

**SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY
INLAND VALLEY DEVELOPMENT AGENCY (SBIAA/IVDA)**

by

**Donald L. Rogers, Interim Executive Director
Penny Chua, Marketing Director/Chief of Staff**

Take a drive along Tippecanoe Avenue, amidst all of the demolition and construction activities occurring at the former Norton Air Force Base, and you will witness the changing landscape. The Agencies (IVDA & SBIAA) charged with the redevelopment and revitalization of the former base have been hard at work in generating and keeping pace with the development and construction activities as the former military facility becomes the hub of growth in the City of San Bernardino and surrounding region. We are excited in reporting the major activities which include:

MEDLINE INDUSTRIES, INC.:

In December, 2005, the IVDA approved the sale of approximately 12.6 acres of property located on the northwest portion of the Defense Finance and Accounting Service (DFAS) property to Hillwood/San Bernardino, LLC for construction of a new warehouse and distribution center for Medline Industries, Inc. The project provides for the development of a +/- 400,000 square foot building to service the pharmaceutical firm's logistics needs for the southwestern United States. Medline Industries, Inc. is anticipated to take occupancy of the facility in September, 2006 with an estimated 150 employees. The company will also be one of the first companies to activate and operate approximately 19 acres of the IVDA's 175-acre designated foreign trade zone; taking advantage of this emerging duty-free environment.

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS):

In 2005, the IVDA received fee title to the DFAS property. And soon thereafter, the IVDA entered into a lease with DFAS for continued use of Building No.1. Buildings Nos. 3 and 4 were leased to the United States Forest Service, with a pending fee title transfer to occur late in 2006.

With the now pending departure of DFAS in July 2006, the IVDA plans to do market the existing Buildings Nos. 1 & 2 for substantive office development. The IVDA recently completed a tentative parcel map for the DFAS site. Hillwood/San Bernardino, LLC maintains a right of first refusal for Buildings 1 and 2 through early 2007. Hillwood/San Bernardino, LLC is currently in the process of performing due diligence investigations with respect to the potential reuse and/or redevelopment of Buildings Nos. 1 & 2 as a compliment to their on-going development efforts in the immediate area with Medline Industries, Inc, and other adjacent users.

PEP BOYS:

Pep Boys, a leading automotive parts aftermarket retail and service chain, has already established a 600,000 square foot distribution operation in May of 2005. In cooperation with Hillwood/San Bernardino, LLC and the IVDA, the company is currently in the

process of constructing an additional 250,000 square foot facility to the south under an existing option.

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT:

The City of San Bernardino is in the process of forming an assessment district pursuant to Chapter 12.90 of the San Bernardino Municipal Code to help finance the cost of landscape maintenance and street lighting costs within a proposed Assessment District No. 1022, Zone 1, Zone 2, and Zone 3 (referred to as the San Bernardino International Airport/Alliance-California area Landscape and Lighting Maintenance Assessment District).

The IVDA and the City of San Bernardino staff have been working on the formation of this District for a number of years. Over time, many changes have occurred related to the planning and development of the former Norton Air Force Base. Substantial property has been transferred through the Hillwood Disposition and Development Agreement, and a comprehensive development plan has been established and implemented for the Alliance-California project. Now that the circulation elements related to City owned roadways at the former Norton Air Force Base are refined, it appropriate to complete the formation of this landscape and lighting district at this time. With its formation, the City can guarantee that the public right-of-ways throughout the former base property are properly maintained now and into the future.

OTHER REDEVELOPMENT PROJECTS:

On January 25, 2006, the IVDA approved Redevelopment Project Study Agreements with development companies, interested in pursuing potential redevelopment projects within the IVDA Redevelopment Project Area. These proposed redevelopment projects fall within the city limits of the City of San Bernardino. The IVDA and the respective developers have consulted and coordinated with the City of San Bernardino (“City”), and the City continues to discuss the scope of the development and land uses in accordance with the provisions of the proposed Study Agreements.

THE INLAND EMPIRE GOODS MOVEMENT GATEWAY PROJECT:

In September of 2005, Congressman Jerry Lewis (Chairman of the House of Representatives Appropriations Committee) announced a landmark appropriation for transportation projects included in the SAFTEA-LU called the Inland Empire Goods Movement Gateway project. The program provides \$36.5 million to the IVDA for regional transportation and infrastructure projects in and around the former base (i.e. Lena Road, Central Avenue, Tippecanoe Avenue, Mountain View Avenue, 3rd Street and 5th Street). The IVDA, City of San Bernardino, and the City of Highland are coordinating these projects. Preliminary design and environmental scoping work is underway. Disbursement of funds will be subject to Federal Highways Administration (FHWA) approval and phased over four to five years.

With the appropriation of this \$36.5 million project, coupled with the over \$25 million in IVDA roadway and infrastructure projects previously completed. The IVDA and the City of San Bernardino have entered into an agreement which includes an exemption for the

IVDA for a specified period of time from the requirement to pay any Development Impact Fees for traffic mitigation purposes. This exemption will provide additional incentive for companies locating at the Airport.

Also included in the appropriation were \$30 million to the San Bernardino Associated Governments (SANBAG) for the I-10/Tippecanoe Avenue interchange; \$1.5 million to SANBAG for the I-215/Barton Road interchange; \$2 million to the City of Highland for Boulder Avenue improvements and bridge widening; and \$5 million to the City of San Bernardino for the I-215/University Parkway interchange.

RUNWAY REPLACEMENT PROJECT:

On December 2, 2005, over 200 key community and business representatives attended the Runway Reopening Ceremony at the Airport Terminal which celebrated the completion of the \$36 million runway replacement project (10,000' x 200'). This project comprised six Federal Aviation Administration grants, as well as State matching grants, over a four-year period. The construction team phased the work to allow the Airport to maintain at least 5,000 feet of useable runway at all times. With 200 feet in width, the newly reconstructed runway is designed to accommodate next generation cargo aircraft. In the coming years, the Airport will seek FAA funding to lengthen the runway by 1,500 feet to address existing demands within the marketplace by serving to accommodate the largest cargo aircraft, with the maximum payload and fuel capability achievable near term for the San Bernardino International Airport.



AIRPORT MASTER PLAN UPDATE:

The Airport's current Master Plan (circa 1993) is out of date and does not account for such recent development factors as the Hillwood/San Bernardino, LLC's Alliance CA industrial park, the demise of plans for an airport in Orange County, nor the new passenger terminals opened at Ontario in the 1990s. SBIAA's Airport Master Plan Update is near completion and is designed to provide a blueprint for the next 20 years of growth at the Airport. Projections call for as many as 400,000 passengers 410,000 tons of cargo in 2008. This takes into consideration the fact that most of our airports will reach capacity within the 2015-2020 timeframe. Construction of the additional facilities will be dictated by the rate of development of the airport but is currently targeted for the 2013 and 2023 timeframe. Based on current market data, the airport will most likely grow near term in the areas of aircraft maintenance and repair, defense contracting, general and corporate aviation, air charter operations, and as a cargo center. We anticipate new aircraft refurbishing contracts for our major tenant in the Hangar complex within 90 days. As LAX cannot expand, particularly in the air cargo area, long-term growth at San Bernardino would involve expansion of air cargo and eventually passenger activity. When LAX reaches capacity, there will be a need to shift cargo and other operations to regional airports such as San Bernardino.

RIALTO AIRPORT RELOCATION:

In 2004, the Federal government passed legislation which authorized the closure of Rialto Municipal Airport. The Rialto City Council has taken the necessary action to pursue authorization of such a closure. Hillwood and Lewis Homes have entered into a partnership for the proposed development of a mixed used development which would include the Rialto Airport property and adjacent lands for residential, commercial, and industrial projects. Hillwood intends to move the major Rialto Municipal Airport tenants to San Bernardino International Airport. In preparation, the SBIAA has entered into a Right to Negotiate Agreement with Hillwood which includes an option to accommodate the coordination and transition of select aviation-related users from Rialto Municipal Airport to SBD in the near term.

Pursuant to the Federal legislation, SBIAA will receive 45% of the land sale proceeds of the Airport (based on fair market value of the land). The City of Rialto has approved the closure of the Airport in concept, pending completion of necessary appraisals and a relocation plan for existing airport tenants. Hillwood and the City have ordered the necessary appraisals, which should be completed in late May, 2006. Hillwood is currently in negotiations with three of the larger Rialto Municipal Airport tenants with respect to relocation to new facilities which may be constructed at San Bernardino.

MARKETING EFFORTS:

During the past several years, the Airport has been focused in reconstructing and rehabilitating its infrastructure and facilities in order to compete in the domestic and global aviation markets. Although the Airport will continue to make the necessary upgrades and improvements in order to meet or exceed market demands, it is now well positioned to market itself and implement its marketing strategy with an emphasis on airport and air cargo services, facilities and property availability to accommodate these various industries, as well as other ancillary industries and markets. International trade and attraction of import/export, freight forwarding firms, air cargo charters, enhancement of existing general/corporate aviation, aircraft maintenance, defense contractors, as well as other aerospace firms continue to be major growth opportunities and principal target markets for the Airport.

Airport representatives have had one-on-one meetings with freight forwarding companies, cargo charters/airlines, manufacturing and import/export firms, predominantly Asian-based companies, during the past six months. Our Marketing Director/Chief of Staff, Penny Chua, (who speaks Mandarin and Chinese dialects) returned from a recent trip in Shanghai and Singapore as part of the international marketing effort to brand the San Bernardino International Airport. A presentation of the Airport was made to the local Shanghai press media and articles about our Airport were published in the Shanghai Financial News, Shanghai Business News, and Shanghai Youth Daily newspapers that highlighted the San Bernardino International Airport's competitive advantages and strategic location.

The Airport has also completed the redesign of its website (www.sbdairport.com) in January 2006 with renewed emphasis on airport and air cargo services, facilities and property availability. The website has incorporated advanced technology to accommodate international and domestic markets and industries.

Lastly, we also want to welcome Mr. Mike Burrows who joined the SBIAA/IVDA team as the Assistant Director in September, 2005. Mr. Burrows holds a Masters Degree in Business Administration from the Peter F Drucker Graduate School of Management in Claremont, California. Mike is a new asset for the Agencies, as he has substantial real estate experience from several years with the Staubach Company, a Texas-based real estate firm. Mike originally began his tenure at the IVDA as an intern, and spent over six years with the IVDA/SBIAA in various capacities and areas of responsibility. We are pleased that he has rejoined the Agencies and are certain he will provide new leadership for the future.