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: Fitzroy Lee
    Chief Financial Officer

DATE: June 14th, 2022

SUBJECT: “Players Lounge Tax Exemption Act of 2021”

REFERENCE: Bill 24-352

Findings

The Players Lounge Tax Exemption Act of 2021 (the “Bill”) is intended to provide a real property tax exemption, both retroactively and prospectively, to the Players Lounge and Georgena’s Restaurant (a single entity referred to as the “Business”), located 2737 Martin Luther King Jr. Ave., S.E. (the “Property”). The proposed exemption is for a ten-year period beginning October 1, 2019, through September 30, 2029.

Based on the financial information reviewed by the Office of the Chief Financial Officer (OCFO), the proposed exemption is not financially necessary for the Business to continue as a going concern. The proposed exemption would reduce operating costs of the Business and increase the net income available to the owners, Georgene and Stephen Thompson (the “Applicants”). However, the OCFO cannot determine the impact of the proposed exemption on the Applicants’ decision to maintain or close the Business.

Please refer to the separate Fiscal Impact Statement for the effect of the proposed legislation on the District’s financial plan.

Background

The Business is a sit-down restaurant in the Congress Heights neighborhood of Ward 8. The Property is known for tax and assessment purposes as Lot 46, Square 5982. The Property and the
Business are owned and operated by the Applicants. The Applicants have owned the Business since 1972 and operate it as a sole proprietorship. The Applicants report that they have responded to the adverse conditions and detrimental financial effects of the COVID-19 public health emergency by changing the business model to include non-dine-in options.

**Tax Abatement Financial Analysis**

The Exemptions and Abatements Information Requirements Act of 2011 requires the analysis provided by the OCFO to contain certain information. The required information is below.

**(A) Terms of the Abatement or Exemption**

The Bill is intended to provide a retroactive and prospective real property tax exemption for the period beginning October 1, 2019 and ending September 30, 2029. The tax exemption provided is in addition to, and not in lieu of, any other tax relief or assistance from any other source applicable to the Property, if any.

It is not clear that the Bill, if enacted, would provide the intended relief. The Bill seeks to provide relief by adding to D.C. Official Code § 47-1002 a new subsection covering the Property. However, property is not eligible for exemption under section 47-1002 until a properly completed application is filed. D.C. Official Code § 47-1009(b)(2)(A). Tax relief under section 47-1002 is prospective and only based on when the application is filed, assuming the applicable property otherwise qualifies for exemption. If retroactive tax relief is intended, Council may redraft the Bill as a new and separate section in either chapter 10 or 46 of Title 47. An example of such a provision is D.C. Official Code § 47-4650, which provided tax relief to another restaurant property.

**(B) Value of the Abatement or Exemption**

Table 1 identifies the amount of tax liability—including penalties and interest for current and previous tax years—that are intended to be forgiven and refunded under the Bill as of May 5, 2022. The Property will continue to accrue penalties and interest until the past due tax liability is paid.

<table>
<thead>
<tr>
<th>Table 1: Estimated Value of Exemption</th>
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<tbody>
<tr>
<td>Exempted Real Property Tax</td>
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<td>FY 2020</td>
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<td>$14,165</td>
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</tbody>
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1 Georgene Thompson owns the Business. As owner, she receives all profits and has unlimited legal responsibility for all losses and debts. Stephen Thompson is the sole member of GST, LLC which owns the Property and pays the real property taxes. Georgena’s restaurant pays no rent to GST, LLC.
Table 2 delineates the portion of the tax liability attributed to interest and penalties, and the application of payments made by the Applicant towards past year taxes. Under the proposed abatement, the $18,000 paid by the Applicants and applied to past year taxes would be refunded to the Applicants and the remainder of past due tax liability would be exempted.

<table>
<thead>
<tr>
<th>Table 2. Application of Tax Payments to Tax Liability</th>
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<tr>
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<tr>
<td><strong>FY 2020</strong></td>
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<tr>
<td>Real Property Tax</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Penalty</td>
</tr>
<tr>
<td><strong>Total Real Property Tax Liability</strong></td>
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<tr>
<td>Payments Applied</td>
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<tr>
<td>Amount Remaining</td>
</tr>
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(C) **Purpose of the Abatement or Exemption**

According to the Applicants, the purpose of the exemption is to reduce the operating costs of the Business.

(D) **Summary of the Proposed Community Benefits**

The community benefits provided by the Applicants are set forth in Appendix A.²

(E) **Financial Analysis and Advisory Opinion**

OCFO reviewed Federal and D.C. income tax returns submitted by the Applicants, providing evidence of the financial condition of the Business and the income received by the Applicants.³ The financial information made available by the Applicants indicates the Business had a substantial decrease in net income in 2020 and 2021. However, even in those years, the Business generated sufficient annual net cash flow to pay the Property’s annual real property tax liability, and net income can be expected to increase in future years in alignment with pre-pandemic levels. Furthermore, the Applicants have already paid a portion of the taxes to be exempted. Therefore, the proposed property tax exemption is not financially necessary for the Business to remain a going concern.

The proposed exemption would meet its intended purpose of reducing costs associated with the Business on the Property. However, OCFO cannot determine if the Applicants’ income from the Business is sufficient to outweigh the opportunity cost of closing the Business and pursuing other ventures, or if the reduced cost of operating the business with the proposed exemption would impact the Applicants’ decision-making on maintaining the Business. The income from the Business has been a significant portion of the Applicants’ household income in past years and the decreased Business income resulted in the Applicants’ decrease in reported income in 2020 and 2021.

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²The summary of proposed community benefits, along with all other background information, was provided to OCFO via the Council staff assisting the Applicants. Council Staff communicated with OCFO on behalf of the Applicant.

³For this analysis, the Applicants provided tax returns for 2019, 2020 and 2021. OCFO also has 2016, 2017 and 2018 tax records supplied by the Applicant for an analysis of a proposed abatement in 2019 (Bill 23-290).
Applicants report that they received assistance from friends and family for a portion of the $18,000 in payments made on past due taxes. They report that they received no other alternate sources of finance or grants to make up the business’s decreased revenue over the past two years. The Applicants indicated that they sought bank financing to cover the business’s cash needs, but it is unclear whether they sought assistance from any of the business grant programs offered, such as DMPED’s Restaurant Bridge Fund.

**Conclusion**

The ten-year real property tax exemption proposed is not financially necessary for the Business to continue as a going concern. Though the proposed exemption would meet its intended purpose of reducing costs of the Business, the OCFO cannot determine the impact of the proposed exemption, or the lack of an exemption, on the Applicants’ decision to maintain or close the Business.
Appendix A

Applicant-Provided Statement of Community Benefits

Long before any other sit-down restaurant existed in Ward 8, the Players Lounge stood as a community staple serving meals to residents that were both good quality and low cost. The Players Lounge has also served the community by having a history of feeding people who experienced homelessness. Players Lounge provides discounted services to 19 local nonprofits and ANC requests approximately 4 or 5 times per year, free annual Thanksgiving dinners for approximately 100 people, and donated toys each Christmas season.

Having this exemption would benefit the community in several ways:

- It will preserve a place of employment for over 13 individuals (3 full time & 10 part-time), of whom greater than 51% live in the District of Columbia, with many living in Ward-8 contributing to the D.C. tax base.
- For over 28 years they have employed former TANF recipients, ex-offenders, ex-gang members and both college and high school students at Georgena’s Restaurant.
- Georgena’s Restaurant continued operation of a sit-down and table service community restaurant in Ward 8. There are only approximately 3 sit-down restaurants in Ward 8.
- In Congress Heights close to 11 different restaurants and food services entities have closed due to tax increases and strained operational costs.
- The abatement will allow Georgena’s Restaurant 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 city and region.