

DISCUSSION:

Resort Impact on General Fund

Tourism plays a significant role in the economies of California, Orange County and the City of Anaheim, accounting for \$106.4 billion in spending statewide and \$8.3 billion countywide in 2012. Anaheim has competed well for tourism revenue generated by such spending. That success has paid dividends to the City's General Fund. In fact, after deducting service costs and Anaheim Resort related debt service from the \$109 million in gross tax revenues generated in the Anaheim Resort, the Anaheim Resort generates approximately \$45 million in net revenue for the City's General Fund annually.

With an adopted General Fund budget of \$237 million, the Anaheim Resort provides revenue for nearly 20% of all General Fund services. By way of example, \$45 million funds 100 police officers, 5 fire companies, all City parks and libraries, and the power generation costs for over 19,000 street lights. Importantly, Resort revenue is driven by taxes, specifically transient occupancy tax (TOT) and sales taxes, that are largely paid by visitors to the City, effectively lowering the tax burden of the residents of Anaheim.

In addition to generating \$45 million in net revenue for the General Fund annually, businesses in the Resort assess themselves in order to fund Resort specific benefits. The Anaheim Resort Maintenance District was established to create a garden district that would allow visitors a unique destination to escape from daily life. Special assessments, paid only by businesses in the Resort, fund median and parkway landscaping, Resort signage and bus shelters, special lighting and traffic signals at no additional cost to the General Fund. In addition, property owners in the Resort and Platinum Triangle approved the Anaheim Tourism and Improvement District (ATID) in 2010. This special assessment supports marketing and promotions, as well as transportation improvements, again solely funded by businesses in the Resort. The Anaheim Resort Maintenance District and ATID annually generate \$15 million combined and allow the Resort area to remain self-sufficient.

Competition for Tourism Revenue and Upscale Hotel Development

While the private sector is most often associated with competition, U.S. cities and towns have been competing with one another for much of our history. Whether it is to be named the State Capitol, to locate a major highway or railroad, to land a major event such as the Olympics, or to attract a business or development that adds to a city's economic vitality, American cities compete fiercely with one another.

And while Anaheim has been able to compete for and capture a significant portion of tourism revenue, Anaheim has long recognized its inability to robustly tap into the upscale convention and tourism business. Accordingly, Anaheim has acted to address this issue as summarized below.

In 1996, the City Council set in motion its plan to revitalize the City's tourist serving infrastructure and expand the industry that serves as the primary economic engine of Anaheim, benefiting the City as a whole. Over time, this investment has paid dividends exemplified by the near doubling of transient occupancy tax (TOT) revenue over the last decade. In 2002, in an effort designed to compete for, and attract, additional, higher tiered convention business for Anaheim and raise the profile of the Anaheim Resort, the City Council endorsed an economic assistance program (the 2002 Hotel Development Incentive Program) to incentivize the development of upscale hotels within Anaheim.

Several concepts were behind the 2002 Hotel Development Incentive Program. First, being able to land more convention business is not only good for the upscale hotels; it is good for all hotels in Anaheim. More conventions in Anaheim translates into increased occupancy and room revenue for existing hotels as not all persons attending higher tiered conventions will stay in upscale hotels. This, in turn, increases TOT revenue for the City. In addition, conventioners staying in upscale hotels have more disposable income than more typical conventioners and will be likely to spend more money in Anaheim, ultimately resulting in greater success for our local businesses and greater sales tax revenue for the City. Finally, the development of upscale hotels prevents leakage of room nights to the beach communities.

Under the 2002 Hotel Development Incentive Program, Anaheim offered assistance in an amount not to exceed 50% of project-generated TOT. Unfortunately, no upscale hotels have been developed under the Hotel Incentive Program or various assistance agreements crafted outside the parameters of that program in the last decade. However, during this period, there have been incentives offered by competing cities. For perspective, several of these incentives are listed below:

- Santa Barbara County – Miramar Hotel, 70% TOT, 15 years
- State of Colorado – Gaylord Aurora Project, 65.8% sales tax, 30 years
- City of Palm Springs – Port Lawrence Hotel, 75% TOT, 20 years
- City of Los Angeles – LA Live Downtown Hotel, \$246 million TOT, 25 years, \$5 million grant, \$4 million permit fee rebate
- City of Los Angeles – Wilshire Grand Hotel, 100% TOT, 25 years
- City of Los Angeles – Courtyard and Residence Inn at LA Live, 50% of sales, property, business and TOT, 25 years

It is also worth noting that public assistance in Southern California has ranged from 14.8% to 33.5% of total development costs.

Given that it has been the policy of the City of Anaheim to attract upscale hotels for over a decade, that our 50% incentive has yielded very limited success, and that other competing cities are garnering success using more robust incentive packages, City staff entered into negotiations with a developer proposing to develop two four-star quality hotel towers on the GardenWalk site. Staff's goal was to strike a balanced incentive proposal that would put the Developer in a position to build the needed four-star hotels while delivering both short and long-term financial and employment benefits to Anaheim.

The 2012 Economic Assistance Agreement

In January 2012, the City Council approved an Economic Assistance Agreement (2012 Assistance Agreement) with GardenWalk Hotel I, LLC (Developer). The 2012 Assistance Agreement provided assistance from the City to the Developer equal to 80% of Gross TOT generated by the Project over 15 years. The assistance was estimated to equal \$158 million gross (\$75 million NPV). The 2012 Assistance Agreement provided for a two phased construction, the first phase of which was to commence within two years. Time constraints precluded an opportunity to evaluate the economic feasibility of the Project, and subsequently staff did not make a recommendation. Subsequent court action invalidated the 2012 Assistance Agreement.¹

Proposed Economic Assistance Agreements

The Developer has returned to staff with a revised proposal (revised from the 2012 Assistance Agreement) for the City's consideration. Staff has been afforded four months to negotiate and evaluate the financial aspects of this revised proposal, a summary of which follows:

The proposed Economic Assistance Agreements (Agreements) provide for the development of up to 866 hotel rooms, of a four-star caliber, in two phases (Project). Project development costs are estimated to be \$283 Million. The Agreements provide for City assistance in an amount equal to 70% of the TOT for the development of a Convention Hotel (of not less than 466 rooms) and a Resort Hotel (of not less than 350 rooms). The City's assistance ends on the earlier of twenty years from completion of construction or, provision of assistance up to a not to exceed amount of approximately \$158 million gross. The net present value (NPV) of the maximum assistance under the Agreements (\$46.6 million) represents 16% of development costs and compares quite favorably with our Southern California competitors as noted above. There are no upfront expenditures required by the City. Importantly, there is no risk to the City's General Fund as provision of the assistance is contingent upon completion of construction of the hotels, the commencement of operations and the generation of TOT. In other words, the City is not obligated to provide assistance until each Hotel is constructed and operated at the required quality level. At that point, the TOT generated by each hotel is the measure of assistance provided under the respective Agreements.

¹ A memorandum from the City Attorney's Office re: Additional Analysis of Topics Relevant to Consideration of GardenWalk Request to Approve Economic Assistance Agreements and Related to CEQA Documentation dated May 7, 2013 is attached hereto and constitutes a part of this report as well as part of the record for this action.

There has been extensive analysis of the gap between the costs of developing and operating the Project and what costs the Project can finance and viably support. With current development costs of \$283 million, the feasibility gap for the Project is \$63.1 million (NPV), and it is that gap that the City assistance (\$46.6 million NPV) is intended to partially fill. While the City assistance is offered to partially offset a gap in financing current development costs, it is important to emphasize that development and operating risks are borne by the Developer since City assistance is not due to the Developer until the applicable hotel is constructed and operated as required; that assistance is then limited to an amount equal to a percentage of the TOT actually generated by such hotel.

Construction of the Convention Hotel is required to commence no later than May 26, 2015 and is required to be completed within 30 months thereafter. The maximum City assistance to be funded for that hotel is approximately \$81.1 million (gross). Construction of the Resort Hotel must commence no later than November 26, 2019 and be completed within 30 months thereafter. The maximum City assistance to be funded for this hotel is approximately \$76.9 million (gross).

Based on the Developer's proforma and hotel economic analysis,² the assumptions for which have been validated by the City's independent real estate economist,³ staff has determined that an economic feasibility gap exists given the current financing marketplace. To the extent that Council desires to maximize the probability of opening successful high-end Resort amenities in the near and intermediate term, and generate new General Fund revenue sooner rather than later, staff recommends approval of the proposed Agreements, as well as the accompanying environmental documentation.

Potential Hotel Development without City Assistance

Before turning to an economic analysis of the proposed Agreements, it is worth comparing what could be developed on the GardenWalk Hotel sites without City assistance. In the current economic environment, it is possible that three-star quality hotels can be built without public assistance. However, the development of such hotels without assistance will most likely dictate type 4 wood frame construction, effectively limiting the number of rooms that can be developed on a given site. As that limitation relates to GardenWalk, the two hotel sites can probably accommodate development of no more than 250 rooms at each site, in contrast to the approximately 866 currently proposed. Comparing the City's 100% share of TOT revenues for such a three star development with the City's 30% share of TOT revenue from the proposed four star hotels (as will be demonstrated in the subsequent section of this report) during the term of the proposed Agreement (from 2016 – 2042) accounting for differing start periods based on construction/completion timing reveals that revenues from the proposed four-star hotels exceeds three-star hotels by \$ 124 million (\$235 million vs. \$111 million, respectively).

² The studies and reviews conducted by PKF Consulting USA and dated April 17 and April 18, 2012 are attached hereto and incorporated herein by this reference.

³ The analysis conducted by Keyser Marston Associates dated April 24, 2013 is attached hereto and incorporated herein by this reference.

Revenues from Proposed GardenWalk Hotels

Direct Revenues from Transient Occupancy Tax (TOT)⁴

Each of the GardenWalk hotels are expected to generate significant TOT to the City. To reiterate, the only way that the Developer receives any assistance under the Agreements is to first generate TOT that is paid to the City; only then will the Developer receive assistance from the General Fund in an amount reflective of and equal to 70% of the TOT (up to the cap) that is generated by the Project.

With the development of the GardenWalk hotels, it is anticipated that a significant number of guests who previously sought upscale accommodations in Orange County's beach cities, or who were unable to secure accommodations at the up-scale Disney Hotels, will patronize the new facilities given GardenWalk's unique positioning and its high-quality facilities and amenities. In addition to the TOT generated directly by the two hotels, the City is expected to receive additional TOT from other hotels because of the new conventions that these four-star quality hotels will attract and the overall increase in value of the Anaheim destination. This incremental increase in TOT is considered "net new" and because it is not generated by the GardenWalk hotels, is not subject to the Agreements.

The City has an existing obligation to pay out amounts reflective of and equal to 20% of TOT for the debt service related to the 1997 Anaheim Resort Expansion. The TOT generated by the Convention Center Hotel, the Resort Hotel and the "net new" TOT will result in additional amounts being paid towards the existing debt service. All amounts of TOT generated above and beyond the assistance amounts and the Resort debt service obligation will be available for discretionary use in the General Fund to pay for core services such and police and fire protection, library and recreational services that enhance the quality of life of the residents, business and visitors to the City of Anaheim.

The following is a summary of the estimated sources and uses of the TOT that will be generated by the Project during the term of the proposed Agreement (2016 through 2042):

⁴ TOT revenues are deposited into the General Fund for discretionary use by the City and are not pledged, obligated or dedicated for any specific use. In the discussion that follows, the use of TOT to satisfy certain obligations is illustrative only and is not intended to be construed as a pledge of TOT for such use. Any such use of TOT is, and would be, discretionary from the General Fund.

**Summary of TOT Sources and Uses
2016 through 2042
(Amounts in Millions)**

Uses	Sources				
	Convention Center Hotel	Resort Hotel	Total Direct GardenWalk Project	"Net New" TOT	Total
General Fund Discretionary	\$ 103.8	\$ 71.3	\$ 175.1	\$ 80.5	\$ 255.6
Developer Assistance Maximum	81.1	76.9	158.0	-	158.0
Resort Debt Service	32.4	24.7	57.1	13.8	70.9
Total Sources and Uses	\$ 217.3	\$ 172.9	\$ 390.2	\$ 94.3	\$ 484.5

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As shown above, the entire Project is expected to generate approximately \$484.5 million in new TOT to the City over the term of the Agreements. Of the total TOT, \$255.6 million or more than half, is expected to be retained by the General Fund to be used to provide core services to the residents, businesses and visitors of Anaheim.

Direct Revenues from Sales and Property Taxes

In addition to the TOT generated by each of these hotels, the City will receive new sales and property tax revenues that will also be available for discretionary use in the General Fund to pay for core services provided by the City and City obligations. Anaheim will receive its 1% share of all taxable retail sales generated primarily by food and beverage sales. For property taxes, the City will receive its portion of the 1% levy on assessed value. The following is a summary of the estimated sales and property tax revenues generated by the Project for the term of the Agreements (2016 through 2042):

⁵ While the table summarizes the sources and uses of Project-generated TOT from 2016-2042, (the maximum term in which City assistance is provided), projections indicate that the maximum City assistance will have been provided by 2036. Accordingly, the table below provides a summary for the period 2016-2036 based on TOT revenue as an example only of affect within the General Fund, but in no way restricting or dedicating such revenues.

**Summary of TOT Sources and Uses
2016 through 2036
(Amounts in Millions)**

Uses	Sources				
	Convention Center Hotel	Resort Hotel	Total Direct GardenWalk Project	"Net New" TOT	Total
General Fund Discretionary	\$ 40.6	\$ 14.7	\$ 55.3	\$ 51.2	\$ 106.5
Developer Assistance Maximum	81.1	76.9	158.0	-	158.0
Resort Debt Service	30.4	22.9	53.3	12.8	66.1
Total Sources and Uses	\$ 152.1	\$ 114.5	\$ 266.6	\$ 64.0	\$ 330.6

**Summary of Sales and Property Tax Revenues
 2016 through 2042
 (Amounts in Millions)**

Sources	Convention		Total Direct GardenWalk Project
	Center Hotel	Resort Hotel	
Sales Tax	\$ 7.4	\$ 2.2	\$ 9.6
Property Tax	7.4	5.7	13.1
Total General Fund Discretionary	\$ 14.8	\$ 7.9	\$ 22.7

Resort Specific Assessments

In addition to the City's portion of tax revenue directly attributable to the GardenWalk Hotels, those Hotels will also directly contribute to the ATID. The ATID was established in 2010 by a vote of the property owners to self-assess in the amount of 2% of room sales to provide funding for the marketing and promotions services provided by the Anaheim/Orange County Visitor and Convention Bureau and transportation needs. The following is a summary of the estimated ATID assessment sources and uses generated by the Project for the term of the proposed Agreements (2016 through 2042):

**Summary of ATID Assessment Sources and Uses
 2016 through 2042
 (Amounts in Millions)**

Uses	Sources					
	Convention		Total Direct GardenWalk Project	"Net New"		Total
	Center Hotel	Resort Hotel		TOT		
Marketing & Promotions	\$ 21.7	\$ 17.3	\$ 39.0	\$ 9.4	\$ 48.4	
Transportation	7.3	5.8	13.1	3.1	16.2	
Total ATID Assessments	\$ 29.0	\$ 23.1	\$ 52.1	\$ 12.5	\$ 64.6	

Summary of Total Citywide Direct Benefits

The following is a summary of the amounts providing direct financial benefit to the City for the term of the Agreements (2016 through 2042):

(Amounts in Millions)

General Fund Discretionary:

TOT	\$ 255.6
Sales Tax	9.6
Property Tax	13.1
Total General Fund Discretionary	278.3
Resort Debt Service	70.9
ATID Assessments	64.6
Total Citywide Direct Benefit	\$ 413.8

In summary, and based on the discussion above, the Agreements are estimated to generate a net \$278.3 million in discretionary revenues available to the General Fund to provide core services to the residents, businesses and visitors of Anaheim. Additionally, \$70.9 million of Project tax revenue could be of assistance to pay Resort Debt Service, which could potentially pay off existing debt early by approximately 2.5 years. This potential early retirement of debt would relieve the General Fund of more than \$60 million dollars of annual debt service in the last 2.5 years. Finally, \$64.6 million in additional ATID assessments would be available to be reinvested in the Anaheim Resort to pay for marketing and promotion activities and transportation needs.

Conclusion

As noted in the Developer's hotel economic analysis, and validated by the City's independent real estate economist, hotel development of a luxury caliber at the GardenWalk site will bring a number of positive benefits to both the City of Anaheim and the greater hospitality community. In addition to increasing tax revenues, enhancing our existing hotel supply and attracting highly rated conventions to the City, the hotel development will also create and support approximately 1,300 permanent local jobs annually, as well as 3,000 temporary jobs related to construction. Moreover, the proposed GardenWalk hotels will significantly enhance and support the retail, dining and entertainment outlets at the repositioned GardenWalk center as originally envisioned. Finally, the proposed agreement poses no risk to the General Fund while serving as an important step in revitalizing the City's tourist infrastructure and enhancing our destination that serves as the primary economic engine of Anaheim, benefiting the City as a whole.

IMPACT ON BUDGET:

City assistance is conditioned upon development of the hotels. Accordingly, at such time as the Developer may complete construction of hotels consistent with the Agreements, there will be a positive increase in revenues to the General Fund.

Respectfully submitted,

John E. Woodhead IV
Director

Attachments:

1. Resolution
2. Resolution
3. Convention Hotel Agreement
4. Resort Hotel Agreement
5. Consultant Report PKF
6. Consultant Report PKF #2
7. Consultant Report KMA
8. City Attorney Memo
9. Prior Environmental Documentation for Pointe Anaheim/GardenWalk Project
CDROM
10. Addendum to the Pointe Anaheim Initial Study and Mitigated Negative Declaration