

OFFICIAL STATEMENT DATED SEPTEMBER 22, 2016

NEW ISSUE-BOOK-ENTRY-ONLY

RATINGS: MAC Insured S&P “AA” (Stable Outlook); Underlying Moody’s “Baa1”  
See “MUNICIPAL BOND RATINGS” and “BOND INSURANCE.”

*Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.*

*THE DISTRICT HAS DESIGNATED THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.*

**\$1,125,000**  
**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**UNLIMITED TAX BONDS, SERIES 2016**

**Dated: October 20, 2016**

**Due: September 1, as shown on the inside cover page**

Interest on the \$1,125,000 Travis County Municipal Utility District No. 5 Unlimited Tax Bonds, Series 2016 (the “Bonds”) will accrue from the date of delivery, October 20, 2016, and is payable March 1, 2017 and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrant for the Bonds is BOKF, NA, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”). The Bonds are obligations solely of Travis County Municipal Utility District No. 5 (the “District”) and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **MUNICIPAL ASSURANCE CORP.** See “BOND INSURANCE.”



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**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS,  
REDEMPTION PROVISIONS and CUSIP NUMBERS**  
**(see inside cover page)**

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The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable solely from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source of and Security for Payment." This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN RISK FACTORS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the initial purchaser of the Bonds (the “Initial Purchaser”) subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject to, among other things, the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel and Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about October 20, 2016 in Austin, Texas.

**MATURITIES**  
**(Due September 1)**

Due	Principal Amount	Interest Rate <sup>(a)</sup>	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>	Due	Principal Amount	Interest Rate <sup>(a)</sup>	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>
2017	\$ 50,000	2.000%	1.000%	89439FDD9	2025 *	\$ 80,000	2.000%	2.100%	89439FDM9
2018	50,000	2.000%	1.150%	89439FDE7	2026 *	80,000	2.000%	2.200%	89439FDN7
2019	60,000	2.000%	1.300%	89439FDF4	2027 *	85,000	2.125%	2.300%	89439FDP2
2020	65,000	2.000%	1.450%	89439FDG2	2028 *	90,000	2.250%	2.400%	89439FDQ0
2021	65,000	2.000%	1.600%	89439FDH0	2029 *	90,000	2.250%	2.450%	89439FDR8
2022	70,000	2.000%	1.750%	89439FDJ6	2030 *	95,000	2.375%	2.500%	89439FDS6
2023	70,000	2.000%	1.900%	89439FDK3	2031 *	100,000	2.375%	2.550%	89439FDT4
2024 *	75,000	2.000%	2.000%	89439FDL1					

\* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024 in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS - Redemption."

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.16% of par, resulting in a net effective interest rate to the District of 2.501812%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser. The yields may be changed at any time at the discretion of the Initial Purchaser.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**MUNICIPAL ASSURANCE CORP. ("MAC") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, MAC HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING MAC SUPPLIED BY MAC AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX C - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".**

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

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

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

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

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

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

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

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

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid of Robert W. Baird & Co., Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.16% of par. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

### **Prices and Marketability**

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

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district

bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

## **Securities Laws**

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

The statements contained in this Official Statement and in other information provided by the District that are not purely historical are forward-looking statements, including regarding the District's expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. See "INVESTMENT CONSIDERATIONS- Forward-Looking Statements."

## **MUNICIPAL BOND RATINGS**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Municipal Assurance Corp. ("MAC" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "Baa1" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Municipal Assurance Corp. (the "Insurer" or "MAC") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York or Connecticut insurance law.

### **Municipal Assurance Corp.**

MAC is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of the shareholders or affiliates of AGL, other than MAC, is obligated to pay any debts of MAC or any claims under any insurance policy issued by MAC.

MAC is wholly owned by Municipal Assurance Holdings Inc., which, in turn, is owned 61% by Assured Guaranty Municipal Corp. and 39% by Assured Guaranty Corp.

MAC's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA"). Each rating of MAC should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating

agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of MAC in its sole discretion. In addition, the rating agencies may at any time change MAC's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by MAC. MAC only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by MAC on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On July 8, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed the insurance financial strength rating of "AA+", with a Stable Outlook, of MAC. MAC can give no assurance as to any further ratings action that KBRA may take.

On July 27, 2016, S&P issued a credit rating report in which it affirmed MAC's financial strength rating of "AA" (stable outlook). MAC can give no assurance as to any further ratings action that S&P may take.

For more information regarding MAC's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### *Capitalization of MAC*

As of June 30, 2016, MAC's policyholders' surplus and contingency reserve were approximately \$677 million and its unearned premium reserve was approximately \$400 million, in each case, determined in accordance with statutory accounting principles.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to MAC are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (filed by AGL with the SEC on February 26, 2016);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (filed by AGL with the SEC on May 5, 2016); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (filed by AGL with the SEC on August 4, 2016).

All financial statements of MAC and all other information relating to MAC included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Municipal Assurance Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding MAC included herein under the caption "BOND INSURANCE – Municipal Assurance Corp." or included in a document incorporated by reference herein (collectively, the "MAC Information") shall be modified or superseded to the extent that any subsequently included MAC Information (either directly or through incorporation by reference) modifies or supersedes such previously included MAC Information. Any MAC Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

MAC makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, MAC has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding MAC supplied by MAC and presented under the heading "BOND INSURANCE".

*[The remainder of this page intentionally left blank]*

## OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement. Investment in the Bonds is subject to certain investment considerations. See "INVESTMENT CONSIDERATIONS."

### THE DISTRICT

The District..... Travis County Municipal Utility District No. 5 (the "District"), a political subdivision of the State of Texas was created, along with six other conservation and reclamation districts, by an act of the 74<sup>th</sup> Regular Session of the Texas Legislature effective June 16, 1995 and confirmed pursuant to an election held within the District on November 7, 1995. The District was created to provide water distribution, wastewater collection and drainage facilities for the orderly development of approximately 687 acres of land within its boundaries, all of which lies within Travis County, Texas and the Barton Creek Development, as described below. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution, as amended. See "THE DISTRICT – General."

The District is one of seven political subdivisions including Travis County Municipal Utility Districts No. 3, 4, 5, 6, 7, 8, and 9, (collectively, the "Participants" and individually a "Participant"), which includes Travis County Municipal Utility District No. 4 (the "Master District") created to provide water, wastewater and storm drainage to approximately 3,520 acres located within Travis County, Texas (the "Service Area"). See "MASTER DISTRICT."

Location ..... The District, which encompasses approximately 687 acres of land, of which approximately 660 acres are developable, is located in western Travis County and lies approximately nine miles south-southwest of the City of Austin's central business district and is situated approximately 3 miles southwest of the intersection of RM 2244 and Capital of Texas Highway. Primary access to the District is via Barton Creek Boulevard to Calera Drive. The District lies entirely within the extraterritorial jurisdiction of the City of Austin, Texas. See "THE DISTRICT - Location."

The Participants..... The Participants comprise approximately 3,520 acres of a master planned community designed to ultimately contain single family, multi-family, senior living center, commercial, retail and office development as well as recreational amenities. Of the 3,520 acres within the Participants, approximately 3,282 acres are developable under current land development and water quality regulations. See "INVESTMENT CONSIDERATIONS– Certain Development Regulations." All of the Participants have designated the Master District to serve as the master district and regional provider of water, wastewater and storm drainage, including water quality facilities to serve the approximately 3,282 developable acres within the Participants. The Master District also provides certain retail services to the Participants including retail billing and collecting services for each of the Participants. Each Participant was created to construct or acquire internal underground utilities to serve the developable acres within each Participant's boundaries. See "THE MASTER DISTRICT" and "INVESTMENT CONSIDERATIONS."

As of August 15, 2016, approximately 2,463 acres within the Participants have been or are currently being provided water, wastewater and storm drainage, including water quality services, which include: approximately 826 acres in Travis County Municipal Utility District No. 3, approximately 492 acres in Travis County Municipal Utility District No. 4, approximately 660 acres in Travis County Municipal Utility District No. 5, 264 acres in Travis County Municipal Utility District No. 6, and approximately 221 acres in Travis County Municipal Utility District No. 8. As of August 15, 2016, residential development within the Participants included 467 completed single family homes, 39 single family homes under construction, 112 single family lots that are vacant or under construction, 201 completed detached condominium patio homes, 6 detached condominium patio homes under construction, 25 detached condominium patio home lots that are vacant, one 250 unit apartment complex including a clubhouse, fitness center and pool area (called the Sendara at Barton Creek); one 236 unit apartment complex including a clubhouse, fitness center and pool area (called the Santal); additional development includes a senior living center, and commercial, retail and office development. Recreational amenities include the Barton Creek Resort and Spa located in Travis County Municipal Utility District No. 4, which consists of a country club, a conference center, a 303-room hotel, two 18-hole golf courses and related



facilities. Additionally, a third 18-hole golf course is located within the boundaries of the District. Within the Participants there are several tracts at various stages of development and approximately 819 undeveloped but developable acres remaining. See “INVESTMENT CONSIDERATIONS – Certain Development Regulations.” See also “THE BARTON CREEK DEVELOPMENT.”

The Developer .....	The developer currently active within the Service Area is Stratus Properties Operating Co., L.P. (“Stratus Properties” or “Stratus”), a Delaware limited partnership comprised of Stratus Investments L.L.C., a Delaware limited liability company as its 99% limited partner and STRS L.L.C., a Delaware limited liability company, as its 1% general partner. See “THE DEVELOPER - Description of Developer.”
Development within the District.....	Of the approximately 687 acres within the District, approximately 660 are developable under current land development and water quality regulations. Development of the District commenced in 2002. As of August 15, 2016 all of the approximately 660 developable acres within the District have been developed with utility facilities as the single family residential subdivisions of Calera Court, Calera Drive, Amarra Drive, Phases 1, 2, 3A and 3B, and Villas at Amarra, encompassing a total of 66 completed single family homes, 21 single family homes under construction, 95 developed single family vacant lots, 16 completed detached condominium patio homes, 5 detached condominium patio homes under construction, and 17 developed detached condominium patio home vacant lots. Additionally, utility facilities to serve a 21 acre commercial tract have been completed and an 18-hole golf course is also located within the boundaries of the District. See “THE DISTRICT - Status of Development of the District.”
Builders.....	Homebuilders in the Service Area include various custom homebuilders who are building homes ranging in price from approximately \$600,000 to over \$9,000,000 with square footage ranging from approximately 2,400 to over 30,000. See “THE DISTRICT - Status of Development.”

#### THE BONDS

Description .....	The Bonds in the aggregate principal amount of \$1,125,000 mature serially in varying amounts on September 1 of each year from 2017 through 2031, inclusive, as set forth on the inside cover page hereof. Interest accrues from the date of delivery, October 20, 2016, at the rates per annum set forth on the inside cover page hereof and is payable March 1, 2017 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption .....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024, in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS - Redemption.”
Source of Payment .....	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” <b>The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.</b> See “THE BONDS - Source of and Security for Payment.”
Payment Record .....	The Bonds constitute the fourth installment of new money bonds issued by the District. The District has also issued one series of refunding bonds. The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations, entitled: \$2,225,000 Unlimited Tax Bonds, Series 2006; \$2,500,000 Unlimited Tax Bonds, Series 2008; \$3,990,000 Unlimited Tax Refunding Bonds, Series 2012; and \$1,920,000 Unlimited Tax Bonds, Series 2015. See “FINANCIAL STATEMENT - Outstanding Bonds.”

In addition to the direct debt obligations of the District, the District is a party to a contract with the Master District whereby the District has agreed to pay a pro rata share of debt service on bonds issued from time to time by the Master District for certain master facilities to provide regional water, wastewater and drainage, including water quality facilities to all Participants. Each Participant entered into a similar contract. The Master District has outstanding a total of \$66,270,000 aggregate principal amount of contract tax bonds issues as the following: \$5,000 Unlimited Contract Tax

Bonds, Series 2009; \$5,435,000 Unlimited Contract Tax Bonds, Series 2010A; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2011; \$7,905,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$9,575,000 Unlimited Contract Tax Refunding Bonds, Series 2013; \$5,810,000 Unlimited Contract Tax Refunding Bonds, Series 2014; \$2,875,000 Unlimited Contract Tax Refunding Bonds, Series 2015; \$5,765,000 Unlimited Contract Tax Bonds, Series 2015A; \$9,465,000 Unlimited Contract Tax Refunding Bonds, Series 2016; and \$14,600,000 Unlimited Contract Tax Bonds, Series 2016A (collectively, the “Outstanding Contract Bonds”). Of such Outstanding Contract Bonds, \$11,126,805 (16.79%) represents the District’s pro rata share based on the 2016 Certified Assessed Valuation of the Service Area of \$1,219,395,907. See “THE MASTER DISTRICT – General” and “- Contract Tax Bonds.” To date the District has not defaulted on any debt service or contract payments.

Authority for Issuance .....	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on November 7, 1995; the approving order of the Texas Commission on Environmental Quality (the “TCEQ”); and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds. See “THE BONDS - Authority for Issuance.”
Use of Proceeds.....	<p>The proceeds of the Bonds will be used to finance the District’s share of the water, wastewater and drainage facilities serving the Villas at Amarra (previously called the Overlook at Amarra Drive) and Amarra Drive, Phase 2, Block H, Lot 6.</p> <p>The remaining Bond proceeds will be used to: (i) pay developer interest; (ii) pay capitalized interest; (iii) pay certain engineering costs; and (iv) pay other costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”</p>
Bonds Authorized But Unissued.....	At an election held within the District on November 7, 1995 voters within the District authorized a total of \$13,250,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, \$5,480,000 in bonds for water, wastewater and drainage facilities will remain authorized but unissued. Additionally, at the election held in the District on November 7, 1995, the voters within the District approved the issuance bonds in a principal amount of up to one and one-half times of the principal amount of water, wastewater and drainage facilities bonds issued to refund any such water, wastewater and drainage facilities bonds, of which \$19,560,000 remains authorized but unissued. See “FINANCIAL STATEMENT - Outstanding Bonds and Unlimited Tax Bonds Authorized but Unissued” and “THE BONDS – Issuance of Additional Debt.”
Future Debt.....	Pursuant to the Master District Contract, the District has agreed to pay a pro rata share of maintenance expenses and debt service on bonds issued from time to time by the Master District for Master District Facilities. Approximately \$11.425 million remains owing to Stratus for the Master District Facilities that are currently completed.
Municipal Bond Rating and Insurance .....	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned a rating of “AA” (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Municipal Assurance Corp. (“MAC” or the “Insurer”) at the time of delivery of the Bonds. Additionally, Moody’s Investors Service, Inc. (“Moody’s”) has assigned an underlying rating of “Baa1” to the Bonds.
Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2016 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”

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

General Counsel ..... Armbrust & Brown, PLLC, Austin, Texas

Financial Advisor ..... Public Finance Group LLC, Austin, Texas

Engineer..... Murfee Engineering Company, Austin, Texas

Paying Agent / Registrar ..... BOKF, NA, Austin, Texas

### **INVESTMENT CONSIDERATIONS**

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

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited)

2016 Certified Assessed Valuation		\$204,737,889	(a)
Estimated Assessed Valuation as of August 15, 2016		\$214,043,948	(b)
Gross Debt Outstanding (after issuance of the Bonds)			
District Debt	\$ 6,755,000		(c)
Contract Debt	<u>11,126,805</u>		(d)
Total		\$ 17,881,805	
Ratio of Gross Debt to 2016 Certified Assessed Valuation		8.73%	
Ratio of Gross Debt to Estimated Assessed Valuation as of August 15, 2016		8.35%	
2016 Tax Rate <sup>(e)</sup>			
Debt Service	\$ 0.2275		
Maintenance	0.1200		
Contract	<u>0.3500</u>		
Total 2016 Tax Rate		<u>\$ 0.6975</u>	(e)
Debt Service Fund Balance (as of September 22, 2016)		\$ 97,274	(f)
Percentage of current tax collections - Tax Years (1996-2015)		99.34%	(g)
Percentage of total tax collections - Tax Years (1996-2015)		99.95%	(g)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2017-2030)		\$ 614,975	
Tax Rate required to pay Average Requirement based upon 2016 Certified Assessed Valuation at 95% collections		\$ 0.32	/\$100 AV
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of August 15, 2016 at 95% collections		\$ 0.31	/\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2030)		\$ 661,421	
Tax Rate required to pay Maximum Requirement based upon 2016 Certified Assessed Valuation at 95% collections		\$ 0.35	/\$100 AV
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of August 15, 2016 at 95% collections		\$ 0.33	/\$100 AV
Number of active connections as of July 1, 216			
Occupied Single Family	79		
Builder	30		
Irrigation	18		
Other	<u>3</u>		
Total Number of Active Connections	130		
Estimated Population as of July 1, 2016		277	(h)

(Footnotes appear on following page)

- (a) Assessed valuation of the District as of January 1, 2016, as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated Assessed Valuation as of August 15, 2016, as provided by TCAD, is included solely for purposes of illustration.
- (c) Includes the Bonds.
- (d) The District is party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase, and maintain certain facilities to provide regional water, wastewater and drainage, including water quality, services to all Participants. The Master District has outstanding a total of \$66,270,000 aggregate principal amount of contract tax bonds issues as the following: \$5,000 Unlimited Contract Tax Bonds, Series 2009; \$5,435,000 Unlimited Contract Tax Bonds, Series 2010A; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2011; \$7,905,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$9,575,000 Unlimited Contract Tax Refunding Bonds, Series 2013; \$5,810,000 Unlimited Contract Tax Refunding Bonds, Series 2014; \$2,875,000 Unlimited Contract Tax Refunding Bonds, Series 2015; \$5,765,000 Unlimited Contract Tax Bonds, Series 2015A; \$9,465,000 Unlimited Contract Tax Refunding Bonds, Series 2016; and \$14,600,000 Unlimited Contract Tax Bonds, Series 2016A (collectively, the "Outstanding Contract Bonds"). Of such Outstanding Contract Bonds, \$11,126,805 (16.79%) represents the District's pro rata share based on the 2016 Certified Assessed Valuation of the Service Area of \$1,219,395,907. See "THE MASTER DISTRICT – Contract Tax Bonds."
- (e) The District levied a 2016 total tax rate of \$0.6975 at the District's Board of Director's meeting in September 2016. See "TAXING PROCEDURES."
- (f) Unaudited as of September 22, 2016. Does not include approximately twenty-four months of capitalized interest (\$56,291) to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
- (g) See "TAX DATA – Tax Collections."
- (h) Based upon 3.5 residents per completed and occupied single family home.

*[The remainder of this page intentionally left blank]*

**OFFICIAL STATEMENT**  
**relating to**  
  
**\$1,125,000**  
**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**UNLIMITED TAX BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Travis County Municipal Utility District No. 5 (the “District”), a political subdivision of the State of Texas (the “State”), of its \$1,125,000 Unlimited Tax Bonds, Series 2016 (the “Bonds”).

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the “Bond Order”), pursuant to Article XVI, Section 59 of the Constitution and the general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on November 7, 1995; and the approving order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”).

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District’s Financial Advisor, Public Finance Group LLC, 7004 Bee Cave Road, Building 3, Suite 315, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See “CONTINUING DISCLOSURE OF INFORMATION” and “OFFICIAL STATEMENT – Updating Official Statement During Underwriting Period” for a description of the District undertaking to provide certain information on a continuing basis.

**THE BONDS**

**General Description**

The Bonds will bear interest from the date of delivery, October 20, 2016, and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on March 1, 2017 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

**Redemption**

*Optional Redemption...* The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds will not be redeemed.

### **DTC Redemption Provision**

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

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

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

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

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

*Limitation on Transfer of Bonds . . .* Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth

(15<sup>th</sup>) (whether or not a business day) calendar day of the month preceding each interest payment date (the “Record Date”) and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

### **Authority for Issuance**

At an election held within the District on November 7, 1995, voters within the District authorized the issuance of a total of \$13,250,000 in unlimited tax bonds for water, wastewater and drainage facilities. The Bonds constitute the fourth installment of new money bonds issued by the District. After the sale of the Bonds, \$5,480,000 principal amount of District bonds will remain authorized but unissued for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 7, 1995, the voters within the District approved the issuance bonds in a principal amount of up to one and one-half times of the principal amount of water, wastewater and drainage facilities bonds issued to refund any such water, wastewater and drainage facilities bonds. To date, the District has issued one series of refunding bonds and \$19,560,000 principal amount of District bonds remain authorized but unissued for refunding purposes. The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of the TCEQ.

### **Source of and Security for Payment**

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its “Debt Service Fund” for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if Austin annexes and dissolves the District and assumes all debts and liabilities of the District.

Under Texas law, the District may be annexed and dissolved by Austin without the consent of the District or its residents. If the District is annexed, Austin must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of Austin to make debt service payments on the Bonds should dissolution occur.

The Bonds are obligations solely of the District and are not obligations of Austin; Travis County, Texas; the State of Texas; or any political subdivision or entity other than the District.

### **Payment Record**

The Bonds constitute the fourth installment of new money bonds issued by the District. The District has also issued one series of refunding bonds. The District has previously issued: \$2,225,000 Unlimited Tax Bonds, Series 2006; \$2,500,000 Unlimited Tax Bonds, Series 2008; \$3,990,000 Unlimited Tax Refunding Bonds, Series 2012; and \$1,920,000 Unlimited Tax Bonds, Series 2015 (collectively, the “Outstanding Bonds”). The District has not defaulted on the payment of principal of or interest on the Outstanding Bonds. See “FINANCIAL STATEMENT – Outstanding Bonds.”

The District is also a party to a contract with the Master District whereby the District has agreed to pay a pro rata share of debt service on bonds issued from time to time by the Master District for certain master facilities to provide regional water, wastewater and drainage, including water quality facilities to all Participants. Each Participant entered into a similar contract. The Master District has outstanding a total of \$66,270,000 aggregate principal amount of contract tax bonds issues as the following: \$5,000 Unlimited Contract Tax Bonds, Series 2009; \$5,435,000 Unlimited Contract Tax Bonds, Series 2010A; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2011;



\$7,905,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$9,575,000 Unlimited Contract Tax Refunding Bonds, Series 2013; \$5,810,000 Unlimited Contract Tax Refunding Bonds, Series 2014; \$2,875,000 Unlimited Contract Tax Refunding Bonds, Series 2015; \$5,765,000 Unlimited Contract Tax Bonds, Series 2015A; \$9,465,000 Unlimited Contract Tax Refunding Bonds, Series 2016; and \$14,600,000 Unlimited Contract Tax Bonds, Series 2016A (collectively, the "Outstanding Contract Bonds"). Of such Outstanding Contract Bonds, \$11,126,805 (16.79%) represents the District's pro rata share based on the 2016 Certified Assessed Valuation of the Service Area of \$1,219,395,907.

### **Flow of Funds**

The Bond Order creates or confirms the creation by the District of a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart on the books and records of the District from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must 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 cash balance in the fund to which such securities are pledged.

*Debt Service Fund...* The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing capitalized interest on the Bonds, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

*Capital Projects Fund...* The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then it is in the discretion of the Board of Directors of the District to transfer such unexpended proceeds or income to the Debt Service Fund or to utilize such funds as otherwise authorized by the TCEQ.

### **Paying Agent/Registrar**

Principal of and semiannual interest on the Bonds will be paid by the initial Paying Agent/Registrar, BOKF, NA, having an office for payment in Austin, Texas. Any Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

### **Defeasance of Outstanding Bonds**

*General . . .* The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for

the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order and the District will have no further responsibility with respect to the payment of such Defeased Bonds including any insufficiency to receive payments when due on the Defeased Securities.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Securities will be maintained at any particular rating category.

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

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

#### **Record Date**

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

## **Issuance of Additional Debt**

*District Debt:* The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. On November 7, 1995, voters within the District authorized the issuance of unlimited tax bonds in the principal amounts of \$13,250,000 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. Following the issuance of the Bonds, \$5,480,000 in unlimited tax bonds authorized by the District voters will remain authorized but unissued for water, wastewater and drainage facilities. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." Additionally, at the election held in the District on November 7, 1995, the voters within the District approved the issuance bonds in a principal amount of up to one and one-half times of the principal amount of water, wastewater and drainage facilities bonds issued to refund any such water, wastewater and drainage facilities bonds, of which \$19,560,000 principal amount of District bonds remains authorized but unissued for refunding purposes. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

According to the District's engineer, the \$5,480,000 in principal amount of bonds authorized but unissued (after issuance of the Bonds), should be sufficient to reimburse the Developer for the water, wastewater and drainage facilities required for development within the District. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

*Contract Debt:* Pursuant to the Master District Contract, the District has agreed to pay a pro rata share of maintenance expenses and debt service on contract tax bonds issued from time to time by Travis County Municipal Utility District No. 4 (in its role as the "Master District") for the Master District Facilities that serve all of the Participants.

Additionally, the Master District is authorized to issue additional bonds from time to time in the future to acquire or construct Master District Facilities necessary to serve the Participants. Pursuant to an election held within the District on November 7, 1995, the voters within the District authorized an ad valorem tax to be levied on all taxable property within the District in an amount sufficient to pay the amounts due and owing pursuant to the Master District Contract. See "THE MASTER DISTRICT-Contract Tax Bonds."

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

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a municipal utility district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a municipal utility district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "MUNICIPAL BOND RATINGS."

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

## **Specific Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may omit to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

## **Additional Covenants**

The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

## **Remedies in Event of Default**

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## **Consolidation**

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

## **Annexation**

The District lies wholly within the extraterritorial jurisdiction of the City of Austin, Texas. Under Texas law, a district may be annexed by the city in whose extraterritorial jurisdiction the district is located. However, the act which created the District provides that a municipality may annex the District only after the installation of ninety percent (90%) of all works, improvements, facilities, plants, equipment and appliances necessary and adequate to (i) provide service to the proposed development within the District's boundaries, (ii) accomplish the purposes for which the District was created, and (iii) exercise the powers provided by the general laws of the State and the enabling act of the District; or the expiration of twenty (20) years from the date the District was confirmed (i.e., November 7, 2015), whichever occurs first.

Under Texas law, the City of Austin cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for a Participant, such as the District, to be annexed, and the City of Austin does annex, the City of Austin will assume the Participant's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by the City of Austin is a policy-making matter within the discretion of the Mayor and City Council of the City of Austin and therefore, the District makes no representation that the City of Austin will ever annex the District and assume its debt.

## **Alteration of Boundaries**

In certain circumstances, under Texas law the District may alter its boundaries to: (i) upon satisfying certain conditions, annex additional territory; and (ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied, including the District's simultaneous annexation of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

## **Approval of the Bonds**

The TCEQ approved the issuance of the Bonds by an order signed on August 11, 2016 (the "TCEQ Order").

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

## **Amendments to the Bond Order**

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

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

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is

owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

## USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the District's share of the the water, wastewater and drainage facilities serving the Villas at Amarra (previously called the Overlook at Amarra Drive) and Amarra Drive, Phase 2, Block H, Lot 6. The remaining Bond proceeds will be used to: (i) pay developer interest; (ii) pay capitalized interest; (iii) pay certain engineering costs; and (iv) pay other costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$844,708 is required for construction costs, and \$280,292 is required for non-construction costs, including \$56,291 of capitalized interest (approximately twenty-four months' interest at 2.501812%).

### Construction Costs

#### A. Developer Contribution Items

1. Overlook at Amarra Drive (now called Villas at Amarra) - W, WW & D	\$ 467,836
2. Overlook at Amarra Drive (now called Villas at Amarra) - Clearing & Excavation	34,752
3. Amarra Drive, Phase 2, Block H, Lot 6 - W, WW & D	186,507
4. Engineering/Inspection Fees (19.88% of Items 1-3)	136,962
5. Contingencies (10% of Item 3)	18,651

<b>Total Developer Items</b>	<b>\$ 844,708</b>
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#### B. District Items

N/A	\$ -
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<b>Total District Items</b>	<b>\$ -</b>
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<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$ 844,708</b>
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### Non-Construction Costs

A. Legal Fees (2%)	\$ 22,500
B. Fiscal Agent Fees (2%)	22,500
C. Interest	
1. Capitalized Interest (2 years @ 2.501812%)	56,291
2. Developer Interest <sup>(a)</sup>	30,838
D. Bond Discount (2.84%)	31,981
E. Bond Issuance Expenses	36,766
F. Bond Application Report Costs	40,000
G. Attorney General Fee (0.10%)	1,125
H. TCEQ Bond Issuance Fee (0.25%)	2,813
I. Contingency <sup>(b)</sup>	35,478

<b>Total Non-Construction Costs</b>	<b>\$ 280,292</b>
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<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$ 1,125,000</b>
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- (a) Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.
- (b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

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## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See “THE BONDS - Source of and Security for Payment.”

The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property or, in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “INVESTMENT CONSIDERATIONS - Registered Owners' Remedies.”

### Factors Affecting Taxable Values and Tax Payments

*Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and homebuilders are able to obtain financing for development and construction costs. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies.

*Competition:* The demand for single-family homes in the District could be affected by competition from other residential developments, including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

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

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

*Maximum Impact on District Tax Rates:* Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Certified Assessed Valuation of the District is \$204,737,889. After issuance of the Bonds, the Maximum Requirement will be \$661,421 (2030) and the Average Requirement will be \$614,975 (2017 through 2030, inclusive). Assuming (1) no increase or decrease from the 2016 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.35 and \$0.32 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary



to pay the Maximum Requirement and the Average Requirement, respectively, based upon the 2016 Certified Assessed Valuation. The District's Estimated Assessed Valuation as of August 15, 2016 is \$214,043,948. Based upon the assumptions above, tax rates of \$0.33 and \$0.31 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively, based upon such estimated valuation. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

*Dependence on Major Taxpayers and the Developer . . .* The ten principal taxpayers represent \$65,680,734 or 32.83% of the District's 2016 Certified Taxable Assessed Valuation of \$204,737,889. The Developer represent \$37,214,572 or 18.60% of such value. If the Developer were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its interest and sinking fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

Stratus Properties has informed the Board that their current plan is to continue marketing the remaining developed lots in the District to home builders. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See "THE DEVELOPER."

*Development and Home Construction in the District . . .* As of August 15, 2016, approximately 95 developed single family lots and 17 developed detached condo lots within the District remained available for construction. Failure of the Developer and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by builders. See "Maximum Impact on District Tax Rates" above.

*Effects of Master Planned Community/Regulatory Constraints . . .* Stratus Properties has represented that it intends to sell developed lots to homebuilders. See "THE DISTRICT" and "THE DEVELOPER." However, the Developer has no legal obligation to the District to carry out their current plans or any other plans of development within the District. Furthermore, there is no restriction on the Developer or other landowners selling their land. The District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developer. See "Factors Affecting Taxable Values and Tax Payments" above. Neither the Developer nor any subsidiaries, if any, are obligated to pay principal of and interest on the Bonds. See "THE DEVELOPER." Furthermore, the Developer has no binding commitment to the District to carry out any plans of development in the District, and the furnishing of information related to proposed development by a developer should not be interpreted as such a commitment.

*Regulatory Constraints...* The Master District together with the other Participants is part of an approximately 3,520 acre master planned community. To the extent the remainder of acreage located within the Participants does not develop due to economic or other factors, including, without limitation, implementation of City and other governmental land use, water quality and other regulatory restrictions, such lack of development may have an adverse impact on the assessed valuation and tax rate within the Master District.

According to representatives of Stratus Properties, it has obtained all of the environmental permits required by current laws and regulations to develop its property within the Participants in the manner currently planned. Notwithstanding Stratus Properties obtaining such permits, the Participants are located in an area considered to be environmentally sensitive and environmental regulations are subject to frequent changes. The Participants are located within the contributory zone of the Edwards Aquifer, and the area in which the Participants are situated is known to provide habitat for certain rare and endangered species of wildlife and plants. The area, therefore, has at various times been subject to ordinances, laws, rules, and regulations including particularly those relating to water quality, that restrict the amount and nature, and increase the cost of, land development in the region. Regulatory entities such as the TCEQ, U. S. Environmental Protection Agency, U.S. Fish and Wildlife Service, and private environmental and special interest groups have historically and may in the future seek to impose development restrictions that could affect the taxable value of land within the Participants. See "INVESTMENT CONSIDERATIONS – Certain Development Regulations." Travis County, including areas within and in the vicinity of the Participants, is known to contain habitat of a number of species listed as endangered or threatened under the Endangered Species Act, including the salamander, golden cheeked warbler, the blackcapped vireo, numerous species of cave or karst dwelling invertebrates, and certain species of plant, including the canyon mock orange and the bracted twist flower. Some of these species and/or their habitat may occur within the Participants. In addition, the Participants may contain or affect the habitat of species yet to be listed, but perhaps suitable for listing. The presence of endangered species or their habitat or potential impact on off-site

habitat can significantly and adversely affect the value or usability of property. The Endangered Species Act and the regulations promulgated thereunder may prohibit the destruction or adverse modification of habitat without acquiring an appropriate permit

### **Overlapping and Combined Tax Rates**

The combined tax rate projections for the Participants reflect a composite tax rate of any Participant including a Participant's debt service and/or maintenance taxes and the Pledged Contract Tax. The tax rate that may be required to service debt on any bonds issued by a Participant is subject to numerous uncertainties such as the growth of taxable values within the boundaries of each Participant, the amount of direct unlimited tax bonds issued by each Participant, regulatory approvals, construction costs and interest rates. There can be no assurances that composite tax rates imposed by overlapping jurisdictions on property situated in the Service Area will be competitive with the tax rates of competing projects in the Austin metropolitan area. To the extent that such composite tax rates are not competitive with competing developments the growth of property tax values in the Service Area and the investment quality or security of the Bonds could be adversely affected. The combined 2015 tax levies of each Participant (including the Pledged Contract Tax) was \$0.4825 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 3, \$0.7296 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 4, \$0.7428 per \$100 Assessed Valuation for the District, \$0.4600 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 6, \$0.9089 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 7, \$0.7145 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 8, and \$0.8595 per \$100 Assessed Valuation for Travis County Municipal Utility District No. 9. Such a combined tax levy is higher than the tax levy of many municipal utility districts in the Austin metropolitan area, although such a combined levy is within the range of levies imposed for similar purposes by certain municipal utility districts in the Austin metropolitan area in stages of development comparable to the Service Area.

The current TCEQ rules regarding the feasibility of a bond issue for a utility district in Travis County limit the projected combined total tax rate of entities levying a tax for water, wastewater and drainage to \$1.20. The total combined tax rate for the Participants includes each Participant's projected tax rate including the Pledged Contract Tax. The projections for the Participants are consistent with the rules of the TCEQ. If the total combined tax rate of the Participants should ever exceed \$1.20, the Participant exceeding \$1.20 and the Master District could be prohibited under rules of the TCEQ from selling additional bonds. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments – *Maximum Impact on District Tax Rates*" above.

The Master District and each Participant may each independently issue additional debt which may change the projected and actual tax rates in the future, which changes may adversely affect future growth and which could affect the ability of each to issue future debt.

### **Water, Wastewater and Water Quality**

Each Participant is further obligated to pay monthly charges to the Master District for water, wastewater and water quality services rendered pursuant to the Master District Contract. The monthly charges to be paid by each Participant to the Master District will be used to pay each Participant's share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three months of operation and maintenance expenses. Each Participant's share of operation and maintenance expenses and reserve requirements is based upon a combination of actual usage and a "unit cost" of operation and maintenance expense and reserve requirements calculated by the Master District and expressed in terms of "cost per equivalent single-family residential connection." Each Participant's monthly payment to the Master District for operation and maintenance will be calculated by multiplying the number of equivalent single-family residential connections reserved to each Participant on the first day of the previous month for each of such services by the unit cost per equivalent single-family residential connection. See "OPERATION AND MAINTENANCE EXPENSES."

### **Undeveloped Acreage**

There are approximately 3,282 developable acres of land within the Service Area, of which 819 have not been provided with internal water distribution, wastewater collection and/or storm drainage facilities, including water quality facilities, necessary to the construction of taxable improvements. There are about 2,463 acres of land within the Service Area which have been provided with Master Facilities for water distribution, wastewater collection and/or storm drainage facilities, including water quality facilities. The Master District makes no representation as to when or if such development will occur. Additionally, there are approximately 660 developable acres of land within the District, all of which have been developed, with internal water distribution, wastewater collection and/or storm drainage facilities.

### **Demand for and Fluctuation of Assessed Valuation of Certain Housing Products**

As reflected in "THE DEVELOPER – Description of Developer" herein, the housing product completed and currently planned for portions of the Service Area consists of single family and detached condominium units/patio homes with anticipated prices ranging from \$600,000 to over \$9,000,000. Due to the price ranges of the housing currently under construction and planned within the Service Area, the demand and fluctuation of assessed valuation for such housing product may be more adversely affected by economic conditions than other lower cost housing products within the Austin area. Due to the higher than normal average home values within the Service Area, there is a greater likelihood that homeowners will annually challenge TCAD's appraisals.

## **Tax Collections and Foreclosure Remedies**

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

## **Registered Owners' Remedies**

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

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

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

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

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

***Developer Bankruptcy:*** In the event of bankruptcy of the Developer within the District, it is possible the District could experience volatility in the ad valorem tax rate established by the District as well as a disruption in the timing of receipt of ad valorem taxes from any such bankrupt entities.

## **Bond Insurance Risks**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any earlier due date of such principal by reason of mandatory or optional redemption, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds which is recovered by the District from the owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy; however, such payments will be made by the bond insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such redemption by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer's consent may be required in connection with amendments to the Bond Order.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the Bond Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of the Bond Insurer to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

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

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

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## **Marketability**

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

## **Continuing Compliance with Certain Covenants**

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

## **Future Debt**

**District Debt:** The District has reserved in the Bond Order the right to issue the remaining \$5,480,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$5,480,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. See “THE SYSTEM” and “THE DISTRICT – Future Development.”

**Contract Debt:** Pursuant to the Master District Contract, the District has agreed to pay a pro rata share of maintenance expenses and debt service on bonds issued from time to time by the Master District for Master District Facilities. See “MASTER DISTRICT - Contract Tax Bonds.” Such contract tax is legally unlimited as to rate or amount. The issuance of future contract tax bonds could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

## **Certain Development Regulations**

Property within the District and the other Participants was originally included in a Water Quality Protection Zone (the “Zone”) pursuant to the provisions of Section 26.179 of the Texas Water Code. The purpose of the Zone was to authorize development in accordance with a water quality plan filed by the property owner and approved by the TCEQ. On January 9, 1998, the City of Austin filed a petition in the 345<sup>th</sup> Judicial District Court in Travis County, Texas (City of Austin v. Horse Thief Ranch et al) to declare unconstitutional and void Section 26.179 of the Texas Water Code and ten (10) water quality zones including the Zone. On June 15, 2000, the Texas Supreme Court in a 6-3 decision affirmed the trial court's decision that Section 26.179 of the Texas Water Code is unconstitutional.

Since the Texas Supreme Court's ruling, any development within the Master District and the other Participants has complied with City of Austin development/water quality ordinances which generally limit the amount of impervious cover. Compliance with the City of Austin development/water quality ordinance will likely result in a less dense development than otherwise allowed under the water quality plan of the Zone and, depending upon market and economic conditions, could adversely affect the ultimate assessed valuation within the Service Area. Additionally, the processing of development plans and plats for the Participants through the City of Austin, without benefit of the Zone, may result in some delay in development approvals.

## **Governmental Approval**

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The TCEQ approved the issuance of the Bonds by an order signed on August 11, 2016 (the “TCEQ Order”). In addition, the Attorney General of Texas must also approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

## **No Requirement to Build on Developed Lots**

There is currently no requirement that individuals or other purchasers of developed lots within the District or the other Participants commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District and the other Participants.

## **Forward-Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions

and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## **Environmental Regulation**

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution;
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the Master District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the Master District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the Master District.

*Air Quality Issues.* The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted an ozone standard with a standard for fine particulates, often referred to as the 8-hour standard because it is based on an 8-hour average and is intended to protect public health against longer exposure. In 2008, the EPA tightened the existing eight-hour ozone standard from 0.08 ppm to 0.075 ppm. The Austin area, consisting of Williamson, Hays, Travis, Bastrop, and Caldwell Counties (the "Austin Area"), was not designated "nonattainment" for any NAAQS by the EPA in 2012; however, the Austin Area has been just below the 2008 eight-hour ozone standard.

On November 26, 2014, the EPA announced a new proposed ozone NAAQS range of between 65-70 ppb. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

Should the Austin Area fail to achieve attainment under an EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of the nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

*Water Supply & Discharge Issues:* Water supply and discharge regulations that the Master District may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges and (4)

wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the Master District to more than sixty (60) end users for consumption will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additionally, TCEQ is initiating rule changes to Chapter 290, Public Drinking Water, to implement the federal Stage 2 Disinfection Byproducts Rule (DBP2), Long Term Stage 2 Enhanced Surface Water Treatment Rule (LT2), and Ground Water Rule (GWR). EPA adopted the GWR on October 11, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

Operation of the Master District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a district. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the Master District's ability to obtain TPDES permits and maintain those permits. The Master District may be required to expend substantial funds to meet any of these regulatory requirements. If the Master District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of the Master District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted, by reference, the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. Pursuant to the Clean Water Act and EPA regulations, the Master District is defined as a MS4 (Municipal Separate Storm Sewer System) as it is located in an urbanized area as defined by the EPA. Travis County Municipal Utility District No. 4, as a Participant, does not have a population of 1,000 or more people and has, therefore, applied for an exemption to the requirement that it obtain coverage under the permit. Travis County Municipal Utility District No. 4 anticipates receiving an exemption. However, should Travis County Municipal Utility District No. 4 not be exempted from the permitting requirements, the Master District must develop a stormwater management program (the "Stormwater Management Program"). The Stormwater Management Program must include certain minimum control measures as outlined in the Permit. These include pollution prevention and good housekeeping for facility operations, construction site runoff controls, post construction control measures, illicit discharge detection and elimination, and public education. For each minimum control measure, the Master District must utilize one or more best-management practices to achieve minimal compliance as outlined in the permit. Once the Master District has obtained TCEQ approval of the Stormwater Management Program and coverage under the permit, the Master District must report progress under the permit annually to TCEQ. The Master District could incur substantial costs to implement the Stormwater Management Program as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

**Operations of the Master District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The Master District must obtain a permit from the U.S. Army Corps of Engineers if operations of the Master District require that wetlands be filled, dredged, or otherwise altered.**

**Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

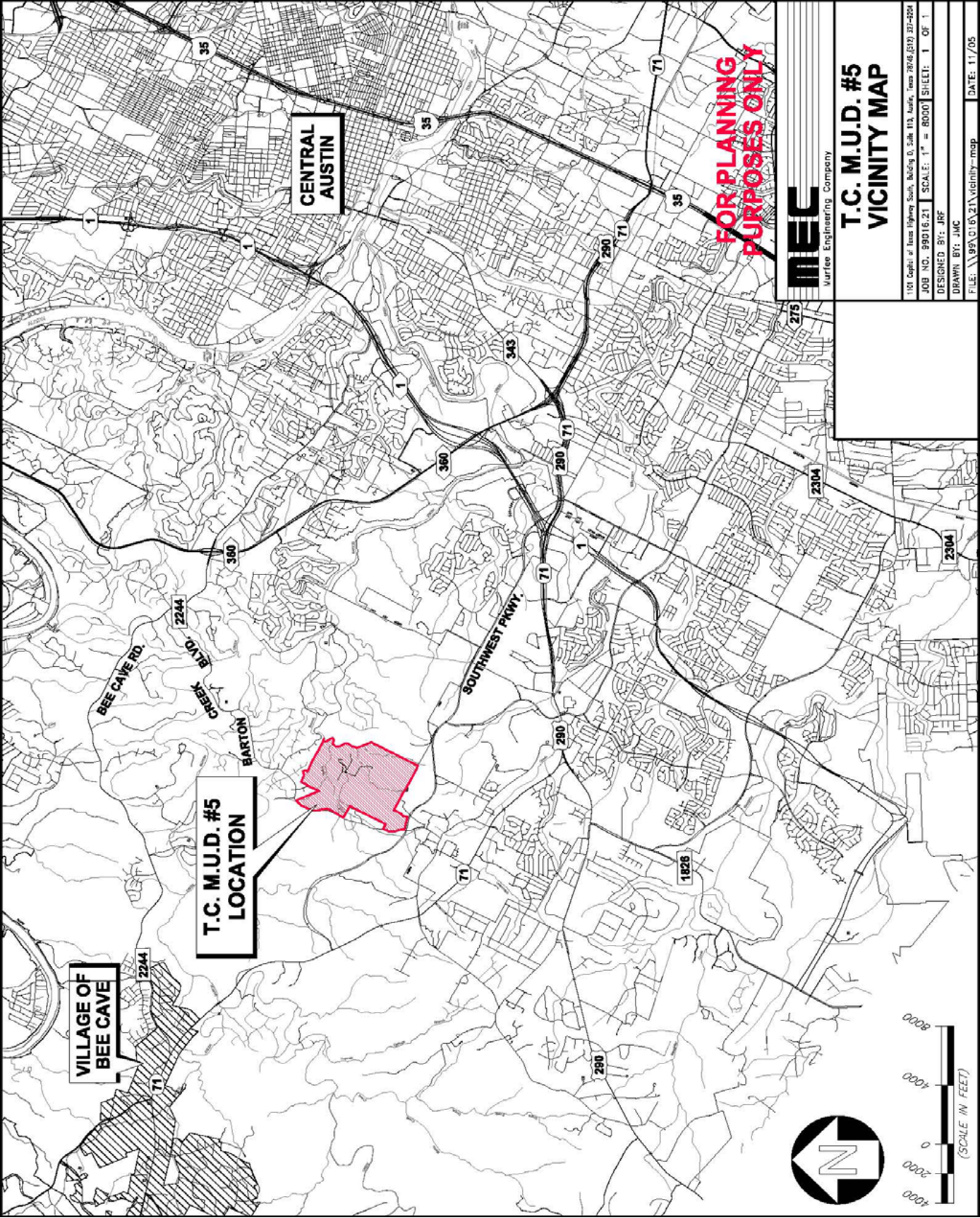
**Drought Conditions**

Central Texas, like other areas of the State, is susceptible to drought conditions. The District adopted a water conservation plan and currently has implemented water restrictions for residents of the District and the Participants. The LCRA provides water to the District in amounts sufficient to service the residents of the District and other Participants. However, if the District experiences drought conditions, water usage and rates could be impacted.

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LOCATION MAP



## THE BARTON CREEK DEVELOPMENT

The Barton Creek development encompasses approximately 4,157 acres located in western Travis County, Texas, including (i) approximately 3,520 acres located within the boundaries of the Participants, (ii) approximately 305 acres located within Travis County Water Control & Improvement District No. 19 ("WCID 19"), and (iii) approximately 332 acres located outside the boundaries of any municipal utility district, but located within the service area of the Barton Creek Water Supply Corporation (collectively, the "Barton Creek Development").

Development of the Barton Creek Development began in the mid-1980s when the then-developer initiated development within WCID 19, the service area of the Barton Creek Water Supply Corporation and what is now the boundaries of the Master District. Initial development within the Barton Creek Development included construction of the water supply and sewage treatment facilities serving the development, various single-family home lots and the Barton Creek Resort and Spa. Such development was halted shortly after initiation.

Between 1988 and 1990, Stratus Properties' predecessors-in interest acquired a significant portion of the Barton Creek Development, including existing unimproved lots, undeveloped land, the water supply and sewage treatment facilities and the Barton Creek Resort and Spa. Development within WCID 19 was reinstituted in 1990. Development within the Participants was reinstituted in 1996.

The Barton Creek Development is a master planned community currently designed to contain single family, multi-family, condominium, commercial, office, retail and recreational development and related uses. As of August 15, 2016 residential development within the Participants included 467 completed single family homes, 39 single family homes under construction, 112 developed single family vacant lots, 201 completed detached condominium patio homes, 6 detached condominium patio homes under construction, 25 developed detached condominium patio home vacant lots, one 250 unit apartment complex including a clubhouse, fitness center and pool area (called the Sendera at Barton Creek); one 236 unit apartment complex including a clubhouse, fitness center and pool area (called the Santal); additional development includes a senior living center, and commercial, retail and office development. Recreational amenities include the Barton Creek Resort and Spa located in Travis County Municipal Utility District No. 4, which consists of a country club, a conference center, a 303-room hotel, two 18-hole golf courses and related facilities. Additionally, a third 18-hole golf course is located within the boundaries of the District.

Development within Travis County Municipal Utility District No. 3 includes 806 acres of single-family residential subdivisions and a 250 unit multi-family complex known as the Sendera at Barton Creek apartment complex that includes a clubhouse, fitness center, and pool area on 24.53 acres. Vacant lots are being marketed to various custom homebuilders and individuals with housing products to exceed \$1,000,000 in purchase price. Additional development within Travis County Municipal Utility District No. 3 includes the Querencia senior living facility discussed below, a private school constructed on 31.35 acres, and approximately 11,000 square feet of retail space and 15,000 square feet of office space constructed on approximately 8 acres.

Within the District, 220 residential lots have been developed on 384.41 acres, including Calera Court, Calera Drive, Amarra Drive, Phase 1, Amarra Drive, Phase 2, Amarra Drive Phase 3A, Amarra Drive Phase 3B and Block G (Villas at Amarra). Vacant lots are being marketed to various custom homebuilders and individuals with housing products to exceed \$1,000,000 in purchase price. Additionally, an 18-hole golf course is located within the boundaries of the District, as well as a 21 acre commercial site.

Within Travis County Municipal Utility District No. 6, the Escala Subdivision has been developed as 65 residential lots on 264.62 acres. Lots are being sold to individuals and custom homebuilders. Residences in Escala range from 3,600 to over 30,000 square feet with a sale price ranging from \$1,600,000 to \$9,000,000.

Within Travis County Municipal Utility District No. 8, the Mirador Subdivision has been developed as 34 residential lots on 186 acres. Lots are being sold to individuals and custom homebuilders. Residences in Mirador range from 3,400 to 7,000 square feet with a sale price ranging from \$1,500,000 to \$7,000,000. Stratus Properties completed the extension of Tecoma Circle north of Southwest Parkway in 2015, which provides road and utility service to the first phase of Barton Creek Section N, located within Travis County Municipal Utility District No. 8. Stratus Properties has completed construction of a 236 unit multi-family project known as the Santal apartment complex in Barton Creek Section N on approximately 35 acres.

In September 2005, Barton Creek Senior Living Community, Inc. ("BCSLC"), a Texas nonprofit corporation, purchased approximately 38 acres from Stratus Properties to construct Querencia at Barton Creek ("Querencia"), a continuing care retirement community. Also in September 2005, the Travis County Health Facilities Development Corporation issued tax-exempt bonds in the amount of \$111,570,000 on behalf of BCSLC to construct and equip Querencia. Querencia opened in June 2007, is located within Travis County Municipal Utility District No. 3, and is managed by Senior Quality Lifestyles Corporation ("SQLC"), a Texas nonprofit corporation. According to SQLC, Querencia is comprised of 167 Independent Living apartments and villas, 40 Assisted Living suites, 23 Memory Support Assisted Living suites, and a nursing facility with 42 health center beds. Though located in Travis County Municipal Utility District No. 3, BCSLC applied for and received a charitable organization tax-exemption from the Travis Central Appraisal District, although there is a restrictive covenant that runs with the land that waives BCSLC's right to claim an exemption on such land with regard to

Travis County Municipal Utility District No. 3 until September 2035. The Master District and Travis County Municipal Utility District No. 3 are in the process of attempting to enforce such restrictive covenant.

For a description of the Barton Creek Resort and Country Club and the Owners Club at Barton Creek located within the Barton Creek Development see "BARTON CREEK RESORT, LLC" in this Official Statement.

In addition to the development occurring within the Participants, WCID 19 includes 227 homes and the service area of the Barton Creek Water Supply Corporation includes 212 homes.

### **BARTON CREEK RESORT, LLC.**

#### ***History***

In 1995, Barton Creek Resort & Clubs, Inc., a Texas corporation and a subsidiary of Club Corp USA, Inc., a Delaware corporation, which is a subsidiary of ClubCorp, Inc., a Delaware corporation (collectively referred to as "ClubCorp"), purchased the Barton Creek Resort and Spa from Stratus Properties.

On December 26, 2006, KSL Capital Partners, LLC ("KSL Capital Partners"), a Delaware limited liability company, acting through affiliated entities, purchased the stock of ClubCorp. In conjunction with such purchase, Barton Creek Resort & Clubs, Inc. deeded the Barton Creek Resort and Spa (recently rebranded as the Omni Barton Creek Resort and Spa) to Barton Creek Resort, LLC, a Delaware limited liability company ("Barton Creek Resort").

#### ***Purchase and Change of Management***

In June 2013, Omni Barton Creek Inc. ("Omni Barton Creek"), a Delaware corporation and a subsidiary of Omni Hotels Corp. ("Omni Hotels"), a Delaware corporation, purchased the stock of Barton Creek Resort. KSL BC Management Company LLC served as the manager of Barton Creek Resort and Spa from 2006 to May 2013, but with the acquisition by Omni Barton Creek, management of the Omni Barton Creek Resort and Spa is now provided by Omni Hotels. Omni Hotels owns, operates or manages approximately 50 hotels and resorts throughout the United States, Canada and Mexico. Omni Hotels and its subsidiaries currently employ more than 15,000 individuals.

According to Omni Hotels, the Omni Barton Creek Resort and Spa has been mortgaged to a lender to secure repayment of a loan that matures in the third quarter of 2020. The loan is secured by the assets of six hotel properties, including the Omni Barton Creek Resort and Spa.

#### ***General***

Omni Barton Creek Resort and Spa's main location is located at 8212 Barton Club Drive, Austin, Texas. From that location which is within the boundaries of Travis County Municipal Utility District No. 4, and located on approximately 492 acres, Omni Barton Creek Resort and Spa's property consists of: a 51,000 square foot clubhouse, several restaurants, a 43,750 square foot conference center (including 47 meeting rooms), a 312 room hotel, the Fazio Foothills 18-hole golf course, the Crenshaw 18-hole golf course, sports and tennis shops, 11 lighted tennis courts, three swimming pools, a fitness center and spa, jogging trails and a three-level parking garage. Omni Barton Creek Resort and Spa operates both as a private club open to members and their guests, and a resort hotel available to the public.

Omni Barton Creek Resort and Spa also includes two golf courses located outside the boundaries of Travis County Municipal Utility District No. 4, the Fazio Canyons golf course and the Lakeside Palmer golf course. The Fazio Canyons golf course is located within the boundaries of Travis County Municipal Utility District No. 5, and according to Barton Creek Resort representatives, is ultimately expected to include a clubhouse facility and a golf cart barn. The Lakeside Palmer golf course is located outside the boundaries of the Participant districts and has a complete clubhouse and country club facilities for members, members' guests and resort guests.

#### **The Owners Club at Barton Creek**

The Owners Club at Barton Creek, L.P., a Texas limited partnership, has developed the Owners Club at Barton Creek (the "Owners Club at Barton Creek"). The Owners Club at Barton Creek will include up to 36 separate 2,600 square foot units including three bedrooms and a one-car garage ("Club Homes") located within the boundaries of Travis County Municipal Utility District No. 4. As of August 15, 2016, 28 of the Club Homes were complete and no Club Homes were under construction. The purchase price and annual fees entitle the owner to 27 days lodging at a Club Home. Through a contractual arrangement, the Owners Club at Barton Creek hires Barton Creek Resort to provide certain services including concierge services to the Owners Club at Barton Creek.

## **THE MASTER DISTRICT**

### **General**

The District was created along with the other six Participants as conservation and reclamation districts, by an act of the 74<sup>th</sup> Legislature to provide water, wastewater and storm drainage, including water quality facilities to the acreage within the District and the Participants (the “Master District Facilities”). Pursuant to seven separate elections held within the boundaries of each Participant on November 7, 1995, each Participant approved the Master District Contract entitled “Contract for Financing and Operation of Regional Waste Collection, Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage Including Water Quality Facilities” which contract designates Travis County Municipal Utility District No. 4 as the “Master District” to serve as the regional provider of water, wastewater and storm drainage, including water quality facilities to serve the developable acreage within the Participants. The Master District Contract also authorizes the Master District to issue contract tax bonds to acquire, purchase, construct and maintain Master District Facilities to serve the Participants. The Master District also provides retail services to each Participant including retail billing and collecting. The Master District will own and operate the Master District Facilities. See “THE SYSTEM.”

### **Contract Tax Bonds**

The Master District Contract provides that all Participants shall pay a pro rata share of debt service on any Master District bonds, issued from time to time to acquire, construct, purchase and maintain Master District Facilities, based upon the Participants’ certified assessed valuation as a percentage of the total assessed valuation in all the Participants. The debt service requirements shall be calculated to include the charge and expenses of paying agents, registrars and trustees utilized in connection with the bonds, the principal, interest and redemption requirements of the bonds and all amounts required to establish and maintain funds required under the bond resolution or trust indenture relating to such bonds. Each Participant is obligated to pay its pro rata share of the annual debt service on such bonds from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount, revenues derived from the operation of each Participant’s internal water, wastewater and drainage systems or from any other legally available funds of each Participant. Each Participant’s pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a contract tax for the purpose of paying debt service on the bonds is the sole responsibility of each Participant.

The Master District has outstanding a total of \$66,270,000 aggregate principal amount of contract tax bonds issues as the following: \$5,000 Unlimited Contract Tax Bonds, Series 2009; \$5,435,000 Unlimited Contract Tax Bonds, Series 2010A; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2011; \$7,905,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$9,575,000 Unlimited Contract Tax Refunding Bonds, Series 2013; \$5,810,000 Unlimited Contract Tax Refunding Bonds, Series 2014; \$2,875,000 Unlimited Contract Tax Refunding Bonds, Series 2015; \$5,765,000 Unlimited Contract Tax Bonds, Series 2015A; \$9,465,000 Unlimited Contract Tax Refunding Bonds, Series 2016; and \$14,600,000 Unlimited Contract Tax Bonds, Series 2016A (collectively, the “Outstanding Contract Bonds”). Of such Outstanding Contract Bonds, \$11,126,805 (16.79%) represents the District’s pro rata share based on the 2016 Certified Assessed Valuation of the Service Area of \$1,219,395,907. The District’s contract tax levied for 2015 was \$0.3500 and the District expects to levy a 2016 contract tax rate of \$0.3500 in September 2016, which includes a pro rata share of debt service as well as a maintenance component related to the Master District Facilities.

## **OPERATION AND MAINTENANCE EXPENSES**

Pursuant to the Master District Contract each Participant is further obligated to pay monthly charges to the Master District for water, sewer and drainage, including water quality, services rendered pursuant to the Master District Contract (“Monthly Charge”). The Monthly Charges to be paid by each Participant to the Master District will be used to pay each Participant’s share of operation and maintenance expenses for Master District facilities and to provide for an operation and maintenance reserve equal to three months of operation and maintenance expenses for such facilities. Each Participant’s share of operation and maintenance expenses and reserve requirements is calculated by the Master District and expressed in terms of “cost per equivalent single-family residential connection.” Each Participant’s monthly payment to the Master District for operation and maintenance expenses will be calculated based upon usage by multiplying the number of equivalent single-family residential connections reserved to each Participant for such service on the first day of the previous month by the unit cost per equivalent single-family residential connection for such service. The estimated monthly cost per single family equivalent connection being charged by the Master District to a Participant for water, sewer and drainage, including water quality, services is presently \$109. Pursuant to the Master District Contract, the monthly charges are to be paid from the water, wastewater and drainage revenues collected from the internal facilities of each Participant or, to the extent such revenues are not sufficient, the levy of an ad valorem contract tax.

Pursuant to the Master District Contract each Participant is obligated to establish and maintain rates, fees and charges for services provided by each Participant’s water distribution system, wastewater collection system, and drainage system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay each Participant’s operation and maintenance expenses, and each Participant’s obligations pursuant to the Master District Contract, including each Participant’s pro rata share of the Master District’s debt service requirements, monthly charges and any expenses related to the retail operation, billing and collecting of the internal facilities by the Master District.

## ANNEXATION

The Master District and each of the other Participants, including the District, lie wholly within the extraterritorial jurisdiction of the City of Austin. Under State law generally a district may be annexed by the city in whose extraterritorial jurisdiction the district is located. However, the act which created the Master District and the other Participants provides that a municipality may annex a Participant only after the installation of ninety percent (90%) of all works, improvements, facilities, plants, equipment and appliances necessary and adequate to (1) provide service to the proposed development within the Participant's boundaries, (2) accomplish the purposes for which the Participant was created, and (3) exercise the powers provided by the general law of the State and the act; or the expiration of twenty (20) years from the date the district was confirmed, whichever occurs first.

Under State law, the City of Austin cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for a Participant to be annexed, and the City of Austin does annex, the City of Austin will assume the Participant's assets and obligations (including the Participant's pro rata share of the debt service on the Participant's Contract Tax Obligations) and dissolve the Participant. Annexation of territory by the City of Austin is a policy-making matter within the discretion of the Mayor and City Council of the City of Austin and therefore, the District makes no representation that the City of Austin will ever annex the District and assume its debt.

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This map of Travis County, Texas, provides a comprehensive overview of its geographical and administrative layout. Key features include:

- Municipalities and Communities:** Labeled areas include Austin, Round Rock, Leander, and various unincorporated communities like Bee Cave, Dripping Springs, and Spicewood.
- Water Features:** The map highlights several large bodies of water, including Lake Travis, Lake Johnson, Lake Buchanan, and Lake Kerr. It also shows numerous smaller lakes and reservoirs.
- Transportation:** Major roads and highways are depicted, including the M-244 (Loop 244) and the Southwest Freeway (Loop 1).
- Geographical Features:** The map shows the county's irregular shape, with various hills and valleys. It also indicates the location of the county seat, Austin.
- Administrative Divisions:** The map is divided into numerous smaller sections, likely representing different municipalities or planning districts.

The map is a detailed representation of Travis County, showing its diverse landscape and infrastructure.

## THE DISTRICT

### General

The District was created by an act of the 74<sup>th</sup> Regular Session of the Texas Legislature, dated June 16, 1995. Creation of the District was confirmed by the voters of the District at an election held on November 7, 1995. The District currently operates under Chapters 49 and 54 of the Texas Water Code and is subject to Article XVI, Section 59, of the Texas Constitution. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the “Commission” or “TECQ”). The District, a conservation and reclamation district, was created to provide water distribution, wastewater collection and drainage facilities for the orderly development of land within the District.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may 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 TCEQ. The District receives fire protection from Travis County Emergency Services District No. 3, which constructed a Fire Station located adjacent to the District. Therefore, the District has no plans to construct a fire department. The District is also empowered to operate and maintain recreational facilities.

### Management

#### *Board of Directors*

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Walt A. Collins	President	2018	21 Years
Matthew D. Moore	Vice President	2016	9 Years
Marshall Kuykendall, Jr.	Secretary	2016	11 Years
Craig Tekyl	Treasurer	2018	8 Years
Grant Foster	Assistant Secretary/Treasurer	2016	17 Years

#### Consultants

*Tax Assessor/Collector...* Land and improvements in the District are being appraised by the Travis Central Appraisal District (“TCAD”). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, currently serves the District in this capacity under contract.

*General Manager / Operator...* The District contracts with Crossroads Utility Services (“Crossroads”) to serve as Operator for the District. Crossroads serves in a similar capacity for 33 other special districts in the Austin metropolitan area.

*Bookkeeper...* Bott & Douthitt, P.L.L.C (“B&D”) is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 53 other special districts.

*Engineer...* The District's consulting engineer is Murfee Engineering Company (the “Engineer”). Such firm serves as consulting engineer to 20 other special districts.

*Financial Advisor...* Public Finance Group LLC serves as the District's financial advisor (the “Financial Advisor”). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

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

*General Counsel...* The District has engaged Armbrust & Brown, PLLC (“A&B”) as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

## Location

The District encompasses approximately 687 acres of land, of which approximately 660 acres are developable under current land development and water quality regulations, and is located in western Travis County. The District is situated approximately nine miles south-southwest of the City of Austin's central business district and is situated approximately three miles southwest of the intersection of RM 2244 and Capital of Texas Highway. The District is bordered on the south by Southwest Parkway, and the west by Barton Creek Boulevard. See "LOCATION MAP." All of the District lies within the boundaries of the Austin Independent School District and the extraterritorial jurisdiction of Austin. Access to the District is provided by Barton Creek Boulevard to Calera Drive.

## Current Status of Development

As of August 15, 2016, all of the approximately 660 developable acres within the District have been developed with utility facilities as the single family residential subdivisions of Calera Court, Calera Drive, and Amarra Drive, Phases 1, 2, 3A and 3B, encompassing a total of 66 completed single family homes, 21 single family homes under construction, 95 developed single family vacant lots, 16 completed detached condominium patio homes, 5 detached condominium patio homes under construction, and 17 developed detached condominium patio home vacant lots. Additionally, an 18-hole golf course is located within the boundaries of the District. Stratus Properties completed the construction of utility facilities to serve a 21 acre commercial site in March 2015. Additionally, Stratus Properties completed construction of utility facilities to serve Block G within the District in August 2015, developed as 20 detached condominium patio home lots on approximately 19.8 acres called the Villas at Amarra.

Homebuilders in the Service Area include various custom homebuilders who are building homes ranging in price from approximately \$600,000 to over \$9,000,000, with square footage ranging from approximately 2,400 to over 30,000.

The chart below reflects the status of development as of August 15, 2016:

Section	Net Acreage	Platted Lots			Completed Units			Under Construction		Vacant Lots	
		Other	Single Family	Detached Condo	Single Family	Detached Condo	Multi-Family	Single Family	Detached Condo	Single Family	Detached Condo
A. Developed with Utility Facilities											
Calera Court	15.34	-	-	16	-	16	-	-	-	-	-
Golf Course	255.06	- (a)	-	-	-	-	-	-	-	-	-
Calera Drive	71.02	-	53	-	41	-	-	6	-	6	-
Amarra Drive, Ph 1	40.15	-	6	2	3	-	-	1	-	2	2
Amarra Drive, Ph 2	89.44	-	35	-	8	-	-	7	-	20	-
Amarra Drive, Ph 3A	63.89	-	25	-	13	-	-	1	-	11	-
Amarra Drive, Ph 3B	84.77	-	63	-	1	-	-	6	-	56	-
Amarra Commercial	21.00	-	-	-	-	-	-	-	-	-	-
Villas at Amarra (Block G)	19.80	-	-	20	-	-	-	-	5	-	15
	660.47	-	182	38	66	16	-	21	5	95	17
B. Remaining Undeveloped but Developable Acreage											
N/A	-										
C. Undevelopable Acreage	26.33										
Total Acreage	686.80										

(a) Includes the Fazio Canyons Golf Course.

## Future Development

The District contains approximately 660 developable acres, all of which have been developed with utility facilities. After the issuance of the Bonds, the District will have fully reimbursed the Developer for the construction of water, sanitary sewer and drainage facilities to serve the District. The District has the right to issue the remaining \$5,480,000 unissued unlimited tax bonds authorized to acquire additional utility facilities See "THE BONDS - Issuance of Additional Debt." A developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in their sole discretion. Accordingly, the District makes no representation that future development will occur.



## THE DEVELOPER

### General

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

### Description of Developer

#### *Stratus Properties Operating Co. L.P.*

Portions of the original land located within the Participants were planned for development by a developer during the mid- 1980s. At that time, the developer initiated development within WCID 19 and the service area of BCWSC and constructed the water supply facilities, sewage treatment facilities and the Barton Creek Country Club. During the late 1980s most of the land and facilities were subsequently acquired by the developer's lender.

Between 1988 and 1990, Stratus Properties Operating Co., a Delaware general partnership (or its predecessors-in-interest) acquired virtually all of the undeveloped property located within the Participants, the Barton Creek Resort and Country Club, the undeveloped land located within WCID 19 and BCWSC, and an additional approximately 500 acres located in the vicinity of the existing development property and within the boundaries of the City of Austin.

On December 15, 1999 Stratus Properties Operating Co. (formerly named FM Properties Operating Co.) was converted to a limited partnership now named Stratus Properties Operating Co., L.P. ("Stratus Properties"), a Delaware limited partnership, having Stratus Investments L.L.C., a Delaware limited liability company ("Stratus Investments, L.L.C.") as its 99% limited partner and STRS L.L.C., a Delaware limited liability company, as its 1% general partner. Stratus Investments L.L.C. and STRS L.L.C. are each owned 100% by Stratus Properties Inc., a Delaware corporation. The stock of Stratus Properties Inc. is traded over the NASDAQ. Stratus Properties is currently active in land development in the Austin, Texas area.

Initial development activities of Stratus Properties included expansion of the country club facilities, construction of a second 18-hole golf course and the development of single-family home lots located within WCID 19.

Between 1990 and 1995, Stratus Properties halted development within the Barton Creek Development as a result of various ordinances adopted by the City of Austin which affected land development in the City of Austin's extraterritorial jurisdiction.

In 1995, the Texas Legislature enacted legislation creating the seven (7) municipal utility districts which currently encompass the Participants. Beginning in 1995, Stratus Properties sold five (5) separate tracts totaling approximately 197 acres within the Participants to other developers and sold the Barton Creek Resort and Country Club to Barton Creek Resort & Clubs, Inc. Such sales were part of Stratus Properties' plans to reduce its outstanding debt by selling, rather than developing, some of its property. As a result of these and other sales, Stratus Properties reduced its outstanding debt. According to representatives of Stratus Properties, its current development plan for its property located within the Participants includes installation of the Master District Facilities and either selling undeveloped tracts to developers who will provide for the final development of such property or completing development and selling developed tracts. Certain tracts are available for commercial improvement.

Stratus Properties generally finances its development and other activities through a credit facility with Comerica Bank – Texas. The credit facility includes a \$45,000,000 revolver and a \$7,500,000 letter of credit tranche. Stratus Properties currently has a letter of credit of \$2,337,551 outstanding against the letter of credit tranche, and has \$1,636,380 available under the revolver tranche.

In conjunction with its development activities within the Barton Creek Development, Stratus Properties has obtained a permit from the U.S. Department of the Interior U.S. Fish and Wildlife Service which, according to Stratus Properties, allows it to develop

approximately 4,684 acres for approximately 2,057 single family homes, 1,827 multi-family units, 400 villa residences and 4,600,000 square feet of commercial improvements pursuant to its current development plan. According to representatives of Stratus Properties, the inclusion of the Barton Creek salamander to the endangered species list along with the ineffectiveness of the Zone is not currently expected to significantly affect its development plans. See “INVESTMENT CONSIDERATIONS.”

Stratus Properties is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, in accordance therewith, files reports, proxy statements and other information with the United States Securities and Exchange Commission (the “SEC”). Such reports, proxy statements and other information is available online at [www.sec.gov](http://www.sec.gov).

Stratus Properties and other previous developers have developed various tracts of property within the Participants as single family, detached condominium/patio homes and/or commercial multi-family lots complete with utilities and street paving. The current developer is marketing lots to various custom homebuilders with the price range of homes being constructed within the Participants ranging from \$600,000 to over \$14,000,000.

Stratus Properties currently owns 13 developed single family lots, as well as 3 undeveloped detached condo lots and 1 developed detached condo lot (Block G), located within the District. Stratus Properties completed construction of all facilities to serve Amarra Drive, Phase 3B, which includes 63 single family lots and a 21 acre commercial site, in March 2015. Stratus Properties currently owns 53 lots in Amarra Drive, Phase 3B. Additionally, Stratus Properties completed construction of the utility facilities to serve Block G within the District in August 2015, developed as 20 detached patio home lots on 19.8 acres called the Villas at Amarra. As of August 15, 2016, five detached condos are under construction. Stratus Properties completed the extension of Tecoma Circle north of Southwest Parkway in April 2015. This project provides road and utility service to the first phase of Barton Creek Section N, located within Travis County Municipal Utility District No. 8. In addition to Tecoma Circle, Stratus Properties, through a whole owned affiliate, has completed construction of a 236 unit multi-family project known as the Santal apartment complex in Barton Creek Section N on approximately 35 acres, which includes a clubhouse and 11 apartment buildings.

#### ***Amarra Development LLC***

A previous developer within the District was Amarra Development LLC (“Amarra Development”). On December 28, 2011, Amarra Development purchased 15.46 acres from Stratus Properties and developed such acreage as Amarra Drive, Phase 3A (25 single family lots) within Travis County Municipal Utility District No. 5 in 2012.

Amarra Development is a Texas limited liability corporation which is managed by Roper Investment Corporation, a Texas corporation, and Doyle Wilson. According to Amarra Development, the acquisition and development costs related to Phase 3A was funded with cash and funds from Frontage Funding LLC, a Texas limited liability company owned by Mark Roper.

Amarra Development entered into an agreement with Canyon Homes, LLC, a Texas limited liability company, for the purchase of the lots as they are sold to buyers. Canyon Homes, LLC is constructing homes in ranging in size from 3,200 to 5,000 square feet and ranging in price from \$950,000 to \$1,600,000. As of June 1, 2016 residential development within Amarra Drive, Phase 3A included 13 completed single family homes, 1 single family home under construction and 11 developed single family vacant lots.

#### **Utility Construction Agreement**

The District has negotiated a Utility Construction Agreement with Stratus Properties, which agreement is designed to define the conditions under which the District will issue bonds to reimburse Stratus for the internal water, wastewater and drainage facilities within the District.

Under the terms of the current Utility Construction Agreement, the District has agreed to repay the cost of facilities through a series of bond sales over time. The District is not obligated to issue bonds in increments of less than \$1,000,000. The District’s obligation to issue bonds and to reimburse the Developer for funds advanced for facilities is subject to various conditions including approval of such facilities and bonds by the Commission and the Texas Attorney General, the recommendation by the District’s financial advisor that the sale of the bonds is feasible and prudent and at the time of issuance of such bonds the District would have a projected debt service tax rate, including such proposed bonds and any outstanding bonds, not to exceed \$0.95 per \$100 assessed valuation.

#### **Agricultural Waiver**

Stratus Properties has executed two agreements, which are recorded in the real property records of Travis County and such two agreements are a covenant running with the land, waiving the right to have their respective land located within the District and the other Participants classified as agricultural, open-space or timberland. In addition, such agreements waive the right of Stratus Properties to have its lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the Commission and are binding on purchasers of such land from Stratus. See “TAXING PROCEDURES - Property Subject to Taxation by the District.”

## **THE SYSTEM**

### **Regulation**

Construction and operation of the Master District Facilities as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the Master District, in its capacity as the Master District and in its capacity as a provider of internal utility services. Disposal of treated wastewater effluent into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory jurisdiction of Travis County.

### **Water Supply and Distribution**

According to the Master District's Engineer, the Master District Facilities related to water supply currently consist of an intake structure, various water lines running from the intake structure to the 4.0 and 2.0 million gallon per day ("gpd") water treatment plants, 1- 300,000 and 2 - 500,000 gallon ground storage tanks, two 500,000 gallon elevated storage tanks, a 5,000 gallon hydropneumatic tank, service pump capacity of 3,900 gallons per minute ("gpm") and various related appurtenances. The Master District purchases raw water from the Lower Colorado River Authority (the "LCRA") pursuant to a contract that runs through October 2021, treats such water and distributes it throughout the Participants. The existing 4.0 million gpd water treatment plant will allow the Master District to serve up to 2,136 living unit equivalents ("LUEs"). In addition to providing water supply service to customers located within the Participants, the Master District is committed to providing wholesale water service to WCID 19 for 227 LUEs and BCWSC for 212 LUEs.

The Master District, through Stratus Properties, completed the first phase of a second water treatment plant to provide service to the southern portions of the development area. This includes a portion of the Service Area presently supplied by the 4.0 million gpd plant thus reducing the area served by the 4.0 million gpd plant. The new second plant was made operational in January 2015. The first phase of the new water treatment plant can treat and deliver up to 2.0 million gallons of water per day. The additional 2.0 million gpd of capacity is sufficient to serve 1,068 LUEs and relieves a portion of the demands on the existing water treatment plant. This portion of the Service Area is provided water at a higher hydraulic grade and will operate independently under normal conditions from the 4.0 million gpd water treatment plant. The combined treatment capacities of the two plants (a total of 6.0 million gpd) are sufficient to serve up to 3,204 LUEs. The Master District will monitor the water needs and system demands of the development within its service area to assure that adequate treatment capacities are in place to meet the system demands. Based upon current development plans provided by the Developer, the existing municipal water supply contract with the LCRA should be sufficient to allow the Master District to meet the predicted demands at full development of the Service Area for the municipal (or potable) uses. The maximum annual quantity ("MAQ") is 3,463 acre-feet which is estimated to be sufficient to serve the ultimate projected development. The LCRA approved this new water supply contract on November 16, 2011. The Master District allocated 2,364.5 LUEs of water service (2,136 commercial/residential and 228.5 irrigation) to the Participants (including the Master District) and its two wholesale customers for the 4.0 mgd water plant. The Master District is currently serving approximately 1,850 LUEs on its water system. The difference between the allocated LUEs and the number served is reflective of the near term development plans for developing districts and the actual meter count for existing connections. The Master District is charged with the responsibility to assure that adequate supply and treatment capacity is physically available to meet the system's demands as the number of LUEs continues to increase within the Participants. See "MASTER DISTRICT FACILITIES - Allocated Capacity."

The Master District has emergency interconnects with the City of Austin, Travis County Water Control and Improvement District No. 20 and West Travis County Public Utility Agency. These interconnects are available to provide potable water to the Master District and the Participants in the event of an emergency.

### **Wastewater Collections and Treatment**

The Master District's current wastewater treatment facilities include: wastewater treatment facilities sufficient to treat a total of 600,000 gpd between its two different facilities, various wastewater conveyance lines, and effluent ponds. Effluent from the Master District's wastewater treatment plant is discharged into the effluent ponds and ultimately irrigated onto the golf courses located within the Participants. The Master District has been granted two wastewater treatment permits issued by the TCEQ. The original permit related to the existing wastewater treatment plant allows the Master District to treat up to 500,000 gallons per day ("gpd") of wastewater and allows the Master District to dispose of 720,000 gpd of wastewater effluent irrigated on golf courses. The additional volume for disposal was included in the original permit to accommodate the effluent received from Lost Creek MUD (located adjacent to the Master District) pursuant to an agreement between the Master District and Lost Creek MUD. The Master District's existing wastewater treatment plant operating under the original 500,000 gpd permit is capable of serving approximately 2,000 equivalent single family connections.

The Master District obtained a second wastewater treatment permit from the TCEQ allowing the Master District to treat an additional 600,000 gpd (at the final permitted phase) at a plant site situated in the southern portion of the development area. The Master District, through Stratus Properties, completed construction of the first phase of the south wastewater treatment facility in April of 2016. The first phase of construction included an 101 acre-foot effluent storage pond and a 100,000 gallon per day treatment plant. The treatment plant is a leased plant and is expected to begin operations in July of 2016 when the development generates sufficient flow to support the plant's operation. When the final phase is completed, the south wastewater treatment plant is expected to be capable of serving an additional 2,400 equivalent single family connections, which will give the Master District a combined wastewater treatment capacity sufficient to serve 4,400.

The Master District wastewater facilities include four effluent storage ponds with a combined effluent storage capacity of 267 acre feet. The Master District is currently serving approximately 1,580 wastewater equivalent single family connections. In addition to providing wastewater treatment to customers located within the Participants, the Master District also is committed to providing wholesale wastewater service to Travis County WCID No. 19 (172 LUEs) and 77 acres of land outside the boundaries of any district (26 LUEs).

### **Regional Water Quality Facilities**

In conjunction with the water quality protection plan adopted and effective within the Participants, the Master District operates eleven (11) water quality ponds. Water quality ponds capture certain runoff from development and trap sediment and petroleum products in the ponds. Thereafter, the sediment and petroleum products are removed from the ponds. The captured storm water is pumped from the ponds to irrigate the golf courses and other open areas within the Participants.

Additional water quality ponds will be constructed in conjunction with additional development within the Service Area. All water quality facilities are owned and operated by the Master District.

### **Regulation**

Construction and operation of the Master District Facilities as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The Commission exercises continuing, supervisory authority over the Master District, in its capacity as the Master District and in its capacity as a provider of internal utility services. Disposal of treated wastewater effluent into Texas waters, if any, is also subject to the regulatory authority of the Commission and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory jurisdiction of Travis County.

### **Internal Water Distribution, Wastewater Collection and Drainage Facilities**

Internal water distribution, wastewater collection and storm drainage facilities have been constructed or are being constructed by the Participants to serve development within their boundaries. In particular, such internal facilities have been constructed to serve a portion of Travis County MUD No. 3, MUD No. 4, a portion of the District, MUD No. 6, a portion of MUD No. 8 and plans are currently underway to serve additional development within their boundaries. See "PARTICIPANTS IN CURRENT SERVICE AREA" and "THE DEVELOPER."

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

According to the Engineer, the flood hazard boundary map currently in effect, published by the Federal Emergency Management Agency (dated September 26, 2008), which covers the land located in the Service Area, indicates that approximately 296 acres of land located in the Service Area (TCMUDs 3-9) are located within the 100-year flood plain.

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## Allocated Capacity

Each Participant has reserved capacity in the Master District Facilities and has the right to reserve additional capacity. The water supply and wastewater treatment capacity reserved to each Participant, expressed in equivalent single-family connections for fiscal year 2015 are shown on the following table.

PARTICIPANTS	Allocated Capacity (Equivalent Single Family Connections)			Active (Equivalent Single Family Connections)
	Water	Sewer	Irrigation	
Travis County Municipal Utility District No. 3	1,042	1,000	-	550
Travis County Municipal Utility District No. 4 <sup>(a)</sup>	1,047	625	152.5	78
Travis County Municipal Utility District No. 5	433	357	76.0	126
Travis County Municipal Utility District No. 6	65	54	-	67
Travis County Municipal Utility District No. 7	9	21	-	-
Travis County Municipal Utility District No. 8	446	446	-	32
Travis County Municipal Utility District No. 9	<u>2</u>	<u>2</u>	<u>-</u>	<u>2</u>
<b>Total</b>	<b>3,044</b>	<b>2,505</b>	<b>228.5</b>	<b>855</b>

(a) Includes Barton Creek Resort, WCID 19 (227 equivalent single family connections for water service and 172 equivalent single family connections for sewer service) and BCWSC (212 equivalent single family connections related to water service only).

## Water, Wastewater and Drainage Operations - Rate and Fee Schedule - Table 1

Pursuant to the Master District Contract, the Master District also provides retail water, wastewater and drainage services to the Participants. The current retail water and wastewater rates of the Master District are set forth below. The following rates became effective September 6, 2011 but are subject to change from time to time.

### Water (Monthly Billing)

Basic Charge (includes 2,000 gallons):

5/8" meter	\$ 20.00
3/4" meter	20.00
1" meter	27.50
1-1/2" meter	45.00
2" meter	67.50
3" meter	135.00
4" meter	225.00
6" meter	450.00
8" meter	675.00

Gallage Rate per 1,000:

0 – 2,000 gallons	Included in Base Fee
2,000 – 20,000	\$2.70
20,001 – 50,000	3.00
50,001 – 100,000	3.25
100,001 – 150,000	3.75
over 150,000	4.50

### Wastewater (Monthly Billing)

Basic Charge (includes 2,000 gallons):

5/8" meter	\$ 27.50
3/4" meter	27.50
1" meter	68.75
1-1/2" meter	137.50
2" meter	220.00
3" meter	440.00
4" meter	687.50
6" meter	1,375.00

Gallorage Rate per 1,000: \$2.21

Generally bills for wastewater service are computed on the basis of (i) the average amount of water used during the Winter Season based upon the average monthly readings for the preceding December, January and February or (ii) the current monthly water bill whichever is less.

**Water Quality (Monthly Billing)**

Basic Charge (per L.U.E.) \$18.00

**Tap Fees**

**Water**

<u>Meter Size</u>	<u>Tap Fee</u>
Up to 3/4"	\$ 1,500.00
1"	2,000.00
1-1/2"	5,500.00
2"	6,000.00
2-1/2"	7,500.00
3" or larger	Higher of \$8,000.00 or cost of meter & installation

**Wastewater**

<u>Meter Size</u>	<u>Tap Fee</u>
5/8" or 3/4"	\$ 1,500.00
larger than 3/4"	to be determined based upon installation cost plus 10%

*[The remainder of this page intentionally left blank]*

## Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. Also see "Appendix A – Audited Financial Statements."

	Fiscal Year Ended:					
	8/31/2016 <sup>(a)</sup>	9/30/2015 <sup>(b)</sup>	9/30/2014 <sup>(b)</sup>	9/30/2013 <sup>(b)</sup>	9/30/2012 <sup>(b)</sup>	9/30/2011 <sup>(b)</sup>
<b>REVENUES-</b>						
Property Tax, including penalties	\$ 162,092	\$ 199,628	\$ 66,350	\$ 71,515	\$ 83,356	\$ 92,163
Inspection/Review Fees	6,800	7,500	8,000	3,250	1,675	-
Interest and other	1,595	1,095	1,131	2,436	2,663	3,978
<b>TOTAL REVENUES</b>	<b>\$ 170,488</b>	<b>\$ 208,223</b>	<b>\$ 75,481</b>	<b>\$ 77,201</b>	<b>\$ 87,694</b>	<b>\$ 96,141</b>
<b>EXPENDITURES-</b>						
Operations/Management Fees	\$ 6,908	\$ 3,668	\$ 635	\$ 601	\$ 5,210	\$ 4,031
Inspection/Review Fees	5,500	6,888	5,599	2,290	1,050	-
Repairs/Maintenance	9,198	16,220	6,925	2,515	564	547
Director Fees, including payroll taxes	2,422	4,844	3,714	2,099	2,745	2,907
Legal Fees	16,917	23,060	16,472	10,220	14,260	12,718
Engineering Fees	2,781	6,215	10,812	16,119	12,919	2,187
Audit Fees	11,500	11,250	10,950	10,700	10,800	10,700
Financial Advisor Fees	359	549	239	272	320	244
Bookkeeping Fees	14,450	17,000	16,300	15,600	15,600	15,950
Tax Appraisal/Collection	698	1,225	368	391	458	465
Insurance	1,736	1,799	1,518	1,374	915	1,096
Other	4,051	1,596	4,195	943	641	1,102
Capital Outlay	-	-	237,553 <sup>(c)</sup>	-	-	-
<b>Total Expenditures</b>	<b>76,521</b>	<b>94,314</b>	<b>315,280</b>	<b>63,124</b>	<b>65,482</b>	<b>51,947</b>
<b>NET REVENUES</b>	<b>\$ 93,967</b>	<b>\$ 113,909</b>	<b>\$ (239,799)</b>	<b>\$ 14,077</b>	<b>\$ 22,212</b>	<b>\$ 44,194</b>
<b>General Fund Balance - Beg. of Yr.</b>	<b>\$ 461,698</b>	<b>\$ 403,389</b>	<b>\$ 643,188</b>	<b>\$ 576,766</b>	<b>\$ 554,554</b>	<b>\$ 510,360</b>
Plus / (Less) fund transfers	-	(55,600)	-	52,345	-	-
<b>General Fund Balance - End of Yr.</b>	<b>\$ 555,665</b>	<b>\$ 461,698</b>	<b>\$ 403,389</b>	<b>\$ 643,188</b>	<b>\$ 576,766</b>	<b>\$ 554,554</b>

(a) Unaudited as of August 31, 2016. Represents 11 months of the District's 2016 fiscal year.

(b) Audited.

(c) During fiscal year 2014, the District reimbursed the Developer for the water, wastewater and drainage facilities serving Amarra Drive, Phase 3A from funds in the General Operating Fund in the amount of \$237,553.

**DEBT SERVICE REQUIREMENTS – TABLE 3**

**Travis County Municipal Utility District No. 5**

**\$1,125,000**

**Unlimited Tax Bonds, Series 2016**

**Dated Date: October 20, 2016**

**First Interest Payment Due: March 1, 2017**

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Total	
	Principal Due (09/01)	Interest		Total	Principal (Due 9/01)	Interest		Principal and Interest	Debt Service Requirements	
		Due (03/01)	Due (09/01)			(Due 3/01)	(Due 9/01)			Total
2017	\$ 210,000	\$ 98,161	\$ 98,161	\$ 406,323	\$ 50,000	\$ 8,656	\$ 11,894	\$ 20,550	\$ 70,550	\$ 476,872
2018	215,000	95,600	95,600	406,200	50,000	11,394	11,394	22,788	72,788	478,988
2019	340,000	92,703	92,703	525,405	60,000	10,894	10,894	21,788	81,788	607,193
2020	355,000	87,969	87,969	530,938	65,000	10,294	10,294	20,588	85,588	616,525
2021	375,000	82,744	82,744	540,488	65,000	9,644	9,644	19,288	84,288	624,775
2022	390,000	76,699	76,699	543,398	70,000	8,994	8,994	17,988	87,988	631,385
2023	405,000	70,161	70,161	545,323	70,000	8,294	8,294	16,588	86,588	631,910
2024	420,000	63,130	63,130	546,260	75,000	7,594	7,594	15,188	90,188	636,448
2025	440,000	55,505	55,505	551,010	80,000	6,844	6,844	13,688	93,688	644,698
2026	455,000	47,505	47,505	550,010	80,000	6,044	6,044	12,088	92,088	642,098
2027	475,000	39,158	39,158	553,315	85,000	5,244	5,244	10,488	95,488	648,803
2028	495,000	30,458	30,458	555,915	90,000	4,341	4,341	8,681	98,681	654,596
2029	515,000	21,143	21,143	557,285	90,000	3,328	3,328	6,656	96,656	653,941
2030	540,000	10,895	10,895	561,790	95,000	2,316	2,316	4,631	99,631	661,421
2031	-	-	-	-	100,000	1,188	1,188	2,375	102,375	102,375
	<u>\$ 5,630,000</u>	<u>\$ 871,829</u>	<u>\$ 871,829</u>	<u>\$ 7,373,658</u>	<u>\$ 1,125,000</u>	<u>\$ 105,065</u>	<u>\$ 108,303</u>	<u>\$ 213,369</u>	<u>\$ 1,338,369</u>	<u>\$ 8,712,026</u>



**FINANCIAL STATEMENT**  
**(Unaudited)**

**Assessed Value – Table 4**

2016 Certified Assessed Valuation		\$204,737,889	(a)
Estimated Assessed Valuation as of August 15, 2016		\$214,043,948	(b)
Gross Debt Outstanding (after issuance of the Bonds)			
District Debt	\$ 6,755,000		(c)
Contract Debt	<u>11,126,805</u>		(d)
Total		\$ 17,881,805	
Ratio of Gross Debt to 2016 Certified Assessed Valuation		8.73%	
Ratio of Gross Debt to Estimated Assessed Valuation as of August 15, 2016		8.35%	
2016 Tax Rate <sup>(e)</sup>			
Debt Service	\$ 0.2275		
Maintenance	0.1200		
Contract	<u>0.3500</u>		
Total 2016 Tax Rate		<u>\$ 0.6975</u>	(e)
Debt Service Fund Balance (as of September 22, 2016)		\$ 97,274	(f)

Area of District: 686.8 acres  
Estimated Population as of July 1, 2016: 277<sup>(g)</sup>

- (a) Assessed valuation of the District as of January 1, 2016, as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation of the District as of August 15, 2016, as provided by TCAD, is included solely for purposes of illustration.
- (c) Includes the Bonds.
- (d) The District is party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase, and maintain certain facilities to provide regional water, wastewater and drainage, including water quality, services to all Participants. The Master District has outstanding a total of \$66,270,000 aggregate principal amount of contract tax bonds issues as the following: \$5,000 Unlimited Contract Tax Bonds, Series 2009; \$5,435,000 Unlimited Contract Tax Bonds, Series 2010A; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2011; \$7,905,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$9,575,000 Unlimited Contract Tax Refunding Bonds, Series 2013; \$5,810,000 Unlimited Contract Tax Refunding Bonds, Series 2014; \$2,875,000 Unlimited Contract Tax Refunding Bonds, Series 2015; \$5,765,000 Unlimited Contract Tax Bonds, Series 2015A; \$9,465,000 Unlimited Contract Tax Refunding Bonds, Series 2016; and \$14,600,000 Unlimited Contract Tax Bonds, Series 2016A (collectively, the "Outstanding Contract Bonds"). Of such Outstanding Contract Bonds, \$11,126,805 (16.79%) represents the District's pro rata share based on the 2016 Certified Assessed Valuation of the Service Area of \$1,219,395,907. See "THE MASTER DISTRICT – Contract Tax Bonds."
- (e) The District levied a 2016 total tax rate of \$0.6975 at the District's Board of Director's meeting in September 2016. See "TAXING PROCEDURES."
- (f) Unaudited as of September 22, 2016. Does not include approximately twenty-four months of capitalized interest (\$56,291) to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
- (g) Based upon 3.5 residents per completed and occupied single family home.

### Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
11/7/1995	Water, Sanitary Sewer & Drainage	\$ 13,250,000	\$ 7,770,000 <sup>(a)</sup>	\$ 5,480,000
11/7/1995	Refunding <sup>(b)</sup>	19,875,000	315,000	19,560,000
<b>Total</b>		<b>\$ 33,125,000</b>	<b>\$ 8,085,000</b>	<b>\$ 25,040,000</b>

(a) Includes the Bonds.

(b) The District also authorized the issuance of water, sewer and drainage refunding bonds in an amount not to exceed one and one-half times the principal amount of water, sewer and drainage bonds issued.

### Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
<b>A. New Money Bonds</b>				
05/01/06	Water, Sanitary Sewer & Drainage	2006	\$ 2,225,000	\$ 340,000
08/01/08	Water, Sanitary Sewer & Drainage	2008	2,500,000	-
06/01/15	Water, Sanitary Sewer & Drainage	2015	1,920,000	1,910,000
10/20/16	Water, Sanitary Sewer & Drainage	2016	1,125,000	1,125,000 <sup>(a)</sup>
	<b>Subtotal</b>		<b>\$ 7,770,000</b>	<b>\$ 3,375,000</b>
<b>B. Refunding Bonds</b>				
07/01/12	Refunding	2012	\$ 3,990,000	\$ 3,380,000
	<b>Subtotal</b>		<b>\$ 3,990,000</b>	<b>\$ 3,380,000</b>
	<b>Total</b>		<b>\$ 11,760,000</b>	<b>\$ 6,755,000</b>

(a) The Bonds.

### Cash and Investment Balances - Table 7<sup>(a)</sup>

General Fund	\$ 559,150
Debt Service Fund	97,274 <sup>(b)</sup>
Special Revenue Fund	9,598

(a) Unaudited as of September 22, 2016.

(b) Does not include approximately twenty-four months of capitalized interest (\$56,291) to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.

### Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)

(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund, groups methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and

procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

#### Current Investments - Table 8

The District, as of September 22, 2016, is primarily invested in Money Market Accounts, TexPool, and Certificates of Deposit. This investment portfolio is generally representative of the District's investment practices. GASB Statement No.3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of September 22, 2016	
Cash	\$ 28,035
Money Market	46,395
TexPool	621,144
Certificates of Deposit	245,000
<b>Total Investments</b>	<b>\$ 940,574</b>

#### Estimated Overlapping Debt Statement

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

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Travis County	\$ 707,826,497	8/31/2016	0.10%	729,004
Travis County ESD No. 3	2,585,000	8/31/2016	5.38%	139,155
Travis County Healthcare District	11,355,000	8/31/2016	0.10%	11,688
Austin Community College	304,153,659	8/31/2016	0.09%	271,032
Austin Independent School District	836,157,075	8/31/2016	0.17%	1,452,623
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 2,603,501</b>
The District <sup>(a)</sup>	\$ 17,881,805	10/20/2016	100.00%	\$ 17,881,805
<b>TOTAL ESTIMATED OVERLAPPING AND DIRECT DEBT</b>				<b>\$20,485,306</b>
<b>Ratio of Estimated Overlapping and Direct Debt to 2016 Certified Assessed Valuation</b>				<b>10.01%</b>
<b>Ratio of Estimated Overlapping and Direct Debt to Estimated Assessed Valuation as of August 15, 2016</b>				<b>9.57%</b>

(a) Includes the Bonds.

## Overlapping Taxes for 2015

Overlapping Entity	2015 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Travis County	Travis County
Travis County	\$0.416900	\$ 5,464
Travis County ESD No. 3	0.090000	1,180
Travis County Healthcare District	0.117781	1,544
Austin Community College	0.100500	1,317
Austin Independent School District	1.202000	15,753
The District <sup>(b)</sup>	0.742800	9,735
<b>Total</b>	<b><u>\$2.669981</u></b>	<b><u>\$ 34,992</u></b>

(a) Based upon the 2015 average taxable single-family home value of \$1,310,587 as provided by TCAD. The 2016 average taxable single-family home value is \$1,506,946, as provided by TCAD.

(b) The District levied a 2016 total tax rate of \$0.6975 at the District's Board of Director's meeting in September 2016.

## TAX DATA

### Classification of Assessed Valuation - Table 9

Type Property	2016 <sup>(a)</sup>		2015 <sup>(b)</sup>		2014 <sup>(b)</sup>	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 139,200,412	67.99%	\$ 106,851,913	74.99%	\$ 78,859,942	71.72%
Vacant Lot	15,161,427	7.41%	28,260,003	19.83%	20,556,724	18.69%
Non-Qualified Land	1,731,980	0.85%	1,633,527	1.15%	1,633,527	1.49%
Commercial Real Property	7,059,044	3.45%	6,055,911	4.25%	6,134,754	5.58%
Telephone Company	9,054	0.00%	7,157	0.01%	7,157	0.01%
Commercial Personal Property	336,375	0.16%	166,780	0.12%	163,178	0.15%
Residential Inventory	37,767,718	18.45%	3,114,060	2.19%	11,530,315	10.49%
Totally Exempt Property	2,053,993	1.00%	1,981,440	1.39%	1,988,918	1.81%
Less: Adjustments	<u>1,417,886</u>	<u>0.69%</u>	<u>(5,582,948)</u>	<u>-3.92%</u>	<u>(10,914,845)</u>	<u>-9.93%</u>
<b>Total</b>	<b><u>\$204,737,889</u></b>	<b><u>100.00%</u></b>	<b><u>\$142,487,843</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 109,959,670</u></b>	<b><u>100.00%</u></b>

(a) Provided by TCAD.

(b) Reflects classification of assessed valuation as supplied by the District's audited financial statements. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD.

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## Tax Collections - Table 10

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

Tax Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current Collections		Total Collections		Tax Year Ending
				Amount	Percent	Amount	Percent	
1996	\$ 6,160,057	\$ 0.9500	\$ 58,521	\$ 58,521	100.00%	\$ 58,521	100.00%	9/30/1997 <sup>(b)</sup>
1997	6,406,083	0.9500	60,858	60,858	100.00%	60,858	100.00%	9/30/1998 <sup>(b)</sup>
1998	5,683,565	0.9500	53,994	53,994	100.00%	53,994	100.00%	9/30/1999 <sup>(b)</sup>
1999	7,686,413	0.9089	69,862	69,861	100.00%	69,861	100.00%	9/30/2000 <sup>(b)</sup>
2000	9,363,479	0.9089	85,105	85,105	100.00%	85,105	100.00%	9/30/2001 <sup>(b)</sup>
2001	9,470,460	0.9089	86,077	86,077	100.00%	86,077	100.00%	9/30/2002 <sup>(b)</sup>
2002	9,492,353	0.9089	86,276	86,276	100.00%	86,276	100.00%	9/30/2003 <sup>(b)</sup>
2003	10,198,337	0.9089	92,693	92,693	100.00%	92,693	100.00%	9/30/2004 <sup>(b)</sup>
2004	11,898,224	0.9089	108,143	108,143	100.00%	108,143	100.00%	9/30/2005 <sup>(b)</sup>
2005	11,519,189	0.9089	104,698	104,855	100.15%	104,855	100.15%	9/30/2006 <sup>(b)</sup>
2006	21,299,786	0.9089	193,594	193,594	100.00%	193,594	100.00%	9/30/2007 <sup>(b)</sup>
2007	45,118,337	0.9089	410,081	408,489	99.61%	408,489	99.61%	9/30/2008 <sup>(b)</sup>
2008	74,896,751	0.9089	686,214	651,798	94.98%	653,390	95.22%	9/30/2009 <sup>(b)</sup>
2009	89,559,653	0.8571	767,616	736,001	95.88%	759,090	98.89%	9/30/2010 <sup>(b)</sup>
2010	82,539,960	0.8571	707,450	689,760	97.50%	727,224	102.80%	9/30/2011 <sup>(b)</sup>
2011	80,447,159	0.8571	689,512	682,346	98.96%	700,036	101.53%	9/30/2012 <sup>(b)</sup>
2012	77,869,737	0.8120	632,303	632,303	100.00%	639,469	101.13%	9/30/2013 <sup>(b)</sup>
2013	83,544,109	0.8120	678,377	678,377	100.00%	678,377	100.00%	9/30/2014 <sup>(b)</sup>
2014	109,959,670	0.7693	847,563	847,563	100.00%	847,563	100.00%	9/30/2015 <sup>(b)</sup>
2015	141,825,600	0.7428	1,053,481	1,050,629	99.73%	1,050,629	99.73%	9/30/2016 <sup>(c)</sup>
2016	204,737,889	0.6975	1,428,047	<i>In Process of Collection</i>				9/30/2017 <sup>(d)</sup>

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

(b) Audited.

(c) Unaudited. Reflects collections as of August 31, 2016.

(d) Taxes are due with no late penalty by January 31, 2017.

## District Tax Rates - Table 11

Tax Rate Distribution	2016	2015	2014	2013	2012	2011	2010
Debt Service	\$ 0.2275	\$ 0.2782	\$ 0.2379	\$ 0.3830	\$ 0.3719	\$ 0.4057	\$ 0.4054
Maintenance	0.1200	0.1146	0.1814	0.0790	0.0901	0.1014	0.1017
Contract	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500
<b>Total</b>	<b>\$ 0.6975</b>	<b>\$ 0.7428</b>	<b>\$ 0.7693</b>	<b>\$ 0.8120</b>	<b>\$ 0.8120</b>	<b>\$ 0.8571</b>	<b>\$ 0.8571</b>

## Tax Rate Limitation

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

## Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on November 7, 1995, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2016 maintenance and operation tax of \$0.1200/\$100 assessed valuation. See "THE DISTRICT – General."

## Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the Travis Central Appraisal District based on the 2016, 2015 and 2014 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Principal Taxpayers	Type Property	2016	2015	2014
Stratus Properties Operating Company LP	Acreage & Lots	\$ 37,214,572	\$ 18,660,318	\$ 18,862,694
Heyl Homes Inc.	Land & Improvements	6,188,765	2,442,010	(a)
Barton Creek Resort & Clubs Inc.	Country Club & Resort	3,912,305	3,849,423	3,920,972
Individual Homeowners	Land & Improvements	18,365,092	15,132,006	11,850,573
Amarra Development LLC	Land & Improvements	(a)	(a)	2,891,520
Giex Ltd.	Land & Improvements	(a)	(a)	1,854,000
		<b>\$ 65,680,734</b>	<b>\$ 40,083,757</b>	<b>\$ 39,379,759</b>
<b>Percent of Assessed Valuation</b>		<b>32.08%</b>	<b>28.26%</b>	<b>35.81%</b>

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2016 Certified Assessed Valuation and the Estimated Assessed Valuation as of August 15, 2016, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Maximum Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2017 through 2030).....	\$614,975
\$0.32 Tax Rate on 2016 Certified Assessed Valuation of \$204,737,889 @ 95% collections produces .....	\$622,403
\$0.31 Tax Rate on Estimated Assessed Valuation as of August 15, 2016 of \$214,043,948* @ 95% collections produces .....	\$630,359
Maximum Requirement on the Bonds and the Outstanding Bonds (2030).....	\$661,421
\$0.35 Tax Rate on 2016 Certified Assessed Valuation of \$204,737,889 @ 95% collections produces .....	\$680,753
\$0.33 Tax Rate on Estimated Assessed Valuation as of August 15, 2016 of \$214,043,948* @ 95% collections produces .....	\$671,028

\* Estimated Assessed Valuation as of August 15, 2016, as provided by TCAD, is included solely for purposes of illustration.

## Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/17 .....	\$476,872 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of September 22, 2016 .....	\$97,274 <sup>(b)</sup>
Capitalized Interest included in Bond proceeds .....	56,291 <sup>(c)</sup>
2016 Debt Service Tax Levy @ 95% collections produces.....	<u>442,490</u> <sup>(d)</sup>
Total Available for Debt Service .....	<u>\$596,055</u>

(a) Interest requirements on the Bonds begin March 1, 2017.

(b) Unaudited. Represents debt service fund balance after all 2016 debt service requirements have been paid.

(c) Represents approximately two years of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.

(d) The District levied a 2016 debt service tax rate of \$0.2275 at the District's Board of Director's meeting in September 2016.

## TAXING PROCEDURES

### Authority to Levy Taxes

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

### Property Tax Code and County Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis Central Appraisal District has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis Central Appraisal Review Board (the "Appraisal Review Board").

### Property Subject to Taxation by the District

**General:** Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by TCAD to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. Furthermore, subject to certain conditions, the Texas Constitution provides that the surviving spouse of a 100 percent disabled veteran will qualify for the ad valorem tax exemption on the same or subsequently qualified homestead for the same portion of the market value to which the disabled veteran's exemption would have applied, as if the exemption was in effect on the date the disabled veteran died.

Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

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



***Freeport Goods and Goods-in-Transit Exemption:*** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods and goods-in-transit are exempt from taxation by the District.

### **Valuation of Property for Taxation**

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

### **District and Taxpayer Remedies**

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

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

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

## **Rollback of Operation and Maintenance Tax Rate**

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

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

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2015". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## **LEGAL MATTERS**

### **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

#### **No-Litigation Certificate**

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

#### **No Material Adverse Change**

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

### **TAX MATTERS**

#### **Opinion**

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

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgement based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

## **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

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

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

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

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

## **Collateral Federal Income Tax Consequences**

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

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

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds,

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

### **State, Local and Foreign Taxes**

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

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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

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

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if completed by the required time. If audited financial statements are not available within twelve months after the District's fiscal year end, the District will provide unaudited financial statements within such twelve month period and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 of each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Notice of Certain Events**

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "– Annual Reports."

### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered owners may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District or the business of the Developer, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required

by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

During the past five years, the District has been in compliance with all material provisions of its continuing disclosure undertakings in accordance with the Rule.

## **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2014 as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## **OFFICIAL STATEMENT**

### **Preparation**

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT." The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" and "THE SYSTEM" – Murfee Engineering Company ("District Engineer"); "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" – Travis Central Appraisal District; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water and Wastewater Operations" - Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - McCall, Parkhurst & Horton L.L.P.

### **Consultants**

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

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

Auditor: The District's financial statements for fiscal year ending September 30, 2015 were audited by McCall, Gibson, Swedlund, Barfoot P.L.L.C., Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2015 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

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

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

customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

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

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in “CONTINUING DISCLOSURE OF INFORMATION” herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the “end of the underwriting period” which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the “end of the underwriting period” is the responsibility of the Initial Purchaser.

### **Annual Audits**

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

This Official Statement was approved by the Board of Directors of Travis County Municipal Utility District No. 5, as of the date shown on the first page hereof.

/s/ Walt A. Collins  
President, Board of Directors  
Travis County Municipal Utility District No. 5

/s/ Marshall Kuykendall, Jr.  
Secretary, Board of Directors  
Travis County Municipal Utility District No. 5



## PHOTOGRAPHS

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











**APPENDIX A**  
**Audited Financial Statements**

The information contained in this appendix has been excerpted from the audited financial statements of Travis County Municipal Utility District No. 5 for the fiscal year ended September 30, 2015. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
YEAR ENDED SEPTEMBER 30, 2015**

**FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5**

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# **ANNUAL FILING AFFIDAVIT**

# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS  
COUNTY OF TRAVIS

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **January 28, 2016**, its annual audit report for the fiscal period ended **September 30, 2015** and that copies of the annual audit report have been filed in the District's office, located at:

**100 Congress Ave., Suite 1300**  
**Austin, Texas 78701**  
(Address of District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_, \_\_\_\_\_ By: \_\_\_\_\_  
(Signature of District Representative)  
\_\_\_\_\_  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_,  
Notary Public in the State of Texas



# **INDEPENDENT AUDITOR'S REPORT**

# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

111 Congress Avenue  
Suite 400  
Austin, Texas 78701  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

Board of Directors  
Travis County Municipal  
Utility District No. 5  
Travis County, Texas

## **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities and each major fund of Travis County Municipal Utility District No. 5 (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Budgetary Comparison Schedule – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

January 28, 2016

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SEPTEMBER 30, 2015

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Travis County Municipal Utility District No. 5 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2015. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

#### FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the unassigned fund balance was \$461,698, an increase of \$58,309 from the previous fiscal year. General fund revenues increased from \$75,481 in the previous fiscal year to \$208,223 in the current fiscal year primarily due to an increase in property tax revenues generated as a result of an increase in the District's assessed valuation.
- *Special Revenue Fund:* Fund balance restricted for contracted Master District expenditures decreased from \$227,133 in the previous fiscal year to \$221,760 in the current fiscal year. The District incurred \$387,052 in contract charges to the Master District during the current fiscal year. Revenues increased from \$294,029 in the previous fiscal year to \$385,103 in the current fiscal year due to an increase in property tax revenues generated as a result of an increase in the District's assessed valuation.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$159,524 in the previous fiscal year to \$115,132 in the current fiscal year. Debt service fund revenues decreased from \$322,382 in the previous fiscal year to \$262,011 in the current fiscal year due to a decrease in the property tax rate allocated to the Debt Service Fund.
- *Capital Projects Fund:* Fund balance restricted for capital projects increased from a \$-0-balance in the previous fiscal year to \$274,635 in the current fiscal year. The District issued \$1,920,000 of Unlimited Tax Bonds to purchase \$1,447,633 of water, wastewater and drainage facilities and pay for \$197,685 of bond issuance costs.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$82,523. Net position decreased from a deficit balance of \$28,496 to a deficit balance of \$111,019.

#### OVERVIEW OF THE DISTRICT

The District is a political subdivision of the State of Texas created, along with six other conservation and reclamation districts, by an act of the 74<sup>th</sup> Regular Session of the Texas Legislature on June 16, 1995, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage, including water quality facilities, to the approximately 272 acres within its boundaries, all of which lies within Travis County, Texas and the Barton Creek Development which includes the approximately 3,520 acres located in Travis County Municipal Utility Districts No. 3, 4, 5, 6, 7, 8 and 9. The District, which encompasses approximately 272 acres of land, is located in western Travis County and lies approximately 8 miles west of the City of Austin's central business district and is situated approximately 2 miles southwest of the intersection of RM 2244 and Capital of Texas Highway. The District lies entirely within the extraterritorial jurisdiction of Austin, Texas. Travis County Municipal Utility District No. 4 serves as the Master District for all seven districts. The Master District operates and maintains all of the water, wastewater and drainage and including water quality, facilities for the seven districts by contract.

# **TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2015**

## **USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

# **TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** **MANAGEMENT'S DISCUSSION AND ANALYSIS** **SEPTEMBER 30, 2015**

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

### **Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

#### **Summary Statement of Net Position**

	Governmental Activities		Change Increase (Decrease)
	2015	2014	
Current and other assets	\$ 1,108,128	\$ 804,586	\$ 303,542
Capital assets	4,662,943	3,301,525	1,361,418
Total Assets	5,771,071	4,106,111	1,664,960
Current Liabilities	256,638	221,869	34,769
Long-term Liabilities	5,625,452	3,912,738	1,712,714
Total Liabilities	5,882,090	4,134,607	1,747,483
Net Investment in Capital Assets	(892,874)	(806,213)	(86,661)
Restricted	320,157	374,328	(54,171)
Unrestricted	461,698	403,389	58,309
Total Net Position	\$ (111,019)	\$ (28,496)	\$ (82,523)

The District's net position decreased from a deficit balance of \$28,496 in the previous fiscal year to a deficit balance of \$111,019 in the current fiscal year. Some of the District's assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$461,698.

# **TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** **MANAGEMENT'S DISCUSSION AND ANALYSIS** **SEPTEMBER 30, 2015**

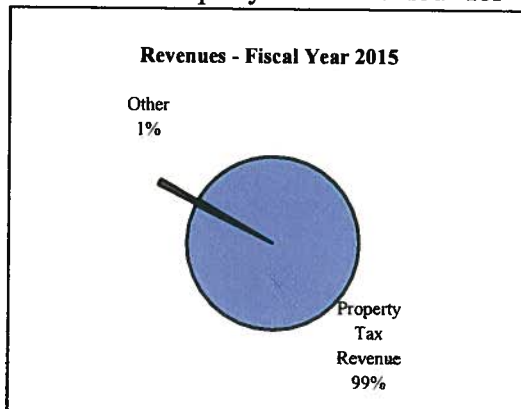
## **Revenues and Expenses:**

### **Summary Statement of Activities**

	Governmental Activities		Change Increase (Decrease)
	2015	2014	
Property Tax	\$ 846,244	\$ 681,978	\$ 164,266
Other	9,146	9,914	(768)
<b>Total Revenues</b>	<b>855,390</b>	<b>691,892</b>	<b>163,498</b>
Contracted Master District services	387,052	185,450	201,602
Repairs and maintenance	16,220	6,925	9,295
Legal and auditing	34,310	27,422	6,888
Other	50,136	49,013	1,123
Debt service	363,980	157,604	206,376
Depreciation	86,215	75,772	10,443
<b>Total Expenses</b>	<b>937,913</b>	<b>502,186</b>	<b>435,727</b>
<b>Change in Net Position</b>	<b>(82,523)</b>	<b>189,706</b>	<b>(272,229)</b>
<b>Beginning Net Position</b>	<b>(28,496)</b>	<b>(218,202)</b>	<b>189,706</b>
<b>Ending Net Position</b>	<b>\$ (111,019)</b>	<b>\$ (28,496)</b>	<b>\$ (82,523)</b>

Revenues were \$855,390 for the fiscal year ended September 30, 2015 while expenses were \$937,913. Net position decreased by \$82,523.

Property tax revenues in the current fiscal year totaled \$846,244. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2014 tax year (September 30, 2015 fiscal year)



were based upon a current assessed value of \$109,959,670 and a tax rate of \$0.7693 per \$100 of assessed valuation. Property taxes levied for the 2013 tax year (September 30, 2014 fiscal year) were based upon an adjusted assessed value of \$83,544,109 and a tax rate of \$0.812 per \$100 of assessed valuation. The District's primary revenue source is property taxes.



# **TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** **MANAGEMENT'S DISCUSSION AND ANALYSIS** **SEPTEMBER 30, 2015**

## **ANALYSIS OF GOVERNMENTAL FUNDS**

### Governmental Funds by Year

	2015	2014	2013	2012
Cash on deposit	\$ 24,743	\$ 28,661	\$ 22,077	\$ 29,539
Cash equivalents/investments	860,251	550,739	828,855	849,563
Receivables	226,079	230,003	204,778	796,908
Total Assets	<u>\$ 1,111,073</u>	<u>\$ 809,403</u>	<u>\$ 1,055,710</u>	<u>\$ 1,676,010</u>
Accounts payable	7,102	6,215	19,114	7,241
Interfund payable	2,945	4,817	84,113	172,121
Intergovernmental payable	27,801	8,325	2,554	62,298
Total Liabilities	<u>37,848</u>	<u>19,357</u>	<u>105,781</u>	<u>241,660</u>
Deferred outflows of resources	-	-	-	7,166
Restricted	611,527	386,657	306,741	850,418
Unassigned	461,698	403,389	643,188	576,766
Total Fund Balance	<u>1,073,225</u>	<u>790,046</u>	<u>949,929</u>	<u>1,427,184</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,111,073</u>	<u>\$ 809,403</u>	<u>\$ 1,055,710</u>	<u>\$ 1,676,010</u>

For the fiscal year ended September 30, 2015, the District's governmental funds reflect a combined fund balance of \$1,073,225.

This fund balance includes a \$58,309 increase in the General Fund.

The Special Revenue Fund reflects a decrease of \$5,373 in fiscal year 2015. The Special Revenue Fund incurred Contracted Master District charges of \$387,052.

The Debt Service Fund reflects a decrease of \$44,392 in fiscal year 2015. The Debt Service Fund remitted bond principal of \$200,000 and bond interest of \$158,375. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Projects Fund reflects an increase of \$274,635 in fiscal year 2015. The District issued \$1,920,000 of Unlimited Tax Bonds to purchase \$1,447,633 of water, wastewater and drainage infrastructure and pay for \$197,685 of bond issuance costs.

# **TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** **MANAGEMENT'S DISCUSSION AND ANALYSIS** **SEPTEMBER 30, 2015**

## **BUDGETARY HIGHLIGHTS**

The *General Fund* pays for daily operating costs. On September 23, 2014, the Board of Directors approved a budget including revenues of \$219,035 as compared to expenditures of \$96,810. When comparing actual to budget, the District had a negative variance of \$63,916. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

## **CAPITAL ASSETS**

The District's governmental activities show an investment of \$4,662,943 in infrastructure. The detail is reflected in the following schedule:

### Summary of Capital Assets, net

	9/30/2015	9/30/2014
Capital Assets:		
Land	\$ -	\$ -
Water/Wastewater/Drainage	5,275,807	3,828,174
Less: Accumulated Depreciation	(612,864)	(526,649)
Total Net Capital Assets	<u>\$ 4,662,943</u>	<u>\$ 3,301,525</u>

More detailed information about the District's capital assets is presented in the *Notes to the Financial Statements*.

## **LONG TERM DEBT**

The District has the following balances outstanding on unlimited tax bonds:

	Bonds Payable
Series 2006	\$ 340,000
Series 2012	3,580,000
Series 2015	1,915,000
Total	<u>\$ 5,835,000</u>

The District owes approximately \$5.8 million to bondholders. During the year, the District's principal balance was reduced by \$200,000. The ratio of the District's long term debt to the total 2014 taxable assessed valuation (\$109,959,670) is 5.3%. The District's estimated population, as provided by the District as of September 30, 2015, is 231. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The amount of assessed value of property within the District for the 2015 tax year (September 30, 2016 fiscal year) is approximately \$142 million and the tax rate levied was \$0.7428 per \$100 of assessed valuation. Approximately 15% of the property tax will fund general fund costs, approximately 47% will fund contracted Master District activity and approximately 38% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2016 projects a General Fund fund balance increase of \$59,255.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

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# **FINANCIAL STATEMENTS**



**TRAVIS COUNTY**  
**MUNICIPAL UTILITY DISTRICT NO. 5**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2015**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
<b><u>ASSETS</u></b>							
Cash and cash equivalents -							
Cash	\$ 24,743	\$ -	\$ -	\$ -	\$ 24,743	\$ -	\$ 24,743
Cash equivalents	225,486	147	114,123	275,495	615,251	-	615,251
Investments	245,000	-	-	-	245,000	-	245,000
Receivables-							
Interest	32	-	-	-	32	-	32
Interfund	1,936	-	1,009	-	2,945	(2,945)	-
Intergovernmental	-	223,102	-	-	223,102	-	223,102
Capital assets, net of accumulated depreciation -							
Water/Wastewater/Drainage System	-	-	-	-	-	4,662,943	4,662,943
<b>TOTAL ASSETS</b>	<b>\$ 497,197</b>	<b>\$ 223,249</b>	<b>\$ 115,132</b>	<b>\$ 275,495</b>	<b>\$ 1,111,073</b>	<b>4,659,998</b>	<b>5,771,071</b>
<b><u>LIABILITIES</u></b>							
Accounts payable	\$ 7,102	\$ -	\$ -	\$ -	\$ 7,102	-	7,102
Accrued interest payable	-	-	-	-	-	16,735	16,735
Interfund payables	596	1,489	-	860	2,945	(2,945)	-
Intergovernmental payables	27,801	-	-	-	27,801	-	27,801
Bonds payable -							
Due within one year	-	-	-	-	-	205,000	205,000
Due after one year	-	-	-	-	-	5,625,452	5,625,452
<b>TOTAL LIABILITIES</b>	<b>35,499</b>	<b>1,489</b>	<b>-</b>	<b>860</b>	<b>37,848</b>	<b>5,844,242</b>	<b>5,882,090</b>
<b><u>FUND BALANCES / NET POSITION</u></b>							
Fund balances:							
Restricted for Contracted Master District Services	-	221,760	-	-	221,760	(221,760)	-
Restricted for debt service	-	-	115,132	-	115,132	(115,132)	-
Restricted for capital projects	-	-	-	274,635	274,635	(274,635)	-
Unassigned	461,698	-	-	-	461,698	(461,698)	-
<b>TOTAL FUND BALANCES</b>	<b>461,698</b>	<b>221,760</b>	<b>115,132</b>	<b>274,635</b>	<b>1,073,225</b>	<b>(1,073,225)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 497,197</b>	<b>\$ 223,249</b>	<b>\$ 115,132</b>	<b>\$ 275,495</b>	<b>\$ 1,111,073</b>		
<b><u>NET POSITION:</u></b>							
Net investment in capital assets						(892,874)	(892,874)
Restricted for Contracted Master District services						221,760	221,760
Restricted for debt service						98,397	98,397
Unrestricted						461,698	461,698
<b>TOTAL NET POSITION</b>						<b>\$ (111,019)</b>	<b>\$ (111,019)</b>

The accompanying notes are an integral part of this statement

**TRAVIS COUNTY**  
**MUNICIPAL UTILITY DISTRICT NO. 5**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**SEPTEMBER 30, 2015**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
<b>REVENUES:</b>							
Property taxes, including penalties	\$ 199,628	\$ 385,031	\$ 261,585	\$ -	\$ 846,244	\$ -	\$ 846,244
Inspection/review fees	7,500	-	-	-	7,500	-	7,500
Interest	1,095	72	426	53	1,646	-	1,646
<b>TOTAL REVENUES</b>	<b>208,223</b>	<b>385,103</b>	<b>262,011</b>	<b>53</b>	<b>855,390</b>	<b>-</b>	<b>855,390</b>
<b>EXPENDITURES / EXPENSES:</b>							
Current:							
Contracted Master District services	-	387,052	-	-	387,052	-	387,052
Operations/Management fee	3,668	-	-	-	3,668	-	3,668
Inspection/review fees	6,888	-	-	-	6,888	-	6,888
Repairs/maintenance	16,220	-	-	-	16,220	-	16,220
Director fees, including payroll taxes	4,844	-	-	-	4,844	-	4,844
Legal fees	23,060	-	-	-	23,060	-	23,060
Engineering fees	6,215	-	-	-	6,215	-	6,215
Audit fees	11,250	-	-	-	11,250	-	11,250
Financial advisor fees	549	1,060	721	-	2,330	-	2,330
Bookkeeping fees	17,000	-	-	-	17,000	-	17,000
Tax appraisal/collection	1,225	2,364	1,607	-	5,196	-	5,196
Insurance	1,799	-	-	-	1,799	-	1,799
Miscellaneous	1,596	-	500	100	2,196	-	2,196
Debt Service:							
Bond principal	-	-	200,000	-	200,000	(200,000)	-
Bond interest	-	-	158,375	-	158,375	7,120	165,495
Fiscal agent fees and other	-	-	800	-	800	-	800
Bond issue costs	-	-	-	197,685	197,685	-	197,685
Capital outlay	-	-	-	1,447,633	1,447,633	(1,447,633)	-
Depreciation	-	-	-	-	-	86,215	86,215
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>94,314</b>	<b>390,476</b>	<b>362,003</b>	<b>1,645,418</b>	<b>2,492,211</b>	<b>(1,554,298)</b>	<b>937,913</b>
Excess (deficiency) of revenues over expenditures/expenses	113,909	(5,373)	(99,992)	(1,645,365)	(1,636,821)	1,554,298	(82,523)
<b>OTHER FINANCING SOURCES / (USES):</b>							
Proceeds from bond sale	-	-	-	1,920,000	1,920,000	(1,920,000)	-
Operating transfer	(55,600)	-	55,600	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(55,600)</b>	<b>-</b>	<b>55,600</b>	<b>1,920,000</b>	<b>1,920,000</b>	<b>(1,920,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>58,309</b>	<b>(5,373)</b>	<b>(44,392)</b>	<b>274,635</b>	<b>283,179</b>	<b>(283,179)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>						<b>(82,523)</b>	<b>(82,523)</b>
<b>FUND BALANCES / NET POSITION:</b>							
Beginning of the year	403,389	227,133	159,524	-	790,046	(818,542)	(28,496)
End of the year	\$ 461,698	\$ 221,760	\$ 115,132	\$ 274,635	\$ 1,073,225	\$ (1,184,244)	\$ (111,019)

The accompanying notes are an integral part of this statement.



# **NOTES TO THE FINANCIAL STATEMENTS**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board* (GASB), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created by an order of the Texas State Legislature under House Bill 1606, passed by the 74<sup>th</sup> Legislature, regular session, 1995, as signed by the Governor on June 16, 1995. The District operates under Chapters 49 and 54 of the Texas Water Code pursuant to Article 16, Section 59 of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB standards which are included in the District's reporting entity.

**Basis of Presentation - Government-wide and Fund Financial Statements** - These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position - This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

The financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition a budgetary comparison statement is presented that compares the adopted and amended General Fund budget with actual results.

- **Government-wide Statements:** The District's Statement of Net Position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District's capital assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:**

Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

**Governmental Fund Types** - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Special Revenue Fund** - The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the Travis County Municipal Utility District No. 4 Master District's specified purposes. The Master District's primary sources of revenues are water, wastewater and water quality service fees to end-users and contributions from participating districts, of which the District is one.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

***Governmental Fund Types (continued) –***

- **Debt Service Fund** - The Debt Service Fund is used to account for the resources restricted, committed or assigned for the payment of debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

***Non-current Governmental Assets and Liabilities*** - GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

***Basis of Accounting***

***Government-wide Statements*** - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

***Fund Financial Statements*** - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net current assets. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available).

"Measurable" means that the amount of the transaction can be determined and "available" means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

***Basis of Accounting (continued) –***

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred revenue. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

***Budgets and Budgetary Accounting*** - A budget was adopted on September 23, 2014, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the fiscal year.

***Pensions*** - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be "employees" for federal payroll tax purposes only.

***Cash and Cash Equivalents*** - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of common trust funds, money market funds, and obligations in the State Treasurer's Investment Pool, are recorded at cost, which approximates fair market value.

***Capital Assets*** - Capital assets, which include Administrative Facilities and Equipment, Common and Recreation Areas, Water Production/Distribution System, Wastewater Collection System, Water Quality Ponds and Organizational Costs are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. Interest incurred during construction of capital facilities is not capitalized.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Water/Wastewater/Drainage System	10 - 50

**Interfund Transactions** - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that 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.

**Long-Term Debt** - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Fund Balance** - Fund balances in governmental funds are classified using the following hierarchy:

- **Nonspendable:** amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted:** amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.
- **Committed:** amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.
- **Assigned:** amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes.
- **Unassigned:** all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Accounting Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows:

Fund Balances - Total Governmental Funds		\$	1,073,225
Deferred charges are not financial resources and therefore are not reported in the governmental funds -			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -			
Capital assets	5,275,807		
Less: Accumulated depreciation	(612,864)		4,662,943
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -			
Bonds payable	(5,835,000)		
Bond premium/discount, net	4,548		
Accrued interest	(16,735)		(5,847,187)
Net Position - Governmental Activities		\$	<u>(111,019)</u>

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

Net Change in Fund Balances - Governmental Funds		\$	283,179
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report -			
Interest expenditures in year paid	(7,120)		
Bond proceeds in year received	(1,920,000)		
Capital outlay in year paid	1,447,633		
Bond principal in year paid	200,000		(279,487)
Governmental funds do not report -			
Depreciation			<u>(86,215)</u>
Change in Net Position - Governmental Activities		\$	<u>(82,523)</u>



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**3. CASH AND INVESTMENTS**

The investment policies of the District are governed by State statute and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

**Cash** - At September 30, 2015, the carrying amount of the District's deposits was \$24,743 and the bank balance was \$26,066. The bank balance was fully covered by federal depository insurance.

**Investments** -

*Interest rate risk.* In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

*Credit risk.* The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; and
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**3. CASH AND INVESTMENTS (continued) –**

At September 30, 2015, the District held the following investments:

Investment	Fair Market Value at 9/30/2015	Governmental Fund				Investment Rating	
		General	Special Revenue	Debt Service	Capital Projects		
		Unrestricted	Restricted (1)	Restricted (2)	Restricted (3)	Rating	Rating Agency
Texpool	\$ 568,932	\$ 225,486	\$ 147	\$ 67,804	\$ 275,495	AAAm	Standard & Poors
Money Market	46,319	-	-	46,319	-	Various	Various
Certificates of Deposit	245,000	245,000	-	-	-	Various	Various
	<u>\$ 860,251</u>	<u>\$ 470,486</u>	<u>\$ 147</u>	<u>\$ 114,123</u>	<u>\$ 275,495</u>		

(1) Restricted for Payment of contractual Master District obligations.

(2) Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes.

(3) Restricted for Purchase of Capital Assets.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of the pool shares.

*Concentration of credit risk.* In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2015, the District did not own any investments in individual securities.

*Custodial credit risk-deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2015, the District's bank deposits were fully covered by FDIC insurance.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates for the 2014 tax year on September 23, 2014.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2014 tax roll. The tax rate, based on total taxable assessed valuation of \$109,959,670 was \$0.7693 on each \$100 valuation and was allocated as follows:

	<u><b>Tax Rate</b></u>
General Fund	\$ 0.1814
Special Revenue Fund	0.3500
Debt Service Fund	<u>0.2379</u>
	<u><u>\$ 0.7693</u></u>

The maximum allowable maintenance tax of \$1.00 was established by the voters on November 7, 1995.

Property taxes receivable were fully collected at September 30, 2015.

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**5. CONTRACT TAXES**

At an election held November 7, 1995, voters authorized a contract tax on all property within the District subject to taxation. During the year ended September 30, 2015, the District levied an ad valorem tax at the rate of \$0.3500 per \$100 of assessed valuation, which resulted in a tax levy of \$385,607 on taxable valuation of \$109,959,670 for the 2014 tax year. This contract tax was used to pay for its pro rata share of interest on Travis County Municipal Utility District No. 4's bonds as well as for operations and maintenance expenses and reserve requirements on Master District Facilities as described in Note 9.

**6. INTERFUND ACCOUNTS**

A summary of interfund accounts at September 30, 2015, is as follows:

	Interfund	
	Receivables	Payables
<b>General Fund -</b>		
Special Revenue Fund	\$ 1,076	\$ -
Debt Service Fund	-	596
Capital Projects Fund	860	-
<b>Special Revenue Fund -</b>		
General Fund	-	1,076
Debt Service Fund	-	413
<b>Debt Service Fund -</b>		
General Fund	596	-
Special Revenue Fund	413	-
<b>Capital Projects Fund -</b>		
General Fund	-	860
	<u>\$ 2,945</u>	<u>\$ 2,945</u>

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**7. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 10/1/2014	Additions	Deletions	Balance 9/30/2015
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Common & Recreation Areas	-	-	-	-
Water/Wastewater/Drainage System	3,828,174	1,447,633	-	5,275,807
Total capital assets being depreciated	3,828,174	1,447,633	-	5,275,807
Less accumulated depreciation for:				
Common & Recreation Areas	-	-	-	-
Water/Wastewater/Drainage System	(526,649)	(86,215)	-	(612,864)
Total accumulated depreciation	(526,649)	(86,215)	-	(612,864)
Total capital assets being depreciated, net of accumulated depreciation	3,301,525	1,361,418	-	4,662,943
Total capital assets, net	\$ 3,301,525	\$ 1,361,418	\$ -	\$ 4,662,943

**8. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2015:

	Combination Unlimited Tax Bonds
Bonds payable at October 1, 2014	\$ 4,115,000
Bonds issued	1,920,000
Bonds refunded	-
Bonds retired	(200,000)
Subtotal	5,835,000
Less: Bond premium/discount, net of amortization	(4,548)
Bonds payable at September 30, 2015	\$ 5,830,452

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**8. BONDED DEBT (continued) -**

Bonds payable at September 30, 2015, were comprised of the following individual issue:

**Unlimited Tax Bonds:**

\$340,000 - 2006 Unlimited Tax Bonds paid serially through the year 2030 at an interest rate of 4.75%. Bonds maturing on or after September 1, 2012 are redeemable on September 1, 2011 or on any date thereafter. Bonds maturing on September 1, 2030 are term bonds subject to mandatory sinking fund requirements.

\$1,915,000 - 2015 Unlimited Tax Bonds paid serially through the year 2030 at an interest rate of 2.00% - 3.25%. Bonds maturing on or after September 1, 2024 are redeemable on September 1, 2022 or on any date thereafter. Bonds maturing on September 1, 2020, 2024 and 2026 are term bonds subject to mandatory sinking fund requirements.

**Unlimited Tax Refunding Bonds:**

\$3,580,000 - 2012 Unlimited Tax Refunding Bonds paid serially through the year 2030 at interest rates which range from 2.20% to 4.20%. Bonds maturing on or after September 1, 2020 are redeemable on September 1, 2019 or on any date thereafter. Bonds maturing on September 1, 2025, 2027 and 2030 are term bonds subject to mandatory sinking fund requirements.

The unlimited contract tax bonds are secured by and payable from a first lien and pledge of ad valorem taxes of the District. The annual requirement to amortize all bonded debt at September 30, 2015, including interest, is as follows:

<b>Year Ended September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 205,000	\$ 200,824	\$ 405,824
2017	210,000	196,324	406,324
2018	215,000	191,201	406,201
2019	340,000	185,405	525,405
2020	355,000	175,939	530,939
2021 - 2025	2,030,000	696,484	2,726,484
2026 - 2030	2,480,000	298,320	2,778,320
	<u>\$ 5,835,000</u>	<u>\$ 1,944,497</u>	<u>\$ 7,779,497</u>

\$115,132 is available in the Debt Service Fund to service the bonded debt. Bonds authorized but not issued amounted to \$6,605,000 at September 30, 2015.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES**

On November 18, 1995, the District entered into a regional contract with Travis County Municipal Utility District No. 4 (the "Master District") whereby the Master District agreed to provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment, and disposal facilities necessary to serve the District and others.

***Master District Service Fees***

The Master District charges service fees that are based on an annual budget and provides for all Master District operation and maintenance expenses and a three-month operation and maintenance reserve. The Master District currently has two wholesale customers that pay service fees according to contracted agreements. Service fees charged to other participants are calculated using accounting estimates based upon actual flows and assigned living unit equivalents (LUE's). Revenues billed and collected by the Master District for each participant district are offset against allocated service fees. During the current fiscal year, the District received a credit of \$55,055 for its allocated portion of Master District operation and maintenance costs and reserve requirements. Additionally, the Master District assessed \$57,107 for capital reserve requirements to fund construction of certain projects in the next fiscal year.

***Master District Debt Service Expenditures***

The Master District is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Each participating district contributes to the payment of debt service requirements of the bonds based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. During the current fiscal year, the District was billed \$385,000 to satisfy the District's pro rata share of the principal and interest on the Master District's bonds.

The District's pro rata share of future Master District debt service payments will vary from year to year based on annual assessed valuations established by the Travis Central Appraisal District for all of the Districts. For the fiscal year ending September 30, 2016, the District's pro rata share is currently expected to approximate 12.9% of the total Master District debt service payments.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) -**

The debt service requirements on all Master District Unlimited Tax Contract Revenue and Refunding Bonds outstanding are as follows:

<b>Year Ended September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 1,530,000	\$ 1,951,289	\$ 3,481,289
2017	1,565,000	1,906,077	3,471,077
2018	1,635,000	1,862,164	3,497,164
2019	1,680,000	1,814,477	3,494,477
2020	1,760,000	1,763,202	3,523,202
2021 - 2025	8,730,000	8,015,132	16,745,132
2026 - 2030	12,455,000	6,357,370	18,812,370
2031 - 2035	13,560,000	4,082,530	17,642,530
2036 - 2039	10,475,000	1,012,313	11,487,313
	<u>\$ 53,390,000</u>	<u>\$ 28,764,554</u>	<u>\$ 82,154,554</u>

**10. COMMITMENTS AND CONTINGENCIES**

The developers of the land within the District have incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality, or from operations. On November 7, 1995, a bond election held within the District approved authorization to issue \$13,250,000 of bonds to fund costs of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District's engineer's report. As of September 30, 2015, the District has issued \$6,645,000 of Unlimited Tax Bonds to reimburse developers.



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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**11. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (TML Pool) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

**12. DEFICIT IN NET INVESTMENT IN CAPITAL ASSETS**

Net investment in capital assets had a deficit balance of \$892,874 at September 30, 2015. This is primarily attributable to capitalized interest, bond proceeds transferred to the General Fund and depreciation expense associated with the District's bond issues.

# **REQUIRED SUPPLEMENTARY INFORMATION**

**TRAVIS COUNTY**  
**MUNICIPAL UTILITY DISTRICT NO. 5**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**SEPTEMBER 30, 2015**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 199,628	\$ 211,435	\$ (11,807)
Inspection/review fees	7,500	6,400	1,100
Interest	1,095	1,200	(105)
<b>TOTAL REVENUES</b>	<u>208,223</u>	<u>219,035</u>	<u>(10,812)</u>
<b>EXPENDITURES:</b>			
Current:			
Operations/Management fee	3,668	1,200	(2,468)
Inspection/review fees	6,888	5,900	(988)
Repairs/maintenance	16,220	18,000	1,780
Director fees, including payroll taxes	4,844	4,860	16
Legal fees	23,060	18,000	(5,060)
Engineering fees	6,215	12,000	5,785
Audit fees	11,250	11,000	(250)
Financial advisor fees	549	600	51
Bookkeeping fees	17,000	16,650	(350)
Tax appraisal/collection	1,225	800	(425)
Insurance	1,799	1,200	(599)
Other	1,596	6,600	5,004
Capital outlay	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>94,314</u>	<u>96,810</u>	<u>2,496</u>
Excess / (deficiency) of revenues over expenditures	<u>113,909</u>	<u>122,225</u>	<u>(8,316)</u>
<b>OTHER FINANCING SOURCES / (USES):</b>			
Operating transfer	(55,600)	-	(55,600)
<b>TOTAL OTHER FINANCING SOURCES / (USES)</b>	<u>(55,600)</u>	<u>-</u>	<u>(55,600)</u>
<b>NET CHANGE IN FUND BALANCE</b>	58,309	<u>\$ 122,225</u>	<u>\$ (63,916)</u>
Beginning of the year	403,389		
End of the year	<u>\$ 461,698</u>		

*The accompanying notes are an integral part of this statement.*

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# **TEXAS SUPPLEMENTARY INFORMATION**

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**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2015**

**1. Services Provided by the District during the Fiscal Year:**

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater  | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation          |
| <input type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security            |
| <input type="checkbox"/> Solid Waste/Garbage   | <input type="checkbox"/> Flood Control        | <input type="checkbox"/> Roads               |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |  |
| <input type="checkbox"/> Other (specify): _____  |   |  |

**2. Retail Service Providers**

**a. Retail Rates Based on 5/8" Meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 20.00	2,000	N	\$ 2.70	2,001 to 20,000
				\$ 3.00	20,001 to 50,000
				\$ 3.25	50,001 to 100,000
				\$ 3.75	100,001 to 150,000
				\$ 4.50	150,001 to unlimited
WASTEWATER:	\$ 33.00	2,000	N	\$ 2.65	2,001 to Winter Average
SURCHARGE:	\$ -	-	-	\$ -	

District employs winter averaging for wastewater usage? Yes ☒ No ☐

Total charges per 10,000 gallons usage: Water \$ 41.60 Wastewater \$ 54.20

**b. Water and Wastewater Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	0.0	0.0	1.0	0.0
≤ 3/4"	62.0	61.0	1.0	61.0
1"	37.0	37.0	2.5	92.5
1 1/2"	1.0	1.0	5.0	5.0
2"	13.0	13.0	8.0	104.0
3"	2.0	2.0	15.0	30.0
4"	0.0	0.0	25.0	0.0
6"	2.0	2.0	50.0	100.0
8"	0.0	0.0	80.0	0.0
10"	0.0	0.0	115.0	0.0
Total Water	117.0	116.0		392.5
Total Wastewater	78.0	78.0	1.0	78.0

**3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):**

Gallons pumped into system: \_\_\_\_\_<sup>(1)</sup>

Gallons billed to customers: \_\_\_\_\_ 112,758

**Water Accountability Ratio**

(Gallons billed / Gallons Pumped)

N/A

**4. Standby Fees (authorized only under TWC Section 49.231):**

Does the District assess standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: \_\_\_\_\_

Does the District have Operation and Maintenance standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: \_\_\_\_\_

**5. Location of District**

County(ies) in which district is located: \_\_\_\_\_ Travis County

Is the District located entirely within one county? Yes ☒ No ☐

Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which district is located: \_\_\_\_\_ N/A

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which district is located: \_\_\_\_\_ Austin, Texas

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? \_\_\_\_\_

<sup>(1)</sup> District services provided by Travis County M.U.D. No. 4 (Master District).



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-2. GENERAL FUND EXPENDITURES  
SEPTEMBER 30, 2015**

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Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	11,250
Legal	23,060
Engineering	6,215
Financial Advisor	549
Purchased Services For Resale:	
Bulk Water and Wastewater Purchases	-
Contracted Services:	
Bookkeeping	17,000
General Manager	3,668
Appraisal District	920
Tax Collector	305
Other Contracted Services	-
Utilities	-
Repairs and Maintenance	16,220
Administrative Expenditures:	
Directors' Fees	4,844
Office Supplies	-
Insurance	1,799
Other Administrative Expenditures	1,596
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	-
Tap Connection Expenditures	6,888
Solid Waste Disposal	-
Fire Fighting	-
Parks and Recreation	-
Other Expenditures	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 94,314</b>

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Number of persons employed by the District:

☐ Full-Time      ☐ Part-Time

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-3. TEMPORARY INVESTMENTS  
SEPTEMBER 30, 2015**

<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable at End of Year</b>
<b>General Fund -</b>					
State Treasurer's Investment Pool	XXX0001	Varies	Daily	\$ 225,486	\$ -
Certificate of Deposit	XXX9882	0.4000%	3/18/2016	245,000	32
Total				470,486	32
<b>Special Revenue Fund</b>					
State Treasurer's Investment Pool	XXX0007	Varies	Daily	147	-
Total				147	-
<b>Debt Service Fund -</b>					
State Treasurer's Investment Pool	XXX0003	Varies	Daily	67,804	-
Money Market	XXX0671	Varies	Daily	46,319	-
Total				114,123	-
<b>Capital Projects Fund -</b>					
State Treasurer's Investment Pool	XXX009	Varies	Daily	275,495	-
Total				275,495	-
Total - All Funds				\$ 860,251	\$ 32

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-4. TAXES LEVIED AND RECEIVABLE  
SEPTEMBER 30, 2015**

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	
Taxes Receivable, Beginning of Year	\$ -	\$ -	\$ -	
2014 Original Tax Levy	199,467	384,859	261,594	
Less: Adjustments	387	748	508	
Total to be accounted for	199,854	385,607	262,102	
Tax collections:				
Current year	199,854	385,607	262,102	
Prior years	-	-	-	
Total collections	199,854	385,607	262,102	
Taxes Receivable, End of Year	\$ -	\$ -	\$ -	
Taxes Receivable, By Years				
2013	\$ -	\$ -	\$ -	
2014	-	-	-	
Taxes Receivable, End of Year	\$ -	\$ -	\$ -	
Property Valuations:	2014 (a)	2013 (a)	2012 (a)	2011 (a)
Land and improvements	\$ 109,959,670	\$ 83,544,109	\$ 77,869,737	\$ 80,447,159
Total Property Valuations	\$ 109,959,670	\$ 83,544,109	\$ 77,869,737	\$ 80,447,159
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.1814	\$ 0.0790	\$ 0.0901	\$ 0.1014
Contract tax rates	0.3500	0.3500	0.3500	0.3500
Debt service tax rates	0.2379	0.3830	0.3719	0.4057
Total Tax Rates per \$100 Valuation:	\$ 0.7693	\$ 0.8120	\$ 0.8120	\$ 0.8571
Original Tax Levy	\$ 847,563	\$ 678,377	\$ 632,302	\$ 689,512
Percent of Taxes Collected to Taxes Levied **	100.00%	100.00%	100.00%	100.00%
Maximum Maintenance Tax Rate Approved by Voters:	\$ 1.00	on 11/7/1995		

\*\*Calculated as taxes collected in current and previous years divided by tax levy.

(a) Valuations are provided by the appropriate Appraisal District as of November 3, 2015. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed in the District's bond offering documents or the District's annual bond disclosure filings.

**TRAVIS COUNTY**  
**MUNICIPAL UTILITY DISTRICT NO. 5**  
**TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**  
**SEPTEMBER 30, 2015**

Fiscal Year Ending	Unlimited Tax Bonds Series 2006			Unlimited Tax Refunding Bonds Series 2012			Unlimited Tax Bonds Series 2015			Total - All Issues		
	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total
2016	\$ -	\$ 16,150	\$ 16,150	\$ 200,000	\$ 127,898	\$ 327,898	\$ 5,000	\$ 56,776	\$ 61,776	\$ 205,000	\$ 200,824	\$ 405,824
2017	-	16,150	16,150	205,000	123,498	328,498	5,000	56,676	61,676	210,000	196,324	406,324
2018	-	16,150	16,150	210,000	118,475	328,475	5,000	56,576	61,576	215,000	191,201	406,201
2019	-	16,150	16,150	215,000	112,805	327,805	125,000	56,450	181,450	340,000	185,405	525,405
2020	-	16,150	16,150	225,000	106,463	331,463	130,000	53,326	183,326	355,000	175,939	530,939
2021	-	16,150	16,150	240,000	99,263	339,263	135,000	50,076	185,076	375,000	165,489	540,489
2022	-	16,150	16,150	250,000	91,223	341,223	140,000	46,026	186,026	390,000	153,399	543,399
2023	-	16,150	16,150	255,000	82,348	337,348	150,000	41,826	191,826	405,000	140,324	545,324
2024	-	16,150	16,150	265,000	72,785	337,785	155,000	37,326	192,326	420,000	126,261	546,261
2025	-	16,150	16,150	280,000	62,185	342,185	160,000	32,676	192,676	440,000	111,011	551,011
2026	-	16,150	16,150	290,000	50,985	340,985	165,000	27,876	192,876	455,000	95,011	550,011
2027	-	16,150	16,150	300,000	39,240	339,240	175,000	22,926	197,926	475,000	78,316	553,316
2028	-	16,150	16,150	315,000	27,090	342,090	180,000	17,676	197,676	495,000	60,916	555,916
2029	165,000	16,150	181,150	160,000	13,860	173,860	190,000	12,276	202,276	515,000	42,286	557,286
2030	175,000	8,313	183,313	170,000	7,140	177,140	195,000	6,338	201,338	540,000	21,791	561,791
	\$ 340,000	\$ 234,413	\$ 574,413	\$ 3,580,000	\$ 1,135,258	\$ 4,715,258	\$ 1,915,000	\$ 574,826	\$ 2,489,826	\$ 5,835,000	\$ 1,944,497	\$ 7,779,497

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
SEPTEMBER 30, 2015**

	<u>Bond Issue Series 2006</u>	<u>Bond Issue Series 2012</u>	<u>Bond Issue Series 2015</u>	<u>Total</u>
Interest Rate	4.75%	2.20% - 4.20%	2.00% - 3.25%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2030	9/1/2030	9/1/2030	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 340,000	\$ 3,775,000	\$ -	\$ 4,115,000
Bonds Sold During the Current Fiscal Year	-	-	1,920,000	1,920,000
Refunded During the Current Fiscal Year	-	-	-	-
Retirements During the Current Fiscal Year:				
Principal	-	(195,000)	(5,000)	(200,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 340,000</u>	<u>\$ 3,580,000</u>	<u>\$ 1,915,000</u>	<u>\$ 5,835,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 16,150</u>	<u>\$ 131,798</u>	<u>\$ 10,427</u>	<u>\$ 158,375</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	
Bond Authority:	<u>Tax Bonds *</u>	<u>Refunding Bonds</u>	<u>Other Bonds</u>	
Amount Authorized by Voters	\$ 13,250,000	\$ 19,875,000	\$ -	
Amount Issued	6,645,000	315,000	-	
Remaining To Be Issued	<u>\$ 6,605,000</u>	<u>\$ 19,560,000</u>	<u>\$ -</u>	

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2015: \$ 114,123

Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt: \$ 518,633

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**TRAVIS COUNTY**  
**MUNICIPAL UTILITY DISTRICT NO. 5**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS**  
**SEPTEMBER 30, 2015**

	Amounts				
	2015	2014	2013	2012	2011
<b>GENERAL FUND REVENUES -</b>					
Property taxes, including penalties	\$ 199,628	\$ 66,350	\$ 71,515	\$ 83,356	\$ 92,163
Inspection/review fees	7,500	8,000	3,250	1,675	-
Interest	1,095	1,131	2,436	2,663	3,978
Intergovernmental transfer	-	-	61,900	-	-
<b>TOTAL GENERAL FUND REVENUES</b>	<b>208,223</b>	<b>75,481</b>	<b>139,101</b>	<b>87,694</b>	<b>96,141</b>
<b>GENERAL FUND EXPENDITURES -</b>					
Current -					
Operations/Management fee	3,668	635	601	5,210	4,031
Inspection/review fees	6,888	5,599	2,290	1,050	-
Repairs/maintenance	16,220	6,925	2,515	564	547
Director fees, including payroll taxes	4,844	3,714	2,099	2,745	2,907
Legal fees	23,060	16,472	10,220	14,260	12,718
Engineering fees	6,215	10,812	16,119	12,919	2,187
Audit fees	11,250	10,950	10,700	10,800	10,700
Financial advisor fees	549	239	272	320	244
Bookkeeping fees	17,000	16,300	15,600	15,600	15,950
Tax appraisal/collection	1,225	368	391	458	465
Insurance	1,799	1,518	1,374	915	1,096
Tax publication notice	-	-	-	-	624
Operating transfer	55,600	-	9,555	-	-
Other	1,596	4,195	943	641	478
Capital outlay	-	237,553	-	-	-
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>149,914</b>	<b>315,280</b>	<b>72,679</b>	<b>65,482</b>	<b>51,947</b>
<b>EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES OVER EXPENDITURES</b>	<b>\$ 58,309</b>	<b>\$ (239,799)</b>	<b>\$ 66,422</b>	<b>\$ 22,212</b>	<b>\$ 44,194</b>
<b>DEBT SERVICE FUND REVENUES -</b>					
Property taxes, including penalties	\$ 261,585	\$ 321,672	\$ 295,058	\$ 333,469	\$ 348,009
Interest	426	710	842	871	1,859
Operating transfer	55,600	-	79,280	-	-
Bond proceeds, net	-	-	-	109,465	-
Bond premium	-	-	-	1,266	-
<b>TOTAL DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>317,611</b>	<b>322,382</b>	<b>375,180</b>	<b>445,071</b>	<b>349,868</b>
<b>DEBT SERVICE FUND EXPENDITURES -</b>					
Tax appraisal/collection	1,607	1,786	1,616	1,831	1,853
Financial advisor fees	721	1,158	1,124	1,280	974
Principal	200,000	190,000	180,000	210,000	130,000
Interest	158,375	154,212	161,515	145,679	231,912
Bond issuance costs	-	-	-	186,671	-
Fiscal agent fees and other	1,300	1,200	4,007	900	320
<b>TOTAL DEBT SERVICE FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>362,003</b>	<b>348,356</b>	<b>348,262</b>	<b>546,361</b>	<b>365,059</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES OVER EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ (44,392)</b>	<b>\$ (25,974)</b>	<b>\$ 26,918</b>	<b>\$ (101,290)</b>	<b>\$ (15,191)</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>116</b>	<b>84</b>	<b>71</b>	<b>66</b>	<b>59</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>78</b>	<b>60</b>	<b>53</b>	<b>47</b>	<b>45</b>

Percent of Fund Total Revenues				
2015	2014	2013	2012	2011
95.9%	87.9%	51.4%	95.1%	95.9%
3.6%	10.6%	2.3%	1.9%	-
0.5%	1.5%	1.8%	3.0%	4.1%
-	-	44.5%	-	-
100%	100%	100%	100%	100%
1.8%	0.8%	0.4%	5.9%	4.2%
3.3%	7.4%	1.6%	1.2%	-
7.8%	9.2%	1.8%	0.6%	0.6%
2.3%	4.9%	1.5%	3.1%	3.0%
11.1%	21.8%	7.4%	16.4%	13.2%
3.0%	14.3%	11.7%	14.8%	2.3%
5.4%	14.5%	7.7%	12.3%	11.1%
0.3%	0.3%	0.2%	0.4%	0.3%
8.2%	21.6%	11.2%	17.8%	16.6%
0.6%	0.5%	0.3%	0.5%	0.5%
0.8%	2.0%	1.0%	1.0%	1.1%
-	-	-	0.0%	0.6%
26.7%	-	6.9%	-	-
0.7%	5.6%	0.7%	0.7%	0.5%
-	314.7%	-	-	-
72.0%	417.6%	52.4%	74.7%	54.0%
28.0%	(317.6)%	47.6%	25.3%	46.0%
82.4%	99.8%	78.7%	74.9%	99.5%
0.1%	0.2%	0.2%	0.2%	0.5%
17.5%	-	21.1%	-	-
-	-	-	24.6%	-
-	-	-	0.3%	-
100%	100%	100%	100%	100%
0.5%	0.6%	0.4%	0.4%	0.5%
0.2%	0.4%	0.3%	0.3%	0.3%
63.0%	58.9%	47.9%	47.3%	37.2%
49.9%	47.8%	43.1%	32.7%	66.2%
-	-	0.0%	41.9%	-
0.4%	0.4%	1.1%	0.2%	0.1%
114.0%	108.1%	92.8%	122.8%	104.3%
(14.0)%	(8.1)%	7.2%	(22.8)%	(4.3)%



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2015**

<b>Complete District Mailing Address:</b>	<u>100 Congress Ave., Suite 1300, Austin, TX 78701</u>
<b>District Business Telephone Number:</b>	<u>(512) 435-2300</u>
<b>Submission Date of the most recent District Registration Form TWC Sections 36.054 &amp; 49.054):</b>	<u>December 31, 2014</u>
<b>Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)</b>	<u>\$7,200</u>

<u>Name and Address:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid * 9/30/14</u>	<u>Expense Reimbursements 9/30/14</u>	<u>Title at Year End</u>
<b>Board Members:</b>				
WALT A. COLLINS	(Elected) 11/4/2014 - 11/6/2018	\$ 750	\$ -	President
MATTHEW D. MOORE	(Elected) 11/6/2012 - 11/8/2016	\$ 900	\$ -	Vice-President
MARSHALL KUYKENDALL, JR.	(Elected) 11/6/2012 - 11/8/2016	\$ 1,050	\$ 87	Secretary
CRAIG TEYKL	(Elected) 11/4/2014 - 11/6/2018	\$ 1,050	\$ -	Treasurer
GRANT FOSTER	(Elected) 11/6/2012 - 11/8/2016	\$ 750	\$ -	Assistant Sec. / Treasurer
<b>Consultants:</b>				
Armbrust & Brown, PLLC	5/05/1997	\$ 22,317	\$ -	Attorney
		\$ 19,200	\$ -	Bond Related Services
Murfee Engineering Company, Inc.	1/21/1999	\$ 8,938	\$ -	Engineer
Bott & Douthitt, PLLC	7/1/2009	\$ 17,000	\$ 217	District Accountant
McCall Gibson Swedlund Barfoot PLLC	7/1/2008	\$ 12,000	\$ -	Auditor
		\$ 7,000	\$ -	Bond Related Services
Public Finance Group LLC	7/22/2014	\$ 2,330	\$ -	Financial Advisor
		\$ 53,260	\$ -	Bond Related Services
McCall Parkhurst & Horton, LLP	5/05/1997	\$ 28,530	\$ -	Bond Counsel
Travis County Tax Collector	11/27/1995	\$ 305	\$ -	Tax Collector

\* Fees of Office are the amounts actually paid to a director during the District's fiscal year.

## **OTHER SUPPLEMENTARY INFORMATION**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
OSI-1. PRINCIPAL TAXPAYERS  
SEPTEMBER 30, 2015**

Taxpayer	Type of Property	Tax Roll Year		
		2015	2014	2013
Stratus Properties Operating Company LP	N/A	\$ 18,660,318	\$ 18,862,694	\$ 15,291,346
Barton Creek Resort & Clubs Inc.	N/A	3,849,423	3,920,972	3,793,633
Heyl Homes Inc.	N/A	2,442,010	-	-
Homeowner	N/A	2,372,389	2,554,690	1,893,349
Homeowner	N/A	2,250,000	2,043,913	1,858,103
Homeowner	N/A	2,248,304	1,891,742	1,719,765
Homeowner	N/A	2,191,072	1,816,639	1,651,490
Homeowner	N/A	2,080,916	1,810,020	1,575,972
Homeowner	N/A	1,998,303	1,733,569	1,563,154
Homeowner	N/A	1,991,022	-	-
Amarra Development LLC	N/A	-	2,891,520	2,339,066
GIEX Ltd.	N/A	-	1,854,000	1,777,097
Patricia Nettleship Living Trust	N/A	-	-	-
<b>Total</b>		<b>\$ 40,083,757</b>	<b>\$ 39,379,759</b>	<b>\$ 33,462,975</b>
Percent of Assessed Valuation		<b>28.1%</b>	<b>35.8%</b>	<b>40.1%</b>

Source: Travis County Appraisal District

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**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 5  
OSI-2. ASSESSED VALUE BY CLASSIFICATION  
SEPTEMBER 30, 2015**

Type of Property	Tax Roll Year					
	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 106,851,913	75.0%	\$ 78,859,942	71.7%	\$ 52,598,346	63.0%
Vacant Lot	28,260,003	19.8%	20,556,724	18.7%	8,839,220	10.6%
Non-Qualified Land	1,633,527	1.1%	1,633,527	1.5%	6,450	-
Commercial Real Property	6,055,911	4.3%	6,134,754	5.6%	6,073,925	7.3%
Telephone Company	7,157	-	7,157	-	2,964	-
Commercial Personal Property	166,780	0.1%	163,178	0.2%	156,752	0.2%
Residential Inventory	3,114,060	2.1%	11,530,315	10.5%	16,524,384	19.8%
Totally Exempt Property	1,981,440	1.4%	1,988,918	1.8%	1,965,744	2.3%
Less: Adjustments	(5,582,948)	(3.8)%	(10,914,845)	(10.0)%	(2,623,676)	(3.2)%
Total Taxable	<u>\$ 142,487,843</u>	<u>100%</u>	<u>\$ 109,959,670</u>	<u>100%</u>	<u>\$ 83,544,109</u>	<u>100%</u>

Source: Travis County Appraisal District

## **APPENDIX B**

### **Form of Bond Counsel Opinion**

LAW OFFICES

**McCALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE: 214 754-9200  
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: 512 478-3805  
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: 210 225-2800  
FACSIMILE: 210 225-2984

*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.]*

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
UNLIMITED TAX BONDS, SERIES 2016  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,125,000**

**AS BOND COUNSEL FOR THE TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on September 22, 2016 authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from

contracts with other persons, including private corporations, municipalities, and political subdivisions.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations under section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

## **APPENDIX B**

### **Specimen Municipal Bond Insurance Policy**

# MUNICIPAL ASSURANCE CORP.

AN ASSURED GUARANTY COMPANY

## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

MUNICIPAL ASSURANCE CORP. ("MAC"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of MAC, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which MAC shall have received Notice of Nonpayment, MAC will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by MAC, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in MAC. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by MAC is incomplete, it shall be deemed not to have been received by MAC for purposes of the preceding sentence and MAC shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, MAC shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by MAC hereunder. Payment by MAC to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of MAC under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless MAC shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to MAC which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

MAC may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to MAC pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to MAC and shall not be deemed received until received by both and (b) all payments required to be made by MAC under this Policy may be made directly by MAC or by the Insurer's Fiscal Agent on behalf of MAC. The Insurer's Fiscal Agent is the agent of MAC only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of MAC to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, MAC agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to MAC to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of MAC, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, MUNICIPAL ASSURANCE CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

MUNICIPAL ASSURANCE CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Ltd.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100

Form 500NY (5/13) (MAC)