

Stifel, Nicolaus
& Company, Incorporated

October 5, 2006

Mr. Frank Myers
City Administrator
City of Crestwood
One Detjen Place
Crestwood, Missouri 63126

Re: Private Placement of Promissory Note and Line of Credit

Dear Mr. Myers:

I am attaching for the City's review and consideration the recommended Plan of Financing (the "Plan") in the form of a Request for Proposals--Term Sheet. This Plan provides for the refunding of the City's Promissory Note and Line of Credit with Southwest Bank which comes due at the end of October. The Plan has been reviewed and concurred with by the City's Bond Counsel, Gilmore & Bell, P.C., St. Louis, Missouri, both as to meeting tax-exempt status (state and federal) and meeting the legal requirements of the State of Missouri.

This Plan addresses and meets the objectives of the City by accomplishing the refunding of the Promissory Note, in its entirety, eliminating the current obligation that the line of credit creates and establishes for the City funding for a working cash balance in the General Fund. This will obviate the need for the City to have a line of credit in the future. Based upon the cash flow projections prepared by the City, the working cash balance should, with fiscal discipline, provide the City with needed cash balances to meet its monthly cash flow needs in the upcoming year and beyond.

The structure of the transaction is based upon an Annual Appropriation Note, payable from proceeds of Proposition S. This structure meets the test for purposes of meeting state law requirements and tax-exempt status for the Note. Repayment is based annual payments with maturities spread over the seven-year life of Proposition S, with the ability by the City to prepay, without premium, any outstanding portion of the Note. This offers the City flexibility in retiring the obligation early as funds allow. Based upon the City's projections of Prop S revenue, it is anticipated it will not take the full seven years to retire the Note. Based upon the current market, we anticipate annual debt service requirements on the Note to be approximately \$470,000 annually. Of course, this will change based upon actual rates.

Currently, the obligations with Southwest Bank are secured by the City Hall and Public Works properties. It is our intention through the RFP process to seek financing for the City without encumbering City property. However, there is no assurance that a bank, in order to secure more favorable rates, may require some form of security. If that becomes the case, we will review the matter with the City and negotiate on the City's behalf the best terms.

Investment Services Since 1890

Mr. Frank Myers
October 5, 2006
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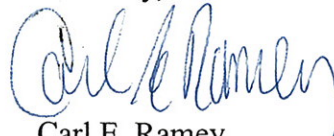
The Plan contained in the RFP represents our considered recommendation. But are there other options for the City to consider? In order to meet the City's stated objectives of having a financing that first meets all of the tests to comply with Missouri law and to secure the lowest possible cost of borrowing through the use of a tax-exempt financing, the conclusion reached by Bond Counsel is under the current circumstances this recommendation represents the only vehicle that meets these objectives. Clearly, a taxable product could be done but the cost to the City would be much higher – usually 1% to 1½%.

Similarly, consideration was given to refunding only the promissory note leaving in place the line of credit. The thought behind this alternative is that the City could be paying interest for up to a seven-year period; whereas, the line of credit, you would pay interest only as you use it. The thought was even with the line of credit being at a higher interest cost, the overall amount paid over time would be less.

Three factors mitigate against this alternative. The first is a state law issue. Based upon the City's projections it would appear that the line of credit would not be paid off within a year. Secondly, if the City is unable to eliminate the line of credit, the assumption is that it would remain in place until Prop S money would payoff the promissory note. If the new Note contained only funding for only the promissory note, it is projected the new Note would payoff in four years. Funding to payoff the line of credit would have to wait until year five. During the period, the line of credit would stay in effect if it is assumed the interest rate and average annual line of credit balance would remain the same. If this is correct, the City would be paying approximately \$80,000 more to keep the line of credit in place than if the line of credit is made a part of this Note. Finally, it is doubtful whether the argument to create a working cash balance in lieu of using a line of credit can be made. It appears you get to the point of including a working cash balance because you do not have other resources. Therefore, it is our conclusion that this alternative would not be in the best interest of the City.

As pointed out, the number of feasible options for the City to consider in managing its existing obligations and the use of Proposition S funding is very limited. Our recommendation is to move forward and market local banks the Annual Appropriation Note as outlined in the RFP--Term Sheet that is attached. I will be available Tuesday night to answer any further questions you may have.

Sincerely,



Carl E. Ramey
First Vice President

CER/jas

Attachment

Cc: Mark D. Grimm, Esq., Gilmore & Bell, P.C.

**REQUEST FOR PROPOSALS
TERM SHEET**

\$2,860,000*

**CITY OF CRESTWOOD, MISSOURI
ANNUAL APPROPRIATION NOTE, SERIES 2006**

OCTOBER __, 2006

Proposal:	The City of Crestwood, Missouri (the "City") is soliciting proposals to purchase the above referenced Note. The principal and interest on the Note are special obligations of the City, payable from available City revenues, subject to annual appropriation by the City.
Use of Proceeds:	<ol style="list-style-type: none"> 1. Refund Promissory Note 2. Refund Line of Credit Note 3. Provide for Working Cash 3. Pay Costs of Issuance of the Note
Source of Funds:	The Note and interest thereon are payable from available City revenues, subject to annual appropriation. The City Council intends to appropriate all available property tax received from the \$___ tax levy increase approved through passage of Proposition S in April 2006 to pay annual principal and interest.
Principal and Interest Payments:	Interest will be paid semi-annually on March 1 and on September 1 beginning March 1, 2007. Principal will be paid annually on March 1, commencing March 1, 2007.
Optional Redemption:	The Note is subject to Optional Redemption prior to stated maturity, in whole or in part, at any time at a Redemption Price of 100% of the principal amount thereof plus accrued interest.
Debt Service Reserve:	There will be no Debt Service Reserve.
Tax-Exemption/Bank Qualification/AMT:	<ol style="list-style-type: none"> 1. Federal Income Tax-Exempt 2. State Income Tax-Exempt 3. Bank Qualified 4. Not Subject to Alternative Minimum Tax
Litigation:	To the knowledge of the City, no litigation exists, nor is pending, which would affect the authorization, source of payment or tax-exempt status of the Note.
Maturity Schedule:	See "Appendix A--Proposal to Purchase" for the proposed redemption schedule.
Opinion of Bond Counsel:	Gilmore & Bell, P.C., St. Louis, Missouri, will render an approving opinion upon closing.
Rating:	No rating.

* Preliminary, subject to change.

Paying Agent:	City of Crestwood, Missouri.
Placement Agent:	Stifel, Nicolaus & Company, Incorporated St. Louis, Missouri
Proposal Requirements:	<p>1. Interest Rates Proposal must include an interest rate for each maturity. Proposal must contain a fixed interest rate for each maturity but in the alternative may also provide a variable rate structure for the Note.</p> <p>2. Proposal Valid All proposals shall be valid until October 27, 2006.</p> <p>3. Submittal of Proposals All proposals must be submitted by 2:00 p.m. October 18, 2006 to: <i>Stifel, Nicolaus & Company, Incorporated</i> <i>Attn.: Mr. Carl E. Ramey</i> <i>First Vice President—Public Finance</i> <i>501 North Broadway</i> <i>St. Louis, Missouri 63102</i> Proposals shall be in a sealed envelope marked “City of Crestwood Financing Proposal”</p> <p>4. Right to Reject The City reserves the right to accept or reject any and all proposals; to waive any irregularities and to negotiate any particulars in the proposals received.</p> <p>5. Purchaser’s Letter of Representation An executed original letter of representation must accompany the proposal (see Appendix B).</p>
Authorization Expected:	City Council Approval: October 24, 2006.
Settlement Date:	October 31, 2006.
Contact:	Mr. Carl E. Ramey First Vice President—Public Finance Stifel, Nicolaus & Company, Incorporated 501 North Broadway St. Louis, Missouri 63102 314/342-2242 rameyc@stifel.com

APPENDIX A

PROPOSAL TO PURCHASE

\$2,860,000*

**CITY OF CRESTWOOD, MISSOURI
ANNUAL APPROPRIATION NOTE, SERIES 2006**

October ____, 2006

Mr. Carl E. Ramey
First Vice President—Public Finance
Stifel, Nicolaus & Company, Incorporated
501 North Broadway
St. Louis, Missouri 63102

The undersigned is willing to purchase the above referenced Note in accordance with the Term Sheet dated _____, at the following interest rates:

Due (March 1)	Principal Amount	Interest Rate
2007	\$425,000	
2008	\$365,000	
2009	\$380,000	
2010	\$395,000	
2011	\$415,000	
2012	\$430,000	
2013	\$450,000	

This proposal is subject to the following terms and conditions:

If the undersigned is the successful proposal, the undersigned will comply with all of the provisions contained in the Term Sheet.

Bank: _____

Name: _____

Signature: _____

* Preliminary, subject to change.

APPENDIX B
PURCHASER'S LETTER OF REPRESENTATIONS

City of Crestwood
Crestwood City Hall
One Detjen Drive
Crestwood, Missouri 63126

Re: City of Crestwood, Missouri, Annual Appropriation Note, Series 2006

Ladies and Gentlemen:

This letter is to provide you with certain representations and agreements with respect to the purchase by the undersigned of \$_____ principal amount of Annual Appropriation Note, Series 2006 (the "Note"), issued by the City of Crestwood, Missouri (the "City"). The Note is secured in the manner set forth in the Term Sheet dated October 1, 2006 (the "Term Sheet"). The undersigned hereby represents and agrees as follows:

1. The undersigned has sufficient knowledge and experience in financial and business matters, including the purchase and ownership of limited revenue obligations and other municipal obligations, to be able to evaluate the risks and merits of the investment represented by the purchase by the undersigned of the Note. The undersigned is able to bear the economic risk represented by the purchase by the undersigned of the Note. The undersigned understands that the Note is repayable solely from available revenues, including Proposition S Property Tax Revenues and, with respect to a portion of the funds therein, subject to annual appropriation by the Board of Aldermen of the City.

2. The undersigned has made its own inquiry and analysis with respect to or affecting the likelihood of the payment of the Note. The undersigned acknowledges that the City has offered to give access, without restriction or limitation, to all information to which a reasonable investor would attach significance in making investment decisions, and the undersigned has had the opportunity to ask questions of and receive answers from knowledgeable individuals concerning the Note, this financing transaction and the City.

3. The undersigned acknowledges that the City has not made any representation or warranty concerning the accuracy or completeness of any information furnished in connection with the purchase by the undersigned of the Note. Accordingly, the undersigned has not relied upon the City as to the accuracy or completeness of such information. As a sophisticated investor, the undersigned has made its own decision to purchase the Note based solely upon its own inquiry and analysis.

4. The undersigned understands that the Note does not constitute an indebtedness of the City or a loan or credit thereof within the meaning of any constitutional, statutory or charter debt limitation or restriction.

5. The undersigned is familiar with and has counsel that is familiar with the federal and state legislation, rules, regulations and case law pertaining to the transfer and distribution of securities, including, but not limited to, disclosure obligations of the seller incident to any such transfer or distribution. The undersigned hereby covenants and agrees that the undersigned will not sell, offer for sale, pledge, transfer, convey, hypothecate, mortgage or dispose of the Note or any interest therein in violation of applicable federal or state law or in violation of restrictions on sale, assignment, negotiation

or transfer of the Note as set forth in paragraph 7 below.

6. The undersigned is purchasing the Note for its own account for investment (and not on behalf of another) and has no present intention of reselling the Note or dividing its interest therein; but the undersigned reserves the right to sell, offer for sale, pledge, transfer, convey, hypothecate, mortgage or dispose of the Note at some future date determined by it, provided that such disposition is not in violation of restrictions on sale, assignment, negotiation or transfer of the Note as set forth in paragraph 7 below.

7. The undersigned acknowledges that the right to sell, assign, negotiate or otherwise transfer the Note shall be limited to the sale, assignment, negotiation or transfer to an Approved Investor (as defined in the Ordinance authorizing the Note).

8. The undersigned agrees to indemnify and hold you harmless from any and all claims, judgments, attorneys' fees and expenses of whatsoever nature, whether relating to litigation or otherwise, resulting from any attempted or effected sale, offer for sale, pledge, transfer, conveyance, hypothecation, mortgage or disposition of the Note in violation of this letter.

9. The undersigned has satisfied itself that the Note may be legally purchased by the undersigned.

10. The undersigned represents to each of you that the undersigned is an Approved Investor.

Sincerely,

as Purchaser

By: _____

Title: _____

APPENDIX C

(Proposition S Ballot)

APPENDIX D

(ASSESSED VALUATION AND PROPERTY TAX COLLECTION HISTORY)

APPENDIX E
(2005 AUDIT REPORT)