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APPENDIX B

**Financial Statements,
North Austin Municipal Utility District No. 1
For the Year Ending September 30, 1985**

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LANIER
LOCKE &
RITTER

CERTIFIED PUBLIC ACCOUNTANTS

1090 MBank Plaza □ 300 W. 5th Street □ Austin, Texas 78701-3198 □ (512) 474-5753

November 20, 1985

Board of Directors
North Austin Municipal Utility
District No. 1
Austin, Texas

We have examined the combined balance sheet - all governmental fund types and account groups of North Austin Municipal Utility District No. 1 as of September 30, 1985, and the related combined statement of revenues, expenditures and changes in fund balances - all governmental fund types and the combined statement of revenues, expenditures and changes in fund balance - budget and actual - General Fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned combined financial statements present fairly the financial position of North Austin Municipal Utility District No. 1 at September 30, 1985, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Certified Public Accountants

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

SEPTEMBER 30, 1985

	Governmental fund types			Account group	Totals (memorandum only)
	General	Debt service	Capital projects	General fixed assets	
<u>ASSETS</u>					
CASH	\$ 36,570	\$ -	\$ 5,747	\$ -	\$ 42,317
CERTIFICATE OF DEPOSIT	92,005	40,273	2,325,995		2,458,273
DUE FROM OTHER FUNDS		13,024			13,024
RECEIVABLES:					
Service accounts	20,593				20,593
Accrued interest	582	56	46,890		47,528
Builder damages	4,130				4,130
Due from developer - operating costs	200				200
ORGANIZATIONAL COSTS				198,516	198,516
FIXED ASSETS (Note E)				6,241,104	6,241,104
TOTAL ASSETS	\$154,080	\$53,353	\$2,378,632	\$6,439,620	\$9,025,685
<u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>					
LIABILITIES:					
Accounts payable and accrued expenses	\$ 31,484	\$ -	\$ 18,210	\$ -	\$ 31,694
Contracts payable			18,071		18,071
Due to other funds	13,024				13,024
Refundable deposits	11,010				11,010
Bond anticipation note payable (Note F)			8,800,000		8,800,000
TOTAL LIABILITIES	55,518		8,818,281		8,873,799
CONTINGENT LIABILITIES (Note G)					
FUND EQUITY (DEFICIENCY):					
Investment in general fixed assets				6,439,620	6,439,620
Fund balances (deficiency):					
Undesignated	98,562				98,562
Designated for debt service		53,353			53,353
Designated for authorized construction			(6,439,649)		(6,439,649)
TOTAL FUND EQUITY (DEFICIENCY)	98,562	53,353	(6,439,649)	6,439,620	151,886
TOTAL LIABILITIES AND FUND EQUITY	\$154,080	\$53,353	\$2,378,632	\$6,439,620	\$9,025,685

See notes to financial statements.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES

YEAR ENDED SEPTEMBER 30, 1985

	Governmental fund types			Totals (memorandum only)
	General	Debt service	Capital projects	
REVENUES:				
Water service (Note C)	\$ 38,392	\$ -	\$ -	\$ 38,392
Sewer service (Note C)	29,111			29,111
Maintenance taxes (Note D)	10,726			10,726
Customer surcharge (Note C)		51,913		51,913
Tap connection fees (Note C)	137,391			137,391
Sewer inspection fees (Note C)	45,125			45,125
Interest on time deposits	5,788	925		6,713
Application fees	1,643			1,643
Penalty and interest	691			691
Reimbursement for builder damages	4,130			4,130
Miscellaneous income	5,472			5,472
TOTAL REVENUES	278,469	52,838		331,307
EXPENDITURES:				
Purchased water and sewer service	46,468			46,468
Professional fees	56,047			56,047
Contracted services	34,099			34,099
Meter expense	14,262			14,262
Utilities	3,948			3,948
Repairs and maintenance	17,904			17,904
Tax assessment and collection	5,431			5,431
Other expenditures	1,265		29	1,294
Insurance	1,964			1,964
Directors' fees	3,100			3,100
Capital outlay			6,439,620	6,439,620
TOTAL EXPENDITURES	184,488		6,439,649	6,624,137
EXCESS REVENUES (EXPENDITURES)	93,981	52,838	(6,439,649)	(6,292,830)
FUND BALANCE, beginning of year	4,581	515		5,096
FUND BALANCE (DEFICIENCY), end of year	\$ 98,562	\$53,353	(\$6,439,649)	(\$6,287,734)

See notes to financial statements.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 1985

	General fund		
	Actual	Budget	Variance favorable (unfavorable)
REVENUES:			
Water service (Note C)	\$ 38,392	\$ 35,408	\$ 2,984
Sewer service (Note C)	29,111	35,978	(6,867)
Maintenance taxes (Note D)	10,726		10,726
Tap connection fees (Note C)	137,391	115,800	21,591
Sewer inspection fees (Note C)	45,125		45,125
Application fees	1,643		1,643
Penalty and interest	691		691
Reimbursement for builder damages	4,130		4,130
Interest on time deposits	5,788		5,788
Miscellaneous income	5,472		5,472
TOTAL REVENUES	278,469	187,186	91,283
EXPENDITURES:			
Purchased water and sewer service	46,468	65,239	18,771
Professional fees	56,047	55,000	(1,047)
Contracted services	34,099	54,875	20,776
Meter expense	14,262		(14,262)
Utilities	3,948	6,000	2,052
Repairs and maintenance	17,904	15,000	(2,904)
Tax assessment and collection	5,431		(5,431)
Insurance	1,964		(1,964)
Directors' fees	3,100	3,500	400
Other expenditures	1,265		(1,265)
TOTAL EXPENDITURES	184,488	199,614	15,126
OTHER FINANCING SOURCES:			
Advance from developer, net		12,428	(12,428)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	93,981	\$ -	\$ 93,981
FUND BALANCE, beginning of year	4,581		
FUND BALANCE, end of year	\$ 98,562		

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

A. Creation of District:

North Austin Municipal Utility District No. 1 (District) was created by order of the Texas Water Commission effective November 15, 1983, in accordance with Chapter 54 of the Texas Water Code. The Board of Directors held its first meeting on January 24, 1984.

B. Summary of Significant Accounting Policies:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies:

Basis of Accounting:

The accompanying financial statements have been prepared on the modified accrual basis of accounting applicable to governmental funds. Revenues of governmental funds are recognized when received except those accruable, which are recorded as receivables when they become measurable and available to pay current period liabilities. Expenditures are recognized as incurred, except for bond interest which is recognized when due.

Fund Accounting:

The financial transactions of the District are recorded in individual funds and account groups. The columns on the accompanying financial statements captioned "Totals (memorandum only)" are not necessary for a fair presentation of the financial statements nor do they present consolidated financial information, but are presented as additional analytical data.

The following fund types and account groups apply to the District:

Governmental Funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of interest and principal on, all general obligation debts of the District. The primary source of revenue for debt service is general property taxes and the monthly customer surcharge.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital facilities or improvements.

Account Groups:

General Fixed Assets Account Group -- To account for the fixed assets of the District.

NOTES TO FINANCIAL STATEMENTS

(Continued)

B. Summary of Significant Accounting Policies (Continued):

General Fixed Assets:

General fixed assets are stated at the full cost of assets owned by the District. The cost of the general fixed assets includes all costs associated with the creation of the District and the sale of bonds. The interest cost during the construction period is capitalized. Depreciation is not recorded on general fixed assets.

Property Taxes:

Ad valorem taxes and penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the fiscal year.

Interfund Transactions:

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

C. Water and Sewer Service Rates:

The District established the following rates effective September 5, 1984:

Water Rates:

First 2,000 gallons of water used (minimum bill)	\$ 4.55
Each additional 1,000 gallons over 2,000 gallons	1.83

Sewer Rates:

First 2,000 gallons per connection (minimum bill)	5.10
Each additional 1,000 gallons over 2,000 gallons	1.78

NOTES TO FINANCIAL STATEMENTS

(Continued)

C. Water and Sewer Service Rates (Continued):

Monthly Water and Sewer Surcharge:

In addition to the above rates, each dwelling unit or for commercial customers, the equivalent thereof in Living Unit Equivalents, is charged a special water and sewer surcharge of \$18.20 per month.

Tap and Inspection Fees:

5/8" tap	\$ 300.00
3/4" tap	425.00
1" tap	650.00
1-1/2" and over	3 times cost
Residential sewer inspection fee	100.00
Commercial sewer inspection fee	1,000.00

Security Deposits:

5/8" meter	\$ 50.00
3/4" meter	75.00
1" meter	150.00
1-1/2" meter	250.00
2" meter	375.00
Over 2" meter	3 times estimated monthly usage

D. Property Taxes:

For the 1984 tax year, the District levied an ad valorem maintenance tax at the rate of \$.40 per \$100 of assessed valuation, which resulted in a tax levy of \$10,246 on the taxable valuation of \$2,561,422. This maintenance tax is being used by the General Fund to pay the operating expenses of the District's water and wastewater system. All taxes including penalty and interest were collected prior to September 30, 1985.

E. Changes in Fixed Assets:

A summary of changes in fixed assets follows:

	Balance September 30 1984	Additions	Deletions	Balance September 30 1985
Water, sewer and drainage facilities	\$ -	\$5,529,132	\$ -	\$5,529,132
City fees		228,081		228,081
Engineering fees		437,185		437,185
Construction in progress		46,706		46,706
	<u>\$ -</u>	<u>\$6,241,104</u>	<u>\$ -</u>	<u>\$6,241,104</u>

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NOTES TO FINANCIAL STATEMENTS

(Continued)

F. Bond Anticipation Note Payable:

On December 31, 1984, the District issued North Austin Municipal Utility District No. 1 bond anticipation note, Series 1984, in the principal amount of \$8,800,000 at par, with interest at 80% of a defined prime not to exceed 15%. Principal and interest are due in one year or upon issuance of contract bonds if such issuance occurs within a year. Proceeds of the note are to be used to finance the acquisition and construction of the District's off-site wastewater projects.

G. Contingent Liabilities:

Under the Utility Construction Agreement between North Austin Municipal Utility District No. 1 and Milwood Joint Venture II (Developer) dated March 8, 1984, it was agreed that the Developer would fund the cost of projects to be constructed until such time as the District could issue bonds related to the projects. The agreement states that the District's obligation to reimburse the Developer for funds advanced is contingent upon the issuance of the bonds or bond anticipation notes for each specific project. As of September 30, 1985, the Developer has incurred construction costs, (excluding capitalized interest and net of reimbursements by the District to date from proceeds of bond anticipation notes) of approximately \$7,100,000. Since the District is not obligated to reimburse the Developer until bonds are issued, no part of this amount is reflected in the combined financial statements of the District.

H. Subsequent Event:

On December 3, 1985, the District participated in the issuance of North Austin Municipal Utility District No. 1, City of Austin, Texas Contract Revenue Bonds in the principal amount of \$16,300,000. The bonds mature over twenty-four years with the first maturities due in five years. The bonds were issued at an effective interest rate of approximately 9.96% with interest payable semi-annually. The District is responsible for a 34.8% share of the bond issue.

ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

In our opinion, the accompanying information is stated fairly in all material respects in relation to the combined financial statements, taken as a whole, of North Austin Municipal Utility District No. 1 for the year ended September 30, 1985, which are covered by our opinion presented in the first section of this report. The accompanying information is supplemental to the combined financial statements and is not essential for a fair presentation of the financial position, and the results of its operations. Our examination, which was made primarily for the purpose of forming an opinion of the combined financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

Certified Public Accountants

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PRELIMINARY OFFICIAL STATEMENT DATED AS OF _____, 1989

NEW ISSUE

RATINGS:

Moody's: Aaa
Standard & Poor's: AAA
(See "Ratings" herein)

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law. See "Tax Exemption" herein for a discussion of Bond Counsel's opinion, including a description of the alternative minimum tax.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
City of Austin, Texas Contract Revenue Refunding Bonds, Series 1989

Dated: _____, 1989

Due: November 15
as shown below

Interest on the Bonds will be payable May 15 and November 15 of each year, commencing November 15, 1989. The definitive Bonds will be issued only in fully registered form, without coupons, in any integral multiple of \$5,000 for any one maturity. Principal of the Bonds will be payable to the registered holder or owner (the "Holder" or "Owner") at maturity or redemption upon presentation at the principal corporate trust office of the paying agent/registrar (the "Paying Agent/Registrar"), initially Texas Commerce Bank National Association. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered Holders as shown on the records of the Paying Agent/Registrar on the last business day of the preceding month (the "Record Date") or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder. The Bonds are subject to optional, extraordinary optional and mandatory sinking fund redemption prior to maturity as described herein. See "Description of the Bonds."

Proceeds from the sale of the Bonds will be used to refund a portion of the District's City of Austin, Texas Contract Revenue Bonds, Series 1985 and to pay the costs of issuing the Bonds. The unrefunded portion of such Series 1985 bonds will be secured and payable on a parity with the Bonds. See "Plan of Financing."

The Bonds are special obligations of the District payable from and secured by a first lien on and pledge of payments ("City Contract Payments") required to be made by the

CITY OF AUSTIN, TEXAS

under a Utility Construction Contract between the District and the City. To secure payment of the City Contract Payments, the City pledges the "Net Revenues" of its "Waterworks and Sewer System" in amounts sufficient to pay principal of and interest on the Bonds when due, subject only to the lien on and pledge of such Net Revenues securing the "Prior Lien Bonds" heretofore or hereafter issued by the City (as such terms are defined herein). See "Security for the Bonds."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond guaranty insurance policy issued simultaneously with the initial delivery of the Bonds by

THE BONDS DO NOT CONSTITUTE OR CREATE A DEBT OR LIABILITY OF THE STATE OF TEXAS, AND NEITHER THE FAITH AND CREDIT OF THE STATE OF TEXAS NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY OF AUSTIN OR ANY OTHER POLITICAL SUBDIVISION IS IN ANY MANNER PLEDGED, GIVEN OR LOANED TO THE PAYMENT OF THE BONDS; AND THE REGISTERED OWNERS OF THE BONDS DO NOT HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS OUT OF ANY FUNDS OR SOURCES WHATSOEVER OTHER THAN THE PLEDGED REVENUES. See "Security for the Bonds."

EXHIBIT "B"

MATURITY SCHEDULE*

<u>Amount</u>	<u>Due November 15</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Amount</u>	<u>Due November 15</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
\$	1989			\$	1997		
	1990				1998		
	1991				1999		
	1992				2000		
	1993				2001		
	1994				2002		
	1995				2003		
	1996				2004		

*Preliminary; subject to change.

\$ _____ % Term Bonds due November 15, 2009 - Price ____ %
(Approximate Yield to Maturity - ____ %)

(Accrued interest from _____, 1989 to be added)

The Bonds are offered for delivery when, as and if issued, subject to the unqualified approval of the Attorney General of the State of Texas and of Brown Maroney & Oaks Hartline, Austin, Texas, Bond Counsel, whose approving opinion will be printed on the Bonds. Certain legal matters will be passed upon for the District by Armbrust & Brown, P.C., Austin, Texas. Certain legal matters will be passed upon for the Underwriters by Hutchison Boyle Brooks & Dransfield, A Professional Corporation, Dallas, Texas. It is expected that the Bonds will be available for delivery in New York, New York, on or about _____, 1989.

EHRlich BOBER & CO., INC.

PRUDENTIAL-BACHE CAPITAL FUNDING

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

Elected Officials

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Steve D. Pena	President	1992	Partner, Pena Swayze & Co, Certified Public Accountants, Round Rock, Texas
Robert K. Schultz	Vice President	1990	Civil Engineer, Austin, Texas
Dennis L. Miller	Secretary	1990	Project Manager, Vansickle Mikelson & Klein, Austin, Texas
Jared R. Stallones	Treasurer	1992	Teacher, Hyde Park School, Austin, Texas
Rodger Brown	Assistant Treasurer	1992	Human Resources Management, Beverly Enterprises, Austin, Texas

CITY OF AUSTIN, TEXAS

Elected Officials

<u>Name</u>	<u>Position</u>	<u>Term Expires</u> <u>May 15</u>
Lee Cooke	Mayor	1991
Sally Shipman	Mayor Pro-Tem, Councilmember Place 3	1990
Michael Nofziger	Councilmember Place 1	1990
Smoot Carl-Mitchell	Councilmember Place 2	1991
George Humphrey	Councilmember Place 4	1990
Robert Barnstone	Councilmember Place 5	1991
Dr. Charles E. Urdy	Councilmember Place 6	1991

Appointed Officials

<u>Name</u>	<u>Position</u>
Camille Barnett	City Manager
Libby Watson	Assistant City Manager
Barney Knight	Acting Assistant City Manager
Iris Jones	Acting City Attorney
Elaine Hart	Director of Financial Services
James E. Aldridge	City Clerk

DISTRICT CONSULTANTS AND ADVISORS

General Manager	Antex Corporation Austin, Texas
Auditor	Deloitte Haskins & Sells Austin, Texas
Engineer	Murfee Engineering Austin, Texas
General Counsel	Armbrust & Brown, P.C. Austin, Texas
Bond Counsel	Brown Maroney & Oaks Hartline Austin, Texas
Financial Advisor	Levett Mitchell Webb & Garrison, Inc. Austin, Texas

No dealer, broker, sales person or any other person has been authorized to give any information or to make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. The information set forth herein has been obtained from the records of the North Austin Municipal Utility District No. 1 (the "District") and the City of Austin, Texas (the "City") and from other sources that the District and the City believe to be reliable, but it is not guaranteed as to accuracy or completeness, and its inclusion herein is not to be construed as a representation of the District, the City or the Underwriters to such effect. All summaries of and excerpts from agreements, resolutions, statutes and other documents contained herein do not purport to be complete recitations of the provisions thereof, and reference is hereby made to such original sources. The information and expressions of opinion herein 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 City since the date hereof.

This Official Statement, including the cover page and appendices hereto, does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the Bonds to any person or in any jurisdiction where it is unlawful to make such offer, solicitation or sale.

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OFFICIAL STATEMENT

relating to

\$ _____.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
City of Austin, Texas Contract Revenue Refunding Bonds, Series 1989

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information concerning the North Austin Municipal Utility District No. 1 (the "District"), the City of Austin, Texas, (the "City") and \$ _____ aggregate principal amount of the District's City of Austin, Texas Contract Revenue Refunding Bonds, Series 1989 (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings assigned to them in the District's order (the "Bond Order"), adopted on _____, 1989, authorizing the issuance of the Bonds and the District's resolution (the "Bond Resolution"), adopted on October 29, 1985, as amended on November 26, 1985.

The District is a conservation and reclamation district, governmental agency and body politic and corporate under Article XVI, Section 59 of the Texas Constitution by order of the Texas Water Commission. The City is a political subdivision of the State of Texas and a municipal corporation organized and existing under the laws of the State of Texas, including the City's Home Rule Charter.

This Official Statement includes descriptions of the plan and purpose of financing, the Bonds, the District, the Indenture, information relating to the City's utility systems and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Lovett Mitchell Webb & Garrison, Inc.

PLAN OF FINANCING

Authority for Issuance

The Bonds will be issued under the authority of Article 717k, Vernon's Texas Civil Statutes, as amended, and other applicable laws of the State of Texas and pursuant to the Bond Order, the Bond Resolution and a Trust Indenture, dated as of November 1, 1985 and as supplemented by a First Supplemental Indenture dated as of _____, 1989 (collectively, the "Trust Indenture"), between the District and Texas Commerce Bank National Association, as trustee (the "Trustee"). The Bond Order, Bond Resolution and Trust Indenture are sometimes referred to herein collectively as the "Bond Documents."

Purpose

The Bonds are being issued for the purpose of refunding a portion of the District's previously issued and outstanding City of Austin, Texas Contract Revenue Bonds, Series 1985 ("Series 1985 Bonds"), currently outstanding in the aggregate principal amount of \$16,300,000. The portion of the Series 1985 Bonds being refunded (the "Refunded Bonds") have a principal balance of \$ _____ and mature on November 15 in each of the years _____ through _____. The Series 1985 Bonds which are not being refunded and defeased and which will remain outstanding following the issuance of the Bonds are hereinafter referred to as the "Parity Bonds." The issuance of the Bonds will result in a present value debt service savings to the District and the City, as well as reduce annual debt service payments and overall debt service requirements. Proceeds of the Bonds will also be used to pay the costs of issuing the Bonds. The Bonds, which are issued as additional parity bonds under the Bond Documents, will be secured and payable on a parity with the Parity Bonds as described in greater detail below under "Security for the Bonds."

Refunded Bonds

The Refunded Bonds and interest due thereon are required to be paid on the scheduled interest payment and maturity dates, or upon earlier redemption, from funds to be deposited with Texas Commerce Bank National Association, Houston, Texas (the "Escrow Agent"), pursuant to an escrow agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Bond Order provides that, concurrently with the delivery of the Bonds, a portion of the proceeds of the sale of the Bonds, [together with other available funds,] will be deposited with the Escrow Agent in an escrow account (the "Escrow Fund") to refund the Refunded Bonds. The amounts deposited into the Escrow Fund will be in the form of cash and direct obligations of the United States of America (the "Government Obligations") and will be sufficient to provide for payment of the principal,

redemption premium, if any, and interest on the Refunded Bonds when due. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. The Escrow Fund will not be available to pay principal of and interest on the Bonds.

Issuance of the Bonds will be subject to delivery by _____ independent certified public accountants, of a report on the mathematical accuracy relating to (a) the adequacy of the maturing principal amounts of the Government Obligations together with a portion of the interest income thereon and uninvested cash, if any, to pay when due, the principal or redemption price of and interest on the applicable Refunded Bonds, and (b) the computations of actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not arbitrage bond under the regulations and rulings promulgated under Section 148 of the Internal Revenue Code of 1986, as amended. Such verification of accuracy of such mathematical computations will be based upon information and assumptions supplied by the District and its Financial Advisor, and such verification, information and assumptions will be relied on by Bond Counsel in rendering its opinion described herein.

By the deposit of the Government Obligations and cash, if any, with the Escrow Agent, the District will have effected the defeasance of the Refunded Bonds in accordance with applicable laws and the terms of the Bond Documents. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bond will be regarded as being outstanding only for the purpose of receiving payment from proceeds of the Government Obligations and cash held for such purpose in the Escrow Fund.

Under the Escrow Agreement, the _____ agrees to make timely deposits to the Escrow Fund of additional amounts required to pay the principal of and interest on the Refunded Bonds if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payments.

SOURCES AND USES OF FUNDS

It is anticipated that the proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds
[Other Available Funds]
Accrued Interest

Total Sources of Funds

Uses of Funds:

Deposit to Escrow Fund
Deposit to Debt Service Fund
Underwriters' Discount
Costs of Issuance⁽¹⁾

Total Uses of Funds

⁽¹⁾ Includes premium for municipal bond guaranty insurance policy.

DESCRIPTION OF THE BONDS

Principal Amount, Date, Interest Rates and Maturities

The Bonds will bear interest at the rates per annum set forth on the cover page hereof, payable semiannually on May 15 and November 15 of each year, commencing November 15, 1989. Interest will accrue from _____, 1989 or from the most recent interest payment date to which interest has been paid or duly provided for. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the cover page hereof. The Bonds will be issued as fully registered Bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof for any one maturity. The Trustee has been appointed Paying Agent/Registrar for the Bonds.

Interest on the Bonds will be paid to each registered owner as shown on the registration books kept by the Paying Agent/Registrar at the close of business on the Record Date. Interest will be paid by check mailed first class, postage prepaid, or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and the 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 Paying Agent/Registrar

is located are authorized by law or executive order to close, 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; and payment on such date shall have the same force and effect as if made on the original date payment was due. The principal of all Bonds, whether due at maturity or prior redemption, will be payable upon presentation of such Bonds at the principal corporate trust office of the Paying Agent/Registrar.

Record Date

The Record Date with respect to each interest payment date is the last business day of the month immediately preceding the month in which such interest payment date occurs.

Mandatory Sinking Fund Redemption

Bonds maturing on November 15, _____ are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at the price of par plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Principal Amount</u>
November 15, _____	
November 15, _____	
November 15, _____	
November 15, _____	
November 15, _____ (maturity)	

The sinking fund requirements for the Bonds are subject to reduction with respect to (a) Bonds of such maturity previously called for redemption, and (b) Bonds of such maturity previously acquired by or at the direction of the Board, as provided in the Resolution.

Optional Redemption

The Bonds maturing on or after November 15, _____ will be redeemable on or after November 15, _____ at the option of the District, as directed by the City, in whole at any time or in part in principal amounts of \$5,000 or any integral multiple thereof on any interest payment date, at redemption prices, expressed as percentages of the principal amount of the Bonds to be redeemed, set forth below, together with accrued interest to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
November 15, 1998 through November 14, 1999	101.5%
November 15, 1999 through November 14, 2000	101.0
November 15, 2000 through November 14, 2001	100.5
November 15, 2001 and thereafter	100.0

Extraordinary Optional Redemption

On any date following the date which is four years after the date of the annexation of the District in its entirety by the City, the subsequent dissolution of the District, and the City's assumption of the District's obligations, including the Bonds, the Bonds are subject to optional redemption and may be redeemed prior to their scheduled maturities, by the Trustee at the option of the City. The Bonds may be so redeemed in whole on any date at the redemption price (expressed as a percentage of principal amount) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following schedule, plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
Date of Delivery of Bonds through November 14, 1998	103.0%
November 15, 1998 through November 14, 1999	101.5
November 15, 1999 through November 14, 2000	101.0
November 15, 2000 through November 14, 2001	100.5
November 15, 2001 and thereafter	100.0

Notice of Redemption

At least 30 days prior to any date on which any of the Bonds are to be redeemed, a written notice of redemption identifying the Bonds or portions thereof to be redeemed will be published at least once in a newspaper, journal or publication of general circulation in the City of New York, New York and in the

State of Texas. A similar notice will be mailed by the District to the registered owner of each Bond to be redeemed at the address appearing on the bond registration books maintained by the Paying Agent/Registrar. Failure to mail or receive any such notice, or any defect therein or in the mailing thereof, will not affect the validity of the proceedings for the redemption of such Bonds.

Partial Redemption

If less than all of the Bonds subject to redemption are to be redeemed, the District will determine, as directed by the City, which maturity or maturities, and the amounts within each maturity to be redeemed, and shall direct the Trustee to call for redemption, by lot, Bonds, or portions thereof, within such maturity or maturities and in such amounts.

Registration, Transfer and Exchange

The Bond Documents provide for the registration, transfer and exchange of the Bonds. Every Bond presented or surrendered for transfer or exchange is required to be duly endorsed or to be accompanied by a written instrument of transfer and assignment in form satisfactory to the Paying Agent/Registrar and duly executed by the registered owner thereof or by his attorney duly authorized in writing. No service charge will be made to the registered owner for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds. Neither the District nor the Paying Agent/Registrar is required to make exchanges or transfers of (a) any Bond during the period beginning on any Record Date and ending on the next succeeding interest payment date or (b) any Bond called for redemption during the 15-day period prior to the first publication or mailing of notice of redemption or during the 30-day period prior to the date of such redemption.

Trustee; Paying Agent/Registrar

The office of Texas Commerce Bank National Association for purposes of its duties as Trustee and Paying Agent/Registrar is 600 Travis Street, 10th Floor, Houston, Texas 77002, Attention: Georgia Pennington, (713) 236-5712.

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 and perform the services of Paying Agent/Registrar for the Bonds. The District reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, but not to be effective within 60 days prior to a principal or interest payment date. 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 to promptly appoint a competent and legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar is required to promptly 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 is required to 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 will also give the address of the new Paying Agent/Registrar.

SECURITY FOR THE BONDS

Pledge Under the Bond Documents

The Bonds, the Parity Bonds and any additional parity bonds issued in the future in accordance with the Bond Documents (the "Additional Bonds"), together with the interest thereon, are equally and ratably payable from and secured under the Trust Indenture by the District's grant of a first lien security interest in, and assignment and pledge of, all of its right, title and interest in and to (i) the Utility Construction Contract, dated as of February 21, 1984, between the District and the City, as amended by the _____, dated as of _____, 1989 (collectively, the "Contract"), and all proceeds thereof, including the payments required to be made thereunder by the City (the "City Contract Payments") and (ii) the Debt Service Fund, the Reserve Fund and the Construction Fund created and established under the Bond Resolution and the Trust Indenture. The City has agreed under the Contract to make the City Contract Payments to the Trustee in the amounts and at the times necessary to pay the principal and redemption price of, and premium, if any, and interest on the Bonds, the Parity Bonds and any Additional Bonds when due, establish and/or maintain the Reserve Fund in accordance with the Bond Resolution and pay the fees and charges of the Trustee and other expenses incurred in connection with the Bonds, Parity Bonds and Additional Bonds.

Security for the City Contract Payments

The City's obligation to make the City Contract Payments is a special obligation for which the City remains bound until the entire principal of, premium, if any, and interest on the Bonds, the Parity Bonds and any Additional Bonds have been paid or provided for. Under the Contract, the City has pledged the "Net Revenues" of its "Waterworks and Sewer System" (as such terms are hereinafter defined) to the payment and security of the City Contract Payments. The term "Waterworks and Sewer System" means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto, unless declared not to be part of such system in accordance with an ordinance of the City, adopted on March 3, 1982, (the "1982 City Ordinance"). The term "Net Revenues" means (i) all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits and restricted gifts and grants) of the Waterworks and Sewer System, including earnings and income derived from the investment or deposit of money in any special funds or accounts created and established by the City for the payment and security of bonds and obligations issued by the City and secured by such Net Revenues (collectively, the "Gross Revenues"), less (ii) all current expenses of operating and maintaining the Waterworks and Sewer System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, and payments under contracts for the purchase of water supply or other materials, goods or services, but excluding depreciation (collectively, "Maintenance and Operating Expenses").

Prior Lien Bonds of the City. The lien on Net Revenues of the Waterworks and Sewer System securing payment of the City Contract Payments is subordinate only to the lien thereon securing \$_____ outstanding principal amount of City bonds referred to herein as "Prior Lien Bonds," which are secured not only by Net Revenues of the Waterworks and Sewer System but also by certain net revenues (also referred to herein as "Net Revenues") of the City's electric utility system referred to herein as the "Electric Light and Power System." The Net Revenues of the Electric Light and Power System are not pledged to the City Contract Payments or to the Bonds. The Waterworks and Sewer System and the Electric Light and Power System are sometimes referred to herein collectively as the "Systems." See Appendix A, Information Regarding the City's Utility Systems. The City has reserved the right under the Contract to issue additional Prior Lien Bonds. See "Issuance of Additional City Obligations" below.

Subordinate Lien Bonds of City on Parity with the Bonds. The City Contract Payments are secured by Net Revenues of the Waterworks and Sewer System on a parity with the City's (i) \$_____ outstanding principal amount of City bonds referred to herein as "Combined Lien Bonds" or "Subordinate Lien Bonds," which bonds are secured not only by Net Revenues of the Waterworks and Sewer System but also by Net Revenues of the Electric Light and Power System, and (ii) \$_____ outstanding principal amount of City bonds referred to herein as "Separate Lien Obligations," which bonds are secured only by Net Revenues of the Waterworks and Sewer System or Net Revenues. There are presently no City bonds outstanding that are secured only by Net Revenues of the Electric Light and Power System, which bonds would also constitute Separate Lien Obligations. See Appendix A, Information Regarding the City's Utility Systems. The City has reserved the right under the Contract to issue additional Combined Lien Bonds and Separate Lien Obligations. See "Issuance of Additional City Obligations" below.

Issuance of Additional City Obligations. The City has reserved the right under the Contract to issue additional Prior Lien Bonds, Combined Lien Bonds and Separate Lien Obligations, all of which obligations are either on a parity with or superior to the City Contract Payments. The following conditions are required to be satisfied before issuing additional Prior Lien Bonds or Combined Lien Bonds.

General. The Director of Finance of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) shall have executed a certificate stating (i) that the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, have been made in full and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein.

Capital Improvements. Prior to the issuance of additional Prior Lien Bonds or Combined Lien Bonds by the City for the purpose of enlarging, extending, improving or repairing then existing facilities of either or both Systems, a certificate or opinion of a certified public accountant is required to be obtained stating that, according to the books and records of the City, the Net Earnings (as defined below) for the preceding fiscal year or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance authorizing the Prior Lien Bonds

or Combined Lien Bonds is adopted were at least equal to the sum of (i) 1.10 times the average annual requirement for the payment of principal and interest (or other similar payment) for the outstanding Combined Lien Bonds and all other outstanding obligations that are payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer System, or both, other than Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Combined Lien Bonds, if any, then proposed and (ii) 1.25 times the average annual requirement for the payment of principal and interest (or other similar payment) for all outstanding Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Prior Lien Bonds, if any, then proposed. In making a determination of the Net Earnings, such accountant may take into consideration a change in the rates and charges for services and facilities afforded by either the Electric Light and Power System or the Waterworks and Sewer System, or both, that became effective at least 60 days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the accountant's certificate or opinion. The term "Net Earnings" has the same meaning as the Net Revenues of both Systems, except that expenses which constitute capital expenditures under standard accounting practice are not deducted in the calculation thereof.

Capital Additions. Prior to the issuance of Prior Lien Bonds and Combined Lien Bonds for properties and facilities which by their nature, and as incorporated into either or both of the Systems, will add additional capacity, or are to replace existing capacity, of either or both of the Systems, or substantially increase revenue-producing capabilities (a "Capital Addition"), a certificate of an independent engineer shall be obtained to the effect that, based on a report prepared by such independent engineer relating to such Capital Addition and the Systems, the projected Net Earnings for each of the five fiscal years subsequent to the date the Capital Addition is estimated to become commercially operative will be equal to at least the sum of (i) 1.25 times the average annual requirements for the payment of the principal and interest (or other similar payments) for Prior Lien Bonds and Separate Lien Obligations then outstanding or incurred and all Prior Lien Bonds estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements which will constitute enlargements, extensions, betterments or repairs to the then existing facilities or properties of either or both of the Systems and for all Capital Additions then in progress or then being initiated and (ii) 1.10 times the average annual requirements for the payment of principal and interest (or similar payments) for Combined Lien Bonds and all other obligations, other than Prior Lien Bonds or Separate Lien Obligations, payable solely from the Net Revenues of either or both of the Systems, which are then outstanding or incurred and all Combined Lien Bonds or such other obligations estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements or any combination of property improvements which will constitute enlargements, extensions, betterments or repairs to the then existing facilities or properties of either or both of the Systems and for all Capital Additions then in progress or then being initiated.

Once a Capital Addition has been initiated by obtaining such certificate of an independent engineer and the Prior Lien Bonds or Combined Lien Bonds are delivered therefor, the City reserves the right to issue additional Prior Lien Bonds and Combined Lien Bonds, as the case may be, in such amounts as may be necessary to complete the acquisition and construction thereof and make the same commercially operative; provided that the City make a forecast for a period extending five years beyond the estimated commercial operation date of the Capital Addition demonstrating the ability of the Systems to pay all obligations payable from Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer System, or both, to be outstanding after the issuance of the additional Prior Lien Bonds or Combined Lien Bonds then being issued and have the reasonableness of such forecast confirmed by an independent engineer.

Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the outstanding Prior Lien Bonds or the Combined Lien Bonds (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such outstanding Prior Lien Bonds or Combined Lien Bonds are refunded, the conditions precedent prescribed for the issuance of Prior Lien Bonds or Combined Lien Bonds set forth above under "General" and under "Capital Improvements" shall be satisfied and the accountant's certificate or opinion required shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the Prior Lien Bonds or the Combined Lien Bonds being refunded following their cancellation or provision being made for their payment).

City Rate Covenants. The City has agreed under the Contract to establish rates and charges for the facilities and services of its Electric Light and Power System and its Waterworks and Sewer

System to provide gross revenues in each fiscal year sufficient to (i) pay the respective maintenance and operation expenses of the Systems, (ii) provide such amounts as are necessary to establish, maintain or restore, as the case may be, required balances in the reserve or contingency funds created for the payment of and security for Prior Lien Bonds, Combined Lien Bonds, Separate Lien Obligations (including the City Contract Payments) and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems and (iii) produce combined Net Revenues (after satisfaction of the amounts required in (i) and (ii) above) equal to at least the sum of (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations (including the City Contract Payments) plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Combined Lien Bonds and all other indebtedness, except Prior Lien Bonds and Separate Lien Obligations, payable solely from the secured solely by a lien on and pledge of the Net Revenues of either the Electric Power and Light System or the Waterworks and Sewer System, or both.

The Contract additionally provides that the City shall establish and maintain rates and charges for water and wastewater services that will annually produce Net Revenues of the Waterworks and Sewer System at least equal to 1.25 times the combined annual payments to be made during a fiscal year on all Separate Lien Obligations (including the City Contract Payments) of the Waterworks and Sewer System for purposes of paying or representing the payment of principal of and interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations (the "City Contract Rate Covenant"). For purposes of computing the anticipated Net Revenues of the Waterworks and Sewer System in determining compliance with the City Contract Rate Covenant, the Gross Revenues of the Waterworks and Sewer System will be increased by the anticipated amount of the "District Available Revenues" which is defined as the amounts provided in the District's budget each for the payment of the District's Pro Rata Share (as hereinafter defined) with respect to the Bonds, the Parity Bonds and any Additional Bonds. See "District Tax Levy for Pro Rata Share of Debt Service" below.

Flow of Funds

All money received by the Trustee for the payment of the Bonds and the Parity Bonds will be deposited into the separate funds created and established under the Bond Resolution and the Trust Indenture, all as set forth below.

Debt Service Fund. The Debt Service Fund is required to be held in trust by the Trustee in accordance with the Trust Indenture for the benefit of the owners of the Bonds and the Parity Bonds. On or before the last business day prior to each interest payment date, principal payment date or optional redemption date, the City is required to deposit into the Debt Service Fund such amount which, together with any amount then on deposit, including the District's Pro Rata Share of any corresponding amount, will be sufficient to make such interest payment and principal payment or to pay such redemption price. In the event the City should fail to make any of its required payments into the Debt Service Fund, such required payment will continue as an obligation of the City until fully paid. The Debt Service Fund will be used by the Trustee only to pay the principal of, redemption premium, if any, and interest on the Bonds and the Parity Bonds.

Reserve Fund. At the time of initial delivery of the Bonds, \$ _____ is expected to be on deposit in the Reserve Fund, being equal to average annual debt service requirements for the Bonds and the Parity Bonds (the "Required Reserve"). Earnings on investments held in the Reserve Fund will be transferred to the Debt Service Fund except for any period during which such fund contains less than the Required Reserve, in which case investment earnings will be retained therein until such fund contains an amount of cash and investments equal to the Required Reserve. Additional deposits are required to be made by the City (as part of a City Contract Payment) as necessary to maintain the Required Reserve in the manner set forth in the Bond Documents. Disbursements from the Reserve Fund are required to be for the purpose of making any debt service payment on the Bonds and the Parity Bonds for which adequate funds are not available in the Debt Service Fund. Amounts held in the Reserve Fund may also be used to retire the last of the Bonds and the Parity Bonds outstanding.

All amounts on deposit in the foregoing funds, to the extent they are not insured by the Federal Deposit Insurance Corporation or a successor, are required to be secured as provided by law.

Investment of Funds, Valuation and Earnings

Money deposited into the Debt Service Fund and the Reserve Fund may be invested or reinvested. Such investments (except State and Local Government Series investments held in book entry form, which are required at all times to be valued at cost) are required to be valued in terms of current market value within the 45 days of the close of each fiscal year of the District. Except as described above under "Reserve Fund," all interest and income derived from such investments are immediately required to be credited to, and any losses debited to, the fund or account from which the investment was made, and

surpluses in any fund are required to or may be disposed of as hereinafter described. The District has the right to have sold in the open market a sufficient amount of such investments in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. Under such circumstances, the District is required to give written notice to the Trustee to sell such investments in the open market. After such sale the money derived therefrom will be deposited to the fund from which the money for such investments were initially taken. The District and the City will not be responsible to the Bondholders for any loss arising out of the sale of any investments. The Trustee will not be liable or responsible for any loss resulting from any such investment or resulting from the authorized sale of any such investment; provided, however, that the Trustee will be liable for (i) any loss resulting from its willful or negligent failure, within a reasonable time after receiving the written direction from the District, to make, redeem or sell any investment in the manner described above, and (ii) any loss resulting from making, redeeming or selling any investment which was not authorized by written direction of the District.

Any cash balance in any fund or account, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, is required to be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts, having an aggregate market value, exclusive of accrued interest, at all times equal to the uninsured cash balance in the fund or account to which such securities are pledged.

Annexation of the District by the City

Under the Agreement Concerning Creation and Operation of the North Austin Municipal Utility District No. 1, dated February 21, 1984, between the City, the Developers (as hereinafter defined) and the District (the "Creation Agreement"), the District may be annexed and dissolved by the City upon certain terms and conditions and in certain circumstances. Upon annexation and dissolution of the District, the City is required to assume liability for the Bonds and other obligations of the District which, pursuant to Texas law, would become payable from ad valorem taxes levied and collected on all taxable property within the City. Upon annexation and dissolution of the District, the City has an option to redeem the Bonds, as described above under "Description of the Bonds - Extraordinary Optional Redemption."

Additional Bonds of the District

The District has reserved the right, upon the request of the City, to issue Additional Bonds for the purpose of financing the cost of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending certain water main and sanitary sewer main extensions and improvements described in the Contract (the "Project") or refunding any outstanding Bonds, Parity Bonds or Additional Bonds. When issued and delivered, such Additional Bonds will be (i) payable from the Debt Service Fund, (ii) payable from and secured by a first lien on and pledge of City Contract Payments and (iii) secured by the Trust Indenture, in the same manner and to the same extent as, and be on a parity with, all then outstanding Bonds, Parity Bonds and Additional Bonds. It is provided in the Bond Resolution, however, that no series or issue of Additional Bonds will be issued unless the following conditions are satisfied:

(1) A certificate is executed by the Director of Finance of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) stating (a) that the City is not then in default as to any covenant, obligation or agreement contained in the Contract or in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of either or both of its Systems and (b) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of such Net Revenues have been made in full and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

(2) A certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that no default exists in connection with the Bonds, Parity Bonds, any Additional Bonds, the Trust Indenture or the Contract (or any amendment or supplement thereto) or with any of the covenants or requirements of the Bond Resolution (or any amendments or supplements thereto) authorizing the issuance of all then outstanding Bonds, Parity Bonds and Additional Bonds, and that the Debt Service Fund and the Reserve Fund contain the amounts then required to be on deposit therein;

(3) The Additional Bonds shall be scheduled to mature or be payable as to principal on November 15 or May 15 in each year the same are to be outstanding or during the term thereof;

(4) The City approves in writing a substantial draft of the resolution authorizing the issuance of such Additional Bonds, as required by the Contract;

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(5) All necessary certificates, orders and approvals are obtained from each appropriate federal or state agency; and

(6) In the case of any Additional Bonds the proceeds of which are to be used solely for the purpose of paying the cost of completion of the Project, the satisfaction of conditions (1), (2), (3), (4) and (5) above are required to be satisfied, together with the following conditions.

(A) the City is required to make a forecast (the "Forecast") of the operations of the Waterworks and Sewer System demonstrating, for the period (the "Forecast Period") of each ensuing fiscal year of the City through the fifth fiscal year of the City subsequent to the latest estimated date the Project is expected to be commercially operative, the ability of such System to pay all obligations payable solely from the Net Revenues of such System to be outstanding after the issuance of the Additional Bonds then being issued, and

(B) an independent engineer is required to review such Forecast and execute a certificate to the effect that such Forecast is reasonable, and, based thereon (and such other factors deemed to be relevant), the Net Revenues of the Waterworks and Sewer System will be adequate for the Forecast Period to pay all the obligations, payable solely therefrom, to be outstanding after the issuance of the Additional Bonds then being issued.

Other Obligations of the District

with consent of the City

Revenue Bonds. The District reserves the right to issue bonds and pledge the City Contract Payments to the payment thereof, such pledge to be junior and subordinate in all respects to the lien securing the Bonds, Parity Bonds and any Additional Bonds.

The District also reserves the right, with City approval, to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water and/or sewer and/or drainage facilities necessary under a 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, with City approval, to refund such bonds.

The District reserves the right to authorize the issuance and sale of Bonds payable from and secured by a first lien on net revenues of any waterworks, sanitary sewer and drainage system owned or acquired by the District, excluding the facilities constituting the Project (the "District System").

Tax-Supported Bonds. The District presently has a voted authorization to issue \$73,100,000 unlimited tax and revenue bonds, of which \$7,325,000 have been issued and \$65,775,000 remain authorized but unissued. The District estimates that it will issue \$2,000,000 of such authorized but unissued bonds during the next 12 months.

MUNICIPAL BOND INSURANCE

[TO FOLLOW]

DEBT SERVICE REQUIREMENTS*

Year	City Obligations Other Than City Contract Payments ⁽¹⁾	Parity Bonds	Principal	The Bonds Interest ⁽²⁾	Total	Total Debt Service ⁽³⁾
1989	\$	\$	\$	\$	\$	
1990						
1991						
1992						
1993						
1994						
1995						
1996						
1997						
1998						
1999						
2000						
2001						
2002						
2003						
2004						
2005						
2006						
2007						
2008						
2009						

⁽¹⁾ Includes debt service requirements for all outstanding Prior Lien Bonds, Combined Lien Bonds and Separate Lien Obligations (other than City Contract Payments).

⁽²⁾ For purposes of the Preliminary Official Statement, the net effective interest rate on the Bonds is assumed to be _____ %.

⁽³⁾ Represents the sum of debt service requirements for obligations payable directly or indirectly from Net Revenues of the Waterworks and Sewer System, including (a) all City obligations referred to in footnote one above and (b) the Parity Bonds and the Bonds, which together are secured by a first lien on and payable from the City Contract Payments.

DESCRIPTION OF THE DISTRICT

General

The District, a municipal utility district created on November 5, 1983 by the Texas Water Commission (the "Commission"), pursuant to Article XVI, Section 59 of the Texas Constitution, operates under the provisions of Chapter 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the Commission. The District has no present plans to provide solid waste collection and disposal service or a fire department. The District is subject to the continuing supervision of the Commission.

The District is governed by a five-member Board of Directors (the "Board"), elected by qualified voters of the District to serve for staggered four-year terms. Directors are required to be at least 21 years old and a resident citizen of Texas. In addition, directors must either own land subject to taxation in the District or be a qualified voter within the District. After each election of directors, the Board is required to elect a president, a vice president, a secretary and any other officers considered necessary.

*Preliminary; subject to change.

The District's Creation

Under Texas law, the City was required to give its consent to the creation of the District. The vehicle for this consent is an ordinance passed by the City, a part of which includes the Creation Agreement. By passage of an ordinance, the City unconditionally granted its consent to the creation of the District for the purpose of issuing bonds approved by the City. The Developers (as hereinafter defined) have assigned certain of their rights and duties under the Creation Agreement to the District. The following is a summary of certain terms and provisions of the Creation Agreement. It is not a complete description of such agreement and is qualified by reference to the Creation Agreement, copies of which may be obtained from the District.

Under the Creation Agreement, the City agrees to provide water and wastewater service to all of the users within the District. The Creation Agreement also provides that the City will not be liable for the failure to provide water and wastewater service resulting from conditions beyond the City's control. In addition, the City 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 District itself is a customer of the City and receives service on the same basis as other water districts. The District agrees to set rates for its customers not lower than those rates established by the City for its customers who reside inside of the City limits. The District also agrees to collect a surcharge in addition to its normal rates. The District agrees under the Creation Agreement that it will not serve customers outside its boundaries without prior City permission.

The Creation Agreement provides that the Developers will serve as project manager for the construction of the facilities constituting the District System. Such facilities are required to be reviewed and approved by the appropriate agencies of the State of Texas and by the City prior to construction.

The District and the City have agreed to certain land use controls including use 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 Texas law. The Creation Agreement also contains certain provisions which limit the right of the City to annex the land within the District and of the District to annex additional land without the prior approval of the City. The Creation Agreement has a maximum term of 40 years.

Location

The District, which contains 997.69 acres of land, is located in Williamson and Travis Counties approximately 11 miles north of downtown Austin, Texas ("Austin" or the "City"). Access to the District is provided via U.S. Hwy. 183 to McNeil Road (which forms a portion of the District's southern boundary). Construction currently is underway on Parmer Lane, which forms the District's eastern boundary. Upon completion, additional access will be provided by Parmer Lane and by FM 620 to its intersection with Parmer Lane. According to _____, the completion of Parmer Lane is expected by _____. Approximately 11.61 acres of the District lie within the city limits of Austin, and the remainder of the District lies within the City's exclusive extraterritorial jurisdiction.

Status of District Development

The District is comprised of (i) an 800-acre portion of Milwood, a 1,400-acre multi-use project currently being developed by Milwood Joint Venture II and (ii) the Northwest Crossing, a 154-acre commercial/ multi-family project currently owned by San Antonio Savings Association. Land use plans for the District currently are as follows:

	<u>Acres</u>	<u>Equivalent Connections⁽¹⁾</u>
Single Family	569.04	2,840
Multi-family	163.85	3,846
Commercial	123.70	1,296
Industrial	21.17	351
Schools	13.70	0
Park/Flood Plain	74.20	0
Rights of Way	34.04	0
TOTAL	997.70	8,333

⁽¹⁾ Method of measuring water and wastewater use by various classifications of utility customers. The number of connections per customer differs for each type of customer, i.e., single family, multi-family, commercial and industrial.

Proceeds from the sale of the District's outstanding bonds, together with certain nonreimbursable developer contributions, have been used to finance the construction of certain regional wastewater systems and to finance water, sanitary sewer and drainage facilities to serve Milwood, Sections 22, 23, 23A, 23B, 24 and 26B (124 acres - 580 equivalent connections). Construction of these facilities, as well as street paving in these sections, is complete. With the consent of the District, the Developers have financed the construction of water, sanitary sewer and drainage facilities to serve Milwood, Sections 25, 26A, 27A, 27B, 28-32 (258.38 acres - 1,602 equivalent connections). Construction of these facilities is virtually complete, and paving is complete in all but Sections 31 and 32, where street paving is presently being done.

In addition, utility construction is complete in a portion of the Northwest Crossing section of the District. Street paving also is nearing completion in this portion. New homes in the District range in price from \$60,000 to \$130,000, and the average new home price is approximately \$80,000. The status of single family construction in the District as of February 1, 1989 is as follows:

Status of Single Family Construction in the District ⁽¹⁾			
<u>Platted Lots</u>	<u>Homes Occupied and Sold</u>	<u>Homes Completed But Unsold</u>	<u>Homes Under Construction</u>
1,724	1,018	75	31

⁽¹⁾ Such lots and houses are developed on 358.75 acres of the 569.04 acres ultimately planned for single family development. Source - Bill Milburn, Inc.

The only commercial development currently in the District is a cable television office. A portion of an elementary school lies within the boundaries of the District. Approximately 578 acres of developable land within the District is presently undeveloped. At full development, the District is projected to serve 8,333 equivalent connections.

The assessed valuation of the District as of January 1, 1988 was \$107,794,276. The District has levied a tax rate of \$0.85 per \$100 assessed valuation for the 1988-89 fiscal year.

District Developers

Joint Venture. The land within the District is being developed for residential, multifamily, commercial and retail use pursuant to the Milwood Joint Venture II Agreement (the "Joint Venture Agreement") between Bill Milburn, Inc. ("Milburn"), Palmar Association, Ltd. ("Palmar"), Austin White Lime and A. H. Robinson III (collectively, the "Developers").

Milburn. Pursuant to the Joint Venture Agreement, Milburn is responsible for the planning and management of development of the property held by the Developers. Its activities include platting, obtaining approval of plats in the subdivisions, coordinating and obtaining approvals and permits from cities, counties and other governmental entities and authorities which have authority over the activities and the properties located inside the District; providing job supervision, inspection and quality control with respect to the development of the property in the District; conducting sales and/or lease programs relating to tracts or sites and the property located inside the District; and supervising the management of the development of the properties generally.

Milburn has operated in the City since 1961 and is the City's largest homebuilder with approximately 30% of the new home market. When sales of new homes reached a peak of 5,891 in 1986, Milburn achieved record sales of approximately 1,500. However, with the downturn in the City's economy along with the rest of the State of Texas over the past three years, and the adverse impact thereof on the real estate market, new home sales in City, including sales by Milburn, have decreased by more than two-thirds from their peak levels. As a result, several home builders have been forced into bankruptcy. In addition to the difficulties Milburn shares with all home builders in the City, Milburn is involved as a defendant in several lawsuits filed by former partners, lenders, homeowner groups and individuals with employment complaints, construction problems and other miscellaneous matters. Such difficulties may adversely affect Milburn's ability to perform its obligations under the Joint Venture Agreement. However, neither the District nor the City can predict the effect thereof on future Net Revenues of the Waterworks and Sewer System and the City's ability make the City Contract Payments.

Palmar. Palmar is a limited partnership consisting of various members of the Robinson family which own the land within the District. General partners of Palmar are A. H. Robinson III and J. O.

Robinson. Milburn is the managing venture partner; however, there are certain decisions, such as financing and land planning which require joint approval of both venture partners.

SUMMARY OF SELECTED PROVISIONS OF THE BOND DOCUMENTS

The following is a summary of selected provisions of the Bonds Documents. This summary does not purport to be a complete recitation of the Bond Documents to which reference is hereby made for a full and complete statement of the provisions contained therein.

Enforcement of Rights in Case of Default

The Trustee is irrevocably appointed the special agent and representative of the owners of the Bonds and the Parity Bonds and vested with full power on their behalf to effect and enforce the Contract on behalf of the District and the Bond Documents for their benefit as provided in the Bond Documents; but anything contained in the Trust Indenture to the contrary notwithstanding, the owners of a majority in aggregate principal amount of the Bonds and the Parity Bonds then outstanding have the right from time to time to direct and control the Trustee in connection with the enforcement of any of the provisions of the Contract, the Bond Documents, and any other proceedings taken by virtue of any provisions of the aforesaid instruments, including the right to have withdrawn and discontinued at any stage thereof any proceedings taken under the Trust Indenture by the Trustee, provided that the event of default upon which such proceedings were based and all other events of default hereunder shall have been remedied and made good. Anything contained in the Trust Indenture to the contrary notwithstanding, each owner of any Bond or Parity Bond shall have a right of action to enforce the payment of all amounts due with respect to any Bond or Parity Bond owned by him when or after the same shall have become due, at the place, from the sources, and in the manner expressed in the Contract or the Bond Documents.

Except as otherwise provided in the Trust Indenture, the rights of action with respect to the Trust Indenture shall be exercised by the Trustee and no owner of any Bond or Parity Bond shall have any right to institute any suit, action or proceeding at law or equity for the appointment of a receiver or for any other remedy thereunder or by reason hereof unless and until in addition to the fulfillment of all other conditions precedent specified in the Trust Indenture, the Trustee shall have (i) received the written request of the owners of not less than 25% in aggregate principal amount of the Bonds and Parity Bonds then outstanding, and (ii) been offered indemnity satisfactory to it and shall have refused, or for 30 days thereafter neglected, to institute such suit, action, or proceeding; and it is declared that the making of such request and the furnishing of, such indemnity are in each case conditions precedent to the execution and enforcement by any owner of any Bond or Parity Bond of the powers and remedies given to the Trustee and to the institution and maintenance by any owner of any Bond or Parity Bond of any action or cause of action for the appointment of a receiver or for any other remedy; but the Trustee may, in its discretion, or when duly requested in writing by the owners of at least 25% in aggregate principal amount of the Bonds and Parity Bonds then outstanding and upon being furnished indemnity satisfactory to the Trustee against expenses, charges and liability shall, forthwith take such appropriate action by judicial proceedings and otherwise to enforce the covenants of the City and the District as the Trustee may deem expedient in the interest of the owners of the Bonds and Parity Bonds.

In addition to all of the rights and remedies provided by the laws of the State of Texas, the District further covenants and agrees that in the event of a default in the payment of any City Contract Payment or in the performance of any agreement or covenant contained in the Bonds, the Parity Bonds, the Contract or the Bond Documents, such payment and performance may be enforced by the Trustee by mandamus, specific performance, or by the appointment of a receiver (in equity with power to charge and collect the City Contract Payments) in accordance with the Contract and the Bond Documents.

No remedy conferred upon or reserved to the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Bond Documents, the Contract, the Bonds or the Parity Bonds, or now and hereafter existing at law or in equity or by statute. No delay or omission in the exercise of any right or power given to the Trustee upon the happening of an event of default continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such event of default or acquiescence therein, and every such right and power may be exercised from time to time and so often as may be deemed expedient.

The Trustee may, and upon the written request of the owners of a majority in aggregate principal amount of the Bonds and Parity Bonds then outstanding shall, waive any event of default under the Trust Indenture and its consequences, except that an event of default in the payment of City Contract Payments, or in the payment of any amounts with respect to the Bonds when and as the same shall become due and payable, may be waived only if the event of default therein shall have been remedied and made good. In case of any such waiver, the District, the City, the Trustee and the owners of the Bonds and Parity Bonds shall be restored to their former position and rights, but such waiver shall not extend to any subsequent or other event of default or impair any right consequent thereon.

In the event the Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of owners of Bonds and Parity Bonds, each representing less than a majority of the aggregate principal amount of Bonds and Parity Bonds then outstanding, the Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of the Trust Indenture.

All money collected by the Trustee pursuant to the exercise of the remedies and powers provided in the Trust Indenture, together with all other sums which then may be held by the Trustee under any provision of the Trust Indenture as security for the Bonds and Parity Bonds, shall be applied as follows:

First: to the payment of the costs and expenses of the proceedings whereunder such money was collected, including a reasonable compensation to the Trustee, its agents, attorneys, and all other necessary or proper expenses, liabilities and advances incurred or made by the Trustee under the Trust Indenture, and to the payment of all taxes, assessments, and liens superior to the lien of this Trust Indenture, if any.

Second: to the payment of matured interest on the Bonds and Parity Bonds.

Third: to the payment of principal of and redemption premium, if any, on the Bonds and Parity Bonds which have been called for redemption as permitted or required by the Bond Documents or have matured as provided thereby.

Fourth: to the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If in making distribution pursuant to the order above stated, the amount available for distribution in a particular classification shall be insufficient to pay in full all of the items in such classification, the amount available for distribution to items in such classification shall be prorated among such items in the proportion that the amount each item bears to the total of all such items.

In any judicial proceeding in which the District is a party and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the owners of the Bonds and Parity Bonds, the Trustee, if permitted by the court having jurisdiction over such proceeding, may, in its discretion, or upon the written request of the owners of at least 25% in aggregate principal amount of the Bonds and Parity Bonds then outstanding, and upon being indemnified to the satisfaction of the Trustee, shall, intervene on behalf of the owners of the Bonds and Parity Bonds to assert the rights of such owners.

All rights of action or other rights under the Trust Indenture or otherwise may be brought by the Trustee in its own name as Trustee of an express trust and may be enforced by the Trustee without the possession of any of the Bonds or Parity Bonds, or the production thereof on the trial or other proceedings relative thereto.

It is expressly provided that the owners of a majority in aggregate principal amount of the Bonds and Parity Bonds then outstanding, or a committee representing, pursuant to a written appointment filed with the Trustee, the owners of a majority in aggregate principal amount of the Bonds and Parity Bonds then outstanding, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the Trustee's rights and remedies under the Contract or the rights of the owners of the Bonds and Parity Bonds or the Trustee's rights and remedies under the Bond Documents, and may exercise any right or perform any action under the Trust Indenture, with the same effect as the Trustee, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Trust Indenture, and provided that the Trustee shall be indemnified to its satisfaction.

Amendments to Bond Documents

The Trust Indenture, the Bond Order and the Bond Resolution may be amended by the District with the consent of the City (and of the Trustee for amendments to the Trust Indenture), for the purpose of amending the District's Pro Rata Share, curing any ambiguity or correcting or supplementing any defective or inconsistent provision or making any other change that does not in any respect materially and adversely affect the interest of the owners of the Bonds, Parity Bonds or Additional Bonds. The holders of the Bonds, the Parity Bonds and any Additional Bond aggregating at least 51% in aggregate principal amount of the outstanding Bonds, the Parity Bonds and any Additional Bonds are required to approve any other amendment to the Trust Indenture, the Bond Order or the Bond Resolution. However, without the consent of the owner of each outstanding Bond, Parity Bond and Additional Bond affected thereby, the terms and conditions of the Bonds, the Parity Bonds, the Additional Bonds, the Bond Order, the Bond Resolution or the Trust Indenture may not be amended so as to:

- (a) Change the Debt Service Fund requirements, Reserve Fund requirements, interest payment dates or the maturity or maturities of the outstanding Bonds, Parity Bonds or Additional Bonds;
- (b) Reduce the rate of interest borne by any of the outstanding Bonds, Parity Bonds or Additional Bonds;
- (c) Reduce the amount of the principal of, premium, if any, or interest payable on the outstanding Bonds, Parity Bonds or Additional Bonds, or impose any condition with respect to payments;
- (d) Modify the terms of payment of principal of, premium, if any, or interest on the outstanding Bonds, Parity Bonds or Additional Bonds, or impose any conditions with respect to payments;
- (e) Affect the rights of the owners of less than all of the Bonds, Parity Bonds or Additional Bonds then outstanding;
- (f) Decrease the minimum percentage of the principal amount of Bonds, Parity Bonds or Additional Bonds necessary for consent to such amendment; or
- (g) Alter the obligation of the City to pay the City Contract Payments in the manner and to the extent provided in the Contract, the Bond Order, the Bond Resolution and the Trust Indenture.

District Tax Levy for Pro Rata Share of Debt Service

Under the Contract, the District has agreed to make certain payments to the City in consideration of the City's reserving adequate distribution capacity for the District in certain facilities of the Waterworks and Sewer System financed with Bonds, Parity Bonds or Additional Bonds. Such payments will be in amounts constituting the District's share, based on its share of such capacity (the "District's Pro Rata Share"), of debt service on the Bonds and the Parity Bonds. On or before September 30 in each year or as soon after that time as practicable, the Board of Directors of the District (the "Board") will 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. The Board will perform the function in the following manner or as may be otherwise authorized or prescribed by law.

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 Pro Rata Share of 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. Immediately upon adoption of its annual budget, the District shall deliver to the City a copy thereof and a report of the District establishing the District's Available Revenue for the succeeding fiscal year.

Establishment of District Interest and Sinking Fund and Levy of Bond Tax. A special fund or account, designated as the North Austin Municipal Utility District No. 1 Interest and Sinking Fund (the "Interest and Sinking Fund") is created under the Bond Documents and required to be maintained by the District at its official depository and 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 District's Pro Rata Share of debt service on the Bonds and Parity Bonds, in accordance with the Contract. Payment of such amounts shall be made directly to the City, as provided in the Contract. All taxes levied and collected for and on account of the Bonds and Parity Bonds shall be deposited, as collected, to the credit of the Interest and Sinking Fund. During each year while any of the Bonds or Parity 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 payments to the City of the District's Pro Rata Share of debt service on the Bonds and Parity Bonds. Such rate and amount of ad valorem tax is ordered to be levied and is levied under the Bond Documents without limit as to rate or amount against all taxable property in the District for each year while any of the Bonds or Parity Bonds are outstanding and unpaid, and such ad valorem tax shall be assessed and collected each year and deposited to the credit of the aforesaid Interest and Sinking Fund.

The amounts required to be paid by the District to the City as described above are not pledged to, and do not constitute security for, the payment of the Bonds.

Federal Tax Covenants

The District covenants not to take any action or refrain from taking any action which would adversely affect the treatment of the Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. The District recognizes that Section 148 of the Code imposes certain restrictions and duties on it with respect to the use and investment of the proceeds of the Bonds and the investment income thereon and with respect to the potential payment of certain sums at periodic intervals to the United States. The District further recognizes that regulations implementing the requirements of said Section 148 are contemplated and are expected to be promulgated at a future date. The District covenants to comply with such section and such regulations as may be applicable unless the District receives an opinion of nationally recognized bond counsel that the District is exempt or excused from compliance with that provision of the Code or any of the regulations promulgated thereunder.

Miscellaneous

The Trust Indenture provides that the Trustee will be compensated from the Debt Service Fund and that the Trustee's expenses, advances and counsel fees will be paid from the same fund. The Trustee's responsibility is limited, and the Trustee will not be liable for action taken in good faith and will not be required to expend its own funds or take any action that would conflict with any rule of law or the terms of the Trust Indenture. The Trust Indenture also provides that the Trustee may own Bonds, in which case it will have the same rights as if it were not Trustee. In addition, the Trust Indenture also makes provision for the resignation or removal of a Trustee and the appointment of a Successor Trustee.

TAX EXEMPTION

In the opinion of Brown Maroney & Oaks Hartline, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the book-income (current-earnings) item for corporations.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, and a requirement that the District file an information report with the Internal Revenue Service. The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution and the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, and, in addition, will rely on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or the Bond Order or if the foregoing representations should be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC), if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. The "Superfund Revenue Act of 1986" also imposes an additional .12% "environmental tax" on the alternative minimum taxable income of a corporation in excess of \$2,000,000. Generally, for taxable years beginning in 1988 and 1989, a corporation's alternative minimum taxable income includes 50% of the amount by which the corporation's "adjusted net book income" exceeds the corporation's "alternative minimum taxable income" (determined without regard to such portion of "adjusted net book income"). For later taxable years, a corporation's alternative minimum taxable income will include 75% of the amount by which the corporation's "adjusted current earnings" exceeds the corporation's "alternative minimum taxable income" (determined without regard to such portion of "adjusted current earnings"). Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted net book income" and "adjusted current earnings," ownership of the Bonds could be subject to alternative minimum tax consequences.

Although interest with respect to the Bonds is excludable from gross income, receipt or accrual of such interest may otherwise affect the tax liability of the owner of a Bond. The tax effect of receipt or

accrual of such interest will depend upon the status of the owner of the Bond and such owner's other items of income or deduction. Bond Counsel will express no opinion with respect to such effects. Prospective investors should consult their tax advisors with respect to the effect that ownership of the Bonds may have on their particular tax situations and other matters not specifically addressed herein.

LITIGATION

The District is not a party to any litigation or other proceeding pending, or to its knowledge, threatened in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would restrain or enjoin the issuance or delivery of the Bonds or would have a material adverse effect on the provisions made for their payment or security or in any manner question the validity of the Bonds. On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

The District is from time to time involved in various legal proceedings relating to construction and other matters. At the present time, no such legal proceedings are pending or, to the knowledge of the District, threatened the result of which would have a material adverse effect on the financial condition of the District.

LEGAL INVESTMENTS IN TEXAS

Section 54.515, Chapter 54, Texas Water Code, as amended, provides that the Bonds are legal and authorized investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the other political corporations or subdivisions of the State of Texas. The statute further provides that the Bonds are eligible to secure the deposit of any and all public funds of the State of Texas and any and all public funds of cities, towns, villages, counties, school districts or other political corporations or subdivisions of the State of Texas; and the bonds are lawful and sufficient security for such deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such institutions or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. Consequently, the District makes no representation that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and of Brown Maroney & Oaks Hartline, Bond Counsel, whose approving opinion will be printed on the Bonds in substantially the form attached hereto as Appendix D. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement except as hereinafter noted, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "Plan of Financing," "Description of the Bonds," "Security for the Bonds," "Summary of Selected Provisions of the Bond Documents," "Legal Investments in Texas," "Legal Matters" and "Tax Exemption," and such firm is of the opinion that the information contained under such captions is a fair and accurate summary of the information purported to be shown therein. Bond Counsel's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Certain legal matters will be passed upon for the District by Armbrust & Brown, P.C. Certain matters will be passed upon for the Underwriters by Hutchison Boyle Brooks & Dransfield, A Professional Corporation.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Bonds will be subject to delivery by independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amounts of the Government Obligations held in the Escrow Fund, interest earned thereon and certain other money to pay, when due, the principal of and interest on the Refunded Bonds and (b) the computations of actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not "arbitrage" bonds under Section 148 and Section 149(d) of the Internal Revenue Code of 1986, as amended.

RATINGS

On the date of initial delivery of the Bonds, the Bonds are expected to be rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation on the basis of the municipal bond guaranty insurance policy issued by _____ with respect to the Bonds. An explanation of the significance of such ratings may be obtained from the rating agency furnishing the rating. Such ratings reflect only the respective views of such rating agencies, and the District makes no representation as to the appropriateness of such ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies, if in the judgment of either or both such agencies, circumstances so warrant. Any such downward revision or withdrawal of either such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the District at an aggregate underwriting discount of \$ _____ from the initial public offering prices of the Bonds set forth on the cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Lovett Mitchell Webb & Garrison, Inc. (the "Financial Advisor"). The fee to be paid to the Financial Advisor for services rendered in connection with the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

OTHER MATTERS


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

President,
North Austin Municipal Utility District No. 1

THE STATE OF TEXAS §

COUNTY OF TRAVIS §

I, Betty G. Brown, Deputy City Clerk of the City of Austin, Texas,
do hereby certify that the foregoing instrument is a true and correct
copy of Ordinance No. 890601-E, consisting of 52 page(s),
passed by the City Council of Austin, Texas, at a regular meeting on the
1st day of June, 19 89, as on file in the
City Clerk's Office this 14th day of June, 19 89.



BETTY G. BROWN
DEPUTY CITY CLERK, CITY OF AUSTIN, TEXAS

P-NA01960