

August 20, 2008

Mr. William F. Haney, P.E.
Pine Strawberry Water Improvement District
P.O. Box 134
Pine, AZ 85544



11184 Antioch, Ste. 313
Overland Park, KS
66210-2420

Re: Financing the acquisition of the Pine Water Company
and the Strawberry Water Company

Ph. 913.381.1900
Fax 913.381.0105

info@mlcfinance.com

Dear Mr. Haney:

I appreciate the opportunity to participate in the potential financing of the acquisition of two water companies in the Pine, Arizona area. I have reviewed the project, analyzed the financial information provided, and had several discussions with our bond counsel concerning the legal issues associated with financing this project.

The potential of a hostile takeover and ensuing court battle eliminates most typical investors in this type of project. The uncertainty of future status is just too great a risk for them, especially in light of the recent downturn in the credit markets. Credit requirements are much tighter than before, and any slight variance from the norm causes good projects to be rejected.

Many brokerage houses will consider this deal too small, especially when it may face litigation. In addition, their bond issues need voter approval; there is usually an additional 1 – 2 % in fees just to cover their sales staff; and they will need an Official Statement in order to offer the bonds to the public. (An OS is costly, time-consuming, and involves scrutiny of every minor detail in this transaction). Banks (with the FDIC looking over their shoulder) will need audited financials for transactions this large and are very unlikely to approve a transaction heading to court. Grants, if available, take too long to obtain to be of immediate help to you. WIFA finances larger cities and towns with audited financials and no court case in their future. Indeed, the pool of money to accomplish your project – in the way you need it done – is extremely small.

Tax-exempt municipal leasing offers you, by far, the best opportunity to obtain the funds you need in the manner you need them. Advantages of leasing are many:

1. No voter approval is needed.
2. No assessment lien bonds are needed.
3. The financing can be completed in a short amount of time.
4. Documentation is simple – no offering statement is needed.
5. Rules are relaxed on some requirements because the FDIC, SEC, or other governmental agencies do not regulate leasing companies. A leasing company can assess a project and determine on its own how much risk it is willing to take.

6. The flexibility of structuring payments is almost endless. Payments are planned with the borrower's cash flow in mind.
7. Resolution by the governing board of PSWID is the only approval needed from the borrower.
8. The District has the option of adding to the lease if a larger dollar amount is needed.
9. The lease can be prepaid in full. Once the lawsuit is settled and the District's financial uncertainty resolved, the District will have the option to "shop" for a different payment plan if desired.
10. The lease has a \$1.00 final payment at the end – no extra charges, no fair market value, no residual costs, etc.



**11184 Antioch, Ste. 313
Overland Park, KS
66210-2420**

**Ph. 913.381.1900
Fax 913.381.0105**

info@mlcfinance.com

As you can see, lease purchase financing can fully satisfy the requirements of your unusual situation. Since you will need funds within the next month or two, we have attached a Board Resolution authorizing MLCC to move forward with this financing. To allow us the time necessary to prepare the documents and complete credit approval, please have this Resolution passed as soon as possible and return to us via fax (913.381.0105) or email, carol@mlcfinance.com.

I appreciate the difficult situation of the PSWID right now, although your efforts will more than pay off for your community. Municipal Leasing Credit Corporation hopes to be a part of helping you solve your community's water needs. Please call 800-333-4910 or email carol@mlcfinance.com if I can be of help. I look forward to hearing from you soon.

Sincerely,

Carol D. Searcy

CDS:ebo

Encls.