



Analyzing the Convention Center Authority's Inflated Claims

by Charles Chieppo

Last July, then-Gov. Patrick signed legislation authorizing the Massachusetts Convention Center Authority (MCCA) to borrow up to \$1 billion to finance expansion of the Boston Convention and Exhibition Center (BCEC). Among the items included in the plan were expanding the BCEC's exhibition space from 516,000 to 850,000 square feet and adding 325 rooms to the headquarters Westin hotel adjacent to the facility. Construction of a second 1,000-1,200-room hotel was also envisioned, but not included in the expansion's \$1 billion price tag. Proponents claimed that revenue already flowing into the convention center fund, which receives a mix of tourism and hospitality fees and taxes, would be sufficient to finance expansion.

In January, Gov. Charlie Baker authorized a two-month delay in the bond issuance for the proposed expansion of the BCEC. In late April the Governor announced that the pause would be indefinite due to concerns about the MCCA's ability to pay off the anticipated debt without negatively impacting the state budget. At the same time, Baker took control of the convention center authority board by replacing the majority of its members and reappointing two others.

Despite these moves, the MCCA continues its expansion campaign. This brief will take a closer look at some of the recent claims the Authority has made.

Lost Business Claims

The MCCA claims Boston could lose out on 18 conventions and tradeshow that have escape clauses in their contracts with the Authority that could be exercised if the BCEC expansion and/or new hotel capacity don't go forward. Outgoing MCCA Executive Director James Rooney told *The Boston Globe* that the agreements represent "as robust a book of business as exists in the industry."¹ But a review of those 18 contracts finds only eight of them, covering events scheduled to come to the facility between 2019 and 2028, have such clauses.

Charles Chieppo is Pioneer Institute's Senior Media Fellow. Previously, he was policy director in Massachusetts' Executive Office for Administration and Finance and directed Pioneer's Shamie Center for Better Government. While in state government, he served as vice chair of the Massachusetts Convention Center Authority. He is also a research fellow at the Harvard Kennedy School, where he writes for *Governing.com*'s "Better, Faster, Cheaper" blog. He is a weekly commentator on WGBH, and his work has appeared in numerous publications, including *The Wall Street Journal*, *The Boston Globe*, *Boston Herald*, *Boston Business Journal*, *Providence Journal*, *Springfield Republican*, *Worcester Telegram & Gazette*, *Washington Times*, *Education Next*, *City Journal*, and *CommonWealth* magazine.

Analyzing the Convention Center Authority's Inflated Claims

Of the remaining 10 contracts, six have provisions that would simply give the event right of first refusal to any space that might be added by the time the show takes place. The escape clauses in two other contracts require amounts of space the BCEC already has.

Another two have clauses that have already expired. The contract for the American Association of Pharmaceutical Scientists to hold their 2022 annual meeting at the BCEC would have required an announcement about construction of a second headquarters hotel by March 31, 2015 and the agreement for the American Psychiatric Association to hold its 2022 annual meeting at the facility would have required a new headquarters hotel to have been under construction by April 25th of this year. Such unrealistically aggressive requirements call into question just how serious the groups actually were about coming to Boston.

BIO

Pursuit of the Biotechnology Industry Organization (BIO) conference has been front and center in the MCCA's campaign to expand the BCEC. The facility hosted BIO in 2007 and 2012, but claims it would be unable to do so in the future without expansion.

The data tell a different story. BIO is booked at the BCEC in 2021, 2023, 2025, 2027 and 2029. None of those contracts include an expansion-related escape clause. Instead, all five simply include a clause that gives BIO right of first refusal "to contract any unused space... in the Facility."

Further, figure 1 shows that BIO has shrunk dramatically since it was held at the BCEC in 2007. That event attracted 22,366 attendees. By last year's conference, held in San Diego, attendance was down to 15,667.² Given the trend, it hardly appears that expansion will determine whether BIO chooses to come to Boston.

Economic Impact

The fact that only eight future events booked at the BCEC have expansion-related escape clauses – not 18 as the MCCA claims – means foregone economic impact from not expanding will be far less than the

Figure 1. BIO International Attendance

Year	Location	Attendance
2002	Toronto	15,673
2003	Washington, D.C.	16,322
2004	San Francisco	17,015
2005	Philadelphia	18,008
2006	Chicago	19,479
2007	Boston	22,366
2008	San Diego	20,108
2009	Atlanta	14,352
2010	Chicago	15,322
2011	Washington, D.C.	15,626
2012	Boston	16,500
2013	Chicago	13,594
2014	San Diego	15,667

\$481,174,978 the Authority claims. But in addition to expansion affecting fewer future events, the MCCA's methodology also dramatically overestimates conventions' economic impact.

Convention centers are designed to attract people from outside the area who wouldn't otherwise spend money here. But about half of convention attendees are generally locals who would be spending their dollars at a nearby mall if they weren't eating in a Seaport District restaurant.

Yet when Pioneer Institute obtained a description of the methodology by which the MCCA calculates its economic impact number last year, we discovered that it includes a "dollars saved" category and assumes "the in-state attendee would have attended the event regardless of location." The ludicrous assumption that every local attendee at a convention held at the BCEC or the Hynes Convention Center would still have gone if it were held in Las Vegas or Orlando dramatically inflates economic impact. Add that to the fact that only eight rather than 18 future BCEC shows have expansion-related escape clauses, and foregone economic impact is but a fraction of the nearly \$500 million the MCCA estimate.

Financing

As Pioneer Institute reported last year, expanding the BCEC wouldn't require any new taxes, but it would keep revenues that could otherwise revert to the general fund flowing to the MCCA for about 15 additional years at a total cost of around \$5 billion.³

One of the revenue sources that would back expansion bonds is receipts from the commonwealth's 5.7 percent tax on hotel occupancy. The tax brought in more than \$180 million in fiscal 2012, about two-thirds of which went directly into state coffers. When legislation to build the BCEC passed in 1997, only hotel taxes from Boston, Cambridge, Springfield and Worcester—areas that benefitted directly from the public investment in convention centers – could be used to secure the BCEC bonds. But language in the 2014 BCEC expansion bill would have allowed statewide hotel tax receipts to be diverted to “further secure” bonds sold to fund convention center expansion.

The MCCA downplayed any possibility that the money would be needed to secure the bonds. But their finance plan assumed that hotel tax revenue would increase at about three times the historic rate. In October of 2014, about three months after Gov. Patrick signed the expansion bill in July, the Authority revised its Convention Center Fund revenue assumptions downward by \$646 million over 30 years, acknowledging the greater likelihood that statewide hotel tax receipts would be needed to secure the expansion bonds.

BCEC Performance

Since convention centers are designed to attract people from outside the area who wouldn't otherwise spend their money here, the best measure of centers' success is the number of hotel room-nights they generate. We're told that the BCEC needs to expand because space limitations and lack of availability mean we're losing out on lucrative business.

The 1997 feasibility study on which the decision to build the BCEC was based projected that it would generate 794,000 room nights annually. The MCCA disputes the use of this number because the 1997

study was based on a facility with 600,000 square feet of exhibit space. In 2001, BCEC construction was temporarily halted when news broke that the project was about \$100 million over budget. That year plans for the building were scaled down slightly to 516,000 square feet of exhibit space and a new study was conducted, this one projecting that BCEC 2.0 would generate 612,000-697,000 annual hotel room nights.

Figure 2 shows that the BCEC has never approached either number. The 264,669 room nights it generated during the fiscal year that ended on June 30, 2014 were around one-third of what was projected by the first feasibility study and about 40 percent of the number in the second study.

In fact, the table reveals that the BCEC is currently generating more than one-third fewer hotel room nights than the much smaller Hynes Convention Center produced in 2000, before the BCEC was built.

The BCEC is hardly alone. There was a little over 36 million square feet of exhibition space in the United States in 1989. By 2013, that number had nearly doubled to 71.1 million. But demand has remained flat at best, which is why Las Vegas, Orlando, Chicago and Atlanta are among the cities that recently competed expansions only to have the larger facility do the same amount or less business than it did prior to expansion.

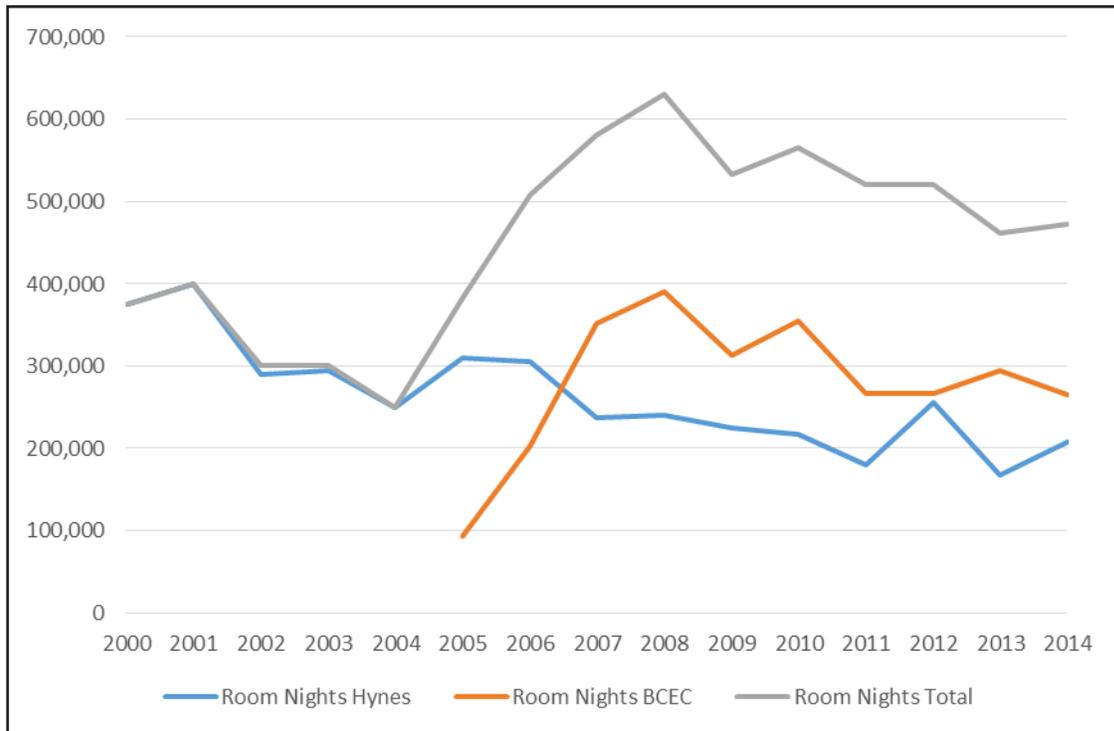
Conclusion

As newly appointed members of the Massachusetts Convention Center Authority Board of Directors analyze the wisdom of going forward with the now-paused expansion of the Boston Convention and Exhibition Center, they should look take a critical look at the MCCA's claims.

First, they will find that only eight events currently booked at the BCEC over the next 13 years have escape clauses that would allow them to go elsewhere if the expansion doesn't go forward. Second, they will find that the Biotechnology Industry Organization conference, the show we would supposedly never be able to host again without expansion, is slated to come to Boston five times between 2021 and 2029, and none of those contracts have an expansion-based

Analyzing the Convention Center Authority's Inflated Claims

Figure 2. Boston Convention Center Hotel Room Nights, by fiscal year



Sources: <http://massconvention.com/about-us/economic-impact-annual-reports/>; http://www.t5boston.com/pdf/CP_Final_lo.pdf; Sanders, Heywood. "Convention Center Follies: Politics, Power, and Public Investment in American Cities." May 19, 2014; http://www.t5boston.com/pdf/BCEC%20Strategic%20Development%20Plan_FINAL.pdf; http://www.boston.com/business/articles/2011/03/23/convention_graphic/; http://www.t5boston.com/pdf/CP_Final_lo.pdf

escape clause. The reason is simple: BIO is now about one-third smaller than it was when Boston hosted the show in 2007, and even notoriously optimistic convention industry attendance projections don't foresee attendance at the future Boston shows topping 2014 levels.

Third, on the financing front, more realistic MCCA hotel occupancy tax receipt projections amount to an admission that it's more likely that the Authority had previously claimed that statewide hotel tax revenue would be needed to secure the expansion bonds, not just revenues from areas in which hotels directly benefited from convention facilities.

Finally, the number of hotel room nights generated by the BCEC is a fraction of what had been projected in 1997 and 2001 studies and it is falling. In fact, 2014 room nights were about one-third lower than the number generated by the much smaller Hynes

Convention Center in 2000, before the BCEC was built.

Unfortunately, the convention center authority's inflated claims about bookings and their economic impact are just the latest in a series of misrepresentations that have become standard practice in its push for expansion.

Endnotes

1. Chesto, Jon, “With expansion shelved, convention business at risk,” *The Boston Globe*, May 14, 2015
2. BIO attendance data compiled by University of Texas San Antonio Professor Heywood Sanders.
3. Chieppo, Charles, “Does Boston Convention & Exhibition Center Expansion Really Pay for Itself?” Pioneer Institute Policy Brief, March, 2014.



185 Devonshire Street, Suite 1101, Boston, MA 02110
T: 617.723.2277 | F: 617.723.1880
www.pioneerinstitute.org