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January 21, 2016

Shelly Renner, Senior Staff Counsel
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

Re: Recognized Obligation Payment Schedule Letter Dated December 17, 2015

Dear Counsel:

We acted as bond counsel in connection with the issuance of all the currently outstanding bonds (the "SCLAA Bonds") of the Southern California Logistics Airport Authority ("SCLAA"). The owners of the SCLAA Bonds will be severely harmed as a result of the Department of Finance's (Finance) letter dated December 17, 2015 (the "DOF Letter"), which DOF Letter is addressed to the Victor Valley Economic Development Authority (VVEDA) and which is attached for your reference.

We urge Finance to immediately revise the DOF Letter in order to avoid a catastrophic default of the SCLAA Bonds. Finance should understand and acknowledge that the sources of funding that should be used to fund the debt service on the outstanding SCLAA Bonds are funds generated NOT ONLY from the GAFB Parcels but from other member jurisdictions as required by the Fourth Amended and Restated Joint Exercise of Powers Agreement Creating Victor Valley Economic Development Authority (the "VVEDA JPA"), which VVEDA JPA is attached for your reference, as well as the applicable Indentures pursuant to which the SCLAA Bonds were issued.

The consequence of misinterpreting such legal documents is so materially adverse to the owners of the SCLAA Bonds, we believe that Finance will be subjected to a successful lawsuit by the owners of the SCLAA Bonds. Finance's position is inconsistent with the legal pledge to bondholders and we believe constitutes an actionable impairment of contract.

To better describe SCLAA's authority to pledge funds generated from other member jurisdictions, we point to Section 8 of the VVEDA JPA, which states that the members of VVEDA JPA delegated and assigned their voting rights with respect to all issues directly affecting the GAFB Parcels to Victorville. Victorville then, with the consent of the members, delegated such voting rights to SCLAA. Such issues delegated to Victorville and SCLAA include, without limitation, all budgeting authority, all redevelopment authority and all operation and management authority affecting the GAFB Parcels. In the exercise of such authority, Victorville and SCLAA were given all the powers afforded to VVEDA by the VVEDA JPA. Consistent with this framework, Section 34 of the VVEDA JPA authorizes the use of funds generated from other VVEDA member jurisdictions to fund the debt service on the outstanding SCLAA Bonds.

Relying on the assignment of the funds generated from VVEDA member jurisdictions, SCLAA issued its SCLAA Bonds secured by the same source of funds. In all the Indentures pursuant to which the SCLAA Bonds were issued, "Pledged Tax Revenues" were pledged to the repayment of such bonds. Pledged Tax Revenues is defined as follows:

> "The term 'Pledged Tax Revenues' means, on a subordinate basis to the Senior Bonds and on a parity with the Additional Obligations, (A) all tax increment revenues generated on the parcels comprising the Airport pledged and annually allocated and paid to the Authority pursuant to the Redevelopment Plan and the SCLAA JPA, including all payments, subventions and reimbursements (if any) to the Authority specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, but excluding (i) all amounts of such taxes required to be deposited for low and moderate income housing purposes by the Authority in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, (ii) amounts, if any, payable to a taxing entity and (iii) amounts, if any, received by the Authority pursuant to Section 16111 of the Government Code, (B) all tax increment revenues pledged and annually allocated and paid to the Authority by the VVEDA Members from the VVEDA Project Area, exclusive of the parcels comprising the Airport, pursuant to the Redevelopment Plan and the VVEDA JPA, including all payments, subventions and reimbursements (if any) to the VVEDA Members specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, but excluding (i) all amounts of such taxes required to be deposited for low and moderate income housing purposes by the VVEDA Members in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, (ii) amounts, if any, payable to a taxing entity and (iii) amounts, if any, received by the VVEDA Members

> pursuant to Section 16111 of the Government Code, (C) the Ground Lease Guaranty, and (D) the Victorville Pledge."

The highlighted language clearly pledges the funds generated from VVEDA member jurisdictions that are in addition to the GAFB Parcels. The highlighted language further pledges a remainder share not provided in (B) that is generated in Victorville's portion of the VVEDA Project Area. Furthermore, the Official Statements that were used to market the SCLAA Bonds clearly identified the geographical regions from which the pledged tax increment revenues were being generated. The Official Statements, including the reports prepared by RSG as the fiscal consultant that projected receipt of tax revenues from VVEDA member jurisdictions, also clearly established the availability of funds generated from VVEDA member jurisdictions that were in addition to the GAFB Parcels. Such information was clear and unambiguous and was relied upon by the purchasers of the SCLAA Bonds. To say now that such tax revenues are not available to pay SCLAA Bonds would be in direct contravention of the Official Statements and the Indentures. The owners of the SCLAA Bonds have an absolute right to receive all such pledged moneys.

SCLAA currently has the following bonds outstanding:

<u>Senior Lien Pledge, Non-Housing Bonds</u>

Tax Allocation Parity Bonds, Series 2005A
Taxable Tax Allocation Revenue Parity Bonds, Series 2006
Tax Allocation Revenue Parity Bonds, Refunding Series 2006
Taxable Tax Allocation Revenue Parity Forward Bonds, 2006

<u>Junior Lien Subordinate Pledge, Non-Housing Bonds</u>

Taxable Subordinate Tax Allocation Revenue Bonds, Series 2006

<u>Subordinate Pledge, Non-Housing Bonds</u>

Subordinate Tax Allocation Revenue Bonds, Series 2007
Subordinate Tax Allocation Revenue Bonds, Series 2008A

<u>Housing Bonds</u>

Tax Allocation Revenue Parity Refunding Housing Bonds, 2006
Taxable Housing Set-Aside Revenue Parity Bonds, Series 2007

For the Bond Year ending on December 1, 2015, SCLAA defaulted on $3,121,985 of Subordinate Pledge, Non-Housing Bonds as a result of insufficient amount of tax revenues generated by the GAFB Parcels and the VVEDA member jurisdictions. This default was a result of market conditions and reduction in assessed values as a result of the housing market collapse.

According to RSG, the amount of tax revenues that would have been available to pay debt service of the SCLAA Bonds for the upcoming Bond Year is $13,230,889.94 if the VVEDA Agreement and the Indentures were honored as written while the amount of tax revenues that would be available under Finance's restriction under the DOF Letter would be $2,075,489.57.

Such a restriction would result in an additional default of $1,275,030 of Subordinate Pledge, Non-Housing Bonds, $1,770,230 of Junior Lien Subordinate Pledge, Non-Housing Bonds and $1,912,592.94 of Senior Lien Pledge, Non-Housing Bonds for the first six months of the Bond Year ending on December 1, 2016. Furthermore, an additional $4,852,729.30 of tax revenues that would have been available to cure prior defaults and replenish debt service reserve accounts would be lost. These shortfalls would be caused by Finance's failure to honor the VVEDA JPA and the applicable Indentures pursuant to which SCLAA Bonds were issued, which documents have been validated by multiple validating acts and are not subject to a legal challenge. Bond investors took on the market risk but not the risk that the underlying bond documents would not be enforced in accordance with their terms.

For these reasons, it is imperative that Finance acknowledge that the sources of funding that are legally required to be used to fund the debt service on the outstanding SCLAA Bonds (including past due debt service and replenishment of bond reserves previously drawn down as already approved by Finance in the DOF Letter) are all funds pledged under the applicable Indentures, which include tax revenues generated NOT ONLY from the GAFB Parcels but from other member jurisdictions as required by the VVEDA JPA. It is clear from the language contained in AB 26 that it was the intent of the lawmakers that "pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored" and that the cessation of any redevelopment agency was not to "affect either the pledge, the legal existence of that pledge, or the stream of revenues available to meet the requirements of the pledge" (Section 34175 of the Dissolution Act). Failure to apply pledged moneys in accordance with the applicable Indentures violates the law and will ultimately result in successful bondholder litigation against Finance.

Please don't hesitate to call with any questions regarding this matter. Thank you.

Respectfully submitted,

Danny Kim, Partner