



## FREQUENTLY ASKED QUESTIONS

### (FAQ's)

On November 21<sup>st</sup>, 2011, the Southern California Logistics Airport Authority (SCLAA) issued a Notice to Bondholders, which served as a Reporting of Significant Events in relation to certain bonds issued by SCLAA. This document is intended to supplement the Reporting of Significant Events; therefore, interested parties are encouraged to read that document before reading the FAQ's below. The Reporting of Significant Events can be found on the City's of Victorville's website at [www.victorvillecity.com](http://www.victorvillecity.com). The answers below are intended to be helpful in representing common questions regarding SCLAA bonds. To the extent additional questions arise, the public is encouraged to submit such questions in writing to Mr. Keith Metzler, Assistant City Manager at 14343 Civic Drive, Victorville CA 92394 or via e-mail at [kmetzler@ci.victorville.ca.us](mailto:kmetzler@ci.victorville.ca.us)

#### **What is the Southern California Logistics Airport Authority (SCLAA)?**

SCLAA is a joint power of authority (JPA) formed by the City of Victorville and the Victorville Redevelopment Agency. SCLAA is a separate legal entity and does not have the authority to legally bind or obligate the Victorville Redevelopment Agency or the City of Victorville, individually. SCLAA was specifically formed to undertake the redevelopment of the former George Air Force Base pursuant to a JPA involving the Victor Valley Economic Development Authority (VVEDA). SCLAA is governed by a five member board of directors and is comprised of the same five members as the Victorville City Council.

#### **What is the Victor Valley Economic Development Authority (VVEDA)?**

VVEDA is a joint powers authority comprised of the cities of Victorville, Adelanto, Hesperia, the town of Apple Valley, and the County of San Bernardino. VVEDA is governed by a five-member board of commissioners. Each member jurisdiction is responsible for appointing one of its elected officials to serve as its delegated board of commissioner. VVEDA is the legal entity that receives tax increment revenue generated in the VVEDA redevelopment project area from the San Bernardino County Auditor-Controller. Pursuant to the joint powers agreement, VVEDA distributes the tax increment it collects to its member jurisdictions (and SCLAA) for use in the redevelopment project area.

**What is the “significant event” effecting bondholder?**

On December 1<sup>st</sup>, 2011, debt service payments for certain bond issues of SCLAA totaling \$10,566,950.56 were due from the SCLAA. For reasons better described in the Notice to Bondholders, SCLAA only transmitted \$3,097,759.72. The shortfall in payment will require the trustee for each bond issuance to tap into its reserve accounts.

**Which of SCLAA’s bonds were affected?**

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

**What is the security for the bonds?**

The SCLAA bonds are secured by non-housing tax increment revenue received from the VVEDA Redevelopment Project Area. These bonds are not secured by any funds of the City of Victorville.

**How does this affect me as a bondholder?**

If you are an owner of bonds identified as items 1 through 5, the bonds will continue to pay as provided in each of the bonds’ respective Indenture of Trust. This will include both principal and interest, where applicable. For these same bonds, the respective trustee will make up the difference from funds held in reserve accounts.

For bonds identified as items 6 and 7 above, pursuant to the respective Indenture of Trust, the trustee will be making payments of interest only. The trustee reserve accounts will be relied on to make these payments.

**How does this affect me if I own SCLAA Housing Set-Aside bonds?**

You are not affected. The SCLAA Housing Set-Aside Bonds are secured by a different security pledge of revenue.

**How does this affect me as a resident of the City of Victorville?**

You are not directly affected. These bonds are not an obligation of the City, and they do not directly affect the City’s ability to provide the essential services such as police, fire, parks, and street maintenance. Accordingly, SCLAA does not have taxing authority requiring residents to make up the shortfall of its bond obligations.

**Does this mean that the City of Victorville is going bankrupt?**

No. The funds securing the SCLAA bonds do not belong to the City of Victorville. SCLAA is a separate legal entity.

**Does this mean that the Southern California Logistics Airport is going bankrupt?**

No. The security for the bonds is non-housing tax increment passed through to SCLAA from VVEDA; however, SCLA generates airport operating revenues that are sufficient, to date, to keep SCLA operational and solvent.

**Does this mean that the La Mesa-Nisqualli interchange will not be built?**

No. The La Mesa-Nisqualli interchange is not being funded by the tax increment revenues pledged for SCLAA debt service so it does not have a correlation.

**How does this affect me as a tenant or service provider at SCLA?**

You are not directly affected. These bonds are not a general obligation of the SCLA operations. SCLA will continue to rely on the generation of airport operating revenues to fund a safe and secure operating environment for its tenants and those that rely on the SCLA airfield.

**I heard that SCLAA previously made representations that SCLAA would make its December 2011 debt service payment. What happened?**

Until November 21<sup>st</sup>, 2011, SCLAA had a plan of finance that would have allowed for the payment of its debt service obligation due December 1<sup>st</sup>, 2011. SCLAA had planned to make its payment through an inter-fund borrowing from the Victorville RDA; however, greater uncertainty concerning SCLAA's ability to repay such inter-fund borrowing had increased resulting from oral arguments heard in the California Supreme Court on November 10<sup>th</sup>, 2011. Until the California Supreme Court makes a final determination as to the constitutionality of AB1X26 and AB1X27, SCLAA must rely on the trustee reserve accounts to assist in cash-flowing payments to bondholders. Prior to the actions of the California Supreme Court, such inter-fund borrowing would be expected to be repaid in March with a tax increment distribution from VVEDA. It is the intent of the SCLAA to immediately replenish the reserve accounts to the extent legally permissible pending the outcome of the Supreme Court decisions and upon such distribution.

**What, if anything could prevent SCLAA from replenishing the reserve accounts?**

The only thing that is keeping SCLAA from replenishing the trustee reserve account at this time is the stay issued by the California Supreme Court precluding redevelopment agencies from entering into new contracts and the risk that exists at the California Supreme Court level that could effectively abolish redevelopment agencies. Assuming that the California Supreme Court rules to restore redevelopment agency authority, for any distributions made by VVEDA to

SCLAA, SCLAA is obligated to, and intends to, remit all tax increment pledged as security for the bonds to replenish any shortfalls in the reserve accounts.

**AB1x26 and AB1X27 are California redevelopment elimination bills. How does that affect the SCLAA bond payments from not being paid?**

SCLAA's original plan of finance included a short-term inter-fund borrowing from the Victorville Redevelopment Agency until SCLAA's regular collection of non-housing tax increment is received from VVEDA. Though stayed by the California Supreme Court, AB1x26 eliminates California redevelopment agencies. Currently, the California State Department of Finance considers VVEDA as a redevelopment agency. AB1x26 is believed to currently prohibit redevelopment agencies from entering into new transactions such as the inter-fund borrowings. In addition to SCLAA not being able to enter into a short-term borrowing from the Victorville Redevelopment Agency, any other funding source that could have otherwise been made available would be considered at risk of not being repaid if the California Supreme Court rules to eliminate redevelopment agencies.

**What is the status of the 2011 financial audit?**

The City's and SCLAA's financial audits for the fiscal year ending June 30, 2011 are not yet complete. Management is expecting that the financial audit for SCLAA will be complete by December 31<sup>st</sup>, 2011. Management is expecting the financial audit for the City to be complete by January 30, 2012.

**What is the latest update concerning the Grand Jury investigation?**

In early 2009, a San Bernardino County Grand Jury was empanelled to initiate a forensic audit of the City, focusing on the City's finances and management practices. The same grand jury was held over to continue its investigation through the 2010-2011 fiscal year, concluding with no report issued on its findings as of June 30, 2011. In October 2011 and with a newly empanelled grand jury, the San Bernardino County Grand Jury submitted notice that it had retained a professional firm to conduct a performance and compliance audit of the operations, accounts and records of the City of Victorville and the Victor Valley Economic Development Authority and that the audit was intended to complement a forensic audit that was conducted by the previous grand jury. As of this date, the Grand Jury investigation is believed to be ongoing and has not reported on its findings.

**What is the latest update concerning the Securities and Exchange Commission investigation?**

In August of 2010, the U.S. Securities and Exchange Commission initiated an investigation through the subpoena of documents maintained by the City of Victorville. The document request principally comprised of records and communications dating back to January 2006 concerning

bonds issued by the City and SCLAA, the expenditure of proceeds relating to said bonds and its financial statements. As November 30<sup>th</sup>, 2011, a report of findings has not yet been issued to the City by the SEC and city management believes that the investigation is ongoing.

**What is the latest update concerning the FBI investigation?**

Despite recent articles identifying the FBI as having joined in the investigation concerning matters being reviewed by the Grand Jury or the SEC, as of this date, management has not been contacted or approached by the FBI regarding said matters. Notwithstanding this point, management is not in a position to confirm or deny matters that may or may not be under investigation by the FBI.