RCA
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION

SUBJECT: Approve a resolution authorizing the issuance by Northtown Municipal Utility District ("District") of Unlimited Tax and Revenue Bonds, Series 2006, in an amount not to exceed $4,500,000; and approving a substantial draft of the District's Bond Order and the Preliminary Official Statement.

AMOUNT & SOURCE OF FUNDING: The City has no responsibility for payment on District bonds until the District is annexed by the City and dissolved.

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING DEPARTMENT: Austin Water Utility

DIRECTOR'S AUTHORIZATION: Chris Lippe

FOR MORE INFORMATION CONTACT: Bart Jennings, 972-0118; Lisa Martinez, 972-0444; Denise Avery, 972-0104

PRIOR COUNCIL ACTION: N/A

BOARD AND COMMISSION ACTION: Recommended by Water and Wastewater Commission

PURCHASING: N/A

MBE / WBE: N/A

The Northtown Municipal Utility District ("District") was created on August 14, 1985, by an Order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"). The District contains approximately 1,224 total acres and is located approximately 15 miles northeast of downtown Austin entirely within the City of Austin's ETJ. It is generally bounded by the I-35 East Service Road to the west, Howard Lane to its south and abuts portions of Dessau Road along its eastern boundary. The District receives City of Austin ("City") wholesale water and wastewater service.

The City has received a request from the District to approve the sixth District bond sale in the amount of $4,500,000. The total amount of bonds authorized for the District is $69,443,000. The District has previously issued the following bonds: Series 1994, $1,000,000; Series 1997, $995,000; Series 2001, $2,100,000; Series 2002, $3,510,000 and Series 2003, $3,770,000. The total amount of District bonds sold to date is $11,375,000, of which $10,050,000 is currently outstanding. After the proposed bond issue, $53,568,000 in District bond authority will remain.

The proceeds from the sale of these bonds will fund the District's share of the construction, purchase, extension, improvement or acquisition of:

a. Settler's Meadow (a subdivision located in the northern part of the District) water and wastewater services lines,

b. a Settler's Meadow water service line easement, 18" Pflugerville water line purchase and connection costs,

c. a new master meter for Northtown West Subdivision, and

d. water, wastewater, drainage and wetland planting facilities serving single-family residential development in Gaston-Sheldon Section 1.

In accordance with TCEQ order concerning the bonds, the District will escrow $843,195, as follows: $600,765 for construction costs and contingencies for the Settler's Meadow Water Service and $242,430 for construction costs and contingencies for the Settler's Meadow wastewater service pending TCEQ staff approval which is contingent upon the TCEQ staff's receipt of plans and specifications approved by all entities with jurisdiction and recorded easements and/or site conveyance documents.

The TCEQ Executive Director granted formal approval of this bond issue on May 27, 2005, and the TCEQ order was formally issued on November 7, 2005. According to the TCEQ's order, the net effective rate should not exceed 5.71%. These bonds are the sole obligation of the District. However, if annexation by the City and dissolution were to occur, the City would be responsible for any remaining debt.

City departmental staff from the Austin Water Utility, Parks and Recreation, Emergency Medical Services, Watershed Protection and Development Review, Library, Neighborhood Planning and Zoning, Neighborhood Housing, Finance-Treasury, Watershed Protection, Fire, and Law reviewed the District's consent agreements. There are no outstanding compliance issues. City staff recommends approval of the issuance of $4,500,000 in Series 2006 District bonds subject to final review of the final bond offering documents by the Director of the Financial and Administrative Services Department or designee.

No. 020106-A

RESOLUTION AUTHORIZING THE ISSUANCE BY NORTHTOWN MUNICIPAL UTILITY DISTRICT ("DISTRICT") OF UNLIMITED TAX AND REVENUE BONDS

February 1, 2006
REGULAR MEETING

VOTE:
9-0-0-0

Motion made by:	Commissioner Chan
Commissioners Consenting:	Warner, Lee, Coleman, Friese, Gonzalez, Scott-Ryan, Raun, Pool
Commissioners Dissenting:	
Commissioners Abstaining:	
Commissioners Absent:	

Approve a resolution authorizing the issuance by Northtown Municipal Utility District ("District") of Unlimited Tax and Revenue Bonds, Series 2006, in an amount not to exceed $4,500,000; and approving a substantial draft of the District's Bond Order and the Preliminary Official Statement.

Michael Warner, Chairperson
Water and Wastewater Commission

2/1/06
Date

RESOLUTION NO. ________

WHEREAS, Northtown Municipal Utility District (the "District") is a conservation and reclamation district and governmental agency of the State of Texas, created on or about August 14, 1985, by an order of the Texas Natural Resource Conservation Commission and the District operates under Chapters 54 and 49, Texas Water Code; and

WHEREAS, by Ordinance No. 840503-O, the City of Austin (the "City") granted its consent to the creation of the District and the City, the District and Pflugerville Joint Venture, the original developer of the lands comprising the District, entered into a certain "Agreement Concerning Creation and Operation of Northtown Municipal Utility District" which, as amended (the "Consent Agreement"), sets forth the terms and conditions for creation and operation of the District; and

WHEREAS, the creation of the District was confirmed by an election held within the District on December 21, 1985; and

WHEREAS, the Consent Agreement sets forth terms relating to the issuance of bonds by the District; and

WHEREAS, subject to the terms of the Consent Agreement, the District is authorized by the Act to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside or outside its boundaries, any and all works, improvements, facilities, plants, equipment, and appliances necessary to accomplish the purposes of its creation; and

WHEREAS, under the Consent Agreement and that certain Order Authorizing the Issuance of $4,500,000 Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2006, (the "Series 2006 Bond Order"), the District proposes to issue bonds designated as its "$4,500,000 Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2006" (the "Series 2006 District Bonds") to acquire or reimburse the successors-in-interest of the original developer for the costs of constructing Settler's Meadow Water and Wastewater Service Lines; acquiring Settler's Meadow Water Service Water Line Easement; purchasing from the City of Pflugerville and connecting to an 18-inch Water Line; purchasing a Master meter for Northtown West Subdivision; and acquiring water, wastewater, drainage, and wetland planting facilities serving single family residential development in Gaston-Sheldon Section 1; **NOW, THEREFORE,**

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

The City Council approves the issuance by the District of the Series 2006 District Bonds in an amount not to exceed $4,500,000 and approves the substantial draft of the Series 2006 District Bond Order and Preliminary Official Statement for the Series 2006 District Bonds attached as Exhibit A and Exhibit B, respectively, and incorporated herein by reference, subject to final review and approval of the final offering documents by the Director of the City's Department of Financial and Administrative Services or his designee.

ADOPTED: _________, 2006 ATTEST: __________________
Shirley A. Gentry

City Clerk

L:\Construction-Land-Water\CS\MUD\Northtown MUD Series 2006 District Bonds $4.5M\Resolution - draft

ORDER AUTHORIZING THE ISSUANCE OF $4,500,000

NORTHTOWN MUNICIPAL UTILITY DISTRICT

UNLIMITED TAX AND REVENUE BONDS, SERIES 2006;

AWARDING THE SALE OF THE BONDS;

AUTHORIZING THE LEVY OF AN AD VALOREM TAX IN SUPPORT

OF THE BONDS; ENTERING INTO A PAYING AGENT/REGISTRAR

AGREEMENT; APPROVING AN OFFICIAL STATEMENT;

AND OTHER MATTERS RELATED TO THE ISSUANCE OF THE BONDS

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ORDER AUTHORIZING THE ISSUANCE OF $4,500,000 NORTHTOWN MUNICIPAL UTILITY DISTRICT UNLIMITED TAX AND REVENUE BONDS, SERIES 2006; AWARDING THE SALE OF THE BONDS; AUTHORIZING THE LEVY OF AN AD VALOREM TAX IN SUPPORT OF THE BONDS; ENTERING INTO A PAYING AGENT/REGISTRAR AGREEMENT; APPROVING AN OFFICIAL STATEMENT; AND OTHER MATTERS RELATED TO THE ISSUANCE OF THE BONDS

THE STATE OF TEXAS	§
COUNTY OF TRAVIS	§
NORTHTOWN MUNICIPAL UTILITY DISTRICT	§

WHEREAS, by Order of the Texas Water Commission dated August 14, 1985, the Northtown Municipal Utility District (the "District") was authorized to be created as a municipal utility district operating pursuant to Article 16, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended; and

WHEREAS, the creation of the District was confirmed at an election held within the District on December 21, 1985 (the "Confirmation Election"); and

WHEREAS, at the Confirmation Election the voters of the District also authorized the issuance of bonds in one or more issues or series in the maximum amount of $69,443,000 maturing serially or otherwise, in such installments as are fixed by said Board over a period or periods not exceeding 40 years from their date or dates, bearing interest at any rate or rates, and to sell said bonds at any price or prices, provided that the net effective interest rate, as defined by Government Code Chapter 1204, as amended, on any issue or series of said bonds shall not exceed the maximum legal limit in effect at the time of issuance of each such issue or series, all as may be determined by the Board of Directors of said District, for the purpose or purposes of purchasing, constructing, or otherwise acquiring a waterworks system, a sanitary sewer system, and a drainage and storm sewer system for said District and additions, extensions and improvements thereto, and purchasing or otherwise acquiring any and all property, contract rights, rights of use, and interests in property necessary, appropriate or incident to the purchase, construction, or other acquisition of such waterworks system, sanitary sewer system, and drainage and storm sewer system, and additions, extensions and improvements thereto, and for the additional purpose of paying all expenses in any manner incidental thereto, and such expenses as are incidental to the organization, administration, and financing of the District, which under applicable law may properly be paid from the proceeds of such bonds, in accordance with the Engineer's report; and

WHEREAS, the City of Austin (the "City") has consented to the creation of the District and the issuance of bonds by the District pursuant to the terms and conditions of a Consent Agreement between the City and the District (the "Consent Agreement"); and

WHEREAS, the Texas Commission on Environmental Quality (the "Commission") has approved the issuance by the District of $4,500,000 principal amount of bonds upon the terms and conditions as outlined in the Commission's Order dated November 14, 2005, a true and correct copy of which is attached to this Order; and

WHEREAS, the City has approved the issuance of the Bonds on ____________, 2006 in accordance with the Consent Agreement; and

WHEREAS, the District has previously issued its "Northtown Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1994" in the aggregate principal amount of $1,000,000, its "Unlimited Tax and Revenue Bonds, Series 1997" in the aggregate principal amount of $995,000, its "Unlimited Tax and Revenue Bonds, Series 2001" in the aggregate principal amount of $2,100,000, its "Unlimited Tax and Revenue Bonds, Series 2002" in the aggregate principal amount of $3,510,000, its "Unlimited Tax and Revenue Bonds, Series 2003" in the aggregate principal amount of $3,770,000 and its "Unlimited Tax and Revenue Refunding Bonds, Series 2004" in the aggregate principal amount of $2,504,999.70; and

WHEREAS, the Board of Directors of the District deems it necessary and advisable at this time to issue $4,500,000 of bonds and reserving the right in the future to issue the remaining $53,568,000 bonds authorized at the Confirmation Election and in accordance with the Consent Agreement.

THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE NORTHTOWN MUNICIPAL UTILITY DISTRICT:

Section 1. AMOUNT AND PURPOSE OF THE BONDS. The Board of Directors of the District hereby incorporates the recitals set forth in the preamble hereto as if set forth in full at this place and further finds and determines that the recitals are true and correct. The bonds of Northtown Municipal Utility District (the "District") are hereby authorized to be issued and delivered in the aggregate principal amount of **$4,500,000 FOR THE PURPOSE OR PURPOSES AUTHORIZED BY THE CONFIRMATION ELECTION INCLUDING THE CONSTRUCTION, PURCHASE, EXTENSION, IMPROVEMENT OR ACQUISITION OF THE (1) SETTLER'S MEADOW WATER AND WASTEWATER SERVICE LINES; (2) SETTLER'S MEADOW WATER SERVICE LINE EASEMENT; (3) 18-INCH PFLUGERVILLE WATER LINE PURCHASE AND CONNECTION COSTS; (4) MASTER METER FOR NORTHTOWN WEST SUBDIVISION; AND (5) WATER, WASTEWATER DRAINAGE AND WETLAND PLANTING FACILITIES SERVING SINGLE-FAMILY RESIDENTIAL DEVELOPMENT IN GASTON-SHELDON SECTION 1. IN ADDITION, PROCEEDS OF THE BONDS WILL BE USED TO: (1) CAPITALIZE APPROXIMATELY TWENTY-FOUR MONTHS INTEREST REQUIREMENTS ON THE BONDS; (2) PAY**

CERTAIN COSTS ASSOCIATED WITH THE ISSUANCE OF THE BONDS; AND (3) REIMBURSE CERTAIN DEVELOPERS FOR CREATION AND ORGANIZATION COSTS AND INTEREST ACCRUED. The Bonds are issued under the authority of the constitution and laws of the state of Texas, including particularly chapters 49 and 54 of the Texas Water Code, as amended; the confirmation election; the commission's order; and the consent agreement.

Section 2. DEFINITIONS. In addition to other words and terms defined in this Order (except those defined and used in the Form of the Bonds in Section 6), and unless a different meaning or intent clearly appears in the context, the following words and terms shall have the following meanings, respectively:

"Bonds" shall mean and include collectively the bonds initially issued and delivered pursuant to this Order and all substitute bonds and bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

"Bond Order" or "Order" shall mean this Order of the Board of Directors authorizing the issuance of the Bonds.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commission" shall mean the Texas Commission on Environmental Quality and any successor thereto.

"Contract" shall mean the "Utility Construction Contract between the City of Austin and Northtown Municipal Utility District" dated as of August 31, 1984, and any and all supplements or amendments thereto.

"Contract Facilities" shall mean the project as defined in the Contract.

"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.

"Federal Securities" as used herein means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including, but not limited to, Interest Strips of the Resolution Funding Corporation).

"Interest and Sinking Fund" shall have the meaning as set forth in Section 7(a)(ii).

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" shall mean income or increment which may grow out of the ownership and operation of the District's System, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the District's System; provided, however, that the term Net Revenues shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District to be paid to any person pursuant to a contract authorized by Section 402.014, Local Government Code, as amended or any other contract permitted by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Paying Agent/Registrar" shall mean ____________________ and such other bank or trust company as may hereafter be appointed in substitution therefor or in addition thereto to perform the duties of Paying Agent/Registrar in accordance with this Order.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Series 1994 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1994" in the aggregate principal amount of $1,000,000.

"Series 1997 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1997" in the aggregate principal amount of $995,000.

"Series 2001 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2001" in the aggregate principal amount of $2,100,000.

"Series 2002 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2002" in the aggregate principal amount of $3,510,000.

"Series 2003 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2003" in the aggregate principal amount of $3,770,000.

"Series 2004 Bonds" means the bonds previously issued by the District entitled "Northtown Municipal Utility District Unlimited Tax and Revenue Refunding Bonds, Series 2004" in the aggregate principal amount of $2,504,999.70, the proceeds of which refunded portions of the outstanding Series 1994 Bonds, Series 1997 Bonds and Series 2001 Bonds.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

"Special Project Bonds" shall mean those bonds authorized pursuant to Section 15 of this Bond Order.

"System" means the works, improvements, facilities, plants, equipment, and appliances comprising the waterworks, sanitary sewer, and drainage system of the District now owned or to be hereafter purchased, constructed, or otherwise acquired whether by deed, contract, or otherwise, together with any additions or extensions thereto or improvement and replacements thereof, except the Contract Facilities and the water and/or sewer and/or drainage facilities which the District may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System.

Section 3. DESIGNATION, DATE, DENOMINATIONS, NUMBERS, PRIOR REDEMPTION AND MATURITIES OF BONDS. Each Bond issued pursuant to this Order shall be designated: "NORTHTOWN MUNICIPAL UTILITY DISTRICT UNLIMITED TAX AND REVENUE BOND, SERIES 2006" and initially there shall be issued, sold and delivered hereunder fully registered Bonds, without interest coupons, with the Bonds being dated April 1, 2006 in the respective denominations and principal amounts hereinafter stated, being numbered consecutively from R-1 upward (except the initial Bond delivered to the Attorney General of the State of Texas which shall be numbered T-1), payable to the respective initial registered owners thereof (as designated in Section 12 hereof), or to the registered assignee or assignees of said Bonds or any portion or portions thereof (in each case, the "Registered Owner"), and, unless redeemed prior to their respective maturities as provided herein, the Bonds shall mature and be payable serially on September 1 in each of the years and in the principal amounts, respectively, as set forth in the following schedule:

MATURITY	PRINCIPAL AMOUNT	MATURITY	PRINCIPAL AMOUNT

Section 4. **INTEREST**. The Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF BOND set forth in this Order to their respective dates of maturity at the following rates per annum:

MATURITY	RATE	MATURITY	RATE

Interest shall be payable in the manner provided and on the dates stated in the FORM OF BOND set forth in this Order.

Section 5. **CHARACTERISTICS OF THE BONDS**. (a) Registration, Transfer, Conversion and Exchange; Authentication. The District shall keep or cause to be kept at the designated office for payment of _________________ (the "Paying Agent/Registrar") in _______, Texas books or records for the registration of the transfer, conversion and exchange of the Bonds (the "Registration Books"), and the District hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers, conversions and exchanges under such reasonable regulations as the District and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, conversions and exchanges as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. To the extent possible and under reasonable circumstances, all transfers of Bonds shall be made within three business days after request and presentation thereof. The District shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. The Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, conversion, exchange and delivery of a substitute Bond or Bonds shall be paid as provided in the FORM OF BOND set forth in this Order. Registration of assignments, transfers, conversions and exchanges of Bonds shall be made in the manner provided and with the effect stated in the FORM OF BOND set forth in this Order. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond.

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Bonds and Bonds surrendered for conversion and exchange. No additional ordinances, orders, or resolutions need be passed or adopted by the Board of Directors of the District or any other body or person so as to accomplish the foregoing conversion and exchange of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and the Bonds shall be of typewritten, photocopied, printed, lithographed, engraved or produced in any other similar manner, all as determined by the officers executing such bond as evidenced by their execution thereof. Pursuant to Chapter 1201, Government Code, as amended, the duty of conversion and exchange of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the converted and exchanged Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which initially were issued and delivered pursuant to this Order, approved by the Attorney General, and registered by the Comptroller of Public Accounts.

(b) Payment of Bonds and Interest. The District hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Order. The Paying Agent/Registrar shall keep proper records of all payments made by the District and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and replacements of Bonds, as provided in this Order. However, in the event of a nonpayment of interest on a scheduled payment date, and for 30 calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

(c) In General. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be transferred and assigned, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, (v) shall be signed, sealed, executed and authenticated, (vi) shall be payable as to the principal of and interest, (vii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar at least 40 calendar days prior to any such redemption date), and (viii) shall be administered, and the Paying Agent/Registrar and the District shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BOND set forth in this Order. The Bond initially issued and delivered pursuant to this Order are not required to be, and shall not be, authenticated by the Paying Agent/Registrar, but on each substitute Bond issued in conversion of and exchange for any Bond or Bonds issued under this Order the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BOND.

(d) Substitute Paying Agent/Registrar. The District covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the District will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Order, and that the Paying Agent/Registrar will be one entity. The District reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 30 days written notice to the Paying Agent/Registrar, to be effective at such time which will not disrupt or delay payment on the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the District covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Order. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the District. Upon any change in the Paying Agent/Registrar, the District promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Order and a certified copy of this Order shall be delivered to each Paying Agent/Registrar.

(e) Book-Entry-Only System. The Bonds issued in exchange for the Bonds initially issued as provided in Section 3 shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("DTC") and except as provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the District and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC participants (the "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown on the Registration Books, of any notice with respect to the Bonds, or (iii) the payment to any DTC Participant or any person, other than a Registered Owner, as shown in the Registration Books of any amount with respect to principal of or interest on the Bonds. Notwithstanding any other provision of this Order to the contrary, but to the extent permitted by law, the District and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal of and interest, with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes of registering transfers with respect to such Bonds, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Bonds only to or upon the order of the respective Registered Owners, as shown in the Registration Books as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Registered Owner, as shown in the Registration Books, shall receive a Bond evidencing the obligation of the District to make payments of principal, and interest pursuant to this Order. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Order with respect to interest checks being mailed to the registered owner at the close of business on the Record Date the word "Cede & Co." in this Order shall refer to such new nominee of DTC.

(f) Successor Securities Depository; Transfer Outside Book-Entry-Only System. In the event that the District determines to discontinue the book-entry system through DTC or a successor or DTC determines to discontinue providing its services with respect to the Bonds, the District shall either (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the Registered Owner transferring or exchanging Bond shall designate, in accordance with the provisions of this Order.

(g) Payments to Cede & Co. Notwithstanding any other provision of this Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Letter of Representations of the District to DTC.

(h) Initial Bond. The Bonds herein authorized shall be initially issued as a fully registered bond, being one Bond, and the initial Bond shall be registered in the name of the initial purchaser or the designees thereof. The Initial Bond shall be the Bond submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the initial purchaser. Immediately after the delivery of the Initial Bond on the closing date, the Paying Agent/Registrar shall cancel the Initial Bond delivered hereunder and exchange therefor Bonds in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of DTC and except as provided in Section 5, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(i) DTC Blanket Letter of Representations. The District confirms execution of a Blanket Issuer Letter of Representations with DTC establishing the Book-Entry-Only System which will be utilized with respect to the Bonds.

Section 6. FORM OF BONDS. The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be attached to the Bond initially issued and delivered pursuant to this Order, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Order.

FORM OF BOND

UNITED STATES OF AMERICA
STATE OF TEXAS

NORTHTOWN MUNICIPAL UTILITY DISTRICT
UNLIMITED TAX AND REVENUE BOND
SERIES 2006

NO. R- **PRINCIPAL AMOUNT $__________**

INTEREST RATE	DATE OF BONDS	MATURITY DATE	CUSIP NO.
	__________, 2006		

REGISTERED OWNER:

PRINCIPAL AMOUNT:

ON THE MATURITY DATE specified above, **NORTHTOWN MUNICIPAL UTILITY DISTRICT** (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "registered owner") the principal amount set forth above, and to pay interest thereon calculated on the basis of a 360 day year of twelve 30 day months, from ___________, 2006, payable on __________, 2006, and semiannually on each March 1 and September 1 thereafter to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity at the designated office for payment of _________________ (the "Paying Agent/Registrar") in ________, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on or before each such interest payment date, to the registered owner hereof, at its address as it appeared at the close of business on the 15th calendar day of the month (whether or not a business day) preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner as it appears on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

DURING ANY PERIOD in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the City and the securities depository.

ANY ACCRUED INTEREST due at maturity or upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and any redemption date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for any payment due on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the office for payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of a series of Bonds dated as of April 1, 2006 and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of **$4,500,000 FOR THE PURPOSE OR PURPOSES AUTHORIZED BY THE CONFIRMATION ELECTION INCLUDING THE CONSTRUCTION, PURCHASE, EXTENSION, IMPROVEMENT OR ACQUISITION OF THE (1) SETTLER'S MEADOW WATER AND WASTEWATER SERVICE LINES; (2) SETTLER'S MEADOW WATER SERVICE LINE EASEMENT; (3) 18-INCH PFLUGERVILLE WATER LINE PURCHASE AND CONNECTION COSTS; (4) MASTER METER FOR NORTHTOWN WEST SUBDIVISION; AND (5) WATER, WASTEWATER DRAINAGE AND WETLAND PLANTING FACILITIES SERVING SINGLE-FAMILY RESIDENTIAL DEVELOPMENT IN GASTON-SHELDON SECTION 1. IN ADDITION, PROCEEDS OF THE BONDS WILL BE USED TO: (1) CAPITALIZE APPROXIMATELY TWENTY-FOUR MONTHS INTEREST REQUIREMENTS ON THE BONDS; (2) PAY CERTAIN COSTS ASSOCIATED WITH THE ISSUANCE OF THE BONDS; AND (3) REIMBURSE CERTAIN DEVELOPERS FOR CREATION AND ORGANIZATION COSTS AND INTEREST ACCRUED.** The Bonds are issued under the authority of the constitution and laws of the state of Texas, including particularly chapters 49 and 54 of the Texas Water Code, as amended; the confirmation election; the commission's order; and the consent agreement.

ON SEPTEMBER 1, 20___ OR ON ANY DATE THEREAFTER, the Bonds maturing on and after September 1, 20____, may be redeemed prior to their scheduled maturities, at the option of the District, with funds derived from any available and lawful source, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption as a whole, or from time to time in part, and, if in part, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity is to be redeemed the Paying Agent/Registrar shall determine by lot the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of $5,000 of principal amount).

THE BONDS MATURING ON SEPTEMBER 1, 20___, SEPTEMBER 1, 20___ AND SEPTEMBER 1, 20___ (the "Term Bonds") are subject to mandatory sinking fund redemption by lot prior to maturity in the following amounts on the following dates and at a price of par plus accrued interest to the redemption date ("Term Bonds").

Term Bonds Maturing on September 1, 20___

Redemption Date	Principal Amount
September 1, 20__	$______
September 1, 20__ †	______

†Final Maturity

Term Bonds Maturing on September 1, 20___

Redemption Date	Principal Amount
September 1, 20__	$______
September 1, 20__ †	______

†Final Maturity

Term Bonds Maturing on September 1, 20___

Redemption Date	Principal Amount
September 1, 20__	$______
September 1, 20__ †	______

†Final Maturity

THE PRINCIPAL AMOUNT of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the

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

AT LEAST 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial journal or publication of general circulation in the City of New York, New York or in the City of Austin, Texas. Such notice also shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services; provided, however, that the failure to send, mail or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof and by the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions for which such payment is made, all as provided above. The Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any authorized denomination or denominations, at the written request of the registered owner, and in the aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the District, all as provided in the Bond Order.

ALL BONDS OF THIS SERIES are issuable solely as fully registered Bonds, without interest coupons, in the denomination of any integral multiple of $5,000. As provided in the Bond Order, this Bond may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate registered owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate registered owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the registered owner. The Paying Agent/Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within forty-five (45) calendar days prior to its redemption date.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Bonds.

THE BONDS are payable from the proceeds of a tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bonds are further payable from the District's Net Revenues (as defined in the Bond Order), if any. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts, and to secure the Bonds and any other bonds of the District or such districts by a pledge of the net revenues of the consolidated system. The Bond Order further provides that the pledge of taxes and Net Revenues, if any, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or direct obligations of the United States or obligations unconditionally guaranteed by the United States in an amount sufficient to defease the Bonds is deposited with or made available to the Paying Agent/Registrar in accordance with the Bond Order or (ii) the City of Austin, Texas (the "City") dissolves the District, and assumes the obligations of the District pursuant to existing Texas law and the Consent Agreement between the District and the City.

THE BONDS are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due the other contractual obligations of the issuer payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Bond Order. The Bonds are further payable from the Net Revenues, if any, of the System. Reference is hereby made to the Bond Order for provisions with respect to the operation and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the registered owners of the Bonds. By acceptance of this Bond the registered owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

THE OBLIGATION to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the registered owner of this Bond.

THE DISTRICT RESERVES THE RIGHT to issue (i) additional bonds equally secured by a pledge of taxes and Net Revenues or from taxes only; (ii) bonds, notes, and other obligations of inferior liens; and (iii) revenue bonds, payable solely from contracts with other persons, including private corporations, municipalities, and political subdivisions to finance facilities needed in performing any such contracts. Reference is made to the Bond Order for a complete description of the right to issue additional obligations.

TO THE EXTENT permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the registered owners of the Bonds may be modified with, in certain circumstances, the consent of the registered owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the registered owners of all of the Bonds affected, no such modification shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Paying Agent/Registrar.

IT IS HEREBY CERTIFIED, COVENANTED, AND REPRESENTED that all acts, conditions, and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form, and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and by the pledge of Net Revenues, if any, as described above; and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

IT IS FURTHER CERTIFIED that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

IN WITNESS WHEREOF, the District has caused this Bond to be signed with the manual or facsimile signature of the President of the Board of Directors of the District and countersigned with the manual or facsimile signature of the Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

NORTHTOWN MUNICIPAL UTILITY DISTRICT

Secretary, Board of Directors	President, Board of Directors

(SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE
(To be executed if this Bond is not accompanied by an

executed Registration Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds, or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated: ______________________________

Paying Agent/Registrar

By ______________________________

Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

____

____

Please insert Social Security or Taxpayer Identification Number of Transferee

____

____

(Please print or typewrite name and address, including zip code of Transferee)

____

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ______________________________, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: ______________________

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution participating in a securities transfer association recognized signature guarantee program.

NOTICE: The signature above must correspond with the name of the registered owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

FORM OF REGISTRATION CERTIFICATE OF THE COMPTROLLER OF PUBLIC ACCOUNTS

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

INSERTIONS FOR THE INITIAL BOND

The initial Bond shall be in the form set forth in this Section, except that:

A. immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As shown below" and "CUSIP NO." shall be deleted.

B. the first paragraph shall be deleted and the following will be inserted:

"**ON THE MATURITY DATE SPECIFIED BELOW,** Northtown Municipal Utility District (the "District"), being a political subdivision, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), on September 1 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Maturity	Principal Amount	Rate

(Information from Sections 3 and 4 to be inserted)

The District promises to pay interest on the unpaid principal amount hereof (calculated on the basis of a 360-day year of twelve 30-day months) from ____________, 2006 at the respective Interest Rate per annum specified above. Interest is payable on __________, 2006 and semiannually on each March 1 and September 1 thereafter to the date of payment of the principal installment specified above; except, that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full."

C. The initial Bond shall be numbered "T-1."

Section 7. **SECURITY FOR THE BONDS**. (a) Pledge and Levy of Taxes. For each year while any Bond is outstanding and the District remains in existence, the Board shall consider the taxable property in the District and determine the actual rate of the bond tax and/or the maintenance tax per $100 valuation of taxable property which is to be levied in that year, and levy the bond tax and/or the maintenance tax against all taxable property in the District.

(i) Annual Budget. Prior to determining the bond tax and/or maintenance tax to be levied for any calendar year, the Board shall adopt an annual budget for the District setting forth the estimated expenditures and disbursements of the District's receipts, revenues, and funds, the estimated receipts, revenues and funds and the sources thereof, and the District's debt service for the succeeding fiscal year. The budget shall be developed in accordance with generally accepted accounting procedures, and shall contain such budgetary items and provisions as may be reasonably necessary to reflect adequately the operations and activities of the District for the annual period covered by the budget. The board shall not determine the bond tax and/or maintenance tax to be levied for any calendar year until the Board has approved an annual budget for the expenditure and disbursement of the receipts, revenues and funds of the District.

(ii) Establishment of District Interest and Sinking Fund and Levy of Bond Tax. A special fund or account, to be designated the Northtown Municipal Utility District Series 2006 Bonds Interest and Sinking Fund (the "Interest and Sinking Fund") is hereby created and shall be established and maintained by the District at its official depository bank. The Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of the District, and shall be used only for paying the principal, interest and redemption price of the Bonds. All taxes levied and collected for and on account of the Bonds shall be deposited, as collected, to the credit of the Interest and Sinking Fund. During each year while any of the Bonds are outstanding and unpaid, the District shall compute and ascertain the rate and amount of ad valorem tax, based on the latest approved tax rolls of the District, with full allowances being made for tax delinquencies and costs of tax collections, which will be sufficient to raise and produce the money required to make payment of the principal and interest on the Bonds. The rate and amount of ad valorem tax is hereby ordered to be levied and is hereby levied without limit as to rate or amount and is hereby levied without limit as to rate or amount against all taxable property in the District for each year while any of the Bonds are outstanding and unpaid, and such ad valorem tax shall be assessed and collected each such year and deposited to the credit of the Interest and Sinking Fund. In determining the rate of tax to be levied, assessed and collected, the District may take into account the amount of funds on hand in the Interest and Sinking Fund including the amounts therein from the deposit of Net Revenues. The ad valorem taxes and the Net Revenues are hereby irrevocably pledged to the payment of the principal of and interest on the Bonds as same become due.

(b) Pledge of Net Revenues. The District covenants and agrees that the Net Revenues, if any, are hereby pledged for payment of the Bonds. The revenues hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against any parties of any kind having a claim of any kind in tort, contract or otherwise against the District irrespective of whether such parties have notice thereof.

To the extent provided by law, such pledge of Net Revenues and taxes will terminate if the City takes over all properties and assets, assumes all debts, liabilities, and obligations, and performs all functions and services of the District, and the District is abolished pursuant to law and the Consent Agreement.

The laws of the State of Texas permit the District to be consolidated with one or more conservation and reclamation districts. In the event the District is consolidated with another district or districts, the District reserves the right to:

(i) Consolidate the System with a similar system of one or more districts with which the District is consolidating and operate and maintain the systems as one consolidated system (herein for purposes of this section the "Consolidated System").

(ii) Apply the net revenues from the operation of the Consolidated System to the payment of principal, interest, redemption price and bank charges on the revenue bonds or the combination tax and revenue bonds (herein for purposes of this section the "Revenue Bonds") of the District and of the district or districts with which the District is consolidating (herein collectively the "Consolidating Districts") without preference to any series of bonds (except subordinate lien revenue bonds which shall continue to be subordinate to the first lien Revenue Bonds of the Consolidating Districts).

(iii) Pledge the net revenues of the Consolidated System to the payment of principal, interest, redemption price and bank charges on Revenue Bonds which may be issued by the Consolidating Districts on a parity with the outstanding first lien Revenue Bonds of the Consolidating Districts.

(c) Perfection. Chapter 1208, Government Code, applies to the issuance of the Bonds and the pledge of taxes and revenues granted by the District under Section 7 of this Order, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of taxes and revenues granted by the District under Section 7 of this Order is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 8. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Bond") within the meaning of this Order, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date or dates (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/Registrar or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to 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 and when proper arrangements have been made by the District with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of its services until all Defeased Bonds shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes or revenues herein levied and pledged as provided in this Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) The deposit under clause (ii) of subsection (a) shall be deemed a payment of a Bond as aforesaid when proper notice of redemption of such Bonds shall have been given, in accordance with this Order. Any money so deposited with the Paying Agent/Registrar or an eligible trust company or commercial bank as provided in this Section may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to this Section which is not required for the payment of such Bond 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.

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

(d) Notwithstanding anything elsewhere in this Order, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bond affected thereby.

(e) Notwithstanding the provisions of subsection (a) immediately above, to the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the Order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions of subsection (a) immediately above with respect to such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

Section 9. FUNDS, FLOW OF FUNDS, APPLICATION OF FUNDS AND INVESTMENTS.

(a) Designation of Funds. The following funds are hereby created or affirmed:

(i) the Operating Fund;

(ii) the Interest and Sinking Fund; and

(iii) the Construction Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Interest and Sinking Fund shall constitute a trust fund which shall be held in trust for the benefit of the owners of the Bonds. All other funds shall be used solely as provided in this Order until all of the Bonds have been retired, both as to principal and interest.

(b) Operating Fund. The Operating Fund shall comprise the fund of the District for operating and maintaining the System and paying general and administrative expenses of the District. The District shall deposit to the credit of the Operating Fund all income or increment which may grow out of the ownership and operation of the System unless derived from contracts with other persons, including private corporations, municipalities, and political subdivisions which, under the terms of the authorizing orders, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts, and the District may deposit to the credit of the Operating Fund such other income or receipts of the District not otherwise required to be applied by this Order. The Operating Fund shall be used solely to (i) pay all reasonable expenses of the administration, efficient operation, and adequate maintenance of the System, (ii) transfer from time to time any excess to the credit of the Interest and Sinking Fund when needed to pay the obligations of the District payable therefrom, and (iii) to the extent the balance of the Interest and Sinking Fund and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from the Interest and Sinking Fund, to pay any other expense of the District.

(c) Construction Fund. The Construction Fund shall comprise the capital improvements fund of the District. The District shall deposit to the credit of the Construction Fund the balance of the proceeds of the Bonds remaining after the deposits to the Interest and Sinking Fund provided in Section 9(d) of this Order. The Construction Fund shall be applied solely to pay (i) the costs necessary or appropriate to accomplish such of the purposes for which the Bonds are issued as approved by the Commission with any surplus proceeds subject to the Commission's further approval and (ii) the costs of issuing the Bonds. Interest earnings derived from the investment of proceeds from the sale of the Bonds deposited in the Construction Fund shall be used for the purpose for which the Bonds are issued; provided that after completion of the purposes set forth in Section 1 of this Order any interest earnings remaining on hand shall be deposited in the Interest and Sinking Fund or used to pay any rebate in accordance with Section 11 of this Order.

(d) Interest and Sinking Fund. The Interest and Sinking Fund shall comprise the interest and sinking fund of the District. The District shall deposit to the credit of the Interest and Sinking Fund (i) accrued interest on the Bonds from their date to the date of their delivery, (ii) collections of District taxes or Net Revenues, if any, to the extent provided in Section 7(a) and 7(b) hereof, (iii) capitalized interest on the Bonds, and (iv) amounts transferred from the Operating Fund to the extent provided in paragraph (b) of this Section 9. The Interest and Sinking Fund, including interest earnings or amounts deposited therein, shall be applied solely to pay the principal or redemption price of and interest on the Bonds when due, and the fees of the Paying Agent/Registrar.

(e) Investment of Funds. The Board may place money in any fund created by this Order in time or demand deposits or invest such moneys as authorized by law at the time of such deposit. The District hereby covenants that the proceeds of the sale of the Bonds will be used as soon as practicable for the purposes for which the Bonds are issued. Obligations purchased as an investment of money in any fund shall be deemed to be a part of such Fund. Except as otherwise provided by law or by this Order, amounts received from the investment of any money in any Fund created by this Bond Order, except the Interest and Sinking Fund which shall be applied as set forth in Section 9(a) above, may be placed into any fund of the District as determined by the Board.

(f) Security for Funds. All funds created by this Bond Order shall be secured in the manner and to the fullest extent required by law for the security of funds of the District.

(g) Interest Earnings on Bond Proceeds. Interest earnings derived from the investment of proceeds from the sale of the Bonds shall be used along with other Bond proceeds for the purpose for which the Bonds are issued as set forth in Section 1 hereof; provided that after completion of such purpose, if any of such interest earnings remain on hand, such interest earnings shall be deposited in the Interest and Sinking Fund or used to pay any rebate in accordance with Section 11 of this Order.

Section 10. CUSTODY, APPROVAL, AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION; CUSIP NUMBERS AND CONTINGENT INSURANCE PROVISION, IF OBTAINED. The President of the Board of Directors of the District is hereby authorized to have control of the Bonds initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the District's Bond Counsel and the assigned CUSIP numbers may, at the option of the District, be printed on the Bonds issued and delivered under this Order, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. In addition, if a Municipal Bond Insurance Policy is obtained, the Bonds may bear an appropriate legend as provided by the such bond insurer.

Section 11. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE BONDS. (a) Covenants. The District covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the District covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the District, with respect to such private business use, do not, under the terms of this Order or any underlying arrangement, directly or indirectly,

secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(2) to take any action to assure that in the event that the "private business use" described in subsection (1) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(3) to take any action to assure that no amount which is greater than the lesser of $5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(4) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(5) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(6) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(7) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(8) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

(b) Rebate Fund. In order to facilitate compliance with the above covenant (8), a "Rebate Fund" is hereby established by the District for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Proceeds. The District understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the District that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the District will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the District agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the District hereby authorizes and directs the President to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the District, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Allocation Of, and Limitation On, Expenditures for the Project. The District covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 1 of this Order (the "Project") on its books and records in accordance with the requirements of the Code. The District recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the District recognizes that in order for proceeds to be expended under the Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds, or (2) the date the Bonds are retired. The District agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes of this subsection, the District shall not be obligated to comply with this covenant if it obtains an opinion of nationally-recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(e) Disposition of Project. The District covenants that the property constituting the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the District of cash or other compensation, unless the District obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of this subsection, the portion of the property comprising personal property and disposed of in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes of this subsection, the District shall not be obligated to comply with this covenant if it obtains an opinion of nationally-recognized bond counsel to the effect that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(f) Designation as Qualified Tax-Exempt Obligations. The District hereby designates the Bonds as "qualified tax-exempt bonds" as defined in section 265(b)(3) of the Code. In furtherance of such designation, the District represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the District (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Bonds, will result in more than $10,000,000 of "qualified tax-exempt bonds" being issued; (b) that the District reasonably anticipates that the amount of tax-exempt obligations issued, during the calendar year in which the Bonds are issued, by the District (or any subordinate entities) will not exceed $10,000,000; and, (c) that the District will take such action or refrain from such action as necessary, and as more particularly set forth in this Section, in order that the Bonds will not be considered "private activity bonds" within the meaning of section 141 of the Code.

Section 12. **SALE OF BONDS**. The Bonds are hereby sold, pursuant to the taking of public bids therefor, on this date, and shall be delivered to ______________________ at a price of ___% of the par amount ($____________) plus accrued interest. The Board hereby finds and determines that the net effective interest rate on the Bonds, as calculated pursuant to Government Code, Chapter 1204, as amended is __________% which rate is not more than two (2) percent above the highest average interest rate reported by the *"Daily Bond Buyer"* in its weekly *"Bond Index"* during the one month period preceding ___________, 2006. It is hereby officially found, determined, and declared that the terms of this sale are the most advantageous reasonably obtainable and best sealed bid received by the District. The Bonds shall initially be registered in the name of

______________________.

Section 13. **GENERAL COVENANTS OF THE DISTRICT**. The District covenants and represents that:

(1) It has lawful power to issue the Bonds and to pledge the Net Revenues and has lawfully exercised such power under the Constitution and laws of the State of Texas.

(2) The Bonds shall be ratably secured in such manner that no one Bond shall have preference over other Bonds.

(3) Except for the pledge to the payment of the Bonds and the Series 1994 Bonds, the Series 1997 Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2003 Bonds and the Series 2004 Bonds, the Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the District or of the System.

(4) It has obtained or will obtain and will comply with the terms and conditions of all franchises, permits, and authorizations and will maintain same in full force and effect.

(5) It will proceed to acquire and construct with all due diligence and dispatch so much of the System as shall have been financed with the proceeds of the Bonds.

(6) It will levy an ad valorem tax that will be sufficient to provide funds to pay the interest on the Bonds and to provide the necessary sinking fund, all as described in Section 7 of this Order.

(7) It shall 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 shall be in accordance with applicable law, rules, and regulations in effect from time to time, including particularly Section 50.371 et seq of the Texas Water Code, as amended, and the Water District Accounting Manual adopted by the Commission. A copy of such audit shall be filed in the office of the District and shall be open to inspection by any interested person during normal office hours. The District shall allow any holder or holders of not less than 25% in principal amount of the bonds then outstanding to inspect the System and all records, accounts, and data of the District relating thereto at all reasonable times and shall furnish a copy of such audit report to any such holder or holders upon request upon payment to the District of the charge therefor as prescribed by law.

(8) The President, the Vice President, the Secretary, and all other officers of the Board from time to time, or any of them, are hereby authorized and directed to do any and all things required for the construction of the System and are further authorized and directed to make money of the District available for the payment of the Bonds in the manner provided by law and herein.

(9) So long as any of the Bonds or the Additional Bonds remain outstanding, the District covenants that it will at all times maintain the System or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound management principles. In operating and maintaining the System, the District will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative or judicial body having jurisdiction over the District.

(10) It is in compliance with and will comply with the covenants set forth in the Consent Agreement.

Section 14. REMEDIES OF REGISTERED OWNERS. In addition to all rights and remedies of any registered owner of the Bonds provided by the laws of the State of Texas the District and the Board covenant and agree that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make the payments required by this Order to be made into the Interest and Sinking Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in this Order, the registered owner of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Board and other officers of the District to observe and perform any covenant, obligation, or condition prescribed in this Order. No delay or omission by any registered owner upon default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The specific remedies mentioned in this Order shall be available to the registered owners of the Bonds as provided herein and shall be cumulative of all other lasting remedies.

Section 15. ADDITIONAL BONDS, SPECIAL PROJECT BONDS AND REFUNDING BONDS. (a) Additional Bonds, Inferior Obligations and Refunding Bonds. The District expressly reserves the right to issue in one or more installments or issues, additional bonds heretofore voted but unissued and bonds hereafter voted and payable from a lien on and pledge of taxes and revenues on a parity with and of equal dignity with the pledge for the Bonds; and bonds, notes and other obligations of inferior liens. This District further reserves the right to issue refunding bonds, notes or other obligations in any manner permitted by law to refund any Bonds, Additional Bonds, bonds, notes or other obligations at or prior to their respective dates of maturity or redemption.

(b) Special Project Bonds. The District further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The District further reserves the right to refund such bonds.

Section 16. APPROVAL OF OFFERING DOCUMENTS. An "Official Notice of Sale", an "Official Bid Form", and an "Official Statement", dated ____________, 2006, were prepared and distributed in connection with the sale of the Bonds (said documents are hereinafter referred to as the "Offering Documents"). Said Offering Documents, and any addenda, supplement, or amendment thereto, are hereby approved by the Board of Directors of the District, and their use in the offer and sale of the Bonds is hereby approved.

Section 17. DAMAGED, MUTILATED, LOST, STOLEN OR DESTROYED BONDS. (a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the District and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the registered owner shall furnish to the District and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the District may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the District whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Order equally and proportionately with any and all other Bonds duly issued under this Order.

(e) Authority for Issuing Replacement Bonds. In accordance with Subchapter B of Texas Government Code, Chapter 1206, this Section of this Order shall constitute authority for the issuance of any such replacement Bond without necessity of further action by the governing body of the District or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 5(a) of this Order for Bonds issued in conversion and exchange for other Bonds.

Section 18. ORDER A CONTRACT, AMENDMENTS. The District acknowledges that the covenants and obligations of the District herein contained are a material inducement to the purchase of the Bonds. This Order shall constitute a contract with the holders of the Bonds from time to time, binding on the District and its successors and assigns, and shall not be amended or repealed by the District so long as any Bond remains outstanding except as permitted in this Section. The District may, without the consent of or notice to any holders of Bonds, from time to time and at any time amend this Order in any manner not detrimental to the interests of the holders of the

Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District may, with the written consent (expressed as provided herein) of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of this Order; provided that, without the consent of the holders of all of the Bonds affected, no such amendment addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, change the place or places, or the coin or currency in which, any Bond or the interest thereon is payable or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. Whenever the District shall desire to make any amendment or addition to or rescission of this Order requiring the consent of holders of the Bonds, the District shall cause notice of the amendment, addition, or rescission to be published at least once a week for two consecutive weeks in a newspaper or financial journal of general circulation in the City of Austin, Texas, the first of each such publications being at least 30 days prior to the date of adoption of such amendment, addition, or rescission. If, because of temporary or permanent suspension of publication or general circulation of such newspapers or journals, it is impossible or impracticable to publish such notice in the manner provided herein, then such publication in lieu thereof as the District shall deem satisfactory shall constitute sufficient publication of such notice. Whenever, at any time within one year after the date of the first publication of such notice, the District shall receive an instrument or instruments in writing executed by the holders of a majority in aggregate principal amount of the Bonds then outstanding affected by any such amendment, addition, or rescission requiring the consent of holders of Bonds, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the District may adopt such amendment addition, or rescission in substantially such form, except as herein provided. No holder of Bonds may thereafter object to the adoption of such amendment, addition, or rescission, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

Section 19. PARTIES INTEREST HEREIN. Nothing in this Order, expressed or implied, is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the Bond Insurer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Order or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Order contained by and on behalf of the District shall be for the sole and exclusive benefit of the District and the registered owners of the Bonds.

Section 20. OPEN MEETING. It is hereby officially found and determined that the meeting at which this Order is adopted, was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Government Code, as amended and Section 49.064, Texas Water Code, as amended.

Section 21. APPROVAL OF PAYING AGENT/REGISTRAR AGREEMENT. The Paying Agent/Registrar Agreement by and between the District and ______________ ("Paying Agent Agreement"), in substantially the form and substance attached hereto as Exhibit "A" is hereby approved and the President or Vice President is hereby authorized and directed to complete, amend, modify and execute the Paying Agent Agreement, as necessary and the Secretary or Assistant Secretary is authorized and directed to attest such agreement.

Section 22. AMENDMENTS. (a) Amendment with Consent of Owners of 51% of Bonds. The owners of 51% in aggregate principal amount of then outstanding Bonds shall have the right from time to time to approve any amendment to this Bond Order which may be deemed necessary or desirable by the District; provided however, that, other than as permitted by subsection (f) of this Section 22, nothing herein contained shall permit or be construed to permit the amendment, without the consent of the owner of each of the outstanding Bonds affected thereby, of the terms and conditions of this Bond Order or the Bonds so as to:

(1) change debt service requirements, interest payment dates or the maturity or maturities of the outstanding Bonds;

(2) reduce the rate of interest borne by any of the outstanding Bonds;

(3) reduce the amount of the principal of, redemption premium, if any, or interest on the outstanding Bonds or impose any conditions with respect to such payments;

(4) modify the terms of payment of principal of, redemption premium, if any, or interest on the outstanding Bonds, or impose any conditions with respect to such payments;

(5) affect the right of the Registered Owners of less than all of the Bonds then outstanding; or

(6) decrease the minimum percentage of the principal amount of Bonds necessary for consent to any such amendment.

(b) Notice of Amendment. If at any time the District shall desire to amend this Bond Order it may cause a written notice of the proposed amendment to be published at least once on a business day in a financial newspaper, journal, or publication of general circulation in the City of New York, New York, or in the State of Texas. If, because of temporary or permanent suspension of the publication or general circulation of all such newspapers, journals, or publications, it is impossible or impractical to publish such notice in the manner provided herein, then such publication in lieu thereof as shall be made by the Registrar shall constitute a sufficient publication of notice. In addition to such publication, the Registrar shall cause a written notice of the proposed amendment to be given by registered or certified mail to Registered Owners of the Bonds as shown on the Registration Books maintained by the Registrar; provided, however, that failure to receive such written notice of the proposed amendment, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding in connection with, or the adoption of, such amendment. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all Registered Owners of Bonds.

(c) Consent to Amendment. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of said notice or other services of written notice the District shall receive an instrument or instruments executed by the Registered Owners of at least 51% in aggregate principal amount of all Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and shall specifically consent to and approve such amendment, the District may adopt the amendatory resolution or order in substantially the same form.

(d) Effect of Amendment. Upon the adoption of any amendatory resolution or order pursuant to the provisions of this Section, this Bond Order shall be deemed to be amended in accordance with such amendatory resolution or order, and the respective rights, duties, and obligations under such amendatory resolution or order of all the Registered Owners shall thereafter be determined and exercised subject in all respects to such amendments.

(e) Consent of Registered Owners. Any consent given by a Registered Owners pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the Bonds during such period. Such consent may be revoked by the Registered Owner who gave such consent at any time after six months from the date of the first giving of such notice, or by a successor in title, by filing notice thereof with the Registrar and the District, but such revocation shall not be effective if the Registered Owners of 51% in aggregate principal amount of the then outstanding Bonds have, prior to the attempted revocation, consented to and approved the amendment.

(f) Amendments Without Consent. Notwithstanding the provisions of (a) through (f) of this Section, and without notice of the proposed amendment and without the consent of the Registered Owners. The District may, at any time, amend this Bond Order to cure any ambiguity or to cure, correct, or supplement any defective or inconsistent provision contained therein, or to make any other change that does not in any respect materially and adversely affect the interest of the Registered Owners, provided that no such amendment shall be made contrary to the provision to Section 17.01 (a), and a duly certified or executed copy of each such amendment shall be filed with the Registrar.

Section 23. DISTRICT'S SUCCESSORS AND ASSIGNS. Whenever in this Bond Order the District is named and referred to, it shall be deemed to include its successors and assigns, and all covenants and agreements in this Bond Order by or on behalf of the District, except as otherwise provided herein, shall bind and inure to the benefit of its successors and assigns whether or not so expressed.

Section 24. NO RECOURSE AGAINST DISTRICT OFFICERS OR DIRECTORS. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on this Bond Order against any officer or director of the District or any person executing the Bonds.

Section 25. PAYING AGENT/REGISTRAR. The Paying Agent/Registrar shall act as agent for the payment of principal of and interest on the Bonds and shall maintain the Register for the Bonds, all in accordance with the terms of this Bond Order. If the Paying Agent/Registrar or its successor becomes unable for any reason to act as Paying Agent/Registrar hereunder, or if the Board of Directors of the District determines that a successor Paying Agent/Registrar should be appointed, a successor Paying Agent/Registrar shall be selected by the District. Any successor Paying Agent/Registrar shall be either a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Section 26. PAYING AGENT/REGISTRAR MAY OWN BONDS. The Paying Agent/Registrar, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not Registrar.

Section 27. BENEFITS OF ORDER PROVISIONS. Nothing in this Bond Order or in the Bonds, expressed or implied, shall give or be construed to give any person, firm, or corporation, other than the District, the Registrar, and the Registered Owners, any legal or equitable right or claim under or in respect of this Bond Order, or under any covenant, condition, or provision herein contained, all the covenants, conditions, and provisions contained in this Bond Order or in the Bonds being for the sole benefit of the District, the Registrar, and the Registered Owners.

Section 28. UNAVAILABILITY OF AUTHORIZED PUBLICATION. If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Bond Order shall be given in such other manner and at such time or times as in the judgment of the District shall most effectively approximate such required publication, and the giving of such notice in such manner shall for all purposes of this Bond Order be deemed to be in compliance with the requirements for publication thereof.

Section 29. SEVERABILITY CLAUSE. If any word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order, or the application thereof to any person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Bond Order and the application of such word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order to any other persons or circumstances shall not be affected thereby.

Section 30. FURTHER PROCEEDINGS. The President and Secretary of the Board of Directors and other appropriate officials of the District are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Bond Order.

Section 31. CONTINUING DISCLOSURE UNDERTAKING. (a) Annual Reports. The District shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year, financial information and operating data with respect to the District of the general type included in the final Official Statement authorized by Section 16 of this Order, being the information described in Exhibit "B" hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit "B" hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to each NRMSIR and any SID, and audited financial statements when such become available.

If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this section.

The financial information and operating data to be provided pursuant to this section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(b) Material Event Notices. The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

A. Principal and interest payment delinquencies;

B. Non-payment related defaults;

C. Unscheduled draws on debt service reserves reflecting financial difficulties;

D. Unscheduled draws on credit enhancements reflecting financial difficulties;

E. Substitution of credit or liquidity providers, or their failure to perform;

F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

G. Modifications to rights of holders of the Bonds;

H. Bond calls;

I. Defeasances;

J. Release, substitution or sale of property securing repayment of the Bonds; and

K. Rating changes.

The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with paragraph (a) of this section by the time required by such paragraph. Any filing made under this Section may be made solely by transmitting such filing to the Municipal Advisory Council of Texas as provided at http://www.disclosureusa.org.

(c) Limitations, Disclaimers and Amendments. The District shall be obligated to observe and perform the covenants specified in this section for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any deposit made in accordance with Section 8 that causes the Bonds no longer to be outstanding.

The provisions of this section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this section, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements and notices which it has expressly agreed to provide pursuant to this section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition or prospects or hereby undertake to update any information provided in accordance with this section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this section shall comprise a breach of or default under the Order for purposes of any other provision of this Order.

Nothing in this section is intended or shall act to disclaim, waive or otherwise limit the duties of the District under federal and state securities laws.

The provisions of this section 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 of this section, 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 this Order that authorizes such an amendment) of the outstanding Bonds consents to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. If the District so amends the provisions of this section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (a) of this section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided. 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.

EXHIBIT "A"

PAYING AGENT/REGISTRAR AGREEMENT

EXHIBIT "B"

CONTINUING DISCLOSURE UNDERTAKING

1. Tables ___ through ___.

2. Appendix ___.

Accounting Principles

The accounting and reporting policies of the District relating to the funds and account groups will conform to generally accepted accounting principles (GAAP) as applied to governmental entities.

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

DRAFT 2/10/06

PRELIMINARY OFFICIAL STATEMENT DATED ____________, 2006

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: Moody's "__" and S&P "__"
See "MUNICIPAL BOND RATINGS AND INSURANCE"

Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein including the alternative minimum tax on corporations. THE BONDS ARE EXPECTED TO BE DESIGNATED BY THE DISTRICT AS QUALIFIED TAX-EXEMPT OBLIGATIONS. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

$4,500,000
NORTHTOWN MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
UNLIMITED TAX AND REVENUE BONDS, SERIES 2006

Dated: April 1, 2006 **Due: September 1, as shown below**

Interest on the Bonds will accrue from April 1, 2006 and is payable September 1, 2006 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is Wells Fargo Bank, N.A. (the "Paying Agent"). The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.

The scheduled payment of principal of and interest on the Bonds when due will be insured under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Wells Fargo Bank, N.A. See "BOND INSURANCE."

MATURITIES
(Due September 1)

Due	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Number (c)	Due	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Number (c)
2006	$ 100,000	______%	______%		2018*	$ 200,000	______%	______%	
2007	100,000	______%	______%		2019*	200,000	______%	______%	
2008	125,000	______%	______%		2020*	225,000	______%	______%	
2009	125,000	______%	______%		2021*	225,000	______%	______%	
2010	125,000	______%	______%		2022*	250,000	______%	______%	
2011	125,000	______%	______%		2023*	250,000	______%	______%	
2012	140,000	______%	______%		2024*	275,000	______%	______%	
2013*	150,000	______%	______%		2025*	275,000	______%	______%	
2014*	150,000	______%	______%		2026*	300,000	______%	______%	
2015*	160,000	______%	______%		2027*	325,000	______%	______%	
2016*	175,000	______%	______%		2028*	325,000	______%	______%	
2017*	175,000	______%	______%						

* Redemption Provisions: Bonds maturing on and after September 1, 2013 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2012, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds maturing September 1, ___ and September 1, ___ are subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

(a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of _______% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of _______%.

(b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from April 1, 2006 to the date of delivery of the Bonds to the Initial Purchaser 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 are further payable from and secured by a pledge of certain 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." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about April 25, 2006 in Austin, Texas.

Bids Due: Tuesday, March 28, 2006 at 11:00 A.M., C.S.T.
At the offices of Southwest Securities
701 Brazos Street, Suite 400, Austin Texas 78701,
Award Expected: 12:00 Noon, C.S.T.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission (the "Rule"), this document constitutes a preliminary 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 the information permitted by the Rule.

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

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 Financial Advisor, for further information.

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

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

Prices and Marketability

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

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

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

Securities Laws

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

MUNICIPAL BOND RATING AND INSURANCE

Moody's Investor Service ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings of "[__]" and "[__]" respectively, to the Bonds as a result of an insurance policy insuring the timely payment of the principal of and interest on the Bonds to be issued by [____________], simultaneously with the delivery of the Bonds. Moody's and S&P have also assigned underlying ratings of "[___]" and "[____]", respectively to the Bonds. The District's Unlimited Tax and Revenue Refunding Bonds, Series 2004 received ratings of "Aaa" and "AAA" from Moody's and S&P, respectively, as a result of a municipal bond insurance policy issued by Ambac Assurance Corporation ("Ambac"). The District's Unlimited Tax and Revenue Bonds, Series 2003 received ratings of "Aaa" and "AAA" from Moody's and S&P, respectively, as a result of a municipal bond insurance policy issued by Financial Security Assurance Inc. ("FSA"). The District's Unlimited Tax and Revenue Bonds, Series 2002 received a "AAA" rating from S&P as a result of a municipal bond insurance policy issued by Ambac. The District's Series 1994, 1997 and 2001 bonds were issued as non-rated bonds. 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. The District has also qualified the Bonds for bond insurance from several municipal bond insurance companies. The purchase of municipal bond insurance will be at the option and expense of the Initial Purchaser.

Municipal bonds ratings assigned to the District's previously issued six installments of bonds are more completely described below:

Bonds	Municipal Bond Rating	Underlying Municipal Bond Rating	Municipal Bond Insurer
Unlimited Tax / Rev Bonds, Series 1994	Non Rated	Non Rated	Non Insured
Unlimited Tax / Rev Bonds, Series 1997	Non Rated	Non Rated	Non Insured
Unlimited Tax / Rev Bonds, Series 2001	Non Rated	Non Rated	Non Insured
Unlimited Tax / Rev Bonds, Series 2002	"AAA" – S&P	"BBB" – S&P	Ambac Assurance Corporation
Unlimited Tax / Rev Bonds, Series 2003	"AAA" – S&P "Aaa" – Moody's	"BBB" – S&P "Baa2" – Moody's	Financial Security Assurance Inc.
Unlimited Tax / Rev Rfdg Bonds, Series 2004	"AAA" – S&P "Aaa" – Moody's	"BBB" – S&P "Baa2" – Moody's	Ambac Assurance Corporation

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	Northtown Municipal Utility District (the "District") is a political subdivision of the State of Texas created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on August 14, 1985 and confirmed at an election held within the District on December 21, 1985 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 1,224.33 acres within its boundaries, all of which lie within Travis County, Texas. See "THE DISTRICT - General."
Location	The District is located in Travis County approximately 15 miles northeast of Austin's central business district. The District lies wholly within the extraterritorial jurisdiction of the City of Austin and is adjacent to the city limits of the City of Pflugerville. The District is comprised of approximately 1,224.33 acres, of which approximately 1,005.40 acres are currently developable. Access to the District is provided by Interstate Highway 35 and Farm to Market Road 1825. See "THE DISTRICT – General."
The Developers	The developers currently active within the District are Continental Homes of Texas, L.P., ("Continental") d/b/a, D.R. Horton ("Horton"), and Village @ Northtown Ltd. ("Village"). See "THE DEVELOPERS - Description of Developers."
Status of Development	The District contains approximately 1,005 net developable acres and, at November 1, 2005, approximately 596 acres have been or are currently being developed with utility facilities as Northtown Sections 1, 2, 4, 5A, 7, and 9; Wildflower, Sections 1, 2, 3, 4 and 5; Northtown West Section 1; Settlers Meadow Sections 1, 2, 3 and 4; Gaston/Sheldon Section 1, 2, 3, 4 and 5, Northtown Park, Section 8, Parkway at Northtown, Parkside at Northtown, and Brookfield Estates Section 1 and 2, Phase A. As of February 9, 2006, development within the District consisted of 2,077 completed homes, 171 homes under construction, 236 vacant single-family lots, and 409.67 acres of undeveloped but developable property under current development regulations. See "THE DISTRICT - Historical and Current Status of Development."
Builders	Horton is currently constructing homes within the District. According to Horton, the sales price of homes being constructed generally ranges from $121,500 to $160,000, with the average home size being 1,650 square feet. See "THE DISTRICT – Historical and Current Status of Development."

THE BONDS

Description	The Bonds in the aggregate principal amount of $4,500,000 mature serially in varying amounts on September 1 of each year from 2006 through 2028 and as term bonds which mature September 1, ____ and September 1, ____ in the principal amounts set forth on the cover page hereof. Interest accrues from April 1, 2006 at the rates per annum set forth on the cover page hereof and is payable September 1, 2006 and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of $5,000 for any one maturity. See "THE BONDS - General Description."
Redemption	Bonds maturing on and after September 1, 2013 are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2012, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to

the date of redemption. The Bonds maturing September 1, ____ and September 1, ___ are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

Source of Payment .... 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 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"). It is not expected that the operation of the system will produce Net Revenue sufficient to make any substantial contributions to the District's debt service requirements. **The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record .... The District has previously issued $1,000,000 Unlimited Tax and Revenue Bonds, Series 1994; $995,000 Unlimited Tax and Revenue Bonds, Series 1997; $2,100,000 Unlimited Tax and Revenue Bonds, Series 2001, $3,510,000 Unlimited Tax and Revenue Bonds, Series 2002, $3,770,000 Unlimited Tax and Revenue Bonds, Series 2003, and $2,504,999.70 Unlimited Tax and Revenue Refunding Bonds, Series 2004 (collectively, the "Outstanding Bonds"). The District has not defaulted in the payment of the principal and interest on the Outstanding Bonds. One year's capitalized interest was included in the Series 1994 Bonds and approximately twenty-four months' capitalized interest was included in each of the Series 1997, Series 2001, Series 2002 and Series 2003 Bonds. See "FINANCIAL STATEMENT - Outstanding Bonds."

Authority for Issuance .... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, an order of the TCEQ, and an Order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - Authority for Issuance."

Use of Proceeds .... The proceeds of the Bonds will be used to finance: (1) Settler's Meadow water and wastewater service lines; (2) Settler's Meadow water service line easement; (3) 18-inch Pflugerville water line purchase and connection costs; (4) master meter for Northtown West Subdivision; and (5) water, wastewater and drainage facilities and wetland planting serving single-family residential development in Gaston-Sheldon Section 1.

In addition, proceeds of the Bonds will be used to: (1) capitalize approximately twenty-four months' interest requirements on the Bonds; (2) pay certain costs associated with the issuance of the Bonds, and (3) reimburse certain developers for creation and organization costs and interest accrued. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Bonds Authorized But Unissued .... The Bonds are the sixth installment of $69,443,000 new money bonds authorized at an election held within the District on December 21, 1985. After the sale of the Bonds, $53,568,000 of unlimited tax and revenue bonds will remain authorized but unissued. See "FINANCIAL STATEMENT – Unlimited Tax and Revenue Bonds Authorized but Unissued", "Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt." In addition, District voters authorized the issuance of $97,670,000 Contract Bonds, none of which has been issued and none of which are currently expected to be issued in the future. See "THE DISTRICT – City of Austin Consent Agreement."

Municipal Bond Rating And Insurance .... Moody's Investor Service ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings of "[ ]" and "[ ]", respectively to the Bonds as a result of municipal bond insurance policy issued by [ ]. Moody's and S&P have also assigned underlying ratings of "[ ]" and "[ ]", respectively, to the Bonds. The District's Series 2004 bonds received "Aaa" and "AAA" ratings from Moody's and S&P, respectively, as a result of municipal bond insurance policy issued by Ambac Assurance Corporation ("Ambac"). The District's Series 2003 bonds received ratings of "Aaa" and "AAA" from Moody's and S&P as a result of municipal bond insurance policy issued by Financial Security Assurance, Inc. ("FSA"). The District's Series 2002 bonds received a "AAA" rating from S&P as a result of municipal bond insurance policy issued by Ambac. The District's Series 1994, 1997 and 2001 Bonds were issued as non-rated bonds. 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. The District has also qualified the Bonds for bond insurance from several municipal bond insurance companies. The purchase of municipal bond insurance will be at the option and expense of the Initial Purchaser. See "MUNICIPAL BOND RATING AND INSURANCE."

Qualified Tax-Exempt Obligations .... The District is expected to designate the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2006 is not reasonably expected to exceed $10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

Bond Counsel .... McCall, Parkhurst & Horton L.L.P., Austin, Texas.

General Counsel .... Armbrust & Brown, L.L.P., Austin, Texas.

Financial Advisor .... Southwest Securities, Austin, Texas.

Engineer .... Sam Jones Consulting, Inc., Hutto, 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.

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SELECTED FINANCIAL INFORMATION
(Unaudited as of November 1, 2005)

2005 Certified Assessed Valuation		$257,839,127	(a)
Gross Debt Outstanding (after issuance of the Bonds)		$14,550,000	
Ratio of Gross Debt to 2005 Certified Assessed Valuation		5.64%	
2005 Tax Rate			
Debt Service	$0.3000		
Maintenance & Operation	0.4500		
Total		$0.7500	
Debt Service Fund Balance (as of December 31, 2005)		$ 2,008,205	(b)
Average percentage of current tax collections - Tax Years 1997 - 2004		98.48%	
Average percentage of total tax collections - Tax Years 1997 - 2004		99.09%	
Projected Average Annual Debt Service Requirement (2006-2025) of the Bonds and the Outstanding Bonds ("Projected Average Requirement")		$1,079,862	
Tax rate required to pay Projected Average Requirement based upon 2005 Certified Assessed Valuation at 95% collections		$0.45/$100 A.V.	
Projected Maximum Annual Debt Service Requirement (2007) of the Bonds and the Outstanding Bonds ("Projected Maximum Requirement")		$1,261,995	
Tax rate required to pay Projected Maximum Requirement based upon 2005 Certified Assessed Valuation at 95% collections		$0.52/$100 A.V.	
Number of active connections as of November 1, 2005		2202	(c)
Estimated population as of November 1, 2005		7052	(d)

(a) As certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
(b) Unaudited as of September 30, 2005; does not include approximately twenty-four months' capitalized interest ($450,000) included in the Series 2006 Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
(c) Based on completed homes as of October 25, 2005 as provided by the developers. Does not include 128 builder connections.
(d) Based on 3.5 residents per completed single family connection.

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OFFICIAL STATEMENT
relating to

$4,500,000
NORTHTOWN MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)

UNLIMITED TAX AND REVENUE BONDS, SERIES 2006

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the Northtown Municipal Utility District (the "District") of its $4,500,000 Unlimited Tax and Revenue Bonds, Series 2006 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order" or "Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, and pursuant to the Constitution and general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, and the approving order of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ").

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District at Armbrust & Brown, L.L.P., 100 Congress Avenue, Suite 1300, Austin, Texas 78701 or during the offering period from the District's Financial Advisor, Southwest Securities, 701 Brazos, Suite 400, Austin, Texas 78701 upon payment of reasonable copying, mailing and handling charges.

THE BONDS

General Description

The $4,500,000 Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2006 will bear interest from April 1, 2006 and will mature on September 1 in each of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on September 1, 2006, and each March 1 and September 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is Wells Fargo Bank, N.A. (the "Paying Agent").

Redemption

Optional Redemption . . . The Bonds maturing on September 1 of each of the years 2013 through 2028 both inclusive, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2012, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

Bonds Maturing September 1,*		Bonds Maturing September 1,*	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
______	______	______	______
______	______	______	______
______	______	______	______

* Stated Maturity

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

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity, a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

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

Termination of Book-Entry-Only System . . . The District is initially utilizing the book-entry-only system of 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 Austin, 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 the 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 . . . 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 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, 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 to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent 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 in 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 (whether or not a business day) 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 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 within the District on December 21, 1985, voters within the District authorized a total of $69,443,000 principal amount of bonds for water, wastewater, and drainage facilities. The Bonds constitute the sixth installment of new money bonds issued by the District. After the sale of the Bonds, the District will have remaining $53,568,000 in authorized but unissued unlimited tax bonds. In addition, District voters authorized the issuance of $97,670,000 Contract Bonds, none of which have been issued and none of which are expected to be issued in the future.

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 and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by the TCEQ.

Source of and Security for Payment

The Bonds are payable as to principal and interest from the proceeds of an 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 Net Revenues (defined below), if any, of the System (defined below) 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 an annual ad valorem tax and will undertake to collect such a tax, against 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 become due, to provide a sinking fund for the paying of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes and Net Revenues when and if the City of Austin dissolves the District and assumes all debts and liabilities of the District.

Net Revenues Pledged... The Bonds are further secured by a first lien on and pledge of certain Net Revenues, if any, of the District's water, wastewater and drainage system which does not include any facilities constructed with proceeds of any Special Project Bonds issued by the District (collectively, the "System"). "Net Revenues" are defined by the Bond Order as net revenues received from the operation of the System after deduction of reasonable costs of administration, efficient operation and adequate maintenance, provided however, the term "Net Revenues" shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District pursuant to a contract authorized by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project. Any Net Revenues remaining after payment of debt service on the Bonds is available to the District for any lawful purpose. The Net Revenues are entirely dependent upon sales of water and sewer services to residents and users in the District. **It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District's debt service requirements.**

Dissolution... Under Texas law, the District may be annexed and dissolved by the City of Austin (the "City") without the consent of the District or its residents. When and if 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. See "THE DISTRICT – City of Austin Consent Agreement."

Payment Record

The District has previously issued five series of Unlimited Tax and Revenue Bonds (Series 1994, Series 1997, Series 2001, 2002 and Series 2003) and one series of Unlimited Tax and Revenue Refunding Bonds (Series 2004) totaling $18,380,000 original principal amount. The District has not defaulted on the payment of principal of or interest on such outstanding bonds. One year's capitalized interest was included in the Series 1994 Bonds and approximately twenty-four months' of capitalized interest was included in each of the Series 1997, Series 2001, 2002 and Series 2003 Bonds.

Funds

The Bond Order creates or affirms creation, establishment and maintenance by the District of an Operating Fund, a Debt Service Fund for the Bonds 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 the 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) at the Board's discretion, to transfer from time to time any excess to the credit of the Debt Service Fund of the District when needed to pay the obligations of the District payable therefrom, and (3) to the extent the Debt Service 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 Debt Service Fund, to pay any other expenses of the District which may be lawfully paid from the Operating Fund.

The Bond Order confirms establishment and maintenance by the District of the Debt Service Fund to be used to pay the 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 Debt Service Fund (1) from the delivery of the Bonds to the Initial Purchaser, the amount received from the proceeds of the Bonds representing accrued interest and 24 months' interest on the Bonds, (2) all receipts of 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 reasonable administration, operation, and maintenance expenses of the System, and (3) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service 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 Registrar when due.

The Construction Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Construction Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund. The Construction Fund may be applied solely to (1) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued including payment of the costs of issuance, and (2) the extent proceeds of the Bonds deposited to the Construction Fund and investment income attributable thereto are in excess of the amounts require for any such purposes, then in the discretion of the District to transfer such unexpected proceeds or income to the Debt Service Fund or to apply the same to one or more other authorized purposes as approved by the TCEQ.

Defeasance of Outstanding Bonds

General... The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of ad valorem taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Obligation") within the meaning of the Bond Order, except to the extent provided below for the Paying Agent to continue payments and for the District to retain the right to call Defeased Obligations 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 the establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank 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 and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Bond Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given, or the establishment of irrevocable provisions for the giving of such notice, in accordance with the Bond Order. Any money so deposited with the Paying Agent or an eligible trust company or commercial bank 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 or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

All money or Defeasance 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 Obligations shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Obligations 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 or an eligible trust company or commercial bank 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 Obligation to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Obligation for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Obligation for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligation as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

Investments... Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Obligations 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 or an eligible trust company or commercial bank 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 provides 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

Principal of and semiannual interest on the Bonds will be paid by Wells Fargo Bank, N.A., the initial Paying Agent having its office for payment in Austin, Texas. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and legally 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 selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent will be sent by the District or the successor paying agent to each registered owner by first-class mail, postage prepaid.

Record Date

The record date for payment of the interest on the Bonds on any regularly scheduled interest payment date is defined as close of business on 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 additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of $69,443,000 of unlimited tax and revenue bonds and $97,670,000 in contract revenue bonds for the purpose of providing water, wastewater and storm drainage facilities and to reimburse developers for certain construction costs in connection with such facilities. Following the issuance of the Bonds, the District will have $53,568,000 of unlimited tax and revenue bonds authorized but unissued. The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District if so authorized by the voters in the District and approved by the District and the TCEQ. The District anticipates issuing additional bonds from existing authorization to repay eligible reimbursements to Continental, Horton and Village or any other developers in the District. As of the date hereof, the District's Engineer estimates that approximately $6,617,438 of reimbursable actual construction costs have been incurred and will be payable to the developers pursuant to various reimbursement agreements, as hereinafter described.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds for such purpose. Before the District could issue ad valorem tax bonds for fire-fighting activities, the following actions would be required: (1) approval of the fire plan and issuance of bonds by the TCEQ; (2) authorization of a detailed fire plan and bonds for such purposes by the qualified voters in the District; (3) amendments to the existing City of Austin ordinance specifying the purposes for which the District may issue bonds; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election for approval of a fire plan or related bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds. Current fire protection and emergency services are provided by the Travis County Emergency Services District No. 2. The District does not have any current intention to engage in fire-fighting activities.

Effective September 13, 2003, Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code were amended to authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future.

On January 6, 1986, the District and the City of Austin, Texas (the "City") entered into a Utility Construction Contract (the "Contract") governing the issuance of the $97,670,000 contract revenue bonds authorized by the voters of the District on December 21, 1985 (the "Contract Revenue Bonds"). Any Contract Revenue Bonds issued would be special obligations of the District secured by a first lien on and pledge of Contract Payments (as hereinafter defined) to be made by the City to the trustee for the Contract Revenue Bonds pursuant to the Contract, as amended, authorized under Section 402.014 Local Government Code as amended, formerly Article 1109j, Vernon's Annotated Texas Civil Statutes, as amended. The Contract Payments would constitute a special revenue obligation of the City payable from the net revenues of the City's waterworks and sewer system, subject to a prior lien on and pledge of the City's Prior Lien Revenue Bonds and on a parity with the City's Subordinate Lien Revenue Bonds.

Under the terms of the Contract, the District has agreed to issue bonds to finance the acquisition and construction of additions, extensions and improvements to the sanitary sewer system of the City. Pursuant to the Contract, the City has agreed to make payments sufficient to meet debt service requirements (the "Contract Payments"). Upon completion of construction, the City would own and operate the facilities but has agreed to reserve adequate capacity to serve the District. The District has agreed to reimburse the City for the District's pro rata share of the construction costs (designated to be approximately 16.13%). The District's payments to the City would be payable from an ad valorem contract tax levied upon all taxable property within the

District and additionally secured by a subordinate lien on the Net Revenues of the District's System. The Contract is in effect until the Contract Bonds are paid, not to exceed 40 years.

Subsequent to execution of the Contract, a number of the water and wastewater projects contemplated by the Contract were funded through the City of Austin's capital improvement fund. As a result, on August 14, 1986, the City and the District entered into a First Amendment to the Contract which among other things provides that the provisions of the Contract requiring the District to issue Contract Revenue Bonds to pay for certain water and wastewater projects will take effect only in the event the City elects to require the District to finance a portion of such project costs through the issuance of Contract Revenue Bonds. As of the date hereof, the City has not made an election to require the District to issue the Contract Revenue Bonds and it is currently not anticipated that any Contract Revenue Bonds will be issued.

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, registered owners may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

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

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

Annexation

The District lies entirely within the extraterritorial jurisdiction of the City of Austin, Texas ("Austin" or the "City"). Under Texas law, the District may be annexed by the City without the District's consent. Upon annexation, the City would assume the District's assets and obligations including the Bonds and dissolve the District. The District has no control over or knowledge of the annexation plans of the City of Austin. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "THE DISTRICT – City of Austin Consent Agreement."

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 does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. 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 Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, whether 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 Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Official Statement.

Amendments to 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, or (2) 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 DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (ii) 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 (iii) 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 initially as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by 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 of line dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 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 Paying Agent 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 nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest 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 the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, 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 or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, 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, Bonds will be printed and delivered in accordance with the Bond Order.

In reading this Official Statement it should be understood that 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.

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 AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance: (1) Settler's Meadow water and wastewater service lines; (2) Settler's Meadow water service line easement; (3) 18-inch Pflugerville water line purchase and connection costs; (4) master meter for Northtown West Subdivision; and (5) water, wastewater and drainage facilities and wetland planting serving single-family residential development in Gaston-Sheldon Section 1.

In addition, proceeds of the Bonds will be used to: (1) capitalize approximately twenty-four months' interest requirements on the Bonds; (2) pay certain costs associated with the issuance of the Bonds, and (3) reimburse certain developers for creation and organization costs and interest accrued.

The presently estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, $3,160,701 is estimated to be required for construction costs, and $1,339,299 is estimated to be required for non-construction costs including $450,000 of capitalized interest (approximately twenty-four months' interest at 5.00%).

CONSTRUCTION COSTS	Amount	District Share
A. Developer Contribution Items		
1. Gaston-Sheldon Section 1 – Water, Wastewater, and Drainage	$ 2,289,808	$ 1,602,865
2. Gaston-Sheldon Section 1 – Wetland Planting	16,068	11,248
3. Master Meter for Northtown West Subdivision	11,611	8,128
4. Engineering (13.6% of Item 1)	301,407	210,985
Total Developer Contribution Items	**$ 2,618,894**	**$ 1,833,226**
B. District Items		
1. Settler's Meadow Wastewater Service line		$ 220,391
2. Settler's Meadow Water Service line		546,150
3. 18-inch Pflugerville Water Line – purchase and connection costs		270,000
4. Water Line Easement		50,000
5. Contingencies (9% of Items 1-4)		97,952
6. Engineering (18.7% of Items 1-2)		142,982
Total		**$ 1,327,475**
TOTAL CONSTRUCTION COSTS (70.2% of BIR)		**$ 3,160,701**
NON-CONSTRUCTION COSTS		
A. Legal and Bond Counsel Fees		$ 77,500
B. Financial Advisor Fees (2%)		90,000
C. Interest Costs		
a. Capitalized Interest (2 years @ 5. 00%) [a]		450,000
b. Developer Interest		226,701
D. Bond Discount (3%)		135,000
E. Bond Report Engineering Fees		35,000
F. Administration and Organizational Costs		40,656
G. *Creation Costs*		227,692
H. 0.25% TCEQ Bond Issuance Fee		11,750
I. Contingency [a]		45,000
TOTAL NON-CONSTRUCTION COSTS		**$ 1,339,299**
TOTAL BOND ISSUE REQUIREMENT		**$ 4,500,000**

a) In its approval of the issuance of the Bonds, the Commission directed any surplus bond proceeds resulting from the sale of the Bonds at a lower interest rate (than anticipated in the Bond Application) to be shown as a contingency item and be subject to the Commission rules on use of surplus bond funds

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; the City of Austin, Texas or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District, and by a pledge of and lien on certain Net Revenues, if any, of the System. It is not expected any Net Revenues will be available to contribute to the payment of the Bonds. 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 Rate... A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots and will result from the market value of lots which are currently being developed by Continental Homes of Texas, L.P., d/b/a ("Continental"), D.R. Horton ("Horton"), and Village @ Northtown Ltd ("Village") for the construction of single-family and multi-family residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact 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 are able to obtain financing for development costs. Lenders have been selective in recent years in making real estate loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, although located approximately 15 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 those in other utility districts located near the District, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

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

Developers Under No Obligation to the District... Continental and KB each have informed the Board of its current plans to develop and sell its lots within the District and that they have no current plans otherwise to sell its land within the District. Village has informed the District that it intends to develop its property with infrastructure. Additionally, Parkway has informed the District that its intentions to construct multi-family dwellings and an industrial development have been postponed indefinitely. In June 2003, however, Beal Bank, the acquisition lender for Parkway, foreclosed on 139 acres due to Parkway's default in the payment of a $9,000,000 loan. The District is not aware of any future development plans for this tract. **TO BE UPDATED** However, neither Continental, KB nor Village is obligated to implement such plans on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by Continental, Village, and Parkway should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of Continental, KB or Village, or any other subsequent landowner to whom such parties may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on Continental's, KB or Village's, right to sell its land. Additionally, Continental and Village have stated to the District that development of their respective undeveloped properties in the District require construction of additional roadways and bridge improvements to provide access to their undeveloped properties. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of Continental, KB or Village. Failure to construct taxable improvements on developed lots and failure of any of Continental, KB or Village to develop its land would restrict the rate of growth of taxable value in the District. The District is also dependent upon Continental, KB and Village (see "TAX DATA - Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of Continental, KB or Village will be or what effect, if any, such conditions may have on its ability to pay taxes. See "THE DEVELOPERS".

Impact on District Tax Rates... Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2005 Certified Assessed Valuation is $257,839,127. See "FINANCIAL STATEMENT." After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement will be $1,261,995 (2007) and the Projected Average Annual Debt Service Requirement will be $1,079,862 (2006 through 2025, inclusive). Based upon the 2005 Certified Assessed Valuation, a tax rate of $0.52/$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Projected Maximum Annual Debt Service Requirement of $1,261,995, and a tax rate of $0.45/$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of $1,079,862. See "PROJECTED DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. 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 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 to enforce such remedies. The rights and remedies of the registered owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

Registered Owners' Remedies

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

Bankruptcy Limitation to Registered Owners' Right

The enforceability of the rights and remedies of registered owners 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 specifically 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 a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in 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 could potentially and adversely impair the value of the registered owner's claim.

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

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") 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 understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

Continuing Compliance with Certain Covenants

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

Future Debt

The District reserves in the Bond Order the right to issue the remaining $53,568,000 authorized but unissued bonds (see "FINANCIAL STATEMENT – Unlimited Tax and Revenue 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, revenue bonds or notes, special project bonds, refunding bonds, and other obligations described in the Bond Order. All of the remaining $53,568,000 bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the City of Austin and the TCEQ, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

According to the District's Engineer, there is approximately $6,617,438 currently owed to the developers for the development of the utilities within the District. See "THE DISTRICT - Historical and Current Status of Development." In order to provide utility service to the remaining undeveloped but potentially developable acres within the District (approximately 410 acres), the District anticipates that it may issue up to the full principal amount of authorized but unissued bonds ($53,568,000) in installments over the next several years. 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). 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 an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ") adopted on August 14, 1985, and a confirmation election held within the District on December 21, 1985, 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 entirely within the extraterritorial jurisdiction of the City of Austin. See "THE BONDS - Source of and Security for Payment – Dissolution."

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. If approved by the voters and the TCEQ, the District may establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Effective September 13, 2003, Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code were amended to authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future. See "THE BONDS – Issuance of Additional Debt".

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 extraterritorial jurisdiction the District lies, the District was required to observe certain requirements of the City of Austin which limit the purposes for which the District may sell bonds to 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."

City of Austin Consent Agreement

The District has entered into an Agreement Concerning Creation and Operation of Northtown Municipal Utility District (the "Creation Agreement") with the City of Austin. The following is a summary of certain terms and conditions of the Creation Agreement, but it is not a complete description and is qualified by reference to the Creation Agreement, copies of which are available from the District.

By passage of Ordinance No. 840503, the City of Austin granted its consent to the creation of the District and approved the Creation Agreement.

In the Creation Agreement, the City of Austin has contracted to provide water required for commercial and domestic purposes by users within the District and to receive, treat, and dispose of all sewage collected and delivered by the District. The District is a wholesale customer of the City of Austin for all areas of the District except the Settlers Meadow subdivision, which is currently served by the City of Pflugerville pursuant to an interlocal agreement among the City of Austin, the City of Pflugerville and the District. Certain of the facilities being purchased with the proceeds of the Bonds will be utilized to allow the District to connect the Settler's Meadow subdivision to the City of Austin's water supply and the District, the City of Austin and Pflugerville have entered into a "First Amendment to Interlocal Agreement Regarding Temporary Wholesale Water and Wastewater Service" dated September 2004 which provides for the termination of the wholesale service from Pflugerville and the initiation of wholesale service to the District for Settler's Meadow subdivision when certain conditions, including completion of the necessary facilities, are met. The District receives wholesale services on a similar basis as other municipal utility districts served by the City of Austin. The Creation Agreement provides that the City of Austin shall not be liable for failure to provide water and wastewater service where that failure results from conditions beyond the City of Austin's control. In addition, the City of Austin has the right to limit service to the District on the same basis and to the same extent that it limits service to other customers.

The Creation Agreement provides that each developer will serve as project manager for the construction of the portion of the facilities constituting the District's utility system that is being funded by that developer. Plans for all District facilities are reviewed and approved by the TCEQ and the City of Austin prior to construction.

The District may not serve customers outside of its boundaries and may not annex additional land into the District without the prior approval of the City of Austin.

The Creation Agreement provides that the City may annex the District after eight years from the date of confirmation of creation of the District, which occurred December 21, 1985, if 90% of the District's facilities that are to be constructed through the issuance of bonds have not been completed by that date (December 21, 1993). Because 90% of the District's facilities were not completed by December 21, 1993, the City could technically proceed with annexation of the District at any time. Generally, under Texas law, the City may not annex any land within the District unless it annexes the entire District, assumes all of the District's obligations including the Bonds, and dissolves the District. See "-Strategic Partnership Negotiations."

The District and the City of Austin have agreed to certain land use controls, including land use and density limitations, for property located within the boundaries of the District. Prior to development, the land in the District must be subdivided in accordance with State law and City of Austin ordinances.

Strategic Partnership Negotiations

The City of Austin previously expressed an interest in negotiating a strategic partnership agreement with the District under Section 43.0751 of the Texas Local Government Code. This statute permits cities and districts to negotiate and enter into written agreements providing terms and conditions under which the land within a district will be annexed, services will be provided and funded, and the district will continue either in its then-existing form or as a limited district that provides only specified functions. At this time, the City of Austin has not initiated any discussions and no negotiations on the terms of any possible strategic partnership agreement or on the creation of a limited park district have occurred.

Management of the District

Board of Directors

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

Name	Position	Length of Service	Term Expires May
Texana Kowis	President	15 years	2006
Robin Campbell	Vice President	6-1/2 years	2008
Brenda Richter	Secretary	6 years	2006
William Henderson	Treasurer	2 year	2008
Michael Zeniecki	Asst. Secretary	3-1/2 year	2006

Consultants

Tax Assessor/Collector

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

Operator/Bookkeeper

The District contracts with ECO Resources, Inc. ("ECO") to serve as operator of the sewer system and bookkeeper for the District. ECO serves in a similar capacity for 27 other special districts in the Austin area.

Engineer

The District's consulting engineer is Sam Jones Consulting, Inc. (the "Engineer"). Such firm serves as consulting engineer to 7 other special districts.

Auditor

Pena Swayze, & Company, L.L.P., certified public accountants, audited the District's September 30, 2005 financial statements.

Financial Advisor

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

Bond Counsel

The District has engaged McCall, Parkhurst & Horton, L.L.P., Austin, Texas, as bond counsel ("Bond Counsel") in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

General Counsel

The District employs Armbrust & Brown, L.L.P. ("A&B") as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

Location

The District is located in Travis County approximately 15 miles northeast of Austin's central business district. The District lies wholly within the extraterritorial jurisdiction of the City of Austin and is adjacent to the city limits of the City of Pflugerville. The District is comprised of approximately 1,224.33 acres of which approximately 1,005.40 acres are developable under current development regulations. Access to the District is provided by Interstate Highway 35 and Farm to Market Road 1825.

Historical and Current Status of Development - TO BE UPDATED, if necessary

The District contains 1,224.33 acres of land, of which 1,005.13 are developable under current development regulations. Development within the District commenced in 1986 when Milburn Homes, a predecessor to Continental Homes of Texas, L.P., dba D.R. Horton, Inc. ("Horton") purchased approximately 77 acres of land. Horton developed approximately 59 acres of land as Northtown, Sections 1, 2, 4, 5A, 7 and 9 containing 359 single family lots.

On December 13, 1993, Dessau Road, Limited Partnership ("DRLP") purchased approximately 71 undeveloped acres and developed approximately 34 acres as Northtown West, Section 1 containing 167 single family lots. Following the development of these single family subdivisions by Horton and DRLP, the City of Austin required that additional roadway improvements be constructed prior to any further development of the remaining 18 acres and 37 acres owned by Horton and DRLP, respectively.

In 1994, S.V.W.W. Harris Ridge Limited Partnership purchased approximately 95 undeveloped acres within the District. Development of this area did not require any additional roadway improvements to be constructed, and S.V.W.W. developed approximately 68 acres as Wildflower, Sections 1, 2, 3, 4 and 5, containing 225 single family lots.

On June 30, 1999, Pulte Homes of Texas, L.P. ("Pulte") purchased approximately 70 acres within the District, all of which has been developed as Settlers Meadow, Sections 1, 2, 3 and 4, containing 295 single family lots.

Horton purchased an additional approximately 246 acres within the Gaston/Sheldon Tract within the District in two parcels on November 24, 1998 and April 30, 1999. According to Horton, development of the Gaston/Sheldon Tract is expected to occur in phases. Utility facilities and street paving to serve Section 1 were completed within the first quarter of 2002 (approximately 53 acres, 226 single family lots). Construction of utility facilities to serve Gaston/Sheldon Section 2 (41 acres, 109 single family lots) was completed within the first quarter of 2003. Gaston/Sheldon Section 3 (60 acres, 230 single family lots) was completed in the second quarter of 2003, Sections 4A and 4B (17.7 acres with 88 single family lots) were completed in September 2003, Section 4C (14.71 acres with 67 single family lots) was completed in September 2004, and Section 5 (47.33 acres with 241 single family lots) was completed in the first half of 2005. Parkway (22.29 acres with 97 single family lots) was completed in September 2005.

In May, 2002, Horton purchased an additional 58.44 acres within the District. This acreage was combined with 57.58 acres purchased in February of 2002. Approximately 340 single-family lots are expected to be developed in various sections and phases as Brookfield Estates. Brookfield Estates Section 1, Phase I (19.34 acres, 72 single family lots) was completed within the second quarter of 2003, Brookfield Estates Section 1, Phase 2 and 3 (38.26 acres, 110 single family lots) was completed in March 2004, and Brookfield Estates Section 2, Phase A (10.45 acres, 39 single family lots) was completed in February 2005.

In November, 2002, KB purchased approximately 8 acres from FC Properties within the District, which has been developed as Northtown Park, Section 8, containing 57 lots.

On February 28, 2000 Parkway-Phase I, L.P. ("Parkway"), a Texas limited partnership purchased 139 acres of land, approximately 129 acres of which is located within the boundaries of the District. According to representatives of Parkway, approximately 52 acres of such property is expected to be developed as 1,100 to 1,200 apartment units and the remainder is to be developed as industrial sites. In June 2003, however, Beal Bank, the acquisition lender for Parkway, foreclosed on 139 acres due to Parkway's default in the payment of a $9,000,000 loan. The District is not aware of any current development plans for this tract.

On June 30, 2000 and September 27, 2000, respectively, Village @ Northtown, Ltd. ("Village") purchased three tracts of land within the District totaling 327 acres, including the remaining 37 undeveloped acres owned by DRLP and the remaining 27 undeveloped acres owned by S.V.W.W. Of the total 327 acres, approximately 272 acres are currently developable. Village designed a master plan for the development of its 272 net developable acres including single family attached units, multifamily units, office, retail and public use, including a greenbelt area, and informed the District that it plans to subdivide its land, provide infrastructure and sell tracts to other developers. According to Village, the master plan was approved by the City Council of the City of Austin on April 10, 2003. Final approval of the master plan by the Board of the District was executed July 2, 2003. It is the District's understanding that Village has not yet arranged for development financing.

According to Horton and Village, roadway improvements and the construction of a bridge are necessary for the ultimate development of the remainder of the Gaston/Sheldon Tract and the Village Tract. In February 2004, Horton posted fiscal with the City in an amount sufficient to construct the extension of Harris Ridge Boulevard and the related bridge and has entered into a contract with the District under which Horton has agreed to construct the extension and bridge by January 1, 2006. At this time Horton is working to negotiate an extension with the District.

As of February 9, 2006, the District contained a total of 2,077 completed single family homes, 171 single family homes under construction, and 236 vacant developed single family lots.

Parks

The District currently owns three parks, 1) the 10.34 acre Stoney Creek Park, which is improved with two playscapes, picnic tables, a granite trail and irrigated landscaping, a sand volleyball court and pavilion; 2) the 6.768 acre Meadow Point Park, which is improved with a playscape; and 3) the 20.34 acre Wildflower Park, which is also improved with a playscape.

In March 2004, an additional 20 acre park site located within the Gaston Sheldon Tract was dedicated to the District by Horton. In addition, Horton funded $21,000 for master planning, $5,000 for clearing of the park, and $190,000 for bridge, sidewalk and trail improvements to the park site. The District's land plan projects that the District will be donated additional land, which is primarily creek frontage located within the 100-year flood plain, which will be used as part of the District's integrated trail system.

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According to information provided by each of the developers, the status of development within the District as of February 9, 2006 is as follows:

A. Developed with Utility Facilities

			Single-Family		
Sections	**Acreage**	**Platted Lots**	**Completed Homes**	**Homes Under Construction**	**Vacant Lots**
Northtown					
1	8.64	39	39	0	0
2	16.32	115	115	0	0
4	14.75	106	106	0	0
5A	11.49	53	53	0	0
7	2.74	15	15	0	0
9	4.63	31	31	0	0
Subtotal	58.57	359	359	0	0
Northtown West, Section 1	33.62	167	165	0	2
Wildflower					
1	32.19	40	40	0	0
2	8.30	43	43	0	0
3	9.88	43	43	0	0
4	7.54	42	42	0	0
5	9.72	57	57	0	0
Subtotal	67.63	225	225	0	0
Settlers Meadow					
1	17.93	70	70	0	0
2	17.00	89	89	0	0
3	20.28	92	92	0	0
4	14.38	44	44	0	0
Subtotal	69.59	295	295	0	0
Gaston Sheldon					
Section 1	53.48	226	203	0	23
Section 2	40.85	107	107	0	0
Section 3	60.41	230	230	0	0
Section 4	32.41	155	155	0	0
Section 5	47.33	241	101	69	71
Subtotal	234.48	959	796	69	94

Brookfield Estates					
Section 1	57.60	182	167	10	5
Section 2, Phase A	10.45	39	13	24	2
Subtotal	**68.05**	**221**	**180**	**34**	**7**
Northtown Park					
Section 8	8.19	57	57	0	0
Subtotal	**8.19**	**57**	**57**	**0**	**0**
Parkway					
Parkway	22.29	97	0	68	29
Subtotal	**22.29**	**97**	**0**	**68**	**29**
B. Utility Facilities Under Construction					
Parkside					
Parkside	33.31	104	0	0	104
Subtotal	**33.31**	**104**	**0**	**0**	**104**
Total Acreage Developed or Being Developed	595.73	2,484	2,077	171	236
C. Remaining Undeveloped but Developable Acreage					
Brookfield Estates, Sec 2, Phase B, C, D, E, F	51.76				
Beal Bank	129.00				
Village @ Northtown	227.91				
Fire Station	1.00				
Subtotal	**409.67**				
Total Developable Acreage	**1,005.40**				
D. Undevelopable Acreage	**218.93**				
Total Acreage	**1,224.33**				

Homebuilding

Horton has informed the District that it is currently constructing homes in Gaston/Sheldon, Sections 1 and 5 ranging in price from $121,500 to $160,000 with an average square footage of 1,580, in Brookfield Estates ranging in price from $150,300 to $187,900 with an average square footage of 1,990, and Parkway ranging in price from $249,900 to $251,900 with an average square footage of 2,650.

According to the District's utility manager, the following numbers of homes were constructed in the District in the following years: 1997 (105 homes); 1998 (142 homes); 1999 (78 homes); 2000 (101 homes); 2001 (144 homes); 2002 (220 homes), 2003 (303 homes); 2004 ([ ] homes); and [ ] in 2005.

Future Development

Approximately 595 acres of land located in the District has been developed or is currently under development, as described above under "Historical and Current Status of Development." The remaining approximately 410 undeveloped but developable acres are planned for single-family, single family attached, multifamily units, office, retail, school site, fire station site or other public use. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

Although the aforementioned undeveloped acres may be developed in the future, the landowners are not obligated to begin development. Accordingly, the District makes no representation that future development will occur. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments." The instigation of any new development will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect any party's ability to sell property. If the undeveloped portion of the District is eventually developed, certain road improvements as well as utility facilities will have to be made. Any additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the $53,568,000 authorized bonds which will remain unissued after the sale of the Bonds will be adequate to finance the construction of such facilities to provide service to all of the currently undeveloped portions of the District. Any road/bridge improvements will be financed by individual developers. See "THE BONDS - Issuance of Additional Debt."

THE DEVELOPERS

Role of the Developers

In general, the activities of a developer in a municipal utility district, such as the District, include purchasing the land within the future district; petitioning for creation of the district; designing the development; defining a marketing program; planning and scheduling building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities and drainage facilities; and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility districts finance the costs of the water supply and distribution, wastewater collection and drainage facilities. However, the TCEQ may require the developer to pay up to thirty percent (30%) of the cost of certain water distribution, wastewater collection and drainage facilities. While a developer is required by the TCEQ to pave streets and generally to pay a portion of the costs of utilities to be financed by the district, a developer generally is under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Description of the Developers

Continental Homes of Texas, L.P.: Continental is a Texas limited partnership which is owned by D.R. Horton, Inc. ("Horton"). Horton and related joint ventures are developing land and building homes within the nearby Central Texas cities of Austin, Cedar Park, Killeen, Kyle, Manor, Pflugerville and Round Rock. Current subdivision activities include the following development projects; Avery Ranch, Bauerle Ranch, Briar Creek, Brookfield, Forest Oaks, Olympic Heights, Plum Creek, Round Rock Ranch, Stone Oak, Benbrook, Cat Hollow, Cedar Park TC, Cullen Country, Grand Oaks, Highland Park, Kensington Trail, Onion Creek, Presidential Meadows, Settler's Crossing, and Settler's Overlook. Horton has developed more than 4,000 acres and sold over 25,000 homes in the past 30 years.

In December 2005, Horton restructured and amended its existing unsecured revolving credit facility, increasing it to $2.15 billion and extending its maturity to December 19, 2010. The new facility included a $1 billion letter of credit sub-facility and an uncommitted $750 million accordion feature that permitted an increase in the facility. Borrowing capacity is reduced by the amount of letters of credit outstanding.

Horton is a Delaware corporation whose stock is traded on the New York Stock Exchange. Horton is a national builder that builds homes in 74 markets and 25 states. For the fiscal year ended September 30, 2005, Horton had gross revenues of approximately $13.9 billion of which approximately 98% came from its home building activities; approximately $12.5 billion in total assets; and approximately $5.4 billion of shareholder equity. Horton is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Copies of such material can be obtained by mail from the public reference section of the SEC, 450 Fifth Street, Washington, D.C. 20549 at prescribed rates. In addition, such reports and other information may be obtained from the New York Stock Exchange.

KB Home: KB Home is one of America's largest homebuilders with domestic operating divisions in some of the fastest-growing areas of the country including Arizona, California, Colorado, Florida, Georgia, Nevada, New Mexico, North Carolina and Texas. Kaufman & Broad S.A., the Company's majority-owned subsidiary, is one of the largest homebuilders in France. In fiscal 2003, the Company delivered 25,331 homes in the United States and France. It also operates KB Home Mortgage Company, a full-service mortgage company for the convenience of its buyers. Founded in 1957, KB Home is a Fortune 500 company listed on the New York Stock Exchange under the ticker symbol "KBH."

Since building its first homes in California in 1963, KB Home has specialized in building affordable homes designed for entry-level and first-time trade-up home buyers. NEED TO INCLUDE INFO THAT KB IS IN NEGOTIATION WITH RIVERSIDE FOR PURCHASE OF PROPERTY

Parkway-Phase I, L.P.: In June 2003 Beal Bank foreclosed on the 139 acre tract previously owned by Parkway-Phase I, L.P. due to a payment default. The Bank has not informed the District of its plan for such acreage. TO BE UPDATED

Village @ Northtown, Ltd.: Village @ Northtown, Ltd. is a Texas limited partnership whose general partner is Village @ Northtown General Partner, Inc. with Clifton E. Lind serving as President. Village purchased approximately 327 acres within the District through three separate acquisitions. Approximately 271 acres was acquired from the Pfluger Family Limited Partnership for cash and a seven-year seller note. According to Village representatives, Village is in compliance with terms of the outstanding seller note. Approximately 26 acres was purchased from SVW Harris Ridge Limited Partnership for cash. The third tract, consisting of approximately 30 acres was purchased from Dessau Road, Limited Partnership by Jeffercindershan, Ltd., a Texas Limited partnership whose general partner is Jeffercindershan General Partner, Inc. with Clifton E. Lind serving as President. The acquisition financing for the third tract was provided by cash and a one-year seller note which has been paid in full.

Village designed a master plan for the development of its 272 net developable acres, including single family attached units, multifamily units, office, retail and public use including a greenbelt area and informed the District that it plans to subdivide its land, provide infrastructure and sell tracts to other developers. According to Village, the master plan was approved by the City Council of the City of Austin on April 10, 2003. Final approval of the master plan by the Board of the District was executed July 2, 2003. Village has advised the District that it has not yet arranged for development financing.

THE SYSTEM

General

The District receives its primary water supply and wastewater treatment from the City of Austin (the "City" or "Austin") pursuant to the terms of the Consent Agreement, and receives wholesale water and sewer service for the Settlers Meadow subdivision within the District from the City of Pflugerville under the terms of an Interlocal Agreement Regarding Temporary Water and Wastewater Service between Austin, the City of Pflugerville and the District. According to the District's Engineer, except as disclosed herein, the District's facilities are in good condition and have been designed and constructed in accordance with accepted engineering practices and the regulations of the Texas Department of Health, Travis County, the City of Austin and the TCEQ. The District has recently implemented a leak detection program in a portion of the Gaston Sheldon subdivision due to the fact that several water leaks have been discovered in the copper service lines used in the subdivision. The District's Engineer, along with other consultants, engaged by the District, are investigating the cause of such leaks and the condition of the pipes within such subdivision. The extent of repairs and the potential cost are currently unknown. However, assuming all 219 of the service lines in the Gaston Sheldon subdivision (Sections 1, 2, and 3A) would have to be replaced, the cost is estimated to be approximately $693,700, based on contractor's estimates.

Primary Water Supply... The District receives its primary potable water supply from Austin which, in turn, obtains water from three locations along the Colorado River. The District lies in Austin's North Pressure Zone, which gets water from two of the three water treatment plants serving the northern areas of Austin's System. The two water treatment plants serving the District have a combined capacity of 215 million gallons-per-day ("mgd"), which is capable of serving the District at ultimate development.

Primary Wastewater Treatment... Wastewater treatment service for the District is primarily provided by the Austin's Walnut Creek Interceptor and Wastewater Treatment Plant (the "Treatment Plant"). The Treatment Plant has a permitted capacity of 75 mgd, which is capable of serving the District at ultimate development. Current flows through the Treatment Plant are approximately 49 mgd. The District has constructed a system of force mains, gravity mains, and lift stations to transfer wastewater to the Walnut Creek Interceptor and Treatment Plant. The City has agreed to accept a pump-over of 1.0 mgd to the Walnut Creek Plant from the District. This system consists of 10, 12 and 14-inch force mains, an 18-inch gravity main, 1,200-gpm and 1,795 gpm lift station located within the District.

Additional Water Supply and Wastewater Treatment... The District also receives wholesale water and wastewater service on a temporary basis from the City of Pflugerville under the terms of the Interlocal Agreement Regarding Temporary Water and Wastewater Service (the "Interlocal Agreement") executed between the Cities of Austin and Pflugerville and the District. This service is for a maximum of 350 LUE's of single-family development within a 69.67 acre tract located within the boundaries of the District developed as Settler's Meadow. The Interlocal Agreement is effective until the District and the City of Austin provide written notice to the City of Pflugerville that water and wastewater facilities have been constructed to serve Settler's Meadow from the City of Austin or the full purpose annexation of the District by the City of Austin. The District provides retail water and wastewater service within this area. The District has authorized its engineer to design the water and wastewater facilities necessary to effectuate the change in service from Pflugerville to Austin for the Settler's Meadow subdivision as originally contemplated by the consent agreement with the City of Austin. The current bond issue includes funds to finance these facilities.

100 Year Flood Plain... According to the District's Engineer, approximately 132.73 acres of undeveloped land within the District are located within the 100-Year flood plain, and are included in the land use table as undevelopable.

Water and Wastewater Operations

Rate and Fee Schedule - Table 1

The District provides water and wastewater service to utility customers within the District and charges rates as set by the Board of Directors from time to time. In addition, the District collects certain tap fees from builders. The rates for water and wastewater service to utility customers of the District which are effective as of November 4, 2005:

Water (monthly billings)

Residential
In District Rates:
Minimum Monthly Charge

(Basic Service rate) which includes solid waste disposal and recycling	$ 23.03
0-7,000 gallons	$ 3.39 per 1,000 gallons
7,001 – 12,000	3.93
12,001 – 17,000	4.46
over 17,000	5.06

Commercial
In District Rates:

Minimum Monthly Charge (does not include solid waste disposal or recycling)	$15.25

Water Commodity Charge
per 1,000 gallons per month, where "Base" means the customer's average water usage during the winter averaging period.

Gallons Used	Commodity Charge
0 – Base	$ 3.39
over Base to Base x 1.50	3.93
over Base x 1.50 to Base x 1.75	4.46
over Base x 1.75	5.06

Sewer (monthly billings)

Residential and Commercial
In District Rates:

Per 1,000 gallons	$ 4.78

Out of District Sewer Rates

Commodity Charge	$ 5.57 per 1,000 gallons

Irrigation Rates

Standard Rate:

0 – 7,000 gallons	$ 3.39
7,001 – 12,000	3.93
12,001 – 17,000	4.46
Over 17,000 gallons	5.06

Fire Hydrant

Residential and Commercial

Monthly In District Rates:

Service Availability Charge per Fire Hydrant Meter	$100.00 (minimum)
Commodity Charge:	
Pflugerville Service Area:	
(a) Standard Rate per 1,000 gallons	$ 3.93
(b) Rate during winter averaging period	5.70
Austin Service Area:	
(a) Standard Rate per 1,000 gallons	$ 3.39
(b) Rate during winter averaging period	5.06

Other Fees

Water:	
5/8 inch to 2 inches	$600.00
Over 2 inches	To be installed by the District at cost times 2
Sewer:	
Residential	$600.00
Commercial	To be installed by the District at cost times 2
Park Fee:	$300.00 Residential unit, for commercial projects per LUE

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Waterworks and Sewer System Operating Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District's water and sewer system. Accounting principles customarily employed in the determination of net revenues for coverage of debt service have been observed and in all instances exclude depreciation. Such summary has been prepared upon information obtained from the District's audited financial statements and records. Reference is made to such statements for further and more complete information.

	Fiscal Year Ended [a]				
	9/30/05	9/30/04	9/30/03	9/30/02	9/30/01
REVENUES					
Water and Wastewater Service	$1,656,221	$1,228,442	$955,711	$784,513	$479,436
System Connection Fees	217,700	342,300	329,400	481,800	219,600
Property Tax Revenues	947,311	718,049	450,486	333,896	263,027
Park Fees	62,100	37,800	145,200	101,100	54,900
Park Grant	-0-	-0-	-0-	39,085	23,437
Interest Income	77,688	25,327	16,030	13,717	9,897
Miscellaneous	17,901	17,680	24,904	10,948	6,099
TOTAL REVENUES	$3,078,921	$2,369,598	$1,921,731	$1,702,059	$1,056,396
EXPENDITURES					
Water and Wastewater Purchases	$1,185,334	$894,474	$769,980	$632,762	$452,593
Repairs and Maintenance	150,482	112,237	85,045	61,148	67,377
Utilities	6,847	7,251	6,468	6,154	6,184
Park Maintenance	131,349	110,249	156,366	36,108	24,842
Inspection Fees/Meter Purchases	68,334	88,327	34,815	102,705	9,013
General Manager Services	180,805	162,577	137,724	122,080	106,807
Legal Fees	96,691	70,430	69,661	97,927	76,647
Engineering Fees	34,195	37,982	31,762	32,892	35,992
Audit Fees	12,296	9,250	10,829	8,620	8,000
Restrictive Covenants	78,170	63,431	50,888	-0-	-0-
Security services	33,637	26,550	16,920	18,400	18,835
Tax Assessor/Collector Fees	5,823	4,416	3,184	2,385	1,877
Director Fees	15,502	15,017	16,148	17,774	11,626
Insurance	2,995	2,382	3,169	1,466	3,480
Other	35,857	37,927	37,305	27,059	16,840
Contracted Services	2,720	-	-	-	-
Capital Outlay	116,471	178,089	8,838	166,343	36,008
TOTAL EXPENDITURES	$2,157,508	$1,820,589	$1,439,102	$1,333,823	$876,121
NET REVENUES (DEFICIT)	$921,413	$549,009	$482,629	$368,236	$180,275
Number of Active Water and Sewer Connections	1,960	1,651	1,586	1,211	939

(a) Audited

PROJECTED DEBT SERVICE REQUIREMENTS - TABLE 3

NORTHTOWN MUNICIPAL UTILITY DISTRICT
$4,500,000
Unlimited Tax and Revenue Bonds, Series 2006
Issue Dated: April 1, 2006
First Interest Payment Due: September 1, 2006

Year Ending 31-Dec	Outstanding Bonds Principal (Due 9/01)	Outstanding Bonds Interest (Due 3/01)	Outstanding Bonds Interest (Due 9/01)	Outstanding Bonds Total	Series 2006 Principal (Due 9/01)	Series 2006 Interest* (Due 3/01)	Series 2006 Interest* (Due 9/01)	Series 2006 Total	Series 2006 Principal and Interest	Projected Total Debt Service Requirements
2006	$ 368,833	$262,854	$298,885	$ 930,572	$ 100,000	$ -	$ 93,750	$ 93,750	$ 193,750	$ 1,124,322
2007	381,167	255,929	304,899	941,995	100,000	110,000	110,000	220,000	320,000	1,261,995
2008	455,000	206,015	206,015	867,030	125,000	107,500	107,500	215,000	340,000	1,207,030
2009	475,000	197,405	197,405	869,810	125,000	104,375	104,375	208,750	333,750	1,203,560
2010	495,000	170,790	170,790	836,580	125,000	101,250	101,250	202,500	327,500	1,164,080
2011	515,000	162,038	162,038	839,076	125,000	98,125	98,125	196,250	321,250	1,160,326
2012	535,000	152,702	152,702	840,404	140,000	95,000	95,000	190,000	330,000	1,170,404
2013	570,000	143,039	143,039	856,078	150,000	91,500	91,500	183,000	333,000	1,189,078
2014	490,000	132,551	132,551	755,102	150,000	87,750	87,750	175,500	325,500	1,080,602
2015	520,000	122,956	122,956	765,912	160,000	84,000	84,000	168,000	328,000	1,093,912
2016	545,000	112,522	112,522	770,044	175,000	80,000	80,000	160,000	335,000	1,105,044
2017	465,000	101,303	101,303	667,606	175,000	75,625	75,625	151,250	326,250	993,856
2018	490,000	192,540	192,540	875,080	200,000	71,250	71,250	142,500	342,500	1,217,580
2019	545,000	89,578	89,578	724,156	200,000	66,250	66,250	132,500	332,500	1,056,656
2020	575,000	76,713	76,713	728,426	225,000	61,250	61,250	122,500	347,500	1,075,926
2021	420,000	63,038	63,038	546,076	225,000	55,625	55,625	111,250	336,250	882,326
2022	445,000	58,208	58,208	561,416	250,000	50,000	50,000	100,000	350,000	911,416
2023	470,000	42,378	42,378	554,756	250,000	43,750	43,750	87,500	337,500	892,256
2024	495,000	31,098	31,098	557,196	275,000	37,500	37,500	75,000	350,000	907,196
2025	525,000	19,212	19,212	563,424	275,000	30,625	30,625	61,250	336,250	899,674
2026	270,000	6,412	6,412	282,824	300,000	23,750	23,750	47,500	347,500	630,324
2027	-	-	-	-	325,000	16,250	16,250	32,500	357,500	357,500
2028	-	-	-	-	325,000	8,125	8,125	16,250	341,250	341,250
	$ 10,050,000	$ 2,599,281	$ 2,684,282	$15,333,563	$ 4,500,000	$ 1,499,500	$ 1,593,250	$ 3,092,750	$ 7,592,750	$ 22,926,313

* Interest estimated at 5.00% for purposes of illustration.

FINANCIAL STATEMENT
(Unaudited as of July 1, 2005)

Assessed Value - Table 4

2005 Certified Assessed Valuation	$257,839,127	(a)
Gross Debt Outstanding	$ 14,550,000	
Debt Service Fund Balance	$ 2,008,205	(b)
Ratio of Gross Debt to 2005 Certified Assessed Valuation	5.64%	

Area of District: 1,224.33 acres
Estimated 2005 Population: 7,052 (c)

(a) As certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
(b) Unaudited as of September 30, 2005; does not include approximately twenty-four months' capitalized interest ($450,000) included in the Series 2006 Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
(c) As of October 25, 2005. Based on 3.5 residents per active single-family connection.

Unlimited Tax and Revenue Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
12/21/85	Water, Sanitary Sewer and Drainage	$69,443,000	$15,875,000 (a)	$53,568,000
12/21/85	Contract Bonds	97,670,000	-0- (b)	$97,670,000

(a) Includes the Bonds.
(b) See "The Bonds – Issuance of Additional Debt".

Outstanding Bonds - Table 6

A. New Money Bonds

Dated Date	Series	Purpose		Original Principal Amount	Principal Amount Outstanding @11/09/2005	
3/1/1994	1994	Water and Sewer	$	1,000,000	$ -	
5/1/1997	1997	Water and Sewer		995,000	230,000	
2/1/2001	2001	Water and Sewer		2,100,000	495,000	
8/1/2002	2002	Water and Sewer		3,510,000	3,270,000	
11/1/2003	2003	Water and Sewer		3,770,000	3,585,000	
4/1/2006	2006	Water and Sewer		4,500,000	4,500,000	(a)
Total		*subtotal*	$	15,875,000	$ 12,080,000	
B. Refunding Bonds						
10/1/2004	2004	Refunding	$	2,505,000	$ 2,470,000	
		subtotal	$	2,505,000.	$ 2,470,000	
		Total	$	18,380,000	$ 14,550,000	

(a) The Bonds.

Cash and Investment Balances (Unaudited as of December 31, 2005) - Table 7

General Operating Fund	$ 2,239,089
Debt Service Fund	2,008,205 (a)
Park Fund	1,809,190

(a) Does not include approximately twenty-four months' capitalized interest included in the Series 2006 Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

Investment Authority and Investment Practices of the District

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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in 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) 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; (10) 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; (11) 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 (12) 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 the 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 below.

A political subdivision such as the District may enter into 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 (10) through (12) above, 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.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in 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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the 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, the District's 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 the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors 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) Texas 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 family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (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) 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, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments - Table 8

The District at December 31, 2005 is currently invested in LOGIC ($5,581,426.86) and Money Market Funds ($77,612.62). The LOGIC portfolio consists of U.S. Treasury bills and notes, collateralized certificates of deposit and repurchase agreements. The fair value of the position in the pool approximates the value of the pool shares. The Money Market Fund invests in U.S. Treasury securities and repurchase agreements for these securities. GASB Statement No. 3 requires the District to assign risk categories for its investments, except those in which securities are not used as evidence of the investment. LOGIC and the Money Market Funds have not been assigned a risk category since the District is not issued securities, but rather it owns an undivided beneficial interest in the assets of LOGIC and the Money Market Fund. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

	Investment Value as of December 31, 2005
LOGIC	$5,581,426.86
Money Market	77,612.62
Total Investments	$5,659,039.48

Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in "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. Political subdivision overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Body	Debt Amount	Debt As of	Percentage of Overlapping Debt	Overlapping Debt
Travis County	$233,444,957	11/01/05	0.423%	$ 986,568
Pflugerville Independent School District	261,306,808	11/01/05	5.131%	13,408,079
Travis County Emergency Services District No. 2	3,279,999	11/01/05	6.670%	218,767
TOTAL ESTIMATED OVERLAPPING NET DEBT				$14,613,415
The District (a)	14,550,000	11/01/05	100.00%	14,550,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING NET DEBT				$29,163,415
Ratio of Estimated Direct and Overlapping Net Debt to 2005 Certified Assessed Valuation				11.36%

(a) After issuance of the Bonds.

Overlapping Taxes for 2005

Overlapping Entity	2005 Tax Rate Per $100 Assessed Valuation	Average Tax Bill(a)
Travis County	$0.4993	$614
Pflugerville Independent School District	1.8500	2,277
Travis County Emergency Services District No. 2	0.1000	123
Travis County Hospital District	0.0779	96
The District	0.7500	923
Total	$3.2772	$4,033

(a) Based upon the average single-family home value of $123,059.

TAX DATA

Classification of Assessed Valuation (a) - Table 9

Type Property	2005 Amount	2005 %	2004 Amount	2004 %	2003 Amount	2003 %
Real, Single-Family (a)	$233,578,769	84.48%	$192,850,409	89.50%	$154,141,147	88.02%
Vacant Platted Lots	5,789,364	2.09%	5,633,436	2.61%	4,482,206	2.56%
Real, Acreage (Land Only)	11,094,607	4.01%	8,612,232	4.00%	11,241,987	6.42%
Commercial Real Property	8,732,867	3.16%	-	0.00%	-	0.00%
Telephone Company	79,750	0.03%	-	0.00%	-	0.00%
Cable Television Company	92,670	0.03%	-	0.00%	-	0.00%
Tangible Personal Property	17,116,264	6.19%	8,374,458	3.89%	5,262,070	3.00%
Total	$276,484,291	100.00%	$215,470,535	100.00%	$175,127,410	100.00%

(a) Reflects classification of assessed valuation as supplied by the Travis Central 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 - Table 10

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

Tax Year	Assessed Valuation (a)	Tax Rate	Tax Levy	Current Collections Amount	Current Collections %	Total Collections Amount	Total Collections $	Year Ending
1997	$39,530,168	0.5957	235,481	234,276	99.49%	234,276	99.49%	9/30/98
1998	52,600,963	0.5957	313,344	309,580	98.80%	309,580	98.80%	9/30/99
1999	63,111,800	0.6400	403,916	398,812	98.74%	401,290	99.35%	9/30/00
2000	85,240,045	0.6400	545,536	538,802	98.76%	543,128	99.55%	9/30/01
2001	106,890,553	0.6500	694,789	684,962	98.59%	697,402	100.40%	9/30/02
2002	136,081,264	0.6500	884,528	862,922	97.56%	875,604	98.99%	9/30/03
2003	175,127,410	0.7500	1,313,456	1,289,157	98.15%	1,315,294	100.14%	9/30/04
2004	217,798,615	0.7500	1,633,492	1,615,505	98.90%	1,620,221	99.19%	9/30/05
2005	257,839,127	0.7500	1,933,793	*In Process of Collection*(b)				9/30/06

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the September 30, 2004 audited financial statement.

(b) Taxes are due January 30, 2006.

District Tax Rates - Table 11

Tax Rate per $100 Assessed Valuation	2005	2004	2003	2002	2001	2000
Debt Service	$0.3000	$0.3200	$0.3455	$0.3206	$0.3443	$0.3352
Maintenance	0.4500	0.4300	0.4045	0.3294	0.3057	0.3048
Total	$0.7500	$0.7500	$0.7500	$0.6500	$0.6500	$0.6400

Tax Rate Limitation

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

Maintenance Tax

The Board of Directors of District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. At an election held on April 5, 1986, 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 2005 maintenance and operations tax of $0.4500/$100 assessed valuation.

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2005, 2004 and 2003 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Type Of Property	2005	2004	2003
AMB/TR Four 2001 LTD	Acreage	$ 8,732,867	(b)	$ 980,373
Continental Homes of Texas	Acreage	7,342,739	4,868,650	7,744,738
Beal Bank	Business	4,932,753	4,932,753	(b)
16 A Partners Limited LC	Business	1,307,845	1,307,845	1,307,845
Samsung Electronics of America	Business	814,869	(b)	(b)
Chick Packaging of Texas Inc.	Business	788,956	804,637	(b)
Secretary of HUD	Acreage	784,906	953,236	(b)
Village @ Northtown LTD	Acreage	700,000	(b)	1,168,217
Seagate Technology LLC	Business	(b)	7,767,639	(b)
Applied Materials, Inc. (a)	Business	(b)	5,739,925	9,934,329
TR Section Four	Acreage	(b)	8,374,458	5,483,580
Parkway Phase I L.P.	Acreage	(b)	5,480,837	5,480,837
Pulte Homes of Texas	Acreage, lots, and house	(b)	(b)	598,136
Jeffercindershan Ltd	Acreage	(b)	(b)	554,081
Total		$ 25,404,935	$ 40,231,984	$ 33,252,136
Percent of Assessed Valuation		9.85%	18.47%	18.85%

(a) Represents a small portion of the Applied Materials, Inc. building located within the District's boundaries.
(b) Not included in respective year.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2005 Certified Assessed Valuation and utilize tax rates adequate to service the District's total projected debt service requirements, including the Bonds (at an estimated interest rate of 5.00% per annum). No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - Impact on District Tax Rates."

Projected Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2006 through 2025)	$1,079,862
$0.45 Tax Rate on 2005 Certified Assessed Valuation of $257,839,127 @ 95% collections produces	$1,102,262
Projected Maximum Annual Debt Service Requirements on the Bonds (2007)	$1,261,995
$0.52 Tax Rate on 2005 Certified Assessed Valuation of $257,839,127 @ 95% collections produces	$1,273,725

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/06		$ 1,124,322 (a)
Debt Service Fund Balance as of 09/30/05	$ 589,950 (b)	
2005 Tax Levy @ 95% collections produces	729,029 (c)	
Total Available for Debt Service		$ 1,318,979

(a) Interest requirements on the Bonds begin September 1, 2006.
(b) Unaudited; does not include approximately twenty-four months' capitalized interest in the Series 2006 Bond proceeds.
(c) The District's 2005 debt service tax rate is $0.3000 per $100 assessed valuation.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State, 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 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 Central Appraisal District (the "TCAD") has the responsibility for appraising property for all taxing units within Travis County, including the District.

Such appraised values whether certified or estimated are subject to review and change by the Travis Central 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 State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than $500; certain property used for the control of air, water or land pollution; solar and wind powered 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 or at an election called by the Board 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 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 Exemptions... The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Tax Abatement... Travis County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

Valuation of Property for Taxation

Generally, 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 be 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 county-wide 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 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.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have to right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

District's 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 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 2005". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (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 - General - 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. See "INVESTMENT CONSIDERATIONS - The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

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 McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding 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 issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended, (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX B - Form of Bond Counsel Opinion."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the project financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

The District expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the $10,000,000 limitation and the Bonds 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. 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 under Tables 1 through 12 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 2006. 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 District's current fiscal year end is September 30, 2006. Accordingly, it must provide updated information by March 30, in each year, commencing after 2006 unless the District changes its fiscal year. If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The District will also provide timely notices of certain events to certain information vendors. 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: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of registered owners; (viii) Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) 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 either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The District has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to registered owners 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.

The Municipal Advisory Council of Texas has been designated by the State as a SID, and the SEC staff has determined that it is a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, its telephone number is 512/476-6947, and its world-wide web address is www.mactexas.com.

The Municipal Advisory Council of Texas has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the District, which then transmits the filed information to the NRMSIRs and the appropriate SID. This central post office can be accessed and utilized at www.DisclosureUSA.com ("Disclosure USA"). The District may elect to utilize Disclosure USA for the filing of information related to the Bonds.

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 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 (i) 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 (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this 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 is in compliance with all material provisions of its Continuing Disclosure Agreement.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Southwest Securities (the "Financial Advisor"), which firm was employed in 1997 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor has requested the right to bid on the Bonds, and the District has given its consent.

OFFICIAL STATEMENT

Preparation

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

"THE DISTRICT- Continental Homes of Austin, L.P., and Village at Northtown Ltd.", (collectively the "Developers"), Sam Jones Consulting, Inc. (the "Engineer"); "THE DEVELOPERS – Continental Homes and Village at Northtown Ltd."; "THE DISTRICT – City of Austin Consent Agreement" Armbrust & Brown, L.L.P.; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT" - Travis Central Appraisal District and Records of the District ("Records"); "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water And Wastewater Operations" - Audits, Records and Tax Assessor/Collector; "PROJECTED DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," and "TAX MATTERS" - McCall, Parkhurst & Horton L.L.P.

Experts

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

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

Appraisal District: The information contained in 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, and principal taxpayers has been provided by Ms. Nelda Wells Spears in reliance upon her authority as an expert in the field of tax assessing and collecting.

Updating the Official Statement During Underwriting Period

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

Certification as to Official Statement

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

Official Statement "Deemed Final"

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

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

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 or other member of the public within a reasonable time on request, upon payment of charges prescribed by the Texas General Services Commission.

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

/s/ ______________________
Northtown Municipal Utility District

/s/ ______________________
Northtown Municipal Utility District

PHOTOGRAPHS

The following photographs were taken in the District in October, 2005. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."

APPENDIX A

Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Northtown Municipal Utility District for the fiscal year ended September 30, 2005. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

APPENDIX B
Form of Bond Counsel Opinion

OFFICIAL NOTICE OF SALE

$4,500,000

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

UNLIMITED TAX AND REVENUE BONDS, SERIES 2006

Bids Due: Tuesday, March 28, 2006 at 11:00 AM, C.S.T.
Award Expected: 12:00 Noon, C.S.T.

The Bonds are obligations solely of Northtown Municipal Utility District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas or any entity other than the District.

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

THE SALE

Bonds Offered for Sale at Competitive Bidding . . . Northtown Municipal Utility District (the "District") is offering for sale $4,500,000 Unlimited Tax Bonds, Series 2006 (the "Bonds"). Bids may be submitted by either of three alternative procedures: (i) sealed written bids; (ii) electronic bids, or (iii) facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the District nor its Financial Advisor, Southwest Securities, assumes any responsibility or liability for a prospective bidding procedure.

The District and Southwest Securities assume no responsibility or liability with respect to any irregularities associated with the submission of electronic bids.

Southwest Securities will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

Procedure Number 1: Sealed, Written Bids Delivered in Person. . . Sealed bids, plainly marked "Bid for Bonds," should be addressed to the "Board of Directors of Northtown Municipal Utility District", and if delivered in person, delivered to Cheryl Allen, Southwest Securities, 701 Brazos Street, Suite 400, Austin, Texas 78701, by 11:00 AM, C.S.T., on the date of the bid opening. All bids must be submitted on the "Official Bid Form" without alteration or interlineations. Copies of the Official Bid Form accompany the Preliminary Official Statement.

Procedure Number 2: Electronic Bidding Procedures. . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY between 10:00 AM, C.S.T. and 11:00 AM, C.S.T., on the date of the bid opening. Bidders must also submit **SIGNED** Official Bid Forms prior to 11:00 AM, C.S.T. on Tuesday, March 28, 2006, to Cheryl Allen, Southwest Securities, 701 Brazos Street, Suite 400, Austin, Texas 78701.

Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid through PARITY. Further information about PARITY, including any fee charged, may be obtained from Dalcomp/Parity, 1359 Broadway, 2nd Floor, New York, New York 10018 attention: Eric Washington (212)849-5021.

The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to either bidding system.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. Neither Southwest Securities nor the District shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective bidder.

All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale and the Official Bid Form. If any provisions of this Official Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the District, as described under "Basis of Award" below.

The District and Southwest Securities will not be responsible for submitting any bids received after the above deadlines.

Procedure Number 3: Bids by Facsimile . . . Bidders that choose to exercise the facsimile bidding options **MUST SUBMIT SIGNED** Official Bid Forms prior to 11:00 AM, C.S.T. on Tuesday, March 28, 2006, to Cheryl Allen, Southwest Securities, 701 Brazos Street, Suite 400, Austin, Texas 78701 and submit their bid by facsimile on the date of the sale. Any bids received by facsimile will be attached to the signed Official Bid Form previously submitted.

Facsimile bids to the attention of Cheryl Allen will be accepted at (512) 320-5865, between 10:00 AM and 11:00 AM, C.S.T on Tuesday, March 28, 2006.

The District and Southwest Securities are not responsible if such facsimile number is busy or malfunctioning which prevents a bid or bids from being submitted on a timely basis. **The District and Southwest Securities will not be responsible for submitting any bids received after the above deadlines.** The District and Southwest Securities assume no responsibility or liability with respect to any irregularities associated with the submission of bids if the facsimile bid options are exercised.

Place and Time of Bid Opening . . . The Board will publicly review bids for the purchase of the Bonds at the designated meeting place outside the boundaries of the District, at Armbrust & Brown, L.L.P., 100 Congress Avenue, Suite 1300, Austin, Texas 78701 at 12:00 Noon, C.S.T.

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

Withdrawal of the Bids . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for three hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

Extension of Sale Date . . .The District reserves the right to extend the date and/or time for the receipt of bids by giving notice, by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, C.S.T, on Monday, March 27, 2006, of the new date and time for receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE BONDS

Description of Bonds . . . Interest on the Bonds will accrue from April 1, 2006 and is payable September 1, 2006 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is Wells Fargo Bank, N.A. (the "Paying Agent"). The Bonds mature serially on September 1 in the years and amounts shown below.

Principal Amount	Year of Maturity	Principal Amount	Year of Maturity
$ 100,000	2006	$ 200,000	2018
100,000	2007	200,000	2019
125,000	2008	225,000	2020
125,000	2009	225,000	2021
125,000	2010	250,000	2022
125,000	2011	250,000	2023
140,000	2012	275,000	2024
150,000	2013	275,000	2025
150,000	2014	300,000	2026
160,000	2015	325,000	2027
175,000	2016	325,000	2028
175,000	2017		

The District reserves the right to redeem prior to maturity those Bonds maturing on September 1 in each of the years 2013 through 2028, both inclusive, in whole or from time to time in part on September 1, 2012, or any date thereafter, in integral multiples of $5,000 at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the particular Bonds thereof shall be selected and designated by the District, and if less than all of the Bonds within a maturity are redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by the Paying Agent by lot.

Bidders have the right to designate one or more maturity dates for the Bonds on or after September 1, 2022 as serial or term bonds; however, no more than three dates can be designated as maturity dates for term bonds. No maturity of any serial bond shall be scheduled to occur on or after the date of the first sinking fund installment on any term bond. No sinking fund installment with respect to any term bond shall be due on or prior to the date of the final maturity of any earlier maturity term bond. The amount of term bonds, if any, maturing on each maturity date shall be equal to the sum of (1) the installment specified above for such maturity date and (2) the installments specified above preceding such date (and subsequent to any earlier final maturity date of another specified term bond, and the term bonds of such maturity shall be retired utilizing such installments and sinking fund installments at par plus accrued interest). If and to the extent the successful bidder specifies for the Bonds a maturity date or dates of September 1, 2022 and consecutive subsequent years, the District will issue such Bonds as serial bonds maturing on such date or dates in amounts in accordance with the foregoing respective schedules. The balance of such Bonds, if any, shall be issued as term bonds as designated by the successful bidder.

Successor Paying Agents . . . The Paying Agent may be removed from its duties as Paying Agent with or without cause by action of the Board of Directors of the District upon thirty (30) days notice to be effective at such time which will not disrupt orderly payment on the next principal or interest payment date, but no such removal shall become effective until a successor Paying Agent has accepted the duties of the Paying Agent by written instrument. Every Paying Agent appointed by the Board of Directors must be a competent and legally qualified bank, trust company, financial institution or other agency qualified to act as and perform the services as Paying Agent.

Source of Payment . . . The Bonds, when issued, will constitute valid and binding obligations of the District payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax levied against taxable property located within the District, without legal limitation as to rate or amount. Additionally, the Bonds are payable from a pledge of and lien or certain Net Revenues (as defined in the Bond Order), if any, of the District's System (as defined in the Bond Order). It is not expected that the operation of the system will produce Net Revenues sufficient to make any substantial contributions to the District's debt service requirements.

Book-Entry-Only System . . .The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). See "BOOK-ENTRY-ONLY SYSTEM" in the Official Statement.

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

Municipal Bond Rating and Insurance . . . Moody's Investor Service ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings of "[ ]" and "[ ]", *respectively to the Bonds as a result of municipal bond insurance policy issued by* [ ]. *Moody's and S&P* have also assigned underlying ratings of "[ ]" and "[ ]", respectively, to the Bonds.

CONDITIONS OF SALE

Types of Bids and Interest Rates . . . The Bonds will be sold in one block, all or none, and no bid of less than 97% of par value plus accrued interest to the date of delivery will be considered. Bidders must specify the rate or rates of interest the Bonds will bear, but no bid which results in a net effective interest rate as defined by Chapter 1204, Texas Government Code as amended (the IBA method), of more than [illegible]% will be considered. The difference between the highest interest rate bid and the lowest interest rate bid shall not exceed 2%. Interest rates must be in multiples of 1/8th or 1/20th of 1%. Any number of interest rates and rate changes may be named, but graduating or declining interest rates within a maturity, split interest rates within a maturity, or supplemental or zero interest rates will not be acceptable.

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

Good Faith Deposit . . . Each bid must be accompanied by a Bank cashier's check payable to the order of "Northtown Municipal Utility District" in the amount of $90,000 which is 2% of the par value of the Bonds. The check will be considered as a Good Faith Deposit, and the check of the successful bidder (the "Initial Purchaser") will be retained uncashed by the District until the Bonds are delivered. Upon payment for and delivery of the Bonds, the Good Faith Deposit will be returned to the Initial Purchaser uncashed. If the Initial Purchaser should fail or refuse to make payment for or accept delivery of the Bonds in accordance with its bid, then the check will be cashed and accepted by the District as full and complete liquidated damages. Such check may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the District prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which authorize its use as a Good Faith Deposit. The checks of the unsuccessful bidders will be returned immediately after bids are opened and sale of the Bonds has been awarded.

Financial Advisor's Reservation of Rights . . . The District's Financial Advisor, Southwest Securities, has requested the right to bid on the Bonds, and the District has given its consent.

OFFICIAL STATEMENT

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

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

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

Delivery of Official Statements . . . The District will furnish to the Initial Purchaser (and to each other participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements requested but not in excess of 250 copies. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above in "OFFICIAL STATEMENT - Changes to Official Statement During Underwriting Period" as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may request prior to the 25th day after the "end of the underwriting period" within the meaning of the Rule. The District will pay the expense of preparing up to 250 copies of the Official Statement and all copies of any supplement or amendment issued on or before the delivery date, but the Initial Purchaser must pay for all other copies of the Official Statement or any supplement or amendment thereto.

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

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

Delivery . . . The Bonds will be tendered to the Initial Purchaser as a single typewritten, photocopied or otherwise reproduced bond for each maturity in fully registered form in the aggregate principal amount of $4,500,000 payable to the Initial Purchaser or its representative as designated in the Official Bid Form, manually signed by the President and Secretary of the Board of Directors, or executed by the facsimile signatures of the President and Secretary of the Board of Directors, and approved by the Attorney General of the State of Texas and registered and manually signed by the Comptroller of Public Accounts of the State of Texas. Initial delivery will be at the designated office for payment of the Paying Agent in Austin, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that initial delivery can be made on or about April 25, 2005, and it is understood and agreed that the Initial Purchaser will accept delivery and make payment for the Bonds not later than 10:00 AM., C.S.T., on April 25, 2006 or thereafter on the date the Bonds are tendered for delivery up to and including May 25, 2006. If for any reason the District is unable to make delivery on or before May 25, 2006, then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend his offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend their offer within five (5) business days thereafter, then the Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

DTC Definitive Bonds . . . The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co. as the nominee for DTC. All reference herein and in the Official Statement to the bondholders or registered owners of the Bonds shall mean Cede & Co. and not the beneficial owners of the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form in the denomination of $5,000 principal amounts or any integral multiple thereof. Under certain limited circumstances, the District may determine to forego immobilization of the Bonds at DTC, or another securities depository, in which case, such beneficial interests would become exchangeable for definitive printed obligations of like principal amount.

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

Conditions to Delivery . . . The obligation of the Initial Purchaser to take up and pay for the Bonds is subject to the Initial Purchaser's receipt of the legal opinion of the Attorney General of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the District ("Bond Counsel"), the no-litigation certificate, all described below, and the non-occurrence of the events described below under "No Material Adverse Change" and no appeal of the TCEQ Order. See "TCEQ Approval" below. In addition, if the District fails to comply with its obligations under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

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

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

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

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

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

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

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

TCEQ Approval . . . The Texas Commission on Environmental Quality ("TCEQ") approved the issuance of the Bonds by an order dated November 7, 2005 pursuant to State law, certain interested parties have 30 days from the date of the TCEQ Order to appeal such action. Delivery of the Bonds is conditioned upon no appeal being filed on the TCEQ Order.

CONTINUING DISCLOSURE

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

GENERAL CONSIDERATIONS

Record Date . . . The record date ("Record Date") for the interest payable on any interest payment date means the close of business the 15th calendar day of the month (whether a business day or not) next preceding such interest payment date.

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

Municipal Bond Rating And Insurance . . . In connection with the sale of the Bonds, Moody's Investor Service ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned ratings of "[ ]" and "[ ]", respectively to the Bonds as a result of municipal bond insurance policy issued by [ ]. Moody's and S&P have also assigned underlying ratings of "[ ]" and "[ ]", respectively, to the Bonds. The District's Series 2004 bonds received "Aaa" and "AAA" ratings from Moody's and S&P, respectively, as a result of municipal bond insurance policy issued by Ambac Assurance Corporation ("Ambac"). The District's Series 2003 bonds received ratings of "Aaa" and "AAA" from Moody's and S&P as a result of municipal bond insurance policy issued by Financial Security Assurance, Inc. ("FSA"). The District's Series 2002 bonds received a "AAA" rating from S&P as a result of municipal bond insurance policy issued by Ambac. The District's Series 1994, 1997 and 2001 Bonds were issued as non-rated bonds. 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. The District has also qualified the Bonds for bond insurance from several municipal bond insurance companies. The purchase of municipal bond insurance will be at the option and expense of the Initial Purchaser

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

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

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

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

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

Copies of Documents . . . Copies of the Official Notice of Sale, the Preliminary Official Statement, the Official Bid Form, Audits, and the pro forma Bond Order may be obtained at the offices of Southwest Securities, 701 Brazos Street, Suite 400, Austin, Texas 78701, Financial Advisor to the District.

Texana Kowis, President
Board of Directors
Northtown Municipal Utility District

[illegible], 2006

OFFICIAL BID FORM

President and Board of Directors
Northtown Municipal Utility District
Southwest Securities
701 Brazos Street, Suite 400
Austin, Texas 78701

Directors:

We have read in detail the Official Notice of Sale and Preliminary Official Statement of Northtown Municipal Utility District (the "District") relating to its $4,500,000 Unlimited Tax and Revenue Bonds, Series 2006 (the "Bonds"), which by reference are made a part hereof. We recognize the investment considerations involved in these securities, and have made such inspections and investigations as we deem necessary in order to evaluate the investment quality of the Bonds. Accordingly, we offer to purchase the District's legally issued Bonds, upon the terms and conditions set forth in the Bond Order, the Official Notice of Sale and the Preliminary Official Statement, for a cash price of $____________ (which represents ______% of par value) plus accrued interest to the date of delivery of the Bonds to us, provided such Bonds mature September 1 and bear interest in each year at the following rates:

Maturity (September 1)	Amount	Interest Rate	Maturity (September 1)	Amount	Interest Rate
2006	$ 100,000	______	2018*	$ 200,000	______
2007	100,000	______	2019*	200,000	______
2008	125,000	______	2020*	225,000	______
2009	125,000	______	2021*	225,000	______
2010	125,000	______	2022*	250,000	______
2011	125,000	______	2023*	250,000	______
2012	140,000	______	2024*	275,000	______
2013*	150,000	______	2025*	275,000	______
2014*	150,000	______	2026*	300,000	______
2015*	160,000	______	2027*	325,000	______
2016*	175,000	______	2028*	325,000	______
2017*	175,000	______			

* The District reserves the right to redeem, prior to maturity, those Bonds maturing September 1, 2013 through September 1, 2028, both inclusive in whole or from time to time in part on September 1, 2012 or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

Total Interest Cost .... $__________

Plus: Cash Discount.. $__________

Net Interest Cost.. $__________

Net Effective Interest Rate .... __________%

The mandatory sinking fund installments checked above, if any, shall be applied for the redemption of term bonds maturing as follows:

Term Bond Maturity Date September 1	Year of First Mandatory Redemption	Principal Amount of Term Bond	Interest Rate
______	______	______	______%
______	______	______	______%
______	______	______	______%

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

We are having the Bonds of the following maturities ________ insured by ___________________ at a premium of $__________, said premium to be paid by the Purchaser. Any fees for an underlying rating will be paid by the District. Any fees to be paid to the rating agencies as a result of said insurance will be paid by the Initial Purchaser.

Cashier's Check No. _______, issued by ____________________ Bank, ____________, Texas and payable to your order in the amount of 90,000 (is attached hereto) (has been made available to you prior to the opening of this bid) as the Good Faith Deposit for disposition in accordance with the terms and conditions set forth in the Official Notice of Sale. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions of such Official Notice of Sale, such check shall be cashed and the proceeds retained as complete liquidated damages against us. We hereby represent that sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or qualification and that, where necessary, we will register or qualify the Bonds in accordance with the securities laws of the states in which the Bonds are offered or sold.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District. The undersigned further agrees to provide in writing the initial reoffering prices and other term, if any, to Southwest Securities by the close of the next business day after the award.

Respectfully submitted,

(Syndicate members, if any)

______________________________ ______________________________

______________________________ ______________________________

______________________________ By: ______________________________

(Authorized Representative)
Phone Number: ____________________

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby accepted by Northtown Municipal Utility District this ____ day of ______, 2003.

ATTEST:

______________________________ ______________________________
Secretary, Board of Directors President, Board of Directors

BOND YEARS

Interest Accrues From: July 1, 2006 **Due: September 1**

Year	Amount	Bond Years	Cumulative Bond Years	Year
2006	$ 100,000	41.6667	41.6667	2006
2007	100,000	141.6667	183.3333	2007
2008	125,000	302.0833	485.4167	2008
2009	125,000	427.0833	912.5000	2009
2010	125,000	552.0833	1,464.5833	2010
2011	125,000	677.0833	2,141.6667	2011
2012	140,000	898.3333	3,040.0000	2012
2013	150,000	1,112.5000	4,152.5000	2013
2014	150,000	1,262.5000	5,415.0000	2014
2015	160,000	1,506.6667	6,921.6667	2015
2016	175,000	1,822.9167	8,744.5833	2016
2017	175,000	1,997.9167	10,742.5000	2017
2018	200,000	2,483.3333	13,225.8333	2018
2019	200,000	2,683.3333	15,909.1667	2019
2020	225,000	3,243.7500	19,152.9167	2020
2021	225,000	3,468.7500	22,621.6667	2021
2022	250,000	4,104.1667	26,725.8333	2022
2023	250,000	4,354.1667	31,080.0000	2023
2024	275,000	5,064.5833	36,144.5833	2024
2025	275,000	5,339.5833	41,484.1667	2025
2026	300,000	6,125.0000	47,609.1667	2026
2027	325,000	6,960.4167	54,569.5833	2027
2028	325,000	7,285.4167	61,855.0000	2028

Total Bond Years: 61,855.00
Average Maturity: 13.745556 years

CERTIFICATE OF ISSUE PRICE

The undersigned hereby certifies with respect to the sale of the Northtown Municipal Utility District Unlimited Tax Bonds, Series 2006 (the "Bonds"), issued in the aggregate principal amount of $4,500,000, as follows:

1. The undersigned is the duly authorized representative of the purchaser (the "Purchaser") of the Bonds from Northtown Municipal Utility District (the "Issuer").

2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).

3. Each maturity of the bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the purchaser to be equal to the fair market value of such maturity.

4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield *at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to* the public is set forth below:

Principal Amount at Maturity	Maturity	Price / Yield
$__________	__________	__________
$__________	__________	__________

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

Principal Amount at Maturity	Maturity	Price / Yield
$__________	__________	__________
$__________	__________	__________

6. Please select the appropriate statement:

   ( ) The Purchaser will not purchase bond insurance for the Bonds.

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

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

EXECUTED AND DELIVERED this ______ day of ________________, 2006.

____
(PURCHASER)

By:________________________________

Title:______________________________