CITY COUNCIL AGENDA REPORT

CITY OF ANAHEIM
CITY MANAGER'S OFFICE

DATE: JULY 7, 2015

FROM: CITY MANAGER'S OFFICE

SUBJECT: A RESOLUTION OF THE CITY OF ANAHEIM APPROVING AN ENTERTAINMENT TAX REIMBURSEMENT AGREEMENT WITH WALT DISNEY PARKS AND RESORTS U.S., INC.

ATTACHMENTS (Y/N): YES **ITEM #**

RECOMMENDATION:

That the City Council following a public hearing, adopt a Resolution approving an Agreement Concerning Entertainment Tax Reimbursement with Walt Disney Parks and Resorts U.S., Inc. (Disney), authorize the City Manager to execute and administer the Agreement, and make certain findings for purposes of the California Environmental Quality Act (CEQA) as more fully set forth in the Resolution.

BACKGROUND:

While the City of Anaheim boasts one of Southern California's most vibrant and diverse economies, the presence of the Anaheim Resort is a significant feature which sets our economy apart from those of our neighbors. The foundation of the Anaheim Resort started over a half a century ago when Walt Disney opened Disneyland on July 18, 1955.

Over the more than fifty years that have followed, Disney has continued to make investments in our City with theme park expansions, additional attractions and development of hotel properties. Most recently, in the late 1990's, Disney and the City of Anaheim entered into an unprecedented partnership that resulted in a complete revitalization of the resort area, a new theme park, expansion of the Convention Center and development of Downtown Disney. This collaboration secured the Resort's long-term competitiveness and economic vitality while protecting the general fund from risk.

This significant investment created opportunities for economic growth in the City of Anaheim, the Southern California region and California. Specifically, the addition of a second theme park provided opportunities for new hotel and retail growth generating substantial direct and indirect tax revenues to the benefit of the City's general fund, including sales tax, property tax and transient occupancy tax (TOT) revenues. TOT, the largest of the three critical tax streams, has nearly tripled from the $44 million in fiscal year 1996/97 to the projected $133 million for fiscal year 2015/16. Disney also remains the largest employer in the area providing over 23,000 jobs in 2014 and is the largest single property taxpayer in our City.

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The 1996 financing agreement, which enabled this extensive public/private investment in our Resort area, contains a provision that will soon be expiring. The provision at the time provided economic certainty for Disney while it was completing the substantial capital investment in their Anaheim assets and for an additional period of fifteen years. Specifically, the provision requires, that if any entertainment taxes (as defined in the 1996 agreement) are enacted, the sum equal to the amount required to be remitted to the City by Disney would be returned to Disney. To date, there has not been any tax enacted that has required a reimbursement from the City to Disney.

DISCUSSION:

In continuation of the 60-year partnership between the City of Anaheim and Disney, Disney expressed an interest in possibly making significant additional investments in their Anaheim properties. The proposed investments would include an additional parking structure and necessary infrastructure to improve traffic circulation, with the majority of the proposed investment going towards park enhancements which would increase park attendance and length of stay in area hotels.

As a result, Disney requests the City to consider extending the current entertainment tax rebate period included in the 1996 Finance Agreement, in order to provide the needed assurances regarding the economic landscape surrounding the significant investments currently contemplated, and to incentivize the construction and operation of those qualified capital improvements at their Anaheim location. As such, staff has negotiated an agreement with Disney that would provide the economic certainty requested by Disney and ensure the continued vitality of the tourism and convention market which is critical to the City's financial future.

Under the proposed agreement, Disney would be required to make a minimum of $1,000,000,000 of capital improvements to receive the first extended tax rebate period of thirty years (that is, an extension of the current tax provisions for 30 more years). Afterwards, there is the option for an additional capital investment of at least $500,000,000 for a second extended rebate period of fifteen years. Other performance obligations include specific timetables for the capital improvements to be commenced and completed; local hiring and nondiscrimination provisions; and continuous operation of improvements requirements. The City would be obligated, in the event any entertainment taxes are enacted by the voters, to reimburse Disney an amount equal to 100% of the amounts remitted to the City from this tax. In the event of default by Disney of any of the agreement provisions, any such reimbursement would be suspended and amounts previously reimbursed would be returned to the City plus interest. If any default continues for more than one year the City may terminate the agreement.

The City consulted with Beacon Economics, LLC, an independent research and consulting firm, to prepare a summary report of the proposed agreement including determination of the economic benefit received by the City. The report identifies an estimated $17,851,000 annually in increased tax revenues as a result of the initial capital investment by Disney of $1 billion dollars and an additional $8,926,000 annually from the second capital investment of $500 million dollars. Further, the firm estimated the economic output, as a result of the initial capital investment, to be $564,181,000 per year for businesses located in the City; and, an additional $282,092,000 from the second capital investment. As to job creation, it is estimated that during the construction phase of the initial capital investment 12,863 jobs will be supported and post construction the project will support 3,056 jobs on a permanent basis. An additional 6,432 construction jobs will be supported and post construction, the project will support 1,527 on a permanent basis for the second capital investment.

The summary report detailing these estimates and other information pursuant to California Government Code Section 53083 is attached to this staff report and has been publicly available on the City's website since June 25th. Additionally, submitted with this staff report is a detailed memorandum providing CEQA findings and determination that no further environmental documentation is required as a result of this agreement.

IMPACT ON BUDGET:

There is no budgetary impact in FY 2015/16. For future years the required reimbursement amounts will only be provided in the event the voters of Anaheim enact an entertainment tax that impacts Disney; and then, such required reimbursement will be supported by the new tax revenue.

Respectfully submitted,

Kristine Ridge
Interim Assistant City Manager

Attachments:

1. Resolution
2. Proposed Agreement
3. Summary Report Pursuant to Government Code Section 53083
4. CEQA Findings and Determination