

Government of the District of Columbia
Office of the Chief Financial Officer



Jeff DeWitt
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: The Honorable Vincent C. Gray
Mayor, District of Columbia

The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeff DeWitt
Chief Financial Officer

DATE: November 13, 2014

SUBJECT: "District of Columbia Soccer Stadium Development Act of 2014"

REFERENCE: Bill 20-805

Findings

The purpose of a Tax Abatement Financial Analysis (TAFA) is to determine whether or not the recipient can be reasonably expected to meet its fiscal needs without the proposed abatement or exemption. The OCFO finds the abatements and exemptions in the proposed legislation are not necessary for DC United (the Team) to continue operating a Major League Soccer (MLS) franchise in the District.

According to data published in Forbes magazine, the value of DC United more than doubled from 2007 to 2012 despite experiencing annual operating losses¹. The same data show the value of other MLS teams which opened new stadiums during that time period more than tripled².

The financial decisions of sports team owners can be driven by several factors, including non-fiscal benefits (e.g., prestige or the thrill of competition), indirect benefits (e.g., strategic overlap with other business interests or tax advantages), and return on investment (ROI). For MLS teams a key factor in determining ROI is the long-term appreciation of the team's value. The OCFO determines that the abatements are not necessary for the owners of DC United because the abatements have little or no impact on the non-fiscal or indirect benefits, and the Team's value will continue to increase regardless of the abatements.

¹ Data from the OCFO's consultant and confirmed by the Team indicate that the team has operating losses of \$4 to \$5 million annually.

² For 2012 data see: <http://www.forbes.com/sites/chris-smith/2013/11/20/major-league-soccer-s-most-valuable-teams/> For 2007 data see: http://www.forbes.com/2008/09/09/mls-soccer-beckham-biz-sports-cz_kb_0909mlsvalues.html

Please refer to the OCFO’s separate Fiscal Impact Statement for the budget impact of the proposed legislation on the District’s FY 2015 through FY 2018 budget and financial plan.

Financial Analysis

The Exemptions and Abatements Information Requirements Act requires the analysis provided by the OCFO to contain certain information. The required information is below.

Terms of the Exemption or Abatement

The proposed legislation provides abatement or exemption of three types of tax.

1. **Sales Tax:** The sales tax abatement begins upon issuance of the stadium’s final certificate of occupancy and continues for 10 years. This abatement is expected to begin in 2017 and continue through 2026. The abatement is structured to provide 100% relief for the first five years and 50% relief for the second five years. For sales of tickets and merchandise, the full 5.75% tax would be abated. For food and beverage sales, the 9% tax imposed under D.C. Code § 47-2002 would be abated; however, in accordance with the District’s non-impairment covenants,³ the additional 1% tax dedicated to the Washington Convention and Sports Authority would not be abated. Only sales which are part of the game-day experience are subject to abatement (e.g., non-game day food sales would not benefit from the abatement).

The recipients of sales tax abatements are typically consumers in the form of lower cost goods. However, as the OCFO currently understands the Team’s revenue projections, the benefit of the sales tax abatement will be realized by the Team through increased ticket, merchandise, and concession prices (i.e. the consumer pays the same price it would have if a portion were collected and remitted as sales tax. The Team, in essence is charging a higher base price). As a result of the ticket revenue sharing arrangement between the Team Owners and MLS, a portion of the proposed sales tax abatement will benefit MLS. Likewise, depending on whether and how the Team negotiates revenue-sharing splits with its merchandise and food and beverage vendors, a portion of the proposed sales tax abatement could benefit these vendors.

2. **Real Property Tax:** The real property and possessory interest⁴ tax abatement begins when the District acquires the land and continues for 20 years after the final certificate of occupancy for the stadium is issued. This abatement is expected to begin in 2015 and continue through 2036. The abatement is structured to provide 100% relief from the period beginning with land acquisition through the 5th year after final certificate of occupancy, 75% relief from the 6th through 10th year, 50% relief from the 11th through 15th year, 25% relief from the 16th through 20th year.

³ Pursuant to D.C. Code §§ 10-1202.12 and 10-1202.08(e), the District pledges not to limit, restrict or in any way impair the collection, transfer, deposit or disbursement of taxes imposed by §§ 47-2002.02 and 47-2202.01.

⁴ For real property subject to a lease or ground rent for a term that is at least 30 years, the holder of the possessory interest is deemed the owner for purposes of receiving notices of proposed assessed value, receiving bills, and filing any petition or appeal.

3. **Deed Recordation and Transfer Tax:** The deed recordation and transfer tax exemption begins with the District’s acquisition of land at Buzzard Point and continues throughout the 30-year duration of the Team’s initial lease period. This exemption is expected to begin in 2015 and continue through 2046. If the Team elects to exercise its option to extend the lease, the exemption period could be extended up to another 15 years. If the Team elects to split the ground lease into two leases (one for the stadium land and one for the ancillary development portion of the site), the exemption could be extended for up to 99 additional years on the ancillary development portion. Since property acquired or sold by the District is not subject to recordation or transfer tax, the Act only exempts the 1.45% tax due from the private party in each transaction.

The recipients of the deed recordation and transfer tax exemptions include the current property owners of the stadium and ancillary development site as well as the Team and its future development partners. *The OCFO did not assess the fiscal need of the current individual Buzzard Point property owners as part of this analysis.*

Annual Proposed Value of the Exemption or Abatement

Estimated FY Value of Tax Exemptions and Abatements (\$ in 000's)						
	2015	2016	2017	2018	2019 – 2046 (2015 NPV)	2015 – 2046 Total
Sales Tax Abatement	0	0	1,581	1,626	6,925	10,132
Real Property/Possessory Interest Tax Abatement	950	1,433	4,436	5,102	47,097	59,018
Deed Recordation/Transfer Tax Exemption	2,790 ⁵	2,374	0	0	459	5,623
Total	3,740	3,807	6,017	6,728	54,481	74,773

Summary of the Proposed Community Benefits

A summary of the proposed community benefits as described by the Mayor in the May 23, 2014 letter accompanying submission of the legislation is in the attached document.

Financial Analysis for Development Projects

Review and Analysis of the Financial Condition of the Recipient of the Proposed Exemption and Whether Recipient Could Be Reasonably Expected to Meet Its Fiscal Needs without the Proposed Exemption

The financial decisions of sports teams owners are driven by non-fiscal benefits (e.g., prestige or the thrill of competition), indirect benefits (e.g., strategic overlap with other business interests or tax advantages), and return on investment. The primary determinant of return on investment is the long-term appreciation of the team’s value. The OCFO finds that the abatements are not necessary for the owners of DC United because the abatements have little or no impact on the non-fiscal or indirect benefits, and the Team’s value has increased considerably over time and will continue to increase regardless of the abatements.

The Team provided historical annual income and projection data for the new stadium. The OCFO finds that because sports team owners are driven primarily by the non-fiscal, indirect, and long term appreciation benefits discussed above, the annual income data is not significant to the OCFO’s

⁵ Approximately \$1.3 million of this exemption value would benefit the current land owners and not the team.

determination of whether the proposed abatements are required for the Team owners to meet their fiscal needs.

Nonetheless, the OCFO analyzed⁶ the historical and projection data provided by the Team. Historically the Team loses between \$4 and \$5 million per year⁷. The projection data is not useful for conclusive analysis because (a) it assumes the Team can secure a large construction loan for stadium construction, and (b) the projections exclude revenues from ancillary development. DC United’s annual operating losses and current lending conditions make it uncertain that the Team would be able to secure a construction loan. If the stadium is funded with 100% equity rather than debt, the Team would likely break even once the stadium is completed. Furthermore, while the revenues for ancillary development are unknown, they are certain to further improve DC United annual operating income and return on investment.

⁶ The OCFO’s analysis excludes income/expenses that would not change as a result of a new stadium or the proposed abatements including (a) contractually obligated payments made to the league to cover league operating losses, and (b) income from Soccer United Marketing resulting from the sale of national broadcast rights and league level licensing/sponsorships.

⁷ Based on data confirmed by the Team.