



Report on Past Practices of the Reedy Creek Improvement District

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Prepared for: Florida Governor, Florida Legislature

This Report has been prepared for the Florida Governor and Florida Legislature to fulfill the mandate of Chapter 2023-5, Florida Laws, Section 4(8)(d).

**CENTRAL FLORIDA TOURISM OVERSIGHT DISTRICT
REPORT TO GOVERNOR, SENATE PRESIDENT, AND SPEAKER OF
THE HOUSE OF REPRESENTATIVES**

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I. Introduction

May 1967. The “Summer of Love” was kicking off in San Francisco. The Beatles dropped their eighth studio album, *Sgt. Pepper’s Lonely Hearts Club Band*. The war in Vietnam was escalating, and anti-war protests were mounting. Gasoline was 33 cents per gallon and a loaf of bread cost a quarter. Also that month, Claude R. Kirk Jr., the 36th Governor of Florida, signed into law House Bill No. 486, otherwise known as the Reedy Creek Improvement Act. His stroke of the pen formed a special district—one that facilitated the most egregious exhibition of corporate cronyism in modern American history.

In the mid 1960s, following the success of Disneyland in Anaheim, California, The Walt Disney Company began scouting out a site for a second location, one that would offer more space for physical and economic expansion. It settled on the warm and sunny expanse of Orlando in Central Florida. Walt Disney himself portrayed the venture as not merely another theme park, but rather a planned city that would consist of residential and commercial areas as well as attractions. That bold concept was given a name: EPCOT (Experimental Prototype Community of Tomorrow).

Using shell companies to avoid valuation spikes, the company began buying up property. Then in earnest in 1966, it started petitioning the Florida Legislature to create a public corporation that would oversee the amassed tracts of land. Walt Disney passed away toward the end of the year, but Roy Disney immediately took over, determined to realize his older brother’s vision. And on May 12, 1967, with the enactment of the Reedy Creek Improvement Act, he triumphed.

Disney had succeeded in its lobbying campaign, securing an East Coast flank for its rapidly growing entertainment empire. It obtained 39 square miles of remote and largely uninhabited pastures and swampland in Orange and Osceola Counties. More than that—and critically—it clinched near-total governing authority over the special district. That authority was so unchecked that Disney attained the power to, among other exceptional privileges, create and direct not just its own fire and police departments, but also, if it chose, construct a nuclear power plant.

As the years passed, the true nature of the deal became increasingly clear. Reedy Creek was allegedly a “partnership,” an equal relationship between a private company and the State of Florida and its citizens. In reality, it was neither in form nor function. Reedy Creek was simply a creature of Disney. Indeed, the city Disney said it planned to build never came to pass, and to this day, Disney’s special district is essentially void of individual residents.

Disney had wholly outmaneuvered the legislature and pulled off an incredible act. It had established an extra-constitutional governing authority—“an experimental absolute monarchy”¹—within the borders of the State of Florida, and, accordingly, the United States—one that strikingly resembled, without exaggeration, a kingdom of yore.

* * *

¹ Richard E. Foglesong, *Married to the Mouse: Walt Disney World and Orlando*, (New Haven: Yale University Press, 2001), at p. 59 (“During early discussions of the Florida property, one company executive said that [Walt] seemed to want ‘an experimental absolute monarchy.’ ‘Can I have one?’ Walt responded.”).

While Cypress Gardens and Gatorland had been drawing tourists to Orlando for years, Central Florida was still mostly rural prior to Disney's arrival. Its leading two industries were agriculture and construction. In 1966, the population of Orlando's metropolitan area was only about 260,000. With the opening of Walt Disney World Resort in 1971, it would almost double within a decade.

Indeed, Florida citizens, especially those of Orange County, were excited, feeling that they had much to gain from Disney planting its flag in their backyard. However, in retrospect, it appears there was a disparity between what they anticipated and what Disney intended. Most citizens likely had in mind a park similar to Disneyland in Anaheim that would be one among the other attractions that were pulling tourists to the Sunshine State. Disney's aspirations, on the other hand, which were kept close to the vest, were far more ambitious.

As a special district, Reedy Creek was a step stool to ensure that Disney's second location got up and running quickly and without a hitch. Disney, nevertheless, was clearly not interested in stopping with another standalone park. Over the next several decades, it developed property after property in both Orange County and Osceola County. Walt Disney World Magic Kingdom opened in 1971, EPCOT Center in 1982, Disney-MGM Studios Park in 1989, and Disney's Animal Kingdom Theme Park in 1998. In addition, the district now boasts two waterparks, four golf courses, more than 30 resort hotels, and hundreds of restaurants and retail stores.

Today, Disney is not only the world's largest entertainment company by revenue, it is one of the world's largest corporations. It owns several of the world's most iconic brands, including ABC, ESPN, Lucasfilm, Pixar, Marvel, and National Geographic.

The step stool given to Disney in 1967 became a permanent fixture, an immovable soaring ladder that allowed Disney to tower over rivals and almost certainly dissuade others from even entering the arena of market competition.

* * *

On February 27, 2023, Ron DeSantis, the 46th Governor of Florida, signed a bill abolishing the Reedy Creek Improvement District. *Fifty-five* years had passed since the creation of the special district. During that period of more than a half century, man landed on the moon, the microprocessor and internet were invented, the Soviet Union collapsed, the "global war on terror" began, and artificial intelligence became omnipotent. In short, the world had changed immensely.

For many, Governor DeSantis's action begged two questions. 1) *Why now?* 2) *Why was the carve out for Disney allowed to last for five decades?* For all intents and purposes, the answers to both are the same.

Almost as soon as the Magic Kingdom opened in 1971, Disney and Florida became synonymous. The company's growth was meteoric. Its revenue skyrocketed from \$175.6 million to \$914.5 million in 1980.² Last year, the company raked in \$82.7 billion (which is double the

² Compare Walt Disney Productions Annual Report 1971 at p. 23, available at <https://bit.ly/3sZ5jra>, with Walt Disney Productions Annual Report 1980 at p. i, <https://bit.ly/3sTmrOZ>. At the turn of the century, it was \$25.4 billion. See The Walt Disney Company Annual Report 2000 at p. 1, available at <https://bit.ly/3GGUFZr>.

GDP of entire nations, such as Latvia and Paraguay), and its “Parks, Experiences and Products” accounted for almost 35 percent of its revenue.³

Metropolitan Orlando also experienced an explosion in growth. Its population has increased more than 400 percent since 1971. The city’s airport is now one of the busiest in the world. For the most part, all seemed swell for many years. And as Cogsworth says in *The Beauty and the Beast*, “If it’s not Baroque, don’t fix it.”

But everything was not working well—at least for many Disney employees and residents of Orange and Osceola Counties. Hardly anyone outside of the special district knew about the scope and scale of the problems plaguing it. Moreover, due to the sheer size of Disney, virtually no one in Tallahassee was keen to take on the company. As such, complacency and an absence of political will allowed Disney to use the public-private partnership to entrench and amplify its corporate power.

That changed in 2023, when Governor DeSantis and the Florida Legislature decided to fix the anti-competitive arrangement between Disney and Reedy Creek. They believed that Disney’s Reedy Creek was tantamount to corporate welfare (i.e., the state arbitrarily “picking winners and losers”), and that providing extraordinary economic advantages to what was already a corporate colossus was exceedingly unfair.

In February 2023, the Florida Legislature and Governor DeSantis reconstituted the district as the Central Florida Tourism Oversight District (“CFTOD”) and installed a new five-person board.

For its part, Disney resisted the change by desperately seeking to lock in long-term agreements right as the new board was seated. For instance, it came to light that, annually in September, the District had negotiated a labor-services contract with Disney subsidiary Reedy Creek Energy Services (RCES), to use Disney employees to operate and maintain utility assets owned by the District. But on the eve of the new board entering in February and without competitive bidding, the RCID put into place a new *ten-year* agreement, purporting to obligate the District to continue using Disney employees to operate and maintain the District’s utility assets at a cost of more than \$33 million per year plus the potential for annual price adjustments. This was but one astounding example of the outgoing board trying to tie the hands of its successor for Disney’s benefit. Other self-serving, 11th-hour agreements between the District and Disney were set to last thirty years and, in at least one case, more than *one hundred years*, all in an attempt to lock in Disney’s special privileges for as long as possible. Over the next seven months, the new board worked to uncover what Disney was attempting to conceal and obscure.

* * *

What is now evident is that Disney not just controlled the Reedy Creek Improvement District, but did so by effectively purchasing loyalty. The vast majority of employees at the RCID were working hard to do their jobs and were diligent in doing so. Nonetheless, because of the decisions made by RCID management and the Board of Supervisors, their work was tainted with

³ The Walt Disney Company, *Fiscal Year 2022 Annual Financial Report*, at pp. 31, 36, available at <https://bit.ly/41019f4>.

the appearance of impropriety. As comprehensively documented within, for years, the company treated district employees like Disney employees by, for instance, providing complimentary annual passes and steep discounts—benefits and perks that were akin to bribes. Not surprisingly then, the District’s employees believed that it was their job to prioritize the interests of Disney.

Control over the inner workings of the District was exercised in additional ways. For instance, contract offers were sent out only to a closed list of approved bidders. Not only was there no way for new businesses to enter the mix, no mechanism existed to determine whether the district was receiving the services rendered at fair-market prices.

Disney sold the RCID as one thing in the mid 1960s, but there was deception behind the pitch and sale. The company promised, for example, affordable housing, transportation, and other social and community services. Today, 100,000 people commute into the District to work for Disney. Yet under Disney’s control, the RCID built no workforce housing or schools and did not develop any public services directed at anyone but Disney tourists. The RCID never made Disney pay impact fees, as all other developers in Orange and Osceola Counties must pay. The estimated transportation impacts fees for Disney’s 36,000 hotel rooms alone would be approximately \$130 million under Orange County’s current transportation impact fee ordinance. When Central Florida residents sit in bumper-to-bumper traffic on I-4, they should know that Disney bears significant blame. And although Disney paid ad valorem taxes to Orange and Osceola Counties when required, it also engaged in aggressive litigation tactics—filing dozens upon dozens of lawsuits—to eliminate as much of Disney’s tax burden as possible.

The RCID was a mousetrap. Disney dangled savory cheese in front of the Florida Legislature and the people of Orlando, but quickly abandoned its city-building pretense.

The Reedy Creek Improvement District was unlike any other special district in the state of Florida. It was created directly by the state legislature and endowed with exceptionally broad authority to regulate itself, at Disney’s total discretion. It was significantly and inherently flawed due to a near absence of parameters or supervision and the fact that it was invented to serve Disney, above all else, despite scores of other taxpayers also located in the District. Indeed, Disney even paid the property tax liabilities owed by many of the Board of Supervisors — in a wildly inappropriate effort to capture its local regulators. Until 1998, Disney even kept the RCID’s employees on its own payroll.

Disney insists that the unique structure of the District was integral to the growth of Central Florida. The truth is that Disney needed the structure to *maximize its profits*, which is above and beyond succeeding as a business. To be sure, Disney still would have been tremendously profitable absent the unparalleled carve outs it received through the RCID.

What’s more, the company’s success has been far less reciprocal than Disney would care to admit. As of November 2023, institutional investors attribute over 85 percent of Disney’s current stock-market value to its theme-park and consumer-products related businesses.⁴ So as advantageous as Disney has been to Central Florida, the converse is true many times over.

⁴ Robbie Whelan & Lauren Thomas, *Activist ValueAct Builds Stake in Disney*, WALL ST. J. (Nov. 15, 2023), <https://on.wsj.com/3R4s6Kd>.

It's not surprising that Disney is upset. No one would expect a company that's grown obese on a steady diet of gigantic portions of exemptions and privileges to peacefully pass back the plate.

As a whole, the RCID represented a stunning deviation from the good governance standards of the State of Florida and other localities throughout the nation. Without real checks and balances, internal dissent and public decision-making was shut down and competition was likely stifled, if not eliminated. What's more, other taxpayers in the District for the District's operation without receiving their entitled rights to participation and benefit.

Self-reflection is the key to self-improvement. It seems that, conveniently, the RCID abstained from such a necessary exercise during its 55 years of existence. What follows then is the first substantive independent audit of an entity that fueled the rise and shielded the dominance of a company at the expense of the public good. Its revelations are, simply put, shocking.

The case of Disney in Central Florida must be a blaring national wakeup call to citizens and elected officials about the problems inherent in creating special districts with the attributes that the RCID possessed: most especially, that complete and unaccountable governmental power was handed over to a private corporation, transforming a democratic institution into a private corporate monopoly.

II. Report Process

Florida House Bill 9B requires the District's Board of Supervisors to "submit to the Governor, the President of the Senate, and the Speaker of the House of Representatives, within 1 year after the effective date of this act ... a report that includes a review of all remaining powers and authorities" vested in the District. HB9, Section 4(8)(d). To satisfy this statutory obligation and for the purpose of better governing the District, the Board of Supervisors commissioned the District's general counsel and outside counsel to review the District's past and present practices. Counsel for the District engaged in legal research, reviewed District documents, and conducted interviews with District employees. Based on that work, counsel for the District prepared portions of this Report.

The Board of Supervisors also undertook a nationwide search for experts to independently investigate the District's past and current practices and provide a professional assessment of the same. The District hired four such experts:

- The District hired Donald J. Kochan, Professor of Law and Executive Director of the Law & Economics Center at George Mason University Antonin Scalia Law School, to produce a report to identify whether there were any constitutional and structural strengths or infirmities existed in the former RCID. Professor Kochan's report is attached as Exhibit 1-B ("Kochan Report"). Professor Kochan is a nationally recognized expert in property and land use law. He has published over 40 scholarly articles and essays, and his work has been cited in dozens of books and hundreds of law review articles. Professor Kochan has been appointed by the American Law

Institute (“ALI”) to serve as an Advisor to the *Restatement of the Law Fourth, Property* project.

- The District hired William Jennings, Senior Director at Delta Consulting Group to review accounting information and related financial policies and practices. Mr. Jennings has more than 40 years of experience in forensic accounting and investigations. He has provided expert testimony in domestic and international courts, and has been retained to conduct investigations by the U.S. Securities and Exchange Commission, U.S. Department of Justice, and the U.S. Marshals Service. Mr. Jennings is a CPA/ABV and holds CFF and CFE certifications. For the District, Mr. Jennings conducted an independent review and forensic accounting investigation of the District’s past and present financial and related practices. Mr. Jennings visited the District’s offices, interviewed District personnel, and gathered information, including electronic data provided by District personnel and available public records. Mr. Jennings produced an expert report describing the investigation results, which is attached as Exhibit 2-B (“Jennings Report”).
- The District hired Kimley-Horn to develop an urban planning report on the RCID and Cities of Bay Lake and Lake Buena Vista. Kimley-Horn’s report is attached as Exhibit 3-B (“Horn Report”). Kimley Horn is one of the premier planning, engineering, and design consulting firms in the United States. In 2022, the firm ranked #1 among Building Design + Construction’s Top 80 Engineering Firms in their 2022 Giants 400 Report. Every year since 2008, Kimley-Horn has been recognized by *Engineering News-Record* as one of the nation’s “Top Green Design Firms,” with more than 100 of the firm’s professionals earning LEED accreditations. Kimley-Horn assembled a team of experts, including urban planners, civil and environmental engineers, and transportation planners, to contribute to their report. Kimley-Horn also worked with Professor Kochan.
- The District hired Public Resources Advisory Group (“PRAG”) to serve as an independent financial advisor. PRAG is a nationally recognized independent financial advisory firm that serves state and local governments. PRAG is registered as a Municipal Advisor with the Securities Rulemaking Board and with the U.S. Securities and Exchange Commission and is a Registered Investment Adviser. Memoranda produced by PRAG for the District are attached as Exhibit 4.
- The District hired Raftelis to serve as a utility rate-setting expert in relation to the District’s labor services agreement with Reedy Creek Energy Services (RCES), a wholly-owned subsidiary of the Walt Disney Company. Raftelis provides management consulting expertise to local governments and utilities, including in the areas of finance, assessment, technology, and strategic planning.

III. Executive Summary

A. Summary of Report

The RCID was constituted by an act of the Florida Legislature, Chapter 67-764, Florida Laws (hereafter, the “Old Act”). Under the Old Act, the RCID was set up to benefit Disney to the exclusion of other stakeholders, like other landowners and taxpayers in the District (there are 57 other taxpayers and many more tenants whose leases with Disney require them to pay District taxes), tourists, and neighboring communities. Disney controlled the RCID because it controlled the RCID Board of Supervisors. Members of the Board were selected by a vote of District landowners with votes allocated for each acre owned. Because Disney owned the vast majority of land in the District, this meant that any candidate with Disney’s support would be elected and any candidate Disney opposed could not be elected.

Additionally, Board members were eligible for service only if they owned land in the District. In order to qualify preferred Board members, Disney temporarily deeded 5-acre plots of District land to Board members to hold during the duration of their service. Board members were required to return the property to Disney at the conclusion of their service. Disney also paid the property tax liability that Board members incurred as a result of owning property in the District. This was an improper cash gift to Board members and further evidence of their capture by Disney.

On its own, this arrangement guaranteed that Board members—and therefore the RCID as a whole—would be responsive to Disney’s preferences and would serve Disney’s interests. The process of electing Board members did not provide any of the District’s other property owners or stakeholders with representation.

Alongside Disney’s unilateral control of the RCID, the Florida Legislature also imbued the RCID with all the powers of a local government—and then some. The RCID could: issue bonds and use the funds to aid Disney projects; create its own building regulations and construction permits; provide its own fire protection; manage its own stormwater, wastewater, sewage, and flood control systems; and impose its own land use and local environmental regulations while simultaneously being *exempted* from County regulations. The RCID was even empowered to construct an airport and a nuclear power plant, if it chose.

Disney also received control over two “cities”—the Cities of Bay Lake and Lake Buena Vista. Neither city has any employees, and each has only a handful of residents who are also Disney employees renting mobile home plots from Disney.

These arrangements gave Disney something unique in all of Florida: the power to govern itself, free from outside interference, through a pocket government that Disney controlled. The RCID was a *sui generis* special district—no other special district in Florida was granted nearly so much power. Other theme parks (like Universal Studios) and very large developments (like The Villages) do not enjoy the same breadth of benefits and are subject to County land use, planning, and other regulations from which Disney was exempt. While the Villages or Universal Studios might be located in a “special district,” the super-special nature of Disney’s special district was a privilege that only Disney enjoyed. Being exempt from the requirements that bound other large developments clearly gave Disney a leg up on the competition. And it gave Disney the ability to pursue its corporate interests at the expense of its neighbors and other stakeholders in the region. If this kind of arrangement had been a good idea, other parts of the country would have replicated it. For reasons that are apparent now, they have not.

* * *

In addition to the structural advantages for Disney of the RCID arrangement, Disney also worked to completely capture not only the RCID Board of Supervisors but all RCID employees—the employees that were charged with overseeing and carrying out the government functions in the District. Disney accomplished this regulatory capture by showering gifts and lavish spending on RCID employees and creating the impression that these employees worked to achieve the interests of Disney, not of the District or other property owners. RCID management and the Board of Supervisors facilitated this capture of RCID employees, and they did not disclose to the employees that the benefits they received were improper.

Disney cultivated this perspective by making complimentary annual passes and steep Disney discounts available to RCID employees, retirees, members of the Board of Supervisors, and other VIP vendors on the same terms as Disney employees, known as cast members. Initially, Disney provided these benefits free of charge; later, the RCID began reimbursing Disney for these expenses, which amounted to millions of dollars annually in recent years.

The RCID even seems to have misleadingly concealed the purpose of these multi-million-dollar annual payments on its annual financial reports, labeling them “financial and administrative services,” when in fact, they were Disney perks given to employees. When Disney paid for these benefits, they were improper—akin to bribes of public officials and employees.

Yet things were not better when the RCID reimbursed Disney for these benefits because most RCID employees were not aware of the reimbursement scheme (and reasonably believed the perks they received were Disney gifts) and because the perks were not available to the general public. Additionally, RCID displayed clear favoritism toward Disney by reimbursing employee purchases only for *Disney* purchases and not for items or services purchased from other District taxpayers. This was effectively a subsidy benefiting Disney that was not available to other taxpayers.

To be specific, RCID employees (and retirees, members of the Board of Supervisors, and vendor VIPs) received:

- Millions of dollars of annual passes for entry to Disney theme parks worldwide for at least the RCID recipient and three family members
- 40-percent discounts on Disney cruises
- Free transferable single-use tickets during the holiday season
- Steep discounts on Disney merchandise
- Steep discounts on food and beverages in the Disney theme parks and resorts
- Access to non-public shopping reserved for Disney cast members, where merchandise was steeply discounted and items were made available that were otherwise not available for public purchase

In published materials, RCID employees were aware that they were receiving “cast member” benefits. Because RCID management and the Board of Supervisors chose to make these benefits available to RCID employees, Disney achieved its objective: ensuring that RCID employees would serve Disney’s interests alone. RCID employees came to believe that it was appropriate for the RCID to do things that “the taxpayer” or “the landowner” (both references to Disney) requested because such requests were inherently cost-neutral because Disney was simultaneously the beneficiary and the principal payer of the taxes that would fund the actions requested. Kochan Report, Exhibit 1-B at 20–21.

This is an incorrect view of government’s role, which is to serve the public interest and must necessarily be concerned with whether any action undertaken is wise, prudent, and public-regarding. *Id.* Additionally, this view was factually inaccurate because Disney is not the only taxpayer funding the District and its decisions. Other landowners and businesses in the District, including hotels, restaurants, and retail shops, also pay District taxes directly *and* tenants who lease from Disney are typically obligated to pay common area maintenance (“CAM”) charges to Disney, which include property taxes. In other words, even the tax payments that Disney directly transmits to the District include tax payments made by non-Disney entities who are tenants of Disney-owned property.

Moreover, the cast member benefits that RCID employees received were valuable—and therefore costly for the RCID. Between fiscal year 2018 and fiscal year 2023, the per-employee cost of these benefits ranged from \$3,672 and \$4,898 annually. During that time frame, the RCID’s total expenditures on these benefits ranged from \$1.78 million to \$2.54 million annually.

The RCID elected not to treat these benefits as taxable employee benefits. After the 2023 legislative reforms, the new Board of Supervisors and management of the District hired accounting firm Cherry Bekaert to investigate this practice. Cherry Bekaert determined that this had been an improper treatment of these employee benefits, which were in fact taxable benefits. Represented by Cherry Bekaert, the District is in the process of seeking a voluntary closing agreement to resolve this issue directly with the Internal Revenue Service (IRS).

* * *

The net result of the RCID’s old structure combined with Disney’s intentional conduct was that the RCID served Disney’s interests, not the interests of other stakeholders, and the results have been disastrous for the surrounding communities of Central Florida.

Over 100,000 people work in the District, but they must commute from elsewhere because the District has no workforce housing. Commuting creates traffic congestion in the region and contributes to environmental degradation through pollution. Commuting is a hardship for the individuals who work in the District because most District jobs are relatively low-wage service industry jobs, and the cost of commuting takes a substantial bite out of wages. Commuting also contributes to a poor quality of life and lack of upward mobility in the region because individuals spend long periods of time driving, which wastes time, requires longer hours of childcare, and diminishes the time families spend together.

Commuting is also made more difficult by deteriorating and inadequate transportation infrastructure, due in part to Disney's failure to pay its fair share of its impacts on traffic generated by its development. Ordinarily, developers in Orange County pay approximately \$3600 in transportation impact fees per suburban hotel room constructed. The RCID, however, never required Disney to pay impact fees⁵ and Orange County was powerless to require it. If Orange County's transportation impact fees were applied to Disney's more than 36,000 hotel rooms, amusement parks, and millions of square feet of office, commercial, and retail space in the District, Disney would have owed hundreds of millions of dollars in never-assessed transportation impact fees that could have funded roadway projects to improve and expand I-4 and intersecting county roads, for example, alleviating traffic concerns and improving commute conditions. The estimated transportation impact fees for 36,000 hotel rooms alone would be approximately \$130 million under Orange County's current transportation impact fee ordinance.

The old RCID structure, exacerbated by Disney's actions, transferred other negative externalities to surrounding communities, too. The District is not home to any schools, hospitals, or libraries and instead foists those costs upon the surrounding communities which must supply those services for Disney employees and their families. Under the Old Act, the RCID simply did not serve any social and community interests and was completely beholden to Disney.

The RCID under the Old Act failed public expectations in other ways. In addition to spending millions on Disney tickets and discounts for employees, the RCID spent hundreds of thousands of dollars on extravagant holiday parties, retirement parties, and other "employee relations" events.

The RCID spent thousands of dollars annually on years-of-service gifts and celebrations—including by paying for RCID employees to attend private celebrations hosted by Disney at its theme parks and otherwise reserved for Disney cast members. The former District Administrator charged hundreds of thousands of dollars on his District American Express card for celebrations, sports tickets, memberships, meetings, and other events.

The RCID also failed to adopt the best practices that would be expected for a Florida local government. The RCID had inadequate procurement policies that did not ensure the District obtained the best price or highest quality goods and services for its contracts. Instead, the District engaged in race-conscious DEI programs that discriminated against contractors on the basis of race.

The District built three parking garages near the Disney Springs development in the District for a total cost of approximately \$700 million. These garages benefitted only Disney and the tenants on Disney property, yet they were financed by the RCID's public resources. This is an example of how Disney used the RCID as its private government to accomplish its own purposes at the expense of public resources.. The District's other taxpayers were forced to pay almost \$100 million for the garages that Disney sought.

⁵ Orange County charges fire impact fees, police impact fees, transportation impact fees, parks and recreation impact fees, and school impact fees on new development.

When the RCID engaged in a \$70 million purchase of utility assets from Disney, it appears to have undertaken no documented due diligence—unfathomable for a government entity making an expenditure of that significance.

The RCID deferred road maintenance projects in the period from 2018 to 2022. This has led to increased future road maintenance costs as a result of inflation and other factors, and it has increased the unrestricted balance of the general fund by \$18 million as of September 30, 2022. Additionally, failure to maintain these assets at an appropriate level could require the District to change its accounting approach or could negatively affect future bond ratings and the interest rate on future bond offerings.

The RCID lacked any enforcement mechanism for code violations, like violations of its fire prevention, building, and safety code. Fire prevention is critical given the hundreds of thousands of people visiting the District on a daily basis. Yet, the RCID was powerless to enforce its fire code by, for example, issuing fines for fire code violations in theme parks, hotels, and other properties.

The RCID did not record or transcribe the meetings of the Board of Supervisors and did not make agendas available in advance or publish them on its website.

Disney relied on the Cities of Bay Lake and Lake Buena Vista to carry out important tasks for the District—most significantly, contracting to provide police protection—but these “cities” (which are, in fact, nothing like a real city, with only a dozen residents in each, all current or former Disney employees or tenants) had no employees of their own. So the RCID provided the Cities’ administrative services free of charge, and in July 2022, entered a 40-year contract pledging to continue doing so, still without any charge. In September 2023, the Cities hired a single individual as an outside contractor to serve as city manager to both of the Cities. This is a violation of the dual office holding provision of the Florida Constitution, which forbids a single individual from holding such offices for two cities simultaneously. Also in 2023, the CFTOD exercised its right to terminate the sweetheart, 40-year, free-of-charge contract to continue providing administrative services to the Cities.

Disney exercised undue influence over the RCID’s operations in many ways, including by influencing the RCID’s permit decisions. Other non-Disney District taxpayers were aware that if they chose vendors not approved by Disney for their construction and development projects, they could expect the RCID to delay issuing them required permits for one quarter. This improperly coerced non-Disney District taxpayers into preferring Disney-approved vendors.

Disney continues to exercise ongoing control over the Cities. The members of the Cities’ city councils all live on Disney property, leasing steeply discounted plots of land for their mobile homes. The Cities contract with Orange County to provide police protection inside the District, including approximately \$8 million in off-duty officers that the Cities provide for police protection on Disney property. Other District businesses do not receive off-duty police protection and must contract for and pay for such protection themselves, when they require it.

In July 2023, the CFTOD District Administrator proposed eliminating the approximately \$8 million off-duty policing expense from the Cities’ budget and millage rates in order to take the

burden of off-duty police contracting and payment from the Cities and assign it to the CFTOD instead. The CFTOD could then ensure “fair and equitable use of those off-duty officers” so that non-Disney entities who also pay taxes are “able to utilize those off duty officers as well.” Bob Hazen, *Fight brewing over law enforcement on Disney property*, WESH (July 27, 2023), available at <https://bit.ly/3sZ0w95>. Both city councils initially voted in favor of the reduced millage rate and budget, but two weeks later, they convened special meetings to reverse the vote and ensure that Disney would continue to be the exclusive beneficiary of taxpayer-funded off-duty officers in the District.

* * *

In short, Disney created an unprecedented privilege in the District: the privilege to govern itself free of the kinds of ordinary good-citizen obligations that other corporations and businesses have throughout the State of Florida. No other competitor in the theme park or entertainment industry enjoyed such a privilege, which clearly gave Disney a commercial advantage. It is no wonder, then, that while the Florida Legislature was considering how to restructure the District to increase its public accountability, Disney was working behind the scenes to protect its RCID “kingdom.”

At the eleventh hour before the transfer of power from the old RCID Board of Supervisors to the new CFTOD Board of Supervisors, the RCID entered into a series of agreements with Disney that attempted to lock in the current RCID structure and benefits for Disney contrary to the will of the people of Florida as expressed through their elected representatives. These agreements included the Development Agreement (which purported to vest all development rights in the District in Disney), the Restrictive Covenants (which purported to restrict the District’s authority to use its own property), and the Labor Services Agreement with Reedy Creek Energy Services (which purported to require the District to rely on a Disney subsidiary to manage and maintain its utilities for the next thirty years). The Board of Supervisors that approved these items saw them as business as usual for the District. When considering these contracts, one board member asked, “I’m assuming the way this is written, it doesn’t change the way you’re currently doing business?”, and the former District Administrator replied, “It does not. It basically memorializes how we have been doing this.” In other words, these one-sided agreements that benefitted Disney alone were “how we have been doing this” at the District.

When the CFTOD uncovered these 11th-hour agreements, it hired outside counsel to evaluate their legality. Outside counsel determined emphatically that these alleged contracts were illegal in myriad ways and void *ab initio*. As the CFTOD’s Board of Supervisors was hearing a presentation from its outside counsel on this issue, Disney filed a lawsuit against the CFTOD in federal court. The District subsequently filed its own state court lawsuit asking a court to declare the illegality of the 11th-hour agreements. Both lawsuits are ongoing.

While the litigation proceeds, the CFTOD has undertaken numerous actions to increase public accountability and transparency, avoid conflicts of interest and the appearance of corruption, regularize procedures, and adopt best practices. The CFTOD has hired nationally recognized experts to advise on financial practices and urban planning, has passed numerous resolutions consistent with state law and the best practices of other Florida local governments, and has adopted necessary internal procedures and controls that the District previously lacked. For

example, the CFTOD has adopted a new procurement policy, under which approximately \$50 million in contracts have been awarded, at a \$3.5 million savings to taxpayers. More than \$14 million of the contracts have been awarded to vendors new to the District, and more than \$9 million of the contracts have been awarded to local vendors, some of which are owned by veterans.

B. Summary of Expert Reports

1. Expert Report of Professor Donald Kochan—Governance of the District

Professor Donald Kochan, expert in property law and land use planning, reviewed the Old Act and provided expert analysis in his report, attached as Kochan Report, Exhibit 1-B. Professor Kochan concluded that the District as constituted by the Florida Legislature in 1967 was a “sui generis ... special district[,]” unlike any other in Florida before or after, that enjoyed extensive powers, was exempt from County regulation, and was controlled by Disney. *Id.* at 9–10.

Professor Kochan further concluded that Disney obtained its sui generis special district through a “bait without even a switch.” Kochan Report, Exhibit 1-B at 14. Disney lobbied the Florida Legislature for its powerful, unilateral, and unaccountable special district by claiming it would build a city on its Central Florida property. Once Disney secured the special district it sought, however, it abandoned the city-building pretense. The historical record demonstrates that Disney disdained voters from the outset and did not want its special district or its corporate choices to be subject to public accountability through popular elections, despite how it had marketed its ideas to the legislature. *Id.* at 13–16. Disney’s consultants on the Disney World and special district project advised Disney to “limit the scope of democracy” so Disney would be “freed from the impediments to change, such as ... elected political officials.” *Id.* at 19. Documentary evidence from Walt Disney himself makes clear that he did not want permanent residents in his model community. *Id.* at 48. Because the legislature did not tie Disney’s special district privileges to any enforceable metrics, Disney could abandon its promises without repercussions.

Professor Kochan also describes in detail the way that interest groups, like Disney, achieve their corporate objectives by influencing government. *Id.* at 31–57. Among other things, Disney employed “masking” to conceal the true intentions of its legislative proposals by cloaking its proposals in lofty rhetoric that disguised the underlying wealth transfer benefitting Disney. *Id.* at 50–57. This included rhetoric about futurism, progress, urban reform (a pressing issue during the 1960s), and economic growth. Disney preserved its influence over government in a variety of ways, too, even giving public officials free Silver Passes, *see infra* V.G.1.a (defining Silver Passes), to create a natural good will and feeling of indebtedness toward Disney among legislators and other officials. *Id.* at 50, 57.

As conceived by Disney and created by the Florida legislature, the District under the Old Act dispensed with the democratic protections that characterize the federal, state, and local governments in the United States. While perceived efficiency might be good for private enterprise, it cannot be the lodestar for governmental action—yet in the District, it was. *Id.* at 27. Because Disney ran the District, its land use and planning decisions were not subject to “veto points” and “choke points,” which are purposeful institutional restraints in our constitutional system. *Id.* at 28.

These barriers and blockages force deliberation that promotes better, even if slower, decision making. *Id.* at 29. Instead, Disney made decisions for itself, without the need to deliberate at all.

Professor Kochan's report analyzes these and other aspects of public choice theory, rent-seeking behaviors, and corporate influence over government in his report. Kochan Report, Exhibit 1-B.

2. Expert Report of Bill Jennings—Forensic Accounting

Bill Jennings performed a forensic accounting analysis of the RCID's past records and produced a report, attached as Exhibit 2-B. Mr. Jennings concluded that former District Administrator had incurred nearly \$166,000 in charges on his RCID American Express card for expenses ranging from retirement parties, holiday and city resident parties, tickets for athletic events, and food and beverages during a 15-month time frame that began in 2021 and ended in 2022. Jennings Report, Exhibit 2-B at Ex. 1 to the Report, p. 89 (PDF pagination). RCID employees received Disney theme park passes and discounts on Disney merchandise, and these benefits were not included in the employees' taxable income. *Id.* at ¶ 5.b.

Mr. Jennings uncovered numerous flaws in contract sourcing, procurement, administration and payment, including unclear approval processes or documentation, lack of a vendor management system, and procurements without competition or mechanisms to determine whether the goods or services provided are of the highest quality available and competitively priced. *Id.* at ¶ 5.c.

Mr. Jennings determined that the RCID contracted to pay Disney \$7.7 million for expected impact costs due to road construction affecting a Disney-owned golf course, yet no evidence existed to support any economic analysis of that price or a comparison between the cost of entering the agreement as opposed to going through a condemnation proceeding. *Id.* at 44.

Mr. Jennings's report further details that: the RCID provided administrative services to the Cities of Bay Lake and Lake Buena Vista free of charge; and deferred road maintenance and underfunded road maintenance has affected the unrestricted balance of the District's general fund. *Id.* at ¶ 139. Disney's lawyers denied Mr. Jennings access to utility records or employees to assess the condition of and make recommendations regarding the eight utilities owned by the District and managed and maintained by RCES. *Id.* at 48.e.

3. Expert Report of Kimley Horn—Urban Planning

Kimley Horn investigated the District's past land use planning practices and operative Comprehensive Plan and produced a report, which is attached as Exhibit 3-B. Kimley Horn concluded that the operative Comprehensive Plan (adopted by the District in 1991 and subsequently amended) is no longer a state-of-the-art plan. The District's Comprehensive Plan is focused almost entirely on optimizing corporate goals, rather than considering and responding to conditions in the region surrounding the District. It does not account for state-of-the-art local planning concepts like those set out in MetroPlan Orlando; this includes balancing jobs and housing to be closer together to reduce vehicle miles and hours travelled and reduce traffic congestion on the stressed regional roadway system.

The plan does not fully meet some of its goals and objectives, including those related to affordable housing, workforce employment, and sustainability. The plan lacks diversity in land uses, excessively relies on large parking lots that create adverse environmental and land use effects, and fails to implement state requirements intended to address Florida’s housing shortage. Between 2019 and the present, the workforce required by Disney has grown from 70,000 to more than 100,000, and future anticipated development could add another 30,000 employees.

Kimley Horn concluded that the current Comprehensive Plan does not adequately address this growth. Additional details and analysis are available in the Kimley Horn Report, Exhibit 3-B, at 7–9.

IV. Prior Act

At the outset, the Florida Legislature granted the District extraordinarily broad powers that far exceeded those of other water control districts or special districts, including the power to function autonomously without the imposition of County zoning and planning regulations. Disney controlled the members of the Board of Supervisors, who therefore acted in Disney’s best interests rather than for the good of all District stakeholders.

The Board of Supervisors deputized the RCID’s District Administrator to undertake many actions without specific Board approval. Although the District came to own many of the utilities that serve the jurisdiction, it contracted with a Disney subsidiary (Reedy Creek Energy Services “RCES”) to maintain and operate the utilities, and in February 2023, the RCID amended its year-to-year contract with RCES in favor of locking in a ten-year contract.

The District also includes two cities—the Cities of Bay Lake and Lake Buena Vista—which are not typical cities at all. The RCID contracted to provide all of their administrative needs free of charge; the cities’ only residents are Disney employees beholden to the corporation; and 99 percent of the cities’ tax revenue pays for police coverage in the District.

The net result of all of the above was that the District suffered from compromised integrity, a lack of transparency, questionable public purposes, functional limitations, and the possibility of corruption.

A. Powers and Authorities

The Reedy Creek Improvement District (RCID or District) was an independent special district initially created in 1966 as the Reedy Creek Drainage District by a decree of the Ninth Judicial Circuit and subsequently ratified and approved by a special act of the Florida Legislature, the Reedy Creek Improvement Act (the “Old Act” sometimes referred to as the “RCID Charter”), in 1967. The district covered 24,969 acres in Orange and Osceola Counties that were primarily owned by the Walt Disney World Company.

The Old Act gave the RCID extensive authority, including these powers of a water control district:

- Power to levy and assess ad valorem tax and maintenance tax;

- Authority to issue general obligation, revenue, assessment, or other bonds to finance the acquisition, construction, extension, or improvement of any projects;
- Authority and responsibility to construct, complete, operate, maintain, repair, and replace any and all works and improvements necessary to execute the water control plan adopted by the district;
- Ability to build and construct any other works and improvements deemed necessary to preserve and maintain the works in or out of said district; and
- Authority to acquire, construct, operate, maintain, use, purchase, sell, lease, convey, or transfer real or personal property, including pumping stations, pumping machinery, motive equipment, electric lines and all appurtenant or auxiliary machines, devices, or equipment.

The Old Act also granted the RCID far greater authority and powers than those of a typical water control district. The Florida Legislature envisioned that these additional powers and authority would facilitate economic and tourism interests, exceptional and novel residential development, and innovation. These powers included the authority to:

- Provide utility services and facilities, including water, sewer, waste collection and disposal, electric, gas, telecommunications, and new and experimental sources of power, energy and other public utilities;
- Establish a program for the control, abatement, and elimination of mosquitos and other pests;
- Own and operate an airport and other transportation facilities, both within and beyond the District's boundaries, including buses, railroads, monorails, airplanes, helicopters, boats, other transportation facilities and "novel and experimental facilities";
- Own and operate recreational facilities, including athletic fields, marinas, pools, stadiums, civic centers, and convention halls;
- Own and operate parking facilities;
- Provide for fire protection facilities and services;
- Spend public funds to advertise businesses, facilities, and attractions within the District;
- Designate and maintain conservation areas;
- Operate and conduct research activities for "experimental public facilities and services," including explicit authority to operate a nuclear fission reactor; and
- Exercise eminent domain both within and outside of the District's boundaries for the purpose of constructing projects or otherwise carrying out the District's purposes.

Beyond these enhanced powers, the RCID Charter gave the District another power unique among special districts: The RCID was exempted from county zoning, building, subdivision, and construction regulations. Other privileges, advantages, self-governance powers, and authority granted RCID included:

- Providing that the RCID charter controls in the event of any conflict with any other law then existing or enacted thereafter unless the enacted law specifically repealed or amended the Act;

- Granting the RCID the exclusive authority to acquire, construct, and maintain public roads within the District, excluding the portions of State Road 530, State Road 535, and Interstate 4 lying within the district;
- Requiring District approval for the location, design, and construction of any access or connecting roads and extensions for State Road 530, State Road 535, and Interstate 4;
- Establishing criminal penalties for violation of certain district rules and regulations;
- Providing the ability to exercise its powers within the boundaries of any municipality located in the district in a manner that conflicts with other applicable law concerning that municipality or other political subdivision wholly or partly within the District;
- Providing an exemption from laws concerning financial reporting for special districts;
- Providing the ability to adopt its own planning, zoning, and land use regulations, to the exclusion of county regulations;
- Providing an exemption from county professional licensure regulations;
- Authorizing the RCID to adopt its own building and safety codes and providing an exemption from state zoning laws, the Florida Building Code, and the Florida Fire Prevention Code;
- Adopting regulations concerning subdivision and platting of land;
- Providing an exemption from general law requirements for the issuance of bonds by local government entities;
- Providing a shorter time frame for filing tort claims against the District;
- Providing the ability to expand or contract its own boundaries without a special act; and
- Requiring the District's approval for the creation of any new municipality within its boundaries.

B. Structure of Government

The RCID Board of Supervisors was the District's primary decision-making body and had significant independence from county and state authorities. The RCID charter provided that "all of the powers and duties of the District shall be exercised by and through the Board of Supervisors." The principal enumerated powers of the board included:

- Employing staff, engineers, contractors, consultants, attorneys, and auditors;
- Adopting by-laws, rules, resolutions, and orders;
- Maintaining an RCID office; and
- Establishing departments, boards, and agencies to carry out the powers granted to the RCID by the charter, including the appointment of a general manager.

The RCID Board of Supervisors consisted of five members, each elected by the landowners within the District to staggered four-year terms. At least three of the members of the Board were required to be residents of Orange County, Osceola County, or any adjoining county and were required to own land within the District. Board members historically received a five-acre tract of inaccessible and undevelopable land from the Walt Disney World Company, subject to a contract

that authorized the company to purchase the land from the board member at the conclusion of the board member's service.⁶ *See infra* Section IV.G.1.a.

Pursuant to the RCID's power to appoint a general manager, the District appointed a District Administrator to act as general manager and the chief administrative officer of the District. The District Administrator worked under the direction of the Board of Supervisors. Throughout the RCID's history, the Board of Supervisors passed formal resolutions granting the District Administrator the power to act without the Board's additional action. Departments directly under the District Administrator's included⁷:

- Building and Safety (under which the RCID Board of Appeals was established);
- Environmental Sciences (under which the RCID Pollution Control Board was established);
- Planning and Engineering (under which the RCID Planning Board was established); and
- Geographic Information System (GIS).

A Deputy District Administrator reported to the District Administrator. A Comptroller appointed by the Board of Supervisors was responsible for financial matters within the District. By 2018, the Deputy District administrator also served as Comptroller. The following departments were under the control of the deputy administrator/comptroller⁸:

- Emergency services;
- Property management;
- Contract and risk management;
- Technical services;
- Finance; and
- Human resources.

C. Government Operations

The bulk of the RCID's governmental functions were provided under its building department, fire department, planning and engineering department, environmental department, utilities department, and facilities department. For more details, *see* Exhibit 5, Governmental Operations of the RCID.

D. Interlocal Agreements

The Old Act authorized the District to enter into agreements with municipalities within the District to work together to discharge common functions, powers and duties and in rendering

⁶ "Central Florida's Reedy Creek Improvement District Has Wide-Ranging Authority." OPPAGA. Report No. 04-81, (Dec. 2004), available at <https://bit.ly/47BBMCL>.

⁷ "Annual Report Utilities System." Organizational Chart. Leidos Engineering. Fig. 2-5. Sept. 2017, available at <https://bit.ly/46ExwkT>.

⁸ "Annual Report Utilities System." Organizational Chart. Leidos Engineering. Fig. 2-5. Sept. 2017, available at <https://bit.ly/46ExwkT>.

services to residents and property owners within the cities and the District. For more information on these interlocal agreements, *see* Exhibit 6, Interlocal Agreements Under the RCID.

E. Relationship Between the District and the Cities of Lake Buena Vista and Bay Lake

The Cities of Lake Buena Vista and Bay Lake (together, the “Cities”) are unusual and not typical cities. Until recently, the two cities have had no employees and the RCID has completely run all the Cities’ municipal functions. However, the municipal functions exercised by the two cities have been extremely limited since their inception. The Cities generally use approximately 99 percent of their ad valorem taxation and budget to fund the Orange County Sheriffs’ Office (OCSO) policing of the cities through the interlocal agreement. The Cities use and rely on the RCID, at the RCID’s full cost, to oversee the OCSO interlocal agreement and to provide buildings and other facilities to OCSO. Additionally, the Cities have adopted alcohol and beverage regulations and public assembly regulations by adopting ordinances using their home rule power, which the RCID employees implement and enforce at the RCID’s expense.

The only assets that the two cities have are cash and cash equivalent investments. The Cities have no issued bonds or other debt. The Cities own no buildings, roads, utilities, vehicles or any other physical assets or capital infrastructure.

The City Councils of the two cities are made up of a handful of residents (less than 30 residents in each city) living in two mobile home parks (one mobile home park in each city) owned by Walt Disney Parks & Resorts U.S., Inc. Only people approved by Disney are permitted to enter into leases and live within such mobile home parks within the two cities. Thus, only registered voters handpicked by Disney to live within Disney’s mobile home parks are eligible to serve on the City Councils of the two cities. This bizarre landlord-tenant relationship between the City Council members of the Cities and Disney raises serious questions.⁹

F. Relationship Between the District, Taxpayers, and Businesses

The overriding factor within the RCID affecting the relationship between the RCID, the taxpayers and businesses is the hugely disproportionate acreage owned by The Walt Disney Company within the District and the control Disney exercised over the election and actions of the five members of the Board of Supervisors. Disney dwarfed, in every way, the other taxpayers and businesses within the District.

In addition to theme parks, Disney and its associated entities operated a wide range of businesses within the District, including hotels, restaurants, retail stores, and other entertainment venues. Decisions made by the RCID Board of Supervisors and the RCID District Administrator and staff were crucial to supporting the growth and operation of these businesses. The RCID provided infrastructure, utilities, public services, and economic support for all of the businesses within the District, but the principal beneficiary was Disney and its affiliated entities.

⁹ *See* Florida’s ethics laws for public officers under Chapter 112, Florida Statutes, and specifically the provisions of Section 112.313(2) & (7)(a), Florida Statutes, regarding gifts and conflicting employment and contractual relationships, and Section 112.3143, Florida Statutes, regarding voting conflicts.

The RCID's infrastructure included roads, utilities, and water management, all essential to Disney and other businesses and owners. While non-Disney businesses certainly benefited from this infrastructure, due to Disney's control, infrastructure decisions were tailored to benefit Disney without significant regard or consideration of the needs of other businesses and taxpayers within the District.

The RCID also provided municipal services for businesses within the district, such as fire protection and medical services, benefiting businesses and tourists. While these municipal services were provided within the District to all businesses and owners, the non-Disney businesses and owners had little say in the RCID's decisions and operations.

Businesses within the District benefited because the Old Act granted the District power to spend public funds to advertise businesses, facilities, and attractions within the District, of which the largest by far was Disney and its affiliated companies.

There are 57 other taxpayers in the District and many more tenants whose leases with Disney require them to pay District property taxes. Yet because the District lacked representation for these non-Disney taxpayers and businesses, RCID decisions disproportionately benefited Disney, leaving other businesses at a disadvantage. The relationship between the RCID and its taxpayers and businesses was dominated by—and therefore favored—Disney. In other words, one private for-profit company used the RCID for its private benefit.

G. Negative Outcomes:

1. Governance

a. Compromised Integrity

As stated throughout this report, the RCID did not operate as an independent local government, but rather effectively as a corporate subsidiary of The Walt Disney Company. Disney controlled the membership of the Board of Supervisors, so the public had little to no influence on the District or its policies. The Board of Supervisors' decision-making and resolutions were significantly, if not entirely, controlled by Disney's corporate interests. Although the RCID technically operated as a public entity with public notice and public meetings, there was little reason for the public to participate in RCID meetings and hearings.

Further, the Board of Supervisors granted the District Administrator the authority to act in many circumstances without further action of the Board and without review at any meeting open to the public. Thus, with little transparency and no practical reason for the public or smaller businesses or taxpayers to petition the Board of Supervisors for their causes and interests, the public and non-Disney businesses and taxpayers were sidelined in favor of Disney's objectives. Public participation and input, effectively, had no role in the RCID's decision-making.

Disney also captured the RCID's loyalty by making Disney perks available to RCID employees on the same terms as Disney cast members. These perks included: high-end annual passes that provided free access to Disney parks around the world and were not available to the public; steep discounts on Disney cruises, dining, and merchandise; access to cast-member-only shopping depots; discounted entrance to ticketed Disney special events; and other similar perks.

These benefits created the mindset at the RCID that employees were *supposed to* serve Disney, not the public good or other District taxpayers.

The prevailing mindset was that the RCID appropriately did what Disney wanted because Disney was paying the taxes that funded the RCID, thus making it proper that Disney would benefit from the RCID's actions. Kochan Report, Exhibit 1-B, at 20–21. This narrative was false and pernicious, for several reasons.

First, as a governmental entity, the RCID should always have acted in the *public's* interest, based not on whether a given action benefitted a particular private entity but whether it was “a wise, prudent, and public-regarding idea capable of being accomplished within the limits of the RCID's authority.” *Id.* At 21.

Second, 57 other landowners in the RCID pay taxes directly to the RCID, plus many other businesses whose leases with Disney require them to pay RCID taxes. These other taxpayers' interests should have mattered, too. Smaller taxpayers are entitled to integrity, transparency, and accountability in government on equal terms with larger taxpayers. Third, Disney's direct tax payments to the District contain pass-through tax payments (commonly contained in common area maintenance charges known as “CAM” charges in real estate lease agreements) that Disney receives from its tenants. Thus, the narrative that Disney was “the taxpayer” or “the landowner” in the RCID, *id.* at 21, were false and improperly influenced decision-making at the RCID.

Because of Disney's corporate influence, the autonomy and legitimacy of the RCID was in question. Infrastructure development, zoning laws, environmental regulations, and public safety measures clearly prioritized and favored Disney's interests. Such a focus not only undermines the original mandate of the RCID as a public entity but also raises questions about the transparency, fairness, and legality of its operations.

b. Lack of Transparency

In most Florida local governments, land use and municipal services are the source of intense public and media scrutiny, but not in the RCID. The practical effect of the cozy relationship between the RCID and Disney was that even though the RCID's Board of Supervisors meetings were open to the public, the RCID meetings were not actually visible to the public. The District Administrator's broad authority to act without the Board exacerbated the opacity problem. This was the effect of Disney's exclusive control over the RCID. It allowed the RCID to make decisions that were in Disney's best interest without input or scrutiny from the public or other District stakeholders.

c. Questionable Purpose

The original purpose of the District was inextricably linked to Walt Disney's ambitious vision for a futuristic community. When Walt Disney presented his vision to Central Florida, it included a futuristic city where people would live, work, and innovate. The State of Florida granted the District extraordinary powers and freedoms to encourage the urban innovation and development that Walt himself promised. Within the RCID, Disney would essentially operate with the autonomy of a separate government, making it easier to innovate and experiment with new ideas and technologies without being hindered by bureaucratic processes and regulations.

Yet after the RCID was established, Disney focused on developing a theme park and resort and abandoned its city of tomorrow. This change marked a significant deviation from one of the principal public purposes under the Old Act. The District's purpose, according to the Old Act, was to promote Florida's economic progress and well-being by attracting visitors, permanent residents, and new industries through the development of high-quality vacation and recreation facilities as well as residential communities.

The District was also responsible for conserving natural resources and attractions, creating favorable conditions for new community living and recreation concepts, and undertaking various infrastructure and environmental projects, such as reclamation, drainage, irrigation, water and sewer systems, and public transportation. These objectives were deemed a valid public purpose and essential for the welfare of the District's inhabitants and landowners.

Over time, however, a principal portion of the District's legislative purpose was not realized. Instead of facilitating the management and growth of a futuristic city, the RCID's efforts devolved to principally facilitate the expansion and operation of the Walt Disney World Resort. Thus, a core basis for justifying the unique privileges that the Florida Legislature granted to the RCID under the Old Act was frustrated and abandoned to the profit motive.

Walt's promise to bring an incredible urban development to Central Florida never materialized. Instead, the RCID became a public body in service of a commercial theme park and resort.

d. Limited Function

When the purpose of the RCID shifted from creating a novel urban community to supporting a theme park and resort, the focus changed from providing a broad range of municipal services and governance to addressing the specific needs of a theme park and resort. The services the RCID provided, including utility and infrastructure construction and management, were specifically focused on meeting the needs of the Disney resort and its guests. There was a lack of broader public services typically associated with city, county, and other local governments, as the RCID was focused principally on the resort's private operations and needs.

e. Potential Corruption

The facts just described created the risk of corruption and potential fraud in the District. Conflicts of interest—and certainly the *appearance* of conflicts of interest—were common in the District's governance. In traditional local governments, the governing body reports to its electors and represents the electors' interests. Certain provisions of the Old Act were likely intended to ensure the governing body reported to and represented the electors' interests, such as the requirement that the Board members own land within the District.

The legislature likely included this landowner requirement to ensure the Board had members that were stakeholders with a personal interest (land ownership) in the District—not a Board made up entirely of individuals with corporate interests. Over time, however, Disney circumvented this requirement by controlling whether and for how long an individual could own a parcel in the District that qualified him or her for Board membership. In short, Disney misled the

public and duped the Florida Legislature by coopting the mechanisms of government that the Florida Legislature had created for the District.

Because The Walt Disney Company controlled the election of the Board of Supervisors, the Board of Supervisors effectively reported to Disney and represented Disney's interests. A Board member would have known that he or she could lose the position by acting against Disney's interest. This created the potential for corruption.

2. Urban Planning

Urban planning suffered under District leadership under the Old Act. Florida law requires local comprehensive plans to address land use, transportation, housing, and other statutorily required elements, and when updating a comprehensive plan, local jurisdictions are required to hold community meetings to engage residents and stakeholders. Ordinarily, local government officials would also be subject to feedback on their performance through elections. Horn Report, Exhibit 3-B at 5. But without elections or residents, this process did not occur in the District.

The District was accountable to Disney, not to other landowners or the more than 100,000 people who work at Disney, and so the District narrowly prioritized the things that benefited only Disney the most. The result was massive negative externalities imposed by Disney on communities outside of the District.

For example, the District failed to develop workforce housing within the District, placing pressure on Disney's employees to obtain housing in neighboring communities and leaving those communities to provide services to the growing Central Florida population (growth that is driven by Disney's expansion and success). Horn Report, Exhibit 3-B at 6–7. It also increased traffic congestion, leading to increased maintenance required for the regional roadway system, and created an imbalanced land use pattern, which drives up living costs for low-income workers. Horn Report, Exhibit 3-B at 7–8. Likewise, the District had no schools or hospitals, foisting educational and health care costs on the surrounding counties.

V. Evaluation of Former Reedy Creek Improvement District

A. Lack of Governing and Conflicts of Interest Policies

Unlike a typical Florida local government, the RCID did not impose normal governing and conflicts of interest policies on its Board of Supervisors because these policies were not in Disney's best interests.

As a departure from the normal operations of local governments, the RCID lacked basic operational policies to govern and to bring accountability to the actions and operations of its Board of Supervisors, management and employees. The Board of Supervisors did not have rules and procedures governing its public meetings. The RCID had no ethics, gift, lobbying or conflicts of interest policies governing the Board of Supervisors. The RCID did not appear to have binding public procurement policies concerning competitive procurement of equipment, goods, construction services, professional services, and other services. The RCID merely had non-binding

procurement guidelines and such guidelines failed to address what due process is required to be given to bidders/proposers in public, competitive procurement processes.

It appeared that the District Administrator had nearly unchecked authority to execute multi-million dollar and long-term contracts without oversight from the Board of Supervisors or any other publicly transparent process. The RCID rarely conducted competitive procurement in the typical manner of Florida local governments. The RCID operated with the goal of serving only Disney's interest, and Disney had no interest in establishing the policies that a normal local government would adopt and enforce.

B. Lack of Independence

All previous members of the RCID Board of Supervisors were controlled by Disney because their eligibility for Board service depended on Disney's decision to temporarily gift them land in non-public agreements—a gift Disney could retract at any time.

The RCID Board of Supervisors was not independent but instead functioned as Disney's proxy to govern the District. Disney accomplished this because Disney controlled all appointments to the RCID Board of Supervisors up until the 2023 legislative reform.

Until the 2023 legislative reform, members of the Board of Supervisors were elected by landowners in the District, with a landowner casting one vote per acre of property owned. Because Disney owned the vast majority of the District's land, this meant that candidates with Disney's support would be elected and any candidate who lacked Disney's support would not be elected. The most recent members of the Board of Supervisors were: Larry Hames, Max Brito, Jane Adams, Don Greer, and Laila Jammal.

Additionally, the only requirement needed to qualify an individual to serve on the Board of Supervisors was the requirement (imposed by the RCID Act) that each Board member own at least one acre of property in the District. To constitute the board, Disney would identify an acceptable individual candidate, temporarily deed to him or her a small plot of inaccessible land within the District, and then nominate the individual for election to the board. The board thereby consisted solely of individuals hand-picked by Disney prior to the 2023 legislative reform. At least one past board member served on the RCID Board of Supervisors while simultaneously working directly for Disney.

Disney's deed of land to board members was only temporary. If a board member resigned from the board or otherwise departed board service for any reason, the plot of land would revert back to Disney. Because the board members owned land in the District, they incurred property tax liability. Yet Disney paid this tax liability on behalf of most board members. This was effectively a cash gift from Disney, likely in violation of the ethical obligations imposed on public officers by Florida law.

Thus, under the pre-2023 governance structure, Disney controlled who got nominated, who got elected, and who got to stay on the board. Under this arrangement, no member of the RCID Board of Supervisors was independent from Disney prior to the 2023 legislative reform. The Board members all served one master—Disney—without regard to other interested stakeholders, including the employees, residents or other taxpayers of the District. At the RCID, the inquiry was

not, as it should have been, whether a government action was in the best interests of the District, but whether it was in the best interests of Disney.

C. Lack of Transparency

The RCID operated without public transparency by rarely submitting decisions to the Board of Supervisors for review and by failing to make recordings or transcriptions of Board meetings.

The RCID operated without public transparency. The District Administrator made most decisions outside the purview of public Board meetings. When items did (rarely) make it to the Board of Supervisors for approval, the RCID's practice did not include posting its Board agenda materials on its website. The RCID did not take audio, video, or a verbatim transcription of its Board of Supervisor meetings, let alone preserve these things as a public record or post them online for public review.

D. Conflicts of Interest

The decisions of the RCID board were tainted by the RCID's former general counsel's conflicts of interest, which appear to have potentially violated applicable rules of professional conduct.

For the vast majority of its history, the RCID did not have a general counsel, whether employed in-house or contracted for as outside counsel. Instead, the RCID apparently relied on Disney's legal staff for much of its legal services.

On or around July 2019, the RCID hired the Milgrim Law Group ("Milgrim") as its outside general counsel. In its July 16, 2019, engagement letter with the District, Milgrim disclosed that it represented Disney (including its affiliates) in "real estate and other matters." Milgrim stated that "it will not represent any client, including Disney, in matters in which [Milgrim] determines to be directly adverse to" the RCID. The engagement letter also purports to obtain from the RCID, after reciting that the RCID has had the opportunity to retain and consult with independent counsel, a prospective waiver of "any existing and/or potential conflict and to permit [Milgrim] to represent Disney in matters which [Milgrim] determines not to be directly adverse to" the RCID.

The engagement letter does not explain, as required by the relevant rules of professional conduct, that a conflict of interest would exist where Disney's best interest diverged from the RCID's best interests. Instead, the RCID's outside counsel reserved to itself the discretion to determine whether in any given matter its representation of Disney would be "directly adverse" to the RCID, with no indication that the firm would disclose to the RCID either the existence of a potential conflict or the firm's conclusion that the potential conflict would not result in direct adversity between Disney and the RCID.

Moreover, in some instances, no amount of disclosure by Milgrim would have sufficed to allow the firm to represent the RCID because the conflict between the RCID and Disney was disqualifying under the applicable rules of professional conduct. For example, the RCID lacked independent legal counsel when considering and purporting to enter the Development Agreement and Restrictive Covenants, which ceded control of all development decisions in the District to

Disney for decades. Communications between Milgrim and Disney’s counsel, John McGowan, show that Disney in fact drafted both documents but that Milgrim agreed to hide this fact by substituting Edward Milgrim’s name as the drafter because of the poor “optics” that honest disclosure of the drafter’s identity would create:

My name [McGowan] is currently at the top of the document as the drafter. And I am comfortable having my name on it, but from an optics perspective that is not ideal and it would be better to have a non-Disney employee be the drafter. The Vogel legal team do not want to put their name on it unfortunately because they are a Tallahassee firm and they do work for the Governor (unfortunately). Would you [Edward Milgrim] be willing to put your name on it as the drafter?

A review of Milgrim’s documents relating to the agreements confirm that the firm made minimal changes to the drafts sent to it by Disney’s lawyers, and accepted feedback when given by Disney’s lawyers.

Other examples of Disney’s unilateral control over the transaction abound. Disney’s counsel edited the text of an agenda item for the RCID’s January 25, 2023, meeting during which the District held its first improperly noticed hearing on the Development Agreement. Disney’s chief counsel had Milgrim change a District employee’s “talking points” for the February 22, 2023, meeting because, in Disney’s view, “less is more.”

Simply put, at the same time that Milgrim was representing the RCID in connection with the Agreements, it was also representing Disney—the party that stood on the opposite side of the transaction. Truly independent counsel would have reviewed the Agreements for substance and, at a minimum, identified possible violations of several clear procedural and substantive requirements of Florida constitutional, statutory, and common law that precluded the RCID from entering them. Instead, the RCID’s counsel in the transaction accepted Disney’s documents for the transaction and Disney’s agenda for the District. When the Board of Supervisors considered the Agreements at a February meeting, they indicated that they saw them as business as usual for the District. One board member asked, “I’m assuming the way this is written, it doesn’t change the way you’re currently doing business?”, and the former District Administrator replied, “It does not. It basically memorializes how we have been doing this.”

E. Cities’ Bias at Taxpayer Expense

As already described, *supra* Section IV.E, Disney controls the Cities of Bay Lake and Lake Buena Vista by controlling the membership of their City Councils. Investigation into the Cities’ budgets shows that the Cities contract with Orange County for the provision of police support within the Cities (and consequently, within the RCID). The Cities also pay for all of the associated police protection with the Cities’ tax revenue—essentially the only expense the Cities incur on an annual basis (as previously described, *supra* Section IV.E, until recently, the Cities received all of their administrative support from the RCID for free).

The Cities’ payments for police protection fall into two categories. First, an amount set out in the Orange County contract for the general provision of police protection within the District. Second, an *additional* amount of taxpayer money spent on off-duty Orange County officers

servicing Disney properties, like the entrance gates to Disney theme parks and Disney special events. This additional amount *only benefits Disney*, because the police protection is provided on Disney property, to facilitate Disney's theme park operations and events. And the expense is a significant one. While overall, the Cities spend between roughly \$23 and \$30 million annually on police protection, approximately \$8 million of that pays for off-duty police officers servicing Disney's *private* properties. In other words, Disney receives *private* police protection paid for by *public money*, including hundreds of thousands of taxpayer dollars supplied by *other, non-Disney taxpayers* in the District. This allows Disney to effectively receive private police protection at a discount, which is paid by other District taxpayers. .

No non-Disney entities in the District are entitled to have the Cities pay for their off-duty police support when they require it. For example, if the House of Blues restaurant and venue at Disney Springs hosts a concert and requires off-duty police support, it must obtain and pay for off-duty officers on its own dime. Similarly, the Swan and Dolphin hotels, located on Disney property and subject to a long-term lease from Disney, must obtain and pay for their own off-duty police support. Yet, these non-Disney entities pay City taxes, whether directly or through pass-through CAM (common area maintenance) payments made to Disney as part of their lease agreements.

This arrangement improperly benefits Disney by allowing Disney to receive an exclusive benefit (off-duty police support paid for by the Cities), even though the tax revenue that pays for the benefit comes from both Disney and non-Disney tax payments.

After the 2023 legislative reforms took effect, the new District Administrator addressed the Cities at their July 12, 2023 city council meetings and proposed a new tentative 2024 millage rate that would have *reduced* the millage collected by the Cities by the approximate amount of tax revenue the Cities spent on off-duty police officer for Disney properties. The CFTOD would then have absorbed the role of contracting for and providing off-duty police support within the District. At the July 12 meetings, both city councils voted unanimously in favor of the reduced millage proposal.

Two weeks later, on July 27, 2023, the Cities both convened special meetings. The only disclosed business for these special meetings was to reconsider the Cities' 2024 budget and millage rate. At the July 27 special meetings, both city councils voted to reverse the millage decisions reached at the July 12 meetings, thereby retaining the Cities' ability to continue paying for off-duty officers on Disney property using tax dollars contributed (whether directly or passed through Disney) by both Disney and non-Disney entities.

Disney benefits when the Cities use tax revenue to provide Disney properties with off-duty police protection, a benefit that no other business in the District receives. Disney also effectively controls the Cities because the members of the Cities' city councils live on Disney property in discounted lease arrangements. The July 2023 meetings demonstrate the influence Disney maintains over the Cities—influence that allows Disney to use the Cities for its exclusive benefit and grants Disney advantages that other businesses in the District do not enjoy.

F. Lack of Inter-Governmental and Community Relations

Under the Old Act, the RCID failed to build inter-governmental relations with surrounding communities or relations with the members of the District community beyond Disney.

When the Florida Legislature granted Disney its special governing privileges in the District, it failed to require any guarantee, performance clause, or otherwise binding obligation for Disney to fulfill its promise about EPCOT. Disney had pledged to build the “city of tomorrow.” But instead, it never permitted any permanent residents inside the District, while it nonetheless retained the expansive governmental power to run its private Florida properties as its corporate fiefdom, insulated from political accountability.

The RCID pocket government has no doubt served to grow Disney’s network of highly profitable theme parks in Central Florida, but Disney World’s insulation from the political interests and cultural demands of the wider public has had obvious negative consequences for the region and for the people who work at Disney World yet are forced by Disney to live outside the District. Because the RCID answered only to Disney, its decisions benefitted Disney and imposed the associated costs of Disney’s policies on others. Those costs compounded over time, resulting in generational poverty, a lack of social mobility, and a housing and economic crisis in the communities around Disney World.

At the outset of Disney’s Central Florida development, Highway US-192 was the primary traffic corridor supporting Walt Disney World, offering residents plentiful employment opportunities with local commutes to and from work. In the 1970s and 1980s, US-192 saw unprecedented growth on both sides of the 6-lane highway, bustling with hotels, chain restaurants, and locally owned mom-and-pop souvenir shops. Local employment opportunities elevated the socio-economic status of residents and attracted new residents, too, who sought the economic opportunities that the region offered. In addition to Disney World and later Universal Studios Florida, the Central Florida area highways were covered in hotels, tourist attractions, venues, gift shops, and restaurants.

As Disney World expanded, however, it sought to contain guests within its borders. Disney World grew its resorts, dining, shopping, and entertainment areas, and as it did, tourists had less incentive to venture off Disney property and out to US-192. Consequently, many businesses outside the confines of Walt Disney World experienced reduced tourism, diminishing revenue, more traffic congestion and even increased crime. The Hyatt Orlando Resort is a case study demonstrating the blight caused by Disney’s expansion in Central Florida. At the peak of the Central Florida tourism boom, the Hyatt Orlando Resort was the modern hotel of the future. It was located just five minutes from Disney World and was not part of Disney’s property. It boasted 3,400 rooms and a convention center. At the time, it was Florida’s largest hotel, steeped in the energy of Walt Disney’s futurism, as embodied in the EPCOT theme park’s design.

With such a prime location on Disney World’s doorstep, the Hyatt saw continued success with the addition of multiple Disney theme parks and Universal Studios Florida. But as Disney continued expanding its resort and other on-property amenities—including by granting exclusive theme park perks to guests staying on Disney property—the Hyatt suffered and was ultimately forced to close. Today, it is a blight on the US-192 corridor: an abandoned property allowed to decay, visited only by trespassers seeking eerie footage of the “futuristic” hotel overgrown in vegetation and mold.

As businesses along US-192, like the Hyatt, struggled, so did their employees. Wages stagnated, and in some cases, businesses closed, leading to job losses and a housing crisis. Many who work and live around US-192 have found it increasingly difficult to afford homes. Families with school-age children have been made homeless and forced to live in substandard conditions, including motels along US-192.¹⁰ Others were forced to commute long distances that became prohibitive, often resulting in the lack of sufficient employment, the loss of housing, and the continuation of generational poverty.

Today, 100,000 people serve Disney and the tourism industry within the District. Horn Report, Exhibit 3-B at 7. This number has grown exponentially from an estimated 5,500 employees when Walt Disney World first opened. Yet the District has only a few handful permanent residents, all of whom are permitted to live in the District solely at Disney's discretion. This means that 100,000 people are commuting in and out of the District while living in other Central Florida communities and relying on the public services offered in those places—services the District has never been required to offer.

There are no hospitals in the District. There are no schools in the District. The costs of educating the children of Disney's workforce has been foisted on the surrounding counties.

Most of the individuals employed within the District live in neighboring Osceola County. Outsiders may be surprised to know that on average, these employees have earned an hourly wage of merely \$15.00 for some time. The median individual income in the region is \$25,491, and the median household income is \$58,513. *See* U.S. Census, Osceola County, Florida, available at, <https://bit.ly/3T3IVbV>. Employment opportunities primarily consist of tourist-serving low-wage jobs such as housekeepers, landscapers, hotel staff, restaurant staff, and rideshare drivers. Many of these people live paycheck to paycheck, and there is little room for socio-economic mobility, often leaving generations in poverty.

The lack of sufficient infrastructure in the area—and the lack of affordable housing in the District—often leads to long commutes, leaving children unsupervised at early and late hours as parents travel to and from their jobs serving area theme parks and tourist attractions. The scarcity of housing and the lack of transportation infrastructure costs area residents approximately 17 percent of their income for transportation alone.¹¹

Congressman Darren Soto says that the lack of transportation infrastructure particularly hurts the many residents in the region who are “home insecure.” *Id.* Growth within Osceola County has contributed to an above-average increase in average housing prices by about \$100,000, compared to before the COVID-19 pandemic (from roughly \$200,000 in 2019 to roughly \$300,000 in 2022). Congressman Soto's district, which broadly encompasses Osceola County, has seen a 40 percent growth from 2010 to 2020. *Id.*

¹⁰ Greg Woodfield, Exclusive: Homeless at the Gates of Disney: Thousands Are Living in Motels, Encampments and Even Their Cars - in the Shadow of the ‘most Magical Place on Earth’ amid Soaring Rent Prices and Post-Pandemic Unemployment, DAILY MAIL, (May 30, 2022), <https://bit.ly/47VQYKN>.

¹¹ Luana Munoz, Residents Struggling to Afford Rising Osceola County Rent, WESH (Mar. 16, 2023), <https://bit.ly/47voA2i>.

Overall, Disney's growth in Central Florida has come at the expense of neighboring communities who have been forced to absorb the negative externalities of Disney's business model. In the Central Florida arrangement, Disney gets workers, but the region gets long commute times and heavy traffic, with the associated pollution and environmental consequences, unaffordable housing that leaves many on the brink of homelessness, and a glut of low-wage jobs with little promise of upward economic mobility.

This was caused, in particular, by Disney's failure to pay impact fees for its Central Florida development. Any other developer in Orange or Osceola Counties would be required to pay impact fees related to its construction, yet these counties were powerless to exact impact fees from Disney and the RCID never imposed impact fees on Disney either. The net result was a massive benefit to Disney's bottom line, making development much less expensive than it would have been had the RCID never been created (or captured by Disney). For example, today in Orange County, a \$3600 transportation impact fee is charged for the construction of each suburban hotel room. Disney has more than 36,000 hotel rooms in the District. This is the equivalent of nearly \$130 million in transportation impact fees related to Disney's hotel rooms in the District. That amount of money would go a long way to improving transportation infrastructure in Central Florida. Orange County charges other sizeable impact fees for the construction of retail square footage, golf courses, and office space. The failure to pay these kinds of impact fees is a very significant way in which Disney failed to pay its fair share for the development privileges it enjoyed in the RCID.

Moreover, while Disney pays ad valorem taxes to Orange and Osceola County, it simultaneously engages in aggressive litigation to reduce its tax burden—litigation that leaves large sums of Disney tax payments unavailable while the litigation proceeds. Disney has filed dozens upon dozens of lawsuits to eliminate as much of its tax burden as possible.

The Reedy Creek Improvement District facilitated these negative trends and allowed Disney to avoid paying its fair share for the wider Central Florida community, as any other developer in the region would be required to do. Any other local government would have demanded that Disney better tend to its communitarian obligations, demanding that Disney built or set aside land for affordable housing before expanding resort properties, for example. But Disney controlled the Reedy Creek Improvement District, and so the Reedy Creek Improvement District served Disney's interests—not the interests of the wider community.

G. Poor Governance Practices

1. Agency Capture

The RCID employees received numerous special privileges from Disney that were not available to members of the general public and far exceeded the discounts available to ordinary annual passholders. As a regulated entity, it was inappropriate for Disney to gift these benefits to the very people charged with regulating Disney. Indeed, receiving these special privileges was inconsistent with the public's expectations for governmental entities serving the public and demonstrates that the RCID was "captured" by Disney, whom it was charged with regulating. Indeed, the RCID effectively acted as a subsidiary of Disney rather than as an independent government entity.

Former RCID management and the former Board of Supervisors made special benefits available to RCID employees, akin to bribes. The RCID's employees received numerous special privileges from Disney that were not available to members of the public. These special perks included:

- Annual passes to the Disney theme parks for themselves and their family and friends
- 40% discounts on Disney cruises
- Steep discounts on Disney merchandise, up to 40% or even more when using the privilege of cast-member-only shopping depots
- Steep discounts on Disney resort rooms and other Disney products and services
- Invitations to the same closed-door years-of-service celebrations and received the same years-of-service gifts as Disney employees, known as “cast members”
- Access to other “cast member” privileges, too, including the Disney intranet, where they were assigned personnel numbers by Disney

The discounts described above far exceeded the discounts enjoyed by members of the public who held ordinary annual passes. During the past several years at least, the RCID paid Disney for the cost of most of these privileges,¹² but this fact was not widely known among the RCID employees. The effect of this arrangement was that Disney received full payment for the privileges RCID employees enjoyed, but most employees believed they received those privileges as a gift from Disney.

This arrangement also demonstrated clear favoritism toward Disney. Each year, RCID paid millions of dollars to Disney for Disney services and merchandise for its employees. This included discounts on Disney merchandise—effectively subsidizing employees who purchased Disney items, thereby encouraging such purchases and also lining Disney's pockets by reimbursing the discounted amounts using public tax dollars. RCID did not provide a similar benefit for products and services offered by other District taxpayers. For example, the RCID displayed clear favoritism toward the purchase of *Disney* merchandise (which employees enjoyed at steep discounts, which RCID reimbursed to Disney) as opposed to the merchandise sold by other non-Disney retailers in Disney Springs, who also pay District taxes. The RCID reimbursed Disney for the “cast member” discounts RCID employees received, but when other non-Disney retailers offered discounts to RCID employees, the RCID did not reimburse those businesses. All of this created a clear appearance of impropriety, brought about by the decisions of the RCID's management and Board of Supervisors.

The quantity, value, and pervasiveness of the Disney benefits RCID employees received far exceeds what the public would consider appropriate for a government entity. Such an arrangement undermines the public confidence in the neutrality of the regulators. Indeed, as a

¹² Earlier in the RCID's history, these benefits were gifts from Disney to RCID employees.

regulated entity, it was inappropriate for Disney to make available to government officials enormously valuable privileges that were not made available to the general public.

a. Disney Annual Passes

The RCID spent millions of dollars a year providing all employees with free annual passes to the Disney theme parks that were otherwise reserved for Disney “cast members.”

The RCID provided all employees and certain other “VIP” individuals and retirees with annual passes to the Disney theme parks. When Disney began making these passes available to District employees, Disney handled all of the RCID’s accounting system, including its payroll, and the passes and benefits were considered part of Disney’s employee benefit program. Jennings Report, Exhibit 2-B, at ¶ 28. During this time, Disney bore the costs associated with the annual passes (and other Disney discounts and perks, described *infra*, Section V.G.1.d). Indeed, Disney *paid the RCID’s employees itself* during this time, a practice that ended in 1998, when the RCID took over its own accounting. *Id.* Only later, after the RCID took over its own accounting, did Disney begin charging the RCID for the cost of these benefits. *Id.* ¶ 29.

The RCID obtained the annual passes from Disney, which described the passes as available for “eligible” employees and retirees “of The Walt Disney Company, its subsidiaries and affiliated and related companies.” Exhibit 7, “Enjoy the Magic” Brochure, at p.1. This demonstrates that Disney essentially treated the RCID employees as equivalent to Disney employees. These passes are not available to members of the general public and provide numerous benefits that members of the general public cannot access. In the 36-page booklet that explains the pass benefits, Disney calls the passes “Complimentary Tickets,” which is the term this report will use. The RCID purchased the Complimentary Tickets not only for active RCID employees but for more than 100 retirees, plus the members of the Board of Supervisors and a group of “VIPs”—vendors who performed work for the RCID, including lawyers as outside counsel. *See* Jennings Report, Exhibit 2-B, at ¶ 28 (regarding details of retiree eligibility).

Each RCID employee was entitled to receive a Complimentary Ticket for him or herself, which could only be used by the RCID employee, as well as one Complimentary Ticket for his or her spouse (if any), which ticket could be used only by the employee’s spouse. Each RCID employee also received at least three additional Complimentary Tickets, or the number of Complimentary Tickets equal to the number of dependents in the employee’s household if greater than 3. These additional Complimentary Tickets were not tied to a specific named individual and could be used by anyone so long as the RCID employee or spouse was present when the individual was admitted to a Disney theme park.

To illustrate, an unmarried RCID employee with no dependents would receive one Complimentary Ticket for his or her exclusive use plus three additional Complimentary Tickets, which the employee could use to admit friends or family to the Disney theme parks in the presence of the employee. A married RCID employee with four dependents would receive one Complimentary Ticket for his or her exclusive use, one Complimentary Ticket for his or her spouse’s exclusive use, and four additional Complimentary Tickets which could be used to admit family or friends in the presence of the employee or spouse.

When the Complimentary Tickets were used by extended family of the RCID employee or spouse, those individuals did not need to be accompanied once they had entered the Disney theme park for the day. When a friend used a Complimentary Ticket, the RCID employee or spouse was required to accompany that individual throughout their time in the theme park.

Complimentary Tickets could be one of two types: a “Silver” pass or a “Blue” pass. The only difference between Silver and Blue passes is the number of times they may be used. Silver passes could be used an unlimited number of times, while each Blue pass could be used for a maximum of 16 admittances over the course of one year. Both types of passes were subject to blackout dates on which they could not be used. These dates usually included the time in and around major holidays, when the theme parks are crowded. Salaried employees received Silver passes, while hourly employees prior to their 15th year of service received Blue passes. Beginning with the 15th year of service, hourly employees were upgraded to a Silver pass.

All Complimentary Tickets could be used to enter all Disney theme parks worldwide with the exception of the Tokyo Disney theme parks. RCID employees and their friends and family could access a total of 10 theme parks with the Complimentary Tickets: in Florida, Disney’s Animal Kingdom, Hollywood Studios, EPCOT, and Magic Kingdom theme parks; in California, Disneyland and California Adventure; in Paris, France, Disneyland and Walt Disney Studios Park; in Hong Kong, the Hong Kong Disneyland Park; and in China, the Shanghai Disneyland park.

These passes were *not available* for purchase by members of the general public. Members of the public cannot buy annual passes to all Disney parks worldwide. For example, members of the public may purchase a “Magic Key” pass for access to the Disney theme parks in California only, or an “Incredi-Pass” for access to the Disney theme parks in Florida only, but there is no publicly available pass that would allow admission to both sets of U.S. parks, let alone all parks worldwide. RCID employees generally understood that their passes were not generally available to the public. *See* Exhibit 8, Email re Annual Passes.

It is reasonable to conclude that RCID employees considered themselves to have a special relationship (and special obligations) to Disney more akin to an employee/employer relationship than a government official/constituent relationship.

For many years, the availability of Complimentary Tickets was publicized in RCID materials made available to candidates being recruited to RCID employment. Within the past several years, RCID leadership made the decision to remove the mention of the Complimentary Tickets from those materials. Complimentary Tickets were sometimes used as a recruitment incentive both before and after this time.

The RCID paid Disney for the Complimentary Tickets that it gave to employees, but prior to public reporting about the Complimentary Tickets in 2023, it appears that RCID employees generally did not know who paid for this benefit, and the RCID made no formal effort to make them aware. The RCID employee handbook said: “Pursuant to an agreement with Walt Disney World, the Reedy Creek Improvement District may provide an annual Walt Disney World Admission Pass to eligible employees and retirees. It is reviewed periodically and is subject to revision or cancellation in whole or in part at the discretion of the District.” Exhibit 9, RCID

Employee Handbook. This statement did not inform employees that the RCID paid for the Complimentary Tickets.

RCID employees also had access to a 36-page booklet explaining the Complimentary Tickets and other benefits, and this booklet did not indicate that the RCID paid for the tickets. To the contrary, the booklet was published by Disney and was titled “Complimentary Admission and Discounts.” It did not indicate that any price was paid by anyone for the passes, let alone by the RCID. Employees who knew that the RCID paid for the Complimentary Tickets were still receiving a benefit not available to the general public, which is of significant ethical concern for government employees obligated to serve the public rather than a private corporation.

The RCID spent a large amount of taxpayer money on the Complimentary Tickets, and yet also paid a fraction of what those tickets would have been worth on the open market if they had been made available to the general public. For example, in 2019, the RCID paid \$725 for each Complimentary Ticket Silver Pass. Exhibit 10, Spreadsheet of FY19 Discounts and Ticket Expenses. Each of these tickets granted unlimited admission (except for blackout days) to ten different Disney theme parks worldwide and most could be used by multiple guests in the same year. By comparison, the highest-level Magic Key pass in 2019 admitted only the named bearer to two Disney theme parks (California’s Disneyland and California Adventure parks) at a cost of \$1,399. The highest-level annual pass available in 2019 for the Disney World theme parks cost \$1,219 and admitted the named bearer only to the four Disney theme parks in Florida.

Overall, the RCID spent a large amount of taxpayer money on the Complimentary Tickets—in 2021, for example, nearly \$1.6 million. Exhibit 11, Spreadsheet of FY21 Tickets and Discounts, at 2. When combined with the cost of the Disney discount program (see *infra*, Section V.G.1.d.), the RCID spent millions of dollars on employee benefits related to Disney. Between fiscal year 2018 and fiscal year 2023 the RCID spent between \$1.78 million and \$2.54 million annually, or between \$3,672 and \$4,898 per employee. Jennings Report, Exhibit 2-B at ¶ 24. The RCID did not treat these expenditures as taxable employee benefits. See *infra* Section V.G.3.a.

b. Transferable Tickets

RCID employees received *additional* park passes beyond the Complimentary Tickets, too. Each active and retired RCID employee was entitled to four additional passes, each admitting one individual to a U.S.-based Disney theme park for one visit, including the ability to “hop” to other theme parks on the same day. These passes were known as “white tickets.” White tickets were not limited to a named user and were fully transferable. RCID employees could give these tickets as gifts or give them to charitable organizations to raffle as prizes. Members of the general public cannot purchase fully transferable single-use tickets of this kind. A member of the general public must name a user when purchasing a Disney theme park pass directly from Disney. Using 2021 numbers, the RCID paid \$214.71 for each of these “white tickets,” applied to 526 employees and retirees, for a total expense of \$451,750. Exhibit 11, Spreadsheet of FY21 Tickets and Discounts, at 2.

RCID employees could also claim *additional* transferable park hopper tickets during the holiday season. Employees could claim up to three of these tickets, also for a cost to the RCID of

\$214.71 per ticket. During 2021, 31.4 percent of eligible RCID employees claimed these tickets, for a total expense to RCID of \$106,305. *Id.*

The overall cost of the Complimentary Tickets together with the transferable tickets was enormous and growing every year. In 2019, for example, the RCID spent a total of \$1,778,698 on Complimentary Tickets and transferable tickets. This included tickets for 382 active RCID employees, 125 RCID retirees, 4 RCID executives, and 19 “VIPs,” a group that included members of the RCID Board of Supervisors and certain outside vendors (including lawyers) who provided services to the RCID. The total cost of the Complimentary Tickets and transferable tickets grew from year to year for several reasons: growth in the number of active employees, retirees, and VIPs, and increase in ticket price. In 2013, the RCID spent \$713,603 on Complimentary Tickets and transferable tickets, but by 2021, that number had nearly tripled to \$2,150,155. *Id.*, Exhibit 12, Disney Spreadsheet of Annual Ticket and Discount Costs.

It also appears that the RCID concealed the existence of these payments in its annual financial reports. The annual financial disclosures contained the amount spent on Complimentary Tickets and Disney discounts, *see supra*, Sections V.G.1.a and b, in “Note 8,” which was titled “Transactions with Principal Landowners” and described as follows: “... [d]uring [the] fiscal year [20xx], Walt Disney World Co. and other wholly owned subsidiaries of The Walt Disney Company provided certain services to the District,” as follows: Government[] Funds[, for] ... Financial and other administrative services,” amounted to \$X,XXX,XXX. Jennings Report, Exhibit 2-B, ¶34-35. The amount listed was \$2,471,944 in fiscal year 2021 and \$2,252,045 in fiscal year 2022, for example. *Id.* Of each number, 95 percent was attributable to the Complimentary Tickets and Disney discounts. Yet, the Complimentary Tickets and Disney discounts were *not* “financial and other administrative services” provided by Disney; they were perks provided to RCID employees and related individuals. In this way, the RCID’s annual financial reports misleadingly concealed the purpose of these multi-million annual payments.

c. Disney Personnel Numbers

Further demonstrating the entanglement between Disney and the RCID, Disney managed the Complimentary Tickets and other benefits for RCID employees by issuing them a personnel number, known colloquially as a “perner.” Perners were used to grant RCID employees access to Disney properties when their work required it, but they were also used to manage Complimentary Tickets and other benefits and arrange payment for them from the RCID. RCID employees could access information on the Disney “intranet” based on their perner, including information about their Complimentary Tickets and eligibility for other Disney benefits. Disney tracked each of the RCID employee’s park attendance, spending, and other uses of Disney benefits according to the employee’s perner.

d. Disney Discounts

The RCID provided employees with valuable Disney discounts on Disney cruises, resort rooms, dining, merchandise and more.

i. Discounts on Disney Cruises

The RCID provided employees with a 50-percent discount on Disney cruises, for booking up to three rooms. This is the same discount provided to Disney “cast members.” Employees needed to inquire to receive the discount because, as they were told, the RCID employees’ names did not appear on the cast member list at the cruise line “due to the sunshine state laws” of Florida. Exhibit 13, Email Correspondence About Disney Cruise Benefits, at #1371302.3. This statement suggests that at least some people at Disney may have understood that it was likely improper for RCID employees to receive these benefits and therefore made an effort to evade public scrutiny.

The RCID paid the cost of these cruise discounts at the end of each fiscal year, although this fact was not widely known among RCID employees, including those who used the benefit. At least one RCID employee who used the discount regularly asked someone to “please extend my appreciation to the [Disney] World Corporation for this benefit.” *Id.*, at #1371302.1.

The total expense to the RCID in repaying these discounts to Disney was significant. In 2021, the RCID reimbursed Disney \$59,900 for its employees’ use of the discount.

ii. Discounts on Theme Park Merchandise

RCID employees received a discount on Disney theme park merchandise: a 35-percent standard discount for salaried employees and hourly employees with three or more years of service, and a 20-percent standard discount for hourly employees with fewer than three years of service. Exhibit 7, Enjoy the Magic Brochure, at p. 16. This discount could also be applied in the “Shop Disney Parks” mobile app and online at Disneyworld.com and Disneyland.com. An RCID employee could use this discount by providing their RCID ID, or their spouse could use the discount by providing their Complimentary Ticket with a valid government-issued photo ID.

Sometimes, RCID employees received special discount offers. For example, from October 16, 2022 through February 17, 2023, RCID employees enjoyed “a special holiday discount of 40 percent off most items at select Disney Theme Park merchandise locations at Disneyland Resort and Walt Disney World Resort.” Exhibit 14, 2022 Disney Family Holiday Celebration Booklet, at 11 [can find Bates number but don’t have it at the moment]. This discount was subject to minimal exclusions and blackout dates.

RCID employees also enjoyed shopping privileges at Company D and Cast Connection locations—shopping outposts reserved for Disney cast members. These locations offer discounted Disney merchandise (sometimes discounted as much as 70 percent) and Disney items not made available to the general public, including discarded décor from Disney resorts and hotels. Not only were RCID employees eligible to shop at these locations, they sometimes received discounts. For example, RCID employees received 20 percent off merchandise at Company D and Cast Connection during the holiday season. *Id.*

At the end of each fiscal year, the RCID received a bill for the cost of the discounts RCID employees had received. The RCID paid the cost of the discounts to Disney. It was not widely known among RCID employees that the RCID paid for the cost of the discounted products they purchased. The net result of this arrangement is that Disney received full sticker price payment for merchandise purchased using RCID employees’ discounts, while many—and more likely, most—employees believed the discounts were provided as a complimentary benefit from Disney.

The cost to the RCID for the Disney merchandise discounts ranged from approximately \$51,700 (2015) to \$73,600 (2018). The expense exceeded \$70,000 in 2017, 2018, and 2020. Exhibit 12, Disney Spreadsheet of Annual Ticket and Discount Costs.

iii. Other Disney Discounts

Disney dining, including holiday dining. The RCID also offered its employees discounts on food and beverages at Disney restaurants. Here, too, the RCID reimbursed Disney for the cost of these discounts, although this was not widely known by RCID employees. These discounts also mirrored what Disney offered to its own “cast members.” Food and beverage discounts were sometimes 20 percent and sometimes 40 percent.

During the holiday season RCID employees received additional coupons to use on Disney dining. Each RCID employee received by mail one 30-percent dining discount certificate, one 40-percent dining discount certificate, and one 50-percent dining discount certificate. Exhibit 14, Disney Family Holiday Celebration Booklet. The certificates expired after one year. These certificates were eligible to use in table-service and quick-service restaurants at Walt Disney World and Disneyland resorts with minimal exclusions and black-out dates.

RCID employees also received 10 “snack coupons” annually for “complimentary snack item[s]” in the Walt Disney World and Disneyland resorts with minimal exclusions.

The total value of these discounts was significant. The RCID reimbursed Disney \$20,459 in 2019, \$20,650 in 2020, and \$24,482 in 2021 for employee food and beverage discounts. Exhibit 12, Disney Spreadsheet of Annual Ticket and Discount Costs; Exhibit 11, Spreadsheet of FY21 Tickets and Discounts.

Other Disney discounts. RCID employees received discounts on other Disney products and services, too.

Near Halloween, RCID employees could purchase discounted tickets at Company D for the special event Mickey’s Not So Scary Halloween Party. Exhibit 15, Halloween and Christmas Special Event Discounts. Near Christmas, RCID employees could purchase discounted tickets at Company D for the special event Mickey’s Very Merry Christmas Party. *Id.*

RCID employees were also eligible for discounts on resort rooms, Disney water park admissions, golf, and miniature golf. For example, employees could play 9 holes of golf for only \$15 as part of the holiday green fee special at Disney’s Oak Trail Golf Course. The RCID reimbursed Disney for these discounts, although this fact was not widely known among employees. The total amount of reimbursement was significant. The RCID reimbursed Disney \$55,613 in 2018 and \$56,670 in 2019 for employees’ resort room discounts. Exhibit 12, Disney Spreadsheet of Annual Ticket and Discount Costs. In 2021, the RCID reimbursed Disney \$15,622 for employees’ discounted admissions to Disney water parks and \$3,077 for employees’ discounted rounds of miniature golf. Exhibit 11, Spreadsheet of FY21 Tickets and Discounts, at 5.

RCID employees were also offered discounts at private retailers and restaurants in the Disney Springs shopping district as if they were Disney cast members. For example, from August 24-27, 2020, Disney Springs offered “Cast Member Days” for “eligible Disney Employees and

Retirees, Operating Participants, and RCID Employees.” During this time, the RCID employees could receive discounts at participating Disney Springs restaurants and retailers alongside Disney “cast members.” Exhibit 16, Cast Member Days at Disney Springs.

e. RCID Employees Received Disney Years of Service Awards

Disney recognized RCID employees alongside its own “cast members” for their years of service to the company. This included inviting RCID employees to Disney’s annual, closed-door events celebrating cast members’ years-of-service milestones and making years-of-service gifts available to RCID employees on the same terms as Disney “cast members.”

This behavior clearly illustrates the expectation and understanding that RCID employees were the essential equivalent of Disney employees.

Disney hosts an annual celebration for its “cast members” who have reached years-of-service milestones—for example, 10-, 15-, 20-, and 25- years of service to the company. These celebrations were almost always hosted at a Disney theme park. The celebrating employees were invited to closed-door events inside the theme park in which they received special gifts and experiences and enjoyed the theme park without the presence of the general public. Disney invited RCID employees to join these celebrations on the same terms as its own “cast members,” and these events were closed to the public. The RCID paid the cost of its employees’ attendance at these celebrations, although this fact was not widely known among RCID employees. For example, in 2021, 35 RCID employees enjoyed these “service celebrations,” at a total cost to the RCID of \$14,217.

The RCID provided employees with Disney years of service awards. Disney also made gifts available to RCID employees celebrating years-of-service milestones on the same terms as its “cast members.” These milestones occurred at employment year 1, 5, and every fifth year after that. As the years of service increased, so did the value of the gift. Gifts could include a ring or “tackette” (a pin that could be affixed to a nametag) featuring real gold and gemstones. Individual gifts were valuable.

For example, one RCID employee celebrating 25 years of service in 2021 received a ring at a cost to the RCID of \$483.48. The RCID purchased another employee a tackette in 2020 for \$367.11 to celebrate 30 years of service. Another tackette for a 15-year milestone cost \$271.24 in 2020. The RCID reimbursed Disney for the cost of providing these gifts to RCID employees, although this fact was not widely known among employees. In 2021, the RCID paid a total of \$5,818 to provide its employees with Disney years-of-service milestone gifts. Exhibit 17, Tackette and Ring Expenses, 2020 and 2021.

f. Other Disney Benefits

Some RCID employees also received access to other special events at Disney that were not open to members of the general public. Some executives were invited to attend an “EARidescent Celebration” at Disney’s Animal Kingdom theme park. Exhibit 18, EARidescent Celebration Invitation. Others secured a special opportunity to ride the Guardians of the Galaxy attraction at EPCOT before the ride opened to the public. Exhibit 19, Guardians of the Galaxy. Some RCID

executives were invited to attend a special “meet-and-greet” with candidates for an open Senior Vice President role at Disney. Exhibit 20, SVP Meet and Greet.

g. Relevance of Agency Capture

The foregoing benefits cultivated the view among RCID employees that they were a valued part of the Disney corporation—indeed, that they were the “Magic Behind the Magic,” a popular RCID catchphrase. The existence of these benefits demonstrates that the RCID was “captured” by Disney, even though it was simultaneously charged with regulating Disney. This “captured” relationship, at a minimum, creates a perception that the RCID was not neutral when Disney’s interests happened to conflict with the interests of other RCID residents, taxpayers, non-Disney guests, surrounding municipalities, the State of Florida, or members of the public generally. In Florida, it is “the policy of the state that public officers and employees, state and local, are agents of the people and hold their positions for the benefit of the public.” Fla. Stat. § 112.311(6). But time again, as outlined in this report, the RCID took action that benefited Disney at the expense of the public, the District, and other taxpayers within the District.

The RCID’s treatment of veterans who served in the U.S. military is emblematic of this dynamic. For example, when Disney’s interests conflicted with the interests of guests at the non-Disney Shades of Green resort (operated by the U.S. military for the benefit of service members), Disney achieved its preferred outcome, with the RCID’s cooperation. This conflict arose as part of the ongoing World Drive Phase III project. The World Drive Phase III project is relocating a portion of World Drive, one of the public roads that guests use to navigate within the District. The public roadway changes fall under RCID’s jurisdiction and are being funded by the RCID bonds.

The World Drive Phase III roadway project affects the entrance to the Shades of Green Resort. Shades of Green is located across the street from Disney’s Polynesian Village Resort. The Polynesian Village Resort is home to dining and shopping experiences, access to the Disney monorail transportation system, access to a Disney boat service that brings guests to the Magic Kingdom theme park, and access to walking trails that allow members of the public to walk to the Magic Kingdom theme park. Members of the public do not need a ticket to ride the monorail or boat service, nor do they need to be a Disney hotel guest. Disney affirmatively informs park guests not staying at Disney resorts that they can freely use the monorail, boat, and other forms of Disney transportation.¹³

Before the World Drive Phase III project, guests at Shades of Green sometimes walked across the street (or used scooters if they were disabled) to access transportation and public amenities at Disney’s Polynesian Village Resort. As part of the World Drive Phase III project, Disney leadership determined that **Disney’s “preferred direction ... is to eliminate ALL pedestrian activity ... generated by the Shades of Green resort,”** which “will be accomplished by mandating guest usage of the shuttle bus AND development of site modification ... to eliminate

¹³ See *Transportation – Frequently Asked Questions*, DISNEY, , <https://bit.ly/47SwGBU> (last visited Nov. 29, 2023). Non-hotel guests “have complimentary access to our network of monorails, buses, and boats” and describing “recommended routes that may be convenient for Guests who are not staying at a Disney Resort hotel,” including monorail and boat connections.

pedestrian activity altogether.” (emphasis added) Exhibit 21, Eliminate SOG Pedestrian Access, at 6.

At least initially, the RCID’s concern was for the safety of pedestrian traffic as the roadway was expanded from two to four lanes. The RCID’s position was that the location would need to be signalized for pedestrian traffic by adding a traffic signal where none existed at the time. RCID would only accept an unsignalized intersection at Shades of Green “if there is either extensive fencing or a grade-separated pedestrian crossing to accommodate any pedestrians” crossing at the location. The RCID also believed that, regardless of pedestrian traffic at the location, future signalization may still be required to accommodate bus traffic and other larger vehicle movements. At this point, the RCID relied on Disney to provide a traffic study supporting the future direction of vehicle and pedestrian traffic at this location. *Id.*

As the project evolved, the RCID did not conduct a dedicated pedestrian study at the Shades of Green location but did obtain data from another traffic study indicating that a peak of 30 pedestrian platoons/groups per hour (consisting of 2-3 people each for a total of 55-75 individuals per hour) were crossing between Shades of Green and the Polynesian Village Resort. Exhibit 22, Email Chain re Pedestrian Access at SOG. In internal communications, the RCID considered three options for the project: “Signal with at grade crosswalk ... - *Disney doesn’t want*,” “RCID to build a pedestrian bridge ... - *Disney really doesn’t want*”; and “All pedestrian access from Shades of Green is eliminated – *Disney likes but I have been told Shades does not want*.” *Id.* at2.

Ultimately, the RCID acceded to Disney’s wishes. In July 2022, Disney confirmed to the RCID “that the Ped[estrian] access situation across from S[hades] o[f] G[reen] is to be completely omitted.” *Id.*

In this circumstance, it is difficult to believe that Shades of Green’s and the veterans’ interest in pedestrian traffic to and from the resort was given equal consideration alongside Disney’s preference for ending that pedestrian traffic, particularly because the RCID employees involved in the decisions about this public roadway project were receiving Complimentary Ticket annual passes, substantial Disney discounts, and other perks reserved for Disney “cast members.”

Yet as a government entity, the RCID was obligated to serve Shades of Green and Disney on equal footing and with complete neutrality. This is one example of how Disney’s capture of the RCID appears to have affected the neutrality of the RCID’s governmental decision-making and, at the very least, created the appearance of impropriety and unfairness.

h. Other Indications of RCID’s Favoritism Toward Disney

The RCID appears to have favored Disney’s interests in many other contexts.

When asked about a Disney-requested zoning change, one RCID employee responded: “Owned by Disney, as we always do, we will change land use to “Mixed Use” @ next planning board meeting.” Exhibit 23, Disney Land Use Changes Automatic Email.

On another occasion, an RCID employee speaking about a colleague wrote: “He is very worried about being subject to the whims of Disney. I replied, ‘What else is new?’” Exhibit 24, Whims of Disney Email at 2.

When considering land transfers for the World Drive Phase III project, an RCID employee suggested that the RCID would do what was in Disney’s best interest: “Disney is apparently kicking around options concerning how to do this best in their favor.” Exhibit 25, Disney Kicking Around Options Email.

When drafting a statement on forthcoming legislation, an RCID employee agreed to “run this by our friends,” referring to Disney. Exhibit 26, Run This By Our Friends Email.

When recommending what RCID-related stipulations should be included in forthcoming legislation, the RCID received and passed on as its own a recommendation from Disney’s main lobbyist, Adam Babington. Exhibit 27, Recommendation re New Charter 1; Exhibit 28, Recommendation re New Charter 2.

Disney employees frequently met or corresponded with RCID employees without the presence of other taxpayers or convening a public meeting. *See, e.g.*, Exhibit 29, Scott Justice Bi-Weekly Mtg. Email.

Disney employees were given advance notice of the agenda for Board of Supervisors meetings, were asked to suggest topics for the agenda, and received a distribution of approved minutes alongside RCID employees—but not representatives of other District taxpayers. *See, e.g.*, Exhibit 30, BOS Agenda Review.

Disney employees shared “internal use only” resources with RCID employees. Exhibit 31, Circulating Entertainment Intel Report.

When the future of the RCID was uncertain during 2022, RCID executives worked with Disney to create an incentive program for RCID employees to remain at the RCID. Exhibit 32, Incentive Program; Exhibit 33, Incentive Program 2.

2. Improper Spending Controls

The RCID flagrantly spent tax money under its control on employee perks—not only Disney tickets and discounts, but RCID parties, service awards, and executive benefits.

In addition to the significant expenses on employee perks related to Disney products and services already described, *supra* section I, RCID also spent significant amounts of taxpayer money on employee perks like holiday parties, social gatherings, retirement parties, and gifts for RCID years-of-service milestones.

a. Spending on Parties and Social Events

RCID spent hundreds of thousands of dollars on parties and special events for RCID employees, expenses paid for by public money RCID collected from taxpayers within the District—not just Disney.

RCID spent tens of thousands of dollars annually on parties and special events for employees.

RCID hosted a holiday party each year for executives and members of the Board of Supervisors. In 2022, the executive Holiday Party cost more than \$27,000 and was hosted at the Walt Disney World Swan & Dolphin Reserve hotel property. Exhibit 34, Swan Reserve Party Planning. Just 60 people attended the party, which featured “butler passed teasers in the foyer” and a “plated dinner” of “filet and shrimp,” at a cost of \$220 per guest entrée and \$80 in liquor costs per person. Exhibit 35, Swan Reserve Party Contract. Board members and executives also received gifts at this event—Disney statues that retail between \$400 to \$600 each. Exhibit 36, Figurine Receipt. This cost was in line with previous executive holiday parties. Exhibit 37, Receipt 2016 BOS Holiday Party; Exhibit 38, Invoice 2015 BOS Holiday Party.

During the same 2022 holiday season, RCID also hosted a 55th anniversary party celebrating the District. RCID budgeted more than \$84,000 for this event, including \$67,000 on food and beverages for 450 people, \$3,300 on a DJ and photobooth, \$5,800 on audio-visual equipment, and \$2,700 on vehicle parking. Exhibit 39, RCID Anniversary Party. RCID had hosted a similar 50th anniversary party just five years earlier.

RCID provided a budget for employee retirements, which was supposed to be based on an employee’s years of service, with a cap of \$1,500. But retirement parties regularly exceeded this cost and were allowed to do so with the approval of the District Administrator. One employee’s 2022 retirement party was hosted at Disney’s Yacht Club Resort at an expense to RCID of \$14,800. Exhibit 40, Retirement Party Cost. The event featured an hors d’oeuvres selection, a dessert bar, and a premium beer and wine package. Exhibit 41, Retirement Party Details. The guest list included 80 individuals, 25 of whom were Disney employees. Exhibit 42, Retirement Party Invite List.

When a long-time RCID employee passed away unexpectedly (also in 2022), RCID understandably and laudably facilitated a public remembrance event for RCID employees. The event, however, cost more than \$33,600, and was hosted at the Disney Coronado Springs resort. Exhibit 43, Celebration of Life Invoice.

RCID also provided an “employee engagement” budget to be spent on employee events. In 2020, this budget was \$50,000, which included a \$20,000 allotment for a “Spring Fling” bowling tournament and \$18,000 on a holiday party. *See, e.g.*, Exhibit 44, Employee Engagement Budgeting Email; Exhibit 45, RCID Employee Holiday Party Email. Some years, line items also included ice cream socials, food trucks, massage events, and other employee perks.

RCID celebrated other milestones with employee events, too. RCID spent \$3,500 on a party to celebrate the 1-year anniversary of the “D-Tour” event (a tour of the District that RCID provided to new employees and certain guests), and then spent \$3,000 on a party to celebrate the 5-year D-Tour anniversary. Exhibit 46, D-Tour Anniversary Planning Email; Exhibit 47, D-Tour Anniversary Planning 2.

b. Extensive Charges to District Administrator’s American Express Card

RCID provided American Express credit cards to employees (managers or above and administrative assistants) for charging District expenses. Jennings Report, Exhibit 2-B at ¶ 9.

During a 15-month period from September 5, 2021 until December 31, 2022, former District Administrator John Classe charged approximately \$166,000 in expenses to his District American Express card. Approximately \$100,000 of those charges related to the parties and celebrations already described, including staff retirement and RCID holiday parties. *Id.* ¶19. Mr. Classe spent approximately \$23,000 on entertainment and golf; \$16,000 on memberships; and \$6,000 on food and beverages. *Id.*

c. RCID Years of Service Awards

In addition to giving employees Disney years-of-service awards, RCID also commissioned its own years-of-service awards, which were cast for RCID from precious metals and gemstones.

The Disney years-of-service awards that RCID gave its employees have already been described, *supra* V.G.1.e, including tackettes and rings featuring gold and gems. In addition to these gifts, which RCID purchased from Disney, RCID also commissioned its own years-of-service gifts for RCID employees. These took the form of custom “tackettes”—pins that could be affixed to a lapel or RCID nametag. They were made of 10k white or yellow gold with the addition of gemstones (blue sapphires, rubies, diamonds, and cubic zirconia). For these awards, RCID commissioned the creation of custom molds for casting the tackettes. Individual tackettes ranged in cost from \$115.60 for a 5-year service award to \$296.60 for a 35-year service award using genuine gemstones. Exhibit 48, Tackette Price Spreadsheet; *see also* Exhibit 49, 2020 Tackette Spending. In 2022, RCID purchased two rings at a cost of \$931.19 each. Exhibit 50, Two Rings Invoice. When projecting expenses for 2023, RCID budgeted \$37,000 for “gold” and “real gems” for retiree gifts. Exhibit 51, Budgeting for Tackettes.

In lieu of a ring or tackette, RCID employees could instead choose a gift item from a database. These items regularly cost \$300 or more. For example, a pair of diamond earrings for \$343.33 or a Bushnell spotting scope.

d. Executive Benefits

RCID’s four executives received executive health benefits from the Mayo Clinic. The program offered “high quality comprehensive medical evaluations catered to business executives” as a “supplement, not replacement, of your current health care management plan.” Exhibit 52, Executive Health Benefits 1. Under the program, RCID executives were entitled to a comprehensive health screening every other year. Exhibit 53, Executive Health Benefits 2. The cost for three executives to use the service in 2022 was \$31,416.63. Exhibit 54, Executive Health Benefits 3.

RCID executives also received personal excess liability insurance through Disney’s group plan. Exhibit 55, Excess Liability Insurance.

3. Poor Management

RCID elected not to treat many employee fringe benefits as taxable benefits, contrary to IRS requirements. RCID used District resources to manage the Cities of Bay Lake and Lake Buena Vista, which are composed solely of Disney property. Additionally, RCID employees tended to

have long tenure and no prior government experience. The organization was plagued by sloppy recordkeeping and a lack of formal policies to instruct employees. RCID's entanglement with Disney made it difficult for RCID employees to know where RCID responsibilities ended and Disney responsibilities began.

a. Improper Accounting Decisions

RCID did not collect taxes from or pay taxes on behalf of employees for the Complimentary Tickets, which were a valuable and taxable fringe benefit.

The Complimentary Tickets were a valuable fringe benefit that RCID provided its employees, and this benefit should have been treated as taxable income to employees per IRS publications. For example, an unmarried, salaried employee in 2019 would have received four Silver level Complimentary Tickets for which RCID paid \$725 each, for a total cost of \$2,900. RCID should have treated that \$2,900 fringe benefit as part of the employee's taxable income and either withheld taxes from the employee's paychecks based on that value or paid such taxes on the employee's behalf. Instead, RCID chose neither option and elected not to treat the Complimentary Tickets as a taxable fringe benefit.

Two RCID executives brought the taxability of these benefits to the attention of District Administrator John Classe in December 2018. Jennings Report, Exhibit 2-B, ¶31. The District Administrator, however, chose not to treat the Complimentary Tickets as a taxable fringe benefit because, in his view, the tickets were part of "employee training." *Id.*

Following the 2023 legislative reforms, the District retained accounting firm Cherry Bekaert to evaluate and, if necessary, assist the District in correcting the potentially improper tax treatment of the Complimentary Tickets and Disney discounts. Upon its investigation of the issue, Cherry Bekaert has advised that the prior tax treatment was improper and that the matter must be corrected with the IRS. The District's previous belief that these tickets were relevant to "employee training" was improper because, among other reasons, RCID employees received the tickets regardless of their job duties and for the use of their friends and family. Therefore, the RCID's choice not to treat the Complimentary Tickets as a taxable benefit was incorrect. The District is in the process of seeking a voluntary closing agreement to resolve this issue directly with the IRS. Exhibit 56, November 28, 2023 Tax Letter.

b. Using District Resources to Manage Cities of Bay Lake and Buena Vista

Some RCID employees also performed work for the Cities of Bay Lake and Buena Vista, which are composed solely of Disney property. These employees were not paid by the Cities, and in this way, the District subsidized the Cities' activities, to Disney's benefit. In 2022, RCID signed a contract agreeing to provide administrative services to the Cities free of charge for 40 years.

Some RCID employees, including the District Administrator and Director of Finance, performed "dual-hat" functions by working for the City of Bay Lake and/or the City of Buena Vista in addition to their District work. The Cities did not, however, pay District employees for their services. As a result, the District and its taxpayers subsidized the Cities by providing administrative services to the Cities free of charge.

Disney relied on the District’s free administrative services to accomplish important tasks through the Cities for Disney’s benefit. Disney uses the Cities to provide on- and off-duty police support to its properties, including theme parks. The Cities contract with the County of Orange for the services of Orange County police officers, who patrol the property within the Cities (which exclusively belongs to Disney), up to and including the theme park entrances, where officers can be seen overseeing and assisting with security checks.

The Cities—staffed by District employees—work with the County of Orange to manage these contracts, under which the Cities pay millions of dollars annually for Disney’s police support and protection. District employees provide the administrative services the Cities require free of charge, and this benefits Disney.

On July 18, 2022, while legislative reforms of the District were being considered by the Florida Legislature, RCID entered a 40-year Interlocal Agreement with the Cities that required the District to provide extensive professional and administrative services to the Cities at no cost. Jennings Report, Exhibit 2-B, at pages 46-47, 49-50. RCID did not disclose the services provided at no cost to the Cities or the terms of the interlocal agreement in the 2022 annual financial statement. *Id.*

In September 2023, the Cities hired a single individual as an outside contractor to serve as city manager to both of the Cities. Doing so, however, violates Article II, Section 5(a) of the Florida Constitution, which provides (in relevant part) that, “No person shall hold at the same time more than one office under the government of the state and the counties and municipalities therein.” *See also* Opinions of the Florida Attorney General, No. AGO 86-11, available at <https://bit.ly/3R4z9m9>, & No. AGO 2006-27, available at <https://bit.ly/3Rm26tZ>.

In October 2023, the CFTOD exercised its right to terminate the 40-year Interlocal Agreement between the Cities and the District.

c. Sloppy Contract Recordkeeping

RCID’s contracting department lacked the sophistication and professionalism that would be expected of a government entity of RCID’s size. As a result, contracts could be lost or forgotten or signed without being properly reviewed and approved. More generally, RCID employees tended not to have prior government experience, and because of long-tenured employees, many RCID functions were not formalized and were difficult for new employees to learn or replicate.

RCID’s contracting department did not have a contract management system, as would be expected in a government agency of RCID’s scale. A contract management system allows employees to track a contract from the early stages of formation and drafting, through the required approvals, to an executed document, with accountability and record-keeping for changes and decisions made during the process. RCID used only a document management system which allowed finalized documents to be filed and retrieved based on a document number.

As a result of this sloppy recordkeeping, RCID had no way of ensuring that every contract to which it was a party was known, saved, and retrievable by employees. The head of the contracting department could not be sure how many RCID contracts were active at any given time. Individual contracts were sometimes lost or forgotten. RCID employees could not always locate

contracts when their work required them to do so. This also made it possible for RCID to enter contracts without going through the proper quality controls and procedures.

On numerous occasions, the contracting department received fully executed contracts without having been previously informed that the contracts were under consideration, let alone ready for approval. This was true of a series of contracts that RCID entered with Disney in the last days before the Florida legislature reconstituted RCID as CFTOD. The Development Agreement, Restrictive Covenants, World Drive Phase III Reimbursement Agreement, and the Reedy Creek Energy Services Labor Services Agreement were all contracts originated, drafted, and executed without the participation of RCID's contracting department.

The contracting department received these contracts only once they had been completed—a gross violation of quality controls and best practices that would be expected at a government agency. The contracting department sometimes received contracts entered only after work had been begun or completed, which created concerns about insurance coverage and exposed RCID to potential liability or contracting disadvantages if a contractor encountered problems on a project for which no contract had yet been executed.

RCID's sloppy contractual recordkeeping was likely related to the long tenure and lack of government experience that was typical at RCID. Many RCID employees worked at RCID for twenty years or more. This long tenure sometimes meant that individual employees knew how to perform their jobs but could not easily communicate their responsibilities to others or pass on those responsibilities so they could be replicated. When long-tenured RCID employees retired, it was difficult to train new employees to replace them because there were no formal processes and procedures on which to instruct new employees. RCID was aware of this problem and had been making a greater effort in recent years to regularize workstreams and create policies and procedures where there had been none.

Additionally, RCID did not prioritize prior government service in hiring. RCID employees were unlikely to have prior government experience and more likely to have come from prior Disney roles or the private sector. RCID's human resources department did not consider prior government experience to be a prerequisite (whether mandatory or merely encouraged) for hiring. This contributed to a lack of familiarity by many employees with the formality, neutrality, and accountability demanded in the public sector. These employees were not familiar with the best practices of government entities, and this likely contributed to the entanglement of RCID and Disney. Additionally, RCID had no internal legal counsel or department of legal compliance.

It is possible that the effect of RCID's sloppy recordkeeping and lax policies affected the budgeting process for the World Drive Phase III project already described. For that project, the RCID Board of Supervisors initially approved a budget of \$101 million. In early 2023 (just before the transition to CFTOD), the Board of Supervisors approved a revised budget of \$176 million, representing a 75-percent increase from the initial budget. Exhibit 57, World Drive Phase III Cost Increase.

For comparison, a best practice among engineers is to produce budget estimates +/- 15 percent of actual costs. The 75-percent increase in the World Drive Phase III budget was likely affected by a variety of factors including supply chain problems in the years following the

pandemic and Disney's position that the project would require relocating four holes of a Disney golf course rather than only three as initially budgeted. Yet even accounting for these factors, the 75-percent increase is extraordinary. An error of this magnitude suggests that RCID's initial budget estimates were inadequate. This may have been the product of lax policies and recordkeeping at RCID, which allowed a project to reach advanced stages of planning based on a grossly underestimated budget.

Other problems with RCID's procurement and contracting procedures are detailed in the Jennings Report, Exhibit 2-B, pages 29-41.

d. Entanglement Between RCID and Disney

It was often difficult for RCID to know where RCID's responsibilities ended and Disney's responsibilities began.

RCID could not always distinguish the boundaries of its authority from Disney's authority. For example, as part of an effort "to make sure that there is separation between [RCID's and Disney's] operations" as a result of the Florida legislature's actions to dissolve RCID in 2022, RCID employees realized that RCID had been maintaining the landscaping at an interchange that should have been Disney's responsibility. Exhibit 58, Landscape Maintenance.

Separately, RCID employees needed to rely on Disney for certain locksmith services for RCID's own locks, and beginning in 2022, RCID began planning to take back control over the locks to its own facilities. Exhibit 59, Keys and Cores; Exhibit 60, Flamingo Crossing Keys & Cores; Exhibit 61, Disney Installing Key Cores; Exhibit 62, Compatible with Disney Key System; Exhibit 63, Disney Key Correspondence. At times, vendors issued invoices to Walt Disney World when they should have been addressed to RCID. Exhibit 64, Vendor Issued Invoice to Disney.

Sometimes Disney used company resources to conduct District business. For example, Disney appears to have coordinated and confirmed agreements between BP Energy Company and RCID using an email address RCID.Broker@disney.com. Exhibit 65, BP Energy Agreement Through Disney. Disney also arranged commodity swap transactions between RCID and JPMorgan Chase Bank. Exhibit 66, JP Morgan Agreement Through Disney. On at least one occasion, Disney arranged for the RCID's public notice in the Orlando Sentinel. Exhibit 67, Public Notice by Disney.

Disney exerted undue influence over the RCID's operations. For example, other District taxpayers were aware that, if they chose to use vendors not approved by Disney when engaged in construction or development projects, they could expect the RCID to delay their permits by one quarter. This would result in significant delay and expense, and therefore coerced other District taxpayers to prefer Disney-approved vendors.

The RCID-Disney entanglement is most apparent in relation to Reedy Creek Energy Services (RCES). RCES is a subsidiary of Disney, and its employees are Disney employees. Their work, however, is performed for the RCID pursuant to a labor services agreement which was renewed on an annual basis up until February 2023 (when the agreement was extended to a ten-year contract with up to two 10-year extensions). For a more detailed case study on RCES and the extended labor services agreement, see Exhibit 68, Reedy Creek Energy Services.

Historically, the electric, natural gas, water, chilled water, and hot water utility systems in the RCID were owned by Disney. In 2003, RCID purchased these assets in a bond-financed transaction at a cost of nearly \$70 million. There is no record of RCID performing any due diligence in relation to this transaction, which is highly irregular for an expense of this kind and which deprived District taxpayers of transparency and accountability for the utility purchase.

RCID owns a variety of utilities that serve the District, and it contracts with RCES to maintain and operate those utilities pursuant to the labor services agreements. Some RCID employees—including at least one who worked closely with RCES—did not understand that RCES was a Disney-owned company. Employees thought that the “RCID/RCES/Disney relationship is a little complicated.” Exhibit 69, RCID and RCES Relationship Complicated; Exhibit 70, RCID and RCES Confusing.

On other occasions, RCID employees struggled to gain the access they needed to RCID-owned equipment on Disney property (for example, needing to photograph RCID equipment located on Disney’s backlot, where photography is not allowed). Some aspects of the RCID/RCES relationship were impossible to untangle after the fact—for example, determining which entity had provided fuel for certain vehicles. During the transition from RCID to CFTOD, employees discussed the need “to get more separation between RCID & Disney,” including in relation to RCES. Exhibit 69, RCID and RCES Relationship Complicated.

On another occasion, an RCID employee described his job description as being “responsible for maintaining all of the RCES buildings,” even though RCES is a Disney subsidiary. Exhibit 8, Email re Annual Passes. This employee described that “RCES Disney employees are creating and managing the budget for RCID buildings that we [RCID] are maintaining.” Exhibit 71, RCES Budget. These comments illustrate the tangled and confusing relationship between RCID and RCES.

e. Minority and Women Owned Business Enterprises

In 2022, RCID began developing a “Minority and Women Owned Business Enterprises” contracting preference. Exhibit 72, Timeline for MWBE Program. The program specified quotas of minority- and women-owned businesses that RCID expected its contractors to hire during an RCID project. Some RCID employees advocated for and obtained provisions in some contracts that permitted RCID to withhold payment if a contractor failed to meet the quota of minority- and women-owned businesses. Exhibit 73, Contract Quota Consequences.

RCID employees were aware that the MWBE preferences they were demanding in contracts would increase the RCID’s costs, particularly if the contracts (or bid requests for contracts) did not include a “good faith” provision (requiring that a contractor make a “good faith” effort to meet the MWBE quotas rather than guaranteeing them). Exhibit 74, Higher Electrician Rates; Exhibit 75, MWBE Trucking Rates. RCID employees acknowledged that the increased costs could be “in the magnitude of Millions.” Exhibit 76, Magnitude of Millions; Exhibit 77, Considerable Premium of Costs.

RCID also understood that programs of this kind can be difficult and burdensome to manage, and RCID likely lacked the staffing resources that would be required to do so.

Nonetheless, RCID continued pursuing the MWBE program until it was discontinued after the CFTOD transition.

f. Deferral of Road Maintenance Projects

The RCID deferred road maintenance projects during the period from 2018 until 2022, which has resulted in increased future road maintenance costs as a result of inflation and other factors. The underfunding of road maintenance has increased the unrestricted balance of the general fund by a cumulative amount of \$18 million as of September 30, 2022. Exhibit 2-B, Jennings Report, ¶¶ 77–78. Because the District uses the modified accounting approach for District assets, including roads, bridges, and water control structures, the District is obligated to maintain these assets in reasonable condition consistent with how the assets were constructed. This requires appropriate annual maintenance. *Id.* ¶ 88. Failing to maintain these assets at an appropriate level could require the District to change its accounting approach and negatively affect future bond ratings and interest rates on future bond offerings. *Id.* ¶ 89.

g. Using Public Resources for Disney’s Private Purposes

The District constructed three parking garages for the Disney-owned Disney Springs development, at a cost of approximately \$700 million. These garages benefitted only Disney and the tenants on Disney property, yet the RCID financed them through its public resources. This is an example of how Disney used the RCID as its private government to accomplish its own purposes at the expense of public. Other District taxpayers recognize the unfairness of paying tax dollars to the District, only to see the money spent on projects that benefit Disney exclusively.

4. Accounting and Financial Transactions: Report of William Jennings

The forensic accounting investigation conducted by expert William Jennings provides additional details about RCID’s past financial practices. Mr. Jennings’s report is appended as Exhibit 2-B.

VI. New Act

A. Powers and Authorities

On February 27, 2023, the Florida Legislature passed House Bill 9B (“New Act or New Charter”) to amend, replace, and supersede the RCID with the CFTOD. The New Act ratifies and confirms the continued existence of the District under this new name and asserts the legislature’s intent to preserve the District’s authority to generate revenue and pay outstanding indebtedness as provided in its original charter and as such authority is preserved by Article XII, Sections 2 and 15 of the Florida Constitution.

1. Retained Powers

The New Act retains the District's necessary authority related to ad valorem taxation and the issuance of bonds. The New Act retains the District's authority to utilize the powers of a water control district under chapter 298, Florida Statutes, but removes certain Charter provisions that have been codified in general law. The New Act allows the District to continue to own and operate projects outside of its boundaries if those projects were constructed or under construction as of the effective date of the New Act. Thereafter, the District may construct projects outside of the boundaries of the District with the consent, approval, or certification of any regulatory agency, the state, or the governing body of any county, municipality, or other political subdivision in which the project is located.

2. Revisions to District Charter

The New Act also makes extensive revisions to the District's Charter, including:

- Replacing the landowner-elected board of the RCID with a five-member Board of Supervisors appointed by the Governor, subject to Senate confirmation, and providing that Board members must be Florida residents and for three years prior to the appointment neither the member or the member's relatives may have held certain positions or contractual relationships with a theme park or entertainment complex;
- Providing extensive reporting requirements for the District, including a periodic review of the District's powers;
- Retaining the District's power to adopt its own planning, zoning, building, and safety codes, while clarifying the application of general law to those codes and requiring any building and safety codes to be substantially similar or provide more stringent standards than the Florida Building Code and Florida Fire Prevention Code;
- Removing sections of the RCID charter that duplicate provisions of general law applicable to the District; and
- Revising the District's authority concerning public roads and other transportation infrastructure by:
 - Removing the District's ability to charge tolls;
 - Removing the District's exclusive authority to acquire, construct, and maintain public roads within the District; and
 - Removing the requirement that the District approve any location, design, and construction for access and connecting roads for State Road 530, State Road 525, and Interstate 4.
- Defining the District's spending authority by providing that the District may use up to the equivalent of five mills of ad valorem taxes to provide funding for public road projects, rail projects, and other regional transportation projects outside of the District's boundaries and providing that such projects must:

- be in Orange County or Osceola County;
- improve a street, road, highway, interstate, or rail system that abuts or crosses into or through the District;
- serve or benefit the property owners in the District as determined by the board; and
- be performed, operated, governed, managed, or appropriated by the state or its agencies, Orange County, or Osceola County.

3. Removed Powers

The New Act eliminates other powers granted to the RCID in the Old Act by removing the District's ability to:

- Exercise eminent domain outside of the District's boundaries;
- Own and operate airport facilities;
- Own and operate certain types of recreational facilities, but retaining the authority to own and operate parks, playgrounds, campsites, and fishing facilities;
- Spend public funds to advertise businesses, facilities, and attractions within the District;
- Own and operate "novel and experimental" transportation facilities;
- Own and operate a nuclear fission power plant or other "novel and experimental" public utilities;
- Amend its own boundaries without a special act;
- Choose to not conduct public meetings when taking certain actions; and
- Adopt an alternative fiscal year.

The New Act removes from the RCID charter the provision stating that the charter of the District controls in the event of any conflict between the charter and general law.

The New Act removes the District's blanket exemption from state land use regulation, zoning, building, and safety codes. Instead, the District is authorized to continue adopting its own building and safety codes, exclusive of the Florida Building Code and Florida Fire Prevention Code, as long as the District's codes are substantially similar to or provide more stringent standards than those codes.

The New Act requires the District to:

- Provide notice of any public meeting at least 10 days in advance of the meeting, instead of seven days as required by general law;
- Conduct public meetings on a monthly basis;
- Publish any adopted or amended plans of reclamation within 30 days of adoption;
- Receive permission from the state or federal government, as applicable, before constructing any project in rights-of-way owned by those governments;
- Conduct a comprehensive review and evaluation of its comprehensive plan, zoning regulations, land development regulations, environmental protection regulations,

building and safety codes and regulations, platting and subdivision regulations, and fire prevention regulations by July 1, 2026;

- Follow the procedures that apply to other local governments when issuing bonds; and
- Engage in competitive bidding for construction projects not performed by the District staff.

4. Finance and Taxation

The New Act retains provisions of the RCID charter related to the District's authority to levy ad valorem and other taxes, but clarifies that ad valorem taxes levied by the District must be used for the benefit of property owners in the District. The New Act preserves the District's authority to issue bonds, while requiring those issuances to follow the procedures set forth in general law for the issuance of debt by special districts. The New Act maintains the tax-exempt status of the District's property and bonds issued by the District.

B. Government Structure – Board and Employees

The New Act replaces the RCID Board members with a new five-member Board of Supervisors who are appointed by the Governor and subject to Senate confirmation. The Board of Supervisors is the governing body of the District and has controlling authority over the District. Board members serve a four-year term, except that two of the initial appointees serve two-year terms thereby creating staggered terms. Board members may serve no more than three consecutive terms and must be Florida residents. Consideration must be given to appointing members with experience in a broad range of fields including, without limitation, accounting, business management, construction, cybersecurity or data privacy, engineering, environmental sciences, financial management, infrastructure management, land use, permitting, public administration, public safety, transportation, and utility operations and management.

The New Act prohibits a person from serving on the Board if the person, or his or her relative, has within the past three years been an officer, owner, director, employee, agent, contractor, or subcontractor of, or had a contractual relationship with:

- A business entity that owns or operates a theme park or entertainment complex as defined in section 509.013(9), Florida Statutes; or
- A parent company, subsidiary, or sibling organization under common ownership or control with a business entity that owns or operates a theme park or entertainment complex.

If a board member becomes ineligible during the member's tenure of office, that board member's seat is declared vacant and the Governor must file an executive order pursuant to section 114.01, Florida Statutes, to appoint a replacement to serve the remainder of the term. The New Act eliminates compensation for board members and requires any reimbursement for per diem and travel expenses for attending meetings or performing official duties of the District to be subject to the limits provided in general law for other governmental officers and employees. The New Act requires the board to hire, subject to an affirmative vote of at least three members of the board, a clerk, District administrator, and general counsel, any of whom may be removed by the board at

any time and the board may contract with third parties to perform the functions of the clerk and general counsel.

C. Government Operations

The New Act largely preserves the District’s authority to provide governmental functions and operations as described, *supra* in Section IV.C. Some reorganization, however, has occurred—for example, Construction Management is no longer placed underneath the Facilities Department.

Also, the New Act authorizes the District to continue to do business as the Reedy Creek Improvement District for up to two years following the effective date of the Act to provide time to make necessary changes to legal and financial documents, physical assets, and other locations where the District’s name is used. All legal proceedings and financial arrangements of the District may be continued and completed under its new name and all valid legal and financial documents and agreements of the District continue to be binding.

D. Interlocal Agreements

No new interlocal agreements have yet been approved by the District under the New Act.

E. New Act Relationship Between Businesses, District, and Taxpayers

The New Act corrects the disproportionality of influence and benefits that Disney enjoyed under the Old Act.

Under the Old Act, Disney’s overwhelming acreage and business presence within the District dictated the election and actions of the Board of Supervisors. By contrast, the New Act introduces a new Board of Supervisors appointed and confirmed by elected officials, thus reducing Disney’s stronghold over the District’s governance and better reflecting the will of the citizens of Florida. The new Board of Supervisors brings broader representation because the Board members are five residents of Florida who have no relationship with Disney and will also consider non-Disney stakeholders’ interests while making fair, open, and balanced decisions.

The new Board of Supervisors has been vested with “superior authority” over the cities concerning planning, zoning, and land development. This new authority structure ensures that infrastructure and development decisions are made with a broader perspective, considering the needs and interests of all stakeholders within the District, not predominantly favoring Disney, as was the case under the Old Act. Additionally, the new Board of Supervisors adopted a transparent procurement policy, benefiting local business owners and enhancing Central Florida’s economy. The new governance structure ensures that no District decisions, including millage rates and other tax decisions, skew in favor of Disney.

The New Act establishes a balanced and fair operational framework that accommodates the interests and needs of both Disney and non-Disney business owners and taxpayers. The new governance structure ensures decisions are made with a broader approach, which fosters an equitable business environment for all stakeholders.

F. The New Act Promotes Positive Outcomes in Governance

1. Integrity

The New Act promotes the District's integrity by eliminating Disney's control over the Board of Supervisors.

The process for selecting members of the Boards of Supervisors promotes integrity by requiring the selection of appropriately qualified members willing to serve in the public interest, without conflicts of interest. *See supra* Section IV.B.

Further, the New Act eliminates compensation for board members and requires any reimbursement for per diem and travel expenses for attending meetings or performing official duties of the district to be subject to the limits provided in general law for other governmental officers and employees. The New Act requires the board to hire, subject to an affirmative vote of at least three members of the board, a clerk, district administrator, and general counsel. The board may remove these employees at any time and the board may contract with third parties to perform the functions of the clerk and general counsel.

The District and its public officers and employees are also subject to Part III of Chapter 112, Florida Statutes, known as the Code of Ethics for Public Officers and Employees. The Board of Supervisors may also enact and enforce an ethics code that is more stringent than general law. Additionally, the District is subject to and shall comply with Chapter 119, Florida Statutes (the Public Records Act), Chapter 189.015, Florida Statutes (Meetings; notice; required reports) and Chapter 286, Florida Statutes (the Sunshine Law).

2. Transparency

The New Act holds the District to the same or higher transparency standards that apply to other Florida local governments, including requiring annual financial disclosures and public meetings on a regular basis.

The New Act encourages transparency by requiring the District to file an annual financial report to the Department of Financial Services, as required of other local governments by Fla. Statute 218.32, and provide a copy of the filing to the Governor, the President of the Senate, and the Speaker of the House of Representatives. The New Act also requires, notwithstanding section 189.08(9), Florida Statutes, the District to submit a public-facilities report and an annual notice of any changes to the Governor, the President of the Senate, and the Speaker of the House of Representatives.

Further, within one year of the effective date of the bill, and every five years thereafter, the New Act requires the District's board to submit a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives that contains a review of all remaining powers and authorities of the District and makes recommendations concerning powers that could be repealed. The New Act also removes the District's exemption from budget and financial reporting requirements for special districts.

In an effort to hold the District to the same or higher standard as other local governmental agencies, the New Act requires the District to:

- Provide notice of any public meeting at least 10 days in advance of the meeting, instead of seven days as required by general law;
- Conduct public meetings on a monthly basis;
- Publish any adopted or amended plans of reclamation within 30 days of adoption;
- Receive permission from the state or federal government, as applicable, before constructing any project in rights-of-way owned by those governments;
- Conduct a comprehensive review and evaluation of its comprehensive plan, zoning regulations, land development regulations, environmental protection regulations, building and safety codes and regulations, platting and subdivision regulations, and fire prevention regulations by July 1, 2026;
- Follow the procedures that apply to other local governments when issuing bonds; and
- Engage in competitive bidding for construction projects not performed by district staff.

3. Strong Purpose

The New Act realigns the District with its public purpose to serve all businesses, taxpayers, and residents in the District, not simply to serve Disney's best interests as a private corporation.

The New Act reins in the privileges that Florida originally granted to Disney when the District was created. The New Act provides transparent, open, fair, accountable, and equitable governance for the District and benefits all of the businesses, taxpayers, and residents within the District and Central Florida. The Old Act contemplated that the RCID would be an asset to Central Florida and the State as a vehicle to further tourism, exceptional residential communities, economic growth and innovative concepts.

Instead, as a result of Disney's actions, the RCID became a privately controlled public entity that was serving only the private economic benefit of Disney. The Old Act allowed Disney to increase its corporate profits and enhance the expansion and operations of the Walt Disney World Resort at the expense of the public, surrounding communities, and the environment without mitigation. This far exceeded the powers and influence that the Old Act originally contemplated.

By contrast, the New Act realigns the District's focus by creating a more equitable environment for other businesses and taxpayers within the District, as opposed to serving Disney's best interests alone. The New Act provides a fair and balanced framework that accommodates both Disney and non-Disney entities.

4. Broad Functions

The New Act retains but enhances the District's broad mandate.

The New Act retains many of the fundamental functions, operations, and framework authorized under the Old Act but the New Act provides greater accountability, enhanced public

scrutiny, formal evaluation of the District, enhanced reporting requirements, and most importantly, a board appointed by, and responsible to, the public through the State's publicly elected officials.

5. Open Accountability

The New Act promotes open accountability by requiring the District to adhere to statewide standards.

The New Act provides that the District is subject to state agency permitting, regulation, and oversight in accordance with general law except to the extent specifically stated otherwise in the New Act, including, without limitation, the Florida Commission on Ethics, Department of Economic Opportunity, Department of Revenue, Department of Financial Services, Florida Fish and Wildlife Conservation Commission, and Department of Environmental Protection.

Also, the New Act furthers accountability by:

- Removing the District's ability to amend its own boundaries without a special act;
- Requiring reporting requirements for the District, including a periodic review of the District's powers; and
- Removing the District's ability to spend public funds to advertise businesses, facilities, and attractions within the district, and to levy tolls.

VII. Pending Litigation

A. Federal: *Walt Disney Parks & Resorts, U.S., Inc. v. CFTOD*

On April 26, 2023, while the CFTOD Board of Supervisors was hearing a presentation from its outside counsel about two of Disney's 11th-hour agreements with the RCID, Walt Disney Parks and Resorts U.S., Inc. was filing a complaint in the United States District Court for the Northern District of Florida against the members of the CFTOD Board of Supervisors in their official capacities and the CFTOD's then-District Administrator, John Classe. The complaint also named Governor Ron DeSantis and Florida Acting Secretary of the Florida Department of Economic Opportunity Meredith Ivey as defendants.

The complaint alleged 5 claims. Four of them arise out of the CFTOD's legislative declaration (declaring the Development Agreement and Restrictive Covenants void and unenforceable), which Disney alleged violated the U.S. Constitution's: (1) Contracts Clause (2) Takings Clause, (3) Due Process Clause; and (4) First Amendment's Free Speech Clause. Disney's claim (5) alleges that Senate Bill 4C and House Bill 9B (both of which affected the makeup of the RCID) were enacted to retaliate against Disney for its protected speech in violation of the First Amendment.

The case was initially assigned to Judge Mark Walker, but after Judge Walker recused himself, the case was reassigned to Judge Allen Winsor. Disney subsequently amended its

complaint to dismiss all but its fifth claim alleging that Senate Bill 4C and House Bill 9B retaliated against Disney for its protected speech in violation of the First Amendment. That claim is the only claim remaining in the case at this time.

All defendants have moved to dismiss Disney’s federal complaint. Briefing on those motions ended on November 9, 2023, and the court has scheduled a hearing for December 12, 2023 at 9:30am.

B. State Court: *CFTOD v. Walt Disney Parks & Resorts*

On May 1, 2023, the District sued Disney in the 9th Judicial Circuit Court for Orange County, Florida, seeking declaratory and injunctive relief related to the Development Agreement and the Restrictive Covenants (together, the “Agreements”).

The District’s complaint alleges nine counts, each of which is fatal to the Agreements and independently entitles the District to a declaratory judgment that the Agreements never had any legal effect—they are void *ab initio*—and an order enjoining Disney from enforcing them. The nine counts are:

- (1) failure to provide statutorily required notice of a public hearing to consider and adopt a development agreement in violation of section 163.3225, Florida Statutes;
- (2) *ultra vires* action by the RCID in violation of section 163.3223, Florida Statutes, which mandates that a local government have an existing ordinance in effect that establishes the procedures and process governing development agreements;
- (3) The RCID lacked the authority and jurisdiction to enter into the Development Agreement because the two municipalities within the District are not parties to the Agreement;
- (4) violation of Article VII, Section 12 of the Florida Constitution, which requires a vote prior to the RCID’s pledge of its ad valorem tax revenues to finance bonds mandated by the Development Agreement;
- (5) failures to comply with sections 166.041 and 163.321, Florida Statutes, which govern the adoption of comprehensive plans and land development regulations;
- (6) unlawful delegation of governmental authority to private entity;
- (7) violation of public policy;
- (8) unconscionability; and
- (9) lack of consideration.

Disney moved to dismiss or stay the District’s state court action. In its motion, Disney argued that enactment of SB 1604 mooted the District’s claims and the case should be dismissed. In the alternative, Disney argued that even if not moot, the state court case should be stayed

pending resolution of Disney’s federal court action. In its July 28, 2023, Order, the Court rejected all of Disney’s arguments and ordered Disney to answer the District’s complaint.

As ordered by the Court, Disney answered the District’s complaint, and also asserted several affirmative defenses and filed a multi-count counterclaim. The counterclaim seeks to enforce the Agreements and alleges several federal and state constitutional violations that, very generally, mirror the claims Disney originally asserted in its federal complaint. The District replied to Disney’s affirmative defenses and moved to dismiss Disney’s counterclaim.

The District has moved for summary judgment on five of the nine counts in its Complaint. Those counts reflect violations of Florida law by the former Disney-controlled RCID board for which there are also no material factual disputes. Summary judgment on any one of these counts would not only resolve the issue of whether the Agreements are void *ab initio* but would also defeat that the entirety of Disney’s counterclaim. A hearing on the pending motion for summary judgment is scheduled for March 12, 2024.

VIII. New Board Governance Policies and Other New Board Actions

A. Adopted Resolutions

Since the appointment of the new board members under the New Act, the Board has adopted ten Resolutions that create policies or regulations. The resolutions summarized below amended the Land Development Code and are effective in the Cities of the District. Among the other things, the resolutions prohibit COVID-19 restrictions and mandates, create lobbyist rules, create an enforcement citation program providing for a Special Magistrate, adopt the Florida Fire Prevention Code and create regulations concerning false alarms and enforcement, and establish policies for whistleblowers, fund balancing, conflicts of interest, procurement, and hurricane emergency management.

1. Resolution No. 639 – Relating to the District’s Comprehensive Zoning and Planning Authority

Pursuant to the New Act, the District has superior authority within the entire District, including within the jurisdictional limits of the City of Lake Buena Vista and the City of Bay Lake, for comprehensive planning, zoning, land development regulations, environmental protection regulations, and platting and subdivision regulations. The New Act gives the District the authority to review, process, and comment on applications for development orders and building permits within the entire District, with the option to approve, approve with conditions, or reject such applications.

Further, the New Act requires that the District exercise its authority to adopt, amend, and enforce a comprehensive plan in accordance with the Community Planning Act, ss. 163.3161-163.3253, Florida Statutes, and adopt and enforce zoning regulations, land development regulations, environmental protection regulations, building and safety codes and regulations, platting and subdivision regulations, and fire prevention regulations governing the entire district, including within the city limits of any municipality within the District.

It is essential that the District review and evaluate applications for development orders to ensure the enforcement of its regulations, which are superior to any adopted by the Cities.

On April 26, 2023, the CFTOD adopted Resolution No. 639, which amends Article 6, Chapter 6-90 and Article 7, Chapter 7-20 and Chapter 7-30 of the RCID Land Development Regulations. Resolution No. 639 adds a new Section 7-20.13, to reflect the District's superior authority to issue development orders within the District, as set out in the New Act and just described. Resolution No. 639 also makes the Board of Supervisors the District's planning agency, to perform the duties of the Planning Board under the RCID Land Development Regulations. Further, it amends the notice procedures for amending the RCID Land Development Regulations and establishes a process for proposed amendments to municipal land development regulations to ensure that municipal regulations do not conflict with District regulations and can only be more stringent than District regulations.

2. Resolution No. 640 – Prohibiting COVID-19 Restrictions and Business Mandates within the District

On April 26, 2023, the District adopted Resolution No. 640 which removes COVID-19 restrictions that harm society by depriving healthy persons the ability to participate in society, access goods, services, and amusements. Resolution No. 640 provides that a business entity shall not require patrons or customers to provide any documentation certifying COVID-19 vaccination or post-infection recovery.

Further, the policy disallows businesses from imposing a COVID-19 testing mandate to gain access to, enter, or service buildings and structures in the District, including within the incorporated areas of the District.

Additionally, Resolution No. 640 provides that no employee of the District shall be required to wear a facemask, a face shield, or any other facial covering that covers the mouth and nose as a condition of employment with the District. This provision does not apply to, nor is it meant to circumscribe, the use of safety equipment required as part of the occupational, safety, training, and educational requirements of firefighters, other emergency responders, personal protection for health care providers, or other District personnel.

Resolution No. 640 also regulates the COVID-19 policies of contractors doing business with the District. A contractor may not require any employee or subcontractor to provide documentation certifying a COVID-19 vaccination or post-infection recovery or impose a COVID-19 testing mandate. Further, a contractor may not refuse to hire or discharge a person or adversely affect his or her status as an employee, or otherwise discriminate against a person with respect to compensation, terms, conditions, or privileges of employment based on the knowledge or belief of a person's COVID-19 vaccination status. Resolution No. 640 also readopts prior COVID-19-related rules as previously adopted in Resolution No. 638.

3. Resolution No. 641 – Creating Lobbyist Rules and Regulations

On May 10, 2023, the District adopted Resolution No. 641 to create a uniform policy for monitoring and regulating the activities of lobbyists interacting with the District. Resolution No. 641 defines lobbyist and lobbying activities for purposes of such regulations. It requires all

lobbyists to register with the District by providing certain information before engaging in any lobbying activities and to re-register each year. It also prohibits lobbying concerning formal procurement matters during a blackout period until a final procurement decision is rendered.

This policy provides that it is the lobbyist's sole responsibility to comply with the District's resolutions, regulations, rules, codes, and ordinances. Resolution No. 641 authorizes investigations of violations of the lobbying regulations and prescribes penalties for violations.

4. Resolution No. 642 – Creating Enforcement Citation Program, a Special Magistrate Position and Appeal Procedures

On May 10, 2023, the District adopted Resolution No. 642 to create a code enforcement citation program, a special magistrate position and appeal procedures. The District has adopted rules and regulations related to numerous topics, including land development, property maintenance, building codes and safety regulations. Before the 2023 legislative reforms, the RCID lacked the code enforcement mechanisms that are typical of local governments. This meant that, for example, if RCID found fire safety violations at a Disney property, it could only note the violations, not impose fines or otherwise enforce RCID regulations. Resolution No. 642 provides the enforcement mechanism that the RCID previously lacked.

Resolution No. 642 creates four classes of violations with fines in the amounts of \$75, \$150, \$250, and \$500 respectively. Violations that continue for more than one day accrue fines each day that a violation persists. To administer these fines, the Resolution creates enforcement officers and a special magistrate similar to the practice of other Florida local governments pursuant to Chapter 162, Florida Statutes. The enforcement officers are empowered to issue citations to persons and property owners who are in violation of the District rules and regulations. The Resolution provides those cited with due process.

Upon being cited, the person or property owner may pay the fine and correct the violation or the person or property owner may elect to contest the citation before the Special Magistrate. The Special Magistrate (who must be a Florida licensed attorney) is given the power to adopt rules, subpoena, take testimony under oath, hear appeals of citations, and hear any other matters that the Board of Supervisors assigns. Decisions of the Special Magistrate can be appealed to the circuit court. Unpaid code enforcement fines become liens against the real property in which the violation exists and may be foreclosed pursuant to state law.

5. Resolution No. 643 – Adopting the Florida Fire Prevention Code and Creating Regulation concerning False Alarms and Enforcement Mechanisms

On May 10, 2023, the District adopted Resolution No. 643 to adopt the Florida Fire Prevention Code, regulate false alarms, and establish an enforcement mechanism for violations. The District must exercise its authority set forth in the Charter to adopt, amend, and enforce fire prevention regulations governing the entire District, including within the city limits of any municipality within the District. Section 23 of the Charter authorizes the Board to adopt and enforce fire prevention regulations that are at least equivalent to the minimum standards in the Fire Prevention Code.

a. Fire Prevention Code

Section 2 (a) of Resolution No. 643 adopts the Florida Fire Prevention Code as the District's fire prevention regulation pursuant to chapter 633, Florida Statutes, section 633.20, Florida Statutes, and chapter 69A-60 Florida Administrative Code, including as it may be amended. Resolution No. 643 further vests the fire marshal with the authority to establish policies, procedures, and permits to enforce the Code.

Section 2(b) of Resolution No. 643 provides for fire code enforcement. It sets forth fines and provides a broad range of enforcement powers, including revoking a certificate of occupancy. It allows appeals of violations.

b. False Alarms

Resolution No. 643 also regulates false alarms and encourages businesses to maintain the operability of alarms to limit unnecessary fire and emergency medical responses to false alarms and malfunctions.

Resolution No. 643 adopts comprehensive definitions and assigns responsibility for malfunctions. It requires those responsible, typically the owner, to respond to alarms. It requires signage to be placed of whom to contact should an alarm be activated. It requires alarms to operate for a limited time period when activated. Resolution No. 643 provides for an administrative fee for the cost of responding to false alarms. It provides for the fee to be assessed after three false alarms and defines excusable false alarms due to acts of God or natural events. It provides for disconnection and deactivation of alarms in certain circumstances. It allows for reconnection as appropriate. It provides for exceptions of certain systems and the ability to appeal.

6. Resolution No. 644 – Adopting Whistleblower Policy for District Employees

On June 21, 2023, the CFTOD approved Resolution No. 644, which adopted a whistleblower policy for the District. The policy provides guidance to employees and persons that have knowledge of unlawful activity, misfeasance, or malfeasance by the District, its employees, or its independent contractors so they may report such knowledge without fear of reprisal. The policy prohibits the District from taking adverse action against an employee or person who has disclosed information to an appropriate official under the policy. The policy does not replace the state whistleblower's act, and persons who wish to disclose information pursuant to the state act may do so in addition to or in lieu of the procedures in the District's policy.

The District's whistleblower policy prohibits adverse action against an employee or person who has disclosed information to an appropriate official under the policy. It requires employees to report good-faith concerns regarding any violation or suspected violation of any federal, state or local law, rule or regulation committed by an employee or agent of the District or an independent contractor that creates and presents a substantial and specific danger to the public's health, safety or welfare.

In addition, it requires employees to report in a signed, written complaint good-faith concerns regarding any act or suspected act of gross mismanagement, malfeasance, misfeasance,

gross waste of public funds, or gross neglect of duty committed by an employee or agent of the District or an independent contractor.

The District's whistleblower policy provides for prompt investigation of disclosures in a discreet manner. The policy provides for corrective action to be taken if warranted. Information regarding the investigation is to be kept confidential to the extent allowed by law. The District's whistleblower policy prohibits retaliation against any employee who, in good faith, files a complaint. The policy does not diminish the rights of the employee.

7. Resolution No. 645 – Adopting a Fund Balance Policy

The new Board sought the services of an independent financial advisor and hired Public Resources Advisory Group, Inc. (PRAG) for this purpose. PRAG confirmed that the District needed a fund balance policy, which is a financial best practice. PRAG's memorandum providing background supporting PRAG's fund balance policy recommendation is attached as Exhibit 4, pp. 1–3. On PRAG's advice, on July 26, 2023, the CFTOD passed Resolution No. 645 to create and adopt a Fund Balance Policy. Fund balance represents the cash reserves of the District's general fund.

The purpose of the Fund Balance Policy is to ensure that the District maintains adequate levels of fund balance in its general fund for several reasons:

- **Mitigating Risks:** The fund balance will serve as a buffer against risks such as revenue shortfalls, unexpected expenses, natural disasters, and unforeseen circumstances.
- **Tax Rate Stability:** Maintaining a sufficient fund balance helps stabilize tax rates for taxpayers within the District.
- **Financial Soundness:** The policy aims to establish sound financial management practices to achieve the highest possible credit ratings, thereby reducing the District's future borrowing costs.

Unassigned funds are those funds in the general reserves available for any legal purpose. The District's policy mandates that the unassigned fund balance in the general fund must be budgeted at a level equivalent to at least two months of budgeted general fund operating expenditures or as required by applicable law.

Committed funds are those funds that are expected to be used for future obligations such as capital improvements or reserved for property tax disputes. The policy requires the District to commit fund balance for specific purposes, including pay-go capital projects, maintenance of the drainage system, allowances for disputed ad valorem taxes, and litigation or professional services unrelated to regular operations.

Assigned funds are any funds allocated to be used in the current budget. The District will assign additional reserves for purposes such as future budget transfers and funding for emergencies, including infrastructure damage, natural disasters, or increased replacement costs.

When unforeseen circumstances make it necessary to use the fund balance to meet District needs and policy noncompliance will result, the District will establish a plan to replenish the fund balance within a reasonable time, which may include expenditure reductions, budget surpluses, transfers, or other measures.

8. Resolution No. 646 – Adopting a Conflict-of-Interest Policy

On July 26, 2023, the District adopted Resolution No. 646 to create and adopt a Conflicts of Interest Policy for the District. The policy addresses potential conflicts of interest that may arise between individual Board members related to their financial and personal interests and their duties to the District. The policy achieves its goals by regulating Board member conduct, restricting the acceptance of gifts, protecting District information, and establishing penalties for violations of the policy.

Generally, the policy emphasizes that Board members should avoid actions that could be perceived as using their public office for private gain, offering preferential treatment, impeding District efficiency, compromising independence or impartiality, making District decisions outside official channels, or damaging public confidence in the District's integrity.

Specifically, the following prohibitions apply:

- Board members are prohibited from accepting gifts, favors, or other items of value from individuals or entities seeking contractual or financial benefits from the District. Exceptions include certain family relationships and nominal-value gifts.
- Board Members are prohibited from using non-public information obtained through their positions for personal gain or sharing such information to benefit themselves or others.
- Board Members are prohibited from being employed by or having any interest in firms or corporations with contractual relationships with the District. Similarly, firms with Board Members as employees or interested parties cannot have contracts with the District.

The policy complements Part III of Chapter 112, Florida Statutes, which sets the code of ethics for public officers and employees in Florida. This code of ethics is applicable to all Board members as appointed public officers. In case of a conflict between the policy and state law, the more stringent rule applies, except for matters involving reports, filings, or disclosures, where state law takes precedence.

Violations of the policy are subject to penalties defined by state law. The District may censure or reprimand Board members who violate the policy. Contractors, suppliers, or vendors who violate the policy may be denied the right to bid on District projects, and contracts entered in violation of these policies are voidable.

9. Resolution No. 647 – Adopting a Procurement Policy

a. Background

On August 23, 2023, the District adopted Resolution No. 647 (taking effect on September 1, 2023) to create a District procurement policy. The policy ensures the District procures the best goods and services at reasonable prices in both a fair and transparent manner. The policy creates a uniform system of procedures for the District's procurement of goods and services. It balances stringent ethical standards, preferential treatments for local and veteran businesses, and swift emergency responses, ensuring optimal value for every dollar spent.

b. Overview of Procurement Procedures (Policy No: PRO-010)

The Procurement and Contracting Department purchases goods and services while following best practices for risk reduction and obtaining the maximum value for expenditures. Generally, a District employee must go through the Procurement and Contracting Department to procure goods or services and to enter into any contract. The District will neither be bound by any contract nor approve any expenditure made in violation of the policy.

c. Duties of Contracting Officer (Policy No: PRO-015)

The Contracting Officer, appointed by and reporting to the District Administrator, leads the Procurement and Contracting Department. The Contracting Officer must make procurement and contracting decisions in the best interest of the District. With few exceptions, the Contracting Officer has the final authority on contractual and procurement actions.

The Contracting Officer's wide range of duties encompasses the entire procurement life cycle. The primary duty is managing the District's procurement operations, which includes developing procurement and contracting policies. Other duties range from supervising the bid process, making award decisions, ensuring open competition, and maintaining vendor relations, to creating a suspended vendor list and ensuring compliance with laws, among many other responsibilities.

d. Approval of Expenditure and Signature Authority for Contracts (Policy No: PRO-020)

For all expenditures made either by a purchase order or by a contract, the Department Manager/Director, Procurement Manager, and Finance personnel must approve the expenditure prior to execution. Additionally, the District Administrator must review and approve any purchase order exceeding \$10,000 and any contract exceeding \$25,000.

For contracts or purchase orders up to \$500,000, the District Administrator is the authorized signatory. The Board of Supervisors must approve contracts or purchases exceeding \$500,000, after which the Board Chair or the District Administrator may execute the contract or purchase.

Regardless of the value of a contract or purchase order, amendments to previously approved contracts that do not significantly alter the terms or scope can be executed by the District Administrator without additional Board approval.

e. Competition Requirements (Policy No: PRO-030)

This section outlines the procurement method used depending on whether the District is purchasing supplies or services. Notably, the District gives preferences to local, veteran, and Opportunity Zone vendors for supply purchases under \$10,000 and service purchases under \$20,000.

Supply Purchase Requirements

****Local, Veteran, and Opportunity Zone Vendors Preferred**

Purchase Price	Method
<\$10,000	Discretionary use of competitive bidding**
\$10,000-\$50,000	Requires at least two formal written quotes—significant price difference between the two will require a third quote.
>\$50,000	Formal quoting process

Service Purchase Requirements

****Local, Veteran, and Opportunity Zone Vendors Preferred**

Purchase Price	Method
<\$20,000	Discretionary use of competitive bidding**
\$20,000-\$100,000	Requires at least two formal written quotes—significant price difference between the two will require a third quote.
>\$100,000	Formal quoting process

f. Source Selection (Policy No: PRO-040)

The District employs Requests for Proposals (RFP) or Letters of Interest (LOI) for professional services, software, and other purchases with multiple alternative solutions and approaches. RFPs and LOIs must state evaluation factors considered in vendor selection. An Evaluation Committee reviews technical aspects of proposals, scores, ranks, and makes award recommendations. Members of the Evaluation Committee must adhere to the District's conflicts of interest policy.

The District may hold discussions with firms that submit proposals/letters to promote understanding of the District's requirements and negotiate advantageous contracts. When direct negotiation with qualified suppliers is most practical, the District may use an Invitation to Negotiate (ITN).

Contracts for construction services over \$50,000 must be awarded by competitive sealed bids, with exceptions in urgent cases.

In evaluating bids, the District may accept or reject any bids and award bids to the lowest responsive bid from a responsible bidder. Determinations of bidder responsibility are based on competent substantial evidence of prior performance, qualifications, licenses, financial stability, integrity, and more. For continuing services, the District may establish a prequalification process to determine bidder responsibility and limit acceptance of bids to those prequalified bidders.

g. Emergency or Critical Purchases (Policy No: PRO-050)

In emergencies, adhering to standard procurement processes becomes impossible or highly impractical due to the pressing need for goods or services. The Emergency Procurement Procedure is followed if failure to obtain goods or services may disrupt essential District operations, necessitate the protection of public properties, pose immediate threats to public health or safety, or lead to significant District losses or missed business opportunities.

The Emergency Procurement Procedure allows the District Administrator to authorize purchases exceeding \$100,000 without following the formal solicitation requirements of this policy. The District's Contracting Officer may approve emergency purchases under \$100,000 without formal solicitation. In both cases, pricing should be obtained from at least two vendors unless such efforts further risk the District's or public's well-being.

Critical security-related purchases, such as those concerning security systems, networks, and alarms revealing District infrastructure details, are exempted from public bidding. All vendors supplying such security-related goods or services must sign non-disclosure agreements.

h. Purchases Exempt from Competition (Policy No: PRO-070)

Certain purchasing activities are exempt from the District's formal competitive solicitation requirements, but contractual agreements or purchase orders might still be necessary. Exemptions include agreements with non-profit organizations, the federal government, state or local entities; purchases received as gifts or through grants; utility services with regulated rates; goods or services procured through piggyback contracts; purchases from specific state and federal agencies; items exempt under Florida law; various financial services; supplies for resale; real estate transactions; security-related purchases; rental equipment for District infrastructure; instructor and trainer fees; food for District events; sponsorships; memberships; advertising; goods or services judged on their best value; legal services; proprietary software; employee benefits; artistic services; expert consulting; environmental services; and any goods or services granted a competitive procurement waiver by the Board of Supervisors.

Specific guidelines are set for "sole source" and "single source" procurement, outlining conditions for justification of sole or single source procurement. The policy permits "piggybacking" on pre-existing contracts of other government entities if those contracts were secured using a competitive process similar to the processes in this policy. Finally, the Board of Supervisors can waive formal procurement procedures if deemed beneficial for the District.

i. Payment Dispute Resolution Procedure (Policy No: PRO-080)

The policy adopts the Florida Prompt Payment Act procedure for payment disputes between the District and vendors. The dispute resolution procedure is a three-part process:

- A vendor files a written dispute within five business days of any payment disagreement.
- The Contracting Officer holds a meeting with the vendor to resolve the dispute within five business days of receiving the written dispute.
- The Contracting Officer renders a final decision within ten business days of receiving the written dispute.

If the District's payment decision stands, interest will accrue on unpaid uncontested amounts. If the decision favors the vendor, interest starts accruing from the original payment due date.

j. Suspension and Debarment Procurement Policy (Policy No: PRO-090)

The District's Contracting Officer is authorized to suspend or debar a vendor. At its core, debarment or suspension is a protective measure, not punitive. Suspended or debarred vendors cannot provide goods or services; however, upon application of the vendor, the Board may waive, stay, or lift such suspension or debarment.

There are numerous grounds for suspension or debarment, including but not limited to criminal offenses related to contracts, procurement fraud, antitrust violations, integrity, or honesty; breach of a material contract provision when providing goods or services to any public entity; vendor insolvency; or violation of District, state, or federal ethical standards and policies, such as PRO-145, Anti-Lobbying Policy.

Suspensions typically last between one to three years, contingent upon the severity of the debarment cause. The District may terminate any existing contracts with a suspended or debarred vendor, and Departments generally may not renew or extend those existing contracts.

k. Veterans Small Business and Buy Local Program (Policy No: PRO-100)

The Veterans Small Business and Buy Local Program provides enhanced opportunities for locally-owned or veteran-owned businesses within the Orange, Osceola, Lake, Polk, and Seminole County areas. It encourages the participation of local and veteran businesses in the District's procurement process and allows these businesses to compete on a level playing field. The program grants eligible businesses preference in competitive bids and point bonuses on qualitative submittals.

To receive a solicitation preference, the District's Veterans and Local Business program must certify the business as a genuine Local or Veteran Small Business. Once certified, businesses will be added to the District's vendor database without any limit on the number of businesses or the range of services/products they can offer. A business may lose its certification if it no longer meets the certification criteria, engages in fraudulent activities, or is found guilty of a felony. Eligible businesses that are not pre-certified may submit an Affidavit of Eligibility to participate in the program.

Execution of the program lies primarily with the Program Coordinator. The Program Coordinator's role is to support local and veteran businesses throughout the procurement process, boost awareness of the program within the District, explain the program requirements to contractors/vendors, and recommend methods to improve the program.

The Procurement and Contracting Department will increase awareness in and around the District by 1) organizing workshops for veteran and local businesses to familiarize them with the procurement process, 2) attending community events and trade fairs, 3) strengthening ties with veteran and local business leaders, 4) notifying eligible businesses of future bid opportunities, and 5) distributing a list of goods and services provided by eligible business to all District departments.

I. Qualified Opportunity Zone Bid Preference (Policy No: PRO-110)

Like the District's Veterans and Local Business program, the Qualified Opportunity Zone Bid Preference intends to enhance the economic welfare of the entire Central Florida area. The federal initiative, the Opportunity Zone Program, promotes economic growth and job generation in economically deprived areas. Every county in Florida has at least one identified Qualified Opportunity Zone. Out of 1,200 recommended Opportunity Zones, the Governor selected 427 based on population, poverty and unemployment rates, and other economic indicators.

This policy promotes bidding and contracting with businesses located within the designated Qualified Opportunity Zones in five counties: Orange, Osceola, Lake, Polk, and Seminole. The program benefits businesses located in Opportunity Zones by granting bid and tie-breaking preferences when awarding a solicitation.

m. Declaration of State of General Emergency (Policy No: PRO-120)

In both preparation for and recovery from major hurricanes and other natural disasters, expedited procurement of goods and services is essential. The Declaration of State of General Emergency Policy establishes an emergency procurement operations team to ensure the District's operations continue in an organized and timely manner. The policy directs department staff to report to an Emergency Operations Center from which emergency requisitions and other procurement processes will occur. The authority for requesting, approving, and processing emergency requisitions is less stringent than under normal circumstances. Following FEMA guidelines, the staff at the Emergency Operations Center is exempt from the bid/quote requirements of the District.

n. Ethics & Standards of Conduct (Policy No: PRO-140)

The Ethics and Standards of Conduct Policy outlines a set of rules to maintain integrity throughout the procurement cycle. When interacting with vendors, District representatives must not show or act on any biases. All formal communications with suppliers during the solicitation phase and up until an award decision will be managed by the Procurement and Contracting Department. District employees must uphold fairness and equity; they may not make any misrepresentations, accept any valuable gift, nor accept any hospitality offers.

o. Anti-Lobbying Policy (PRO-145)

Furthering the District's commitment to integrity is the Anti-Lobbying Policy. In all formal bids, professional procurements, informal solicitations, and requests for quotations, vendors/bidders may not lobby District personnel, officials, other bidders/proposers, and the District's Board of Supervisors. The policy ensures lobbying does not occur by controlling communication channels during all phases of solicitation. The District may disqualify vendors and bidders found in violation of this policy from not only the current solicitation process but also all solicitations for up to three years.

p. Procurement Protest Procedure (PRO-150)

The final section of the Procurement Policy standardizes the process for filing, processing, and resolving procurement-related protests. Aggrieved bidders or responders may submit a written protest to the District Administrator within five business days following the issuance of the notice of award recommendation. Payment of a bid protest fee is mandatory, but the fee is refunded if the protest is successful. In the event of a protest, the District Administrator will suspend the award unless emergency circumstances warrant an immediate award.

A review process then occurs, where the District Administrator, or a designated representative, oversees a meeting allowing presentations of evidence and arguments. The final decision may uphold, cancel, or revise the award recommendation or take other actions in alignment with the District's procurement authority.

Aggrieved bidders or responders have the right to appeal the District Administrator's decision, provided it pertains to a contract award that requires the approval of the Board of Supervisors. The District Clerk must receive appeals within three business days of the District Administrator's decision. The District Board of Supervisors will examine the case in a public meeting and ultimately vote on the resolution of the appeal. Their decision, including the reasons behind it, is deemed to be the District's final determination on the matter. Judicial proceedings are permissible but must be initiated within thirty days after the District's final decision on the procurement matter.

q. New Contracts Competitively Awarded

Since adopting the Procurement Policy, the District has competitively awarded approximately \$50 million in contracts. More than \$14 million of that number comes from vendors who are new to the District. More than \$9 million comes from local vendors. The new contracts represent a \$3.5 million savings to taxpayers as well.

r. Conclusion

With the adoption of the Procurement Policy, the District aims to create a structured and transparent system for its procurement activities. Offering locally-owned, veteran-owned, and Opportunity Zone businesses a competitive edge is a win-win for all stakeholders, contributing to Central Florida's overall economic growth and well-being. The conduct standards, ethical requirements, and anti-lobbying policy play a pivotal role in ensuring transparency, efficiency, and adherence to best practices in the District's procurement and contracting functions. With clearly defined roles and processes, the Procurement Policy adopted by Resolution No. 647 promotes fairness, minimizes risk, and guarantees value for the District and its stakeholders.

B. Other Board or Administrator Actions Regarding Governance & Operations

The new Board of Supervisors has undertaken other governance and operations actions, including retaining new general counsel, hiring a new District Administrator, reducing the District's millage rate, and retaining experts including an independent financial advisor (PRAG, *see supra* Section II), an environmental expert, a planning consultant, and a forensic accountant. The District under new leadership has also resolved a multi-year dispute with the District's fire fighters' union by entering a new contract.

1. Hired rate-setting utility expert.

The District's independent financial advisor, PRAG, recommended hiring a utility rate-setting expert to evaluate and advise the District regarding the utility rates the District is required to set. For this purpose, the District hired the national rate-setting utility expert Raftelis. The District is also continuing to review historical transactions between the District and Disney's wholly owned utility company RCES, *see* Exhibit 68, Reedy Creek Energy Services, including with the assistance of Raftelis' expertise. RCID does not appear to have conducted any due diligence on the nearly \$70 million purchase price for the Disney utilities, despite funding the purchase by issuing bonds. Because there are no existing records substantiating the fair market value of these assets or other details about the purchase and its purchase, open questions exist about the rationale, purchase price, and sale/lease decisions related to these transactions. PRAG's October 20, 2023 memorandum provides more information and is attached as Exhibit 4, pp. 4–7. On October 31, 2023, PRAG identified a list of documents needed for its investigation. PRAG's memorandum of that date is attached as Exhibit 4, pp. 8–9, and the District is obtaining the requested documents for PRAG's review. PRAG's investigation is ongoing.

The new Board and its new District Administrator have taken actions to increase transparency, accountability, community engagement, and fiscal responsibility. The District is working to establish equitable treatment of all businesses and taxpayers by rooting out favoritism and the potential for corruption, mitigating the adverse impacts of District actions on neighboring communities, and cooperating with surrounding local governments to improve the District. The District has met with multiple businesses and has requested from Disney information relating to the amount of real estate taxes that lessees and vendors reimburse to Disney. Disney has declined to provide the requested information.

2. Retained new general counsel

Since taking office on February 27, 2023, the new Board has worked to ensure that the District operates lawfully—like the local government that it is. Among the new Board’s first actions was to hire a replacement for RCID’s former general counsel. The District’s new general counsel are Daniel W. Langley and A. Kurt Ardaman of the law firm Fishback Dominick LLP, local to Central Florida. Mr. Langley and Mr. Ardaman are certified by the Florida Bar in City, County, and Local Government Law, and have extensive experience representing public and private clients in all aspects of local government law, land use and development, and eminent domain matters.

3. Retained legal counsel to evaluate Disney 11th-hour agreements and other prior board actions and pursue litigation if necessary

When the new Board discovered Disney’s efforts to use the prior, Disney-controlled board to tie the hands of future District boards for decades to come, the District immediately sought to evaluate the legality of RCID’s 11th-hour agreements with Disney—particularly the Development Agreement and the related Restrictive Covenants. Attempting to make sense of what it had inherited, at its March 29, 2023, meeting, the new Board retained outside special counsel (Cooper & Kirk, PLLC, and Lawson Huck Gonzalez, PLLC) to evaluate Disney’s 11th-hour agreements, as well as other board actions of the prior board, and to litigate the District’s interests if necessary. Because Disney controlled the RCID board for more than 50 years, the evaluation of other prior board actions continues.

Cooper & Kirk, PLLC is a Washington, D.C.-based litigation boutique known for its broad experience in commercial, regulatory, and constitutional disputes in both federal and state courts. Cooper & Kirk, PLLC frequently represents litigants in the Northern District of Florida, Eleventh Circuit Court of Appeals, and at the U.S. Supreme Court, as well as state courts.

Lawson Huck Gonzalez PLLC is Florida’s premier litigation and appellate law firm. Lawson Huck Gonzalez PLLC handles a wide range of civil litigation, including regular practice throughout the Florida state court system and before the Florida Supreme Court. The firm has extensive experience litigating complex business disputes, regulatory litigation, and government contracting procurement and disputes.

Independent review by Cooper & Kirk, PLLC and Lawson Huck Gonzalez PLLC established that the Development Agreement and Restrictive Covenants are entirely one-sided and violate Florida law so completely and incurably as to be deemed void *ab initio*. Special counsel presented the deficiencies in the Agreements to the Board on April 19, 2023. And, on April 26, 2023, the Board adopted extensive Legislative Findings that explain the host of procedural and substantive deficiencies in the Agreements and conclude that the Agreements are void *ab initio*. The Legislative Findings are attached as Exhibit 78.

After adopting the Legislative Findings, the Board authorized counsel to file suit in state court, in Orange County, Florida. The District is represented in that litigation by Lawson Huck Gonzalez PLLC, Cooper & Kirk, PLLC, and Nardella & Nardella, PLLC. As summarized in section VII.B, *supra*, the state lawsuit seeks a judicial determination that substantiates the District’s legislative declaration that the Agreements are void *ab initio* and that also enjoins Disney from attempting to enforce them. As summarized in section VII.A, *supra*, Disney separately filed

a lawsuit against the District in the U.S. District Court for the Northern District of Florida, and the District is represented by Cooper & Kirk, PLLC and Lawson Huck Gonzalez PLLC in defending against that action.

IX. Conclusion

As the foregoing analysis demonstrates, the governance of the District was in dire need of reform, and thus the Legislature was amply warranted in passing 2022 Florida Senate Bill 4C and 2023 Florida House Bill 9B. As a result of that legislation, the new District Administrator and the Board have undertaken a myriad of reforms, and the current governance structure is working well. Nevertheless, the Board reserves the right to make future recommendations as to additional structural changes that may be necessary to effectuate the complete reform of the District.