

BASTROP COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

c/o Allen Boone Humphries Robinson LLP
1108 Lavaca Street, Suite 510
Austin, Texas 78701

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To Residents and Property Owners:

As Directors of Bastrop County Municipal Utility District No. 1 (the "District"), we are writing this letter to address the substantial growth anticipated within the District. You may have heard that DR Horton, a national home builder, last month completed the purchase of 49 lots located in the valley section of ColoVista Estates. DR Horton has indicated that it plans to begin construction on these 49 lots within the next sixty days.

The District is fully prepared to handle the anticipated significant growth within our District. The District has the necessary water and sanitary sewer capacity to serve up to additional 150 new homes in the District without substantial expansion or upgrades to its current facilities. The District's infrastructure includes a water pumping and storage plant (the "Water Plant"), a wastewater treatment plant (the "Wastewater Treatment Plant") and water and wastewater utility lines (collectively "District Facilities"). The District purchases treated water for resale to residents from Aqua Water Corporation.

The District encompasses approximately 700 acres, including approximately 265 platted residential lots, the golf course, plus approximately 300 acres of undeveloped un-platted, larger tracts owned by two real estate development firms and their affiliates. These large tracts may be subdivided and platted for additional homes in the District. Should this be the case, then the District may negotiate cost sharing or reimbursement agreements with these real estate development firms for additional infrastructure needs; however, the District is under no obligation to do so. The District Facilities were built and have been maintained to serve approximately 265 Single Family Equivalent Units ("SFUs"). Today the District serves approximately 115 SFUs, which means the District's facilities are operating at approximately forty-five percent of their designed capacity.

The District issued tax-exempt bonds in the amount of \$1,300,000 and \$810,000 in the years 2003 and 2008, respectively (the "Bonds"), to reimburse the original developer for infrastructure he constructed. Upon reimbursement of the prior developer using the proceeds of the District's Bonds when the construction of the District Facilities was complete, the District took over ownership and operation of these facilities. Based on the maturity schedule of the Bonds, they will be repaid in full by the year 2027. Each individually but more significantly together, (1) the retirement of the District's

outstanding Bonds in 2027, and (2) a substantial addition of new homes within the District, suggests that a significant reduction in the District tax rate may be possible at some point in the future.

The District has no employees. The five-member Board, elected by registered voters in the District, relies on expert consultants to provide operation, maintenance, engineering, regulatory, legal, accounting, financial, and tax services necessary to operate the District. These firms and the current Board of Directors are listed on the District's website (www.bastropcountymud1.com). The District engineer and operator have informed the Board that the Wastewater Treatment Plant requires significant major maintenance within the next three to five years, and when completed, pursuant to the District's engineer, the Wastewater Treatment Plant should not require additional major maintenance for another decade. Additionally, the Water Plant currently requires reapplication of protective coating. The Board and its consultants anticipate funds will be available to pay for these two significant projects using the District's existing cash reserves. With these two required major maintenance projects and assuming no unforeseen events, our District Facilities are sound.

The District has and will continue to rely on FEMA assistance to mitigate the negative impact of natural disasters. Thanks to the efforts and leadership of the District's former president, Nick Textor, FEMA has provided significant funding for disaster relief to the District. Additionally, Jane Sevier and Nick Textor have led the District's participation in an alliance of local governments with Bastrop County in connection with designing the Bastrop County Hazard Mitigation Plan to access federal and state government programs to fund mitigation projects to lessen the impact on the District Facilities from future natural disasters. Examples of these projects include the installation of additional fire hydrants in the District and relocation of District water and sewer lines away from the Colorado River and the floodway.

In summary, the District's future is positive. The District assets are highly reliable and well-maintained within the guidelines required by federal and state agencies. And, the District is participating in the coalition of local governments to plan mitigation efforts to lessen or avoid damage from future natural disasters. Growth is at our doorstep and the existing District Facilities are able to accommodate this current new growth with little to no additional capital improvement costs. The District's Board and consultants welcome and are ready to serve the new residents and neighbors.

Respectfully,

Board of Directors
Bastrop County Municipal Utility District No. 1