

**An Analysis of
The Impact of Two Referendums and
One Initiative on the Financial Condition of the
City of Loma Linda**

Preface

This report was underwritten by the Friends of Loma Linda. The Rose Institute of State and Local Government was commissioned to analyze the fiscal impact of two proposed referenda and one proposed initiative that would amend the City of Loma Linda's General Plan.

The support of the Rose Institute, including Dr. Ralph Rossum, Director, Dr Florence Adams, Associate Director, Mr. David Huntoon, Fellow, and Mrs. Marionette Moore, Executive Assistant, is greatly appreciated. The superb work of various Rose Institute staff members was also of great value in producing this report.

The author also wishes to acknowledge the gracious and superb help provided by Loma Linda city staff personnel. In every instance, they promptly provided the requested information and also were very generous with their time answering questions and explaining municipal operations.

The content of this report is the sole responsibility of the authors.

Steven B. Frates
Kate A. Czepiel
Jennifer E. Ambrose
Claremont, California
April 2006

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Introduction

This report analyzes the fiscal impact on the City of Loma Linda of two proposed referenda and one proposed initiative that would amend the City of Loma Linda General Plan. The report is divided into four sections.

Section I analyzes the projected revenues that would be generated by the Orchard Park project and the University Village project. The property tax revenues that would accrue to the City of Loma Linda and to the City Redevelopment Agency are presented. And, the fiscal impact if the two referenda delayed the Orchard Park project and the University Village project for one or more years is analyzed. The reason why the fiscal impact of the proposed initiative regarding new housing development in the south hills area could not be calculated are also presented in Section I.

Section II analyzes the City of Loma Linda sales tax revenues and property tax revenues over time, and discusses the significance of three revenue streams.

Section III is a comparative analysis of property and sales tax revenues for Loma Linda and seven adjacent cities.

Section IV provides a summary of Loma Linda municipal expenditure profile for Fiscal Year 2004-2005.

The Executive Summary and Key Findings are presented on page 7.

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Executive Summary and Key Findings

Executive Summary

1. At full build out of the University Village and Orchard Park projects, the City of Loma Linda would receive an estimated additional \$713,000 in sales tax revenue, and an estimated additional \$30,000 in property tax revenue. This would represent a 22.49% increase in the City's sales tax and property tax revenue (see p. 12 and 13)
2. At full build out of the University Village and Orchard Park projects, the Loma Linda Redevelopment Agency would receive an estimated additional \$4,700,000 in property tax revenue. This would represent an 83.49% increase in the Redevelopment Agency's revenue. (see p. 12 and 13)
3. At full build out of the University Village and Orchard Park projects, the estimated total net impact on both the City and the Redevelopment Agency would be \$5,447,000. For every year that the Orchard Park and University Village projects are delayed, the estimated cumulative loss to the City of Loma Linda and the Loma Linda Redevelopment Agency would be \$5,447,000. (see p. 14 and 15)
4. Loma Linda's sales tax revenue fluctuated substantially in the 1990s, and only increased gradually from FY 2000-2001 through FY 2002-2003. (see p. 22 and 23)
5. Loma Linda's sales tax revenue per capita also fluctuated significantly in the 1990s, and increased only incrementally from FY 2000-2001 through FY 2002-2003. (see p. 24 and 25)
6. Compared with most surrounding cities, Loma Linda's property tax revenues increased less rapidly from FY 1991-1992 through FY 2002-2003. (see p. 28 and 29)
7. Loma Linda's property tax revenue per capita was lower than any surrounding city analyzed in FY 2002-2003. (see p. 32 and 33)
8. The impact of the initiative concerning hillside development in Loma Linda could not be calculated from available data.

Key Findings

1. Loma Linda is a very efficiently run city with comparatively little debt, an excellent credit rating, and efficiently provided services.
2. Loma Linda's sales tax revenue per capita is quite low, and is primarily dependent on only a few major sales tax generating businesses. It is critically important for the future economic viability of the City that the local automobile dealerships adjacent to the I-10 freeway be retained. Loma Linda would benefit greatly from additional major auto dealerships or other major sales tax revenue generating businesses in this prime area.

3. Loma Linda is an increasingly competitive sales tax environment. Given this competitive environment, it is unlikely that the City will be very successful in garnering the growing sales tax revenue that will be generated by the increased population and income base occurring along the I-10 corridor between San Bernardino and the Banning-Beaumont area absent successful recruitment of sales tax generating businesses adjacent to the I-10 freeway.

4. The ability of the Loma Linda Redevelopment Agency to make infrastructure improvements, particularly in the older part of town north of San Timoteo Creek, is to a large measure dependent on obtaining the cash flow from the property increment revenues that would be generated by the Orchard Park and University Village developments.

Methodology

Financial data in this report were obtained from several sources, including the Loma Linda Municipal Budget, the Redlands Comprehensive Annual Financial Report (CAFR), the California State Controller's Report on the Fiscal Condition of California Cities, *Fiscal Impact Analysis of University Village and Orchard Park, Loma Linda, California* prepared by Robert Charles Lesser & Co., LLC in December 2003, the Official Statement for the Loma Linda Redevelopment Agency Subordinate 2005A Tax Allocation Bonds and Subordinate 2005B Taxable Tax Allocation Bonds, and other relevant documents. In addition, key city staff members were interviewed concerning the financial and operational situation of the city.

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Section 1

Table 1-1a shows the sales tax and property tax revenue that would be generated at full completion of the University Village and Orchard Park developments and received by the City of Loma Linda and the Loma Linda Redevelopment Agency. It is estimated that the City of Loma Linda would receive \$747,000 and the Loma Linda Redevelopment Agency would receive \$4,700,000. (Source: *Fiscal Impact Analysis of University Village and Orchard Park, Loma Linda, California* prepared by Robert Charles Lesser & Co., LLC in December 2003)

Table 1-1b shows the sales tax and property tax revenue accruing to the City of Loma Linda and the Loma Linda Redevelopment Agency in FY 2002-03. The City of Loma Linda received \$3,320,816 and the Loma Linda Redevelopment Agency received \$3,203,502.

Table 1-1c shows how much revenue the City of Loma Linda and the Loma Linda Redevelopment Agency would receive in additional sales tax and property tax revenue as a percent of the revenue each entity received in FY2002-03 in 2003 dollars assuming full build out of both the Orchard Park and University Village projects. In aggregate, both entities would receive 83.49% more revenue from sales tax and property tax. The City's revenue would increase 22.49% and the Redevelopment Agency's revenue would increase 146.71%.

Table 1-1a: University Village and Orchard Park, Estimated Revenue in 2003

	City of Loma Linda	Loma Linda Redevelopment Agency	Total
Sales Tax	\$713,000	-	\$713,000
Property Tax	\$34,000	\$4,700,000	\$4,734,000
Total	\$747,000	\$4,700,000	\$5,447,000

Table 1-1b: Actual Revenue, FY 2002-03

	City of Loma Linda	Loma Linda Redevelopment Agency	Total
Sales Tax	\$2,648,974	-	\$2,648,974
Property Tax	\$671,842	\$3,203,502	\$3,875,344
Total	\$3,320,816	\$3,203,502	\$6,524,318

Table 1-1c: Estimated Additional Revenue as a Percent of Actual

	City of Loma Linda	Loma Linda Redevelopment Agency	Total
Sales Tax	26.92%	-	26.92%
Property Tax	5.06%	146.71%	122.16%
Total	22.49%	146.71%	83.49%

Table 1-2 shows the net revenue lost in aggregate for each year that the University Village and Orchard Park projects are delayed, assuming that the general rate of construction are the same regardless of whether the project was delayed. If the projects are delayed one year, the estimated lost revenue to the City of Loma Linda and the Loma Linda Redevelopment Agency is \$5,447,000. Of that amount, the Redevelopment Agency would lose approximately \$4.7 million in incremental property tax revenue. The city would lose an estimated \$713,000 in sales tax revenue and an estimated \$34,000 in property tax revenue, for a total of \$747,000 foregone. The previous charts show how these amounts were calculated.

Of course, major projects like University Village and Orchard Park are typically not built out in just one year. It may take several years for the projects to be completed. The \$5,447,000 foregone due to delays in starting development would accumulate over the time until the full build out occurred.

Table 1-2 shows the cumulative amount of revenue that would be foregone to the Redevelopment Agency for each year that project initiation and completion is delayed. So, for example, if the project is delayed three years, the Redevelopment Agency's cumulative loss in property tax increment revenue \$16,341,000.

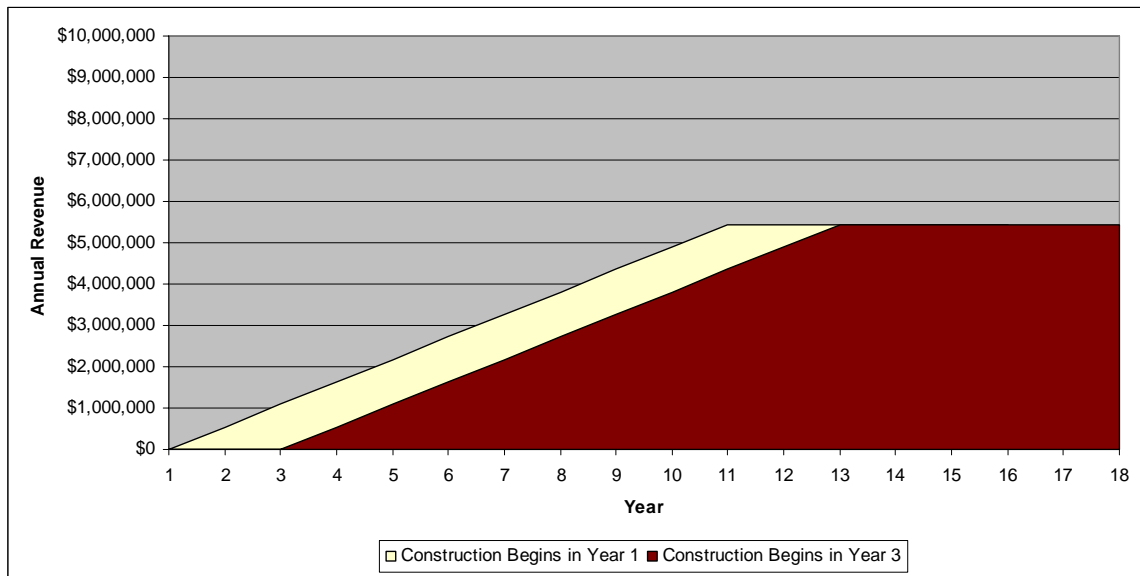
As can be seen from the data presented in Table 1-2 and Chart 1-2, and in the previous tables, the effect of delaying the Orchard Park and University Village projects would be substantial. The city would experience a substantial loss in projected sales tax revenue, and the Redevelopment Agency would experience a major loss in property tax increment revenue. These losses would have a deleterious effect on the City of Loma Linda's ability to attract sales tax revenue generating businesses in the redevelopment area. In addition, revenue losses of this magnitude would have a negative impact on the ability to provide municipal infrastructure improvements in the redevelopment area, most particularly in the older parts of the town.

Table 1-2: Total Revenue Lost Each Year Project Completion is Delayed

Year	Cost
1	\$5,447,000
2	\$10,894,000
3	\$16,341,000
4	\$21,788,000
5	\$27,235,000

note: these figures to not include the time value of this revenue.

Chart 1-2: Annual Revenue Generated by University Village and Orchard Park



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Section 2

Table 2-1 shows City of Loma Linda property tax revenue from Fiscal Years 1991-92 through 2002-03. Note that the property tax revenue dipped substantially in the early 1990s and then gradually started to increase from FY 1994-95 onward. The cumulative change in the city's property tax revenue between FY 1991-92 and 2002-03 was only 6.63%, as shown at the bottom of Table 2-1.

Table 2-1: City of Loma Linda Property Tax Revenue, FY 1991-92 to FY 2002-03

Fiscal Year	Property Tax Revenue
1991-1992	\$726,790
1992-1993	\$665,010
1993-1994	\$614,410
1994-1995	\$530,416
1995-1996	\$566,274
1996-1997	\$566,873
1997-1998	\$565,602
1998-1999	\$592,836
1999-2000	\$662,091
2000-2001	\$676,036
2001-2002	\$725,244
2002-2003	\$774,946
Percent Change	6.63%

Chart 2-1: City of Loma Linda Property Tax Revenue, FY 1991-92 to FY 2002-03

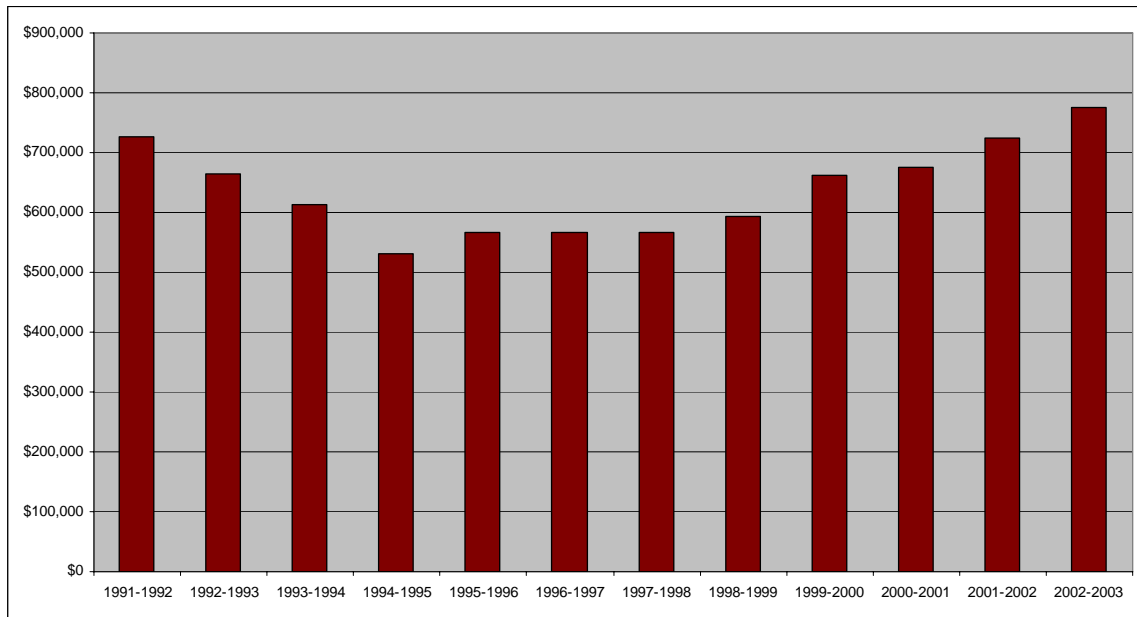


Table 2-2 shows property tax revenue per capita for the City of Loma Linda between FY 1991-92 and FY 2002-03. As is apparent from the data in Chart 2-2, property tax revenue per capita declined substantially over the first part of this period and remained depressed for quite some time, only recovering to the FY 1991-92 level in FY 2001-02.

Table 2-2: City of Loma Linda Property Tax Revenue Per Capita,
FY 1991-92 to FY 2002-03

Fiscal Year	Property Tax Revenue PC
1991-1992	\$36.45
1992-1993	\$30.89
1993-1994	\$28.30
1994-1995	\$24.44
1995-1996	\$25.93
1996-1997	\$25.78
1997-1998	\$25.56
1998-1999	\$26.60
1999-2000	\$29.36
2000-2001	\$35.96
2001-2002	\$37.68
2002-2003	\$39.16
Percent Change	7.44%

Chart 2-2: City of Loma Linda Property Tax Revenue Per Capita,
FY 1991-92 to FY 2002-03

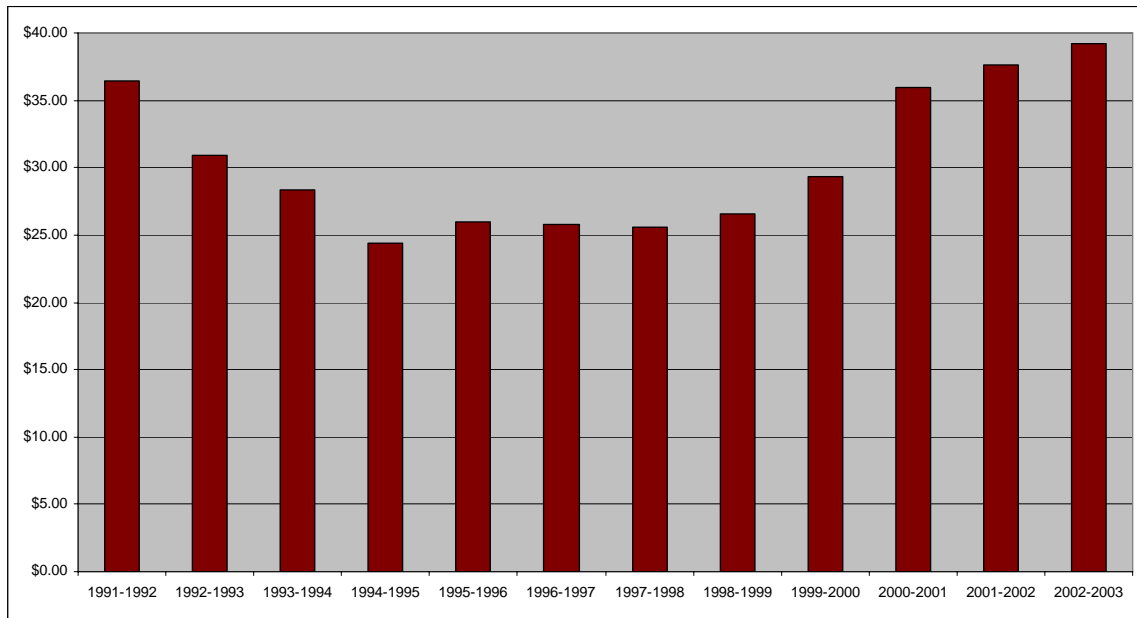


Table 2-3 shows City of Loma Linda's sales tax revenue from FY 1991-92 through FY 2002-03. While there has been a fairly substantial growth in such revenues over this period (75.27%), note that there has been substantial volatility in year to year revenues. In particular, revenues dipped in the early 1990s (FY 1992-93) and again in the mid-1990s (FY 1995-96 and FY 1996-97). Growth in these revenues was not particularly robust between FY 1998-99 and FY 2000-01.

This volatility in sales tax revenue is due in part to the paucity of sales tax generating businesses in the City of Loma Linda. The city currently has only three major sales tax generating businesses, and hence is highly vulnerable to fluctuating revenues in any of those businesses. This rather erratic pattern in sales tax revenues is likely to continue unless the city is successful in attracting significant sales tax revenue generating businesses within the city boundaries.

Table 2-3: City of Loma Linda Sales Tax Revenue, FY 1991-92 to FY 2002-03

Fiscal Year	Sales Tax Revenue
1991-1992	\$1,511,349
1992-1993	\$1,298,116
1993-1994	\$1,578,791
1994-1995	\$1,774,022
1995-1996	\$1,583,499
1996-1997	\$1,435,720
1997-1998	\$1,624,539
1998-1999	\$2,327,668
1999-2000	\$2,315,982
2000-2001	\$2,388,924
2001-2002	\$2,464,566
2002-2003	\$2,648,974
Percent Change	75.27%

Chart 2-3: City of Loma Linda Sales Tax Revenue, FY 1991-92 to FY 2002-03

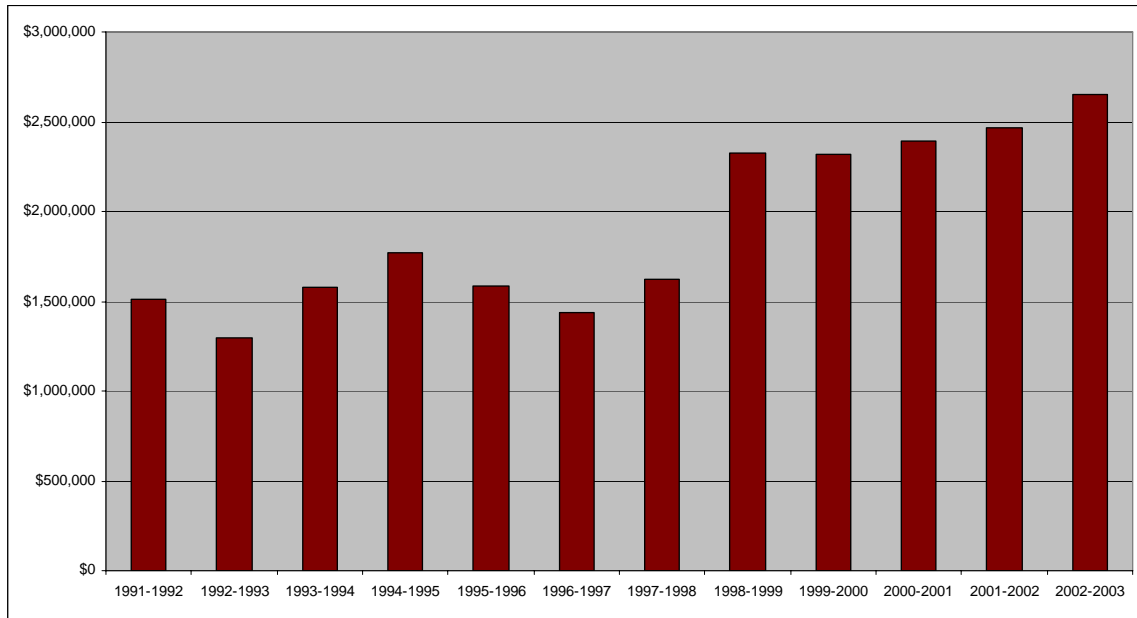
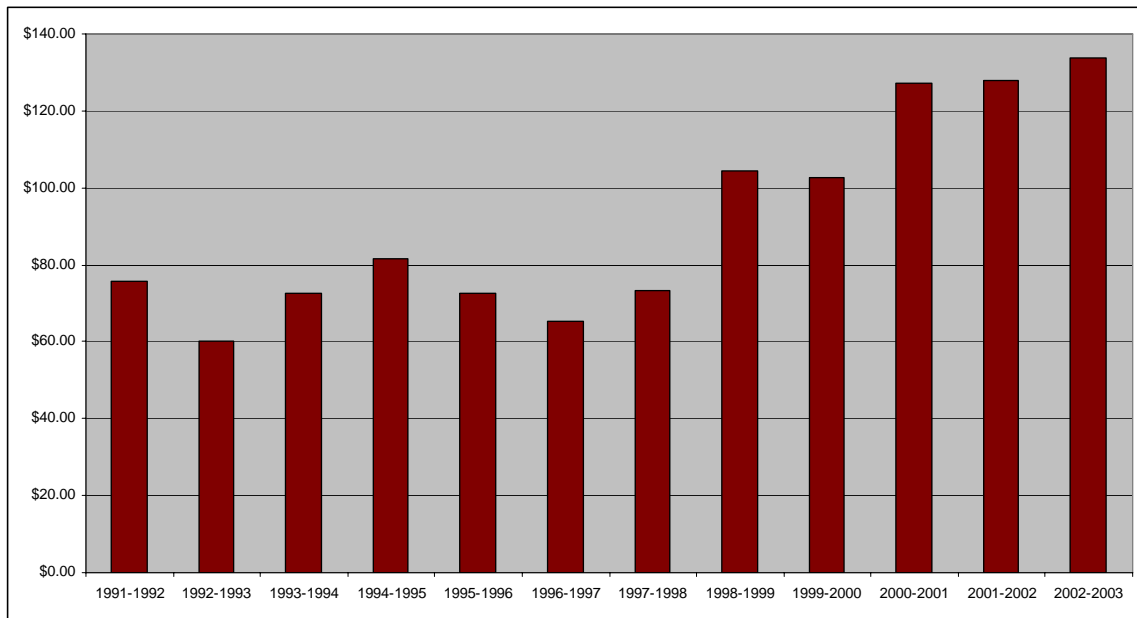


Table 2-4 and Chart 2-4 show sales tax revenue per capita from FY 1991-02 through FY 2001-03. While the sales tax revenue per capita has increased since the turn of the century, the city did experience substantial volatility including significant declines during the last decade of the 20th century and even in the first part of this century has not experienced very robust sales tax revenue growth.

Table 2-4: City of Loma Linda Sales Tax Revenue Per Capita,
FY 1991-92 to FY 2002-03

Fiscal Year	Sales Tax Revenue PC
1991-1992	\$75.80
1992-1993	\$60.29
1993-1994	\$72.73
1994-1995	\$81.74
1995-1996	\$72.51
1996-1997	\$65.30
1997-1998	\$73.42
1998-1999	\$104.45
1999-2000	\$102.70
2000-2001	\$127.08
2001-2002	\$128.04
2002-2003	\$133.87
Percent Change	76.62%

Chart 2-4: City of Loma Linda Sales Tax Revenue Per Capita,
FY 1991-92 to FY 2002-03



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Section 3

Table 3-1 and Chart 3-1 show property tax revenue for selected cities in the immediate vicinity of Loma Linda for FY 1991-92 and for FY 2002-03. Note that Loma Linda has substantially less property tax revenue than any city except Beaumont for both these fiscal years. In addition, note that the percentage growth in Loma Linda's property tax revenue has been quite anemic over this period. While both Colton and San Bernardino experienced declines in property tax revenue over this period, their property tax revenues were, nevertheless, substantially greater than Loma Linda's.

Table 3-1: Property Tax Revenue, Selected Cities, FY 1991-92 to FY 2002-03

City	1991-1992	2002-2003	Percent Change
Riverside	\$12,756,519	\$17,201,217	34.84%
Redlands	\$7,751,600	\$8,665,569	11.79%
San Bernardino	\$9,285,802	\$8,521,550	-8.23%
Yucaipa	\$1,169,559	\$3,108,321	165.77%
Colton	\$2,587,516	\$2,178,510	-15.81%
Banning	\$1,339,210	\$1,589,299	18.67%
Loma Linda	\$726,790	\$774,946	6.63%
Beaumont	\$664,332	\$731,496	10.11%

Chart 3-1: Property Tax Revenue, Selected Cities, FY 1991-92 to FY 2002-03

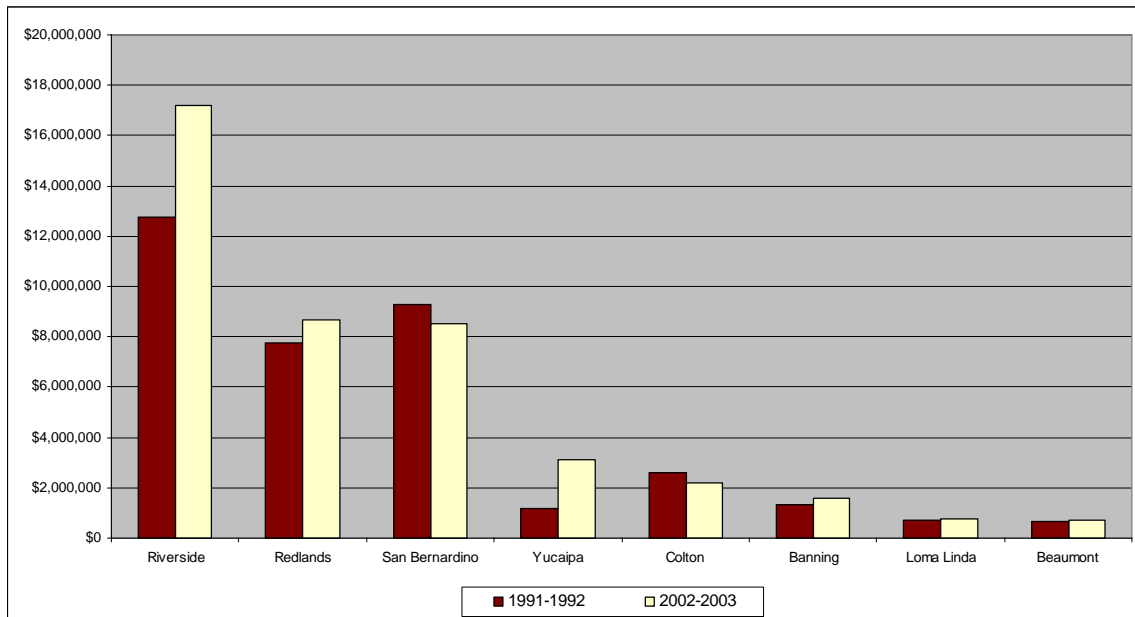


Table 3-2 and Chart 3-2 show sales tax revenue for selected cities in the immediate vicinity of Loma Linda for FY 1991-92 and for FY 2002-03. While Loma Linda has experienced a fairly healthy 75% increase in sales tax revenue from FY 1991-92 to FY 2002-03, it should be noted that Loma Linda's sales tax revenue in FY 2002-03 only exceeded the sales tax revenues of Banning, Yucaipa and Beaumont. Banning, Yucaipa and Beaumont, it should be noted, are further out along the I-10 corridor and are not yet as fully developed as the other cities shown. In time, as the sales tax revenue generating base in these three cities grows, they will only add to the competition for sales tax revenue dollars along the I-10 corridor heading eastward.

Table 3-2: Sales Tax Revenue, Selected Cities, FY 1991-92 to FY 2002-03

City	1991-1992	2002-2003	Percent Change
Riverside	\$22,463,475	\$41,050,068	82.74%
San Bernardino	\$20,021,350	\$29,894,441	49.31%
Redlands	\$5,040,562	\$9,742,919	93.29%
Colton	\$4,263,531	\$5,621,561	31.85%
Loma Linda	\$1,511,349	\$2,648,974	75.27%
Banning	\$1,249,337	\$2,250,875	80.17%
Yucaipa	\$1,136,871	\$1,737,457	52.83%
Beaumont	\$706,814	\$1,014,646	43.55%

Chart 3-2: Sales Tax Revenue, Selected Cities, FY 1991-92 to FY 2002-03

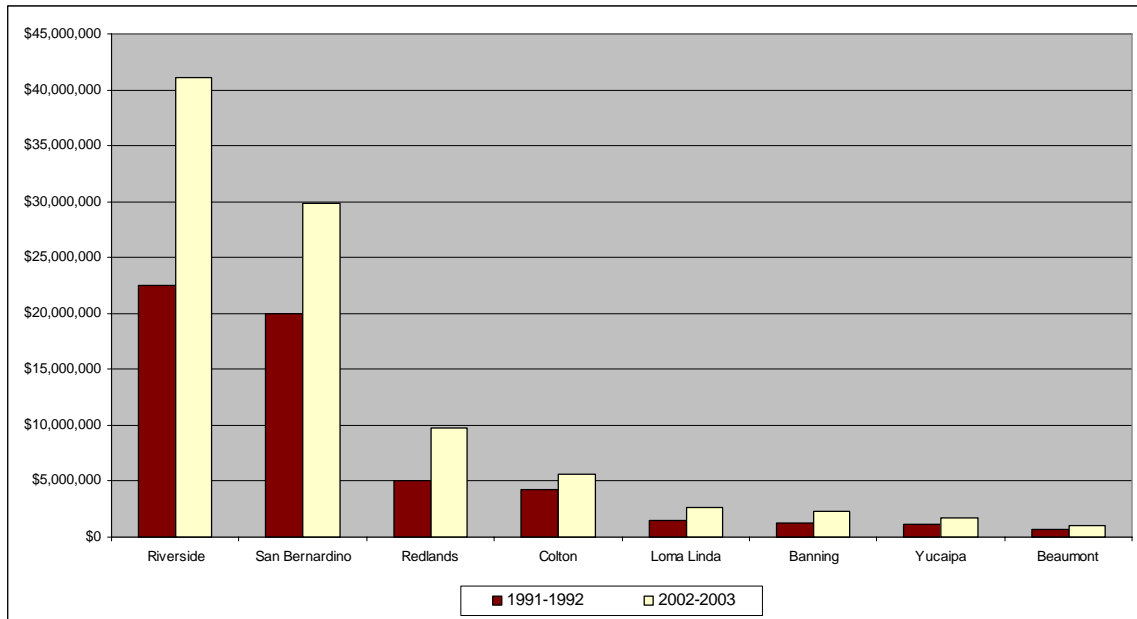
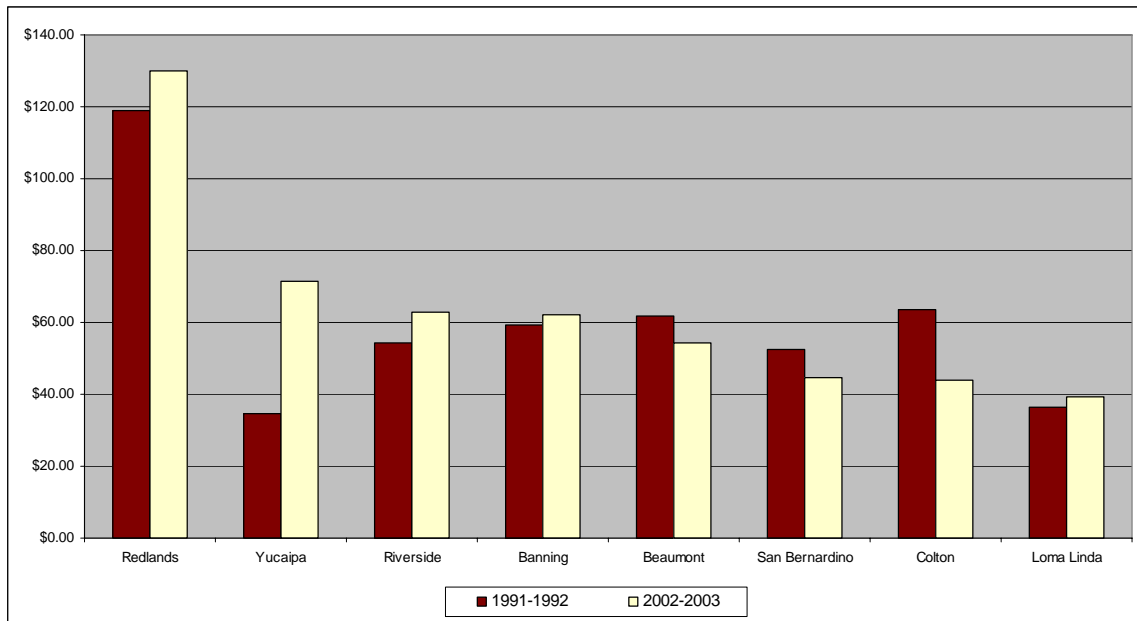


Table 3-3 and Chart 3-3 show per capita property tax revenue for selected cities in the immediate vicinity of Loma Linda for FY 1991-92 and for FY 2002-03. It is especially noteworthy here that by FY 2002-03 Loma Linda's property tax revenue per capita was the lowest among all the cities shown.

Table 3-3: Property Tax Revenue Per Capita,
Selected Cities, FY 1991-92 to FY 2002-03

City	1991-1992	2002-2003	Percent Change
Redlands	\$119.07	\$130.04	9.21%
Yucaipa	\$34.55	\$71.30	106.41%
Riverside	\$54.25	\$62.86	15.87%
Banning	\$59.37	\$62.26	4.86%
Beaumont	\$61.92	\$54.45	-12.06%
San Bernardino	\$52.49	\$44.51	-15.20%
Colton	\$63.52	\$43.78	-31.08%
Loma Linda	\$36.45	\$39.16	7.44%

Chart 3-3: Property Tax Revenue Per Capita,
Selected Cities, FY 1991-92 to FY 2002-03



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Section 4

Table 4-1 and Chart 4-1 show City of Loma Linda expenditures for FY 2004-05 by category or expenditure. Public safety was, by a substantial margin, the largest category of expenditure, followed by public works and debt service. Note that this debt service expenditure includes the debt service expenditure related to the Loma Linda Redevelopment Agency.

Table 4-1: City of Loma Linda FY 2004-05 Expenditures by Category

Fiscal Year	Expenditure
Public Safety	\$4,976,235
Public Works	\$3,706,711
Debt Service	\$3,211,057
General Government	\$2,890,312
Community Development	\$2,733,328
Capital Outlay	\$244,200

Chart 4-1: City of Loma Linda FY 2004-05 Expenditures by Category

