

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 23, 2009**

**Rating: S&P “AAA”**

**See “MUNICIPAL BOND RATING AND INSURANCE”**

**NEW ISSUE - BOOK-ENTRY-ONLY**

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. The Bonds will be designated as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions” herein.

**\$2,780,000.00\***

**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2009**

**Dated: November 1, 2009**

**Due: March 1, as shown below**

Interest on the Bonds maturing on March 1 in each of the years 2010 through 2018, inclusive (the “Bonds”), will accrue from November 1, 2009, and will be payable March 1 and September 1 of each year, commencing March 1, 2010.

Principal on the Bonds are payable upon surrender of the Bonds for payment at the designated office for payment of The Bank of New York Mellon, the paying agent/registrant (the “Payment Agent/Registrar”), Dallas, Texas. Interest on the Bonds will be payable to the registered owners thereof as shown on the bond register (the “Registered Owners”) on the 15<sup>th</sup> calendar day (whether or not a business day) of the month next preceding each interest payment date by the Paying Agent/Registrar, by check, dated as of the interest payment date, and mailed on or before the interest payment date by the Paying Agent/Registrar or pursuant to other customary means acceptable to the Registered Owner and the Paying Agent/Registrar, at the risk and expense of the Registered Owner. The Bonds will be issued only in fully registered form. The Bonds will be issued in the denomination of \$5,000 of principal amount or integrals. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, 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).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. (“Assured Guaranty”) (see “BOND INSURANCE and Appendix B herein).

**Maturities**  
**(Accrued Interest to Be Added)**

<b>Initial</b>							
<b>Principal</b>	<b>Interest</b>	<b>Maturity</b>	<b>Reoffering</b>	<b>Principal</b>	<b>Interest</b>	<b>Maturity</b>	<b>Reoffering</b>
<b>Amount</b>	<b>Rate</b>	<b>(September 1)</b>	<b>Yields (a)</b>	<b>Amount</b>	<b>Rate</b>	<b>(September 1)</b>	<b>Yields</b>
\$325,000		2010		140,000		2017	
325,000		2011		150,000		2018	
335,000		2012					
350,000		2013					
370,000		2014					
385,000		2015					
400,000		2016					

(a) The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter (as herein defined). The yields may be changed at any time at the discretion of the Underwriter. Accrued interest on the Bonds from November 1, 2009 to the date of delivery of the Bonds is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation to rate or amount, levied against taxable property within the District and a pledge of certain limited Net Revenues (as defined in the Bond Order), if any, of the District’s waterworks and sewer system. See “THE BONDS—Source of and Security for Payment.” THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS” herein.

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 Andrews Kurth LLP, Austin, Texas, Bond Counsel. Certain other legal matters will be passed upon for the District by its counsel, Potts & Reilly, L.L.P. and for the Underwriter by its counsel, Bickerstaff Heath Delgado Acosta LLP, Austin, Texas. Delivery of the Bonds through DTC is expected on or about December \_\_, 2009, in Austin, Texas

\* Preliminary, subject to change.

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), this document constitutes an official statement of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of no more than the information permitted by the Rule.

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

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

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

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

**NEITHER THE DISTRICT NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.**

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 or 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

## **Securities Laws**

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

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Underwriting**

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions, to purchase the Bonds from the District for \$\_\_\_\_\_ (an amount equal to the principal amount of the Bonds, plus a premium on the Bonds of \$\_\_\_\_\_, less an original issue discount of \$\_\_\_\_\_, less an Underwriter's discount of \$\_\_\_\_\_), plus accrued interest on the Bonds to the date of delivery.

## **MUNICIPAL BOND RATING AND INSURANCE**

In connection with the sale of the Bonds, the District has made application to Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") for a municipal bond rating and has received a "AAA" based upon the delivery of a municipal bond insurance policy

by Assured Guaranty Corporation. The District received an underlying rating of “A+” from S&P. The District’s Series 1998 and 2004 and 2006 bonds have a current rating of “CC” as a result of the delivery of municipal bond insurance policies issued by AMBAC Assurance Corporation. The District’s Series 2001 bonds have a current rating of “AAA” as a result of the delivery of a municipal bond insurance policy issued by Financial Security Assurance Inc, now Assured Guaranty Corp.. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **BOND INSURANCE**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

## **OFFICIAL STATEMENT SUMMARY**

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

### **THE DISTRICT**

The District	Northwest Austin Municipal Utility District No. 1 (the “District”) is a political subdivision of the State of Texas created by order of the Texas Water Commission, predecessor to the Texas Commission on Environment Quality (the “TCEQ”), adopted on March 16, 1988 and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District was created to provide water, wastewater and storm drainage to the approximately 709.7 acres within its boundaries, all of which lies within Travis County, Texas and within the city limits of the City of Austin, Texas. See “THE DISTRICT-General.”
Location	The District, which encompasses approximately 709.7 acres, is located approximately three miles south of the intersection of Farm-to-Market Road 620 (“FM 620”) and U.S. Highway 183 (“U.S. 183”) and lies approximately eighteen miles northwest of Austin’s central business district.
The Developers	There is currently no active development within the District.
Status of Development	Of the approximate 709.7 acres within the District, approximately 565 acres are developable, of which approximately 565 (including approximately 60 commercial) acres (100%) have been developed with utility facilities. The District contains the Canyon Creek Subdivision, Sections 1, 11, 17, 17B, 17C, 18, 19A, 19B, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33 and 34 (505.09 acres, platted as 1,298 single family lots). As of August 1, 2009, the District contained 1,298 completed homes, one 20,000 square foot office building, Chevron Service Center and two complete apartment complex containing 848 units located within the District. See “THE DISTRICT - The Current Status of Development.”

## THE BONDS

Description	<p>\$2,780,000.00* Northwest Austin Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2009 (the “Bonds”) are issued pursuant to an order of the District’s Board of Directors (the “Bond Order”). The Bonds will be issued in the aggregate principal amount of \$2,780,000* maturing annually in varying amounts on March 1 in the years 2010 through 2018, inclusive. The Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount. See “THE BONDS-General Description.”</p> <p>* Preliminary-subject to change.</p>
Book-Entry-Only System	<p>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. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.</p>
Redemption	<p>The Bonds will not be subject to Optional Redemption. See “THE BONDS–Optional Redemption.”</p>
Source of Payment	<p>Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” The Bonds are further payable from and are secured by a pledge of certain limited net revenues (described herein), if any, the District receives in connection with the water, sanitary sewer and drainage system (the “System”) within the District, unless and until such pledge and lien are terminated as described herein (see “THE BONDS-Source of and Security for Payment”). Pursuant to that certain Consent Agreement with the City of Austin, all revenues generated from the sale of water and sanitary sewer service are paid by residents of the District directly to the City and are not available for payment of the principal and interest on the Bonds. <b>The Bonds are obligations solely of Northwest Austin Municipal Utility District No. 1 and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.</b> See “THE BONDS-Source of and Security for Payment.”</p>
Payment Record	<p>The District has heretofore issued six series of new money bonds and three series of refunding bonds: \$2,700,000 Unlimited Tax</p>



Bonds, Series 1992; \$2,000,000 Unlimited Tax Bonds, Series 1994; \$1,400,000 Unlimited Tax Bonds, Series 1997; \$3,924,231 Unlimited Tax Refunding Bonds, Series 1998; \$1,900,000 Unlimited Tax Bonds, Series 1999; and \$5,710,000 Unlimited Tax Bonds, Series 2001; \$2,629,998.40 Unlimited Tax Refunding Bonds, Series 2004; 7,994,994.40 Unlimited Tax Refunding and Improvement Bonds, Series 2006 (the “Outstanding Bonds”). The District has not defaulted in the payment of the principal and interest on its Outstanding Bonds. See “FINANCIAL STATEMENT-Outstanding Bonds.

Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and pursuant to the Bond Order adopted by the Board of Directors. See “THE BONDS-Authority for Issuance.”
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund an aggregate principal amount of \$2,780,000 of the District’s outstanding Unlimited Tax Refunding Bonds, Series 1988 (the “Refunded Bonds”), and (ii) pay costs of issuance of the Bonds. See “PLAN OF FINANCING – Refunded Bonds” and “PLAN OF FINANCING – Estimated Sources and Uses of Funds.”
Bonds Authorized But Unissued	At an election held on May 7, 1988, voters within the District authorized the issuance of \$21,110,000 of bonds to be used for the purpose of constructing or acquiring water, wastewater and storm drainage facilities which are payable from ad valorem taxes. The District has previously issued six installments of new money bonds in aggregate principal amount of \$16,265,000, leaving \$4,845,000 principal amount of bonds remaining authorized but unissued. See “FINANCIAL STATEMENT-Outstanding Bonds” and “THE BONDS - Issuance of Additional Debt.”
Municipal Bond Rating And Insurance	In connection with the sale of the Bonds, the District has made application to Standard & Poor’s Corporation, a division of The McGraw-Hill Companies, Inc. (“S&P”) for a municipal bond rating and has received a “AAA” based upon the delivery of a municipal bond insurance policy by Assured Guaranty Corp. (“AGC”). [The District received an underlying rating of “A+” from S&P.] The District’s Series 1998 and 2004 and 2006 bonds have a current rating of “CC” as a result of the delivery of municipal bond insurance policies issued by AMBAC Assurance

Corporation. The District's Series 2001 bonds have a current rating of "AAA" as a result of the delivery of a municipal bond insurance policy issued by Financial Security Assurance Inc., now Assured Guaranty Corp.. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. See "MUNICIPAL BOND RATING AND INSURANCE."

**Qualified Tax-Exempt  
Obligations**

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 bonds (including the Bonds) issued by it during calendar year 2009 is not reasonably expected to exceed \$30,000,000. See "TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."

**Bond Counsel**

Andrews Kurth LLP Austin, Texas.

**General Counsel**

Potts & Reilly, L.L.P., Austin, Texas.

**Underwriter**

SAMCO Capital Markets, Inc., Dallas, Texas.

**Engineer**

Schroeder Engineering Co., Austin, Texas.

**INVESTMENT CONSIDERATIONS**

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

**SELECTED FINANCIAL INFORMATION**  
**(Unaudited as of September 30, 2009)**

2009 Assessed Valuation (100% of Estimated Market Value)	\$492,420,363	(a)
Gross Debt Outstanding (after issuance of the Bonds)	\$12,704,994	
Ratio of Gross Debt to 2009 Assessed Valuation	2.58%	
2010 Tax Rate		
Debt Service	\$0.1000	
Maintenance & Operations	<u>\$0.1427</u>	
Total	<u>\$0.2427</u>	
Debt Service Fund Balance	\$758,962	(b)
Average percentage of current tax collections - Tax Years 2005-2008	99.96%	
Average percentage of total tax collections - Tax Years 2005-2008	100.05%	
Average Annual Debt Service Requirement (2010/2026) of the Bonds and the Remaining Outstanding Bonds ("Average Requirement")	\$1,071,408	
Tax Rate required to pay Average Requirement based upon 2009 Assessed Valuation at 95% collections	\$0.23/100 AV	
Maximum Annual Debt Service Requirement (2010) of the Bonds and the Remaining Outstanding Bonds ("Maximum Requirement")	\$1,152,132	
Tax Rate required to pay Maximum Requirement based upon 2009 Assessed Valuation at 95% collections	\$0.25/100 AV	
Number of Active Single Family connections as of September 30, 2009	1,298	(c)
Estimated Population as of September 30, 2009	6,239	(d)

(a) As certified by the Travis County Appraisal District ("TCAD"). See "TAXING PROCEDURES".

(b) Includes Debt Service Fund as of September 30, 2009. Does not include \$458,328 in the General Fund (unaudited) or \$4,173 in the Construction Fund (unaudited) as of September 30, 2009, respectively. Neither Texas Law or the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.

(c) Does not include any builder connections.

(d) Based on 3.5 residents per single-family connection and 2 residents per apartment unit.

**OFFICIAL STATEMENT**  
**relating to**  
**\$2,780,000.00\***  
**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2009**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the Northwest Austin Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas located within Travis County, Texas, of its \$2,780,000.00 Unlimited Tax Refunding Bonds, Series 2009 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and pursuant to an order (the “Bond Order”) adopted by the Board of Directors of the District (the “Board of Directors”).

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. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

Included in this Official Statement are descriptions of the Plan of Financing, the Bonds, the Bond Order, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon payment of duplication costs.

**PLAN OF FINANCING**

**Purpose**

Proceeds from the sale of the Bonds will be used to: (i) pay off outstanding bonds of the District in order to achieve debt service savings from 2010 through 2018, both inclusive, by refunding \$2,780,000 in aggregate principal amount of the District’s Series 1998 Bonds (the “Refunded Bonds”); and (ii) pay certain costs of issuance of the Bonds, including the cost of the municipal bond guaranty insurance policy. The refunding results in a net present value and gross debt service savings to the District.

## The Refunded Bonds

Proceeds of the Bonds will be applied to currently refund the Series 1998 bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below.

	<b>Series 1998 Due March 1</b>
2010	300,000
2011	315,000
2012	330,000
2013	345,000
2014	370,000
2015	390,000
2016	410,000
2017	155,000
2018	<u>165,000</u>
	<u>\$2,780,000</u>

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Such bonds to be redeemed prior to maturity on the following dates at a price of par plus accrued interest to the redemption date December 3, 2009

## Remaining Outstanding Bonds

The following bonds will remain outstanding after issuance of the Bonds (collectively, the "Remaining Outstanding Bonds"):

	<b>Series 2001 Due September 1</b>	<b>Series 2004 Due September 1</b>	<b>Series 2006 Due September 1</b>	<b>Total</b>
2010	20,000	185,000	135,000	340,000
2011	20,000	185,000	145,000	350,000
2012	20,000	190,000	150,000	360,000
2013	20,000	195,000	155,000	370,000
2014	10,000			

		190,000	165,000	365,000
2015	10,000	195,000	170,000	375,000
2016	10,000	220,000	175,000	405,000
2017		225,000	168,824	393,824
2018		225,000	171,108	396,108
2019		260,000	195,062	455,062
2020		145,000	630,000	775,000
2021			820,000	820,000
2022			845,000	845,000
2023			885,000	885,000
2024			920,000	920,000
2025			965,000	965,000
2026			905,000	905,000
	<u>\$110,000</u>	<u>\$2,215,000</u>	<u>\$7,599,994</u>	<u>\$9,924,994</u>

### Current Refunding

The Refunded Bonds and the interest due thereon are to be paid in full at par plus accrued interest to the Redemption Date with the monies raised from the sale of the Bonds.

### Estimated Sources and Uses of Funds

The proceeds derived from the sale of the Bonds will be applied approximately as follows:

#### Sources of Funds:

Principal Amount of Bonds	\$2,780,000.00*
Premium on the Bonds	\$ *
Accrued Interest on the Bonds	\$ _____ *
Less: Original Issue Discount	
Total Sources of Funds	<u>\$*</u>

#### Uses of Funds:

Payment on Series 1988 Bonds	\$2,795,252.76*
Costs of Issuance	
Municipal Bond Insurance Premium	

Underwriters' Discount  
Accrued Interest  
Contingency  
Total Use of Funds

\* Approximate, subject to change.

## **THE BONDS**

### **General Description**

The Bonds will be dated November 1, 2009. Interest on the Bonds will accrue from November 1, 2009, will be payable on March 1 and September 1 of each year, commencing on March 1, 2010, and will be calculated on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature on the dates and in the principal amounts set forth on the cover page of this Official Statement.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 principal or any integral multiple thereof within a maturity. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar which is initially The Bank of New York Mellon, Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal and Maturity Value of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" below for a more complete description of such system.

### **Optional Redemption**

The Bonds are not subject to redemption prior to their stated maturity.

### **Termination of Book-Entry-Only System**

The District is initially utilizing the book-entry-only system of the DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

*Payment...* Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Dallas, Texas (the “Designated Payment/Transfer Office”). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

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

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

*Replacement Bonds...* If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon: (i) the filing by the registered owner with the Paying Agent of



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

### **Authority for Issuance**

At an election held on May 7, 1988, voters within the District authorized the issuance of \$21,110,000 of bonds to be used for the purpose of constructing or acquiring water, wastewater and storm drainage facilities which are payable from ad valorem taxes. The District has previously issued six installments of bonds in aggregate principal amount of \$16,265,000, leaving \$4,845,000 principal amount of bonds remaining authorized but unissued. See "FINANCIAL STATEMENT-Outstanding Bonds" and "THE BONDS - Issuance of Additional Debt."

The Bonds are issued pursuant to the terms and provisions of the Bond Order, Chapters 49 and 54 of the Texas Water Code, as amended, Article XVI, Section 59 of the Texas Constitution, and the general laws of the State of Texas, including Chapter 1207 Texas Government Code, as amended.

### **Source of and Security for 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, and are further secured by a pledge of certain limited Net Revenues (defined below), if any, of the District's waterworks and sewer system (the "System"), all to the extent and subject to the conditions described below.

### **Tax Pledge**

The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy and assess 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 payment 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 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 "Bond Fund" for the Bonds.

## **Limited Net Revenues Pledged**

Limited Net Revenues (hereinafter defined), if any, of the System are pledged and assigned in the Bond Order to the payment of the Bonds, and any future tax and revenue bonds issued by the District, all equally and ratably. The Bond Order provides for the termination of such pledge and assignment when and if the City of Austin (the “City”) dissolves the District and assumes all debts, liabilities and obligations of the District. “Net Revenues” are defined in the Bond Order as all income or increment which the District receives in connection with the System, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation, and adequate maintenance of such improvements and facilities, and less the portion thereof derived from contracts with other persons, including private corporations, municipalities and political subdivisions, which, under the terms of the authorizing resolutions, may be pledged for the requirements of the District’s revenue bonds issued particularly to finance the facilities needed in performing any such contracts. AS STIPULATED IN THE CONSENT AGREEMENT, THE CITY OPERATES THE WATERWORKS AND SEWER SYSTEM WITHIN THE DISTRICT AND ALL REVENUES GENERATED FROM THE SALE OF WATER AND SANITARY SEWER SERVICE ARE PAID BY THE RESIDENTS OF THE DISTRICT DIRECTLY TO THE CITY AND ARE NOT AVAILABLE TO PAY INTEREST OR PRINCIPAL OF THE BONDS.

*Dissolution of the District:* Under Texas law, the District may be dissolved by the City without the consent of the District or its residents on or after May 7, 2003. When the District is abolished, the City must assume the assets, functions and obligations of the District (including the Bonds), and the pledge of taxes and Net Revenues, if any, will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

## **Payment Record**

The District has heretofore issued six series of new money bonds and three series of refunding bonds: \$2,700,000 Unlimited Tax Bonds, Series 1992; \$2,000,000 Unlimited Tax Bonds, Series 1994; \$1,400,000 Unlimited Tax Bonds, Series 1997; \$3,924,231 Unlimited Tax Refunding Bonds, Series 1998; \$1,900,000 Unlimited Tax Bonds, Series 1999; and \$5,710,000 Unlimited Tax Bonds, Series 2001; \$2,629,998.40 Unlimited Tax Refunding Bonds, Series 2004; 7,994,994.40 Unlimited Tax Refunding and Improvement Bonds, Series 2006 (the “Outstanding Bonds”). The District has not defaulted in the payment of the principal and interest on its Outstanding Bonds. See “FINANCIAL STATEMENT-Outstanding Bonds.

## **Funds**

The Bond Order creates or affirms creation, establishment and maintenance by the District of an Operating Fund, a Bond Fund for the Bonds (as a separate account within the District’s interest and sinking fund) and a Construction Fund.

The Operating Fund provides for operation and maintenance of the System and payment of general and administrative expenses of the District. The District agrees in the Bond Order to

deposit to the Operating Fund gross revenues from ownership and operation of the System except for certain contractually derived revenues described therein. The Operating Fund may be used solely: (1) to pay reasonable administration, efficient operation, and adequate maintenance expenses of the System; (2) solely at the Board's discretion, to transfer from time to time any excess to the credit of the Bond Fund of the District when needed to pay the obligations of the District payable therefrom; and (3) to the extent the balance of the Bond Fund of the District and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from such Bond Fund, to pay any other expenses of the District which may be lawfully paid from the Operating Fund.

The Bond Order establishes the Bond Fund as an account within the District's interest and sinking fund to be used to pay principal of and interest on and Paying Agent fees in respect of the Bonds. The Bond Order requires that the District deposit to the credit of the Bond Fund: (i) from the delivery of the Bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest; (ii) all receipts of limited Net Revenues, if any, and District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds; (iii) excess amounts from the Operating Fund not necessary for the payment of reasonable administration, operation and maintenance expenses of the System; and (iv) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Bond Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

### **Defeasance of Outstanding Bonds**

The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes, limited Net Revenues, if any, and all other 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 within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent 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: (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption); or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment: (1) lawful money of the United States of America sufficient to make such payment; (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment; or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent for the payment of its services until after all Defeased Bonds shall have become due and payable. 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 the limited Net Revenues 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 (ii) 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 may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Bond Order, and all income from such Defeasance Securities received by the Paying Agent that is not required for the payment of the Bonds and premium, if any, 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 Securities 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 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 Bond Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent 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 Bond Order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions or Texas law and upon the 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 Bonds 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 pursuant to which money and/or Defeasance Securities are held by the Paying Agent 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 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 Board of 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).

### **Paying Agent/Registrar**

Principal of and interest on the Bonds will be paid by The Bank of New York Mellon, having its office for payment in Dallas, Texas, the initial Paying Agent/Registrar (the “Paying Agent”). The Paying Agent must be a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent’s records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each registered owner of the Bonds by first-class mail, postage prepaid.

### **Record Date**

The record date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the fifteenth (15th) day of the month (whether or not a business day) preceding such interest payment date.

### **Issuance of Additional Debt**

The District may issue bonds necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District’s voters. Prior to and following the issuance of the Bonds, \$4,845,000 unlimited tax bonds authorized by the District’s voters will remain unissued. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to enter into certain other obligations including the issuance of revenue bonds and notes, bond anticipation notes and tax anticipation notes without

voter approval. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. See “INVESTMENT CONSIDERATIONS.”

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

Pursuant to Section 49.186 of the Water Code, bonds, notes or other obligations issued by a municipal utility 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 49.186 of the Water Code provides that bonds, notes or other obligations issued by a municipal utility 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.

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

### **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.

## **Remedies in Event of Default**

The Bond Order provides that, in addition to all other rights and remedies of any owner of Bonds 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, the registered owner of any of the Bonds 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 of the Bonds. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the registered owners of the Bonds 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 of the Bonds.

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 of the Bonds 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 of the Bonds may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions. See "INVESTMENT CONSIDERATIONS-Bankruptcy Limitation to Registered Owners' Rights".

## **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water and wastewater system with any other district.

## **Alteration of Boundaries**

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

## **Approval of the Bonds**

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

### **No-Litigation Certificate**

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board of Directors, 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**

The obligations of the Underwriter 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 the Official Statement.

### **Amendments to the Bond Order**

The District may without the consent of or notice to any registered owners 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 an interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, 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 and interest on the Bonds; (2) give any preference to any Bond over any other Bonds; 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 within 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.

## **BOOK-ENTRY-ONLY SYSTEM**

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“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 Official Statement. The Underwriter and the District believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 or Cede & Co., (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee

as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account 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 Cede & Co., (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, printed certificates for the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, printed certificates for the Bonds will be printed and delivered. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood while the Bonds are in the Book-Entry-Only System, references in other sections of this 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, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

*Effect of Termination of Book-Entry-Only System.* In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Order and summarized under "THE BONDS—Termination of Book-Entry-Only System" herein.

## **INVESTMENT CONSIDERATIONS**

The Bonds are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; City of Austin, Texas; or any other political subdivision. The Bonds will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Source of and Security for Payment". The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The

collection by the District of delinquent taxes owed to it and the enforcement by 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 property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

### **Factors Affecting Taxable Values and Tax Payments**

*Economic Factors and Interest Rates:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for residential dwellings 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 homes is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing 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 and homebuilders are able to obtain financing for development and construction costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete development 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 development and construction within the District. In addition, although located approximately 18 miles from the central downtown business district of the City of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

*Competition:* The demand for single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts located near the District. 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 homes proposed to be sold within the District.

*Impact on District Tax Rates:* Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2009 assessed valuation of the District is \$492,420,363 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,152,132 (2010) and the Average Annual Debt Service Requirement will be \$1,071,101 (2010 through 2026, inclusive). Assuming: (1) no increase or decrease from the 2009 assessed valuation; and (2) no use of funds on hand, a tax rate of \$0.25 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement of \$1,152,132, and a tax rate of \$0.23 per \$100 assessed valuation at a 95%

collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$1,071,101. See “DEBT SERVICE REQUIREMENTS” and “TAX DATA-Tax Adequacy for Debt Service.”

### **Undeveloped Acreage**

There are no remaining developable acres of land within the District which have not been provided with internal water distribution, wastewater collection, and/or storm drainage facilities necessary to the construction of taxable improvements. The District is fully built out.

### **Tax Collections and Foreclosure Remedies**

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

### **Registered Owners’ Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the registered owners of the Bonds have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the registered owners of the Bonds. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners of the Bonds could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District’s property. Further, the registered owners of the Bonds cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners of the Bonds may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

### **Bankruptcy Limitation to Registered Owners’ Rights**

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application

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

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

If the 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 a registered owner of Bonds 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 owner's claim.

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") 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.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorneys fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. 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 that 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.

### **Marketability**

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

### **Continuing Compliance with Certain Covenants**

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

### **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$4,845,000 authorized but unissued bonds (see “THE BONDS - Bonds Authorized But Unissued”), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds and other obligations described in the Bond Order. All of the remaining \$4,845,000 bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ, from time to time as improvement needs

arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the security for, and the investment quality and value, of the Bonds.

Although not currently allowed under the Consent Agreement with the City of Austin, the District may issue the full amount of authorized but unissued bonds in the future. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN.” The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS - Issuance of Additional Debt.”

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## **DISTRICT MAP**

## **THE DISTRICT**

### **General**

The District was created by order of the Texas Water Commission (the “TWC”), predecessor to the TCEQ, adopted on March 16, 1988, and a confirmation election held within the District on May 7, 1988, and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ and is located within the city limits of the City of Austin. See “THE BONDS - Source of and Security For Payment.”

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation of the District from the City of Austin, within whose boundaries the District lies, the District is required to observe certain requirements of the City of Austin which limit the purposes for which the District may sell bonds for the acquisition, construction and improvement of waterworks, wastewater and drainage facilities; require approval by the City of Austin of District construction plans; and permit connections only to single-family lots and commercial or multi-family commercial platted reserves which have been approved by the Planning Commission of the City of Austin. Construction and operation of the District’s System is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM-Regulation.”

### **Management of the District**

The District is governed by a board consisting of five directors which has control over management supervision of all affairs of the District.

### **Board of Directors**

The Directors and officers of the District are listed below:

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>	<b>Length of Service</b>
William C. Ferguson	President	2010	7 Years
Don Zimmerman	Vice President	2012	12 Years
Chris Bowers	Secretary	2012	1 Year
Robert Ratcliff	Treasurer	2010	3 Years
Russell Hill	Director	2010	1 Year

All of the Directors listed above reside in the District. Directors are elected to staggered four-year terms. Elections are held in May of even-numbered years.

## **Consultants**

### ***Tax Assessor/Collector***

Land and improvements in the District are being appraised for taxation by the Travis Central Appraisal District. The Tax/Assessor Collector is elected by residents of Travis County, Texas. Nelda Spears currently serves the District in this capacity under contract. Ms. Spears serves approximately 79 other special districts as Tax Assessor/Collector.

### ***General Manager***

The District contracts with Professional General Management, Inc. ("PGMI") to serve as General Manager for the District charged with the responsibility of managing the park for the District. ST serves in a similar capacity for approximately 18 other special districts in Texas.

### ***Bookkeeper***

The District contracts with Christopher T. Mayes, as bookkeeper to provide accurate monthly financial statements and to prepare checks for Board approval at each monthly Board meeting.

### ***Auditor***

The District's financial statements for the fiscal year ended September 30, 2008 were prepared by Maxwell Locke & Ritter L.L.P., Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2008, audited financial statements.

### ***Engineer***

The District's consulting engineer is Schroeder Engineering Company (the "Engineer"). Such firm serves as consulting engineer to eleven other special districts.

### ***Bond Counsel***

The District has engaged Andrews Kurth LLP, Austin, Texas, as Bond Counsel in connection with the issuance of the Bonds. The fees of Bond Counsel are contingent upon the sale and delivery of the Bonds.

### ***General Counsel***

The District employs Potts & Reilly, L.L.P., as general counsel. This firm acts as counsel to the District on matters not related to the issuance of bonds and are compensated based on time charges actually incurred.

### ***Location***

The District contains 709.7 acres of land and is located in northwestern Travis County east of Farm-to-Market Road 620 (“FM 620”) approximately midway between the intersections of FM 620 and Ranch Road 2222 and FM 620 and U.S. Highway 183, respectively. The majority of the District is located within the Round Rock Independent School District. However, a portion of the District is located within the Leander Independent School District.

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## **Current Status of the Development**

As of September 30, 2009, 490.79 acres within the District have been developed with water, sanitary sewer and storm drainage facilities, and street paving as Canyon Creek Subdivision, Sections, 1, 11, 17, 17B, 17C, 18, 19A, 19B, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33 and 34. Also two apartment complexes, an office building and a convenience store are located within the District. The District has no remaining developable land.

## **Park and Conservation Easement**

The District includes an approximately 72 acre park and greenbelt area, which includes hike and bike trails and various other recreational facilities, which was financed through a developer contribution of land and approximately \$224,000 in cash together with a grant of approximately \$500,000 from the Texas Parks and Wildlife Department. In addition, the District owns approximately 400 acres of conservation easement within and outside its boundaries.

## **City of Austin**

The District lies wholly within the corporate limits of the City of Austin, Texas. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN.”

### **CONSENT AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN**

[All the land in the District is located within the city limits of the City of Austin (the “City”). Prior to the creation of the District, the City and the Developer’s predecessor in interest, Nash Phillips/Copus, Inc. entered into an Agreement Concerning Creation and Operation of Northwest Austin Municipal Utility District No. 1 (the “Consent Agreement”) effective December 7, 1987. The Consent Agreement was approved and executed by the Board of Directors after the District’s creation. The Consent Agreement was subsequently amended on September 11, 1990, October 6, 1992, and February 28, 1995.

The Consent Agreement sets forth, among other things, the arrangement by which all land within the District will receive water and wastewater service from the City. The Consent Agreement provides that water service may be initially provided by the District’s own water plant, but that upon availability of the City’s water, the District would disconnect from its water plant, tie into the City’s water system and thereafter the City will provide water service. This disconnection and tie in occurred as of August 17, 1991. Water tap fees and capital recovery fees, as well as monthly water utility bills, are established by the City and are paid directly to the City.

The Consent Agreement provides that the City will provide wastewater treatment for land located within the District. All wastewater collection is now provided directly by the City. Property owners within the District are required to pay sewer tap fees and capital recovery fees to the City for all new connections. In addition, monthly sewer bills are paid directly to the City. Wastewater service for all property in the District is anticipated in the Consent Agreement eventually to be provided by the City through its West Bull Creek Wastewater Interceptor or other agreed wastewater collection and transportation facilities of the City.

Pursuant to the Consent Agreement, the City provides retail water and wastewater service to customers within the District and provides operation and maintenance of those facilities.

The Consent Agreement also contains various provisions regarding bond issuance, dissolution, land development, expansion of service area and assignment of the Agreement.]

## **THE SYSTEM**

### **Water, Sanitary Sewer and Drainage System**

Proceeds from the sale of the Outstanding Bonds together with certain non-reimbursable developer contributions have been used to fund the District's water, wastewater and drainage facilities serving residential subdivisions in the District.

### **Regulations**

According to the Engineer, the water, sewer and drainage facilities acquired or constructed by the District (the "System") have been designed in accordance with accepted engineering practices and the regulations of the Texas Department of Health, Travis County, the City of Austin and the TCEQ. Construction and operation of the facilities are subject to the inspection of the City of Austin and the TCEQ, for determining compliance with approved construction plans, and by the TCEQ, the United States Environmental Protection Agency and various local agencies for compliance with environmental requirements.

### **Water Supply and Distribution**

The District receives its water supply from the City water system, which obtains surface water from the Colorado River. Pursuant to the Consent Agreement, the City agrees to sell and deliver all water necessary for domestic and commercial purposes by users within the District on a retail basis on the same terms and conditions as it would all other customers within the City. The sale and furnishing of water to the customers within the District shall be nondiscriminatory and uniform with the policies and ordinances relating to the City's utility service area. The supply of water to the City's customers within the District may be reasonably limited by the City on the same basis and to the same extent as to any other customer within the City's service area.

### **Wastewater Collection and Treatment**

Permanent wastewater treatment service for the District is provided by the City's Walnut Creek Wastewater Treatment Plant, which has a capacity of 75 million gallons per day average flow. The City has agreed to provide wastewater treatment service at the Walnut Creek Wastewater Treatment Plant for the ultimate development in the District. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND CITY OF AUSTIN."

### **100-Year Flood Plain**

Portions of the District along its eastern and southern boundaries are within the projected 100-year flood plain and are expected to be in designated drainage easements. No development is proposed in the 100-year flood plain.

### **Water and Wastewater Operations**

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District and are additionally payable from, and are secured by a pledge of and lien on the limited Net Revenues described under “THE BONDS-Source and Security for Payment,” if any, which the District receives in connection with the System. In addition, sources of Net Revenues are limited in so far as all revenues from the sale of water and sewer service are paid by residents of the District directly to the City. No prediction is made, nor can any assurance be given, that the System will produce Net Revenues available to pay principal of or interest on the Bonds.

### **Rate and Fees**

On August 17, 1991, the District transferred retail service responsibilities to the City pursuant to the Consent Agreement. The City provides water and wastewater service to utility customers within the District and charges rates equal to the current rates set by the City for retail water and sewer service. Such rates are expected to be changed from time to time by the City. The City’s water and wastewater rates are available from the City and have been filed by the City with each nationally recognized municipal securities information repository (“NRMSIRs”) and the State of Texas state information depository (the “SID”) as of [\_\_\_\_\_]. The City is responsible for maintaining and operating the System. In addition, the District collects certain tap fees from builders.

### **General Fund Operating Statement**

The following statement sets forth in condensed form the historical results of operations of the District’s water and sewer system and park. Such summary has been prepared by the Underwriter for inclusion herein, based upon information obtained from the District’s audited financial statements. All water and sewer revenues are paid by the District residents to the City and the City pays all costs of operating and maintaining the System. Reference is made to such statements for further and complete information.

## Fiscal Year Ending September 30

### General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operations of the District's water and sewer system and park. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements

All water and sewer revenues are paid by the District residents to the City and the City pays all costs of operating and maintaining the System. Reference is made to such statements for further and complete information.

	Fiscal Year Ending September 30				
<u>Revenues</u>	2008	2007 (a)	2006	2005	2004
Tax revenues including penalties	133,713	126,800	147,788	135,782	175,645
Tap Fees	-	-	23,625	48,825	25,200
Interest	16,367	30,582	41,103	22,481	9,011
Face Amount of Bonds			19,683		
Miscellaneous	<u>7,192</u>	<u>7,625</u>	<u>928</u>	<u>1,849</u>	<u>900</u>
Total Revenues	157,272	165,007	233,127	208,937	210,756
<u>Expenditures</u>					
Legal fees	32,905	31,325	45,110	50,405	45,807
Repairs and maintenance	31,888	59,732	38,642	39,998	36,276
Professional fees	3,850	3,767	7,588	-	5,233
Management fees	13,200	14,300	12,040	13,838	13,645
Audit fees	9,000	8,250	13,300	10,000	7,500
Tax appraisal/collection fees	926	591	884	704	3,924
Director fees/Payroll taxes	7,611	5,943	8,397	8,720	5,921
Engineering fees	-	-	-	2,996	3,389
Insurance	1,562	2,241	2,261	1,523	2,772
Miscellaneous	5,187	3,608	3,516	1,484	5,625
Capital Outlay	<u>86,345</u>	<u>32,289</u>	<u>29,075</u>	<u>23,235</u>	<u>-</u>
Total Expenditures	192,474	162,046	160,813	152,903	130,092
NET REVENUES					



(35,202)

2,961

72,314

56,034

80,664

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(a) The District transferred \$400,000 from its General Fund to its Debt Service Fund during Fiscal Year ending 9/30/2007.

## DEBT SERVICE REQUIREMENTS

### NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT No. 1

**\$2,780,000 <sup>(a)</sup>**

### UNLIMITED TAX REFUNDING BONDS SERIES 2009

**ISSUE DATE NOVEMBER 1, 2009**

Year Ending 9/30	Outstanding Bonds (a)			Series 2009 Bonds			Total Debt Service Requirement
	Principal	Interest	Total	Principal	Interest	Total	
2010	340,000	402,299	742,299	325,000	84,833	409,833	1,152,132
2011	350,000	390,218	740,218	325,000	81,688	406,688	1,146,905
2012	360,000	377,393	737,393	335,000	70,138	405,138	1,142,530
2013	370,000	363,708	733,708	350,000	58,150	408,150	1,141,858
2014	365,000	349,585	714,585	370,000	45,550	415,550	1,130,135
2015	375,000	334,885	709,885	385,000	32,338	417,338	1,127,223
2016	405,000	320,068	725,068	400,000	18,600	418,600	1,143,668
2017	393,824	460,039	853,863	140,000	8,800	148,800	1,002,663
2018	396,108	463,642	859,750	150,000	3,000	153,000	1,012,750
2019	455,062	575,021	1,030,083				1,030,083
2020	775,000	258,498	1,033,498				1,033,498
2021	820,000	226,118	1,046,118				1,046,118
2022	845,000	191,678	1,036,678				1,036,678
2023	885,000	156,188	1,041,188				1,041,188
2024	920,000	118,575	1,038,575				1,038,575
2025	965,000	79,475	1,044,475				1,044,475
2026	905,000	38,463	943,463				943,463
Totals	<u>9,924,994</u>	<u>5,105,847</u>	<u>15,030,841</u>	<u>2,780,000</u>	<u>403,096</u>	<u>3,183,096</u>	<u>18,213,937</u>

(a)  
Excludes  
the  
Refunded  
Bonds

**FINANCIAL STATEMENT**  
**Unaudited as of September 30, 2009**

2009 Assessed Valuation (100% of market Value)	\$492,420,363
(a)	
Gross Debt Outstanding	\$12,704,994 (b)
Debt Service Fund Balance	\$758,962
General Fund Balance	\$458,328
Ratio of Gross Debt to 2009 Assessed Valuation	2.58%

Area of District: 709.7 acres  
Estimated 2009 Population: 6,239 (c)

(a) As certified by the Travis County Appraisal District ("TCAD"). See "TAXING PROCEDURES"

(b) Includes the Bonds and the Remaining Outstanding Bonds.

(c) As of 9/30/2009. Based on 3.5 residents per active single family connection; 2 per apartment.

**Unlimited Tax Bonds Authorized but Unissued**

<u>Date</u> <u>Authorization</u>	<u>Vote</u>		<u>Purpose</u>	<u>Authorized</u>	<u>Issued</u> <u>to Date</u>	<u>Unissued</u>	
	<u>For</u>	<u>Against</u>					
5/7/1988	1	0	Water, Sanitary Sewer & Drainage	\$21,110,000	\$16,265,000	\$4,845,000	(a)

(a) The District is not expected to issue additional new money bonds.

**Outstanding Bonds**

<u>Date of</u> <u>Issue</u>	<u>Series</u>	<u>Original</u> <u>Amount</u>	<u>Amount</u> <u>Outstanding</u> <u>09/30/09</u>	
<b>A. New Money Issues</b>				
9/1/1992	1992	\$2,700,000	\$0	
12/1/1994	1994	\$2,000,000	\$0	
9/1/1997	1997	\$1,400,000	\$0	
8/1/1999	1999	\$1,900,000	\$0	
7/1/2001	2001	\$5,710,000	\$110,000	
6/1/2006	2006	\$2,555,000	\$2,280,000	
<b>Subtotal</b>		\$16,265,000	\$2,390,000	
<b>B. Refundings</b>				
9/1/1998	1998	\$3,924,231	\$0	(a)
12/1/2004	2004	\$2,629,998	\$2,215,000	
6/1/2006	2006	\$5,439,994	\$5,319,994	

10/1/2009	2009	<u>\$2,780,000</u> (b)	<u>\$2,780,000</u> (b)
<b>Subtotal</b>		\$14,774,223	\$10,314,994
<b>Total</b>		\$31,039,223	\$12,704,994
(a) After Issuance of 2009 Refunding Bonds			
(b) The Bonds			

## **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, including letters of credit; (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, the principal and interest of which 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 issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and 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; (8) 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; (9) securities lending programs if: (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by: (a) obligations that are described in clauses (1) through (6) above; (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain 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 with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either: (a) 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 a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated 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, invest exclusively in obligations described in this paragraph, 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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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 AAA-m 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 Advisors Act of 1940 (15 U.S.C. Section 806-1 et seq.) or with the State Security Board to provide the investment and management of its public funds or other funds under its control for a term of up to two years but the District retains ultimate responsibility as fiduciary of its assets.

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 a 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 the entity who are 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; and 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 and 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.

### **Current Investments**

The District is currently invested in Tex-Pool the amount of \$[] as of September 30, 2009. This investment portfolio is generally representative of the District's investment practices. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the Districts audited financial statements.

### **Estimated Overlapping Debt Statement**

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax net debt was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

<b>Taxing Body</b>	<b>Net Debt</b>		<b>% of Overlapping Net Debt</b>	<b>Amount of Overlapping Net Debt</b>
	<b>Amount</b>	<b>As of</b>		
Travis County	551,263,219	9/30/2008	0.50%	2,756,316
City of Austin	771,938,064	9/30/2008	0.63%	4,863,210
Round Rock Independent School District	565,849,085	3/31/2009	2.05%	11,599,906
Leander Independent School District	966,548,044	2/27/2009	0.02%	193,310
Austin Community College	96,301,739	8/31/2008	0.52%	500,769
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 19,913,511</b>
Northwest Austin Municipal Utility District No. 1 (after issuance of the Bonds)	12,704,994	9/30/2009	100.00%	12,704,994
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING NET DEBT</b>				<b>\$ 32,618,505</b>
Ratio of Direct and Overlapping Net Debt to 2004 Assessed Valuation				6.62%
Direct and Overlapping Net Debt per Acre				\$ 45,960.98

#### **Overlapping Taxes for 2008**

<b>Overlapping Entity</b>	<b>2008 Tax Rate per \$100 Assessed Valuation</b>		<b>Average Tax Bill</b>	
	<b>Round Rock</b>	<b>Leander</b>	<b>Round Rock</b>	<b>Leander</b>
	<b>ISD (b)</b>	<b>ISD (b)</b>	<b>ISD (b)</b>	<b>ISD (b)</b>
Travis County	\$0.4122	\$0.4122	\$1,401	\$1,401
City of Austin	\$0.4012	\$0.4012	\$1,364	\$1,364
Round Rock Independent School District				
District (a)	\$1.3323	\$0.0000	\$4,528	\$0
Leander Independent School District (a)	\$0.0000	\$1.3792	\$0	\$4,687
Austin Community College	\$0.0954	\$0.0954	\$324	\$324
Travis County Health Care District	\$0.0679	\$0.0679	\$231	\$231
The District	\$0.2525	\$0.2525	\$858	\$858
Total	<u>\$2.5615</u>	<u>\$2.6084</u>	<u>\$8,706</u>	<u>\$8,865</u>

(a) Portions of the District are located in these school districts.

(b) Based upon a single family home with an average assessed valuation of \$339,861 .



## TAX DATA

### Classification of Assessed Valuation (a)

Type Property	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 323,024,072	95.0349	\$ 307,720,860	93.6379	\$ 316,902,781	92.2516
Multi-Family	8,291,660	2.4394	7,122,330	2.1673	8,964,828	2.6097
Vacant Lots	<b>5,235,274</b>	1.5402	11,652,418	3.5458	13,623,618	3.9659
Acreage	2,530,288	0.7444	824,475	0.2509	2,723,339	0.7928
Commercial	<u>819,130</u>	0.2410	<u>1,308,463</u>	0.3982	<u>1,305,695</u>	0.3801
Total	<u>\$ 339,900,424</u>		<u>\$ 328,628,546</u>		<u>\$ 343,520,261</u>	

(a) Reflects classification of assessed valuation as supplied by the Travis County Appraisal District (TCAD")

prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD.

### Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District's Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections	
				Amount	Percent	Amount	Percent
2005	368,165,493	\$0.3000	1,104,496	1,103,583	99.92	1,105,478	100.09
2006	418,219,519	\$0.2900	1,212,837	1,216,124	100.27	1,216,124	100.27
2007	447,323,876	\$0.2750	1,230,141	1,226,224	99.68	1,224,033	99.50
2008	481,492,523	\$0.2525	1,215,769	1,215,025	99.94	1,219,702	(a) 100.32
2009	492,420,363	\$0.2427	1,196,101	(in process of collection)			

(a) Source: District records as of 8/31/2009.

### District Tax Rates

#### Total Tax Rate per \$100 assessed valuation

	2009	2008	2007	2006	2005	2004
Debt						
Service	\$0.1000	\$0.2205	\$0.2450	\$0.2600	\$0.2600	\$0.2200
Maintenance	\$0.1427	\$0.0320	\$0.0300	\$0.0300	\$0.0400	\$0.0400
Total	<u>\$0.2427</u>	<u>\$0.2525</u>	<u>\$0.2750</u>	<u>\$0.2900</u>	<u>\$0.3000</u>	<u>\$0.2600</u>

## **District Bond Tax Rate Limitation**

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

## **Maintenance Tax**

The Board of Directors has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax would be in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. At an election held on May 7, 1988, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2009 maintenance and operation tax of \$0.1427/\$100 assessed valuation.

## **Principal Taxpayers**

The following list of principal taxpayers was provided by the Travis County Appraisal District based on the 2009 tax roll of the District which reflects ownership as of January 1, 2009. Ownership changes subsequent to January 1, 2009, are not known to the District.

<b>Taxpayer</b>	<b>Type Property</b>	<b>2009 A V</b>
Amaravathi LP	Apartments	\$38,102,369
The Bassham Trust	Apartments	\$9,374,086
TWE Advance/Newhouse	Cable System	\$2,229,960
Helen L Caldwell Trust	Bank Building	\$1,343,232
Siddique Mohammed	Convenience Store	\$956,801
Richard & Barbara Blount	Lots and Houses	\$885,935
Texas Methodist Foundation	Office Building	\$728,280
Chhay Mao	Strip Center	\$726,000
Total		\$54,346,663
Percent of Assessed Value		11.03%

### **Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2009 assessed valuation and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds (at an estimated interest rate of 3.86%), the Remaining Outstanding Bonds.

See "INVESTMENT CONSIDERATIONS" - Impact on District Tax Rates.

Average Annual Debt Service on all proposed Bonds	\$1,071,101
\$0.23 Tax Rate on 2009 Assessed Valuation of \$492,420,363 @ 95% collections produces	\$1,075,938
Maximum Annual Debt Service Requirements on all proposed Bonds (2010)	\$1,152,132
\$0.25 Tax Rate on 2009 Assessed Valuation of \$492,420,363 @ 95% collections produces	\$1,169,498

### **Debt Service Fund Management Index**

Debt Service Requirements for year ending 9/30/2010	\$1,152,132
Debt Service Fund Balance as of 8/31/2009	\$758,962
2010 Tax Year Debt Service Levy @ 95% collections produces	\$467,799 (a)
Total Available for Debt Service	\$1,226,761

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(a) The District levied a debt service tax of \$0.10 per \$100 Assessed Valuation in 2009. This decision was made by the Board of Directors due to certain expectations that the City of Austin might assume the Debt based upon the outcome of the litigation between the City and the District regarding double taxation. The District expects to raise its debt service tax rate in 2010 to fully cover debt service in the 2010 tax year.

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board of Directors is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations 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 and Security for Payment.” Under Texas law, the Board of Directors is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA-District Bond Tax Rate Limitation.”

### **Property Tax Code and Countywide Appraisal District**

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

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

### **Property Subject to Taxation by the District**

*General:* Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District 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; income producing tangible personal property or mineral interests with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind power energy devices; 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 of 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 partially exempt, if approved by the Board of Directors or at an election called by the Board of Directors upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board of Directors or the District's voters may approve. 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 of Directors 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 of Directors 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. The District has never adopted a general homestead exemption.

*Tax Abatement:* The City of Austin and Travis County may designate all or part of the area within the District as a reinvestment zone, and Travis County, Round Rock Independent School District, Leander Independent School District, the District, and the City of Austin 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. The District has not been designated as a reinvestment zone.

## **Valuation of Property for Taxation**

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or

timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the TCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the TCAD or whether reappraisals will be conducted on a zone or countywide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the TCAD chooses formally to include such values on its appraisal roll.

### **District and Taxpayer Remedies**

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

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

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and

incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

### **District Rights In The Event Of Tax Delinquencies**

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 the state of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT-Overlapping Taxes for 2003." 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 nor lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS-Tax Collections and Foreclosure Remedies."

### **Effect of FIRREA on Tax Collections**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains 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 lien shall attach to such property; (ii) the FDIC shall not be liable for any penalties or fees, including those arising from the failure to pay any real property taxes when due; and (iii) notwithstanding the 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.

To the extent that 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 owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## **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 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 Andrews Kurth LLP, (“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 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 Official Statement, Andrews Kurth LLP 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.

### **No-Litigation Certificate**

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board of Directors, 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**

The obligations of the Underwriter 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 the Official Statement, as it may have been supplemented or amended through the date of sale.

### **City Lawsuit**

[Texas law requires that municipality utility districts located within the extraterritorial jurisdiction or the corporate boundaries of a city obtain the city's consent prior to creation of the district. In 1987, after various administrative and judicial actions, the City of Austin (the "City") entered into a contract with the District and the developer of the Canyon Creek subdivision, thereby giving the City's consent to the Creation of the District. Section 7.2 of this contract permits the City to Charge its full ad valorem tax over and above the District's own ad valorem tax.

The District and individual homeowners brought suit seeking a declaration that section 7.2 of the contract violates Texas law, specifically section 54.016(f) of the Texas Water Code. The trial court granted the City's plea to the jurisdiction in which the City argued that the individual Homeowners did not have standing to bring suit. The trial court also granted the City's partial motion for summary judgment that the District was barred by Laches and the statute of limitations. The trial court also ruled that the contract between the City and District was not an allocation agreement that would trigger application of section 54.016(f) and that the City's collection of its full ad valorem tax was valid under the contract.

The trial court also denied the District's motion for summary judgment requesting that the City's taxes be reduced. The trial court also ordered that the District pay the City's attorney's fees. The District has appealed the trial court's order to the Austin Court of Appeals. Both parties will have filed appellate briefs on the issues and the case is pending before the court of appeals.

Resolution of this lawsuit will not affect the District's financial ability to repay any indebtedness. If the District is successful on appeal, the City may have to adjust the ad valorem tax rate assessed upon property within the District, and possibly pay some refunds to homeowners, but there will be no order that will reduce the District's rate below an amount necessary to allow the District to repay its indebtedness. Therefore, the litigation will have no effect on the District's ability to assess and collect ad valorem taxes in order to satisfy any indebtedness.]

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes: (1) is excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions; and (2) does not constitute a specific item of tax preference under section 57(a)(5) of the Code, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of calculating the alternative minimum tax

imposed on individuals or corporations pursuant to sections 55 of the Code.

The adjustment for “adjusted current earnings” set forth in section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT) or a real estate mortgage investment conduit (REMIC). Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess (if any) of: (i) the “adjusted current earnings” of a corporation; over (ii) the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation’s “adjusted current earnings.” Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation’s alternative minimum taxable income for such year.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the U.S. Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date of issuance of the Bonds that may affect the tax-exempt status of the interest thereon.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the “dividend equivalent amount” for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the “dividend equivalent amount” of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for any corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the “taxpayer,” and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the

District may have different or conflicting interests from the Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise eligible for the earned income tax credit, owners of an interest in a FASIT, controlled foreign corporations, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income exceeds certain limits set forth in Section 32(i) and 32(j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that for years beginning after December 31, 2010 the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances. In addition, attention is called to the fact that section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than “qualified tax-exempt obligations” as defined in section 265(b)(3) of the Code. The Bonds are “qualified tax-exempt obligations” for purposes of section 265(b)(3) of the Code.

### **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial offering price of certain Bonds may be less than the amount payable on such Bond at its maturity (a “Discount Bond”). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise eligible for the earned income tax credit, owners of an interest in a FASIT, controlled foreign corporations and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering prices of the Premium Compound Interest Bonds is less than their respective maturity amounts and the initial public offering price of certain Bonds may be greater than the amount payable on such Current Bonds at maturity (collectively, the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(c) 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 \$30,000,000 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.”

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered 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 Official Statement 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 2004. 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 “Rule”). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The Districts current fiscal year end is September 30. Accordingly, it must provide updated information by March 30, in each year, commencing after 2004 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.

The Municipal Advisory Council of Texas (the “MAC”) has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8<sup>th</sup> Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a “central post office” repository for information filings made by municipal issuers, such as the City, which repository then transmits the filed information to the NRMSIRs and the appropriate SID. Any filing under the Ordinance’s continuing disclosure agreement may be made solely by transmitting such filing to the MAC as provided at <http://disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

### **Material Event Notices**

The District will also provide timely notices of certain events to the Municipal Securities Rulemaking Board’s EMMA system. 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 registered owners of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. 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 the Municipal Securities Rulemaking Board (“MSRB”).

### **Availability of Information from NRMSIRs and SID**

The District has agreed to provide the foregoing information only to the MSRB and any SID. The information will be available to registered owners of the Bonds only if the registered owners

comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

### **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 registered owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

### **Compliance with Prior Undertakings**

The District has previously entered into continuing disclosure agreements in accordance with the Rule. The District has made the required filings with respect to such prior agreements, except that the District failed to timely file its financial statements for fiscal years 1999 and 2003 with the SID and each NRMSIR. The District is now in compliance and has taken corrective steps to ensure timely filing of reports and audits in the future.

### **UNDERWRITER**

The Official Statement was compiled and edited under the supervision of SAMCO Capital Markets, Inc. (the “Underwriter”). The fees paid the Underwriter for services rendered in connection with the issuance and sale of the Bonds are will be three quarters of one

percent(.70%) of the par amount Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## **OFFICIAL STATEMENT**

### **Preparation**

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

“UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN”, and “THE BONDS-SOURCE OF AND SECURITY FOR PAYMENT-Dissolution of the District”-Potts & Reilly L.L.P. (“General Counsel”); “THE SYSTEM”-Engineer; “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED”-Records of the District (“Records”); “FINANCIAL STATEMENT”-Travis Central Appraisal District; “ESTIMATED OVERLAPPING DEBT STATEMENT”-Municipal Advisory Council of Texas; “TAX DATA” and “WATER AND SEWER OPERATIONS”-Audits, Records and Tax Assessor/Collector; “MANAGEMENT”-District Directors; “DEBT SERVICE REQUIREMENTS”-Underwriter; “THE BONDS,” “TAXING PROCEDURES,” “CONTINUING DISCLOSURE OF INFORMATION”-(Except for the subheading “Compliance with Prier Undertakings”), and “TAX MATTERS”-Andrews Kurth LLP.

In approving this Official Statement, the District has relied upon the following experts:

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

Appraisal District: The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned “FINANCIAL STATEMENT,” has been provided by the Travis Central Appraisal District, in reliance upon their authority as experts in the field of appraising and tax assessing.

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

Auditor: The Districts financial statements are audited by Maxwell Locke & Ritter L.L.P., Certified Public Accountants, and excerpts of the District’s Audited Financial Statements as of September 30, 2008, have been included as Appendix A in reliance upon such firm’s authority as an expert in the field of accounting.



Financial Advisor: The preparation of the Official Statement has been provided by Caprock Securities, Inc. Caprock Securities, Inc. has served as financial advisor to the District since 2004.

### **Updating the Official Statement During Underwriting Period**

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

### **Certification as to Official Statement**

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

### **Official Statement “Deemed Final”**

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

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

### **Annual Audits**

Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year. Copies of each audit report must also be filed in the office of the District. The District’s fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District’s audit reports to any registered owner of the Bonds or other member of the public within a reasonable time on request, upon payment of reasonable charges.

This Official Statement was approved by the Board of Directors of the Northwest Austin Municipal Utility District No.1, as of the date shown on the first page hereof.

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William Ferguson  
President, Board of Directors  
Northwest Austin Municipal Utility District No. 1

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Chris Bowers  
Secretary, Board of Directors  
Northwest Austin Municipal Utility District No. 1