

REVISED DRAFT

Anaheim Resort Area Fiscal Analysis

Summary

Prepared for:

The City of Anaheim

Prepared by:

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INTRODUCTION

The City of Anaheim has been studying the public revenues and expenditures associated with the City's Anaheim Resort Area (ARA). The ARA is the location of Disneyland, the Convention Center, and the vast majority of the overnight lodging in the City. Like most California cities, Anaheim depends upon revenues generated by commercial development to help fund basic municipal services for its residents. Tourist-based commercial development, such as that which exists in the ARA, depends upon attracting significant numbers of visitors. The visitors, in turn, create an additional demand for municipal services, facilities, and other amenities while generating significant tax dollars.

This report presents a summary of an independent analysis commissioned by and for the City of Anaheim to explore these issues in the context of the Proposed Disneyland Resort Project. The objectives of this report are to establish:

- ***The current fiscal effects of the ARA on the City's budget;***
- ***A "Baseline" budget forecast to determine what would happen without the Disneyland Resort Project; and***
- ***The potential incremental fiscal impacts of the Proposed Disneyland Resort Project upon the City's budget, i.e., the difference between Baseline and the Disney Expansion***

The potential fiscal impacts focus upon annual operating revenues and expenditures, and the net balance, which may be available to help finance capital improvements and other City-wide operating expenditures. This report will assist the City in developing financial criteria and refining guidelines for City investments in the ARA.

Documentation of the analysis and conclusions presented in this Summary Report are contained in the companion report entitled Anaheim Resort Area Fiscal Analysis Technical Report, September 24, 1996. The analysis is based upon Economic & Planning Systems' (EPS) interviews with City departments in conjunction with analysis by the City Manager's office.

BASELINE CONDITIONS AND TRENDS

Anaheim must address difficult budgetary and economic factors facing most California cities. These factors emphasize the need for fiscally beneficial economic development City-wide and within the ARA as part of a strategy to maintain and improve municipal services and facilities. This section of the report documents the ARA's existing fiscal conditions.

The ARA currently contributes a net \$11.0 million annually to City funds

Figure 1 summarizes City revenues and expenditures associated with the ARA. These estimates show the contribution of the ARA to the City's financial position. Maintaining and enhancing the ARA's net contribution to City funds will require an aggressive, ongoing effort by the City. The ARA's economy is subject to a number of potentially adverse factors, including:

- ***Competition from other cities and tourist destinations;***
- ***Constantly changing trends in the convention, tourism and recreation markets; and***
- ***Increasing demands on infrastructure and public facilities operations and maintenance.***

These factors will affect the fiscal projections contained herein and result in year-to-year variations. Nonetheless, it is believed that the projections represent a reasonable basis for a long-term comparison of alternatives, given current assumptions.

Figure 1
ARA Base Year Revenues and Expenditures
(constant 1995 dollars)

Item	Base Amount
<u>GENERAL FUND REVENUES</u>	
Property Tax	\$2,249,130
Sales and Use Tax	4,749,291
Franchise Fees	391,802
Transient Occupancy Tax	39,480,714
Business License Fees	678,563
Fines and Forfeitures	24,773
Utility Administrative Transfer	<u>889,548</u>
Subtotal Revenues	\$48,463,822
<u>GENERAL FUND EXPENDITURES</u>	
General Government	\$1,257,099
Public Works-Engineering	236,119
Police	3,927,271
Fire	5,100,000
Parks & Recreation	110,099
Planning	423,600
Public Works-Maintenance	500,656
Library	178,077
Convention Center Operating Subsidy	0
Visitor & Convention Bureau (1)	<u>4,382,359</u>
Subtotal Operating Expenditures	\$16,115,279
Existing Funds Committed to Debt Service (2)	\$13,450,000
Additional Funds Available for Debt Service (3)	\$7,896,143
Subtotal, Debt Service	\$21,346,143
Net Fiscal Balance to General Fund	\$11,002,400
Percent of Total Resort Area Revenues	22.7%

(1) Baseline assumes V&CB receives 11.1% of total TOT.

(2) Based on existing nominal amount of debt service, and includes \$12.8 million debt service for Convention Center and \$650,000 for Resort Area improvements.

(3) Base Year and Baseline Forecast reflect 3% rate on Citywide TOT.

New Development will continue in the ARA without the Resort Project

Even without the Proposed Disneyland Resort Project, the ARA will continue to grow. Based on past trends, pending development proposals, Convention Center expansion and related demand for new hotel rooms, continued development is anticipated. **Figure 2** below shows an estimate of land use changes through the year 2005.

**Figure 2
Land Use Changes through 2005
Baseline Forecast**

Land Use	Unit	Existing Development	Net New Development	Cumulative Development
Disney Theme Park	acre	131 (1)	0	131
Disney Center Retail	sqft	0	0	0
Disney Theater	sqft	0	0	0
Other Retail/Rest.	sqft	509,000	51,000	560,000
Disney Hotel-Luxury	room	0	0	0
Other Hotel-Luxury	room	5,083	500	5,583
Disney Hotel	room	1,638	0	1,638
Other Hotel	room	1,583	0	1,583
Motel	room	5,271	0	5,271
RV Park	space	1,128	0	1,128
Condominium	unit	140	0	140

(1) Excludes Disney parking lot.

The ARA's contribution will remain stable without the Resort Project

Public and private investments in the ARA will generate additional municipal revenues. This additional revenue is essential for the City to deal with the loss of State and federal revenues, address inflation, and continue to meet future service demands City-wide. **Figure 3** shows the estimated net ARA contribution in year 2005 of \$10.0 million (1995 dollars). The primary source of revenue increases will be Transient Occupancy Tax (TOT) generated by new hotel rooms. The ARA contribution is net of \$21.8 million of annual debt service, including \$8.4 million for Convention Center expansion and City capital costs for improvements needed in the area.

These conclusions assume a continuing recovery of the national economy and development of 500 new rooms in the ARA associated with the expansion of the Convention Center. The results assume that the portion of revenues reinvested in ARA road improvements, landscaping, and Convention Center expansion will continue to provide an environment conducive to tourist activities. Although expenditures will continue to grow due to real cost increases above inflation, it is expected that most public services can accommodate the ARA's Baseline level of growth without significant impacts.

Figure 3
Baseline Forecast of Total ARA Revenues and Expenditures -- 2005
(constant 1995 dollars)

Item	Amount
<u>GENERAL FUND REVENUES</u>	
Property Tax	\$2,112,935
Sales and Use Tax	4,859,448
Franchise Fees	406,300
Transient Occupancy Tax	41,968,311
Business License Fees	696,701
Fines and Forfeitures	25,435
Utility Administrative Transfer	<u>924,061</u>
Subtotal Revenues	\$50,993,192
<u>GENERAL FUND EXPENDITURES</u>	
General Government	\$1,416,092
Public Works-Engineering	298,847
Police	4,400,328
Fire	5,633,573
Parks & Recreation	121,618
Planning	610,533
Public Works-Maintenance	553,035
Library	182,833
Convention Center Operating Subsidy	1,225,000
Visitor & Convention Bureau (1)	<u>4,658,483</u>
Subtotal Operating Expenditures	\$19,100,343
Existing Funds Committed to Debt Service (2)	\$13,450,000
Additional Funds Available for Debt Service (3)	\$8,393,662
Subtotal, Debt Service	\$21,843,662
Net Fiscal Balance to General Fund	\$10,049,187
Percent of Total Resort Area Revenues	19.7%

(1) Baseline assumes V&CB receives 11.1% of total TOT.

(2) Based on existing nominal amount of debt service, and includes \$12.8 million debt service for Convention Center and \$650,000 for Resort Area improvements.

(3) Base Year and Baseline Forecast reflect 3% rate on Citywide TOT.

FISCAL EFFECTS -- DISNEYLAND RESORT PROJECT

The Proposed Disneyland Resort Project will significantly increase the number of visitors to the ARA, and lead to increases in both municipal revenues and service costs. Other benefits from the Project are likely, including increased employment and induced economic activity in the City and surrounding region. These economic multiplier effects are not estimated or considered in this analysis.

This section presents an Expansion Forecast that estimates the incremental municipal revenues (net of increased costs) and compares the results to the Baseline Forecast described in the prior section. The available net revenues may be combined with other sources of funding to pay for needed public improvements in the ARA.

The Expansion will significantly increase development within the ARA

Figure 4 below summarizes anticipated development including the proposed Disneyland Resort Project, induced hotel rooms and other uses in the Anaheim Resort Area, and Baseline growth. The Disney and ARA Specific Plans allow more development than shown in this forecast; the forecast only reflects current proposals and expected demand. The analysis also assumes limited rehabilitation and reuse of existing sites. New ARA development (including Baseline growth) is expected to generate a significant increase in employment within the ARA, according to the Specific Plan EIRs and other recent studies. No significant change in population within the ARA is anticipated.

Figure 4
Land Use Changes through 2005
Expansion Forecast

Land Use	Unit	Existing Development	Net New Development	Cumulative Development
Disney Theme Park	acre	131 (1)	147	278
Disney Center Retail	sqft	0	182,000	182,000
Disney Theater	sqft	0	108,000	108,000
Other Retail/Rest.	sqft	509,000	51,000	560,000
Disney Hotel-Luxury	room	0	750	750
Other Hotel-Luxury	room	5,083	1,000	6,083
Disney Hotel	room	1,638	(146) (2)	1,492
Other Hotel	room	1,583	1,500	3,083
Motel	room	5,271	(552)	4,719
RV Park	space	1,128	0	1,128
Condominium	unit	140	0	140

(1) Excludes Disney parking lot.

(2) Disney plans to remodel the existing Disneyland Hotel and remove 146 rooms and convert the space to other uses within the hotel and the retail center.

Attendance is expected to increase by 6.5 million visits per year

When the proposed Disneyland Resort Project opens, attendance at the two gates is projected to total 20.3 million annually, compared to the current 13.8 million. This forecast represents the number of visits to the Resort Project (or "clicks" of the turnstile); the actual number of individuals per year would be significantly less since each person is expected to visit different parts of the Disneyland Resort Project over the course of two or more days.

These projections assume growth in the visitor market, and increased ARA capture of the market. The increased capture rates are based upon increased capacity added by the theme park expansion, creation of a destination resort, theme differentiation, and interests as expressed by existing visitors.

A number of factors including economic trends, demographic changes, growth in market demand, and competitive supply will affect the actual number of visitors. These factors, or other unforeseeable circumstances, could affect future attendance and associated public costs and revenues. The fiscal analysis is based on a set of conservative assumptions considered to have a reasonable probability of occurring.

With Expansion, the ARA's annual net contribution could grow to \$16.1 million

Figure 5 shows that by the year 2005, ARA revenues (net of operating expenditures) could be \$16.1 million, which is \$6.1 million greater than the increase in net revenues anticipated under baseline conditions without the proposed Disneyland Resort Project. The forecast assumes existing debt service payments of \$13.5 million plus the use of a three percent TOT rate for the planned Convention Center expansion and Area-wide infrastructure improvements. Debt service also includes funds transferred to pay the cost of public infrastructure improvements associated with the proposed Disneyland Resort Project. If Disney constructs 1,000 rooms instead of 750, the additional funds available for debt service would grow. The net revenue to the City would drop, however, by \$800,000 if the additional 250 Disney rooms consume demand that otherwise would have been accommodated by non-Disney rooms. Other factors that could influence revenues are described in a subsequent section of this Summary Report.

Figure 6 graphically displays the difference between the Expansion Forecast, which includes the Disneyland Resort Project, and the Baseline Forecast. These revenues (net of operating expenditures) would be available to fund additional improvements in the ARA or contribute to other City programs. The City may experience increased operating costs prior to the theme park opening due to planning and road maintenance costs, and minor revenue reductions from demolition and reduced visitation during construction.

Figure 5
Expansion Forecast of Total ARA Revenues and Expenditures -- 2005
(constant 1995 dollars)

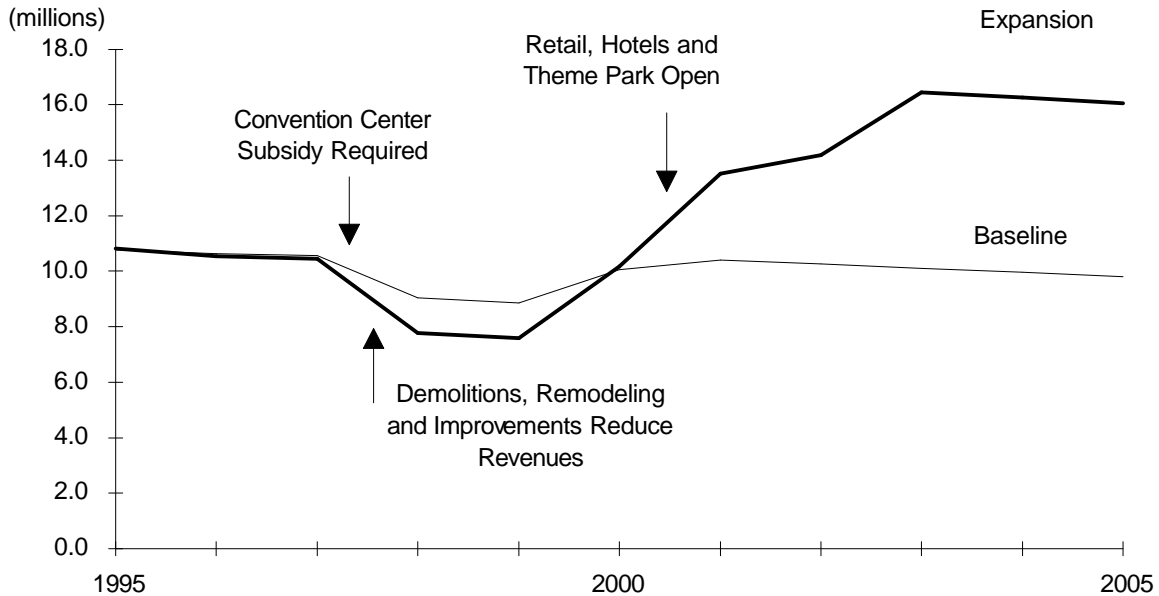
Item	FORECAST SCENARIOS	
	Baseline	Expansion
<u>GENERAL FUND REVENUES</u>		
Property Tax	\$2,112,935	\$3,309,692
Sales and Use Tax	4,859,448	7,660,250
Franchise Fees	406,300	602,367
Transient Occupancy Tax	41,968,311	61,156,743
Business License Fees	696,701	922,211
Fines and Forfeitures	25,435	33,662
Utility Administrative Transfer	<u>924,061</u>	<u>1,395,346</u>
Subtotal Revenues	\$50,993,192	\$75,080,271
<u>GENERAL FUND EXPENDITURES</u>		
General Government	\$1,416,092	\$1,943,587
Public Works-Engineering	298,847	515,722
Police	4,400,328	6,154,337
Fire	5,633,573	7,195,951
Parks & Recreation	121,618	486,619
Planning	610,533	754,925
Public Works-Maintenance	553,035	847,034
Library	182,833	241,972
Convention Center Operating Subsidy	1,225,000	1,225,000
Visitor & Convention Bureau (1)	<u>4,658,483</u>	<u>4,899,810</u>
Subtotal Operating Expenditures	\$19,100,343	\$24,264,958
Existing Funds Committed to Debt Service (2)	\$13,450,000	\$13,450,000
Additional Funds Available for Debt Service (3)	\$8,393,662	\$21,277,885
Subtotal, Debt Service	\$21,843,662	\$34,727,885
Net Fiscal Balance to General Fund	\$10,049,187	\$16,087,428
Percent of Total Resort Area Revenues	19.7%	21.4%

(1) Baseline assumes V&CB receives 11.1% of total 15% TOT; Planned Growth assumes 11.1% of 12% TOT (excluding new Disney rooms).

(2) Based on existing nominal amount of debt service, and includes \$12.8 million debt service for Convention Center and \$650,000 for Resort Area improvements.

(3) Base Year and Baseline Forecast reflect 3% citywide TOT. Expansion includes Disney project increment (TOT, sales and property tax) plus 3% rate on Citywide TOT.

Figure 6
Net General Fund Impacts
(constant 1995 dollars)



Direct revenues from new Disney development account for approximately 40 percent of the increased total revenues above Baseline. Revenues from induced development, rate increases and increased occupancies in the ARA account for the remainder.

In aggregate, these additional revenues are composed primarily of Transient Occupancy Taxes. Overall room rates in the ARA are expected to average \$90 (in 1995 dollars) in 2005 due to the increased proportion of higher priced rooms (e.g., \$130 to \$180 or more per night for Disney rooms and other suite hotels). Overall occupancies are expected to increase due to increased room night demand unmet by new construction, and due to the higher proportion of Disney rooms. Visitor spending and development of additional retail space contribute a significant amount of sales taxes.

Economic conditions could alter the Project's contribution

While the assumptions utilized in these forecasts are considered conservative estimates with a strong probability of occurring, a number of conditions could reduce or enhance the forecasted revenues; for example, changes in State law, actual attendance, room rates, and/or retail spending could vary from the projections contained in this report thus altering the fiscal projections. **Figure 7** illustrates the potential effects of a "Down-side" case; visitor attendance is reduced by 1 million per year, the average length of visitor stay is less, and the resulting incremental demand for hotel room-nights is reduced by about fifty percent. As a result, the annual net contribution is \$10.2 million under the "Down-side" case rather than the \$16.1 million forecasted for the "Planned Growth" case.

Figure 7
Expansion Forecast "Down-side" Assumptions -- 2005
(constant 1995 dollars)

Item	Amount
<u>GENERAL FUND REVENUES</u>	
Property Tax	\$3,148,424
Sales and Use Tax	7,437,950
Franchise Fees	581,825
Transient Occupancy Tax	52,707,448
Business License Fees	878,852
Fines and Forfeitures	32,081
Utility Administrative Transfer	<u>1,350,479</u>
Subtotal Revenues	\$66,137,058
<u>GENERAL FUND EXPENDITURES</u>	
General Government	\$1,902,053
Public Works-Engineering	515,722
Police	5,819,590
Fire	7,195,951
Parks & Recreation	486,619
Planning	754,925
Public Works-Maintenance	847,034
Library	230,601
Convention Center Operating Subsidy	1,225,000
Visitor & Convention Bureau (1)	<u>4,149,513</u>
Subtotal Operating Expenditures	\$23,127,008
Existing Funds Committed to Debt Service (2)	\$13,450,000
Additional Funds Available for Debt Service (3)	\$19,386,026
Subtotal, Debt Service	\$32,836,026
Net Fiscal Balance to General Fund	\$10,174,024
Percent of Total Resort Area Revenues	15.4%

- (1) Assumes 11.1% of 12% rate on TOT (excluding new Disney rooms).
(2) Based on existing nominal amount of debt service, and includes \$12.8 million debt service for Convention Center and \$650,000 for Resort Area improvements.
(3) Includes Disney project increment (sales and property tax, TOT) plus 3% rate on Citywide TOT.

Factors that could offset the potential "Downside" reduction, or enhance "Planned Growth" revenues, include: 1) benefits from a larger-scale Convention Center expansion that have not been included; 2) real growth in room rates, in addition to growth induced by the Expansion; 3) additional room-night demand due to growth in the business and group meeting segment of the market; 4) absorption of room-night demand from demolished motel rooms (the analysis assumes a 25 percent loss); and 5) if the municipal service costs are less than the projections, net revenue to the City would be improved.

Substantial investment in new infrastructure is important to achieve the revenue forecasts

Ongoing investment in public improvements is important to maintaining the ARA's existing net contribution to the City's General Fund predicted for the Baseline Forecast. Without the commitment of revenues to Convention Center improvements, there is a risk that existing revenues may decline significantly.

Significant increases in the ARA's contribution, and enhancements in the City's ability to deal with growing City-wide service demands can be facilitated by the levels of development activity and new infrastructure described for the Expansion Forecast.

While precise facility needs and related cost estimates are currently being developed, it is likely that the cost for improvements required to accommodate anticipated levels of development, such as public street improvements, public infrastructure landscaping, public parking garages, traffic mitigation systems, and other improvements that enhance and serve the ARA are likely to cost several hundred million dollars.

Infrastructure financing can be secured by new Disney development. Annual revenues from new Disney hotels and retail development, in addition to increased spending at existing Disney facilities (above inflationary increases), account for approximately 40 percent of the additional revenue shown in the Expansion Forecast ("Planned Growth"). Using this revenue from Disney development in addition to a three percent Citywide TOT rate to fund improvements would still leave a net annual benefit to the General Fund of \$16.1 million, or \$6.1 million above the Baseline Forecast.

If the conservative growth occurs and \$19.4 million is utilized to finance improvements, the net fiscal annual balance to the General Fund would be \$10.2 million. This outcome would leave the City in a financial position comparable to the Baseline Forecast.