



Arizona Municipal Risk Retention Pool

February 8, 2007

Mr. Fred Carpenter
Town of Payson
303 North Beeline Highway
Payson, AZ 85541

Re" AMRRP Coverage

Dear Fred,

As discussed, normally an explanation of our "Pool" organization and reinsurance arrangements satisfies the concerns of lenders.

The Arizona Municipal Risk Retention Pool (AMRRP) was organized in 1987 to provide a specialized and much needed market for municipalities in Arizona. Southwest Risk Services, A Division of Berkley Risk Administrators Company, LLC, is the Program Administrator for AMRRP. AMRRP was set up by statute and is carefully monitored by the State of Arizona Department of Insurance.

AMRRP it is not rated by "Bests" because it operates as a "pool". Nevertheless, our financial results have been consistently positive, and we are recognized as an acceptable carrier by the State of Arizona and virtually all other Arizona governmental agencies that deal with municipalities. Please refer to our web site @ www.amrrp.org for additional information regarding our history and scope of operation. The 2005 Annual Report for AMRRP can also be viewed and obtained there.

In order to protect the members of the Pool, we write business with relatively small "net retentions" and utilize "A" rated carriers for reinsurance protection. Our net retention for Casualty business is \$600,000 per line, and a reinsurance limit of \$1,400,000 excess of our retention is provided by GENESIS (a division on GenRe). In addition to the \$2,000,000 primary limit (that does not have an aggregate) the Town of Payson has an \$8,000,000 excess policy which is provided solely by GENESIS.

I trust these comments and our web site will provide adequate information for the Bank of New York. They can contact me directly if they wish.

Sincerely,

Edward A. Bantel
Program Administrator

SOUTHWEST RISK SERVICES, ADMINISTRATOR

14902 North 73rd Street • Scottsdale, Arizona 85260 • 602.996.8810 • 602.996.9045

Equal Opportunity Employer
A BERKLEY COMPANY



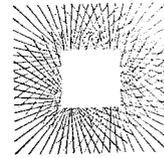
Securities Servicing

The Bank of New York
Trust Company, N.A.

700 South Flower Street
Suite 500
Los Angeles, CA 90017-4104

January 30, 2007

Mr. Glenn Smith
Town of Payson Arizona
303 North Beeline Highway
Payson, AZ 85541



The **BANK**
of **NEW YORK**

RE: Town of Payson, AZ Certificates of Participation, Series 2005

Dear Mr. Smith:

As Trustee for the above referenced issue we are responsible for making sure that the provisions of the governing documents are met.

Pursuant to Section 7.5 of the Lease Purchase Agreement, the Lessee is required to furnish an annual Certificate to the Trustee stating that the insurance in effect meets the requirements of Section 7.2 through 7.5 of the Lease Purchase Agreement.

One of the provisions of Section 7.5 of the Lease Purchase Agreement requires that the insurance providers be rated A or better by Standard & Poor's Rating Group or Moody's Investors Service. As your current insurance provider, the Arizona Municipal Risk Retention Pool is not rated, your insurance does not meet the requirements and is not in compliance with Section 7.5 of the Agreement.

This is to inform you that failure to meet the required insurance provisions per Section 7.5 of the Lease Purchase Agreement constitutes an Event of Default under Section 10.1 (c) of the Lease Purchase Agreement.

Would you please let me know what is being done to correct this and provide the required insurance certification within the next 30 days.

Should you have any questions, please give me a call at (213) 630-6488.

Sincerely:

Mary Lee
Assistant Vice President

RECEIVED

FEB 01 2007

TOWN OF PAYSON
FINANCE



Section 6.4. Sale, Substitution or Release of the Property. The Property and the Project may be sold, substituted, released, transferred, mortgaged or encumbered. Any substitution of real or personal property for any portion of the Property or the Project also shall be subject to the following conditions:

(a) An MAI fair market appraisal demonstrating that the value of the substituted property is at least equal to that portion of the Property or the Project released;

(b) A certificate signed by a Lessee Representative certifying that the useful life of the substituted property is equal to or greater than the remaining term of the Certificates and that the essential need of the substituted property to the Lessee is comparable to that of the Project;

(c) The substituted property is free from any prior liens and encumbrances;
and

(d) An opinion of counsel acceptable to the Trustee (and addressed to the Trustee) that the exemption from federal and state income taxation of the interest on the Outstanding Certificates will not be impaired by such sale, substitution or release.

(e) If applicable, title insurance pertaining to the substituted property as was required for the property being replaced.

Nothing contained herein shall prohibit the conveyance of any right-of-way or public utility easement without the requirement for any consent provided the value of the Leased Property is not reduced.

ARTICLE VII

TAXES, INSURANCE, ADVANCES AND LIENS

Section 7.1. Taxes and Assessments. The Lessee shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Lessor, the Trustee or to the Lessee affecting the Property and the Project, or the respective interests or estates therein, the Lease Payments, and the other payments due hereunder and on this Lease; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Lessee shall be obligated to pay only such installments as are required to be paid during the Term of this Lease as and when the same become due.

Section 7.2. Public Liability and Property Damage Insurance. The Lessee shall maintain or cause to be maintained, throughout the Term of this Lease, a standard comprehensive general insurance policy or policies in protection of the Lessee, the Lessor and the Trustee, their members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of the Property and the Project. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 combined single limit per occurrence for bodily injury and property damage. Such liability insurance may be maintained as part of or in conjunction



with any other liability insurance coverage carried or required to be carried by the Lessee. The net proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the net proceeds of such insurance shall have been paid.

Section 7.3. Fire and Extended Coverage Insurance. The Lessee shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Lease, insurance against loss or damage to any structures constituting any part of the Project by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount not less than the greater of the full replacement value of the Project or the principal amount of the Certificates then outstanding without deduction for depreciation, and subject to a maximum deductible per loss not to exceed \$5,000. The Lessee shall provide for the Lessor and the Trustee to be additional insureds as their interest may appear. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee. The Net Proceeds of such insurance shall be applied as provided in Section 8.1 hereof.

Section 7.4. Equipment Insurance. The Lessee shall insure any equipment comprising a portion of the Project against physical loss or damage, however caused, with such exceptions only as are ordinarily required by insurers of equipment of a similar type, in an amount equal to the full replacement cost of such equipment. Such insurance shall name the Lessee, the Lessor and the Trustee as insureds, as their interest may appear, and shall be in the amounts and issued by such companies as shall be determined by the Lessee. Such insurance may be maintained as part of or in conjunction with other insurance carried or required to be carried by the Lessee. The Net Proceeds of such insurance shall be applied as provided in Section 8.1 hereof.

Section 7.5. Requirements for All Insurance. All insurance policies required by this Article VII shall be taken out and maintained with responsible insurance companies organized under the laws of one of the states of the United States of America and qualified to do business in the State, shall be rated A or better by Standard & Poor's Ratings Group, a division of The McGraw-Hill Company, Inc. or Moody's Investors Service, shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to the Lessee, the Lessor and the Trustee at least ten (10) days before the cancellation or revision becomes effective, and shall name the Lessee, the Lessor and the Trustee as insured parties. The Lessee shall deposit with the Trustee policies evidencing any such insurance procured by it, or a certificate or certificates of the respective insurers stating that such insurance is in force and effect, at or prior to the acceptance of each item of the Project. Before the expiration of any such policy, the Lessee shall furnish to the Lessor and the Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article VII, unless such insurance is no longer obtainable, in which event, the Lessee shall notify the Lessor and the Trustee of that fact. The Lessee shall furnish an annual Certificate to the Trustee stating that the insurance in effect meets the requirements of Section 7.2 through 7.5 of the Lease-Purchase Agreement.

Section 7.6. Advances. If the Lessee shall fail to perform any of its obligations under this Article VII, the Lessor or the Trustee may, but shall not be obligated to, take such