



November 21st, 2011

NOTICE TO BONDHOLDERS AND "REPORTING OF SIGNIFICANT EVENTS" CONCERNING THE FOLLOWING BONDS ISSUED BY THE SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY (SCLAA):

1. SCLAA Tax Allocation Parity Bonds, Series 2005A
2. SCLAA Tax Allocation Revenue Parity Bonds, Refunding Series 2006
3. SCLAA Tax Allocation Revenue Parity Bonds, Taxable Series 2006
4. SCLAA Tax Allocation Revenue Parity Bonds, Taxable Forward Series 2006
5. SCLAA Taxable Subordinate Tax Allocation Revenue Bonds, Series 2006
6. SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007
7. SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A

Summary

On December 1st, 2011, debt service payments relating to the aforementioned bond issues totaling \$10,566,950.56 are due from the SCLAA. Due to uncertainty relating to actions taken and being considered by the California Supreme Court regarding Assembly Bills AB1X 26 and AB1X 27, SCLAA is unable to rely on the inter-fund borrowing from the Victorville Redevelopment Agency (VRDA) to assist it in satisfying its debt service obligations due December 1st, 2011. Because of this, SCLAA has a fund and cash balance of \$3,097,759.72 that will be transmitted to the Trustee for the senior parity bonds (bonds designated as 1 through 4 above) on November 25th, 2011. This amount will be applied to the aggregate debt service obligation of \$6,198,522 on a proportionate basis and requires the short-fall amount of \$3,100,762.20 with respect to the senior parity bonds and the short-fall amount of \$4,368,428.64 with respect to the subordinate bonds to be paid from reserve accounts held by the Trustee for the subject bonds. SCLAA should receive adequate funding from property taxes to replenish the reserve accounts during this fiscal year, however uncertainty regarding the outcome of the California Supreme Court decision prevents definitive time estimates.

Background

The aforementioned bond issues are secured by redevelopment tax increment generated from the Victor Valley Economic Development Authority (VVEDA) redevelopment project area, a large portion of which are passed through to the benefit of SCLAA. On June 29th, 2011, Governor Jerry Brown signed into law FY 11-12 budget trailer bills AB1X 26 and AB1X 27, which significantly modify California Redevelopment Law. AB1X 26 is known as the "Dissolution Act" while AB1X 27 is known as the "Voluntary Redevelopment Program Act." The following is a brief overview of both bills:

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AB1X 26:

- Immediately suspends and prohibits most redevelopment activities, including: incurring any new indebtedness payable from tax increment, amending existing agreements, transferring or disposing of assets (including real property owned by the RDA), pledging or encumbering its revenues or assets, entering into contracts, making loans or grants, etc.
- Dissolves RDAs effective October 1, 2011
- Creates Successor Agencies (such as the City) with Oversight Boards to continue to satisfy any enforceable obligations of the RDA and to dissolve and wind down the affairs of the RDA
- Successor Agencies would be required to dispose of the former RDA's assets or properties expeditiously, and remit the proceeds from asset sales and any other unencumbered RDA fund balances to the County Auditor-Controller for distribution to the taxing entities

AB1X 27:

- To avoid being dissolved and lift the suspension of redevelopment activities, the RDA's sponsoring community may elect to make the payments to their County Auditor-Controller beginning in FY 11-12 and continuing so long as the RDA continues to operate.
- The RDA's sponsoring community must enact an ordinance to comply on or before November 1, 2011
- Once the opt-in ordinance is enacted by the sponsoring community, the RDA will no longer be subject to the provisions of ABx1 26 and may recommence normal activities
- Payments are to be made each fiscal year by January 15 and May 15, commencing in 2012.

On July 18th, 2011, the California Redevelopment Association (CRA) and the League of California Cities (League) filed a lawsuit in California Superior Court asking the California Supreme Court to overturn AB1X 26 and AB1X 27 because they violate the California Constitution. On August 11th, 2011, the California Supreme Court issued a partial stay in response to the CRA/League lawsuit and announced its intent on rendering a decision before January 15th, 2012. On November 10th, 2011, the California Supreme Court heard oral arguments and raised questions that give reasonable belief that it is considering upholding AB1X 26 and striking down AB1X 27, only, as being unconstitutional.

Material to SCLAA's inability to fully satisfy the December 1st, 2011 debt service payment is the following:

1. As part of adopting its 2009 budget bill, the State of California approved AB 26 4X, which included a provision that required redevelopment agencies to make remittance in the aggregate amount of \$1.7 billion for FY 09/10 and \$350 million for FY 10/11 to a county Supplemental Educational Revenue Augmentation Funds (SERAF), in order to assist the State in balancing its budget. Tax Increment used to pay the SERAF obligation that would have otherwise been available to pay SCLAA debt service amounted to \$9,352,308 (FY 09/10) and \$1,923,641 (FY10/11). A lawsuit challenging the constitutionality of AB 26 4x was filed by the CRA and is currently under appeal.

2. The partial stay issued by the Supreme Court on August 11th, 2011 generally requiring ABIX 26 to remain in effect until a final determination is made by the California Supreme Court as to its constitutionality. This is material to SCLAA's ability to satisfy its debt service obligation because SCLAA had been relying on the borrowing of funds from the VRDA. This representation has been made by SCLAA as its plan of finance in satisfying the December 1st, 2011 debt service obligation. Because the VRDA currently lacks the authority to enter into new contracts, specifically, new loan transactions, a funding source other than the reserve accounts held in trust by the Trustee does not exist. Additionally and until the November 10th, 2011 oral arguments in the California Supreme Court, SCLAA did not believe it as an option for ABIX 26 and 27 to be separable and therefore believed that short-term inter-fund borrowing from funds internally held by the City of Victorville and its component units was a final option to help satisfy the SCLAA's debt service obligation. After consulting with SCLAA bond counsel, it was decided by SCLAA that until a final determination was made by the California Supreme Court, SCLAA could not make reasonable assurances that short-term inter-fund borrowing could be repaid.

In the past, SCLAA has used internal short term borrowing while awaiting funding distribution from the Victor Valley Economic Development Authority. Prior to the passage of ABIX 26 and ABIX 27, and prior to actions of the California Supreme Court, such funding would be expected to occur in March. If and when such distribution occurs, it is the intent of the SCLAA to immediately replenish the reserve accounts to the extent it is legally able to do so pending outcome of the decisions of the California Supreme Court.

Closing

The payment being made on November 25th, 2011 in the order \$3,097,759.72 will contain instructions to the Trustee seeking that the amount transmitted by SCLAA be applied to the senior parity obligations in amounts that are proportionate to the debt service payment due. The senior parity obligations total \$6,198,522 of the \$10,566,950 due December 1st, 2011. SCLAA will continue to transmit information through the EMMA system as significant reporting events arise.

Finally, this Notice to Bondholders does not apply to housing obligations issued as SCLAA Tax Allocation Revenue Parity Bonds, Refunding Housing Series 2006 and Taxable Housing Set-Aside Revenue Parity Bonds, Series 2007.

Respectfully,



Douglas B. Robertson,
Executive Director, SCLAA