

AGENDA ITEM 19

Consider and take any action to approve a draft Preliminary Official Statement in connection with the proposed issuance of Avery Ranch Road District Unlimited Tax Bonds, Series 2002.

Moved: Commissioner Boatright

Seconded: Judge Doerfler

Motion: To approve a draft Preliminary Official Statement in connection with the proposed issuance of Avery Ranch Road District Unlimited Tax Bonds, Series 2002.

Vote: 3 - 0 with Commissioner Hays absent from the dais.

< Attachment >

*Approved 12-18-01
John C. Doerfler*

PRELIMINARY OFFICIAL STATEMENT

Dated January 10, 2002

Non-Rated

NEW ISSUE - Book-Entry-Only

Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that 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" herein including the alternative minimum tax on corporations. SEE "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions".

THE DISTRICT HAS DESIGNATED THE BONDS AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$6,425,000*

AVERY RANCH ROAD DISTRICT NO. 1

(A political subdivision of the State of Texas located within Williamson County)

UNLIMITED TAX BONDS, SERIES 2002

The bonds described above (the "Bonds") are special limited obligations of Avery Ranch Road District No. 1 (the "District") secured solely by ad valorem taxes levied on property within the District and are not obligations of the State of Texas, Williamson County, the Cities of Austin, Cedar Park, or Round Rock, Texas or any entity other than the District.

Dated: February 15, 2002

Due: August 15, as shown on the inside cover

The \$6,425,000* Avery Ranch Road District No. 1, Unlimited Tax Bonds, Series 2002 (the "Bonds") will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from February 15, 2002, and will be payable on August 15, 2002 and on each February 15 and August 15 thereafter ("Interest Payment Date"), until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Avery Ranch Road District No. 1 (the "District") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as the nominee of DTC, which will make distribution of the amounts so paid to participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is JPMorgan Chase & Co.

MATURITY SCHEDULE
See Inside Cover Page

The Bonds, when issued, will constitute valid and legally binding special limited obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS".

The Bonds are offered, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews & Kurth L.L.P., Austin, Texas. Delivery of the Bonds is expected through the facilities of DTC on or about February 28, 2002.

MORGAN KEEGAN & CO., INC.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE ^(a)

| <u>Amount</u> | <u>Maturity</u> <u>August 15</u> | <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> <u>Numbers ⁽¹⁾</u> |
|---------------|-------------------------------------|-------------|--------------|---|
| \$ 220,000 | 2004 | | | |
| 230,000 | 2005 | | | |
| 240,000 | 2006 | | | |
| 250,000 | 2007 | | | |
| 260,000 | 2008 | | | |
| 270,000 | 2009 | | | |
| 280,000 | 2010 | | | |
| 295,000 | 2011 | | | |
| 305,000 | 2012 | | | |
| 320,000 | 2013 | | | |
| 335,000 | 2014 | | | |
| 355,000 | 2015 | | | |
| 370,000 | 2016 | | | |
| 390,000 | 2017 | | | |
| 410,000 | 2018 | | | |
| 435,000 | 2019 | | | |
| 460,000 | 2020 | | | |
| 485,000 | 2021 | | | |
| 515,000 | 2022 | | | |

\$ _____ % Term Bond Due August 15, 20____ at a Price of _____ % to Yield _____ % -
\$ _____ % Term Bond Due August 15, 20____ at a Price of _____ % to Yield _____ % -

(Plus Accrued Interest from February 15, 2002)

(a) The Bonds are subject to redemption. See "THE BONDS – Redemption Provisions".
(1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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APPENDIX A—Form of Bond Counsel's Opinion Letter

USE OF INFORMATION IN THIS PRELIMINARY 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 Preliminary Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the District.

This Preliminary Official Statement is not to be used in an offer to sell or the solicitation of an 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, audited financial statements, engineering and other related reports set forth in this Preliminary 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 First Southwest Company, the District's financial advisor (the "Financial Advisor"), 98 San Jacinto Blvd., Suite 370, Austin, Texas 78701, for further information.

This Preliminary 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 Preliminary 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 other matters described herein since the date hereof. However, the District has agreed to keep this Preliminary 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, the other matters described in the Preliminary Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "PREPARATION OF PRELIMINARY OFFICIAL STATEMENT - Updating of Preliminary Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION".

SALE AND DISTRIBUTION OF THE BONDS**Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter 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 Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

THE PRICES AND OTHER TERMS WITH RESPECT TO THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME-TO-TIME BY THE UNDERWRITER 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 UNDERWRITER 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 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 or qualification 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.

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PRELIMINARY OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by more detailed information appearing elsewhere in this Preliminary Official Statement. The summary should not be detached and should be used in conjunction with the more complete information contained herein.

THE BONDS

| | |
|--|--|
| <i>Description...</i> | Avery Ranch Road District No. 1 Unlimited Tax Bonds, Series 2002, in the aggregate principal amount of \$6,425,000* maturing as Serial Bonds on August 15, 2004 through and including August 15, 2022 and as a Term Bond maturing August 15, 20____, in the principal amount set forth on the inside cover page. See "THE BONDS - Description". |
| <i>Redemption...</i> | Bonds maturing on and after August 15, 2013 are subject to redemption at the option of the District prior to their maturity dates on August 15, 2012, or on any date thereafter at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bond maturing February 15, 20____ is subject to mandatory redemption. See "THE BONDS - Redemption Provisions". |
| <i>Use of Proceeds...</i> | Proceeds of the Bonds will be used to purchase certain facilities from the Developers including the Road and Related Improvements. In addition, proceeds of the Bonds will be used to fund approximately 24 months of capitalized interest and pay the costs of issuance. See "USE AND DISTRIBUTION OF BOND PROCEEDS". |
| <i>Authority for Issuance...</i> | The Bonds are issued pursuant to the Bond Order, the Texas Constitution and the general laws of the State of Texas, including Chapters _____, Texas _____ Code, as amended. See "INVESTMENT CONSIDERATIONS - Future Debt," and "THE BONDS - Authority for Issuance", and "- Issuance of Additional Debt". |
| <i>Source and Security for Payment...</i> | Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are not secured by any other source. The Bonds are limited obligations of the District and are not obligations of the Cities of Austin, Cedar Park, or Round Rock, Williamson County, the State of Texas or any entity other than the District. See "THE BONDS - Source of Payment". |
| <i>Qualified Tax-Exempt Obligations...</i> | The District has designated 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 obligations, including the Bonds, issued by it during calendar year 2002 is not reasonably expected to exceed \$10,000,000 and that it has not designated more than \$10,000,000 of qualified tax exempt obligations (including the Bonds) during calendar year 2002. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions". |
| <i>Bond Counsel...</i> | McCall, Parkhurst & Horton L.L.P., Austin, Texas. |
| <i>Financial Advisor...</i> | First Southwest Company, Austin, Texas. |
| <i>Disclosure Counsel...</i> | Andrews & Kurth L.L.P. |
| <i>Paying Agent/Registrar...</i> | JPMorgan Chase & Co., Houston, Texas. |
| <i>Investment Considerations...</i> | THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE PRELIMINARY OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "INVESTMENT CONSIDERATIONS". |

*Preliminary, subject to change.

THE DISTRICT

| | |
|---|--|
| <i>Description...</i> | The District was created on November 14, 2000 by order of the Williamson County Commissioners Court and confirmed by the District voters on May 5, 2001. At creation, the District encompassed approximately 1,547 acres of land. See "THE DISTRICT". |
| <i>Location...</i> | The District is located in the City of Austin and in the extraterritorial jurisdiction of the City of Austin, all in Williamson County, Texas. Parmer Lane bisects the District north-south, and the Road, when completed, will bisect the District east-west. Approximately _____ acres within the District are in the municipal jurisdiction of the City of Austin, Texas. The remaining property in the District, approximately _____ acres, lies wholly within the extraterritorial jurisdiction of the City of Austin, Texas. Approximately 605 acres within the District lie within the Round Rock Independent School District, and approximately 942 acres lies within the Leander Independent School District. See "THE DISTRICT". |
| <i>District...</i> | <p>On May 5, 2001, the voters in the District approved (1) the designation of the District; (2) \$17,000,000 principal amount of Avery Ranch Road District #1 Unlimited Tax Bonds for the District; and (3) the levy of an unlimited ad valorem tax upon the taxable property located within the District to pay such bonds. The Bonds are secured solely by an unlimited ad valorem tax levied upon taxable property located within the District. Such tax will be in addition to the taxes levied by the District on all taxable property in the District. See "THE DISTRICT", and "FINANCIAL INFORMATION CONCERNING THE DISTRICT - Estimated Overlapping Taxes".</p> <p>The District is comprised of approximately 1,547 acres of the master planned community known as Avery Ranch. Avery Ranch consists of approximately 1,630 acres of land, including approximately _____ acres located within the corporate limits of the City of Austin and _____ acres which are in the extraterritorial jurisdiction of the City of Austin and which will be annexed in stages as Avery Ranch is developed. Avery Ranch is generally located approximately 17 miles north of Austin's central business district, directly southeast of the City of Cedar Park, and approximately 3 miles west of the City of Round Rock, and Avery Ranch is generally bounded by Brushy Creek Road to the north, the City of Cedar Park and U.S. Highway 183 to the west, other residential development and undeveloped land to the south, and the Fern Bluff Municipal Utility District and single-family residential development to the east.</p> |
| <i>Development Within the District...</i> | To date, _____ miles of the Road has been completed, being _____ miles to the east of Parmer Lane and _____ miles to the west of Parmer Lane. See "THE GOLF CLUB AT AVERY RANCH". As of November 30, 2001, development included 55 sold homes (23 sold by Continental, and 22 sold by Other Builders); 146 homes under construction (122 under construction by Continental, and 24 under construction by Other Builders); 319 vacant, developed lots; 90 lots under construction (_____ by Continental and _____ by DAR). The balance of the acreage within the District consists of approximately _____ undeveloped but developable acres and approximately _____ undevelopable acres. See "THE DISTRICT". |
| <i>The Developers...</i> | Land in the District is being developed by (i) Continental Homes of Texas, L.P., a Texas limited partnership doing business as Milburn Homes, a wholly owned subsidiary of D.R. Horton, Inc. ("Continental"), (ii) Developers of Avery Ranch, Ltd., a Texas limited partnership ("DAR"), and (iii) Rathgeber Investment Company, Ltd., a Texas limited partnership ("Rathgeber"), and together with Continental and DAR, collectively, the "Developers". Continental is the largest homebuilder in the Austin, Texas market (based on number of units sold). D.R. Horton, Inc., its parent company, is the third largest homebuilder in the country. DAR was formed in 1999 for the specific purpose of acquiring and developing land in Avery Ranch. The general partner of DAR is RWR Development Company, L.L.C., a limited liability company, and the limited partners are Edward R. Rathgeber, Jr., Robert D. Wunsch, and Ross Rathgeber. Rathgeber was formed in 1998, and is one of the two joint venture partners in Pebble Creek Joint venture, the largest land owner in Avery Ranch. The general partner of Rathgeber is Rathgeber Investment GP, Inc., and the limited partners are Edward R. Rathgeber, Jr., Sara Ross Rathgeber, and Rathgeber Family Partnership. See "THE DEVELOPERS". |
| <i>Payment Record...</i> | The Bonds represent the first issuance of debt by the District. |
| <i>Overlapping District Taxes...</i> | The District lies wholly within the boundaries of the District and is subject to taxes levied by the District to pay debt incurred by the District to serve other areas of the District. For the 2002 tax year, the District expect to levy a debt service tax rate of \$0.2750 per \$100 of assessed valuation on all |

taxable property located within the District. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT - Estimated Overlapping Taxes".

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SELECTED FINANCIAL INFORMATION (UNAUDITED)

| | |
|---|-------------------|
| Estimated Taxable Assessed Valuation of the District as of January 1, 2002 ^(a) | \$ 83,000,000 (a) |
| Gross Direct Long-Term Debt Outstanding of the District | \$ 6,425,000 (b) |
| Estimated Overlapping Debt of the District (including the District) | _____ (c) |
| Gross Direct Long-Term Debt and Estimated Overlapping Debt..... | \$ |
| Ratio of Preliminary Gross Long-Term Debt of the District to: | |
| 2001 Taxable Assessed Valuation of the District..... | % |
| Estimated Taxable Assessed Valuation of the District as of January 1, 2002 | 7.74% |
| Ratio of Gross Long-Term Debt of the District and Estimated Overlapping Debt to: | |
| Estimated Taxable Assessed Valuation of the District as of January 1, 2002 | % |
| Funds Available for Debt Service: | |
| Bond Fund Balance as of 9-30-01 (excluding capitalized interest on the Bonds)..... | \$ |
| Average Annual Debt Service Requirement (2002-2022)..... | \$ 517,291 (b) |
| Maximum Annual Debt Service Requirement (2007)..... | \$ 548,732 (b) |
| 2002 District Debt Service Tax Rate..... | \$0.0000(c) |
| Total..... | \$0.0000 |
| Tax Rate Required to Pay Average Annual Debt Service (2002-2022) at 95% Collection Rate | |
| Based Upon the 2002 Preliminary Taxable Assessed Valuation of the District..... | \$ 0.6560 |
| Tax Rate Required to Pay Maximum Annual Debt Service (2007) at 95% Collection Rate | |
| Based Upon the 2002 Preliminary Taxable Assessed Valuation of the District..... | \$ 0.6960 |
| Status of Development within Avery Ranch as of November 1, 2001 | |
| Total Completed Homes | * |
| Homes Under Construction..... | * |
| Vacant Developed Lots..... | * |
| Lots Under Construction..... | * |
| Undeveloped Acreage (developable) | * |
| Estimated Population as of November 30, 2001 | * (e) |
| (a) This amount is a Williamson County Appraisal District preliminary value for all taxable property located within the District as of January 1, 2002. No tax will be levied on such amount unless it is certified by the Appraisal District. See "TAXING PROCEDURES". | |
| (b) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT - Debt Service Requirements". | |
| (c) The District levied no tax for 2002 and will service the Bonds from capitalized interest until a rate can be adopted in September, 2002. | |
| (d) The District is not currently authorized to levy a maintenance and operation tax. | |
| (e) Based upon 3.5 residents per completed single-family residence. | |

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PRELIMINARY OFFICIAL STATEMENT

\$6,425,000*

AVERY RANCH ROAD DISTRICT NO. 1

(A political subdivision of the State of Texas located within Williamson County)

UNLIMITED TAX BONDS, SERIES 2002

This Preliminary Official Statement provides certain information in connection with the issuance by Avery Ranch Road District No. 1 (the "District") of its \$6,425,000* Unlimited Tax Bonds, Series 2002 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, including Chapter 257, Texas Transportation Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Preliminary Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District and the Developers. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from First Southwest Company (the "Financial Advisor") at 1700 Pacific Avenue, Suite 500, Dallas, Texas 75201.

THE BONDS

Description

Avery Ranch Road District No. 1 Unlimited Tax Bonds, Series 2002, in the aggregate principal amount of \$6,425,000* maturing as Serial Bonds on August 15, 2004 through and including August 15, 2022 and as a Term Bond maturing on August 15, 20____ in the principal amount set forth on the inside cover page. The Bonds will be dated and accrue interest from February 15, 2002, and interest will be payable on August 15, 2002 and on each February 15 and August 15 thereafter until the earlier of maturity of redemption and will be calculated on the basis of 360 day year consisting of twelve 30-day months. The Bonds will be issued pursuant to the Bond Order, in fully registered form only, in denominations of \$5,000 of principal amounts or any integral multiple thereof and 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 herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

Defeasance

General. The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Bond") within the meaning of the Bond Order, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the District to retain the right to call Defeased Bonds to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, with reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until after all Defeased Bonds shall have become due and payable or (c) any combination of (a) and (b). At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (2) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given, in accordance with the Bond Order. Any money so deposited with the Paying Agent/Registrar may be at the discretion of the Board of Directors also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times set forth in the Bond Order and all income from such Defeasance Securities received by the Paying Agent/Registrar that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

All money or Defeasance set aside and held in trust pursuant to the provisions of the Bond Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bonds Order.

*Preliminary, subject to change.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Bond Order shall be made without the consent of the registered owner of each Bond affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

Investments. Any escrow agreement or other instrument entered into between the District and the Paying Agent/Registrar pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the Directors.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

Book-Entry-Only System

General. 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 DTC, 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 Preliminary 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 (as defined herein), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Preliminary 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.

The Depository Trust Company ("DTC"), New York, New York, 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). One fully-registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities Bonds. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for 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 or Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase, but Beneficial Owners are

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 interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry-only 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. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no 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 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.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the Record Date (as defined herein). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payment date. 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, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District, disbursement of such payments to Direct Participants shall 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 securities depository with respect to the Bonds, at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, printed Bonds are required to be furnished and delivered.

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

Use of Certain Terms in Other Sections of this Preliminary Official Statement. In reading this Preliminary Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Preliminary Official Statement to Registered Owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Purchasers.

So long as Cede & Co. is the Registered Owner of the Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants or Indirect Participants, or the persons for which they act as nominees.

Source of Payment

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against taxable property within the District within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax, against taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the paying of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District within the District payable in whole or in part from taxes, and to pay the

expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. See "Annexation" below.

The Bonds are special limited obligations of the District secured solely by an annual ad valorem tax levied on property located within the District within the District (and no other portion of the District) and are not the obligations of the State of Texas; Williamson County, Texas; the Cities of Austin or Cedar Park, Texas; or any entity other than the District as described herein.

Redemption Provisions

Optional Redemption. The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2013, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 2012 or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of such Bonds are redeemed at any time, the maturities of such Bonds to be redeemed shall be selected by the District. The Paying Agent/Registrar (or DTC while the Bonds are in book-entry-only form) shall determine by lot the Bonds, or portion thereof, within such maturity to be redeemed.

Mandatory Sinking Fund Redemption. In addition to being subject to optional redemption, as provided above, the Bonds maturing on August 15, 20____ 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 Debt Service Fund:

| <u>Bonds Maturing August 15, 20</u> | |
|--|-------------------------|
| <u>Mandatory</u> | <u>Principal</u> |
| <u>Redemption Date</u> | <u>Amount</u> |
| August 15, 20 | |
| August 15, 20 | |
| August 15, 20 | |

***Stated Maturity**

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Notice of Redemption. At least 30 calendar days prior to the date fixed for any optional redemption of the Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial journal or publication of general circulation in the City of New York, New York or in the City of Austin, Texas. Notice shall also be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the owner of record ("Registered Owner") of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

DTC Redemption Provisions

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Payment Agent. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Authority for Issuance

The Bonds are issued pursuant to the Bond Order, the Texas Constitution, and general laws of the State of Texas, including Chapter 257 of the Texas Transportation Code.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the a register of owners (the "Register") at its principal payment 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.

In the event the book-entry-only system should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the designated payment/transfer office of the Paying Agent/Registrar, initially in Dallas, Texas (the "Designated Payment/Transfer Office"), duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and accruing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the Designated Payment/Transfer 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 amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond so delivered shall 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 shall be required to transfer or to exchange any Bond during the fifteen (15) day period next preceding any interest payment date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

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

Record Date

The record date for payment of the interest on the Bonds on any regularly scheduled interest payment date is the last day of the month (whether or not a business day) preceding such interest payment date.

Replacement of Paying Agent/Registrar

Provision are made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the District shall be a national or state banking institution, which shall be 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 the presentation and surrender to the Designated Payment/Transfer Office of the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall 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, shall, upon receipt of certain documentation and an indemnity bond from the Registered Owner, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The voters within the District and the District have authorized the issuance of \$17,000,000 of Unlimited Tax Bonds for the purposes permitted pursuant to the Authorization Election. Following the issuance of the Bonds, the District will have \$10,575,000 of such unlimited tax bonds authorized but unissued.

Annexation

The District lies in part in the municipal jurisdiction of the City of Austin and the remainder within the extraterritorial jurisdiction of the City of Austin and Cedar Park. Pursuant to an agreement with the City of Austin, the land within the District will be annexed by the City of Austin as development progresses.

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to annex additional territory upon the satisfaction of certain conditions, including Section 257.025 (adding property by property owner petition) and Section 257.026 (adding property petition or on commissioners court motion). No representation is made concerning the likelihood that the District would effect any change in its boundaries.

Remedies in Event of Default

The Bond Order provides that, in addition to all other rights and remedies of any Registered Owner provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order, including payment when due of the principal of and interest on the Bonds, any Registered Owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

The Bond Order provides no additional remedies to a Registered Owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year to year by the Registered Owners.

Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Registered Owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section _____ of the Texas Transportation Code, bonds, notes or other obligations issued by a road district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section _____ of the Texas Transportation Code provides that bonds, notes or other obligations issued by a road district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

Additional Covenants

The District has additionally covenanted in the Bond Order that 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.

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 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 omit 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 in compliance with such covenant which adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Amendments to Bond Order

The District may without the consent of or notice to any Registered Owner amend the Bond Order in any manner not detrimental to the interest of the Registered Owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may in the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

THE DISTRICT**Description**

The District encompasses approximately 1,547 acres, which is virtually all of the master planned community known as Avery Ranch. Avery Ranch consists of approximately 1,630 acres of land, including approximately _____ acres located within the City of Austin. Avery Ranch is generally located approximately 17 miles north of Austin's central business district, directly southeast of the City of Cedar Park, and 3 miles west of the City of Round Rock, and Avery Ranch is generally bounded by Brushy Creek Road to the north, the City of Cedar Park and U.S. Highway 183 to the west, other residential development and undeveloped land to the south, and the Fern Bluff Municipal Utility District and single-family residential development to the east.

All of the land within the District is part of the "Avery Ranch PUD", a planned unit development approved by the City of Austin on April 24, 2000 (the "PUD"). Approximately 1,089 acres of Avery Ranch within the District is designated under the PUD for single-family residential development (called "Mixed Density Residential" under the PUD), approximately 56.4 acres of Avery Ranch within the District are designated for commercial development (called "Neighborhood Commercial" and "Community Commercial" under the PUD), and approximately 35.87 acres are designated for multi-family development. In addition, approximately 226 acres are being developed as "The Golf Club at Avery Ranch", which will include an 18-hole public golf course, a clubhouse situated on approximately 6 acres, and other amenities. Approximately _____ acres of the total 1,547 acres have received final plat approval from the City of Austin. The remaining property is subject to platting approval in accordance with development guidelines provided from time to time under City of Austin or State of Texas regulations and the PUD. The ultimate buildout of the entire 1,547 acres, as currently planned, should contain 4,000 to 4,500 single-family residential homes in addition to commercial and multi-family residential development.

History and Status of Development

On the 14th day of November, 2000, the Commissioners' Court of Williamson County authorized the creation of the Avery Ranch Road District No. 1. At an election conducted within the District, the voters approved the designation of the District and approved the issuance of up to \$17,000,000 of Unlimited Tax Bonds to serve the District, which bonds are secured by an unlimited ad valorem tax levied solely upon taxable property located within the District.

As of November 30, 2001, Continental received final plat approval for Avery Ranch West, Sections 1A and 1B, (a total of _____ acres) Avery Ranch East, Sections 1A and 1B (a total of _____ acres), and Avery Ranch West, Sections 2A and 2B (a total of _____ acres). Continental has completed development of Avery Ranch West Sections 1A and 1B, and has sold 23 homes in those two sections as of November 1, 2001, with another 26 homes in those sections under contract.

As of November 30, 2001, DAR had received final plat approval for _____ (_____ acres), _____ (_____ acres), and _____ (_____ acres). DAR has completed development of _____. Ryland Homes has acquired _____ acres from DAR, and _____ different builders have commenced construction of a total of _____ homes in those subdivisions as of November 30, 2001.

As of November 1, 2001, the District contained 55 completed homes and 319 homes under construction. Additionally, there are _____ developed and completed, but vacant, lots awaiting construction of houses.

As of November 1, 2001, development of the District includes the following: (1) Avery Ranch West, Phase _____, Section _____, containing approximately _____ acres of land subdivided into _____ single-family residential lots; (2) Avery Ranch West Phase _____, Section _____, containing approximately _____ acres of land subdivided into _____ single-family residential lots; (3) Avery Ranch, _____ Phase _____, Section _____, containing approximately _____ acres of land subdivided into _____ single-family residential lots; (4) Avery Ranch _____, Phase _____, Section _____, containing approximately _____ acres of land subdivided into _____ single-family lots; (5) Avery Ranch Phase _____, Section _____, containing approximately _____ acres of land subdivided into _____ single-family lots; (6) _____. In addition, Continental intends to let contracts for the development of _____ additional lots on approximately _____ acres during the first quarter of 2002, and DAR intends to let contracts for the development of _____ additional lots on approximately _____ acres during the first quarter of 2002.

In addition to the projected completed development of over 4,000 single-family home lots, development of the District includes or will include the following projects: 226 acre, 18-hole golf course and related amenities (including a 15 acre driving range with chipping, putting, and bunker areas), including a 6,500 square foot clubhouse and 3,000 square foot pavilion (See – THE GOLF COURSE); a Round Rock Independent School District elementary school on approximately 13.5 acres; a community center consisting of a 25m swimming pool and two other pools, a playscape and park area, five tennis courts, a basketball court, two volleyball courts, picnic area; and four satellite amenities centers, each with a pool and other improvements, of approximately 1 to 3 acres each. In addition, there will be approximately 116 acres of hike-and-bike trails, parks and greenspace within the community.

According to representations of Continental and DAR, the homebuilders are currently constructing homes in the District which range in size from approximately _____ to _____ square feet of living area and range in sales price from approximately \$ _____ to \$ _____. The homebuilders may elect to change the size and types of homes that they build, subject to any required approval of the Architectural Control Committee of the Avery Ranch Owners Association, Inc. or the architectural control committee of any sub-association.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below are actual costs incurred by the Developers in the construction of Avery Ranch Boulevard, and related improvements through _____, 2001. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District’s auditor.

CONSTRUCTION COSTS

| | | | |
|------------------------------------|---|----|------------|
| A. | Road Construction Costs..... | \$ | |
| B. | Engineering and Design Costs..... | \$ | |
| C. | Inspection Costs and Other..... | \$ | |
| TOTAL CONSTRUCTION COSTS | | \$ | |
| | | | |
| NON-CONSTRUCTION COSTS | | | |
| A. | Legal Fees | \$ | 96,750 |
| B. | Financial Advisory Fees | | 80,313 |
| C. | Interest Costs: | | |
| | 1. Capitalized Interest (24 months) | | 625,022 |
| D. | Bond Discount..... | | 118,863 |
| E. | Other Bond Issuance Expenses | | 11,750 |
| F. | Contingencies..... | | 2,303 |
| Total Non-Construction Costs..... | | \$ | 935,001 |
| TOTAL BOND ISSUE REQUIREMENT | | \$ | 6,425,000* |

*Preliminary, subject to change.

THE DISTRICT

Authority

The District is a road district created by an order of the Commissioner's Court of Williamson County, Texas on November 14, 2000 and confirmed by the voters within the District at an election held on May 5, 2001.

The District is a political subdivision of the State with the rights, powers, privileges, and authority established by the general laws of the State of Texas, including particularly Chapter 257 of the Texas Transportation Code.

The District is within the municipal and extraterritorial jurisdiction of the City of Austin.

The District is empowered, among other things, to purchase and construct Avery Ranch Boulevard. The District issues bonds and other forms of indebtedness to purchase or construct such facilities.

Description

At creation, the District encompassed approximately 1,547 acres of land. The District is located in the City of Austin and in the extraterritorial jurisdiction of the City of Austin, all in Williamson County, Texas. Parmer Lane bisects the District north-south, and the Road, when completed, will bisect the District east-west. Approximately _____ acres within the District are in the municipal jurisdiction of the City of Austin, Texas. The remaining property in the District, approximately _____ acres, lies wholly within the extraterritorial jurisdiction of the City of Austin, Texas. Approximately 605 acres within the District lie within the Round Rock Independent School District, and approximately 942 acres lies within the Leander Independent School District.

Management of the District

The District is governed by the Board of Directors, consisting of five Directors, who have control over management and supervision of all affairs of the District. The Williamson County Judge and four Williamson County Commissioners serve as the directors of the District. The current members and officers of the Board, along with their occupations, are listed below:

| <u>Name</u> | <u>Title</u> | <u>Occupation</u> | <u>Term Expires</u> |
|--------------------|--------------|-------------------|---------------------|
| John Doerfler | President | * | |
| Mike Heiligenstein | * | * | * |
| Greg Boatright | * | * | |
| David Hays | * | * | |
| Frankie Limmer | * | * | |

Consultants

The District has contracted for auditing, tax assessing and collecting, engineering, financial advisory and legal services as follows:

Tax Appraisal: The Williamson Central Appraisal District ("Appraisal District") has the responsibility of appraising all property within the District.

Auditor: The firm of _____ is currently the District's independent auditor. See "APPENDIX A".

Tax Assessor/Collector: The District has engaged Round Rock Independent School District ("Tax Collector"), the Williamson County Tax Assessor and Collector, to collect its ad valorem taxes. The District also has contracted with _____ to collect the special tax to be levied against property located within the District.

Engineer: The District's consulting engineer is _____ ("Engineer"). The Developers of Avery Ranch have engaged the firm of _____ to assist in the design of certain facilities serving the District, and _____ to advise on bond and regulatory issues.

Financial Advisor: The District has engaged First Southwest Company as financial advisor. The fees for services rendered in connection with the issuance of the Bonds are 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.

General Counsel: General Counsel to the District is Jackson Walker, L.L.P., Attorneys at Law.

Bond Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as bond counsel. The fees for services rendered in connection with the issuance of the Bonds are 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.

District Road System

The District has power to construct roadways in the District. The District's primary purpose is to construct Avery Ranch Boulevard, a roadway which will run east to west the entire length of the District, a distance of approximately _____ miles. As of December 31, 2001, approximately _____ miles of Avery Ranch Boulevard had been completed, being approximately _____ miles from Parmer Lane to the east, and approximately _____ miles from Parmer Lane to the west.

THE DEVELOPERS

General

In general, the activities of a developer in a road district, such as the District, include purchasing the land within the road district; coordinating the design of the subdivision; coordinating the design of the utilities and streets to be constructed in the subdivision; coordinating the design of any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of the improvements within the subdivisions, including water, wastewater, and drainage facilities, as well as gas, telephone, cable television, and electric service; and selling improved lots and commercial reserves to homebuilders, other developers, or other third parties. In most instances, the developer will be required to pay all of the costs of the roadways in the subdivision development. The relative success or failure of a developer to perform such activities will have profound effect on the security of the bonds issued by the District. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily the major taxpayer within the district during the development phase of the property. The developers of land within the District are (i) Continental Homes of Texas, L.P., a Texas limited partnership doing business as Milburn Homes, a wholly owned subsidiary of D.R. Horton, Inc. ("Continental"), (ii) Developers of Avery Ranch, Ltd., a Texas limited partnership ("DAR"), and (iii) Rathgeber Investment Company, Ltd., a Texas limited partnership ("Rathgeber"), and together with Continental and DAR, collectively, the "Developers"). In addition, approximately 226 acres is being developed as the "Avery Ranch Golf Club" by The Golf Club at Avery Ranch, Ltd., a Texas limited partnership ("GCAR"). Almost all of the land in the District which has not been acquired by the Developers is owned by Pebble Creek Joint Venture, a Texas joint venture ("Pebble Creek").

Description of Pebble Creek, the Developers, and GCAR

Pebble Creek is a Texas joint venture formed in 1998 to acquire portions of the Avery Ranch. The two venture partners in Avery Ranch are Rathgeber and Butler Development Company, Ltd., a Texas limited partnership ("Butler Development"). The general partner of Butler Development is Butler Broadcast Management, Inc. Pebble Creek is an owner of portions of Avery Ranch, not a developer.

Continental is a Texas limited partnership and wholly owned subsidiary of D.R. Horton, Inc., and operates in the Austin, Texas market under the name "Milburn Homes". D.R. Horton, Inc. is a NYSE-listed company (DHI) founded in Fort Worth Texas in 1978. The company is active in development and homebuilding through 46 operating divisions and in 39 individual markets. Horton is an industry leader in revenue and earnings growth. By offering a piece of the "American Dream", D.R. Horton has grown to over \$1 billion in stockholders' equity, which emphasizes the financial commitment and stability D.R. Horton provides its homebuyers. In the Austin market, Continental is the leading homebuilder, with home sales of _____ in 1998, _____ in 1999, _____ in 2000, and _____ in 2001 (through the third calendar quarter of 2001).

Rathgeber Investment Company, Ltd. (Rathgeber) is a Texas limited partnership formed in 1998 by Edward R. Rathgeber, Jr., for the initial primary purpose of acquiring the Avery Ranch through Pebble Creek. The general partner of Rathgeber is Rathgeber Investment GP, Inc. Edward R. Rathgeber, Jr. is the President of Rathgeber Investment GP, Inc. and one of the principals primarily responsible for the development of Avery Ranch in that capacity. Mr. Rathgeber has over forty years of experience in developing real estate in Austin, Texas. The limited partners of Rathgeber are Edward R. Rathgeber, Jr., Sara Ross Rathgeber, and Rathgeber Family Partnership.

Developers of Avery Ranch, Ltd. (DAR) is a Texas limited partnership formed in 1999 for the express purpose of developing those portions of Avery Ranch not being acquired and developed by Continental. The general partner of DAR is RWR Development Company, L.L.C. The limited partners of DAR are Robert D. Wunsch, Edward R. Rathgeber, Jr., and Ross Rathgeber.

In July, 1998, Pebble Creek purchased approximately 1,501 acres of the Avery Ranch. The venture partners in Pebble Creek are Rathgeber and Butler Development.

In August, 1999, Continental acquired 182.12 acres of Avery Ranch, and Rathgeber acquired 168.05 acres of Avery Ranch. The seller on both transactions was Avery Ranch Company Ltd. and Charles Needham Avery, III, Trustee for the Exemption Equivalent Trust created under the will of Charles Needham Avery, Jr., Deceased (collectively, the "Avery Family"). The land acquired by Continental from the Avery Family is sometimes referred to as "Milburn Avery East". Continental also has a contract with Pebble Creek, pursuant to which Continental was granted an option to acquire most of the land in Avery Ranch west of Parmer Lane (sometimes referred to as "Milburn Avery West"). Continental has since acquired 133.223 acres of Milburn Avery West.

In September, 2000, GCAR acquired 225.89 acres of Avery Ranch from Pebble Creek for the construction of the Golf Course and related amenities and improvements, including a clubhouse and driving range.

After such acquisitions, Pebble Creek, Continental, and Rathgeber owned all of the land in Avery Ranch, save and except a two acre tract, which is owned by the Avery Family.

Those portions of the Avery Ranch which were acquired by Pebble Creek, Continental, and Rathgeber are, in the aggregate, larger than the District. Such portions which are not included in the District are either public parkland (or property that will be dedicated as public parkland) and a 15 acre tract acquired by the Protestant Episcopal Church Council of the Diocese of Texas.

STATUS OF ACQUISITION AND DEVELOPMENT LOANS

Pebble Creek

Pebble Creek acquired its portion of Avery Ranch through capital of Pebble Creek and two loans. The first loan is evidenced by a note in the amount of \$4,900,000, dated July 31, 1998, executed by Pebble Creek, and payable to the order of Neal Avery Watt, Individually and as Independent Executor of the Estate of Marian Hedwig Avery Watt, Deceased (the "Watt Note"). The Watt Note bears no interest and matures on July 31, 2008. This is a contingent note, payable only out of proceeds of the sale of land in Avery Ranch by Pebble Creek. The outstanding principal balance of the Watt Note as of November 1, 2001, was \$2,000,000.

The second loan is evidenced by a note in the amount of \$7,000,000, dated July 31, 1998, executed by Pebble Creek, and payable to the order of Butler Development Company, Ltd. (the "Butler Note"). The Butler Note bears interest at a rate of ten percent (10%) per annum and matures on July 28, 2008. The Butler Note is payable out of the proceeds of the sale of land in Avery Ranch by Pebble Creek. The outstanding principal balance of the Butler Note as of November 1, 2001, was \$3,701,865, and accrued interest was \$28,006.

Continental

The land which Continental has acquired from Pebble Creek is owned free and clear. The land acquired by Continental from the Avery Family, being 182.12 acres, is subject to a lien securing a note dated March 10, 1999, executed by Avery Ranch Company, Ltd., to Lucille S. Avery ("Mrs. Avery's Note"). Continental took title subject to that lien and assumed and agreed to pay Mrs. Avery's Note. Mrs. Avery's Note was in the original principal amount of \$1,200,000, and bears interest at a rate of seven percent (7%) per annum. Interest is payable monthly, and the note matures August 31, 2004. The outstanding principal balance of Mrs. Avery's Note as of November 1, 2001, was \$1,200,000.

Rathgeber

Rathgeber financed its acquisition from the Avery Family in part through execution of note payable to the Avery Family, in the original principal amount of \$2,070,000, dated August 27, 1999 (the "Avery Family Note"). The Avery Family Note bears interest at a rate of seven percent (7%) per annum, is payable in monthly installments of principal and interest in the amount of \$20,000, and matures on August 31, 2004. The outstanding principal balance of the Avery Family Note as of November 1, 2001, was \$1,530,000.00.

DAR

DAR has three development loans outstanding as of November 1, 2001.

The first DAR loan is evidenced by a note in the original principal amount of \$3,125,000.00, dated February 27, 2001, executed by DAR, and payable to the order of First Bank (the "DAR Drees Note"). The DAR Drees Note bears interest at a rate of prime plus 3/4s percent per annum, with interest payable monthly, and maturing on August 27, 2003. The outstanding principal balance of the DAR Drees Note as of November 1, 2001, was approximately \$2,202,359.29. The DAR Drees Note is secured by approximately 23.7 acres of land, being the property which Drees Custom Homes has contracted to purchase from DAR for a total sales price of \$5,499,900.00.

The second DAR loan is evidenced by a note in the original principal amount of \$5,858,650.00, dated May 9, 2001, executed by DAR, and payable to the order of First Bank (the "DAR Morrison Note"). The DAR Morrison Note bears interest at a rate of prime plus 3/4s percent per annum, with interest payable monthly, and maturing on May 9, 2004. The outstanding principal balance of the DAR Morrison Note as of November 1, 2001, was approximately \$3,999,394.03. The DAR Morrison Note is secured by approximately 48.529 acres of land, being the property which Morrison Homes has contracted to purchase from DAR for a total sales price of \$8,838,000.00.

The third DAR loan is evidenced by a note in the original principal amount of \$6,680,000.00, dated September 28, 2001, executed by DAR, and payable to the order of Bank One, NA (the "DAR Avery Ranch Note Note"). The DAR Avery Ranch North Note bears interest at prime, with interest payable monthly, and maturing on September 30, 2003. The outstanding principal balance of the DAR Avery North Note as of November 1, 2001, was approximately \$3,085,158.04. The DAR Avery North Note is secured by approximately 63.679 acres of land, being the property which is under contract for a total sales price of \$9,018,000.00.

GCAR

GCAR has one loan outstanding for the development and construction of the Golf Course. It is evidenced by a note in the original principal amount of \$5,600,000.00, dated November 3, 2000, executed by GCAR, and payable to Regions Bank (the "GCAR Note"). The GCAR Note bears interest at prime plus one-half, with interest payable monthly, and maturing on May 3, 2017. The GCAR Note is secured by approximately 220 acres of land for the Golf Course.

Waterline Loan

Pebble Creek, Continental, Rathgeber, and DAR obtained a loan in the original principal amount of \$3,353,240.00 from Bank One, NA for the construction of 14,700 linear feet of a 24-inch water line and appurtenances and approximately 3,700 linear feet of a 30-inch water line and appurtenances, to serve Avery Ranch (the "Waterline Loan"). Pebble Creek, Continental, Rathgeber, and DAR entered into a Cost Reimbursement Agreement dated June 4, 2000, with the City of Austin pursuant to which the City of Austin agreed to reimburse Pebble Creek and the Developers a portion of the "hard costs" incurred in connection with such water project, up to \$15,600,000 (which sum includes additional water projects for Avery Ranch which are not being constructed with the proceeds of the Waterline Loan, but which may be financed in the future). The Waterline Loan bears interest at prime, and accrued interest on the Waterline Loan is payable quarterly. The principal of the Waterline Loan is payable on March 1, 2002, March 1, 2003, March 1, 2004, and on March 1, 2005, as follows: the greater of \$762,156.95 for the first installment due March 1, 2002, \$909,041.99 for the second installment due March 1, 2003, \$909,041.96 for the third installment due March 1, 2004, and \$146,855.05 for the fourth installment due March 1, 2005; and the amount of the annual installment to be paid by the City of Austin on or about such payment date under Section 3.03 of the Cost Reimbursement Agreement dated effective as of June 4, 2000 by and between Pebble Creek and the Developers and the City of Austin. The Waterline Loan is secured by a pledge of the sums to be paid by the City of Austin under the Cost Reimbursement Agreement.

THE HOMEBUILDERS

Active Builders

Continental

Continental, doing business as Milburn Homes, is both the developer of its lots and a homebuilder. Continental had 122 homes under construction as of November 1, 2001. As of November 1, 2001, Continental had sold 23 homes, and had another 26 under contract. Continental has 8 model homes and 46 spec homes either completed or under construction.

DAR

DAR has a contract with The Drees Company, doing business as Drees Custom Homes for approximately _____ developed lots in _____ Avery Ranch _____. DAR has a contract with Morrison Homes, Inc. for approximately _____ developed lots in _____ Avery Ranch _____. DAR has a contract with Ryland Homes (The Ryland Group, Inc.) for approximately _____ lots in _____ Avery Ranch _____. DAR has a contract with Wilshire Homes, Ltd. for approximately _____ developed lots in _____ Avery Ranch _____. DAR has a contract with Hammond Homes for approximately _____ garden homes lots in _____.

Drees Custom Homes: Drees had 6 homes under construction as of November 1, 2001, and 49 lots which Drees owns but on which Drees has not yet begun construction. Houses range in size from 3,500 square feet to 6,000 square feet, with prices from \$380,000 to \$800,000. Drees was founded in the 1930s, is headquarter in Fort Mitchell, Kentucky, and has operations in Cleveland, Ohio, Cincinnati /Northern Kentucky, Dayton, Ohio, Washington, D.C., Maryland, Virginia, Raleigh, North Carolina, Austin, Texas, and Dallas/Fort Worth, Texas. Drees received the "Builder of the Year" award from Professional Builder magazine in 1991, and Drees was named "America's Best Builder" in 1998 by Builder magazine.

Morrison Homes: Morrison had 2 homes completed or under construction as of November 1, 2001, and 104 lots owned but not currently under construction. Morrison began selling homes on November 1, 2001, and has 6 homes under contract. Their houses range in size from 2,200 square feet to 4,500 square feet, with prices from \$210,000 to \$450,000. Morrison Homes is a wholly-owned subsidiary of George Wimpey PLC, a British-based, publicly held company. Founded over 100 years ago, Wimpey began building homes in the 1920s, and has grown to become one of the largest homebuilders in the world. Morrison Homes was founded in 1905 in Seattle, and was acquired by Wimpey in 1984.

Ryland Homes: Ryland Homes has 16 homes under construction as of November 1, 2001, and 149 finished lots and approximately 135 lots to be developed. Ryland began selling homes on August 15, 2001, and had 20 homes under contract as of November 1, 2001. Ryland's houses range in size from approximately 1,808 square feet to 3,427 square feet, and prices range from \$186,490 to \$314,490. Ryland is listed on the New York Stock Exchange (NYSE symbol: RYL). Ryland began selling homes in Columbia, Maryland, in 1967, and has since expanded across the nation, operating in three regions and 21 markets.

Wilshire Homes, Ltd.: Wilshire Homes, Ltd. has not yet commenced construction of homes. Wilshire expects to close on its first lots and begin construction in 2002. Wilshire Homes, Ltd. is a wholly owned subsidiary of The Fortress Group, Inc.

Hammond Homes: Hammond Homes has not yet commenced construction of homes. Hammond Homes plans to build _____ garden homes on _____ lots in _____ Avery Ranch _____. They anticipate commencing construction in the _____ quarter of 2002.

Subdivisions

As of November 30, 2001, there are 4 active subdivisions in Avery Ranch. The subdivisions are all part of the Avery Ranch and are platted pursuant to the PUD. The subdivisions are:

| | |
|----------------------------------|------------|
| Completed Homes: | 55 |
| Homes Under Construction: | 26 |
| Vacant Developed Lots: | 319 |
| Lots Under Construction: | 90 |

THE ROAD

Regulation

Avery Ranch Boulevard is being designed and constructed in accordance with the criteria of various regulatory agencies including Williamson County, Texas and the City of Austin, Texas. The construction and installation of the road and related improvements must be made in accordance with the standards and specifications of such entities and are subject to inspection by each such entity.

Exemptions

The District has adopted a residential homestead exemption of 10% of the assessed value or \$5,000 whichever is greater and an exemption for persons 65 years or older or disabled persons of \$10,000.

Portions of the land owned by the Developers are undeveloped and are valued for ad valorem tax purposes on the basis of their agricultural productivity (qualified open-space land), which would be a small fraction of its fair market value.

Investment Authority and Investment Practices of the District

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Directors. Both state law and the District's investment policies are subject to change.

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations of which the principal and interest of is guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) certificates of deposit that are guaranteed or insured by the

Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for District deposits; (8) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses 1) through 6) or in any other manner and amount provided by law for District deposits; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause 1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper that is rated at least A-1 or P-1 or the equivalent by either 1) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by the U.S. or state bank; (12) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: 1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal; 2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security and bears no interest; 3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and 4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity, that address investment diversification, yield, maturity, and the quality and capability of investment management, and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: 1) suitability of investment type, 2) preservation and safety of principal, 3) liquidity, 4) marketability of each investment, 5) diversification of the portfolio, and 6) yield.

Under Texas law District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: 1) the investment position of the District, 2) that all investment officers jointly prepared and signed the report, 3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, 4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, 5) the maturity date of each separately invested asset, 6) the account or fund or pooled fund group for which each individual investment was acquired, and 7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law the District is additionally required to: 1) annually review its adopted policies and strategies, 2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors, 3) require the registered principal of firms seeking to sell securities to the District to: a) receive and review the District's investment policy, b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, (c) deliver a written statement attesting to these requirements; 4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, 5) provide specific investment training for the Treasurer and investment officers, 6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, 7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and 8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

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Debt Service Requirements

| FYE 9/30 | The Bonds | | |
|---------------------------|---------------------|--------------------------------|----------------------|
| | Principal | Interest ⁽¹⁾ | Total |
| 2002 | \$ - | \$ 162,159 | \$ 162,159 |
| 2003 | - | 324,318 | 324,318 |
| 2004 | 220,000 | 324,318 | 544,318 |
| 2005 | 230,000 | 316,838 | 546,838 |
| 2006 | 240,000 | 308,213 | 548,213 |
| 2007 | 250,000 | 298,733 | 548,733 |
| 2008 | 260,000 | 288,358 | 548,358 |
| 2009 | 270,000 | 277,308 | 547,308 |
| 2010 | 280,000 | 265,563 | 545,563 |
| 2011 | 295,000 | 252,963 | 547,963 |
| 2012 | 305,000 | 239,245 | 544,245 |
| 2013 | 320,000 | 224,910 | 544,910 |
| 2014 | 335,000 | 209,390 | 544,390 |
| 2015 | 355,000 | 192,808 | 547,808 |
| 2016 | 370,000 | 174,703 | 544,703 |
| 2017 | 390,000 | 155,278 | 545,278 |
| 2018 | 410,000 | 134,218 | 544,218 |
| 2019 | 435,000 | 111,463 | 546,463 |
| 2020 | 460,000 | 86,668 | 546,668 |
| 2021 | 485,000 | 59,758 | 544,758 |
| 2022 | 515,000 | 30,900 | 545,900 |
| | <u>\$ 6,425,000</u> | <u>\$ 4,438,104</u> | <u>\$ 10,863,104</u> |

(1) Interest calculated at a Net Interest Cost of 5.50%.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet the debt service requirements on the Bonds if no growth in the District's tax base within the District occurs beyond the Preliminary 2002 Assessed Valuation. The calculations assume collection of 95% of taxes levied.

| | |
|---|------------|
| Average Annual Debt Service Requirements (2002-2022) | \$ 517,291 |
| Tax Rate of \$0.6560 on the Preliminary 2002 Assessed Valuation produces (95% collections)..... | \$ 517,291 |
| Maximum Annual Debt Service Requirements (2007) | \$ 548,733 |
| Tax Rate of \$0.6960 on the Preliminary 2002 Assessed Valuation produces (95% collections)..... | \$ 548,733 |

Estimated Overlapping Debt

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 information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. 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 presently 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 for payment of their debt, and some are presently levying and collecting such taxes.

| <u>Taxing Jurisdiction</u> | <u>Outstanding Bonds</u> | <u>As of</u> | <u>Percent</u> | <u>Overlapping Amount</u> |
|--|------------------------------|--------------|----------------|-------------------------------|
| Brushy Creek WCID No. 1 ^(a) | \$ 0 | 12-1-01 | N/A | \$ * |
| Williamson County | 123,115,000 | 12-1-01 | **% | * |
| Leander ISD | 286,968,938 | 12-1-01 | **% | * |
| Round Rock ISD | 396,442,917 | 12-1-01 | **% | * |
| City of Austin | 641,859,011 | 12-1-01 | **% | * |

Total Direct and Estimated Overlapping Debt^(c) \$

Direct and Estimated Overlapping Debt as a Percentage of:
2002 Preliminary Taxable Assessed Value of..... %

(a) Secured by ad valorem taxes levied on all taxable property located in the District.

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. All the land located within the District lies within the District. The following chart includes the 2000 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions.

Taxing Jurisdiction

| | <u>2001 Tax Rates</u> |
|--|---------------------------|
| The District (a) | \$ 0.00000(a) |
| City of Austin | 0.4597 |
| Williamson County | 0.* |
| Leander Independent School District | * |
| Round Rock Independent School District | * |
| Austin Community College District | 0.05000 |
| Emergency Services District # _____ * | 0.10000 |
| Estimated Tax Bill | \$ * |

(a) Total tax rate levied by the District on property located in the District. The District anticipates it will levy a \$0.2750 tax rate for tax year 2002.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds. The Board of Directors of the District has in its Bond Order covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds.

District Taxes

Debt Service Tax: The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax on all property in the District adequate to provide funds to pay the principal of and interest on the Bonds.

Maintenance Tax: The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. To date, the Board has taken no action to authorize the levy of such a tax.

Principal Taxpayers

The following table represents the principal taxpayers within the District, the type of property, the taxable assessed value of such property, and such property's assessed value as a percentage of the District's 2001 Taxable Assessed Valuation of \$ _____. See "THE DEVELOPERS" for more information on certain of the principal taxpayers.

| Name of Taxpayer | 2001 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|------------------|--|--|
| | \$ - | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | 0 | \$ - % |
| | <u>0</u> | <u>\$ - %</u> |
| | <u>\$ -</u> | <u>\$ - %</u> |

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TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District 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 CONSIDERATIONS - 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 Payment". Under Texas law, and if approved by the voters of the District, the Board may also 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.

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, and school districts that participate in the appraisal district and of the county and, if entitled to vote, conservation and reclamation districts such as the District. The Board of Directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. All taxing units within Williamson County, including the District, are included in the Williamson County Central Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Williamson County Central Appraisal Review Board. The appraisal roll as approved by the Williamson County Central 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 status in the District is subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on the tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: 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; certain non-profit cemeteries; farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the Veteran. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of certain persons who are disabled or at least 65 years old, not less than \$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.

Residential Homestead: The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created.

Tax Abatement: The City of Austin and Williamson County may designate all or part of the area within the District as a reinvestment zone, and Williamson County, Round Rock Independent School District, the Leander Independent School District, the District, and the City of Austin, respectively, may thereafter 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 any 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 improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

Valuation of Property for Taxation

Generally, all taxable property in the District (other than any qualifying agricultural or timberland) must be appraised by the Appraisal District at 100% market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented, and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of houses at inventory level in future years could reduce the assessed value of developer and builder house inventory within the District. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values at least once every three years.

The Property Tax Code permits land designated for agricultural use or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use 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. If a claimant receives the 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 three years for agricultural use and of five years for agricultural land and timberland, prior to the loss of the designation.

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in a recommended increase in value, if the appraiser will recommend an increase in value over the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. The Appraisal Review Board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice to the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must substantially comply with the requirements that it pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property.

Levy of Taxes

By September 1 of each year, or as soon thereafter as possible, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. The Board may under certain circumstances be required to advertise and hold a public hearing within the District on a proposed tax rate before the Board can hold a public meeting to vote on the tax rate. If the tax rate adopted exceeds by more than eight percent the rate needed to pay debt service and certain contractual obligations, and to produce, when applied to the property that was on the prior year's roll, the prior year's total taxes levied for purposes other than debt service and such contractual obligations, such excess portion of the levy may be repealed at an election within the District held upon petition of ten percent of the District's qualified voters.

Unless the Board, or the qualified voters of the District or of Williamson County at an election held for such purpose, determines to transfer the collection of taxes to the Appraisal District or another taxing unit, the _____ is responsible for the levy of its taxes. Taxes of the District are collected by _____.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in Texas state district court within forty-five (45) days after notice is received that a final order has been entered. In such event the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District 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 rollback of certain tax increases as described above. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Collection of Taxes

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 is entitled by law to pay current taxes on his residential homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residential homestead. The date of the delinquency may be postponed if the tax bills are mailed after January 10 of any year. The Board may legally approve a 3% discount for taxes paid in October, 2% for November and 1% for December. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, where a district engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed fifteen percent 15% on all taxes unpaid on July 1.

Taxes levied by the District are a personal obligation of the owner of the property on 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 each state and 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 – Estimated Overlapping Debt Statement"). 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.

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 (a taxpayer may redeem property within six months of foreclosure unless the property is his residence homestead or designated for agricultural use, in which case the taxpayer may redeem the property within two years) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court. See "INVESTMENT CONSIDERATIONS - Tax Collections and Foreclosure Remedies".

Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Financial Institutions and Recovery Act

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") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC, and no involuntary liens shall attach to such property, (ii) the FDIC 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.

It is also not known whether the FDIC 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 the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

INVESTMENT CONSIDERATIONS

General

The Bonds are limited obligations solely of the District and are not obligations of the City of Austin, Williamson County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied solely on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS - Source of Payment". The collection by the District of delinquent taxes owed to it and the enforcement by Registered 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 taxable property within the District will occur or that property in the District will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors and Interest Rates: A substantial percentage of the taxable value located within the District results from the current market value of single-family residences, vacant developed lots and undeveloped land. The market value of such homes, lots and land is related to general economic conditions affecting the demand for such property. Demand for property of this type and the construction of taxable improvements thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and

changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District.

Although located approximately 20 miles from the central downtown business district of the City of Austin, the success of development within the District and growth of taxable property values within the District are, to a great extent, a function of the Austin metropolitan and regional economies.

Competition: The demand for and construction of single-family homes in the District, which is approximately 17 miles from downtown Austin, could be affected by competition from other residential developments including other residential developments located in other utility districts in the vicinity of the District, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District.

The District is located within ____ miles of ____ other large developments.

The competitive position of the Developers or any future developer or builder in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by any developer or builder will be implemented or, if implemented, will be successful.

Landowners/Developers Under No Obligation to the District: There are no commitments or obligations from the Developers or any landowner to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on the Developers or any landowner's right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners or developers to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon its principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of any taxpayer will be or what effect, if any, such conditions may have on their ability to pay taxes. See "TAX DATA - Principal Taxpayers".

Maximum Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2002 Preliminary Taxable Assessed Valuation is \$83,000,000. After issuance of the Bonds, the maximum annual debt service requirement will be \$548,733 (2007), and the average annual debt service requirement will be \$517,291 (2002-2022, inclusive). Assuming no increase or decrease from the 2002 Preliminary Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.6960 and \$0.6560 per \$100 of assessed valuation at a ninety-eight percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. See "TAX DATA - Tax Adequacy for Debt Service". Decreases in the taxable value of the land within the District would most likely result in increases in the tax rate of the District.

Tax Collection Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "TAX DATA - Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within six months after the purchaser's deed issued at the foreclosure sale is filed in the County records with the exception of residential homesteads and property designated for agricultural use for which the right of redemption is two years). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "Bankruptcy Limitation to Registered Owners' Rights" below. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies

Remedies available to Registered Owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Order are limited. Although Texas law and the Bond Order provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Order does not provide for acceleration of maturity of the Bonds, appointment of a trustee to protect the interest of the Registered Owners or any other additional remedy in the event of a default by the District and, consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Bondholders 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 Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Bondholders' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic bondholders' stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, entered an order granting relief from the stay or otherwise allowed 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 negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TNRCC as a condition to seeking relief under the Federal Bankruptcy Code. The TNRCC 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 invoking 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 making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claims.

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 Registered Owners 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 Registered Owners' claims against a district.

Future Debt

The District has the right to issue the remaining \$10,575,000 authorized but unissued bonds (after issuance of the Bonds) for road related improvements benefiting the District, and such additional bonds as may hereafter be approved for such purpose. The District also has the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining \$10,575,000 in bonds for road related improvements benefiting the District which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed.

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 retroactive to the date of original issuance. See "TAX MATTERS".

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 security of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Preliminary Official Statement.

Possible Avoidance of Pledge of Ad Valorem Taxes in Bankruptcy

Texas has adopted the 1998 revisions to Article 9 of the Uniform Commercial Code (the "UCC"), to become effective July 1, 2001. The revisions would for the first time provide means to perfect pledges by government entities and, in addition, would make unperfected pledges subject to the interests of a bankruptcy trustee, whether or not the pledged collateral is exempt from judicial liens. Security interests arising before July 1, 2001 that are not perfected by July 1, 2002 will be considered unperfected pledges. For a number of reasons, it will be impractical and perhaps impossible to perfect the District's pledge of ad valorem taxes under the revised Article 9. In proceedings for the adjustments of their debts under the Bankruptcy Code, districts are generally authorized to exercise the powers of a bankruptcy trustee. Accordingly, after July 1, 2002, it is likely that the District could avoid its pledge of the ad valorem taxes to secure payments of the Bonds, unless the Texas UCC is further amended, or other statutes are enacted, to avoid this result. Since the pledge of the ad valorem taxes may be legally unenforceable in the circumstances in which it would be most valuable, no person should rely upon the pledge as providing asset security or a preference right in the event that the District should become insolvent.

Even under the 1998 UCC revisions, the rights of bondholders with respect to the ad valorem taxes and the amounts in the funds created under the Order, and other financial covenants of the District made in the Order are valid and enforceable except in the event of bankruptcy. Thus, for example, outside of the occurrence of municipal bankruptcy, bondholders may enforce the obligation of the District to levy, collect and apply ad valorem taxes to pay holders of the Bonds, as described above (see "THE BONDS – Security for the Bonds"). Moreover, the District is aware that proposed legislation is being drafted and may be introduced for consideration by the Texas Legislature in the legislative session that begins in January, 2001 to amend Texas law to avoid the results of the adoption of the 1998 UCC revisions mentioned above. No assurance can be given, however, that any such legislation will be adopted by the Texas Legislature.

LEGAL MATTERS**Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding limited obligations of the District 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. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding limited 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. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS". Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the transactions described in this Preliminary Official Statement, McCall, Parkhurst & Horton L.L.P. represents only the District.

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

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 the 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.

No-Litigation Certificate

The District will furnish to the Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking 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.

No Material Adverse Change and No Appeal

The obligations of the 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 from that set forth or contemplated in this Preliminary Official Statement amended through the date of sale.

Forward Looking Statements

The statements contained in this Preliminary 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 Preliminary 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 forward-looking statements herein are necessarily based on various assumptions and estimates that are inherently subject to 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 and 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 and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Preliminary Official Statement would prove to be accurate.

TAX MATTERS**Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Bonds will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering their opinion, Bond Counsel will rely upon (i) certain information and representations of the District, underlying information and representations contained in the District's federal tax certificate and (ii) covenants of the District contain in the bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law upon which Bond Counsel have based their opinion is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. The difference between (i) "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year. Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of

the Bond and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, owner of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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 BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted earnings and profits" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable excess exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds may be subject to the "branch profits tax" imposed by Section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such obligations. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of an obligation issued at an original issue discount, the "revised issue price" (i.e., a market discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States citizens.

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 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 has designated 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".

Risk of Audit by Internal Revenue Service

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interests on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes.

No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service is likely to treat the District as the taxpayer and the Bondholders and beneficial owners of the Bonds may have no right to participate in such procedure. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the facts that it deems relevant to render such opinion and is not a guarantee of a result. Bond Counsel is not obligated to defend the tax-exempt status of the Bonds. Neither the District, nor the Bond Counsel is responsible to pay or to reimburse the costs of any Bondholder or beneficial owner with respect to any audit or litigation relating to the Bonds.

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 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The District will provide certain updated financial information and operating data to certain information vendors 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 Preliminary Official Statement under the headings "THE DISTRICT," "THE DISTRICT SYSTEM," "FINANCIAL INFORMATION CONCERNING THE DISTRICT," "TAX DATA," "INVESTMENT CONSIDERATIONS - Future Debt," and in APPENDIX "A". The District will update and provide this information within six months after the end of each fiscal year ending in or after 2001. The District will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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 updated information will include audited financial statements of the District, if the District commissions an audit and it is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles 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 fiscal year end is currently September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The District will also provide timely notices of certain events to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB"). The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Bond Order make any provision for liquidity

enhancement.) In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to any SID and to either each NRMSIR or the MSRB.

Availability of Information from NRMSIRs and SID

The District has agreed to provide the foregoing information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and has received a no-action letter from the SEC dated August 29, 1995 that recognizes the Municipal Advisory Council of Texas as a SID. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, Attention: Laura Slaughter, Assistant Executive Director, 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 holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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 operations of the District but only if the agreement, as amended, would have permitted a purchaser to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five (5) years, the District has complied with all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

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PREPARATION OF PRELIMINARY OFFICIAL STATEMENT**Sources and Compilation of Information**

The financial data and other information contained in this Preliminary Official Statement has been obtained primarily from the District's records, the Developers, the Tax Collector, the District Engineer, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Preliminary Official Statement are included herein 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 for further information.

Experts

The information contained in the Preliminary Official Statement relating to engineering and to the description of the System, and, in particular, the engineering information included in the sections entitled "THE BONDS - Use and Distribution of Bond Proceeds," "THE DISTRICT," and "THE DISTRICT SYSTEM" has been approved by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Preliminary Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" was provided by Ms. Nelda Spears and the Appraisal District. Such information has been included herein in reliance upon Ms. Spear's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of tax assessing.

Financial Advisor

First Southwest Company is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Preliminary Official Statement for the sale of the Bonds. In its capacity as Financial Advisor, First Southwest Company has compiled and edited this Preliminary Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein as indicated.

The Financial Advisor has not, however, independently verified the factual information contained in this Preliminary Official Statement nor has it conducted an investigation into the affairs of persons or firms referred to in this Preliminary Official Statement for the purpose of passing upon the accuracy or completeness of this Preliminary Official Statement.

Certification of Preliminary Official Statement

The District, acting through its Board of Directors in its official capacity and 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 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, descriptions 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.

Updating of Preliminary Official Statement

If, subsequent to the date of the Preliminary Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser, of any adverse event which causes the Preliminary Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Preliminary Official Statement satisfactory to the Purchaser; provided, however, that the obligation of the District to so amend or supplement the Preliminary Official Statement will terminate when the District delivers the Bonds to the Purchaser, unless the Purchaser notifies the District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Preliminary Official Statement "Deemed Final"

For purposes of compliance with Rule 15c2-12 of 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 Preliminary 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 Preliminary Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "Final Preliminary Official Statement" of the District with respect to the Bonds, as that term is defined in Rule 15c2-12.

Underwriter

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$ _____. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

Miscellaneous

All estimates, statements and assumptions in this Preliminary Official Statement and the APPENDIX hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Preliminary Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Preliminary Official Statement was approved by the Board of Directors of Avery Ranch Road District No. 1, as of the date shown on the inside cover page.

/s/
President, Board of Directors
Avery Ranch Road District No. 1

ATTEST:

/s/
Secretary, Board of Directors
Avery Ranch Road District No. 1

AGENDA ITEM 20

Consider approving a resolution for Solid Waste grant application.

Moved: **Commissioner Boatright**

Seconded: **Commissioner Heiligenstein**

Motion: To approve a resolution for a solid waste grant application.

Vote: 3 – 0 with Commissioner Hays absent from the dais.

< Attachment >

COUNTY OF WILLIAMSON--STATE OF TEXAS
RESOLUTION OF WILLIAMSON COUNTY AUTHORIZING THE SUBMISSION OF A
GRANT APPLICATION WITH THE CAPITAL AREA PLANNING COUNCIL FOR A
REGIONAL SOLID WASTE PROGRAM GRANT; AUTHORIZING R.C. MANNING, SR. TO
ACT ON BEHALF OF WILLIAMSON COUNTY IN ALL MATTERS RELATED TO THE
APPLICATION; AND PLEDGING THAT IF A GRANT IS RECEIVED, WILLIAMSON
COUNTY WILL COMPLY WITH THE GRANT REQUIREMENTS OF THE CAPITAL AREA
PLANNING COUNCIL, THE TEXAS NATURAL RESOURCE CONSERVATION
COMMISSION AND THE STATE OF TEXAS.

WHEREAS, the Capital Area Planning Council is directed by the Texas Natural Resource Conservation Commission to administer solid waste grant funds for implementation of the COG's adopted regional solid waste management plan; and

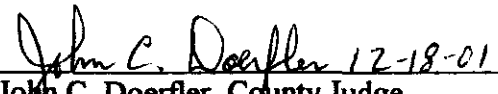
WHEREAS, the County of Williamson in the State of Texas is qualified to apply for grant funds under the Request for Applications; and

WHEREAS, the County of Williamson agrees to comply with all grant requirements of the Capital Area Planning Council, the Texas Natural Resource Conservation Commission and the State of Texas.

NOW, THEREFORE, BE IT RESOLVED, that the County of Williamson located in Georgetown, Texas:

1. That R.C. Manning, Sr., Environmental Crimes Officer is authorized to request grant funding under the Capital Area Planning Council Request for Applications of the Regional Solid Waste Grants Program and act on behalf of Williamson County in all matters related to the grant application and any subsequent grant contract and grant project that may result.
2. That if the project is funded, Williamson County will comply with the grant requirements of the Capital Area Planning Council, Texas Natural Resource Conservation Commission and the State of Texas.
3. The grant funds and any grant-funded equipment or facilities will be used only for the purposes for which they are intended under the grant.
4. That activities will comply with and support the adopted regional and local solid waste management plans adopted for the geographical area in which the activities are performed

PASSED AND APPROVED by Williamson County Commissioners Court in Georgetown, Texas on this 18th day of December, 2001.


John C. Doerfler, County Judge

ATTEST:


Nancy E. Rister, County Clerk