

RESOLUTION NO. 2180

RESOLUTION RELATING TO FINANCE; AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF NOT TO EXCEED \$1,250,000 AGGREGATE PRINCIPAL AMOUNT OF TOWN OF PAYSON, ARIZONA, GENERAL OBLIGATION REFUNDING BONDS, SERIES 2006; DELEGATING THE AUTHORITY TO APPROVE CERTAIN MATTERS WITH RESPECT TO THE BONDS AND THE BOND BEING REFUNDED; PROVIDING FOR THE ANNUAL LEVY OF A TAX FOR THE PAYMENT OF THE BONDS; AUTHORIZING THE APPOINTMENT OF A REGISTRAR, TRANSFER AGENT AND PAYING AGENT AND A DEPOSITORY TRUSTEE; APPROVING THE FORM OF CERTAIN DOCUMENTS AND AUTHORIZING COMPLETION, EXECUTION AND DELIVERY THEREOF; DELEGATING THE AUTHORITY TO APPROVE AND DEEM FINAL A FORM OF OFFICIAL STATEMENT; RATIFYING ALL ACTIONS TAKEN AND TO BE TAKEN WITH RESPECT TO THE BONDS IN FURTHERANCE OF THIS RESOLUTION; AND DECLARING AN EMERGENCY.

WHEREAS, the Town of Payson, Arizona (the "*Town*") has issued \$2,490,000 "Town of Payson General Obligation Permanent Bond" dated April 1, 1996 (the "*Bond Being Refunded*"); and

WHEREAS, the Bond Being Refunded was issued as a single bond payable in installments; and

WHEREAS, the following installments of the Permanent Bond remain outstanding:

<u>Maturity Date</u>	<u>Principal Amount</u>
July 1, 2007	\$ 175,000
July 1, 2008	185,000
July 1, 2009	195,000
July 1, 2010	205,000
July 1, 2011	215,000
July 1, 2012	230,000

WHEREAS, the Bond Being Refunded was purchased by the United States of America, acting through the Farmers Home Administration, which reserved the right to have the Bond Being Refunded repurchased by the Town if the United States determined that the Town could sell refunding bonds to private entities (herein referred to as "*Graduation*"); and

WHEREAS, the United States of America has determined that the town now qualifies for Graduation; and

WHEREAS, the Town will sell the Bonds herein authorized to refund and pay off the Bond Being Refunded; and

WHEREAS, the Mayor and Council of the Town find that the issuance of not to exceed \$1,250,000 principal amount of General Obligation Refunding Bonds (the "*Bonds*") for the purpose of refunding the Bond Being Refunded is necessary and advisable and is in the best interests of the Town to lower the debt service payments due on its general obligation debt and consequently lower the tax rate required to pay such debt; and

WHEREAS, the Mayor and Council will receive a proposal for the purchase of the Bonds from Stone & Youngberg LLC., which will serve as senior managing underwriter, and another underwriter or underwriters, as selected by the Treasurer (collectively, the "*Underwriter*") in the form of bond purchase agreement now on file with the Town (the "*Purchase Agreement*") and the Town desires that the Bonds be sold through negotiation to the Underwriter on such terms as may hereafter be approved by the Treasurer and agreed to by the Underwriter; and

WHEREAS, by this resolution the Mayor and Council will approve a form of Purchase Agreement now on file and order the Purchase Agreement to be completed with the final terms of the Bonds and entered into between the Town and the Underwriter when the final terms have been determined for the sale of the Bonds; and

WHEREAS, by this resolution the Mayor and Council will authorize the execution, issuance and sale of the Bonds to the Underwriter in accordance with the Purchase Agreement and at such prices, interest rates, maturities and redemption features as may be hereafter determined by the Treasurer, with the advice of the Pricing Agent, and agreed to by the Underwriter; and

WHEREAS, all acts, conditions and things required by the constitution and laws of the State of Arizona to happen, exist and be performed precedent to and in the enactment of this resolution have happened, exist and have been performed as so required in order to make this resolution a valid and binding instrument for the security of the Bonds authorized herein;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF TOWN OF PAYSON, ARIZONA, as follows:

Section 1. Authorization. For purposes of providing funds to refund all or a portion of the Bond Being Refunded, Town of Payson, Arizona, General Obligation Refunding Bonds, Series 2006, in an aggregate principal amount of not to exceed \$1,250,000 (the "*Bonds*") are hereby authorized to be issued and sold in accordance with the provisions of this resolution and delivered against payment therefor by the Underwriter. The designation of the Bonds may change if the Bonds are not sold in calendar year 200_. The Bonds will be issued to provide funds to refund all or a portion of the Bond Being Refunded and to pay the costs of issuance of the Bonds. The Mayor and Council find and determine that it is expedient, necessary and advisable for the Town to restructure a portion of its outstanding bonded debt to lower the aggregate tax burden for the Town's taxpayers. It is estimated that the present value of the debt service savings that will occur, net of all costs associated with the Bonds, shall be not less than __% of the principal amount of the Bond Being Refunded.

Section 2. Terms.

A. **Bonds.** The Bonds will be dated such date as set forth in the Purchase Agreement, will mature on July 1 in some or all of the years 2007 through 2016, inclusive, and will bear interest from their date to the maturity or earlier redemption date of each of the Bonds provided that the bond yield shall not exceed 5.00%. Pursuant to A.R.S. 35-471 the amount of net premium associated with the Bonds may not exceed the total of the following:

1. The difference between the amount required to fund the escrow account and the par amount of the refunded bonds.

2. The costs of the issuance of the refunding bonds that may be paid from premium, up to two per cent of the par value of the refunded bonds.

Any net premium not used to pay the costs of issuance of the Bonds or to pay the Bond Being Refunded shall be deposited in a debt service fund and used to pay interest on the bonds.

The term "net premium" means the difference between the par amount of the bond issue and the bond issue price determined pursuant to United States treasury regulations.

The principal amount maturing in each year, the interest rates applicable to each maturity, the optional and mandatory redemption provisions and any other final terms of the Bonds shall be as set forth in the Purchase Agreement and approved by the Treasurer and such approval shall be evidenced by the execution and delivery of the Purchase Agreement. The Bonds are expected to be initially issued in fully registered book-entry-only form in denominations equal to the respective year's maturity amount. If the book-entry-only system is discontinued, the Bonds will be in the denominations of \$5,000 each or integral multiples thereof. Interest on the Bonds shall be payable semiannually on each January 1 and July 1 (each an Interest Payment Date) during the term of the Bonds, commencing January 1, 2007 (or on a later date as set forth in the Purchase Agreement).

B. Book-Entry-Only System. So long as the Bonds are administered under the book-entry-only system described herein, interest payments and principal payments that are part of periodic principal and interest payments shall be paid to Cede & Co. or its registered assigns in same-day funds no later than the time established by DTC on each interest or principal payment date (or in accordance with then-existing arrangements between the Town and DTC). The Town has entered into an agreement (the "*Letter of Representations*") with DTC in connection with the issuance of the Town's bonds, including the Bonds, and, while the Letter of Representations is in effect, the procedures established therein shall apply to the Bonds.

C. Registration. If the book-entry-only system is discontinued, the Registrar's (as defined hereafter) registration books shall show the registered owners of the Bonds (the owner or owners of the Bonds as shown on the Registrar's registration books shall be referred to as "*Owner*" or "*Owners*"). While the Bonds are subject to the book-entry-only system, the Bonds shall be registered in the name of Cede & Co., or its registered assigns. The Bonds will be administered by the Registrar in a manner which assures against double issuance and provides a system of transfer of ownership on the books of the Registrar in the manner set forth in the Bonds.

D. Payment. If the book-entry-only system is discontinued, interest on the Bonds will be payable on each Interest Payment Date by the Paying Agent (as hereafter defined) by check mailed to the Owner thereof at such Owner's address as shown on the registration books maintained by the Registrar as of the close of business of the Registrar on the Record Date (as such term is defined in Section 10 hereof).

If the book-entry-only system is discontinued, principal of the Bonds will be payable, when due, only upon presentation and surrender of the Bond at the designated corporate trust office of the Paying Agent (as defined hereafter). Upon written request made twenty days prior to an interest payment date by an Owner of at least \$1,000,000 in principal amount of Bonds outstanding all payments of interest and, if adequate provision for surrender is made, principal and premium, if any, shall be paid

by wire transfer in immediately available funds to an account within the United States of America designated by such Owner.

Notwithstanding any other provision of this resolution, payment of principal of and interest on any Bond that is held by a securities depository or Bonds subject to a book-entry-only system may be paid by the Paying Agent by wire transfer in "same day funds".

F. Other Terms. The Bonds shall have such other terms and provisions as are set forth in Exhibit A hereto and shall be sold under the terms and conditions set forth in the Purchase Agreement.

Section 3. Prior Redemption.

A. Optional Redemption. The Bonds may be subject to redemption as determined by the Management Services Director and set forth in the Purchase Agreement.

B. Mandatory Redemption. The Bonds may be subject to mandatory redemption as determined by the Treasurer and set forth in the Purchase Agreement.

Whenever Bonds subject to mandatory redemption are purchased, redeemed (other than pursuant to mandatory redemption) or delivered by the Town to the Registrar for cancellation, the principal amount of the Bonds so retired shall satisfy and be credited against the mandatory redemption requirements for such Bonds for such years as the Town may direct.

C. Notice of Redemption. Notice of redemption of any Bond will be filed with the Paying Agent and mailed to the registered owner thereof at the address shown on the books of the Registrar not more than sixty (60) nor less than thirty (30) days prior to the redemption date. Notice of redemption may be given to any securities depository by mail, facsimile, wire or other generally accepted means of transmission of such notices. Failure to properly give notice of redemption shall not affect the redemption of any bond for which notice was properly given.

D. Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, the Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds on such date, and, if moneys for payment of the redemption price are held in separate accounts by the Paying Agent, interest on such Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security hereunder and the Owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and such Bonds shall be deemed paid and no longer outstanding.

E. Redemption of Less Than All of a Bond. The Town may redeem an amount which is included in a Bond in the denomination in excess of, but divisible by, \$5,000. In that event, the registered owner shall submit the Bond for partial redemption and the Paying Agent shall make such partial payment and the Registrar shall cause to be issued a new Bond in a principal amount equal to the unpaid amount remaining on such Bond after the redemption to be authenticated and delivered to the registered owner thereof.

Section 4. Security. For the purpose of paying the principal and premium (if any) of, interest on and costs of administration of the registration and payment of the Bonds, there shall be levied

on all the taxable property in the Town a continuing, direct, annual, ad valorem tax sufficient to pay all such principal, interest and administration costs as the same becomes due, such taxes to be levied, assessed and collected at the same time and in the same manner as other taxes are levied, assessed and collected. The proceeds of the taxes shall be kept in a special fund of the Town entitled the "Debt Service Fund" and shall be used only for the payment of principal, interest, premium, if any, or costs as above-stated.

Upon payment of the Bond Being Refunded, all moneys collected during the current fiscal year which would otherwise have been credited to the Interest and Redemption Funds for the Bond Being Refunded shall be credited to the Interest and Redemption Funds created to service the Bonds.

Section 5. Use of Proceeds. Upon the delivery of and payment for the Bonds in accordance with the terms of their sale, the net proceeds from the sale of the Bonds, after payment of the costs and expenses of issuance, shall be used, together with any funds of the Town, required to pay the Bond Being Refunded. The Treasurer of the Town is hereby ordered and directed to use such Bond proceeds to pay the Bond Being Refunded as soon as possible after the issuance of the Bonds. The Treasurer is ordered and directed to make arrangements with Rural Development, U.S. Department of Agriculture, for the advancement of all remaining maturities on the Bond Being Refunded as near as possible to the date of issuance of the Bonds. If it is determined to be more convenient, the Underwriter may pay an amount of the Bond proceeds to the United States and present a receipt for such payment and the Bond Being Refunded to the Town, plus any amount of purchase price of the Bonds remaining and any accrued interest in exchange for the Bonds.

Any balance of the net proceeds of the Bonds remaining after payment of the Bond Being Refunded and costs of issuance shall be transferred to the Debt Service Fund for the Bonds.

Section 6. Form of Bonds. The Bonds shall be issued in book-entry-only form and, so long as the book-entry-only system is in effect, the Bonds shall be in substantially the form of *Exhibit A* attached hereto and incorporated by reference herein, with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby or by the Purchase Agreement and are approved by those officers executing the Bonds; execution thereof by such officers shall constitute conclusive evidence of such approval. If the book-entry-only system is discontinued, the forms of the Bonds shall be adjusted to accommodate the requirements of non-book-entry bonds.

The Bonds may have notations, legends or endorsements required by law, securities exchange rule or usage. Each Bond shall show both the date of the issue and the date of such Bond's authentication and registration. The Bonds are prohibited from being converted to coupon or bearer form without the consent of the Mayor and Council and approval of bond counsel.

Section 7. Execution of Bonds and Other Documents.

A. **The Bonds.** The Bonds shall be executed for and on behalf of the Town by the Mayor, attested by the Clerk and countersigned by the Treasurer by their manual or facsimile signatures and the Town seal will be either photographically, mechanically or manually imprinted, affixed or reproduced on the Bonds. If an officer whose signature is on a Bond no longer holds that office at the time the Bond is authenticated and registered, such Bond shall nevertheless be valid. A Bond shall not be valid or binding until authenticated by the manual signature of an authorized representative of the

Registrar. The signature of the authorized representative of the Registrar shall be conclusive evidence that such Bond has been authenticated and issued pursuant to this resolution.

B. Purchase Agreement. The form of the Purchase Agreement, as presented to the Council, is hereby approved and the Mayor, any member of the Council or the Treasurer is hereby authorized to execute the Purchase Agreement on behalf of the Town. The Treasurer shall cause the Purchase Agreement to be completed to reflect the terms of the Bonds, including the price at which the Bonds are sold and provisions for original issue premium or original issue discount with respect thereto. The execution and delivery of the Purchase Agreement, as completed, by the Mayor, any member of the Council or the Treasurer shall be conclusive evidence of approval of such final terms and provisions.

C. Registrar Contract. The form of Registrar's contract presented to the Mayor and Council and on file with the Town Clerk concerning duties of the Registrar, Transfer Agent and Paying Agent for the Bonds is hereby approved and the Mayor, the Clerk or the Treasurer is hereby directed to execute such contract on behalf of the Town with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby and are approved by those officers executing the documents and cause such respective contract to be delivered. Execution by such officers shall constitute conclusive evidence of such approval.

D. Continuing Disclosure Certificate. In order to comply with the provisions of the Rule (as hereafter defined), unless an exemption from the terms and provisions of the Rule is applicable to the Bonds, the Mayor, the Clerk or the Treasurer is hereby authorized and directed to prepare, execute and deliver on behalf of the Town a written agreement or undertaking for the benefit of the Owners (including beneficial owners) of the Bonds. The written agreement or undertaking shall contain such terms and provisions as are necessary to comply with the Rule including, but not limited to (i) an agreement to provide to each nationally recognized municipal securities information repository and to the Arizona state information depository, if one shall be so designated by the State of Arizona, the financial information or operating data presented in the final official statement as determined by mutual agreement between the Town and the underwriter and audited financial statements of the Town and (ii) an agreement to provide material events disclosure to national recognized municipal securities information repositories or to the state information depository hereinafter designated and the Municipal Securities Rulemaking Board.

E. Official Statement. The preparation of a preliminary official statement in a form that is deemed "final", as hereafter described, is hereby authorized and approved and its distribution by the Underwriter is hereby authorized and approved. Such preliminary official statement shall be in a form that is approved and deemed "final" for all purposes of Section 240.15c2-12, General Rules and Regulations, Securities Exchange Act of 1934 (the "Rule"), by the Mayor or the Treasurer. The Town will cause a final official statement (the "Official Statement") in substantially the form of the preliminary official statement referred to above to be prepared and distributed with the Bonds upon initial issuance. The Mayor or the Treasurer are authorized to approve, execute and deliver the Official Statement on behalf of the Town and the execution by such officer shall be deemed conclusive evidence of such approval. The preliminary official statement and the Official Statement may be prepared in conjunction with, and may be part of the same document, the preliminary official statement and the Official Statement for any other bonds which may be issued by the Town.

Section 8. Mutilated, Lost or Destroyed Bonds. In case any Bond becomes mutilated or destroyed or lost, the Registrar shall cause to be executed and delivered a new Bond of like date and tenor in exchange and substitution for and upon the cancellation of the mutilated Bond or in

lieu of and in substitution for the Bond destroyed or lost, upon the owner's paying the reasonable expenses and charges of the Town in connection therewith and, in the case of the Bond destroyed or lost, filing with the Registrar of evidence satisfactory to the Registrar that such Bond was destroyed or lost, and furnishing the Registrar with a sufficient indemnity bond pursuant to § 47-8405, Arizona Revised Statutes.

Section 9. Acceptance of Offer; Sale of Bonds; Purchase Agreement Approval.

The Underwriter proposes to purchase the Bonds pursuant to the Purchase Agreement submitted to and on file with the Town and such proposal as supplemented by the final terms as contemplated by this resolution is hereby accepted. When the final terms of the Bonds are known, the Purchase Agreement shall be finalized. The Mayor, any member of the Council or the Treasurer are authorized and directed to cause the Purchase Agreement to be completed and executed; provided, however, that the parameters of this resolution shall govern the Purchase Agreement and neither the Mayor, any member of the Council or the Treasurer is authorized to insert in the Purchase Agreement any terms or conditions which would be contrary to this resolution. Upon the completion, execution and delivery of the Purchase Agreement, the Bonds are ordered sold to the Underwriter pursuant to the Purchase Agreement.

The Treasurer is hereby authorized and directed to cause the Bonds to be delivered to or upon the order of the Purchaser upon receipt of payment therefor and satisfaction of the other conditions for delivery thereof in accordance with the terms of the Purchase Agreement.

Section 10. Registrar and Paying Agent. The Town will maintain an office or agency where Bonds may be presented for registration or transfer and an office or agency where Bonds may be presented for payment (the "*Paying Agent*"). The Treasurer may appoint one or more co-registrars or one or more additional Paying Agents. The Registrar and Paying Agent may make reasonable rules and set reasonable requirements for their respective functions with respect to the owners of the Bonds. The Town may change the Registrar or Paying Agent without notice to or consent of Owners of the Bonds and the Town may act in any such capacity.

Each Paying Agent shall be required to agree in writing that the Paying Agent will hold in trust for the benefit of the Owners of the Bonds all moneys held by the Paying Agent for the payment of principal of and interest and any premium on the Bonds.

The Registrar may appoint an authenticating agent acceptable to the Town to authenticate Bonds. An authenticating agent may authenticate Bonds whenever the Registrar may do so. Each reference in this resolution to authentication by the Registrar includes authentication by an authenticating agent acting on behalf and in the name of the Registrar and subject to the Registrar's direction.

The Registrar shall keep a separate register for the Bonds, which will show the Owners of the Bonds and any transfer of the Bonds. When Bonds are presented to the Registrar or a co-registrar with a request to register transfer, the Registrar shall register the transfer on the registration books if its requirements for transfer are met and shall authenticate and deliver one or more Bonds registered in the name of the transferee of the same principal amount, maturity and rate of interest as the surrendered Bonds. All transfer fees and costs shall be paid by the transferor. The "*Record Date*" for the Bonds shall be the close of business of the Registrar on the fifteenth day of the month preceding an interest payment date or principal payment date, as applicable. The Registrar may, but shall not be required to, transfer or exchange any Bonds during the period commencing on the Record Date to and including the respective interest payment date. If the Registrar transfers or exchanges Bonds within the period

referred to above, interest on such Bonds shall be paid to the person who was the Owner at the close of business of the Registrar on the Record Date as if such transfer or exchange had not occurred.

The Registrar shall authenticate Bonds for original issue up to \$1,250,000 in aggregate principal amount upon the written request of the Treasurer. The aggregate principal amount of Bonds outstanding at any time may not exceed those amounts except for replacement Bonds as to which the requirements of the Registrar and the Town are met.

Section 11. Resolution a Contract. This resolution shall constitute a contract between the Town and the Owners and shall not be repealed or amended in any manner which would impair, impede or lessen the rights of the Owners of the Bonds then outstanding. The performance by the Mayor and Council of the obligations in this resolution, the Bonds and the other agreements listed in Section 7 of this resolution is hereby authorized and approved.

Section 12. Ratification of Actions. All actions of the officers and agents of the Town which conform to the purposes and intent of this resolution and which further the issuance and sale of the Bonds as contemplated by this resolution whether heretofore or hereafter taken are hereby ratified, confirmed and approved. The proper officers and agents of the Town are hereby authorized and directed to do all such acts and things and to execute and deliver all such documents on behalf of the Town as may be necessary to carry out the terms and intent of this resolution.

Section 13. Bond Insurance or Credit Enhancement. The Treasurer is hereby authorized to expend or cause to be expended Bond proceeds to purchase bond insurance or other credit enhancements for the Bonds if deemed to be in the Town's best interest.

Section 14. Qualified Tax-Exempt Obligations. The Town hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Town will certify in the closing certificates that it is reasonably anticipated that the aggregate amount of qualified tax-exempt obligations (as defined in Section 265 (b)(3)(B) of the Code which will be issued for or by the Town in the current calendar year will not exceed \$10,000,000.

Section 15. Tax Covenant. In consideration of the purchase and acceptance of the Bonds by the Owners thereof and, as authorized by Arizona Revised Statutes, Title 35, Chapter 3, Article 7, and in consideration of retaining the exclusion of interest income on the Bonds from gross income for federal income tax purposes, the Town covenants with the Owners from time to time of the Bonds to neither take nor fail to take any action which action or failure to act is within its power and authority and would result in interest income on the Bonds becoming subject to inclusion as gross income for federal income tax purposes under either laws existing on the date of issuance of the Bonds or such laws as they may be modified or amended.

With respect to the Bonds herein authorized to be sold, the Town or a partner of Gust Rosenfeld P.L.C., bond counsel to the Town ("*bond counsel*"), is authorized to execute and file on behalf of the Town information reporting returns and to file or deliver such other information as may be required by Section 149(e) of the Code.

The Mayor and Council hereby agree that the Town will comply with such requirements and will take any such actions as in the opinion of bond counsel are necessary to prevent interest income

on the Bonds from becoming subject to inclusion in gross income for federal income tax purposes. Such requirements may include but are not limited to making further specific covenants; making truthful certifications and representations and giving necessary assurances; complying with all representations, covenants and assurances contained in certificates or agreements to be prepared by bond counsel; to pay to the United States of America any required amounts representing yield reduction payments or rebates of arbitrage profits relating to the Bonds; filing forms, statements and supporting documents as may be required under the federal tax laws; and limiting the term of and yield on investments made with moneys relating to the Bonds.

Section 16. Redemption of Certain Bonds. All of the maturities of the Bond Being Refunded shall be refunded. Because the Bond Being Refunded may be paid at any time, the Mayor and Council hereby order that all installments of the Bond Being Refunded will be redeemed as soon as possible after the Bonds are issued.

Section 17. Severability. If any section, paragraph, subdivision, sentence, clause or phrase of this resolution is for any reason held to be illegal, invalid or unenforceable, such decision will not affect the validity of the remaining portions of this resolution. The Mayor and Council hereby declare that this resolution would have been adopted and each and every other section, paragraph, subdivision, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this resolution may be held illegal, invalid or unenforceable.

Section 18. Emergency. The immediate operation of the provisions of this resolution is necessary for the preservation of the public peace, health and safety and an emergency is hereby declared to exist, and this resolution will be in full force and effect from and after its passage by the Mayor and Council and it is hereby excepted from the referendum provisions of the Constitution.

PASSED, ADOPTED AND APPROVED by the Council of Town of Payson, Arizona, on May ____, 2006.

ATTEST:

Mayor

Town Clerk

APPROVED AS TO FORM:

Bond Counsel

Exhibit A: Bond Form

CERTIFICATION

I, _____, the duly appointed and acting Town Clerk of the Town of Payson, Arizona, do hereby certify that the above and foregoing Resolution No. ____ was duly passed by the Town Council of the Town of Payson, Arizona, at a regular meeting held on May ____, 2006, and the vote was ____ aye's and ____ nay's and that the Mayor and ____ Council Members were present thereat.

DATED: _____, 200_.

Town Clerk

EXHIBIT A

(Form of Bond to be used While Book-Entry-Only System is in Effect)

Number: _____

Denomination: _____

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Registrar (or any successor registrar) for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC, (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge, or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

**TOWN OF PAYSON, ARIZONA
GENERAL OBLIGATION REFUNDING BOND
SERIES 2006**

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Dated Date</u>	<u>CUSIP</u>
_____%	July 1, 20__	_____, 2006	_____

Registered Owner: Cede & Co.

Principal Amount: _____ AND NO/100 DOLLARS (\$ _____)

TOWN OF PAYSON, ARIZONA (the "*Town*"), for value received, hereby promises to pay to the registered owner identified above, or registered assigns as provided herein, on the maturity date set forth above, the principal amount set forth above, and to pay interest on the unpaid principal amount at the interest rate shown above.

INSERT CALL FEATURE HERE, IF APPLICABLE

Interest is payable on January 1 and July 1 of each year commencing _____ 1, 2007, and will accrue from the most recent date to which interest has been paid, or, if no interest has been paid, from the original dated date set forth above. Interest will be computed on the basis of a year comprised of 360 days consisting of twelve (12) months of thirty (30) days each.

Principal of and interest on this bond are payable in lawful money of the United States of America. Interest payments and principal payments that are part of periodic principal and interest payments shall be received by Cede & Co., as nominee of DTC, or its registered assigns in same-day funds no later than the time established by DTC on each interest or principal payment date in accordance with existing arrangements between the City and DTC.

It is hereby certified and recited that all conditions, acts and things required by the Constitution and laws of the State of Arizona to exist, to occur and to be performed precedent to and in the issuance of this bond exist, have occurred and have been performed and that the series of bonds of which this is one, together with all other indebtedness of the Town, is within every debt and other limit prescribed by the Constitution and laws of the State of Arizona, and that due provision has been made for the levy and collection of a direct, annual, ad valorem tax upon all of the taxable property in the Town for the payment of this bond and of the interest hereon as each becomes due, as limited as described herein.

This bond is one of an issue of general obligation refunding bonds in the aggregate principal amount of \$1,250,000 of like tenor except as to amount, maturity date, redemption provisions, interest rate and number, issued by the Town to provide funds to refund certain previously issued and outstanding bonds of the Town, pursuant to a resolution of the Mayor and Council of the Town duly adopted prior to the issuance hereof (the "*Resolution*"), and pursuant to the Constitution and laws of the State of Arizona relative to the issuance and sale of general obligation refunding bonds, and all amendments thereto, and all other laws of the State of Arizona thereunto enabling.

For the punctual payment of this bond and the interest hereon and for the levy and collection of ad valorem taxes on all taxable property within the Town sufficient for that purpose, the full faith and credit of the Town are hereby irrevocably pledged.

The registrar or paying agent may be changed by the Town without notice.

So long as the book-entry-only system is in effect, this bond is non-transferable. If the book-entry-only system is discontinued, this bond is transferable by the registered owner in person or by attorney duly authorized in writing at the designated office of the registrar, which on the original issue date is the corporate trust office of _____ upon surrender and cancellation of this bond. Bonds of this issue will be issued only in fully registered form in the denomination of \$5,000 of principal or integral multiples thereof.

The Town, the registrar and the paying agent may treat the registered owner of this bond as the absolute owner for the purpose of receiving principal and interest and for all other purposes and none of them shall be affected by any notice to the contrary.

The Town has caused this bond to be executed by the Mayor, attested by the Clerk and countersigned by the Treasurer, which signatures may be facsimile signatures and the Town seal has been impressed on this bond. This bond is not valid or binding upon the Town without the manually affixed signature of an authorized representative of the registrar. This bond is prohibited from being issued in coupon or bearer form without the consent of the Town and the occurrence of certain other conditions.

TOWN OF PAYSON, ARIZONA

Mayor

ATTEST:

Clerk

COUNTERSIGNED:

Treasurer

DATE OF AUTHENTICATION AND REGISTRATION: _____

AUTHENTICATION CERTIFICATE

This bond is one of the Town of Payson, Arizona, General Obligation Refunding Bonds, Series 2006, described in the resolution mentioned herein.

_____, as Registrar

Authorized Representative

(INSERT INSURANCE STATEMENT HERE, IF APPLICABLE)

FORM OF ASSIGNMENT

The following abbreviations, when used in the inscription on the face of this bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by the entireties

JT TEN - as joint tenants with right of survivorship
and not as tenants in common

UNIF GIFT/TRANS MIN ACT- _____ Custodian _____
(Cust) (Minor)

under Uniform Gifts/Transfers to Minors Act ___(State)

Additional abbreviations may also be used though not in list above

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

(Name and Address of Transferee)

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

Dated _____

Note: The signature(s) on this assignment must correspond with the name(s) as written on the within registered bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

Firm or Bank

Authorized Signature

Signature guarantee should be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other program acceptable to the Registrar

ALL FEES AND TRANSFER COSTS SHALL BE PAID BY THE TRANSFEROR

TOWN FEDERAL TAXPAYER I.D. NO. 86-0287228_____

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT CONTRACT FOR BONDS OF THE TOWN OF PAYSON, ARIZONA

This Bond Registrar, Transfer Agent and Paying Agent Contract dated as of _____, 2006 (the "*Contract*"), is made and entered into between the **TOWN OF PAYSON, ARIZONA** (hereinafter called the "*Town*"), and _____ (hereinafter called the "*Bank*"), and witnesseth as follows:

The Town will issue its Town of Payson, Arizona, General Obligation Refunding Bonds, Series 2006 (the "*Bonds*") in the aggregate principal amount of \$_____. The Mayor and Town Council (the "*Council*") have determined that the services of a bond registrar, transfer agent and paying agent are necessary and in the best interests of the Town. Initially, the Bonds will be issued in book-entry-only form through The Depository Trust Company ("*DTC*") and, so long as the book-entry-only system is in effect the Bonds will be registered in the name of Cede & Co., the nominee name of DTC.

The Bank desires to perform Registrar, Transfer Agent and Paying Agent Services during the life of Bonds.

For and in consideration of the mutual promises, covenants, conditions and Contracts hereinafter set forth, the parties do agree as follows:

1. **Services**. The Bank hereby agrees to provide the following services:

A. Registrar services which shall include, but not be limited to (1) initial authentication and verification of the Bonds; (2) keeping registration books sufficient to comply with Section 149 of the Internal Revenue Code of 1986, as amended (the "*Code*"); (3) recording transfers of ownership of the Bonds promptly as such transfers occur; (4) protecting against double or overissuance; (5) authenticating new Bonds prepared for issuance to transferees of original and subsequent purchasers; (6) informing the Town of the need for additional printings of the Bonds should the forms printed prior to initial delivery prove inadequate; and (7) lodging with the Town the signatures of the persons authorized and designated from time to time to authenticate the Bonds.

B. Transfer agent services which shall include, but not be limited to, (1) receiving and verifying all Bonds tendered for transfer; (2) preparing new Bonds for delivery to transferees and delivering same either by delivery or by mail, as the case may be; (3) destroying Bonds submitted for transfer; and (4) providing proper information for recordation in the registration books.

C. Paying agent services which shall include, but not be limited to, (1) providing a billing to the Town at least thirty (30) days prior to a Bond interest payment date setting forth the amount of principal and interest due on such date; (2) preparing, executing, wiring or mailing all interest payments to each registered owner of the Bonds one (1) business day prior to the scheduled payment date or as soon as money for payment of such interest has been transferred to

the paying agent but in no event later than the time established by DTC on the date such payments are due; (3) verifying all matured Bonds upon their surrender; (4) paying all principal and premium, if any, due upon the Bonds as they are properly surrendered therefor to the Bank; (5) preparing a semiannual reconciliation showing all principal and interest paid during the period and providing copies thereof to the Town; (6) inventorying all cancelled checks, or microfilm proof of such checks for six (6) years after payment; and (7) making proof of such payments available to the Town or any owner or former owner.

2. **Record Date.** The "*Record Date*" for the payment of interest will be the fifteenth (15th) day of the month preceding an interest payment date. Normal transfer activities will continue after the Record Date but the interest payments will be mailed to the registered owners of Bonds as shown on the books of the Bank on the close of business on the Record Date. Principal (and premium, if any) shall be paid only on surrender of the particular Bond at or after its maturity or prior redemption date, if applicable.

3. **Redemption Notices.** The Bank agrees to provide certain notices to the Bond owners as required in the resolution of the Town approving the issuance, sale and delivery of the Bonds. Notice of redemption of any Bonds redeemed prior to their stated maturity date shall be mailed by first class mail to each registered owner not more than sixty (60) days nor less than thirty (30) days prior to the date of redemption and to at least two national information services. Notice of redemption may be sent to any securities depository by mail, facsimile transmission, wire transmission or any other means of transmission of the notice generally accepted by the respective securities depository.

Notice of redemption shall be sent by first class mail or electronically to any depository institution which is a registered owner, such that the notice of redemption is received not less than two (2) days prior to the date of general release to the public. The Bank agrees to send a duplicate notice of redemption to any registered owner who has not submitted Bonds for redemption within thirty (30) days after the date set for redemption.

Each redemption notice must contain, at a minimum, the complete official name of the issue with series designation, CUSIP number, certificate numbers, amount of each Bond called (for partial calls), date of issue, interest rate, maturity date, publication date (date of release of notice to the general public, or the date of general mailing of notices to Bond owners and information services), redemption date, redemption price, redemption agent and the name and address of the place where Bonds are to be tendered, including the name and phone number of the contact person.

4. **Issuance and Transfer of Bonds.** Initially, the Bonds will be registered in the name of Cede & Co. If the book-entry-only system is discontinued, the Bank will issue the Bonds to registered owners, require the Bonds to be surrendered and cancelled and new Bonds issued upon transfer, and maintain a set of registration books showing the names and addresses of the owners from time to time of the Bonds. The Bank shall promptly record in the registration books all changes in ownership of the Bonds.

5. **Payment Deposit.** The Town will transfer immediately available funds to the Bank no later than one (1) business day prior to or, if agreed to by the parties hereto, on the date on which the interest, principal and premium payments (if any) are due on the Bonds, but in no

event later than the time established by DTC on the date such payments are due. The Bank shall not be responsible for payments to Bond owners from any source other than moneys transferred, or caused to be transferred, to it by the Town.

6. **Collateral.** The Bank shall collateralize the funds on deposit at the Bank in accordance with A.R.S. §§ 35-323 and 35-491.

7. **Turnaround Time.** The Bank will comply with the 72-hour turnaround time required by Securities and Exchange Commission Rule 17(A)(d)(2) on routine transfer items.

8. **Fee Schedule; Initial Fee.** For its services under this Contract, the Town shall pay the Bank in accordance with the fee schedule set forth in the attached *Exhibit A*, which is incorporated herein by reference. The fee for the Bank's initial services hereunder and services to be rendered until the end of the Town's current fiscal year is \$_____ and shall be due at the initial delivery of the Bonds and shall be payable from proceeds of the Bonds. Subsequent payments shall be made in accordance herewith.

9. **Fees for Services in Subsequent Fiscal Years.** The Bank will bill the Town prior to June 1, 2007, and prior to each June 1 thereafter.

10. **Costs and Expenses.** The Town hereby agrees to pay all costs and expenses of the Bank pursuant hereto. If, for any reason, the amounts the Town agrees to pay herein may not be paid from the annual tax levy for debt service on the Bonds, such costs shall be paid by the Town from any funds lawfully available therefor and the Town agrees to take all actions necessary to budget for and authorize expenditure of such amounts.

11. **Hold Harmless.** The Bank shall indemnify and hold harmless the Town, its Mayor and Council, the Treasurer and all boards, commissions, officials, officers and employees of the Town, individually and collectively, from the Bank's failure to perform to its standard of care as herein stated.

12. **Standard of Care Required.** In the absence of bad faith on its part in the performance of its services under this Contract, the Bank shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized hereby or within the rights and powers conferred upon it hereunder, nor for action taken or omitted to be taken by it in good faith and in accordance with advice of counsel, and shall not be liable for any mistakes of fact or error or judgment or for any actions or omissions of any kind unless caused by its own willful misconduct or negligence.

13. **Entire Contract.** This Contract and *Exhibit A* attached hereto contain the entire understanding of the parties with respect to the subject matter hereof, and no waiver, alteration or modification of any of the provisions hereof, shall be binding unless in writing and signed by a duly authorized representative of all parties hereto.

14. **Amendment.** The Bank and the Town each reserves the right to amend any individual service set forth herein or all of the services upon providing a sixty (60) day prior written notice. Any corporation, association or agency into which the Bank may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust

business and assets as a whole or substantially as a whole, or any corporation or association resulting from such conversion, sale merger, consolidation or transfer to which it is a party, *ipso facto*, shall be and become successor bond registrar and paying agent under this Contract and vested with all or the same rights, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

15. **Resignation or Replacement.** The Bank may resign or the Town may replace the Bank as registrar, transfer agent and paying agent at any time by giving thirty (30) days' written notice of resignation or replacement to the Town or to the Bank, as applicable. The resignation shall take effect upon the appointment of a successor registrar and paying agent. A successor registrar and paying agent will be appointed by the Town; provided, that if a successor registrar and paying agent is not so appointed within ten (10) days after a notice of resignation is received by the Town, the Bank may apply to any court of competent jurisdiction to appoint a successor registrar and paying agent.

In the event the Bank resigns or is replaced, the Treasurer and the Town reserve the right to appoint a successor registrar, transfer agent and paying agent who may qualify pursuant to A.R.S. § 35-491, et seq., or any subsequent statute pertaining to the registration, transfer and payment of bonds. In such event the provisions hereof with respect to payment by the Town shall remain in full force and effect, but the Treasurer shall then be authorized to use the funds collected for payment of the costs and expenses of the Bank hereunder to pay the successor registrar, transfer agent and paying agent or as reimbursement if the Treasurer acts as registrar, transfer agent and paying agent.

16. **Reports to Arizona Department of Revenue.** The Bank shall make such reports to the Arizona Department of Revenue (the "*Department*") pertaining to the retirement of any Bonds and of all payments of interest thereon immediately upon such retirement or payment as may be required by the Department pursuant to A.R.S. § 35-502.

17. **Form of Records.** The Bank's records shall be kept in compliance with standards as have been or may be issued from time to time by the Securities and Exchange Commission, the Municipal Securities Rulemaking Board of the United States, the requirements of the Code and any other securities industry standard. Bank shall retain such records in accordance with the applicable record keeping standard of the Internal Revenue Service.

18. **Advice of Counsel and Special Consultants.** When the Bank deems it necessary or reasonable, it may apply to Gust Rosenfeld P.L.C. or such other law firm or attorney approved by the Town for instructions or advice. Any fees and costs incurred shall be added to the next fiscal year's fees, costs and expenses to be paid to the Bank.

19. **Examination of Records.** The Town, or its duly authorized agents may examine the records relating to the Bonds at the office of the Bank where such records are kept at reasonable times as agreed upon with the Bank and such records shall be subject to audit from time to time at the request of the Town, the Bank or the Auditor General of the State of Arizona.

20. **Payment of Unclaimed Amounts.** In the event any check for payment of interest on a Bond is returned to the Bank unendorsed or is not presented for payment within two

(2) years from its payment date, or any Bond is not presented for payment of principal at the maturity or redemption date, if applicable, funds sufficient to pay such interest or principal due upon such Bond shall have been made available to the Bank for the benefit of the owners thereof, it shall be the duty of the Bank to hold such funds, without liability for interest thereon, for the benefit of the owners of such Bonds who shall thereafter be restricted exclusively to such funds for any claim of whatever nature relating to such Bond or amounts due thereunder. The Bank's obligation to hold such funds shall continue for two (2) years and six (6) months following the date on which such interest or principal payment became due, whether at maturity or at the date fixed for redemption, or otherwise, at which time the Bank shall surrender such unclaimed funds so held to the Town, whereupon any claim of whatever nature by the owner of such Bond arising under such Bonds shall be made upon the Town and shall be subject to the provisions of applicable law.

21. **Invalid Provisions.** If any provision of this Contract is held to be illegal, invalid or unenforceable under present or future laws, this Contract shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Contract; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision.

22. **Mutilated, Lost or Destroyed Bonds.** With respect to Bonds which are mutilated, lost or destroyed, the Bank shall cause to be executed and delivered a new Bond of like date and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such Bond lost or destroyed, upon the registered owner's paying the reasonable expenses and charges in connection therewith and, in the case of any Bond destroyed or lost, filing by the registered owner with the Bank and the Town of evidence satisfactory to the Bank and the Town that such Bond was destroyed or lost, and furnishing the Bank with a sufficient indemnity bond pursuant to Arizona Revised Statutes Section 47-8405.

23. **Conflict of Interest.** Each party gives notice to the other parties that A.R.S. Section 38-511 provides that the State of Arizona (the "State"), its political subdivisions or any department or agency of either, may within three (3) years after its execution cancel any contract without penalty or further obligation made by the State, its political subdivisions or any of the departments or agencies of either, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any of the departments or agencies of either, is at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party to the contract with respect to the subject matter of the contract.

24. **Covenants.** The Town has agreed in its authorizing resolution to take all necessary actions required to preserve the tax-exempt status of the Bonds. Such actions may require the calculation of amounts of arbitrage rebate which may be due and owing to the United States. The calculation of such rebate amount may be performed by an individual or firm qualified to perform such calculations and who or which may be selected and paid by the Town. If the Town does not retain a consultant to do the required calculations concerning arbitrage rebate and if a rebate calculation is required to permit interest on the Town's Bonds to be and remain exempt from gross income for federal income tax purposes, the Town may include, in addition to all other bills payable under this Contract, the costs and expenses and fees of an arbitrage consultant. The Town may contract with a consultant to perform such arbitrage calculations as are

necessary to meet the requirements of the Code. All fees, costs and expenses so paid may be deducted from moneys of the Town or from tax levies made to pay the interest on the Bonds. Such costs, fees and expenses shall be considered as interest payable on the Bonds. The Bank shall have no responsibilities in connection with this Section.

This Contract is dated and effective as of _____, 2006.

TOWN OF PAYSON, ARIZONA

By _____
Mayor

ATTEST:

Clerk

_____, as Registrar

By _____
Authorized Representative

Attach as Exhibit A the fee schedule of the Registrar.

§ _____
TOWN OF PAYSON, ARIZONA
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2006
(BASE CUSIP NO. _____)

LIMITED CONTINUING DISCLOSURE CERTIFICATE

This Limited Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the Town of Payson, Arizona (the "*Town*") in connection with the execution and delivery of the above entitled Bonds (the "*Bonds*"). In consideration of the initial execution and delivery of the Bonds and the payment for and acceptance by the Initial Purchasers of the Bonds, the Town covenants as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is for the benefit of the Bondholders in order to assist the Participating Underwriter, Stone & Youngberg LLC, in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. Any capitalized term used herein shall have the following meanings, unless otherwise defined herein:

"*Central Post Office*" shall mean an entity approved as such by the Securities and Exchange Commission. At present the Internet-based electronic filing system operated by the Municipal Advisory Council of Texas under the name of "DisclosureUSA" at the following internet address site: www.DisclosureUSA.org is approved for such purpose.

"*Bondholder*" shall mean any registered owner or beneficial owner of the Bonds.

"*Dissemination Agent*" shall mean the Town, or any person designated in writing by the Town as the Dissemination Agent.

"*Financial Information*" shall mean the financial information and operating data which is customarily prepared by the Town, is publicly available for, among others, purposes such as that required herein, is not required to contain information more current than that which customarily has been prepared annually and is as further described in Section 4(b).

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Obligated Person*" shall mean any person, including the Town, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations of the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

"*Official Statement*" shall mean the final official statement dated _____, 2006, relating to the Bonds.

"*Participating Underwriter*" shall mean Stone & Youngberg, LLC, the original Underwriter of the Bonds, who is required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*Special Counsel*" shall mean Gust Rosenfeld P.L.C. or such other nationally recognized bond counsel as may be selected by the Town.

"*State Repository*" shall mean any public or private repository or entity designated by the State of Arizona as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Representations. The Town represents that no Obligated Person will be an Obligated Person with respect to more than \$10,000,000 in aggregate amount of outstanding municipal securities, including the Bonds and excluding municipal securities that were offered in a transaction exempt from the Rule pursuant to paragraph (d)(1) of the Rule.

Section 4. Content and Provision of Financial Information.

(a) (i) Subject to annual appropriation to cover the costs of preparing and mailing therefor, the Town shall (a) provide the financial information to any person as soon as practicable after a request made therefor to the contact indicated in Section 15 by such person or (b) after a State Repository is designated, thereafter not later than April of each year, instead provide the Financial Information to the State Repository.

(ii) If the Town is unable or for any other reason fails to provide the financial information or any part thereof required in subsection (a)(i) of this Section, the Town shall send a notice to that effect as soon as practicable to each Repository and to the Municipal Securities Rulemaking Board along with the other parts, if any, of the Financial Information.

(b) (i) The Financial Information shall initially take the form of the audited financial statements of the Town, if any, and the "*Annual Report*" of the Town as required by state law and shall indicate that it was prepared as of a specific date. The form of the Financial Information may be changed at any time by the person indicated in Section 15.

(1) (i) The Financial Information may be submitted as a single document or as separate documents comprising a package and may incorporate by reference from other documents other information, including official statements of debt issues of the Town or related public entities which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final offering circular, it must be available from the Municipal Securities Rulemaking Board. The Town shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices by the Town of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Adverse tax opinions or events affecting the tax-exempt status of the Bonds of Exemption from Arizona Income Taxes;

- (8) Modifications to rights of Bondholders;
- (9) Certificate calls;
- (10) Defeasances;
- (11) Release, substitution, or sale of property securing repayment of the Bonds; and
- (12) Rating changes,

(b) Whenever a Listed Event occurs, then the Town, if such Listed Event is material, shall promptly file a notice of such occurrence with the Central Post Office for retransmission to each Repository and such notice shall also be filed with MSRB; provided, that any event under subsection (a)(1), (6), (8), (9) or (11) will always be deemed to be material.

Section 6. Termination of Reporting Obligation. The Town's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Such termination shall not terminate the obligation of the Town to give notice of such defeasance or prior redemption.

Section 7. Dissemination Agent. The Town may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the Town may amend this Disclosure Certificate if:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature or status of the Town, or the type of business conducted;

(b) this Disclosure Certificate, as amended, would, in the opinion of Special Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment does not materially impair the interests of Bondholders, as determined by Special Counsel.

Notice of any amendment to the accounting principles shall be sent within thirty (30) days to the Repositories.

Section 9. Additional Information. If the Town chooses to include any information in the Financial Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Town shall have no obligation under this Disclosure Certificate to update such information or include it in any future Financial Information or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Town to comply with any provision of this Disclosure Certificate any Bondholder may seek specific performance by court order to cause the Town to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Town to comply with this Disclosure Certificate shall be an action to compel performance and such failure shall not constitute a default under the Bonds or the resolution authorizing the Bonds.

Section 11. Compliance by Town. The Town hereby covenants to comply with the terms of this Disclosure Certificate. The Town expressly acknowledges and agrees that compliance with the undertaking contained in this Disclosure Certificate is its sole responsibility and the responsibility of the Dissemination Agent, if

any, and that such compliance, or monitoring thereof, is not the responsibility of, and no duty is present with respect thereto for, the Participating Underwriter, Special Counselor the Town's financial advisor.

Section 12. Subject to Appropriation. Pursuant to Arizona law, the Town's undertaking to provide information under this Disclosure Certificate is subject to appropriation to cover the costs of preparing and mailing the Annual Report and notices of material events to the Central Post Office or each Repository. Should funds that would enable the Town to provide the information required to be disclosed hereunder not be appropriated, then notice of such fact will be made in a timely manner to the Central Post Office in the form of Exhibit A attached hereto.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Town, the Dissemination Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 14. Governing Law and interpretation of Terms. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Disclosure Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under Rule 15c2-12 and the federal securities law.

Section 15. Contact Person. For purposes of the request provided for in Section 3(a)(i)(A), the Town hereby designates the following as the contact from whom the Financial Information can be obtained:

Chief Fiscal Officer of the
Town of Payson, Arizona
303 North Beeline Highway
Payson, Arizona 85541

Date: _____, 2006.

TOWN OF PAYSON, ARIZONA

By: _____
Town Manager

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO APPROPRIATE FUNDS

Name of Obligated Person: Town of Payson, Arizona (the "Town").

Name of Issue: \$ _____ General Obligation Refunding Bonds, Series 2006,

Dated Date of Bonds: _____ 1, 2006 CUSIP: _____

NOTICE IS HEREBY GIVEN that the Town has failed to appropriate funds necessary to perform the undertaking required by the Limited Continuing Disclosure Certificate dated _____, 2006 with respect to the above-named Bonds.

Dated: _____

TOWN OF PAYSON, ARIZONA

By: _____
Town Manager

§ _____
TOWN OF PAYSON, ARIZONA
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2006

CONTINUING DISCLOSURE CERTIFICATE
(CUSIP Base No. _____)

This Continuing Disclosure Certificate (the "*Disclosure Certificate*") is undertaken by the Town of Payson, Arizona (the "*Town*") in connection with the issuance of the Town's \$_____ General Obligation Refunding Bonds, Series 2006 (the "*Bonds*"). In consideration of the initial sale and delivery of the Bonds, the Town covenants as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (as defined herein).

Section 2. Definitions. Any capitalized term used herein shall have the following meanings, unless otherwise defined herein:

"*Annual Report*" shall mean the annual report provided by the Town pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Bondholder*" shall mean any registered owner or beneficial owner of the Bonds.

"*Bond Counsel*" shall mean Gust Rosenfeld P.L.C. or such other nationally recognized bond counsel as may be selected by the Town.

"*Central Post Office*" shall mean an entity approved as such by the Securities and Exchange Commission. At present the Internet-based electronic filing system operated by the Municipal Advisory Council of Texas under the name of "Disclosure USA" at the following internet address site: www.DisclosureUSA.org is approved for such purpose.

"*Dissemination Agent*" shall mean the Town, or any person designated in writing by the Town as the Dissemination Agent.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"*Official Statement*" shall mean the final official statement dated _____, 2006, relating to the Bonds.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Resolution*" shall mean the resolutions authorizing the issuance and sale of the Bonds.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" shall mean any public or private repository or entity designated by the State of Arizona as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Town shall, or shall cause the Dissemination Agent to, not later than February 1 of each year (the "*Filing Date*"), commencing February 1, 2007, provide to the Central Post Office a Annual Report for the fiscal year ending on the preceding June 30 which is consistent with the requirements of Section 4 of this Disclosure Certificate.

Should the Town's fiscal year change to something other than July 1 to June 30, then the Annual Report will be provided not later than six (6) months after the end of such fiscal year. Notice of any such change in the Town's fiscal year will be filed with the Central Post Office. Not later than fifteen (15) Business Days prior to such Filing Date, the Town shall provide the Annual Report to the Dissemination Agent (if other than the Town).

(b) If the Town is unable or, for any reason, fails to provide to the Central Post Office an Annual Report by the Filing Date required in subsection (a), the Town shall promptly send a notice to the Central Post Office in substantially the form attached as Exhibit A not later than such Filing Date.

(c) If the Town's audited financial statements are not submitted with the Annual Report and the Town fails to provide to the Central Post Office a copy of its audited financial statements within 30 days of receipt thereof by the Town, then the Town shall promptly send a notice to the Central Post Office in substantially the form attached as Exhibit B.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date(s) for providing the Annual Report and audited financial statements the name and address of each National Repository and each State Repository, if any; and (if the Dissemination Agent is other than the Town)

(ii) file a report or reports with the Town certifying that the Annual Report and audited financial statements, if applicable, have been provided pursuant to this Disclosure Certificate, stating the date such information was provided and listing the Central Post Office to which it was provided.

Section 4. Content of Annual Reports.

(a) The Annual Report may be submitted as a single document or as separate documents comprising a package, and may incorporate by reference other information as provided in this Section, including the audited financial statements of the Town; provided, however, that if the audited financial statements of the Town are not available at the time of the filing of the Annual Report, the Town shall file unaudited financial statements of the Town with the Annual Report and, when the audited financial statements of the Town are available, the same shall be submitted to the Central Post Office within 30 days of receipt by the Town.

(b) The Town's Annual Report shall contain or incorporate by reference the following:

(i) Type of Financial and Operating Data to be Provided:

(A) Subject to the provisions of Section 4(a) hereof, annual audited financial statements for the Town.

(B) Annually updated financial information and operating data of the type contained in the following Sections of Appendix B of the Official Statement:

(C) In the event of an amendment pursuant to Section 8 hereof not previously described in an Annual Report, an explanation, in narrative form, of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided and, if the amendment is made to the accounting principles to be followed, a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles, including a qualitative discussion of the differences, and the impact on the presentation and, to the extent feasible, a quantitative comparison.

(ii) The audited annual financial statements shall be prepared in accordance with generally accepted accounting principles as are in effect from time to time. A more complete description of the accounting principles

currently followed in the preparation of the Town's audited annual financial statements is contained in Note 1 of the audited financial statement included within the Official Statement.

(c) Any or all of the items listed in this Section 4 may be incorporated by reference from other documents, including official statements of debt issues of the Town or related public entities, which have been submitted to the Central Post Office or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Town shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices by the Town of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds; and
- (11) Rating changes.

(b) Whenever a Listed Event occurs, then the Town, if such Listed Event is material, shall promptly file a notice of such occurrence with the Central Post Office; provided, that any event under subsection (a)(1), (8), (9) or (11) will always be deemed to be material.

Section 6. Termination of Reporting Obligation. The Town's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Such termination shall not terminate the obligation of the Town to give notice of such defeasance or prior redemption.

Section 7. Dissemination Agent. From time to time, the Town may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the Town may amend this Disclosure Certificate if:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature or status of the Town, or the type of business conducted;

(b) This Disclosure Certificate, as amended, would, in the opinion of Bond Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Bondholders, as determined by Bond Counsel or by an approving vote of the Bondholders pursuant to the terms of the Resolution at the time of the amendment.

Section 9. Central Post Office. In the event the Central Post Office is not an acceptable filing repository for purposes of the Rule, the Town shall, or shall cause the Dissemination Agent to, file all items required to be filed with the Central Post Office with each National Repository and, if any, the State Repository.

Section 10. Additional Information. If the Town chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure

Certificate, the Town shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Town to comply with any provision of this Disclosure Certificate any Bondholder may seek specific performance by court order to cause the Town to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Town to comply with this Disclosure Certificate shall be an action to compel performance and such failure shall not constitute a default under the Bonds or the resolution authorizing the Bonds.

Section 12. Compliance by Town. The Town hereby covenants to comply with the terms of this Disclosure Certificate. The Town expressly acknowledges and agrees that compliance with the undertaking contained in this Disclosure Certificate is its sole responsibility and the responsibility of the Dissemination Agent, if any, and that such compliance, or monitoring thereof, is not the responsibility of, and no duty is present with respect thereto for, the Participating Underwriter, Bond Counsel or the Town's financial advisor.

Section 13. Subject to Appropriation. Pursuant to Arizona law, the Town's undertaking to provide information under this Disclosure Certificate is subject to appropriation to cover the costs of preparing and mailing the Annual Report and notices of material events to the Central Post Office. Should funds that would enable the Town to provide the information required to be disclosed hereunder not be appropriated, then notice of such fact will be made in a timely manner to the Central Post Office in the form of *Exhibit C* attached hereto.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Town, the Dissemination Agent, the Participating Underwriters and Bondholders, and shall create no rights in any other person or entity.

Section 15. Governing Law and Interpretation of Terms. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Disclosure Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under the Rule and the federal securities law.

Section 16. Notice Concerning Cancellation of Contracts. To the extent applicable by provision of law, this Disclosure Certificate is subject to cancellation pursuant to Arizona Revised Statutes, Section 38-511, as amended.

Date: _____, 2006.

TOWN OF PAYSON, ARIZONA

By _____
Its Treasurer

EXHIBIT A

NOTICE OF FAILURE TO FILE

Name of Issuer: Town Payson, Arizona

Name of Bond Issue: \$ _____ General Obligation Refunding Bonds, Series 2006

Dated Date of Bonds: _____, 2006

CUSIP: _____

NOTICE IS HEREBY GIVEN that the Town has not provided a Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated _____, 2006. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

TOWN OF PAYSON, ARIZONA

By _____
Its _____

EXHIBIT B

NOTICE OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: Town of Payson, Arizona

Name of Bond Issue: \$ _____ General Obligation Refunding Bonds, Series 2006

Dated Date of Bonds: _____, 2006

CUSIP: _____

NOTICE IS HEREBY GIVEN that the Town failed to provide its audited financial statements with its Annual Report or, if not available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated _____, 2006 with respect to the above-named Bonds. The Issuer anticipates that the audited financial statements for the fiscal year ended June 30, ____ will be filed by _____, ____.

Dated: _____

TOWN OF PAYSON, ARIZONA

By _____
Its _____

EXHIBIT C

NOTICE OF FAILURE TO APPROPRIATE FUNDS

Name of Issuer: Town of Payson, Arizona

Name of Bond Issue: \$ _____ General Obligation Refunding Bonds, Series 2006

Dated Date of Bonds: _____, 2006

CUSIP: _____

NOTICE IS HEREBY GIVEN that the Town failed to appropriate funds necessary to perform the undertaking required by the Disclosure Certificate dated _____, 2006 with respect to the above-named Bonds.

Dated: _____

TOWN OF PAYSON, ARIZONA

By _____
Its _____

MAYOR AND COUNCIL
TOWN OF PAYSON, ARIZONA

We have examined the transcript of proceedings relating to the issuance by the Town of Payson, Arizona (the "*Town*"), of its \$_____ aggregate original principal amount of Town of Payson, Arizona, General Obligation Refunding Bonds, Series 2006, dated _____, 2006 (the "*Bonds*"), maturing on July 1 of the years 200_ through 20__.

As to questions of fact material to our opinion, we have relied upon, and assumed due and continuing compliance with the provisions of, the proceedings and other documents, and have relied upon certifications, covenants and representations furnished to us without undertaking to verify the same by independent investigation, including, without limitation, those with respect to causing interest on the Bonds to be and remain excluded from gross income for federal income tax purposes.

Based upon the foregoing, we are of the opinion, as of this date, which is the date of initial delivery of the Bonds against payment therefor, that:

1. The Bonds are valid and binding general obligations of the Town.
2. All taxable property within the Town is subject to the levy of a direct, annual, and ad valorem tax to pay the principal of and interest on the Bonds without limit as to rate or amount, except that the total aggregate of taxes levied to pay the principal of and interest on the Bonds in the aggregate shall not exceed the total aggregate amount of principal and interest to become due on the bonds being refunded from the date of issuance of the Bonds to the final date of maturity of the bonds being refunded. Additionally, the owners of the bonds being refunded have the right to rely upon a tax levy for the payment of principal and interest on the bonds being refunded if the investments made with the proceeds of the Bonds prove insufficient. It is required by law that there be levied, assessed and collected, in the same manner as other taxes of the Town, an annual tax upon the taxable property in the Town sufficient to pay the principal of and interest on the Bonds when due.
3. Under existing laws, regulations, rulings and judicial decisions, the interest income on the Bonds is excluded from gross income for the purpose of calculating federal income taxes and is exempt from Arizona income taxes. Interest income on the Bonds is not an item of tax preference to be included in computing the alternative minimum tax of individuals or corporations;

however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain corporations, which income is subject to federal alternative minimum tax. The Bonds are not private activity bonds within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, (the "*Code*"). We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The Code imposes various restrictions, conditions and requirements relating to the continued exclusion of interest income on the Bonds from gross income for federal income tax purposes, including a requirement that the Town rebate to the federal government certain of the investment earnings with respect to the Bonds. Failure to comply with such restrictions, conditions and requirement could cause the Bonds to be "arbitrage bonds" within the meaning of the Code or otherwise result in the interest income on the Bonds being included as gross income for federal income tax purposes from their date of issuance. The Town has covenanted to comply with the restrictions, conditions and requirements of the Code necessary to preserve the tax-exempt status of the Bonds. For purposes of this opinion we have assumed continuing compliance by the Town with such restrictions, conditions and requirements.

The rights of the owners of the Bonds and the enforceability of those rights may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and the enforcement of those rights may be subject to the exercise of judicial discretion in accordance with general principles of equity.

GUST ROSENFELD P.L.C.

By

Fred H. Rosenfeld
Bond Counsel

FHR:gmh
647759

§ _____
**TOWN OF PAYSON, ARIZONA
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2006**

BOND PURCHASE AGREEMENT

_____, 2006

Mayor and Town Council
Town of Payson, Arizona

Ladies and Gentlemen:

Upon the terms and conditions hereof and in reliance on the representations, warranties and covenants contained herein and in any certificates or other documents delivered pursuant hereto, Stone & Youngberg LLC (the "*Underwriter*") acting not as agent of or fiduciary to the Town of Payson, Arizona (the "*Town*") but for and on behalf of the Underwriter, hereby offers to enter into this Bond Purchase Agreement with the Town for the sale by the Town, and the purchase by the Underwriter, of the bonds described below. This offer is made subject to your acceptance of this Bond Purchase Agreement prior to 11:59 p.m., Phoenix, Arizona time, on _____, 2006. Upon acceptance, as evidenced by the execution hereof by authorized officers of the Town, in the spaces provided below, this Bond Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon the Town and the Underwriter. At any time prior to such acceptance and approval, this offer is subject to withdrawal by the Underwriter upon written notice delivered to the Town as herein provided. Unless the context otherwise indicates, any capitalized term not defined in this Bond Purchase Agreement shall have the meaning assigned to it in the Bond Resolution described in Paragraph 1 hereof.

Any financial advisory relationship between the Underwriter and the Town (if such relationship has existed or now exists) with respect to the hereinafter-described bonds is hereby terminated, and the Town hereby expressly consents to the purchase of the Bonds on a negotiated basis by the Underwriter. If a financial advisory relationship exists, there may be a conflict of interest in the Underwriter changing from the capacity of financial advisor to underwriter, and the Town hereby expressly acknowledges such circumstances. The Town and the Underwriter acknowledge that Gust Rosenfeld PLC ("*Bond Counsel*") has represented and continues to represent the Underwriter in matters not involving or pertaining to the Town. The Town and the Underwriter consent to Bond Counsel's representation of the Town as Bond Counsel and expressly waive any conflict of interest that might be deemed to exist.

1. Purchase and Sale of the Bonds. The Underwriter shall purchase from the Town, and the Town shall sell and deliver to the Underwriter, all (but not less than all) of the \$_____ principal amount of the Town of Payson, Arizona, General Obligation Refunding Bonds, Series 2006 (the "*Bonds*").

The Bonds will be dated June 1, 2006 or such later date as may be agreed by the parties hereto.

The Bonds will be purchased by the Underwriter at the purchase price of \$_____ (consisting of the par amount of the Bonds, plus original issue premium of \$_____, less the Underwriter's discount of \$_____) plus interest accrued thereon from _____, 2006 to the date of Closing referred to in Paragraph 3 hereof.

Payment for the Bonds shall be made to the Town or its order by wire transfer or other funds that are immediately available. Such transfer may reflect the wire transfer by the Underwriter to a bond insurer (the "*Insurer*"), if bond insurance is purchased to cover the Bonds, the issuer of an insurance policy relating to the Bonds, on behalf of the Town, of the Insurance Policy premium of \$_____. Payment and delivery of the Bonds and the other actions contemplated hereby to take place at the time of such payment and delivery of the Bonds hereinafter sometimes called the "Closing".

The Bonds shall bear interest at the rates and mature on the dates and in the principal amounts set forth in Exhibit A hereto. The Bonds shall have such terms, redemption provisions, and other provisions as described in and be secured under and pursuant to the Resolution adopted by the Mayor and Council of the Town on July 18, 2006 with respect to the authorization and issuance of the Bonds (the "*Bond Resolution*").

The Bonds shall be offered for sale pursuant to an official statement, dated as of the date hereof (including all appendices thereto, the "*Final Official Statement*"), prepared by or on behalf of the Town. The Underwriter agrees to make a public offering of the Bonds at not in excess of the initial offering prices (or not less than the yields) set forth in the Final Official Statement, reserving, however, the right to change such initial offering prices as necessary, in the sole discretion of the Underwriter, in connection with the marketing of the Bonds. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices (or higher than the yields). Based on the initial offering prices to the public of the Bonds, the Underwriter anticipates receiving compensation of \$_____.

The Underwriter reserves the right (i) to over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market, and (ii) to discontinue such stabilizing, if commenced, at any time.

The Bonds may not be reoffered to produce a Net Premium (as hereinafter defined) associated with the Bonds in excess of the total of (a) the difference between the amount required to pay off the Bonds Being Refunded (as described on Exhibit B attached hereto) and the par amount of the bonds to be refunded by the Bonds (the "*Bonds Being Refunded*"), and (b) a portion of the costs of issuance of the Bonds but not to exceed 2% of the par value of the Bonds Being Refunded. The term

"Net Premium" means the difference between \$ _____ (the par amount of the Bonds) and the issue price of the Bonds determined pursuant to United States Treasury Regulations. The issue price of the Bonds is the aggregate of the issue price of each maturity of the Bonds. The issue price of each maturity of the Bonds is that initial offering price to the public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at which a substantial amount of Bonds of that maturity (at least 10% of such maturity) are reasonably expected to be sold as of the date of the award.

The Underwriter will furnish to the Town a certificate in a form acceptable to Bond Counsel stating that a bona fide public offering of the Bonds has been made and setting forth the initial offering prices at which a substantial amount of the Bonds of each maturity was reasonably expected to be sold to the public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) as of the date of this Bond Purchase Agreement.

2. Authorization of the Bonds. The Bonds are to be issued pursuant to the authority set forth in Title 35, Chapter 3, Article 4, Arizona Revised Statutes, as amended, and the Bond Resolution. The Bonds will be as described in, and will be issued and secured under the provisions of, the Bond Resolution.

3. Delivery of Documents and Official Statement.

(a) At the time of acceptance hereof by the Town, or as soon as reasonably possible thereafter, there shall be delivered to the Underwriter a copy of the Bond Resolution certified by the Town Clerk as having been duly adopted by the Town and as being in effect.

(b) The Town hereby approves and ratifies the distribution by the Underwriter of the Preliminary Official Statement relating to the Bonds dated _____, 2006 (together with all appendices thereto, the "Preliminary Official Statement" and, collectively with the Final Official Statement, the "*Official Statement*"). The Town authorizes its Mayor or its Chief Financial Officer to deem the Preliminary Official Statement final for all purposes of the SEC Rule (as defined below).

(c) The Town will cause a final Official Statement to be prepared and deemed "final" for all purposes of Section 240.15c2-12, General Rules and Regulations, Securities Exchange Act of 1934 (the "*SEC Rule*"). The Underwriter has not previously made any final agreement with the Town to purchase the Bonds in an offering within the meaning of the SEC Rule. The Town hereby agrees to provide to the Underwriter copies of the Preliminary Official Statement and the Final Official Statement in sufficient quantity to comply with the SEC Rule and Rules G-32 and G-36 of the Municipal Securities Rulemaking Board (the "*MSRB*") and, in the case of the Final Official Statement, within seven business days after the date of this Bond Purchase Agreement. The Underwriter hereby agrees to provide to the Town such information relating to the Bonds which is not within the scope of knowledge of the Town (including, but not limited to, the Underwriter's selling compensation, offering price(s), interest rate(s), delivery date and other terms of the Bonds dependent upon such matters).

(d) The Final Official Statement shall be substantially in the form of the Preliminary Official Statement with only such changes therein as shall be necessary to conform to the terms of this Bond Purchase Agreement and with such other changes and amendments to the date thereof as have been accepted by the Underwriter. The execution and delivery of the Final Official Statement shall evidence the determination by the Town that the Final Official Statement is "final" for all purposes of the SEC Rule.

(e) At the time of acceptance hereof by the Town, the Town agrees it shall enter into a written undertaking (the "*Undertaking*") to provide ongoing disclosure as required by the SEC Rule, for the benefit of the Owners of the Bonds on or before the date of delivery of the bonds as required under paragraph (b)(5) of the SEC Rule. The Undertaking shall be in the form set forth in the Preliminary Official Statement with such changes as may be agreed in writing by the Underwriter. (The Underwriter's obligation to purchase the Bonds shall be conditioned upon the Town delivering the Undertaking, satisfactory to the Underwriter, on or before the date of delivery of the Bonds.)

4. Closing. At 8:00 a.m., Phoenix, Arizona time, on _____, 2006, or at such other time and date as may be mutually agreed upon, the Town will deliver or cause to be delivered to the Underwriter through the facilities of The Depository Trust Corporation, New York, New York ("*DTC*"), or through such other means as may be mutually agreed upon, the Bonds in definitive form, duly executed and authenticated, registered in the name of Cede & Co., as nominee of DTC, pursuant to the existing Blanket Letter of Representations between the Town and DTC (the "*DTC Letter*") and bearing CUSIP numbers (provided, however, that lack of said CUSIP numbers shall not relieve the Underwriter from its obligations under this Bond Purchase Agreement to purchase the Bonds), together with the other documents hereinafter mentioned. The Underwriter will accept such delivery and pay the purchase price therefor as set forth in Paragraph 1 hereof. The Bonds will be made available for checking and packaging at DTC or some other mutually agreeable place prior to the Closing. Delivery of the Bonds will be made through the facilities of DTC or, in the case of a "F.A.S.T." closing, with the Trustee or at such other place as may have been mutually agreed upon by the Town and the Underwriter.

5. Representation, Warranties and Covenants of the Town. The undersigned, on behalf of the Town, but not individually, represent and warrant to, and covenant with, the Underwriter that:

(a) The Town is a municipal corporation duly organized and validly existing under the Constitution and laws of the State of Arizona.

(b) The Town has and at the date of Closing will have full power and authority (i) to adopt the Bond Resolution; (ii) to issue, sell and deliver the Bonds to the Underwriter as provided herein; (iii) to enter into (A) the DTC Letter, (B) the Undertaking, (C) the Bond Registrar and Paying Agent Contract dated as of _____, 2006 (the "*Registrar's Contract*") and, (D) this Bond Purchase Agreement (collectively, the "*Town Documents*"), (iv) to carry out and consummate all other transactions contemplated by the Town Documents, the Bond Resolution and the Official Statement. The parties hereto understand that the United States of America is the owner of the Bonds Being Refunded and that the Bonds Being Refunded may be

prepaid at any time by the town without penalty. The Town agrees to use the proceeds of the Bonds to prepay the Bonds Being Refunded as soon as possible after the closing.

(c) The Mayor and the Town Council have (i) duly adopted the Bond Resolution, (ii) duly authorized and approved the Preliminary Official Statement and the Official Statement and the lawful distribution thereof in connection with the offering for sale of the Bonds, (iii) duly authorized and approved the execution and delivery of, and the performance of its obligations under the Town Documents, the Bond Resolution and the Official Statement; (iv) duly authorized and approved the consummation of all other transactions contemplated by the Bonds, the Town Documents, the Bond Resolution and the Official Statement, (v) except as described in the Official Statement, materially complied with all continuing disclosure undertakings required by the SEC Rule, if any, with respect to any previous issuance of bonds and other securities of the Town, (vi) not been in material breach of or default under any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, note, resolution, agreement or other instrument to which the Town is a party or to which it is otherwise subject or to which any of its property is otherwise subject because such property is property of the Town; and (vii) submitted to the Arizona Department of Revenue the information required with respect to previous issuance of bonds, securities and lease-purchase agreements of the Town pursuant to Arizona Revised Statutes § 35-501B.

(d) The Town is, and at the Closing will be, in material compliance in all respects with the Town Documents and the Bond Resolution.

(e) The Bonds will conform to the Bond Resolution and to the Official Statement and when issued, executed, authenticated and delivered in accordance with the Bond Resolution, and sold to the Underwriter as provided herein, will be validly issued and outstanding ad valorem tax obligations of the Town entitled to the benefits of the Constitution and laws of the State and the Bond Resolution, and all actions necessary to create a legal, valid and binding levy on all of the taxable property in the Town of a direct, annual, ad valorem tax, unlimited as to rate, sufficient to pay all the principal of and interest on the Bonds as the same becomes due shall have been taken at or prior to the Closing.

(f) As of the date of the Closing, the Town Documents will have been duly executed and delivered by the Town and will be legal, valid and binding agreements of the Town enforceable in accordance with their terms, subject as to enforcement of remedies to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and subject to the availability of equitable relief, and, in the case of this Bond Purchase Agreement, applicable securities laws.

(g) The execution of the Town Documents, the adoption of the Bond Resolution and the consummation of the transactions contemplated therein and in the Official Statement will not materially conflict with or constitute a material breach of or material default under any provision of applicable law or administrative regulation of the State of Arizona or United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which the Town is a party or may be otherwise subject. The District is not in material breach of or material default under any such provisions and no event has

occurred and is continuing which constitutes, or which with the passage of time or the giving of notice or both would constitute, a material breach of or a material default under any such provisions, and there are no provisions which, either in any single case or in the aggregate, materially adversely affect or in the future might (so far as can reasonably be foreseen) materially affect the Town's business, affairs, position, results of operation or condition, financial or otherwise, or materially affect the Town's ability to fulfill its obligations or carry out the transactions contemplated by the Bonds, the Town Documents, the Bond Resolution and the Official Statement.

(h) While the Underwriter has participated and will participate with the Town in the preparation and assembly of the Preliminary Official Statement and the Final Official Statement, respectively, the Town acknowledges and agrees that the Town is primarily responsible for the content of the Preliminary Official Statement and the Final Official Statement and, as of the date thereof, and at the time of the acceptance by the Town hereof, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and at the time of the acceptance hereof by the Town and at all times subsequent thereto, up to and including the date of the Closing (unless the Final Official Statement is amended or supplemented pursuant to subparagraph (c) of Paragraph 7 hereof), the Final Official Statement (including the financial and statistical data included therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) If between the date of this Bond Purchase Agreement and the date twenty-five (25) days following the end of the underwriting period (as defined in subparagraph 7(c) hereof) the Town receives notice of an event affecting the Town or any transaction contemplated hereby or by the documents referred to herein, which could cause the Preliminary Official Statement or the Official Statement to contain an untrue statement of a material fact or to omit to state a material fact which is necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Town shall notify the Underwriter pursuant to subparagraph 6(c) hereof.

(j) Except as otherwise disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or overtly threatened (i) in any way affecting the powers of the Town, the existence of the Town or title to office of any officials of the Town, (ii) seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, or the collection of the taxes levied or to be levied to pay the principal of and interest on the Bonds, (iii) in any way contesting or affecting the validity or enforceability of the Bonds, the Town Documents, the Bond Resolution or any agreements entered into in connection therewith, (iv) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, (v) which may adversely affect the Town, the System or any other properties of the Town, or (vi) questioning the status of the Bonds for purposes of federal income taxation nor is there any reasonable basis therefor.

(k) The Town will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request

in order (i) to qualify the Bonds for offer and sale under the blue sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate, and (ii) to determine the eligibility of the Bonds for investment under the laws of the states and other jurisdictions of the United States, and use its best efforts to continue such qualification in effect so long as required for the initial offer, sale and distribution of Bonds; provided that the Town shall not be required to consent to service of process in any other state or jurisdiction or be required to qualify as a foreign corporation or other foreign entity; and the Town shall advise the Underwriter immediately of receipt by the Town of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.

(l) The financial statements of the Town contained in the Preliminary Official Statement and to be contained in the Official Statement fairly present the financial position and results of operations and changes in fund balances of the Town as of the dates and for the periods therein set forth and the Town has no reason to believe that such financial statements have not been prepared in accordance with generally accepted accounting principles for municipalities consistently applied. Since June 30, 2005, the Town has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the result of operations or financial condition of the Town that is not described in the Preliminary Official Statement, whether or not arising from transactions in ordinary course of business.

(m) To the extent permitted by applicable law, between the date of this Bond Purchase Agreement and the Closing, the Town will not, without providing prior written notice to the Underwriter, issue any bonds, notes or other obligations for borrowed money, and, subsequent to the respective dates as of which information is given in the Official Statement up to and including the date of the Closing, the Town will immediately provide written notice to the Underwriter of any material liabilities, direct or contingent, except those liabilities arising in the normal course of business.

(n) The Town shall file the information with respect to the issuance of the Bonds required to be submitted to the Arizona Department of Revenue pursuant to A.R.S. Section 35-501(B) within sixty (60) days of the date of the Closing.

(o) The Town will execute and deliver, or cause the execution and delivery prior to Closing the documents required to cause the Bonds to be eligible for deposit with DTC (as hereinafter defined) or other securities depositories.

(p) The Town has made all required filings with, and has obtained all approvals, consents and orders of, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the performance by the Town of its obligations under the Bond Resolution, the Town Documents and the Bonds.

(q) The Town is not a party to any contract or agreement or subject to any restriction, the performance of or compliance with which may have a material adverse affect on the financial condition, operations or prospects of the Town or ability of the Town to comply with all the requirements set forth in the Official Statement, the Bond Resolution, the Town Documents or the Bonds.

(r) Any certification required to be delivered hereunder signed by an authorized officer of the Town or such other officer of the Town as may be designated in written directions from time to time by the Town delivered to the Underwriter shall be deemed the representation and warranty of the Town to the Underwriter as to the statements made therein.

(s) The officers and officials of the Town executing the Official Statement, the Bond Resolution and the Town Documents and the officers and officials of the Town listed on the certificate of the Town to be delivered at the Closing have been or will have been duly appointed and are or will be qualified to serve as such officers and officials of the Town.

6. Conditions to Underwriter's Obligations. The Underwriter has entered into this Bond Purchase Agreement in reliance upon the warranties, representations and covenants of the Town contained herein and to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Town of its obligations hereunder at or prior to the date of the Closing. Accordingly, the Underwriter's obligation under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds is subject to the performance by the Town of its obligations to be performed hereunder and under such aforesaid documents and instruments at or prior to the Closing, and is also subject to the fulfillment to the reasonable satisfaction of the Underwriter of the following conditions:

(a) At the time of Closing,

(1) the Bond Resolution and the Town Documents shall be in full force and effect and shall not have been amended, modified, supplemented, repealed or revoked in any respect and the Final Official Statement will not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter;

(2) the representations and warranties of the Town contained in the Town Documents, respectively, will be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of Closing;

(3) the Bonds shall be delivered to the Underwriter as provided herein;

(4) the proceeds from the sale of the Bonds shall be applied as described herein;

(5) the Town shall have duly adopted and there shall be in full force and effect such other resolutions as, in the opinion of Gust Rosenfeld P.L.C., as disclosure counsel, shall be necessary in connection with the transactions contemplated hereby and by the Official Statement and all necessary action of the Town relating to the issuance of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter;

(6) the Town shall not have failed to pay principal or interest when due on any of then outstanding obligations for borrowed money; and

(7) all steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions contemplated by this Bond Purchase Agreement shall be reasonably satisfactory in legal form and effect to the Underwriter.

(b) The Underwriter shall have the right to cancel its obligation to purchase, to accept delivery of and to pay for the Bonds by notifying the Town of its election to so if between the date hereof and the Closing (regardless of whether or not any of the following conditions were in existence on the date of this Bond Purchase Agreement):

(1) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially adversely affected by (A) an amendment to the Constitution of the United States or the Constitution of the State or (B) any introduced or enacted federal or State legislation or (C) any decision of any federal or State court or (D) any ruling or regulation (final, temporary or proposed) of the Treasury Department of the United States, the Internal Revenue Service or other federal or State authority or (E) any bill favorably reported out of committee in either house of the Congress of the United States, in any case affecting the tax status of the Town, its property or income, its securities (including the Bonds) or the interest thereon, or any tax exemption granted or authorized by the Internal Revenue Code of 1986, as amended, or the statutes of the State;

(2) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission shall be issued or made having the effect or creating the probability that the issuance, offering or sale of obligations of the general character of the Bonds shall be or shall become a violation of any provisions of the Securities Act of 1933, the Securities and Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended;

(3) in the Congress of the United States legislation shall be enacted or a bill shall be favorably reported out of committee to either house, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that securities of the Town or of any similar public body are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, the Securities and Exchange Act of 1934 or the Trust Indenture Act of 1939; provided, however, that the effective date of the events described in (1), (2) and (3) of this subparagraph (b) shall be prior to the date of the Closing;

(4) the United States shall have become engaged in hostilities which have resulted in a declaration of war or a national emergency or there shall have occurred any other outbreak of hostilities or a national or international calamity or crisis, or an escalation thereof, the effect of such outbreak, calamity, crisis or escalation on the financial markets of the United States being such as, in the opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds or to enforce contracts for the sale of the Bonds;

(5) there shall have occurred a general suspension of trading on the New York Stock Exchange or the declaration of a general banking moratorium by the United States, or by the States of Arizona or New York;

(6) there shall exist any event which, in the reasonable judgment of the Underwriter, either (A) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement, (B) is not reflected in the Official Statement, but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect and, in either such event, the Town refuses to permit the Official Statement to be supplemented to correct or supply such statement or information, or the statement or information as supplemented is such as, in the reasonable judgment of the Underwriter, would materially adversely affect the market for the Bonds or the sale, at the contemplated offering price, by the Underwriter of the Bonds; and

(7) there shall have occurred in the reasonable judgment of the Underwriter a material adverse change in the affairs or economic condition of the Town.

(c) At or prior to the Closing, the Underwriter shall receive the following opinions, certificates and documents:

(1) the approving opinion of Bond Counsel, in form and substance satisfactory to the Underwriter, dated as of the date of the Closing;

(2) supplemental letter or opinions of Bond Counsel dated the date of the Closing and addressed to the Underwriter, to the effect that:

(i) the opinion referred to in the preceding subparagraph (1) may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it;

(ii) the statements contained in the Final Official Statement under the headings entitled "THE BONDS," "PLAN OF REFUNDING," "TAX MATTERS," "ORIGINAL ISSUE DISCOUNT," "BOND PREMIUM," "RELATIONSHIP AMONG PARTIES" (as it relates to Bond Counsel), "CONTINUING DISCLOSURE" (except as to compliance with prior undertakings, as to which no opinion need be expressed), and Appendices D and E thereto, and in the caption paragraph on the cover page of the Official Statement accurately summarize the information they purport to summarize;

(iii) the offer and sale of the Bonds shall be exempt from registration under the Securities Act of 1933, as amended, and the Bond Resolution does not need to be qualified pursuant to the Trust Indenture Act of 1939, as amended;

(iv) the Town Documents have been duly authorized, executed and delivered by the Town, and (assuming due authorization and execution by the other party or parties thereto) are legal, valid and binding obligations of the Town, enforceable in

accordance with their terms, subject to customary exceptions for bankruptcy and judicial discretion;

(v) the Town has duly (a) adopted the Bond Resolution and (b) authorized (i) the authorization, execution, delivery and issuance, as applicable of, and the performance of its obligations under, the Town Documents and the Bonds, (ii) the execution, use and distribution of the Preliminary Official Statement and the Official Statement, and (iii) the taking of the actions required on the part of the Town to carry out, give effect to and consummate the transactions contemplated by the Official Statement, the Bond Resolution, the Town Documents and the Bonds. The Town has complied with all applicable provisions of law and has taken all actions required to be taken by it to the date hereof in connection with the transactions contemplated by the aforesaid documents, and the Bond Resolution is fully effective under and pursuant to the laws of the State of Arizona and is not subject to referendum;

(vi) the adoption and approval of the Bond Resolution, the authorization, execution and delivery of the Town Documents and the authorization, issuance, delivery and sale of the Bonds and compliance with the respective provisions thereof under the circumstances contemplated thereby do not and will not in any material respect conflict with or constitute on the part of the Town a material breach of or material default under any agreement or other instrument to which the Town is a party or any existing law, ordinance, administrative regulation, court order or consent decree to which the Town is subject;

(3) the opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, as disclosure counsel, dated the date of the Closing, addressed and in form and substance acceptable to the Underwriter;

(4) a certificate, dated the date of the Closing, signed on behalf of the Town by the Mayor and by the Clerk of the Town, in form and substance satisfactory to the Underwriter, to the effect that, to the best knowledge of such officials:

(i) the representations and warranties of the Town contained in the Town Documents are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing;

(ii) except as otherwise described in the Official statement, there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of the Town, threatened (A) in any way affecting the Town's powers or the existence of the Town, (B) seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, or the levy and collection of ad valorem taxes to pay the principal of and interest on the Bonds, (C) in any way contesting or affecting the validity or enforceability of the Bonds, the Bond Resolution, the Town Documents or any agreement entered into in connection therewith, (D) contesting in any way the completeness or accuracy of the Preliminary Official Statement or of the Official Statement, (E) which may adversely affect the Town, the System or other properties of the

Town, or (F) questioning the status of the Bonds or interest thereon for purposes of federal income taxation;

(iii) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded and no petition or petitions to revoke or alter the authorization to issue the Bonds has been filed with or received by any of the undersigned;

(iv) the Town has complied with all agreements, covenants and arrangements, and satisfied all conditions on its part to be complied with or satisfied at or prior to the Closing; and

(v) no event affecting the Town has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein with respect to the Town in order to make the information therein in the light of the circumstances under which they were made or set forth not misleading in any material respect;

(5) an opinion of the Town Attorney that:

(i) the Town is duly organized and validly existing as a municipal corporation under the Constitution and laws of the State of Arizona, and has all requisite power and authority thereunder and under the laws of the State of Arizona, to enter into and perform its covenants and agreements under the Bond Resolution and the Town Documents;

(ii) the Bond Resolution and the Town Documents have been duly authorized, validly executed and delivered by the Town, and constitute the legal, valid and binding obligations of the Town enforceable in accordance with their respective terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws, and equitable principles affecting the enforceability of creditors' rights generally;

(iii) the authorization, approval and execution of the Bond Resolution and the Town Documents and all other proceedings of the Town relating to the transactions contemplated thereby have been performed in accordance with all applicable open meeting and other laws, resolutions and ordinances of the Town and the State of Arizona;

(iv) to the best of his knowledge, information and belief, the Official Statement issued in connection with the Bonds did not on the date of sale and does not on the date of delivery of the Bonds contain any untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein contained with respect to the Town, in light of the circumstances under which they were made, not misleading; and

(v) except as described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental

agency, public board or body pending or, to his knowledge threatened (A) in any way affecting the Town's powers, the existence of the Town or the title to office of any of the officials of the Town, (B) seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, or the levy or collection of ad valorem taxes to pay the principal of and interest on the Bonds, (C) in any way contesting or affecting the validity or enforceability of the Bonds, the Bond Resolution, the Town Documents or any agreements entered into in connection therewith, (D) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, (E) which may adversely affect the Town or its properties, or (F) questioning the status of the Bonds for purposes of federal income taxation; nor, to the best knowledge of such counsel, is there any reasonable basis therefor;

(6) executed counterparts or copies of the Bond Resolution and a certification by the Town Clerk of the Town that such counterparts or copies are true, correct and complete and that the Bond Resolution is in full force and effect as of the date of closing and has not been amended, modified, supplemented, revoked or repealed;

(7) an executed counterpart of a certificate of authentication certifying to the authentication of the Bonds by the Trustee, as registrar, in a form acceptable to Bond Counsel;

(8) executed counterparts of the Town Documents;

(9) arbitrage certifications by the Town in form and substance acceptable to Bond Counsel;

(10) a specimen copy of the Bonds;

(11) evidence that _____, has issued a rating of "____" for the Bonds, and that such rating is then in effect;

(12) such information and instruments as the Underwriter may reasonably request in order to qualify the Bonds for offering and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate, provided, however, that the Town shall not be required to submit to any service of process in any jurisdiction as a condition to the offering and sale of the Bonds by the Underwriter;

(13) a certificate, dated the date of the Closing and signed by either the Manager or Chief Financial Officer/Treasurer of the Town (i) to the effect that to the best of his knowledge after due investigation (A) the Official Statement did not, as of its date or as of the date of sale of the Obligations, and does not, as of the date hereof, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (B) the financial statements of the Town contained in the Official Statement fairly present the financial position and results of operations and changes in fund balances of the Town as of the dates and for the periods therein set forth and the Town has no reason to believe that such financial

statements have not been prepared in accordance with generally accepted accounting principles consistently applied; (C) since June 30, 2005, the Town has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the result of operations or financial condition of the Town that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business, nor are there any deficits in any fund of the Town except as disclosed in the Official Statement; and (D) no event affecting the Town has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose of which it is to be used or which it is necessary to disclose therein with respect to the Town in order to make the information therein in the light of the circumstances under which they were made or set forth not misleading in any material respect;

(14) one counterpart original of a transcript of all proceedings relating to the authorization and issuance of the Bonds;

(15) an original of the Final Official Statement manually executed on behalf of the Town by its Mayor;

[(16) evidence that the Insurer has issued the Insurance Policy with respect to the Bonds as well as appropriate opinions and certificates from the Insurer relating to the Policy;] [SUBPARAGRAPH 16 TO BE INSERTED IF APPLICABLE]

(17) any items required by the Bond Resolution as conditions for issuance of the Bonds;

(18) the filing copy of the Information Return Form 8038-G (IRS) for the Bonds;

(19) delivery to the Underwriter at the time of Closing, in a form satisfactory to the Underwriter, the information required to be submitted to the Arizona Department of Revenue pursuant to A.R.S. Section 35-501(B);

(20) such additional legal opinions, certificates proceedings, instruments and other documents as the Underwriter and Bond Counsel may reasonably request to evidence compliance by the Town with legal requirements, the truth and accuracy, as of the time of the Closing, of the representations herein and in the Official Statement and the due performance or satisfaction by the Town at or prior to such time of all agreements and legal requirements then to be satisfied by the Town.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Bond Purchase Agreement shall be deemed to be in compliance with the provisions of this Bond Purchase Agreement if, but only if, they are in form and substance satisfactory to the Underwriter. To the extent any of the above-described opinions, certificates, letters or documents is required to be delivered and to be satisfactory or acceptable to the Underwriter as a condition of closing, the Underwriter's delivery of payment for the Bonds shall evidence such satisfaction or acceptance, or the waiver of such requirement, as the case may be.

If there is any failure to satisfy the conditions to the Underwriter's obligations contained in this Bond Purchase Agreement or if the Underwriter's obligations are terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and the Underwriter and the Town shall not have any further obligation hereunder, except the respective obligations of the Town and the Underwriter set forth in Paragraph 8 and the representations and warranties of the Town contained herein will continue in full force and effect.

7. Compliance with Rule 15c2-12; Circumstances Affecting Disclosure Arising Before or After the Closing.

(a) As soon as practicable after the date hereof, and in any event within seven business days of the date hereof, the Town shall deliver to the Underwriter copies of the Official Statement dated the date hereof in substantially the form of the Preliminary Official Statement, with only such changes therein as shall have been approved by the Town and the Underwriter (the delivery of the Official Statement by the Town to the Underwriter and the acceptance thereof by the Underwriter to constitute in all events such approval), executed on behalf of the Town by its Mayor. The Official Statement shall be provided to the Underwriter for distribution in such quantity as shall be reasonably requested by the Underwriter in order to permit the Underwriter to comply with the provisions of the Rule and the applicable rules of the Municipal Securities Rulemaking Board.

(b) The Town will not adopt any amendment of or supplement to the Official Statement to which, after having been furnished with a copy, the Underwriter shall object reasonably, in writing, or which shall be disapproved by Bond Counsel.

(c) After the date hereof and until 25 days after the end of the underwriting period, if any event shall occur which could cause the Preliminary Official Statement or the Official Statement to contain an untrue statement of a material fact or to omit to state a material fact which is necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading as a result of which it is necessary, in the opinion of the Underwriter or the Town, to amend or supplement the Official Statement, the Town shall cause to be prepared and furnished a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter and Bond counsel) which will amend or supplement the Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements and information therein, in light of the circumstances, not misleading in any material respect; provided, however, that if such event shall occur on or prior to the Closing Date, the Underwriter in its sole discretion shall have the right to terminate the Underwriter's obligations hereunder by written notice to the Town, and the Underwriter will be under no obligation to purchase and pay for the Bonds. The expense of preparing any such amendment or supplement shall be paid by the Town.

(d) For the purposes of this Paragraph 7, the Town will furnish such information with respect to the Town, as the Underwriter may, within twenty-five (25) days of filing the Official Statement with a nationally recognized municipal securities information repository (as such term is used in the Rule), reasonably request.

(e) The Town represents and warrants that, at the time of the acceptance hereof by the Town and (unless an event occurs in the nature described in subparagraph (d) of this Paragraph (7)) at all times subsequent thereto during the period up to and including twenty-five (25) days subsequent to the end of the underwriting period, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information therein, in light of the circumstances, not misleading in any material respect.

(f) The Town represents and warrants that, if the Official Statement is supplemented or amended pursuant to subparagraph (c) of this Paragraph 7 as to such information, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto during the period up to and including twenty-five (25) days subsequent to the end of the underwriting period, the Official Statement as to supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(g) The "end of the underwriting period" as used in this Bond Purchase Agreement shall mean the date of the Closing unless the Underwriter gives written notice otherwise to the Town prior to the date of the Closing. In the event such notice is given in writing by the Underwriter, the Underwriter agrees to notify the Town in writing promptly following the occurrence of the "end of the underwriting period" as defined in the Rule.

8. Payment of Expenses.

(a) Whether or not the transactions contemplated by this Bond Purchase Agreement are consummated, the Underwriter shall be under no obligation to pay, and the Town shall pay from the proceeds of the Bonds only, all expenses and costs of the Town incident to its obligations in connection with the authorization, execution and delivery of Bonds to the Underwriter, including, without limitation: fees and expenses of Bond and Disclosure Counsel and all other professional advisers; costs of preparation, signing, transportation, delivery and safekeeping of the Bonds; printing of the Preliminary Official Statement and the Official Statement; fees and expenses of the registrar and paying agent, the fees and expenses of obtaining ratings; the costs and expenses of obtaining bond insurance; and travel expenses and miscellaneous expenses incurred by the Underwriter.

(b) The Underwriter will pay all advertising expenses in connection with the public offering of the Bonds, and all other expenses incurred by it in connection with its public offering and distribution of the Bonds.

(c) If this Bond Purchase Agreement shall be terminated by the Underwriter because of any failure or refusal on the part of the Town to comply with the terms or to fulfill any of the conditions of this Bond Purchase Agreement, the Town shall reimburse the Underwriter for all "out-of-pocket" expenses reasonably incurred by the Underwriter in connection with this Bond Purchase Agreement or the offering contemplated hereunder.

9. Notices. Any notice to be given under this Bond Purchase Agreement may be given by mailing or delivering the same in writing as follows:

Town: Town of Payson, Arizona
11465 W. Civic Center Drive, Suite 220
Payson, Arizona 85323
Attn: Charlie McClendon, Town Manager

Underwriter: Stone & Youngberg LLC
2375 E. Camelback Road, 5th Floor
Phoenix, Arizona 85016
Attn: Mr. Robert A. Casillas

10. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the Town and the Underwriter (including the successors or assigns of the Underwriter), and no other person, partnership, association or corporation shall acquire or have any right hereunder or by virtue hereof. All agreements of the Town in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds.

11. Effect of Other Contract. Nothing in this Bond Purchase Agreement shall be construed as altering, terminating or otherwise modifying any existing contracts between the Town and the Underwriter.

12. Miscellaneous.

(a) If any section, paragraph, subdivision, sentence, clause or phrase hereof shall for any reason be held illegal or unenforceable, such decision shall not affect the validity of the remaining portions hereof. The parties hereto declared they would have executed this Bond Purchase Agreement and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof, irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, or clauses or phrases hereof may be held to be illegal, invalid, or unenforceable. If any provision hereof contains any ambiguity which may be construed as either valid or invalid, the valid construction shall be adopted.

(b) This Bond Purchase Agreement expresses the entire understanding and all agreements of the parties hereto with each other with respect to the subject matter hereof, and no party hereto has made or shall be bound by any agreement or any representation to any other party which is not expressly set forth herein.

13. Notice Concerning Cancellation of Contracts. To the extent applicable by provision of law, the parties acknowledge that this Bond Purchase Agreement is subject to cancellation pursuant to A.R.S. Section 38-511, as amended, the provisions of which are incorporated herein.

14. Counterparts. This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

15. Effective Date. This Bond Purchase Agreement will become effective upon execution by the Mayor and attestation by the Clerk of the Town and will be valid and enforceable as of the time of such execution and attestation.

STONE & YOUNGBERG LLC

TOWN OF PAYSON, ARIZONA

By _____
Director

By _____
Mayor

ATTEST:

By _____
Town Clerk

EXHIBIT A

**TOWN OF PAYSON, ARIZONA
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2006**

The Bonds mature on July 1 in the years and amounts and bear interest at the following per annum rates:

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield
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Optional Redemption:

The Series 2006 Bonds will not be subject to optional redemption prior to maturity.

EXHIBIT B

DESCRIPTION OF BONDS BEING REFUNDED

Name of Bonds Being Refunded: "Town of Payson General Obligation Permanent Bond"

Date of Bonds Being Refunded: April 1, 1996

Installment Payment Schedule of Bonds Being Refunded:

Maturity Date	Principal Amount
July 1, 2007	\$ 175,000
July 1, 2008	185,000
July 1, 2009	195,000
July 1, 2010	205,000
July 1, 2011	215,000
July 1, 2012	230,000



Committed to the future of rural communities.

United State Department of Agriculture Rural Development
Flagstaff Local Office
1585 S. Plaza Way, Suite 120
Flagstaff, AZ 86001
Phone (928) 774-2401 Ext. 107
Fax (928) 774-2780
TDD (602) 280-8705

April 5, 2006

Glenn W Smith, Chief Fiscal Officer
Town of Payson
303 N. Beeline Highway
Payson, AZ 85541

Dear Mr. Smith:

We thank you for sending us your 2005 management report.

The financial progress made by your city since it obtained a loan in 1996, when it needed assistance from the lender of last resort, has been reviewed.

The USDA Rural Utilities Service security instruments require your City to refinance the unpaid balance of the loan. This is to be done when progress is made to the extent that City of Payson can now obtain credit from responsible commercial lender.

We have evaluated your financial progress along with the lender requirements and have determined that your City can secure satisfactory credit to pay off your USDA loan. Therefore we request the City of Payson to refinance the Rural Utilities Service in full.

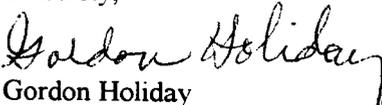
The approximate balance is \$1,186,000.

If you are unable to refinance the loan in full, you will need to provide us within 90 days, written evidence showing that you made an earnest effort to seek other credit. Such evidence should include:

1. The name of other lender or lenders contacted;
2. the amount of loan requested; if any, offered by the lender;
3. the rates and terms offered by the lender(s) or the specific reason(s) why other credit is not available; and
4. the purpose of the loan request.

If you have any questions call me at (928)774-2401 ext. 107.

Sincerely,


Gordon Holiday
Community Programs Specialist

"USDA is an equal opportunity provider, employer and lender". To file a complaint of discrimination write USDA, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington D.C. 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).