

**SUMMARY REPORT PURSUANT TO
CALIFORNIA GOVERNMENT CODE SECTION 53083
ON AN
OPERATING COVENANT AGREEMENT
BY AND AMONG
THE CITY OF ANAHEIM
AND
WALT DISNEY PARKS AND RESORTS U.S., INC.**

The following Summary Report has been prepared pursuant to California Government Code Section 53083. The report sets forth certain details of the proposed Operating Covenant Agreement (Agreement) between the following parties:

1. The City of Anaheim (City), a charter city and municipal corporation; and
2. Walt Disney Parks and Resorts U.S., Inc. a Florida corporation (Developer).

The Agreement requires the City to provide a development incentive to the Developer for the purpose of constructing a hotel. The project is located on an approximately 15-acre parcel situated within the 25 acres just north of the Disneyland Hotel in the Disneyland Resort's hotel district in the City of Anaheim (Site). The project will consist of building an approximately 700-room hotel in an approximately 900,000 square feet of development (Project).

This summary report considers only the proposed Agreement. The purpose of this Agreement is to effectuate economic development in the City.

The following Summary Report is based upon the information contained within the Agreement, and is organized into the following seven sections:

- I. Identity of the Developer:** This section provides the name and address of the Developer.
- II. Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the City by the Agreement.
- III. Economic Incentives Provided and Cost of the Agreement:** This section details the economic incentives provided and the costs incurred by the City to implement the Agreement.
- IV. Consideration Received and Comparison with the Economic Incentives Provided:** This section describes the financial compensation to be received by the City.
- V. Creation of Economic Opportunity and Public Purpose:** This section explains how the Agreement will assist in creating economic opportunity in the City.

VI. Job Creation: This section describes the number of full-time, part-time and temporary jobs created under the Agreement.

This report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. IDENTITY OF DEVELOPER

Information on the Developer is provided below:

Walt Disney Parks and Resorts, U.S., Inc. a Florida Corporation

c/o Walt Disney Parks and Resorts, U.S., Inc.
500 South Buena Vista Street
Burbank, CA 91521-0171

II. SALIENT POINTS OF THE AGREEMENT

A. Project Description

The Site is currently used as a parking lot for the Disneyland Resort. The Developer has owned the property for an extended period of time and will be developing a large-scale, high quality hotel on the Site. The proposed Project will include 700 hotel rooms and related facilities. The hotel will be built to a minimum AAA Four Diamond quality level. The Developer indicates the shell costs for the Project will exceed the minimum requirements established by the City's Hotel Incentive Policy of \$225,000 (\$2015) per key for shell costs and \$30,000 (\$2015) per key for FF&E costs.

B. Developer Responsibilities

The Agreement requires the Developer to accept the following responsibilities:

1. The Project shall be constructed in accordance with the entitlements, schedule of performance, the design and finish, the plans, all governmental requirements, and the terms and provisions set forth in the Agreement;
2. Developer acknowledges and understands that the materials, workmanship, finish, design, components and general architectural quality of the Project will have a significant and continuing impact on the Site, the Convention Center and the Anaheim Resort Area and that City's agreement to participate in assisting this Project is based upon Developer's representation that the Project will be high quality in design, construction, and finish. Accordingly, Developer understands and agrees that if it constructs the Project it will be required to develop the Site by means of materials, workmanship and an overall design that will result in a Hotel that is of high quality and of benefit to the Site,

the Convention Center and the Anaheim Resort Area in order to be entitled to receive the incentive payments;

3. Developer shall bear all costs incurred in connection with the construction, operating, and maintenance of the Project, including without limitation all costs incurred in connection with the acquisition, investigation and/or preparation of the Site for development, all costs of preparation of any Plans or other submissions made by Developer pursuant to the Agreement, and all on and off-site costs incurred in connection with the construction, operation or maintenance of the Project;
4. The minimum actual and direct third party hard construction costs shall be not less than the minimum FF&E costs and minimum shell costs as stated in the City's Hotel Incentive Policy. Within one hundred twenty (120) days after the project completion date, the Developer shall submit to the City an accounting opinion certifying the actual construction costs incurred in connection with the Project;
5. Upon completion of the Hotel, the Developer shall provide to the City, at Developer's sole cost and expense, an independent third party audit, by an auditor approved by the City confirming that the Hotel is operating or will operate consistent with the AAA Four Diamond Hotel Requirements, as defined in the Agreement;
6. The Developer covenants and agrees on behalf of itself and its successors and assigns to devote, use, operate and maintain the Site in accordance with the Agreement, including without limitation, the AAA Four Diamond Requirements
7. Developer shall use good faith efforts to hire local residents and contract with local subcontractors, suppliers and other businesses; and,
8. Developer shall comply with the prevailing wage statutes.

C. City Responsibilities

The Agreement imposes the following responsibilities on the City:

1. Upon the fulfillment of the city disbursement conditions described in the Agreement, the City shall pay incentive payments to the Developer pursuant to the Agreement, in an amount equal to seventy percent (70%) of the Transient Occupancy Tax (TOT) collected and remitted to the City during the operating period based on the applicable TOT Rate with respect to the Hotel.

III. ECONOMIC INCENTIVES PROVIDED AND COST OF THE AGREEMENT

The City is making economic incentive payments to facilitate the development of the Project and the operation of the hotel. Per the Agreement and consistent with the City's Hotel Incentive

Policy, the cost to be incurred by the City is equal to 70% of the TOT generated by the Project over a term of 20 years.

IV. CONSIDERATION RECEIVED AND COMPARISON WITH THE ECONOMIC INCENTIVES PROVIDED

The City expects to receive a significant increase in TOT, property tax, sales tax and other revenues from the development of the Project. The analysis in this report only considers the revenue gains and losses at this specific parcel. As shown in Table 1, the key revenues are summarized below:

1. Transient Occupancy Tax– The current City TOT rate is 15% of room revenues. As shown in Attachment 1 – Table 1, the Project is projected to have an initial Average Daily Rate of \$450 and an occupancy rate that stabilizes at 85.0%. In the first operating year, the room revenue is projected to be \$97.7 million, which generates \$14.7 million in TOT.¹ At this level of performance, the Project will generate \$381.5 million in TOT over the term of the Agreement. Assuming an 8% discount rate, the net present value of this revenue is \$175.8 million.
2. Property Tax – Within the Site’s Tax Rate Area, the City receives 10.816% of the general property tax levy of 1.0% of assessed value, with the balance of the collected property taxes going to other taxing jurisdictions. As shown in Attachment 1 – Table 2, the assessed value of the Project is estimated at \$411.3 million (\$2016). The Project is projected to generate \$458,000 in property tax to the City in the first operating year. At this level of value, the Project will generate \$11.8 million in property tax to the City over the term of the Agreement. Assuming an 8.0% discount rate, the net present value of this revenue is \$5.9 million.
3. On-Site Sales Tax – The City receives 1.0% of the taxable sales generated by the Project, with the balance of the sales tax going to other taxing jurisdictions. As a full-service hotel, the Project will have in-house dining facilities, shops and meeting facilities that serve food and drink. As shown in Attachment 1 – Table 3, in the first operating year, taxable sales generated by the Project are estimated at \$26.3 million, which generates \$263,000 in sales tax to the City. Over the term of the Agreement, the Project would generate \$7.2 million in sales tax. Assuming an 8.0% discount rate, the net present value of this revenue is \$3.5 million.

The Project would generate \$15.4 million in TOT, sales tax and property tax in the first operating year and \$400.4 million over the term of the Agreement, which has net present value of \$185.2 million assuming an 8.0% discount rate, as shown in Table 1. In addition, the Project will generate other miscellaneous tax revenues.

¹ The hotel is estimated to reach stabilization in Year 1 at a 85% occupancy level.

Per the Agreement and consistent with the City's Hotel Incentive Policy, the City's assistance is equal to 70% of the TOT generated by the Project over the Operating Period of 20 years. As shown in Table 2, the Incentive Payments are projected to be \$267.0 million over this term, which have a net present value of \$123.0 million assuming an 8.0% discount rate. Assuming these payments are made, the net revenue to the City over the term of the Agreement is \$133.4 million, which has a net present value of \$62.1 million assuming an 8.0% discount rate.

Currently, the Site generates \$40,000 in Existing City Revenues from property tax. The Project will not generate these revenues at the Site during construction. In the first stabilized operating year (Year 3), the Project would generate \$5.1 million in Net Incremental Revenue to the City (Project Revenues less Incentive Payments less Existing City Revenues). As shown in Table 2, the Net Incremental Revenue to the City over the term of the Agreement is \$132.3 million, which has a net present value of \$61.6 million (discounted at 8.0%).

V. CREATION OF ECONOMIC OPPORTUNITY AND PUBLIC PURPOSE

The implementation of this Agreement will provide economic incentives to encourage the development, construction and operation of the Project within the City which will:

1. Provide desirable and attractive experiences for both local residents and tourists;
2. Promote job creation opportunities in the City;
3. Indirectly encourage other property owners to upgrade and enhance properties;
4. Maintain and enhance a consistent business friendly environment;
5. Generate net increased TOT revenue to the City, which will assist in the revitalization of neighborhoods and support the public services provided by the City to its residents, visitors, and businesses;
6. Increase the economic competitiveness of the City;
7. Encourage maximum utilization of the Anaheim Convention Center; and,
8. Increase the number of visitors to the City, which will spend money on dining, retail and entertainment activities in the City.

VI. JOB CREATION

The Project is projected to create temporary jobs during construction, and full-time and part-time jobs during operation. It is estimated that 5,050 temporary construction jobs will be created during the construction period. After opening, the Developer estimates the Project will create 1,150 total jobs. These jobs are estimated to include to 805 full-time time positions and 345 part-time positions.

TABLE 1

**CITY REVENUE PROJECTIONS
1401 DISNEYLAND DRIVE HOTEL
ANAHEIM, CALIFORNIA**

Project Year	Transient Occupancy Tax ¹	City Share of Property Tax ²	On-Site Sales Tax ³	Gross Public Revenues
Const. 2019 -20	-	\$222,000	\$221,000	\$443,000
Const. 2020 -21	-	449,000	221,000	670,000
1 2021 -22	\$14,659,000	458,000	263,000	15,380,000
2 2022 -23	15,115,000	467,000	269,000	15,851,000
3 2023 -24	15,572,000	477,000	276,000	16,325,000
4 2024 -25	16,028,000	486,000	283,000	16,797,000
5 2025 -26	16,516,000	496,000	290,000	17,302,000
6 2026 -27	16,929,000	506,000	297,000	17,732,000
7 2027 -28	17,352,000	516,000	305,000	18,173,000
8 2028 -29	17,786,000	526,000	312,000	18,624,000
9 2029 -30	18,231,000	537,000	320,000	19,088,000
10 2030 -31	18,687,000	548,000	328,000	19,563,000
11 2031 -32	19,154,000	559,000	336,000	20,049,000
12 2032 -33	19,632,000	570,000	345,000	20,547,000
13 2033 -34	20,123,000	581,000	353,000	21,057,000
14 2034 -35	20,626,000	593,000	362,000	21,581,000
15 2035 -36	21,142,000	605,000	371,000	22,118,000
16 2036 -37	21,671,000	617,000	381,000	22,669,000
17 2037 -38	22,212,000	629,000	390,000	23,231,000
18 2038 -39	22,768,000	642,000	400,000	23,810,000
19 2039 -40	23,337,000	655,000	410,000	24,402,000
20 2040 -41	<u>23,920,000</u>	<u>668,000</u>	<u>420,000</u>	<u>25,008,000</u>
20 Year Term				
Nominal Total	\$381,460,000	\$11,807,000	\$7,153,000	\$400,420,000
NPV @ 8%	\$175,756,000	\$5,874,000	\$3,539,000	\$185,169,000

¹ See ATTACHMENT 1 - TABLE 1.

² See ATTACHMENT 1 - TABLE 2.

³ See ATTACHMENT 1 - TABLE 3.

TABLE 2

**NET NEW CITY REVENUES
1401 DISNEYLAND DRIVE HOTEL
ANAHEIM, CALIFORNIA**

<u>Project Year</u>	<u>Gross Public Revenues</u>	<u>(Less) Project Subsidy at 70% of TOT</u>	<u>Net City Revenues</u>	<u>(Less) Annual Base Period Amount ¹</u>	<u>Net Incremental Revenue to City</u>
Const. 2019 -20	\$443,000	-	\$443,000	(\$40,000)	\$403,000
Const. 2020 -21	670,000	-	670,000	(41,000)	629,000
1 2021 -22	15,380,000	(10,261,000)	5,119,000	(42,000)	5,077,000
2 2022 -23	15,851,000	(10,581,000)	5,270,000	(43,000)	5,227,000
3 2023 -24	16,325,000	(10,900,000)	5,425,000	(44,000)	5,381,000
4 2024 -25	16,797,000	(11,220,000)	5,577,000	(45,000)	5,532,000
5 2025 -26	17,302,000	(11,561,000)	5,741,000	(46,000)	5,695,000
6 2026 -27	17,732,000	(11,850,000)	5,882,000	(47,000)	5,835,000
7 2027 -28	18,173,000	(12,146,000)	6,027,000	(47,000)	5,980,000
8 2028 -29	18,624,000	(12,450,000)	6,174,000	(48,000)	6,126,000
9 2029 -30	19,088,000	(12,762,000)	6,326,000	(49,000)	6,277,000
10 2030 -31	19,563,000	(13,081,000)	6,482,000	(50,000)	6,432,000
11 2031 -32	20,049,000	(13,408,000)	6,641,000	(51,000)	6,590,000
12 2032 -33	20,547,000	(13,742,000)	6,805,000	(52,000)	6,753,000
13 2033 -34	21,057,000	(14,086,000)	6,971,000	(53,000)	6,918,000
14 2034 -35	21,581,000	(14,438,000)	7,143,000	(55,000)	7,088,000
15 2035 -36	22,118,000	(14,799,000)	7,319,000	(56,000)	7,263,000
16 2036 -37	22,669,000	(15,170,000)	7,499,000	(57,000)	7,442,000
17 2037 -38	23,231,000	(15,548,000)	7,683,000	(58,000)	7,625,000
18 2038 -39	23,810,000	(15,938,000)	7,872,000	(59,000)	7,813,000
19 2039 -40	24,402,000	(16,336,000)	8,066,000	(60,000)	8,006,000
20 2040 -41	<u>25,008,000</u>	<u>(16,744,000)</u>	<u>8,264,000</u>	<u>(61,000)</u>	<u>8,203,000</u>
<u>20 Year Term</u>					
Nominal Total	\$400,420,000	(\$267,021,000)	\$133,399,000	(\$1,104,000)	\$132,295,000
NPV @ 8%	\$185,169,000	(\$123,029,000)	\$62,140,000	(\$559,000)	\$61,581,000

¹ Based on KMA's review of the current City revenues generated by the Site.

ATTACHMENT 1

PUBLIC REVENUE ANALYSIS

1401 DISNEYLAND DRIVE HOTEL

ANAHEIM, CALIFORNIA

ATTACHMENT 1 - TABLE 1

**TRANSIENT OCCUPANCY TAX
1401 DISNEYLAND DRIVE HOTEL
ANAHEIM, CALIFORNIA**

Project Year	Average Daily Rate	¹ Stabilized Occupancy Rate	Annual Room Revenues	² TOT Revenues ³
1 2021 22	\$450.00	85.0%	\$97,729,000	\$14,659,000
2 2022 23	\$464.00	85.0%	100,769,000	15,115,000
3 2023 24	\$478.00	85.0%	103,810,000	15,572,000
4 2024 25	\$492.00	85.0%	106,850,000	16,028,000
5 2025 26	\$507.00	85.0%	110,108,000	16,516,000
6 2026 27	\$519.68	85.0%	112,860,000	16,929,000
7 2027 28	\$532.67	85.0%	115,682,000	17,352,000
8 2028 29	\$545.98	85.0%	118,574,000	17,786,000
9 2029 30	\$559.63	85.0%	121,538,000	18,231,000
10 2030 31	\$573.62	85.0%	124,577,000	18,687,000
11 2031 32	\$587.96	85.0%	127,691,000	19,154,000
12 2032 33	\$602.66	85.0%	130,883,000	19,632,000
13 2033 34	\$617.73	85.0%	134,156,000	20,123,000
14 2034 35	\$633.17	85.0%	137,509,000	20,626,000
15 2035 36	\$649.00	85.0%	140,947,000	21,142,000
16 2036 37	\$665.23	85.0%	144,471,000	21,671,000
17 2037 38	\$681.86	85.0%	148,083,000	22,212,000
18 2038 39	\$698.91	85.0%	151,785,000	22,768,000
19 2039 40	\$716.38	85.0%	155,579,000	23,337,000
20 2040 41	\$734.29	85.0%	159,469,000	<u>23,920,000</u>

20 Year Term

Nominal Total	\$381,460,000
Net Present Value @ 8%	\$175,756,000

¹ Based on developer's experience with similar properties in Anaheim. Assumes long term annual inflation rate of 2.5%.

² Assumes 700 keys and 365 annual room nights per key.

³ Based on a 15.0% tax rate.

ATTACHMENT 1 - TABLE 2

**CITY SHARE OF PROPERTY TAX
1401 DISNEYLAND DRIVE HOTEL
ANAHEIM, CALIFORNIA**

Project Year			Total Assessed Value ¹	Property Tax Revenues ²
Const.	2019	20	\$205,663,000	\$222,000
Const.	2020	21	415,439,000	449,000
1	2021	22	423,748,000	458,000
2	2022	23	432,223,000	467,000
3	2023	24	440,867,000	477,000
4	2024	25	449,684,000	486,000
5	2025	26	458,678,000	496,000
6	2026	27	467,852,000	506,000
7	2027	28	477,209,000	516,000
8	2028	29	486,753,000	526,000
9	2029	30	496,488,000	537,000
10	2030	31	506,418,000	548,000
11	2031	32	516,546,000	559,000
12	2032	33	526,877,000	570,000
13	2033	34	537,415,000	581,000
14	2034	35	548,163,000	593,000
15	2035	36	559,126,000	605,000
16	2036	37	570,309,000	617,000
17	2037	38	581,715,000	629,000
18	2038	39	593,349,000	642,000
19	2039	40	605,216,000	655,000
20	2040	41	617,320,000	<u>668,000</u>

20 Year Term

Nominal Total	\$11,807,000
Net Present Value @ 8%	\$5,874,000

¹ Based on a KMA estimate of assessed value of \$411,325,000 (\$2016). Assumes cumulative construction phasing of 0% in 2018; 50% in 2019; and 100% in 2020. Assessed value inflates at 2.0% annually.

² Based on a 1% general levy and a city share of 10.82%, based on information obtained from the Orange County Auditor-Controller. Calculation does not include voter-approved indebtedness or special assessments.

ATTACHMENT 1 - TABLE 3

**ON-SITE SALES TAX PROJECTION
1401 DISNEYLAND DRIVE HOTEL
ANAHEIM, CALIFORNIA**

Project Year			Construction Taxable Sales ¹	Hotel Taxable Sales ²	Leased Commercial Taxable Sales	Total Taxable Sales	City Sales Tax Revenues ³
Const.	2019	20	\$22,094,000	-	-	\$22,094,000	\$221,000
Const.	2020	21	22,094,000	-	-	22,094,000	221,000
1	2021	22	-	\$26,300,000	\$0	26,300,000	263,000
2	2022	23	-	26,900,000	0	26,900,000	269,000
3	2023	24	-	27,600,000	0	27,600,000	276,000
4	2024	25	-	28,300,000	0	28,300,000	283,000
5	2025	26	-	29,000,000	0	29,000,000	290,000
6	2026	27	-	29,725,000	0	29,725,000	297,000
7	2027	28	-	30,468,125	0	30,468,125	305,000
8	2028	29	-	31,229,828	0	31,229,828	312,000
9	2029	30	-	32,010,574	0	32,010,574	320,000
10	2030	31	-	32,810,838	0	32,810,838	328,000
11	2031	32	-	33,631,000	0	33,631,000	336,000
12	2032	33	-	34,472,000	0	34,472,000	345,000
13	2033	34	-	35,334,000	0	35,334,000	353,000
14	2034	35	-	36,217,000	0	36,217,000	362,000
15	2035	36	-	37,122,000	0	37,122,000	371,000
16	2036	37	-	38,050,000	0	38,050,000	381,000
17	2037	38	-	39,001,000	0	39,001,000	390,000
18	2038	39	-	39,976,000	0	39,976,000	400,000
19	2039	40	-	40,975,000	0	40,975,000	410,000
20	2040	41	-	41,999,000	0	41,999,000	420,000
20 Year Term							
Nominal Total				\$671,121,365	\$0	\$715,309,365	\$7,153,000
Net Present Value @ 8%				\$309,750,000	\$0	\$353,938,000	\$3,539,000

¹ Based on Building Shell & FF&E costs of \$535,612,000. Assumes a materials share of 50%; a taxable share of 50% ; and 33% of sales taking place within city limits.

² Based on developer's experience with similar properties in Anaheim. Assumes long term annual inflation rate of 2.5%.

³ Assumes a 1% city share.