



Does Boston Convention & Exhibition Center Expansion Really Pay for Itself?

by Charles Chieppo

Introduction

With the Massachusetts Convention Center Authority (MCCA) claiming that no new taxes or fees would be needed to expand the Boston Convention and Exhibition Center (BCEC), it came as no surprise that a \$1 billion convention center expansion bill sailed through a November Joint Committee on State Administration hearing without opposition. But when something seems too good to be true, it usually is, and a closer look at the convention center legislation reveals that the “no new taxes or fees” claim isn’t quite as airtight as they’ve led us to believe.

No *new* taxes, but extension of existing ones would divert billions

A significant portion of the cost of expansion would be covered by revenue from existing taxes (such as a rental car surcharge, the Boston/Cambridge hotel taxes and a tax on tourist trolleys) that is being used to pay off BCEC bonds. Pursuant to the BCEC financing law passed in 1997, proceeds from these taxes revert to the general fund once the existing bonds are paid off.

BCEC expansion is akin to pushing out the date for fully funding public pension liabilities. The current cost doesn’t change, but by paying for much longer, the overall cost is staggering.

But under the pending legislation, that reversion will be delayed until new bonds that will fund expansion are paid off. All told, the delay, from FY2034 to FY2050 or so (depending on the date of issuance of the expansion bonds), would divert about \$5 billion from the general fund.

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In essence, BCEC expansion is akin to pushing out the date for fully funding public pension liabilities. The current cost doesn't change, but by paying for much longer, the overall cost is staggering. So much for expansion that "pays for itself."

Endangering funds for other priorities

Each year, the commonwealth sets a limit on how much it can borrow to fund capital expenditures. The limit is calibrated to ensure that debt service costs – which currently top \$2 billion – don't exceed 8 percent of budgeted revenue for any given year.

Of course it's impossible to predict how much the commonwealth will collect in the future. Near the start of the annual budget process, lawmakers invite various experts to help them develop a consensus revenue estimate.

This estimate is used to project the amount of debt that can be issued without pushing debt service above the 8 percent ceiling. This so-called Debt Affordability Analysis is what led the Patrick administration last year to propose a tax increase to fund needed transportation improvements. Without new revenue,

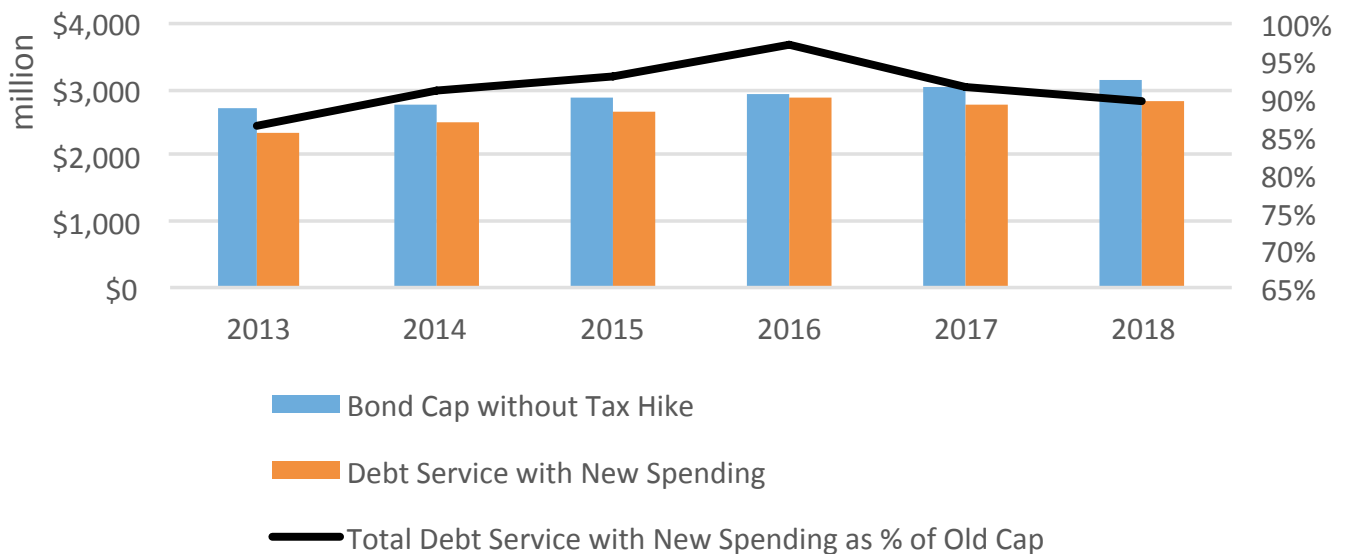
the analysis showed that the additional infrastructure spending would push annual debt service costs above 8 percent of budgeted revenue by 2020.

One of the revenue sources the commonwealth relies on when it projects how much money it will collect is an aforementioned 5.7 percent tax on hotel occupancy. It brought in more than \$180 million in fiscal 2012, about two-thirds of which went directly into state coffers.

But that won't necessarily be the case going forward. Tucked in a subsection of the MCCA's expansion bill is language that would allow that money to be diverted to "further secure" bonds sold to fund convention center expansion.

Hopefully, the money would continue to flow into the general fund and wouldn't be needed to prop up the marketability of the convention center bonds. But even if that's the case, the commonwealth would no longer be able to count hotel occupancy tax receipts as revenue for purposes of calculating the amount available to fund transportation improvements and other capital expenditures.

Figure 1. Bond Cap and Debt Service Costs with New Capital Spending



When the original convention center legislation passed in 1997, then-House Speaker Tom Finneran was concerned about the building's prospects. To allay those concerns, he wisely set up a generous revenue stream to fund the project; one rich enough to keep it out of financial trouble if bookings were scarce. But even that model didn't allow statewide hotel tax receipts to be diverted to prop up convention center bonds.

Former Speaker Finneran's plan paired taxes and fees to support convention center bonds with the portions of the commonwealth—slices of Boston, Cambridge, Springfield and Worcester—that benefitted directly from the public investment in convention center space. Taxes collected on a statewide basis were treated as off-limits to the project. The same can't be said for the finance plan contained in the BCEC expansion finance plan.

An industry in decline

The BCEC remains a risky investment. Despite doing better than many of its competitors – thanks largely to solid operational leadership by MCCA Executive Director Jim Rooney and his team – the building has never approached the 794,000 annual room nights a 1996 feasibility study projected it would generate.

And the convention market is not exactly ascendant. As *Boston Globe* columnist Jeff Jacoby noted in 2011, the square footage available for exhibitions nationwide has soared from 40.4 million square feet in 1990 to more than 70 million square feet in 2011. But while the supply of convention space has mushroomed, demand for that space hasn't come close to keeping up. A few years ago, *TradeShow Week* reported that attendance at conventions and trade or consumer shows plummeted from 126 million in 2000 to just 86 million in 2010.

Perhaps all you need to know about the state of the convention business is that *TradeShow Week*, once the industry bible, ceased publication in 2010. In some cities, convention halls are literally giving space away.

It's easy to support a billion-dollar convention center expansion that supposedly comes with no new taxes or fees, but it gets a lot harder when you realize that expansion would mean that expansion would either cost \$5 billion by delaying the time at which various proceeds from various taxes would flow to the general fund rather than be used to pay off convention center bonds.

Finally, the convention center expansion funding plan threatens to cannibalize funding for desperately needed transportation improvements and capital projects across the state. Were this plan to move forward, we would once again unfairly focus investment in Boston at the expense of other parts of the commonwealth. Let's hope state leaders take a very close look at the MCCA legislation before it becomes law.



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