event of Default

Other than a writ of mandamus and other relief authorized by law, the Bond Order does not expressly provide a specific remedy for a default. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued" or "plead and be impleaded", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Therefore, it is unclear whether Section 49.066, Texas Water Code, effectively waives government immunity of a municipal utility district for suits for money damages.

Although an Owner could presumably obtain a judgment against the District for a default in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the District. If the District defaults, an Owner could petition for a writ of mandamus issued by a court of competent jurisdiction requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a

claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principals of equity. See "INVESTMENT RISKS - Owners' Remedies, and - Bankruptcy Limitation to Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that bonds such as the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for banks, savings banks, trust companies, building and loan association, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking fund of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act (Chapter 2256, Texas Government Code) requires that the Bonds be assigned a rating of "A" or its equivalent, by a national rating agency. See "MUNICIPAL BOND RATINGS AND INSURANCE" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State of Texas, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations, or investment criteria that might apply to such institutions and entities or that might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (Paying Agent/Registrar) of the Bonds or other obligations of the District payable from revenues, or from ad valorem taxes or both, and with a commercial bank or trust company designated in the proceeding authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry form and will mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds will no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; however, the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the

Bond Order does not contractually limit such investments, Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

Specific Tax Covenants

In the Bond Order the District has covenanted with respect to among other matters, the use of the proceeds of the Bonds and the use of facilities financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exclusion from gross income of interest on the Bonds under Section 103 of the Code.

Additional Covenants

The District has additionally covenanted in the Bond Order that to the extent it has the authority to do so, it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

Amendment to Bond Order

The Bond Order contains provisions to the effect that the District may, without the consent of or notice to any Owners of the Bonds amend, change or modify the Bond Order as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change that does not in any respect materially and adversely affect the interest of the Owners of the Bonds. Except for such amendments, changes or modifications, the District may not amend, change or modify the Bond Order in any manner without the consent of 51% the Owners in aggregate principal amount of the outstanding Bonds.

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to: (1) upon satisfying certain conditions, annex additional territory; and (2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect any additional changes in its boundaries.

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Please note that these websites are included herein as active textual references only, and the information contained on (or accessed through) these websites is not incorporated herein and should not be construed as part of this Official Statement.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC

mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

EXTRATERRITORIAL JURISDICTION AND ANNEXATION

The District lies within the extraterritorial jurisdiction of the City of Austin, Texas (the "City"). Under Texas law, a city may annex a special district located within its extraterritorial jurisdiction pursuant to certain statutory provisions that allow for negotiations between the city and the special district as to the timing, terms, and conditions of the annexation. When such special district is dissolved, the city, succeeds to the powers, duties, assets, and obligations of the special district. The City and the District have entered into that certain "Agreement Concerning Creation of Southwest Travis County Municipal Utility District No. 1" dated November 7, 1980, as amended by the "First Supplement to Agreement Concerning Creation of Southwest Travis County Municipal Utility District No. 1" dated as of June 22, 1990, and by the "Second Supplement to Agreement Concerning Creation of Southwest Travis County Municipal Utility District No. 1" dated as of June 24, 2008 (collectively, the "Consent Agreement"). The Consent Agreement provides for, among other things, conditions under which the City may annex the District. The Agreement provides that the City will not annex any part of the District until the year 2000. While the Agreement provides that the City may now annex the District, Section 43.052 of the Texas Local Government Code, as amended, provides that a city may annex a special district such as the District, three years after including such annexation in its annexation plan. Annexation of all or a part of the District is not currently included in the City's annexation plan. Once annexation of all or a part of the District is included in the City's annexation plan, the District may request that the City enter into a strategic partnership agreement with the District, and if so requested, the City must enter into such an agreement. In general, a strategic partnership agreement may provide the terms under which full or limited-purpose annexation of the District will occur, and may provide for the continuation of the District for limited purposes. Upon satisfaction of these conditions to annexation, the City may, but will not be required to, annex the District. No representation is made by the District concerning the annexation of the District by the City or the City's ability to make debt service payments on the Bonds should annexation occur.

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to purchase land and the construction of a fire station associated engineering and legal fees. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds.

The presently estimated use and distribution of Bond proceeds is set forth below.

| <u>Construction Costs:</u> | <u>Amount</u> |
|---|---------------------------|
| A. Developer Contribution Items – NONE | |
| B. District Items | |
| 1. Fire Station Building | \$2,568,900 |
| 2. Contingencies (10% of Items 1) | 256,890 |
| 3. Engineering (9.9% of Items 1 & 2) | 281,193 |
| 4. Land and Acquisition Costs | <u>1,000,216</u> |
| TOTAL CONSTRUCTION COSTS: | \$4,107,199 |
| LESS PAYMENTS ALREADY MADE WITH DISTRICT GENERAL FUNDS | <u>(\$909,449)</u> |
| NET CONSTRUCTION COSTS | \$3,197,750 |
| Non-Construction Costs | |
| A. Legal Fees (2%) | \$70,000 |
| B. Fiscal Agent Fees (2%) | 70,000 |
| C. Bond Discount (3%) | 105,000 |
| D. Bond Issuance Expense | 30,000 |
| E. Bond Application Report Costs | 15,000 |
| F. Attorney General Fee (0.10%) | 3,500 |
| G. TCEQ Bond Issuance Fee (0.25%) | <u>8,750</u> |
| TOTAL NON-CONSTRUCTION COSTS: | \$302,250 |
| TOTAL BOND ISSUE REQUIREMENT | <u>\$3,500,000</u> |

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; City of Austin, Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Source of Payment.") The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by the Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Owners' Remedies" below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors and Interest Rates: The maintenance of or the potential increase in taxable valuation of the District are directly related to the vitality of the residential housing industry, and can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the caption "THE DISTRICT", the development of an aggregate of 1,054 single-family residential lots located in the District has been completed on all 1,054 of which single-family homes have been constructed, and all 1,054 of which single-family homes have been sold to home purchasers, the District cannot predict whether the taxable valuation of District property will be maintained at any particular level of valuation.

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2010 certified assessed valuation of the District is \$252,376,285 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement is estimated to be \$321,600 (2014) and the Projected Average Annual Debt Service Requirement is estimated to be \$320,159 (2011 through 2028, inclusive). Based on the 2010 certified assessed valuation and no use of funds on hand, a tax rate of \$0.14 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Projected Maximum Annual Debt Service Requirement of \$321,600 and a tax rate of \$0.14 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of \$320,159. See "PROJECTED DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Owners of the Bonds are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, Owners to enforce such remedies. The rights and remedies of the Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the Owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of

and interest on the Bonds. The enforceability of the rights and remedies of the Owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

On June 30, 2006, the Texas Supreme Court (the "Court") ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued" or "plead and be impleaded", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act applies to districts and relates to contracts entered into by districts for goods or services. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, as discussed above, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Bankruptcy Limitation to Owners' Rights

The enforceability of the rights and remedies of Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in determining the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Owners could potentially and adversely impair the value of the Owner's claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect an owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the owner's claim against a district.

The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") and the Resolution Trust Corporation ("RTC") when the FDIC/RTC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC/RTC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC/RTC shall be subject to foreclosure or sale without the consent of the FDIC/RTC and no involuntary liens shall attach to such property, (ii) the FDIC or RTC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC/RTC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC/RTC, and no liens for penalties, fines, interest, attorneys fees, costs of abstract and research fees exist against the real property for the failure of the FDIC/RTC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC/RTC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC/RTC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC/RTC in the District, and may prevent the collection of penalties and interest on such taxes.

Marketability

The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS - Tax Exemption."

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$2,810,000 authorized but unissued bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, inferior lien bonds, and other obligations described in the Bond Order. All the remaining \$2,810,000 bonds, which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

In addition, future, changes in health, environmental, or other governmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

Approval of the Bonds

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS". As required by the Consent Ordinance and the Consent Agreement, the City by resolution has approved the issuance of the Bonds. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

DISTRICT MAP

THE DISTRICT

General

The District was created as Southwest Travis County Municipal Utility District No. 1 by Order of the Texas Water Commission, a predecessor agency of the Texas Commission on Environmental Quality (the "TCEQ"), on December 15, 1980. The District was confirmed at an election on January 17, 1981. On October 20, 1995, the TCEQ approved the change of the name of the District to Shady Hollow Municipal Utility District. The District operates under Chapters 49 and 54 of the Texas Water Code as authorized by Article XVI, Section 59 of the Texas Constitution, as amended. The District is subject to the continuing supervision of the TCEQ and is located within the extraterritorial jurisdiction of the City of Austin, Texas and within the boundaries of Austin Independent School District.

The District contains approximately 451.3 acres of land within its boundaries.

The District has the statutory authority, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District contracts for waste collection and disposal services.

On May 7, 2005, the voters authorized the issuance of \$3,500,000 for the purchase of land and the construction of a fire station within the District. The District is also empowered to and does operate and maintain certain recreational facilities within the District.

Location

The District is located in Travis County, approximately ten miles southwest of the downtown Austin on both side of Brodie lane near its southern end and intersection with Farm to Market Road 1626. The District is within the extraterritorial jurisdiction of the City of Austin.

Management of the District

Board of Directors

The District is governed by a board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Saturday in May in each even numbered year. All of the directors own property in the District.

| <u>Name</u> | <u>Position</u> | <u>Length of Service</u> | <u>Term Expires May</u> |
|--------------------------|----------------------|--------------------------|-------------------------|
| Ronald O. Stried, D.V.M. | President | 21 Years | 2012 |
| Cindy Nettles | Vice President | 13 Years | 2014 |
| James G. Linville | Secretary | 1 Year | 2012 |
| Michael H. Tomme | Treasurer | 3 Years | 2012 |
| Deborah Peterson | Asst. Sec./Treasurer | 1 Year | 2014 |

Consultants

Tax Assessor/Collector

Land and improvements in the District are being appraised by the Travis County Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Ms. Nelda Wells Spears, currently serves the District in this capacity under contract.

Operator/Bookkeeper

The District contracts with Texas Utility Management Services ("TUMS") to operate as Operator and Bookkeeper for the District.

Engineer

The District's consulting engineer is Schroeder Engineering Co. (the "Engineer").

Auditor

The District's audited financial statements for the year ended September 30, 2010, were prepared by Maxwell Lock & Ritter, L.L.P. See APPENDIX A for a copy of the District's year end September 30, 2010 audited financial statements.

Financial Advisor

SAMCO Capital Markets, Inc. serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. The Financial Advisor has been authorized through a resolution of the Board to submit a bid for the purchase of the Bonds.

Bond & General Counsel

The District has engaged Winstead PC ("Winstead") Austin, Texas, as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. McGinnis, Lochridge & Kilgore L.L.P., Austin, Texas serves as the District's general counsel.

Disclosure Counsel

The District has employed Johnson Radcliffe Petrov and Bobbitt, PLLC, Houston, Texas, as disclosure counsel.

Historical and Current Status of Development

The District is completely built out. Please see the chart below.

A. Developed with Utility Facilities

| (Developable) | | Platted | Completed |
|--------------------|--------------|--------------|--------------|
| <u>Land Use</u> | <u>Acres</u> | <u>Lots</u> | <u>Homes</u> |
| Single Family | 377.00 | 1,054 | 1,054 |
| Community Center | <u>0.99</u> | <u>1</u> | <u>1</u> |
| Sub-Total | 377.99 | 1,055 | 1,055 |
| Other | | | |
| Park and Greenbelt | 16.61 | | |
| Brodie Lane R.O.W. | 6.7 | | |
| Floodplain (est.) | <u>50.0</u> | | |
| Totals: | 451.3 | 1,055 | 1,055 |

Additional development within the District consists of the following: Community Center, District Office, Junior Olympic pool, four tennis courts and approximately 16.61 acres of parks and greenbelt.

Future Development

The District contains no remaining undeveloped but developable property.

Annexation of the District

The District lies solely within the extraterritorial jurisdiction of the City of Austin, Texas. See "EXTRATERRITORIAL JURISDICTION AND ANNEXATION" for a discussion of the ability of the City of Austin to annex the District.

THE DISTRICT'S FIRE PROTECTION PLAN

Authority of Municipal Utility Districts to Provide Fire-Fighting Services

Pursuant to Section 49.351, Texas Water Code, as amended ("Section 49.351"), a municipal utility district that is providing potable water or sewer service to household users is authorized to establish, operate, and maintain a fire department to perform all fire-fighting services within the district, and may issue bonds or impose a mandatory fee, with voter approval, for financing a fire protection plan approved as required by law, including the financing of the construction and purchase of necessary buildings, facilities, land, and equipment, and the provision of an adequate water supply. Further, a district is authorized to employ or contract with a fire department to employ all necessary personnel to operate the fire department, and may contract with any other person to perform fire-fighting services within the district. "Fire-fighting services" is defined in Section 49.351 to include all of the customary and usual services of a fire department, including fire suppression, fire prevention, training, safety education, maintenance, communications, medical emergency services, photography, and administration.

Before establishing a fire department or contracting with another entity to perform fire-fighting services, a district must develop a plan for the establishment, operation, and maintenance of the proposed fire department, including financial requirements for implementation of the plan (a "fire protection plan" or "plan"). After adoption of the fire protection plan by the district's board, the plan must be submitted to the Texas Commission on Environmental Quality (the "Commission") for review and approval. If the Commission approves the plan, the plan must be submitted to the district's voters for approval. If required by the plan, the issuance of bonds, and the levy of a tax in support thereof, to finance all or a portion of the plan must also be submitted to the district's voters for approval. Once the voters approve the plan, the Commission must then approve the issuance of bonds to finance all or a portion of the plan.

The District's Fire Protection Plan

The District intends to establish, operate, and maintain a fire department to perform all fire-fighting and emergency medical services (as described in Section 49.351(k) of the Texas Water Code, as amended) within the District, and to issue its "Fire Station Combination Unlimited Tax and Revenue Bonds, Series 2008" (the "Bonds") to finance the construction of a new fire station for the District (the "Project"). As required by Section 49.351, the District developed its fire protection plan (the "Plan"), which has been approved by the Commission and by the voters within the District.

The Plan was developed to improve the response time for fire-fighting and emergency medical services within the District. The Travis County Emergency Services District No. 5, a Texas political subdivision, operating pursuant to Chapter 775, Texas Health and Safety Code, as amended (the "ESD"), currently provides fire-fighting and emergency medical services to the District, but the ESD does not currently have the facilities needed to house personnel on a 24-hour basis, as would be needed to provide enhanced response time within the District. The Plan provides that the District will acquire land located close to, but outside the boundaries of the District, on which to build the Project. The Project is expected to be constructed to house a full-time (24-hour), fully-manned staff, and to hold four fire trucks. Water supply for fire-fighting purposes is and will continue to be provided on a wholesale basis from the City's water system. The Plan provides that the District will enter into a contract with the ESD pursuant to which the ESD will lease the fire station and provide enhanced fire-fighting and emergency medical services to the District. The ESD will use its employees to provide such services, and will continue to work with the Manchaca Volunteer Fire Department (the "MVFD"), to use the MVFD's volunteers and equipment when needed to fully-man the new fire station and provide improved response time. Fire-fighting and emergency services equipment will be provided by the ESD or by the MVFD. Costs of the Plan included acquisition of the land for the Project, construction and design costs, and costs of issuing the Bonds, and were projected at \$3,500,000, the amount of the Bonds authorized for the Project. The Plan provides that lease payments to be made by the ESD to the District would be applied to offset debt service due on the Bonds.

Implementation of the District's Fire Protection Plan

The District, by process of eminent domain and with District funds on hand, has acquired the land needed for construction of the Project, and the land is close to, but outside the boundaries of the District. With Bond proceeds, the District will finance the design and construction of the Project, and as permitted by Section 49.351 of the Texas Water Code, as amended, will provide enhanced fire-fighting and emergency medical services to its residents by entering into the "Contract for Fire-Fighting Services and Lease Agreement for Fire Station" dated as May 15, 2008 (the "Lease") with the Travis County Emergency Services District No. 5, a Texas political subdivision operating pursuant to the authority of Chapter 775 of the Texas Health and Safety Code, as amended (the "ESD"). Pursuant to

the Lease, the ESD will provide the enhanced fire-fighting and emergency medical services to District residents. The ESD will use its personnel and equipment, and by virtue of the ESD's contract with the MVFD, will use MVFD volunteers and equipment, to provide such enhanced services to District residents. The Lease also provides that the City may become a co-tenant with the ESD, and may locate a certain number of fire-fighting/EMS personnel at the Project, in which case, City personnel may participate in providing fire-fighting and emergency medical services to District residents. For more information on the City's involvement in the Lease and use of the Project, see " – Lease of the Project" below.

Lease of the Project

General. Pursuant to the Lease, the ESD has agreed to provide enhanced fire-fighting and emergency medical services to District residents, and the District has agreed to construct the Project and Lease it to the ESD. The Lease Term begins on the date of substantial completion of the Project and expires 20 years thereafter unless earlier terminated pursuant to the Lease. The ESD is responsible for paying Base Rent to the District in the amount of \$4,166.66 per month (\$50,000 per year), which may be increased if both the District and ESD agree to such increase, when there are increases in the ESD's tax base. The Base Rent is subject to appropriation by the ESD. The ESD is also responsible for all utility expenses; insurance for personal property, furnishings, and equipment; costs of improvements made by the ESD; and maintenance of the non-structural aspects of the fire station. The source of funds available to the ESD for paying Base Rent and all other payments or amounts due under the Lease is an ad valorem tax of \$0.10 per 100 assessed valuation, levied by the ESD on property within the ESD's jurisdiction. The District is responsible for obtaining property insurance for the fire station. With the exception of permitting the City's use of the Project, no assignment or subletting of the ESD's interest in the Lease is permitted without the District's prior consent and that of nationally-recognized bond counsel.

Condemnation/Casualty Losses. The District is entitled to receive all condemnation award amounts and insurance proceeds, including any amounts for the value of the leasehold estate, to repair or replace the Project if, as so repaired or replaced, the ESD is able to use the Project for fire-fighting purposes. However, if the repair or replacement proposed for the Project will not allow the ESD to use the Project for its intended purposes, as determined by the ESD in its sole discretion reasonably exercised, then the District must use all condemnation awards or insurance proceeds to redeem Bonds. If the amount available is insufficient to redeem all Bonds then outstanding, the ESD must continue to pay Base Rent until all of the Bonds are paid in full.

Nonappropriation; Events of Default; Remedies. If the ESD fails to appropriate funds for payment of the Base Rent, the Lease will terminate at the end of the month in which sufficient appropriations were made, and the ESD must surrender possession of the Project to the District.

Events of Default under the Lease include: (1) failure to pay any Base Rent within five days of the due date; (2) failure to pay any Additional Rent within ten days of the District's demand for such amount; (3) failure to surrender possession of the Project when required pursuant to the Lease; (4) the institution of bankruptcy, receivership, insolvency, reorganization, dissolution, liquidation, or other similar proceedings by or against the ESD; (5) failure to perform any other covenants, duties, agreements, or undertakings required under the Lease and such failure continues for 30 days after the District gives notice, or within a longer period agreed to by the applicable parties; (6) the ESD abandons the Project (except when due to casualty or condemnation); or (7) the ESD fails to discharge any lien, claim, or other encumbrance placed on the Project within ten days after such lien, claim, or encumbrance is filed.

Upon an occurrence of an Event of Default, the District may: (1) with or without terminating the Lease, declare all Rent immediately due and payable; (2) with or without terminating the Lease, re-enter and take possession of the Project and exclude the ESD from using the Project; (3) terminate the Lease after giving 60 days written notice to the ESD, and assume possession and control of the Project, and thereafter sell, lease, or otherwise dispose of the Project; (4) take any action at law or in equity that is needed to collect Rent due or to become due during the Lease Term or to enforce performance and observance of any other obligation, agreement, or covenant under the Lease; or (5) sell, transfer, or otherwise dispose of all or any portion of the Project. The ESD may terminate the Lease upon the occurrence of an Event of Default of the District (failure to perform any District obligation and such failure is not cured within 30 days or a mutually-agreed upon period of time after receipt of notice thereof from the ESD), after giving 30 days notice to the District of such termination. Each of the District and the ESD may charge the other party with 10% interest on amounts due to each of them resulting from an Event of Default.

Provisions of the Lease Relating to the City of Austin. The District and the ESD have agreed, pursuant to the Lease, that the City may, pursuant to the Consent Agreement, jointly occupy the Project at any time during the Lease Term, after giving six months notice to the District or the ESD. The City may locate up to six City staff members from the Austin Fire Department and/or the Emergency Medical Services department, and equipment, at

the Project, and may occupy two of the four bays, and living, office, and storage space needed for such staff and equipment. If at the time of City occupancy of the Project, the City has not annexed the District and therefore has not assumed the District's obligations under the Lease, the City must pay its pro rata share, based on the amount of space actually occupied by the City, of the Base Rent, Additional Rent, and utility costs.

In addition, at any time after July 1, 2020 (which is the 12th anniversary of the date of execution of the "Second Supplement to Agreement Concerning Creation of Southwest Travis County Municipal Utility District No. 1"), the City may request, and if so requested, the District must terminate the ESD's occupancy of the Project after providing six months notice to the ESD, and in such case, the ESD must vacate the Project. Thereafter, the District and the City will enter into a lease with terms similar to that of the Lease, except such lease will include certain standard City contract provisions and the Lease Term may be revised so that the Lease Term expires upon the expected annexation of the District by the City. As a result of the City's provisions in the Lease, (1) the City could become a co-tenant with the ESD, responsible for the City's pro rata share of Base Rent and other obligations under the Lease, (2) the City could become the sole tenant under the Lease, or (3) by virtue of annexation of the District, the City could become the owner of the Project.

The ESD expects to meet some of its staffing and equipment obligations under the Lease pursuant to its contract with the Manchaca Volunteer Fire Department, a Texas nonprofit corporation (the "MVFD"), under which the MVFD will provide some of the trained personnel and equipment to the ESD needed to provide enhanced fire-fighting and emergency medical services to District residents. In general, the ESD's contract with the MVFD requires that the MVFD provide fire-fighting and emergency medical services for the ESD, in return for reimbursement by the ESD of the costs of the MVFD for providing such services. Such costs must be included in the MVFD's annual budget for providing such services, and the budget must be submitted to and approved by the ESD prior to the beginning of each fiscal year.

THE SYSTEM

General

The purchase, acquisition and construction of existing water and wastewater facilities were financed by the District with the previous bond proceeds, and the facilities were designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ. According to Schroeder Engineering Co. (the "Engineer"), the design of all such facilities was approved by all governmental agencies, which had jurisdiction over the District at the time.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the Environmental Protection Agency, and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Water System

Water is currently supplied to the District under a contract with the City of Austin. The City has two water treatment plants, the Ullrich Water Treatment Plant with a capacity of 118 mgd and the Davis Water Treatment Plant with a capacity of 167 mgd, for a total capacity of 285 mgd. The historical peak day of water usage is approximately 250 mgd. The City's Green Water Treatment Plant has been recently decommissioned.

Wastewater System

Wastewater treatment is provided through a contract with the City of Austin. The City has two major wastewater treatment plants, the South Austin Regional WWTP and the Walnut Creek WWTP, each with a capacity of 75 mgd for a total of 150 mgd. The average daily flows of treated wastewater have been approximately 90 mgd.

Drainage System

The existing drainage system for the development in the District includes storm sewers and a detention pond. The storm sewers and detention pond flow into Slaughter Creek which flows through the District.

Out of District Service

The District provides service to approximately 356 homes outside the District's boundaries.

100-year Flood Plain

According to U.S.G.S. topographic maps and Federal Insurance Administration ("FIA") maps, the District includes relatively rolling terrain with elevations ranging from approximately 700 to 800 feet above mean sea level. The land within the District slopes generally from 0% to 5%, with steeper terrain adjacent to Slaughter Creek. Approximately 50 acres of the District lie within the FEMA 100-year flood plain. This acreage is green space and will not be used for development.

Future Debt

After the issuance of the Bonds, there will be no bonds left for the authorization for fire-fighting service purposes. However, there is \$2,810,000 in authorization for water, wastewater, and drainage that remains un-issued. While the District does not anticipate the issuance of the water, wastewater bonds at this time, the District may choose to issue bonds in the future.

Water and Wastewater Operations

Rate and Fee Schedule

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District's water and sewer service, which have been in effect since November 1, 2010.

Water (Monthly Billing)

| | |
|--|--------------------------|
| First 2,000 gallon base charge..... | \$17.65 |
| 2,001 to 50,000 gallon charge (over 2,000 gallons) | \$4.39 per 1,000 gallons |
| 50,001 to 70,000 gallon charge (over 50,000 gallons)..... | \$5.89 per 1,000 gallons |
| 70,001 to unlimited gallon charge (over 70,000 gallons)..... | \$7.39 per 1,000 gallons |

Wastewater (Monthly Billing)

Single Family:

| | |
|-----------------|---------|
| Base Rate | \$49.00 |
|-----------------|---------|

Water and Wastewater Operating Statement

The following statement sets forth in condensed form the historical operations of the District's water and sewer system. Such summary has been prepared upon information obtained from the District's audited financial statements and records. Reference is made to such statements for further and more complete information. See "APPENDIX A – Audited Financial Statement.

| | | Fiscal Year End | | | |
|--|---------------------|------------------------|--------------------|---------------------|---------------------|
| | 01/31/10 (b) | 09/30/10 | 9/30/09 (a) | 09/30/08 (a) | 09/30/07 (a) |
| OPERATING FUND REVENUE | | | | | |
| Water and Wastewater Service | 647,239 | 1,930,322 | 2,125,850 | 1,979,921 | 1,289,532 |
| Property Tax, Including Penalties & Int. | 70,119 | 130,607 | 124,378 | 113,950 | 103,463 |
| Interest | 477 | 4,281 | 7,175 | 11,191 | 11,972 |
| Tap Connection/Inspection | 0 | 5,480 | 5,550 | 6,440 | 1,250 |
| Other | 7,341 | 29,435 | 36,790 | 36,505 | 162,135 |
| TOTAL REVENUES | \$725,176 | \$2,100,125 | \$2,299,743 | \$2,148,007 | \$1,568,352 |
| OPERATING FUND EXP. | | | | | |
| Water & W/W | 313,545 | 1,091,711 | 1,132,431 | \$1,068,526 | \$879,691 |
| Purchased & Contracted Services | 135,935 | 390,195 | 381,509 | 383,581 | 372,088 |
| Recurring Operating Expenses | 220,464 | 453,286 | 346,344 | 241,608 | 238,926 |
| Tap Connection fees | 0 | 7,830 | 7,420 | 5,990 | 3,850 |
| Professional Fees | 30,281 | 104,527 | 80,972 | 82,000 | 70,053 |
| Other Non-Operating Expenses | 29,160 | 30,634 | 45,599 | 89,097 | 160,634 |
| Depreciation Expense | 33,161 | 99,484 | 99,227 | 98,066 | 94,875 |
| TOTAL EXPENDITURES | \$2,100,125 | \$2,177,667 | \$2,093,502 | \$1,968,868 | \$1,820,117 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | |
| | (\$,37,370) | (\$77,542) | \$206,241 | \$179,139 | (\$251,765)(c) |
| FUND BALANCE: | | | | | |
| Beginning of Year | \$706,266 | \$783,808 | \$577,567 | \$398,428 | \$650,193 |
| End of Year | \$668,896 | \$706,266 | \$783,808 | \$577,567 | \$398,428 |
| Active S-F Conn. (WTR/WW)(d) | 1,410/1,401 | 1,410/1,401 | 1,410/1,401 | 1,410/1,401 | 1,410/1,400 |

(a) Audited.

(b) Unaudited.

(c) One time costs included in various budget items associated with the purchase and acquisition of land for the fire station.

(d) The District provides service to approximately 356 homes outside the District's boundaries.

FINANCIAL STATEMENT
(Unaudited as of _____, 2011)

Assessed Valuc

| | |
|--|-------------------|
| 2010 Assessed Valuation (100% of estimated market value) as of January 1, 2010 | \$252,376,285 (a) |
| Gross Debt Outstanding | \$3,500,000 (b) |
| Debt Service Fund Balance (As of December 30, 2010) | \$1,010,570 (c) |
| Ratio of Gross Debt to 2009 Assessed Valuation as of January 1, 2010 | 1.39% |

Estimated January 2011 Population: 4,935 (d)

- (a) Certified Taxable Assessed Value within the District on January 1, 2010 as provided by the Travis County Appraisal District ("TCAD"). See "TAXING PROCEDURES".
- (b) After issuance of the Bonds. See "DEBT SERVICE REQUIREMENTS".
- (c) As of December 30, 2010. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Interest and Sinking Fund.
- (d) As of January, 2011. Based on 3.5 residents per active single-family connections. The District provides service to approximately 356 homes outside the District boundaries.

Unlimited Tax Bonds Authorized but Unissued

| <u>Date Authorization</u> | <u>Purpose</u> | <u>Authorized</u> | <u>Issued to Date</u> | <u>Unissued</u> |
|-------------------------------|--------------------------------|---------------------|---------------------------|--------------------|
| 04/01/81 | Water, Wastewater, Drainage | \$7,310,000 | \$ 4,500,000 | \$ 2,810,000 |
| 11/06/01 | Fire Purposes | <u>\$3,500,000</u> | <u>\$3,500,000(a)</u> | <u>0</u> |
| Total | | \$10,810,000 | \$8,000,000 | \$2,810,000 |

(a) The Bonds.

Outstanding Bonds

| | | | Principal | |
|-----------|--------------|---------------|--|--|
| A. | Dated | | Original Principal Amount | Amount Outstanding ??/01/10 |
| | <u>Date</u> | <u>Series</u> | <u>Purpose</u> | |
| | 1984 | 1983 | Water, Wastewater & Drainage | \$ 1,300,000 |
| | 1986 | 1986 | Water, Wastewater & Drainage | \$ 3,200,000 |
| | 1991 | 1991 | Refunding | \$ 1,050,000 |
| | ___/01/10 | 2010 | Water, Sewer & Drainage | <u>\$ 3,500,000 (a)</u> |
| | | | | \$ 6,310,000 |
| | | | | \$ 3,500,000 |

(a) The Bonds.

Cash and Investment Balances (Unaudited as of December 30, 2010)

Operating Fund

\$624,941 (a)

Interest and Sinking Fund

\$1,010,570 (b)

-
- (a) The District's General Fund balance has been reduced over the last couple of year's for the purchase of the land acquisition required for the fire station, which is a one time expense.
- (b) As of December 30, 2010. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Interest and Sinking Fund.

Investment Authority and Investment Practices of the District

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and secured by collateral authorized by the Act, and in TexPool and Texas Class, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Current Investments

The District's funds are currently invested in various different Bank's Certificates of Deposit which are all FDIC insured. This investment portfolio is generally representative of the District's investment practices although the District has in the past or may in the future also invest in authorized Government Securities. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements. The District currently marks its investments to market price monthly.

[The rest of this page intentionally left blank.]

Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed, from several sources, including information contained in the "Texas Municipal Report," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

| <u>Taxing Body</u> | <u>Amount</u> | <u>Net Debt</u> <u>As of</u> | <u>% of</u> <u>Overlpg.</u> <u>Net Debt</u> | <u>Amount of</u> <u>Overlpg.</u> <u>Net Debt</u> |
|---|---------------|---------------------------------|---|--|
| Travis County | \$590,683,794 | 09/21/10 | 0.2647% | \$1,563,540 |
| Austin ISD | 725,707,679 | 08/31/09 | 0.4099% | 2,974,676 |
| Austin Community College District | 95,315,596 | 08/31/09 | 0.2296% | <u>218,845</u> |
| TOTAL ESTIMATED OVERLAPPING NET DEBT | | | | \$4,757,061 |
| The District (a) | \$3,500,000 | ___/01/10 | 100.00% | <u>\$3,500,000</u> |
| TOTAL ESTIMATED DIRECT AND OVERLAPPING NET DEBT | | | | <u>\$8,257,061</u> |
| Ratio of Direct & Overlapping Net Debt to 2010 Assessed Valuation as of January 1, 2010 | | | | 3.27% |

(a) After issuance of the Bonds.

Overlapping Taxes for 2010

| <u>Overlapping Entity</u> | <u>2010 Tax</u> <u>Rate Per \$100</u> <u>Assessed Valuation</u> | <u>Average</u> <u>Tax</u> <u>Bill (a)</u> |
|------------------------------------|---|---|
| Travis County | \$0.4658 | \$ 1,125 |
| Austin Independent School District | 1.2270 | 2,965 |
| Travis County ESD No. 5 | 0.1000 | 242 |
| Travis County Healthcare District | 0.0719 | 174 |
| Austin Community College District | 0.0951 | 230 |
| The District | <u>0.0500</u> | <u>121</u> |
| Total | <u>\$2.0098</u> | <u>\$4,857</u> |

(a) Based upon the 2010 average taxable value for a single-family home of \$241,617.

TAX DATA

Classification of Assessed Valuation (a)

| <u>Type Property</u> | <u>2010</u> | | <u>2009</u> | |
|------------------------|----------------------|----------------|----------------------|----------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Single-Family | \$252,402,630 | 99.08 | \$264,585,034 | 99.04 |
| Vacant Lots | 27,500 | 00.01 | 27,500 | 00.01 |
| Commercial Real Prop. | 18,146 | 00.01 | 15,967 | 00.01 |
| Telephone Co. | 175,790 | 00.07 | 175,046 | 00.07 |
| Cable Television Co. | 1,389,760 | 00.55 | 1,456,900 | 00.54 |
| Commercial Pers. Prop. | 290,138 | 00.11 | 425,084 | 00.16 |
| Totally Exempt Prop. | 437,401 | 00.17 | 466,721 | 00.17 |
| Total | \$254,741,365 | 100.00% | \$267,152,252 | 100.00% |

(a) Reflects classification of assessed valuation as supplied by the Travis County Appraisal District ("TCAD") prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD.

Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

| | <u>Assessed</u> | <u>Tax</u> | <u>Original</u> | <u>Current</u> | | <u>Total</u> | | <u>Year</u> |
|------|------------------|-------------|-----------------|----------------|----------|---------------|----------|---------------|
| | <u>Valuation</u> | <u>Rate</u> | <u>Tax Levy</u> | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | <u>Ending</u> |
| 2005 | 195,805,693 | 0.1500 | 293,709 | 292,269 | 99.51 | 293,435 | 99.91 | 09/30/06 |
| 2006 | 209,222,753 | 0.1500 | 313,834 | 311,375 | 99.22 | 313,797 | 99.98 | 09/30/07 |
| 2007 | 227,379,937 | 0.1491 | 339,023 | 335,355 | 98.92 | 338,787 | 99.93 | 09/30/08 |
| 2008 | 247,957,260 | 0.1469 | 365,737 | 362,130 | 99.05 | 367,739 | 99.60 | 09/30/09 |
| 2009 | 255,032,651 | 0.0500 | 131,331 | 129,781 | 98.97 | 130,108 | 98.94 | 09/30/10 |
| 2010 | 252,376,285 | 0.0500 | 126,188 | 115,809 | 91.78 | 123,306 | 97.72 | 09/30/11 (a) |

(a) Tax bills go out in October and are not due until January 31, the following year. The 2010 tax collections through March 1, 2011.

District Tax Rates

| <u>Tax Rate Per \$100 A.V.</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--------------------------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Debt Service | \$0.00 | \$0.00 | \$0.1000 | \$0.10000 | \$0.10000 | \$0.1000 |
| Maintenance | 0.05 | 0.05 | 0.0469 | 0.0491 | 0.05000 | 0.0500 |
| Total | \$0.05 | \$0.05 | \$0.1469 | \$0.1491 | \$0.1500 | \$0.1500 |

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes, which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held within the District on May 8, 2010, voters of the District authorized the levy of an unlimited maintenance tax. As shown above under "District Tax Rates," the District levied a maintenance and operations tax of \$0.05 per \$100 assessed valuation for tax year 2010 and a \$0.05 per \$100 assessed valuation for maintenance and operation for tax year 2009.

Top Ten Taxpayers

The following list of principal taxpayers was provided by Travis County Appraisal District based on the 2010 and 2009 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

| Taxpayer | Type of Property | 2010 | 2009 |
|--------------------------------------|-------------------------|--------------------|--------------------|
| TWE-Advance/Newhouse | Cable TV | \$1,389,760 | \$1,456,900 |
| Reyes, Tito & Maria | 3 Homes | 674,183 | 710,750 |
| Masch, Fritz A. | Home | 384,929 | (a) |
| Beckstead, Robert J. & Catherine A. | Home | (a) | 482,750 |
| Alfieri, Thomas E. & Angela I. | Home | (a) | 410,553 |
| Prieto, Eloy | Home | 376,878 | 399,473 |
| Rogers, Charles E. | Home | 371,273 | 370,854 |
| Garcia, Kristin Huettel & John Marc | Home | 370,000 | (a) |
| Leasure, Bryan S. & Jennifer B. | Home | 364,391 | 382,061 |
| Ramirez, Xavier & Pamela | Home | 363,630 | 384,731 |
| Anderson, Robert A. & Michaeline | Home | (a) | 377,412 |
| Monreal, Longina III & Brenda K. | Home | (a) | 373,373 |
| Black, Loretta | Home | 357,471 | (a) |
| Gioia, Robert M. & Leslie A. | Home | 355,703 | (a) |
| Total | | \$5,008,218 | \$5,348,466 |
| Percent of Assessed Valuation | | 1.98% | 2.04% |

(a) Not a taxpayer in respective year.

Tax Adequacy for Debt Service

The calculations shown below are solely for purposes of illustration only and are based on the certified assessed value for 2010 as of January 1, 2010 and utilize tax rates adequate to service the District's total projected debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - Impact on District Tax Rates."

| | |
|--|-----------|
| Projected Average Annual Debt Service Requirements on the Bonds (2011 through 2028)..... | \$320,159 |
| \$0.14 Tax Rate on 2010 Assessed Valuation as of January 1, 2010 of \$252,376,285 @ 95% collections produces..... | \$335,660 |
| Projected Maximum Annual Debt Service Requirements on the Bonds (2014)..... | \$321,600 |
| \$0.14 Tax Rate on 2010 Assessed Valuation as of January 1, 2010 of \$252,376,285 @ 95% collections produces..... | \$335,660 |

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT RISKS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by its voters. See "TAX DATA - Tax Rate Limitation".

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Travis County Appraisal District (the "Appraisal District" or "TCAD") has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$1,500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

Property owned by a disabled veteran or a veteran who died while on active duty has been granted an exemption up to \$3,000 of assessed value. Partially exempt to between \$5,000 and \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or spouse or certain children. House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Texas Tax Code. Section 1 of this law states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of person sixty-five (65) years or older and of certain disabled persons to the extent of \$3,000 of appraised value or more. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District and from a lien on and pledge of certain Surplus Revenues, if any, available to the District from the lease of the Project to the ESD, after payment of any and all operation and maintenance expenses of the District relating to the Project

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty (20%) percent of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Tax Abatement: Travis County may designate all or a part of the area within the District as a reinvestment zone. Thereafter, Travis County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvement or repairs to the property in conformity with a comprehensive plan. To date, none of the area within the District has been designated as a reinvestment zone and the District has not executed any abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the TCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the TCAD at least once every three years. It is not known what frequency of reappraisal will be utilized by the TCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the TCAD a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the TCAD chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition of review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the TCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. Each year the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due or when billed, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. In addition, if the District engages an attorney for the collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1. The

Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights In The Event Of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "FINANCIAL STATEMENT – Overlapping Taxes"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceeding which restrict the collection of taxpayer debts. See "INVESTMENT RISKS - General - Tax Collection and Foreclosure Remedies."

MUNICIPAL BOND RATINGS AND INSURANCE

The District has made application to Standard & Poor's Rating Service, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating in connection with the Bonds. The District has also made application to a bond insurance company for a guaranty insurance policy insuring the timely payment of the principal of and interest on the Bonds. **The premium for such insurance and any associated rating fees will be paid by the Initial Purchaser. The purchase of insurance by the initial purchaser is at bidders option and bidders risk.**

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

Legal Proceedings

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds; the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law, and the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustments for corporations

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional

judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Bond Counsel has reviewed the information appearing in this Official Statement under the caption "THE DISTRICT - General," "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION," solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the developers for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. A portion of the legal fees paid to the General Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and therefore such fees are contingent upon the sale and delivery of the Bonds.

No Material Adverse Change

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attaching the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

TAX MATTERS

Legal Opinion

In the opinion of Winstead PC, Bond Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals and corporations; however, interest on the Bonds will be included in the "adjusted current earnings" of a corporation for purposes of computing its alternative minimum tax liability. Corporate purchasers of the Bonds should consult their tax advisors regarding the computation of alternative minimum tax.

Section 103 of the Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, restrictions on the investment of proceeds and other amounts, and rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The District has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with these Code requirements. In rendering its opinion, Bond Counsel will rely on these covenants, and on representations and certifications of the District relating to matters solely within its knowledge (which Bond Counsel has not independently verified), and will assume continuing compliance by the District.

In the opinion of Winstead PC, Bond Counsel, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, interest on the Bonds described herein is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, Real Estate Investment Trust, Real Estate Mortgage Investment Conduit, or Financial Asset Securitization Investment Trust) for purposes of computing its alternative minimum tax. Corporate purchasers of the Bonds should consult their tax advisors regarding the computation of alternative minimum tax.

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of the Bonds may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding any potential collateral tax consequences. Bond Counsel expresses no opinion regarding any such collateral tax consequences.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Bonds has been sought from the Service, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit were to be commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Bonds, the District might have different or conflicting interests from those of the owners of the Bonds.

The opinions set forth above are based on existing law and Bond Counsel's knowledge of relevant facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Bonds. Further, Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Bonds. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Bonds may affect the tax exempt status of interest on the Bonds.

Original Issue Discount

Certain of the Bonds (the "Discount Bonds") may be offered and sold to the public at an "original issue discount" ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bonds. The issue price of Discount Bonds is the initial offering price to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) at which a substantial amount of Discount Bonds of the same maturity are sold pursuant to that offering.

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond's period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the District encounters financial difficulties, and it is treated as interest earned by cash-basis owners (with possible tax consequences under the corporate alternative minimum tax as discussed above), even though no cash corresponding to the accrual is received in the year of accrual. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Discount Bond

to maturity will realize no gain or loss upon the retirement of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

Original Issue Premium

Certain maturities of the Bonds (the "Premium Bonds") may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity ("Bond Premium"), which, for federal income tax purposes, is amortized over the period to maturity of the Premium Bond based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, an amortization period and yield determined on the basis of the earliest call date resulting in the lowest yield on that Premium Bond), compounded semiannually. No portion of that Bond Premium is deductible by the Premium Bond owner.

For purposes of determining a Premium Bond owner's gain or loss on sale, redemption (including redemption at maturity), or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of Bond Premium that accrues during the ownership period. As a result, an owner of a Premium Bond may realize taxable gain for federal income tax purposes upon the sale or other disposition of such Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond at its issue price in the initial offering who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to the earliest call date resulting in the lowest yield on that Premium Bond) will realize no gain or loss upon retirement of that Premium Bond. Owners of Premium Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of Bond Premium properly accruable in any tax year (or portion thereof), and with respect to other federal, state, and local tax consequences of owning and disposing of Premium Bonds.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Qualified Tax-Exempt Obligations For Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public (or, in the case of discount bonds, the amount payable at maturity) exceeds \$10,000,000, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be "qualified tax-exempt obligations."

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as the it remains obligated to advance funds to pay the Bonds. Under the agreement, the district will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to its Electronic Municipal Market Access System ("EMMA"). This information will be available to securities brokers and others through the MSRB at www.emma.msrb.org. Please note that this website is included herein as active textual references only, and the information contained on (or accessed through) this website is not incorporated herein and should not be construed as part of this Official Statement.

Annual Reports

The District will provide certain updated financial information to certain information to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31, in each year, commencing after 2009 unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org>.

Event Notices

Pursuant to the District's covenants in the Bond Order and the District's duties under the Rule, the District will notify the MSRB through EMMA in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Series 2011 Bonds, if such event is material within the meaning of the federal securities laws:

1. Non-payment related defaults;
2. Modifications to rights of Bondholders;
3. Calls on the Series 2011 Bonds, other than in connection with mandatory sinking fund redemptions;
4. Release, substitution, or sale of property securing repayment of the Series 2011 Bonds;
5. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
6. Appointment of a successor or additional trustee of the change of name of a trustee.

Pursuant to the District's covenants in the Bond Order and the District's duties under the Rule, the District will notify the MSRB through EMM, in a timely manner (but not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds, without regard to whether such event is considered material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;
6. Tender offers;

7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership, or similar event of an obligated person.

Availability of Information From MSRB and SID

Effective July 1, 2009 (the "EMMA Effective Date"), the United States Securities and Exchange Commission (the "SEC") implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Owners may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

This is the District's third issuance of Bonds. The District has complied with all continuing disclosure agreements made by it pursuant to SEC Rule 15c2-12.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of SAMCO Capital Markets, Inc. (the "Financial Advisor"), which firm was employed in 2003 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor has requested the right to bid on the Bonds, and the District has given its consent.

OTHER INFORMATION

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of this Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements, and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

OFFICIAL STATEMENT

Preparation

The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT"; Schroeder Engineering, Inc. ("Engineer"); and "THE SYSTEM" – Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" – Records of the District ("Records"); "FINANCIAL STATEMENT" – Travis County Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" – Municipal Advisory Council of Texas; "TAX DATA" – and "WATER AND SEWER OPERATIONS" – Audits, Records and Tax Assessor/Collector; "MANAGEMENT" – District Directors; "THE BONDS," "CONTINUING DISCLOSURE OF INFORMATION"; "TAXING PROCEDURES," "LEGAL MATTERS," and "TAX MATTERS" – Winstead PC; "EXTRATERRITORIAL JURISDICTION AND ANNEXATION" – the General Counsel – McGinnis Lochridge & Kilgore L.L.P.

Experts

In approving this Official Statement, the District has relied upon the following experts in addition to the Financial Advisor.

The Engineer: The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by Schroeder Engineering, Inc., and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in the Official Statement relating to the certified assessed valuation of property in the District and, in particular such information contained in the sections captioned "FINANCIAL STATEMENT" and "TAX DATA" has been provided by the Travis County Appraisal District, in reliance upon the authority as experts in appraising and tax assessing.

Tax Assessor/Collector: The information contained in this Official Statement relating to principal tax payers and tax collection rates has been provided by Ms. Nelda Wells Spears in reliance upon her authority as an expert in the field of tax assessing and collecting.

Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described below. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to Ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity, in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Official Statement “Deemed Final”

For purposes of compliance with Rule 15c(2)-12 promulgated by the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “FINAL OFFICIAL STATEMENT” of the District with respect to the Bonds, as that term is defined in Rule 15c(2)-12.

This Official Statement was approved by the Board of Directors of Shady Hollow Municipal Utility District, as of the date shown on the first page hereof.

/s/

Ronald O. Stried, D.V. M.
President, Board of Directors
Shady Hollow Municipal Utility District

/s/

James G. Linville
Secretary, Board of Directors
Shady Hollow Municipal Utility District

PHOTOGRAPHS

The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District.

APPENDIX A
District Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Shady Hollow Municipal Utility District for the fiscal year ended September 30, 2010. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**Financial Advisory Services
Provided By:**

SAMCO Capital Markets, Inc.