

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




Glen M. Lee
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: **Glen M. Lee**
 Chief Financial Officer 

DATE: **November 26, 2024**

SUBJECT: **Tax Abatement Financial Analysis – “Downtown Arena Revitalization**
 Act of 2024”

REFERENCE: **Bill 25-1004**

Findings

The “Downtown Arena Revitalization Act of 2024” (the “Bill”) would, among other things, effectuate the Amended and Restated Lease by and between the District and DC Arena L.P. (“DCALP”) submitted by the Mayor to the Council on October 18, 2024 (the “Lease”). The Lease would provide DCALP with a leasehold interest for the land, buildings, and airspace on the two tax lots where the Capital One Arena (“Arena”) is presently located – Lot 47, Square 455 and Lot 884, Square 454 (collectively, the “Arena Property”). The Bill would also exempt the Arena Property from real property and possessory interest taxes over the term of the Lease, which is 25 base years plus 20 option years at the election of DCALP. In addition, the Bill provides exemptions from transfer and recordation taxes for transactions between the District and DCALP with respect to the Arena Property.

The exemptions set forth in the Bill amend and extend the existing tax exemptions for the Arena – which has had a real property and possessory interest tax exemption since it was constructed – as an incentive to retain the professional sports teams owned by DCALP’s parent organization, Monumental Sports and Entertainment (“Monumental”) to continue operating in the Arena. Based on an analysis of DCALP’s projected financial condition, as well as its relational business interests with other affiliates under Monumental, the Office of the Chief Financial Officer (“OCFO”) finds that the abatement is not financially necessary for DCALP to invest in and continue to operate the Arena as a venue for its sporting and entertainment events.

Background

On October 18, 2024, the Mayor submitted to the Council three agreements between the District and DCALP governing and extending DCALP’s continued operations at the Arena: (1) a Development and Financing Agreement, (2) an Agreement for the Purchase and Sale of Real Property, and (3) an Amended and Restated Lease (collectively, the “Agreements”). The Agreements identify the conditions and responsibilities each party must fulfill to extend DCALP’s period of operations at the Arena, including a commitment that DCALP’s affiliated professional basketball team (“Wizards”) and professional hockey team (“Capitals”) play all of their home games at the Arena during the term of the lease.

The Agreements stipulate certain real property transfers among its conditions. The District will initially purchase the Arena, acquiring fee-simple ownership of the portion of the Arena Property it does not already own. The District will then lease the Arena, its airspace, and underlying land (Lot 47, Square 455) as well as a portion of an adjacent alley (Lot 884, Square 454) back to DCALP until June 30, 2050 (with 20 additional option years at the election of DCALP). Subsequently, using a mix of public and private financing, DCALP will be responsible for renovating and enhancing the existing, privately-owned Arena. The Bill proposes approval of the Agreements, as well as two tax exemptions: a real property and possessory interest tax exemption for the two tax lots¹ so long as the Lease is in effect, and a deed transfer and recordation tax exemption for transfers with the District.

The beneficiary of the proposed tax exemptions is DCALP, a company that manages the operations, activities, and finances associated with the Capital One Arena facility. DCALP is a fully-owned subsidiary of Monumental, a vertically integrated sports, media, and venue management company whose portfolio consists of professional sports and e-sports teams, multiple sports arenas and facilities, and a broadcasting network. According to data published in Forbes magazine², the net value of Monumental in 2024 was estimated to be \$6.16 billion, of which over 90 percent was attributed to the valuation of the Wizards³ and Capitals⁴ that will be utilizing the Arena for their home games.

Financial Analysis

(A) Terms of the Abatement or Exemption

So long as the Lease is in effect, the Bill would exempt the two tax lots comprising the Arena Property from (1) real property and possessory interest tax on its land, improvements, and airspace, as well as (2) deed transfer and recordation tax for transfers between DCALP and the District government. The Bill’s real property and possessory interest tax exemption for the tax lot the Arena sits on represents a continuation from the original lease agreement ending in 2045.

¹ The Bill’s real property and possessory interest tax exemption for the property the Arena sits on (Lot 47, Square 455) is a continuation from the original lease agreement.

² “The World’s Most Valuable Sports Enterprises 2024”. Forbes Magazine, 2024.

[<https://www.forbes.com/sites/mikeozanian/2024/01/25/the-worlds-most-valuable-sports-empires-2024/>]

³ “NBA Team Valuations”. Forbes Magazine, October 2024.

[<https://www.forbes.com/teams/washington-wizards/>]

⁴ “The Business of Hockey”. Forbes Magazine, December 2023.

[<https://www.forbes.com/teams/washington-capitals/>]

(B) Value of the Abatement or Exemption

The Bill’s proposed tax relief for the Property is estimated to be \$49.8 million through the financial plan period and \$262.9 million through the base term of the Lease period ending June 30, 2050, as presented in Table 1. This estimated abatement value represents the sum of: (1) the estimated transfer tax when the Arena is transferred to the District, (2) the estimated recordation tax when the land, improvements, and airspace of the two tax lots are leased back to DCALP, and (3) the estimated real property and possessory interest tax over the term of the Lease. This estimate does not include potential tax relief for the 20 additional option years in the Lease, as the exemption would be removed if the DCALP does not exercise the options.

Table 1: Estimated Value of the Proposed Tax Abatement or Exemption

Tax Exemptions	FY2025	FY2026	FY2027	FY2028	Total FY 2025- 2028	Total FY 2029- 2050
Deed Transfer Tax Abatement						
Property with Arena <i>(Lot 47, Square 455)</i>	\$1,268,750	\$0	\$0	\$0	\$1,268,750	\$0
Deed Recordation Tax Abatement						
Property with Arena <i>(Lot 47, Square 455)</i>	\$7,593,810	\$0	\$0	\$0	\$7,593,810	\$0
Adjacent alley <i>(Lot 884, Square 454)</i>	\$10,397	\$0	\$0	\$0	\$10,397	\$0
Real Property & Possessory Interest Tax Abatement						
Property with Arena <i>(Lot 47, Square 455)</i>	\$9,898,138	\$9,997,119	\$10,097,091	\$10,897,362	\$40,889,710	\$262,560,418
Adjacent alley <i>(Lot 884, Square 454)</i>	\$13,552	\$13,688	\$13,825	\$13,963	\$55,028	\$336,426
TOTAL EXEMPTION VALUE	\$18,784,648	\$10,010,807	\$10,110,916	\$10,911,325	\$49,817,695	\$262,896,844

The Exemptions and Abatements Information Requirements Act of 2011 requires certain information from the Applicant pertaining to political contributions and contracts held by the Applicant if the total estimated value of the exemption or abatement is \$250,000 or more. According to the Applicant, no political contributions have been made by any of its ownership entities since the introduction of Bill 25-1004. The contracts and agreements that it holds or is seeking with the District of Columbia all pertain to the Arena and are as follows:

Contract/Agreement Name	Part(ies) to Contract other than DCALP
Existing Contracts and Agreements	
Land Disposition Agreement & Ground Lease	<ul style="list-style-type: none"> • District of Columbia • RLA Revitalization Corporation

Agreement of Sublease and License	• Washington Convention and Sports Authority
Contracts and Agreements Sought	
Amended and Restated Lease	• District of Columbia
Development and Finance Agreement	• District of Columbia
Agreement for the Purchase and Sale of Real Property (Improvements Only)	• District of Columbia

(C) Purpose of the Abatement or Exemption

As an incentive to retain the operations of the Arena by Monumental, including all home games of the Capitals and the Wizards, the Agreements include the tax exemptions described herein.

(D) Summary of the Proposed Community Benefits

The community benefits provided by the Applicant are provided in Attachment A.

(E) Financial Analysis and Advisory Opinion

The OCFO’s Office of Finance and Treasury reviewed information provided by DCALP pertaining to its finances and ownership structure. Due to DCALP’s confidentiality concerns related to Freedom of Information Act (FOIA) requests – potentially from competing venues seeking pricing information – DCALP did not fully disclose detailed financial information about its organization. As a result, OCFO’s financial analysis was based on high-level financial projections through 2028 provided by DCALP, supplemented by explanations and interviews from their senior financial staff.

According to DCALP, its expenses are related to operations, management and capital improvements for the Arena, including its \$285 million capital commitment towards the renovation that it plans to finance with debt. Its revenue is primarily comprised of non-ticket revenue generated within the Arena – such as commission concessions and corporate sponsorships – as ticket revenue for sports teams and other events are assigned to different subsidiaries within Monumental. The Arena’s current renovation schedule is between 2025-2027, and DCALP plans to close the Arena in the summer months during these three years (excluding the regular, pre- and post-seasons of the Wizards and Capitals) to accelerate construction. DCALP’s inability to collect event revenue during the summer “offseason”, coupled with renovation debt service payments that commence in 2026, results in a projected operating deficit in 2026 and 2027, followed by a return to profitability in 2028 once the renovation is completed and year-round events resume.

While the additional estimated tax liability would result in an operating deficit in 2025, the annual proposed tax exemption is less than the projected operating deficit for 2026 and 2027 – thus insufficient to prevent a deficit – and can be covered by net income beginning in 2028 once DCALP returns to profitability. Moreover, the OCFO believes the exemptions do not impact Monumental’s decision to invest or ability to operate the Arena, as the facility is utilized by other Monumental affiliates such as the Capitals and Wizards in generating ticket revenue that support

team valuations. The Arena renovation – the contributing factor to the 2026 and 2027 deficits – is intended to further enhance the fan experience once completed, likely increasing revenue and long-term value for Monumental. Thus, the OCFO does not find the tax exemptions to be financially necessary for DCALP to continue to invest in and operate the Arena.

Conclusion

Based on an analysis on DCALP’s financial projections, as well as its relational business interests with other affiliates under its parent organization, the OCFO finds that the tax abatements or exemptions as proposed in the Bill would not impact DCALP’s ability to invest in and operate the Arena and are not financially necessary. The primary purpose of the Arena is to serve Monumental’s affiliated businesses, which have significantly larger valuations than the estimated tax liability.

Attachment A: Summary of Community Benefits (as stated by the Applicant)

Community Benefits Summary *Monumental Sports & Entertainment*

Total Annual Wages: Approximately \$395,000,000.00 (including professional athletes)

- Full Time Employees: **762**
- Part Time Employees: **2649**

Total Annual Monument Sports & Entertainment Support in the Community: More than \$5.95 - 6.25M per year. This figure does not include individual contributions from MSE partners, players, or grants from NBA & NHL, which represent millions more in giving to our community.

District of Play: Budgeted \$2.1M - \$2.6M per year

Ensure that safe play spaces are easily accessible for all youth

- Court, Rink, Playground Builds and Refurbishments:

Empowering Every Player

- Remove Economic Barriers: Provide equipment, uniforms, and camp scholarships to ensure that no child is left out due to financial constraints.
- East of the River Initiatives: Ensure inclusive programming reaches diverse communities, especially in Wards 7 and 8, through community clinics and special gameday clinics.
- Girls' Empowerment: Expand girls-only programming and launch the MSE's Girls Empowerment Program focused on financial literacy, mental health, physical health, and sports.
- Kids with Disabilities: Design all refurbished courts and new play spaces with accessibility in mind to accommodate kids with disabilities, ensuring inclusivity and access for all.

Engage Parents, Coaches, and the Community:

- Programming on Monumental Sports Network: Deliver a variety of content about the benefits of youth sports and the availability of opportunities to play sports, increasing awareness and encouraging participation.

- Fund USA Basketball Licensing for Every Coach in DCPS: Provide professional development and certification to enhance the quality of coaching, ensuring that youth receive the best possible guidance and support.
- Tickets to Games: Distribute tickets to games to kids, coaches, and members of the community.

MSE Foundation: Approximately \$1.2M annually

- **Back to School and Holiday Giving:** Yearly initiatives providing essential school supplies, festive meals, and holiday gifts to support and uplift families in the community.
- **Youth and Sports Programs:** The foundation funded the Black Girl Hockey Club, Titan Youth Hockey, Potomac Valley Amateur Hockey Association, Bowie Hockey Club, Every Kid Sports, and Reston Raiders Hockey Club to promote youth engagement and athletic development.
- **Community Services:** Grants went to Friends of Fort Dupont Ice Arena, Bread for the City, The Family Place, N Street Village, Casey Trees, Homeless Children's Playtime Project, and DC Central Kitchen to address various community needs such as food security, housing support, and recreational facilities.
- **Health and Mental Health Initiatives:** The MSE Foundation supported the DC Fire & EMS Foundation, The Leukemia & Lymphoma Society, CURE Epilepsy, Make-A-Wish Mid-Atlantic, National MS Society, The HT40 Foundation, and CURE Epilepsy to enhance healthcare services and mental health resources.
- **Military and First Responders Support:** Funding to Operation Homefront, DC Fire & EMS Foundation, United Heroes League, and Capitals Military Auction to support military families and first responders.
- **Educational and Youth Development:** The foundation supported College Track, The College Gurl Foundation, Morgan's Message, Project GiveBack Community Service, Tracy's Kids, and The College Gurl Foundation to foster educational opportunities and mentorship for young people.
- **Environmental and Sustainability Efforts:** Grants were given to Anacostia Riverkeeper, Rink2Reef, Wolf Trap Animal Rescue, and Tragedy Assistance Program for Survivors to promote environmental conservation and sustainability projects.
- **Special Initiatives and Events:** The MSE Foundation funded various special projects and events, including mental health nights, pride events, community awards, Wizards Literacy Night, the MSE Playground Build, and Capitals Pride Auction to encourage inclusivity and community engagement.

MSE Corporate: Approximately \$2.75M per year

- Hosting District of Columbia College Access Program College Signing Day at Capital One Arena.
- Partnered with MedStar to refresh two MedStar Kids Mobile Medical Clinics.
- Contributions to:
 - College Track
 - DC Policy Center
 - DC Public Library Foundation
 - Federal City Council
 - National Multiple Sclerosis Society
 - Shakespeare Theatre Company
 - Trust for the National Mall
 - University of DC Foundation, Inc
 - Greater Washington Partnership