

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



Jeffrey S. DeWitt
Chief Financial Officer

TAX ABATEMENT FINANCIAL ANALYSIS

TO: **The Honorable Muriel Bowser**
Mayor, District of Columbia

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

FROM: **Jeffrey S. DeWitt**
Chief Financial Officer

A handwritten signature in black ink that reads "Jeffrey S. DeWitt".

DATE: **May 23, 2018**

SUBJECT: **The "14th Street NW International House of Pancakes Real Property Tax Exemption Act of 2018" and "The Alabama Avenue International House of Pancakes Real Property Tax Exemption Act of 2018"**

REFERENCE: **Bills 22-759 and 22-760**

Background

Bill 22-759 would provide a nine-year property tax abatement to the International House of Pancakes at 3100 14th St, NW (the "14th Street IHOP"), which is operated by DC Pancakes, LLC. Bill 22-760 would provide a nine-year property tax abatement to the International House of Pancakes at 1523 Alabama Avenue, SE (the "Alabama Avenue IHOP") which is operated by Father & Sons, LLC. These two IHOPs are legally distinct, owned by different entities, and occupy separate properties. Therefore, on April 25, 2018, the Office of the Chief Financial Officer (OCFO) issued two separate Tax Abatement Financial Analyses (TAFA) for Bills 22-759 and 22-760 under The Exemptions and Abatements Information Requirements Act of 2011. The findings of those TAFAs can be found at <https://cfo.dc.gov/page/tax-abatement-analyses>.

Per your request, because both IHOPs are primarily owned and managed by Mr. Tyoka Jackson and his family, and funds from the 14th Street IHOP have been used to support operations at the Alabama Avenue IHOP, this TAFA combines the two distinct IHOP entities as if they were a single operation ("the Combined IHOP Operation").

Findings

The nine-year property tax abatements proposed in Bills 22-759 and 22-760 are needed in order for the Combined IHOP Operation to meet its fiscal needs. Information submitted to the OCFO by the owner shows that the Combined IHOP Operation does not operate profitably without an abatement.

Tax Abatement Financial Analysis – Bills 22-759 and 22-760, the “14th Street NW International House of Pancakes Real Property Tax Exemption Act of 2018” and “The Alabama Avenue International House of Pancakes Real Property Tax Exemption Act of 2018”

Tax Abatement Financial Analysis

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to contain the following information:

(A) Terms of the Abatement

Bill 22-759 provides a nine-year property tax abatement to the portion of Square 2674, Lot 2001 which is occupied by the 14th Street IHOP. The nine-year abatement would apply from October 1, 2018 through September 30, 2027.

Additional requirements for the abatement in Bill 22-759 include:

1. The property is leased to DC Pancakes, LLC;
2. The property is used as a restaurant;
3. At least 51% of permanent jobs at the 14th Street IHOP shall be filled by District residents, with a minimum of 30% of the District resident jobs reserved for Ward One residents;
4. All apprenticeships shall be reserved for District residents with preference given to Ward One residents; and
5. The benefit of the abatement shall be passed on to DC Pancakes, LLC in the form of reduced rent equal to the amount of the abatement.

Bill 22-760 provides a nine-year property tax abatement to Square 5912, Lot 819 which is occupied by the Alabama Avenue IHOP¹. The nine-year abatement would apply from October 1, 2018 through September 30, 2027.

Additional requirements for the abatement in Bill 22-760 include:

1. The property is owned² by Father & Sons, LLC;
2. The property is used for the purposes and activities of the International House of Pancakes;
3. At least 51% of permanent jobs at the Alabama Avenue IHOP shall be filled by District residents, with a minimum of 30% of the District resident jobs reserved for Ward Eight residents;
4. All apprenticeships shall be reserved for District residents with preference given to Ward Eight residents; and
5. The benefit of the abatement shall be passed on to Father & Sons, LLC in the form of reduced rent equal to the amount of the abatement.

¹ The Alabama Avenue IHOP was granted an administrative exemption from property taxes as a qualified restaurant under D.C. Official Code § 47-389. That exemption expired on September 30, 2017.

² The property is leased, not owned, by Father & Sons, LLC. See Recommended Amendment section.

Tax Abatement Financial Analysis – Bills 22-759 and 22-760, the “14th Street NW International House of Pancakes Real Property Tax Exemption Act of 2018” and “The Alabama Avenue International House of Pancakes Real Property Tax Exemption Act of 2018”

(B) The Value of the Abatement³

	FY2019	FY2020	FY2021	FY2022	4 Year Total	9 Year Total
14th Street IHOP	\$52,646	\$53,963	\$55,312	\$56,695	\$218,615	\$524,071
Alabama Avenue IHOP	\$48,893	\$50,115	\$51,368	\$52,652	\$203,027	\$486,703
Total Abated Real Property Taxes	\$101,539	\$104,078	\$106,680	\$109,347	\$421,643	\$1,010,773

(C) The Purpose of the Abatement

The proposed purpose of the abatement is to reduce the operating costs of the Combined IHOP Operation.

(D) A Summary of the Proposed Community Benefits

See the Statements of Community Benefits, provided by the owner of the Combined IHOP Operation.

(E) Financial Analysis and Advisory Opinion

The past three years of financial statements for the Combined IHOP Operation show net cash losses of \$47,364.⁴ Notably, during those three years the Alabama Avenue IHOP benefitted from a property tax abatement (see footnote 2), while the 14th Street IHOP did not.

For that same three-year period, if neither location received an abatement, the Combined IHOP Operation would have suffered net cash losses of \$190,242. However, if both locations received property tax abatements during the same three-year period, the Combined IHOP Operation would have generated net cash income of \$83,135. Therefore, the proposed abatements are necessary for the Combined IHOP Operation to meet its fiscal need.

Recommended Amendment

Amend the eligibility conditions for the abatement on line 19 of the Bill 22-760 to read “(1) Leased to Father & Sons, LLC”. The current language requires Father & Sons, LLC to own the property, which it does not.

Conclusion

The nine-year real property tax abatements proposed by Bills 22-759 and 22-760 are necessary for the Combined IHOP Operation to meet its fiscal needs.

³ The values in the table above differ from the individual TAFAs provided for Bills 22-759 and 22-760 because the table above (a) assumes the change to the class 2 tax rate proposed in Bill 22-753, the “Fiscal Year 2019 Budget Support Act of 2018” become effective, and (b) corrects calculations in the original individual TAFAs.

⁴ Calculated as the net income before depreciation expense.

Applicant Provided Statement of Community Benefits for Bill 22-759

Having this exemption would benefit the community in several ways:

1) It will preserve a place of employment for over 50 individuals (26 full time), of whom greater than 51% live in the District of Columbia, with many living in Ward-1 contributing to the D.C. tax base. We have employed former TANF recipients, ex-offenders, ex-gang members and both college and high school students at this IHOP location.

2) The continued operation of a sit down table service family first restaurant in this area where 11 different restaurant and food service concept have closed since our grand opening will allow us to continue provide quality food and service to the community at a price point that represents great value relative to the other options in the area.

Applicant Provided Statement of Community Benefits for Bill 22-760

Having this exemption would benefit the Ward-8 community in the following ways:

1) It will preserve a place of employment for over 40 individuals (12 full time), of whom greater than 70% live in the District of Columbia, with many living in Ward-8 contributing to the D.C. tax base. We employ many former TANF recipients, ex-offenders, and both college and high school students at this location.

2) The continued operation of a retail establishment in an area where businesses are too often reluctant to locate or have opened and closed. We want to remain in order to provide quality food and service to the community and because we care about Ward-8 dearly.

3) We were VERY early in the Congress Heights neighborhood and we wanted to continue our business in Ward-8 in part because it is a symbol to other businesses that might want to come i.e. we become an anchor or example for future retail development in the neighborhood and finally reap the fruit for investing in Ward-1 before most did.