

Draft



MINUTES
May 24, 2010
8:00 a.m. – 10:00 a.m.
BCEC Room 052

Attendees: *Partnership Members:* David Colella, James Coyle, Richard Dimino, James Doolin, David Giblin, Scott Jordan, Colleen Keating, Thomas Kinton, William Linehan, Juan Loveluck, Rosabeth Moss Kanter, Charlayne Murrell-Smith, Joseph Nee, David O’Shaughnessy, John Palmieri, James E. Rooney, Darryl Settles, Kairos Shen, Lisa Signori, James Sult, Samuel Tyler, Darnell Williams

Others in attendance (partial list): Lowell Richards, Kairos Shen, Angela Olszewski, William Smith, Colleen Richards Powell, Mac Daniel, Katie Tumiel, Maureen Shea Baker, Fred Peterson, Ken Sinkiewicz, George Tremblay, Danielle McNally, Patty Foley, Bruce Berma, Judy Walter

1. Welcome & Recap

Mr. Rooney welcomed the Convention Partnership and began the meeting with a recap of the partnership’s April meeting related to the BCEC and hotels. Partnership members were reminded of the BCEC’s competitive disadvantage when it comes to mid-priced hotel rooms. Mr. Rooney stated the group will need to dig deeper on hotel financing to understand each of the different potential financing models. He said he believes the Partnership also needs to better understand the current demands for hotel rooms in Boston, the effects of a 1,000-1,200 room hotel on Boston’s existing hotel market, and the various options for hotel sites around the BCEC before recommendations can be made.

Mr. Rooney then provided an overview of the Convention Partnership process for the remainder of the year. On June 28, 2010, the Convention Partnership meeting will be a moderated panel discussion to address the “tough questions” associated with BCEC expansion and hotel development. In July and August, the Partnership will be divided into sub-committees based on three categories: Hotels, Financing and Expansion Components & Urban Context. Sub Committees will involve assistance from expert consultants in each category. In September and October the subcommittees will present their findings and the group will start transitioning from analytics to recommendations. And in November and December the group will develop conclusions and form solid recommendations that will form the basis of the year-end report. Mr. Rooney also suggested that a July interim report be written before the December final report.

Lastly, Mr. Rooney highlighted news in the industry, including news about Boston being named the No. 1 meetings destination in the U.S. for international events, Chicago’s McCormick Place reform efforts, and the effect of Arizona’s immigration bill on that state’s conventions and meetings industry.

1. Community Context & BRA Vision for the South Boston Seaport District

Mr. Rooney introduced Kairos Shen, chief planner for the City of Boston, to provide an overview of Boston's urban planning context over the past 15 years. Mr. Shen walked through the efforts of the city, and discussed the role of the convention center, Massport, as well as the roles of private developers.

Through a number of slides, Mr. Shen walked through the vision for the 1,000 acres of planning area in the South Boston Waterfront. He said the BRA has a vision for the area to be "the Central Park" of Boston. Mr. Shen said that the BRA would like to recreate the energy of the Back Bay neighborhood in South Boston and said he found the Back Bay to be a tremendously successful model for what the city is trying to do with the BCEC in South Boston.

Part of what makes the Back Bay a successful area, Mr. Shen explained, is that it is 40 percent residential, with 20 million square feet of office space along the Boylston corridor. He said that the convention center district has the ability to mirror the vitality of Copley Square.

Mr. Shen explained the premise of the 1999 Public Realm Plan with the most important concepts being the North and South Connections (including D St. as the most important connective corridor) as well as the East and West connections (especially Summer St. and Seaport Blvd.). He also said that the Boston Marine Industrial Park is a key asset as an incubator for the Mayor's vision of an Innovation District that boosts the local economy and workforce. Mr. Shen said the idea of the Convention Center District as an "enhancement zone" was intended to create opportunities to link to the neighborhood by housing industries that service the convention center.

Mr. Shen walked through several components of the Public Realm Plan (both finished and unfinished elements). He said the goal in 2050 is to have 20 million square feet built, with one-third residential, one-third office space and one-third for the convention center - including hotel - and cultural specific landmarks. Mr. Shen said that the impact from this planned development could create 60,000 new jobs alone, but that there is a lot more work to be done to get the Convention Center District to full build.

- Mr. Dimino asked Mr. Shen how important it would be to have a more developed transportation network to support the 60,000 new jobs and the increased amount of convention visitors to the Waterfront district. Mr. Shen answered by saying that transportation analysis shows that the system will fail because there's not enough transit. We can't run the buses fast enough and it becomes a bottleneck. D St. is a critical location for the onramps of the East and West Connection for I-90 which in turn conflicts directly with the Silver Line buses coming onto the surface. We would probably have to ask ourselves if we could submerge that portion of the Silver Line.
- Mr. O'Shaughnessy asked Mr. Shen to elaborate on transportation studies. Will we be able to get 14 million square feet developed before we see the transportation network start to fail? Mr. Shen said that we need to use the capacity that we have now to support the community, but keep thinking about the need for the Urban Ring connector and increased Silver Line support. Private para-transit service to

the Waterfront from local neighborhoods already exists today because our current network is not as effective as it should be.

- Mr. Berma of Save the Harbor commented that Mr. Shen's slides leave out the water transportation overlay. Mr. Shen apologized that he didn't elaborate on the water transportation resources just on the other side of the harbor. He mentioned that the waterfront is halfway between downtown and the airport which makes it a great location for water transportation. The Waterfront hotels can take on overflow from airport hotels and the water serves as a better transportation mode when the destination location is further. Mr. Shen said he believed the water transportation is an important part of the system, and a wonderful way to arrive, but that it takes three times as long as by car.
- Mr. Rooney said that the group should continue to think about urban context. He said the BRA is great in terms of helping us think about how and where we develop, but we need to think about supporting the existing community as well.
- Mr. Settles stated that he felt the state should develop transportation plans appropriate to work with visitors and residents and that we should also discuss extension of hours of operation. Mr. Shen agreed and said the BRA should work closely with the MBTA, but that the T is in dire straights in terms of financing.

Mr. Shen introduced Mr. Peterson to discuss the MCCA and community dialogue. Mr. Peterson has been working with South Boston community leaders and 25 state officials along with the Mayor's office to address community concerns. Mr. Peterson explained that the neighborhood has been satisfied with the convention center's ability to manage traffic and facility functions with minimal impact on local neighborhoods, and are energized and excited to here about how the future expansion will work to benefit the neighborhood. The community continues to express the need for transportation management and increased green community space as a part of Waterfront development.

Mr. Shen followed Mr. Peterson's presentation by saying that as we permit projects there is also a detailed phasing of public infrastructure with private development. For example, Massport created the Eastport Park and South Boston Waterfront Park in conjunction with the first phases of waterfront construction. Part of the planning included an agreement that immediate improvements be required before any new development occurred. We also need to make it a matter of policy that these immediate improvements be good uses of our resources. In other words, Mr. Shen said, we need to make sure that what goes up immediately doesn't get torn up later.

- Mr. Dimino added that it would be important to consider micro-street improvements. He said he specifically feels that better connections to the South Boston Waterfront from the Back Bay are needed.

1. Boston Convention & Exhibition Center Financing

Johanna Storella, Chief Financial Officer for the MCCA, presented on financing related to the Boston Convention and Exhibition Center. She provided an overview of state and local level financing used to acquire the BCEC site, project funding, and roadway improvements.

Legislation placed more of the financing burden on visitors through meal and hotel room taxes rather than on Commonwealth citizens. BRA and legislative assistance also helped fund improvements to the roadways to protect the neighborhood from convention related traffic, clean up and HVAC systems.

Legislation holds that any new hotel rooms in Boston & Cambridge will have a hotel room tax. Within that tax, a percentage goes into the Boston Convention Center Financing District. There is also a 5% sales tax at new retail shops in the Boston Convention Center Financing District and Springfield Convention Center Financing District, a 5% tax on ticket prices for land or water based tours in Boston and a tax on vehicle rentals.

- Ms. Signori pointed out that the recent tax increase in Boston on hotel rooms has nothing to do with the convention center finance structure. She stated that all hotel excise goes into a fund. That fund is used as a general fund to support general operations in the city.

*Note: Ms. Storella's PowerPoint presentation was amended to make that distinction more clear.

Ms. Storella noted that the convention center generally generates significantly more than it uses for operations and capital budget.

- Councillor Linehan added that the fund is expected to contribute back to the state. In Fiscal Year 2009 the Commonwealth used outside sections of state budget that requested that the MCCA fund contribute to the Massachusetts Office of Travel and Tourism. In 2009 and 2010 fiscal years, the contribution was \$2.5 million, but the current budget for FY2011 has the funding level at \$5 million.

Ms. Storella explained the convention center's flow of funds using a waterfall diagram for fiscal year 2009. The diagram is evaluated on a 25-year forecast to ensure that the elements of forecasted budget can be paid for. Ms. Storella explained that the sources and uses of the convention center fund affect the fund balance at the end of the year. Because of this, Ms. Storella said that the bar representing '09 revenues will need to increase over time.

- Ms. Signori suggested it would be nice to see the waterfall diagram for a more stable year than FY09 to get an idea for capital reinvestment.

Ms. Storella said that after 2015 the annual expenditure of the convention center fund will be \$100 million. She stated that is helpful to look over time into the future total revenue sources and total expenditures to see what kinds of additional revenues are generated because of the hotels.

Mr. Rooney concluded Ms. Storella's presentation by stating that these earlier finance presentations to the Convention Partnership are meant to show a framework, but that deep analysis will occur more in the next phases of the Partnership meetings.

4. Financing for other center expansions

Mr. Rooney opened the next presentation by reminding Convention Partnership members that every convention center expansion has a different approach to financing their individual project. He introduced Mr. James Sult with the firm Piper Jaffray & Co., an investment banking firm that specializes in hospitality finance.

Mr. Sult explained the two broad categories used to finance convention center construction: Tourist related takes and direct government support. Mr. Sult used Phoenix, Arizona as an example of a city that owns and operates their convention center with no independent authority. The expansion of the convention center in Phoenix was funded directly by the state and city.

Mr. Sult used San Diego Convention Center to show a center that was originally owned by an independent authority. After their 1994 expansion was completed, ownership was transferred to the city and today the San Diego Convention Center Corporation is controlled by the Mayor's office. Their deficit comes from a city fund and the future expansion will be funded by bonds issued by city lease payments.

The Pennsylvania Convention Center Authority, Mr. Sult explained, is on city land and is run by a board with members appointed by county officials, the Mayor, state legislators, and the Governor. There is a 6% hotel occupancy tax that goes to the authority and the CVB to fund operations and capital funds.

Like Pennsylvania, Mr. Sult continued, Washington D.C. uses an independent authority to run the convention center operations with the Mayor appointing the majority of the board. Washington D.C. also has hotel occupancy, car rental and food and beverage taxes to support operations and capital funds of their convention center.

Mr. Sult noted that based on his studies most convention centers receive funding from occupancy takes with the exception of Western states where the city government typically backs capital funding.

Mr. Sult also provided a brief outline of possible ownership and operations structures. Ownership can be independently run by a state or city authority, or it can be city controlled directly by the government. Operations can also come from dedicated tax revenues or from direct city funding.

- Mr. Rooney noted that there is a broad menu of things that people can do to fund and run a convention center based on what part of the country the center is in.

Mr. Sult then walked through the Westin Hotel Case Study. He showed how the Westin fits into the public/private financing category and how, despite some challenges, the relationship between the Westin and BCEC has been successful operationally. Yet, the Westin still has no firm expansion plans for additional hotel rooms.

Mr. Sult explained that the MCCA owns the land the Westin is on and the MCCA has a rent, and a room block agreement with the hotel. The MCCA has a relationship with the hotel owners who in turn have a relationship with hotel operations team, Starwood.

Mr. Sult showed that the Westin was funded by primarily private sources. \$170 million came from private sources, \$33 million from public bonds, the MCCA and City contributed \$18 million related to infrastructure, and the city contributed \$15 million in loans.

- Councilor Linehan remarked that the original Westin developers made an extraordinary \$100 million profit. He noted that the times are different, but asked if Mr. Rooney had any general comments. Mr. Rooney answered by saying that the Westin timing was great, but that the private model really doesn't work today. With Publicly owned hotels, in the event that they're sold for a profit like that it goes to the public. When it's private, the private owners get the sales proceeds. The Westin was put on the market at the perfect time. People are generally considering a different model now.
- Ms. Signori asked Mr. Sult to explain, other than Washington, D.C. why he says the private model is no longer successful. Mr. Davis answered that Washington D.C. got hung onto this private model, only to get two or three levels down the road and realize it wasn't going to work. If it's a publicly supported convention center hotel, you don't have to worry about room agreement. Today, centers often start down the private fund road and realize it's not going to work.
- Mr. Sult also spoke about the Baltimore center's subsidized Marriott hotel. It ended up doing very well, but the convention center couldn't get a room block agreement *because* the market was doing so well.
- Mr. Davis continued by saying that typically, in the last 10 years, centers have tried to get a hotel done privately. Then, somewhere during the process they come to the decision that it's just not doable, and that they might as well be publicly financed and owned. Washington, D.C. is the outlier because they continue to subsidize. This is a key factor why these hotels are started and delivered with a decade in between.
- Mr. Linehan asked whether or not the Westin is profitable now. Mr. Davis and Mr. Rooney answered by saying yes, they do very well. They have a significant portion of their business generated by the convention center: two-thirds of their room nights come from the BCEC.
- Mr. Settles asked how well will they be doing once they start paying rent. Mr. Rooney replied by saying that the finance team would have to evaluate to answer.
- A member of the audience asked what the fixed rent was. Mr. Davis replied that in 2013 they would pay \$750 thousand.

5. Conclusions

Mr. Rooney reminded the Convention Partnership that nothing is going to happen overnight and that it would likely take five years just to get the groundbreaking done for a hotel. He noted that these meetings were to build a long term discussion about how to move forward.

Mr. Rooney summarized the community Context presentations with the following points:

- We will continue to collaborate with the neighborhoods, the city and other stakeholders as we move forward and consider the future of the BCEC.

- We want to ensure that any expansion is respectful of South Boston and Fort Point neighborhoods.
- We've heard that the neighborhoods want expansion elements to be appropriately designed - scale, massing and materials need to be right.
- Creating open space for neighborhood use is important, as are traffic and parking issues.

Mr. Rooney noted that connecting to the neighborhood is an obligation when we think about the design elements of any future expansion. He stated that the need for residential is crucial to enhancing the vitality of the neighborhood and that the Back Bay serves as an important model of this effect. He also remarked on the Mayor's vision for the South Boston Waterfront as an innovation economy that attracts a variety of businesses and entrepreneurs.

Mr. Rooney summarized the Financing presentations with the following points:

BCEC Financing

- BCEC financing plan has been successful: Chapter 152 revenue sources established to pay the debt service and to cover operating deficits for the BCEC and the MCCA
- Most money put into Convention Center Fund comes from hotel room occupancy taxes
- Other sources of revenue include car rental surcharges, and surcharges on tours in Boston

Financing Other Convention Center Expansions

- Other cities' convention centers funded through a variety of approaches; there is no single approach
- Typically a portion of the revenue to pay the debt service on bonds comes from new or dedicated hotel room occupancy taxes
- Hotel occupancy taxes are usually supplemented by other fees and taxes targeted at visitors rather than local residents

Mr. Rooney recapped the Westin Hotel study by reminding Convention Partnership members of the following key points:

- Westin Hotel financed with mostly private funds, but there were funding contributions from MCCA and the city
- MCCA and city contributions relatively modest - about 16% of total costs
- The Westin deal took a long time and was renegotiated several times. The hotel opened later than the BCEC and with fewer rooms than we wanted - about 800 rooms rather than 1100 rooms
- Westin's original owners sold it less than a year after opening, making significant profit
- Room block agreement has been relatively successful
- The Weston deal - with 84% private financing - is not doable today.
- Private financing is not available and the required public contribution is much higher - maybe 50% of the total cost of the hotel

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