Financing of the Boston Convention and Exhibition Center

Boston Municipal Research Bureau

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Acknowledgment

To assist in this evaluation, the Research Bureau brought together, on a pro bono basis, a group of management, finance, legal and real estate experts to work with its staff. The Bureau is indebted to the individuals from these firms for their expertise and contribution to the research and preparation of this report. We are especially grateful to McKinsey & Company, Inc. United States/Boston, which played a lead role in this project.

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E&Y/Kenneth Leventhal Real Estate Group

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Mellon Global Asset Management

Smith Barney Inc.

Background

Last year, the Mayor of Boston, the Governor of the Commonwealth of Massachusetts, the Speaker of the House, and the President of the Senate agreed to establish a Pre-Development Working Group to examine the possibility of constructing a new 600,000 square foot convention center. Separate legislation authorizing the financing and construction of such a center has passed through the Senate and the House, and a joint version is currently being hammered out.

All major constituents (the City, the Commonwealth, both chambers of the Legislature) recognize the advantages of having a convention center. According to the Pre-Development Working Group, the convention center would attract additional tradeshows and conventions that cannot fit in the Hynes, thereby increasing tourism, creating jobs, spurring additional development, and generally improving the economic status of the City and the Commonwealth.

The Boston Municipal Research Bureau presents with this report an independent evaluation of the two bills currently under review. The Bureau began with the premise that the convention center is an important and worthwhile investment for both the Commonwealth and the City. However, we also believe that the financing of the center must not interfere with either the City or the Commonwealth's ability to provide essential services to citizens. Now that both the House and the Senate have passed versions of legislation that authorize the financing and construction of a convention center, this report assesses the degree to which differences between the bills will affect the City and the Commonwealth's ability to finance the convention center without utilizing existing revenues earmarked for the provision of other services.

To help in this evaluation, the Bureau assembled a group of management, finance, legal, and real estate experts, all of whom worked on a pro bono basis. The team consisted of individuals from Ernst & Young/Kenneth Leventhal Real Estate Group; Goodwin, Procter & Hoar, LLP; McKinsey & Company, Inc. United States/Boston; Mellon Global Asset Management; Smith Barney Inc.; and the Boston Municipal Research Bureau. The team started with the reports of the consultants who had been hired by the Pre-Development Working Group and the text of the actual legislation. They completed a detailed review of the Initial Report, the Final Report, the Technical Appendices, and each version of the legislation. In addition, the team reviewed the two Pioneer Institute reports and the various responses to these reports. This was supplemented with interviews and meetings with real estate experts, legal counsel, and City/Commonwealth officials. Finally, the team constructed a financial model to evaluate the financing proposed in both the House and Senate legislation. The financial model enabled the team to assess the assumptions presented in the Final Report and to test other scenarios.

It is the assumption of the Bureau that the construction of a new convention center facility is in the best interests of both the Commonwealth and the City. This report does not address the relative merits of this project versus the many other worthy uses of government support.

The team initially took a broad approach, examining the finances of both the City and the Commonwealth. Early analysis of the Governor's proposed legislation indicated that bond coverage might be challenging for both parties. However, the more recent House and Senate versions of the legislation include provisions that make the financing quite secure for the Commonwealth.

Since the City's financing position is much more tenuous than that of the Commonwealth, the bulk of this report focuses on the impact of the differences between the House and Senate versions of the legislation on the City's ability to finance the convention center without utilizing existing revenues.

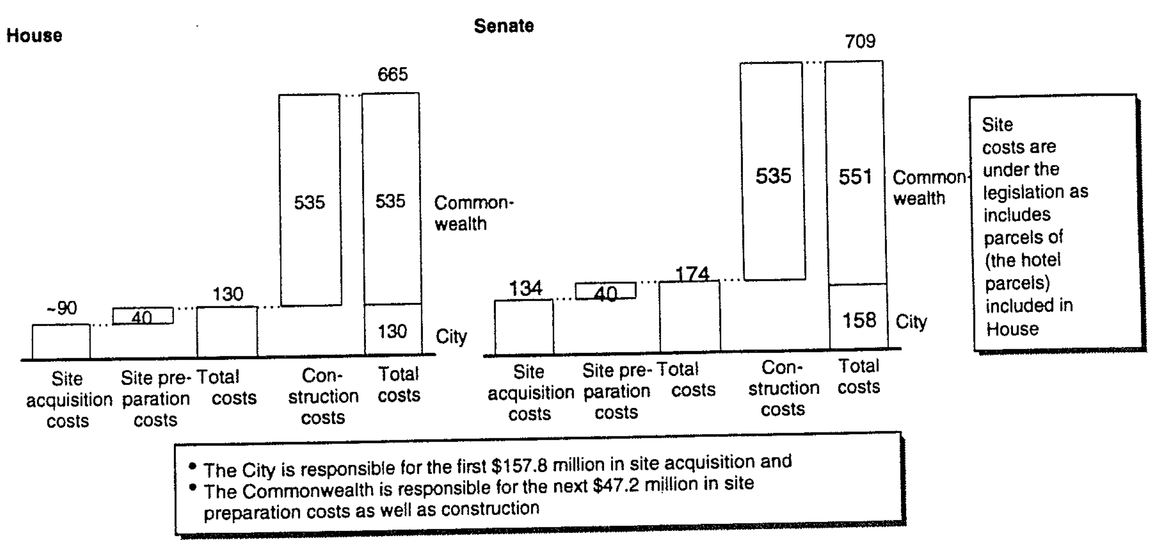
Executive Summary

Both the House and the Senate have passed versions of legislation approving the construction of a new convention center. This convention center will be 600,000 square feet and will cost between $665 and $709 million to construct (depending on whether the site for an attached convention center hotel is included). The House and Senate versions of the legislation differ on three main points – the financing mechanism employed, the governance mechanism established, and the go-ahead or project triggers utilized. These differences will need to be resolved. The most critical is financing. For this reason, the majority of this report is dedicated to this issue.

Exhibit 1

TOTAL COSTS OF THE PROPOSED NEW CONVENTION

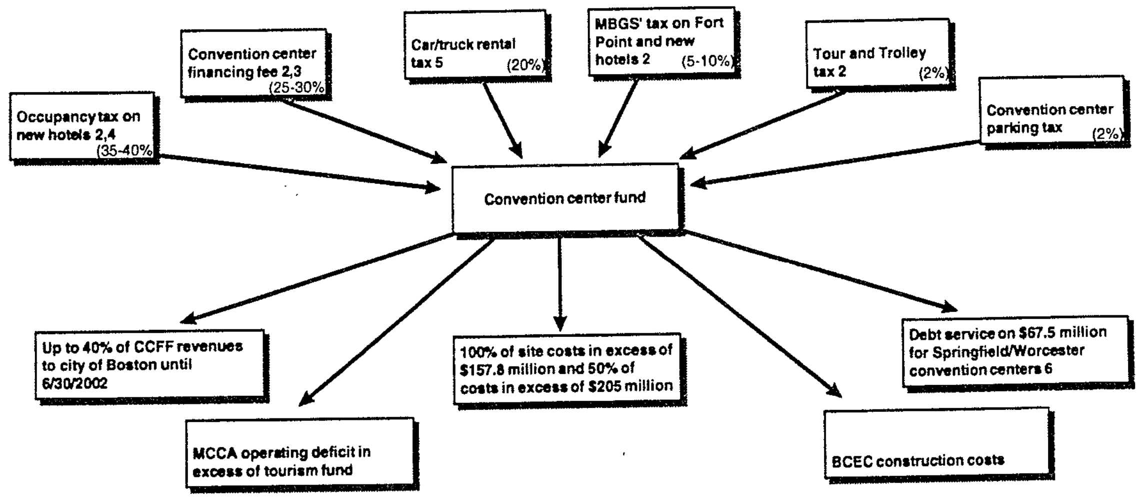
$ Millions



The Commonwealth's financing of the convention center is sufficiently secure to confidently proceed with this project. The range of revenue sources proposed will be more than adequate to finance the Commonwealth's commitments and not adversely impact its debt burden.

Exhibit 2

FINANCING MECHANISM FOR COMMONWEALTH'S SHARE OF BCEC COSTS



1. MBGS = meals, beverage, goods and services 2. Boston and Cambridge only in Senate bill; House bill also includes Springfield and Worcester
3. 2.75% in House bill; 2.3% in Senate bill 4. Occupancy tax currently 5.7% but can be raised to 6.2% 5. 7% or $10 whichever is less in House bill, $9 in Senate bill
6. House bill only 7. Establishments opened after 7/1/97 only

Source: BCEC legislation

The financing mechanism in both the House and Senate legislation provides sufficient funds to allow successful financing of the project, even under a reasonable downside scenario.

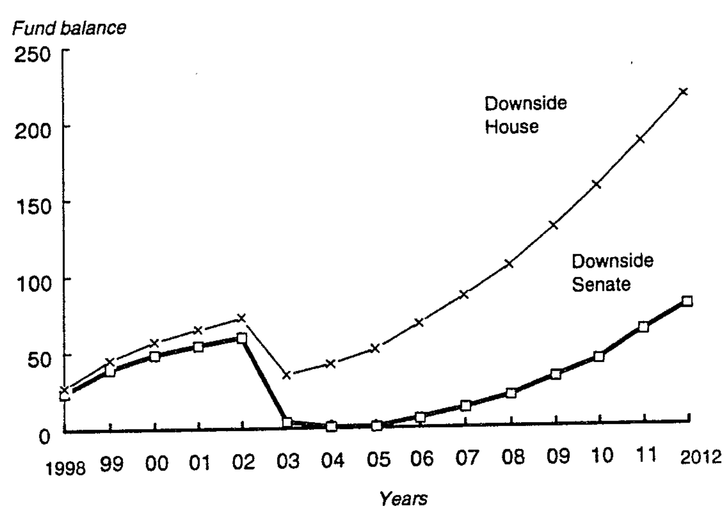
Exhibit 3

CONVENTION CENTER BALANCE UNDER DOWNSIDE SCENARIO

$ Millions

Downside scenario – 20% decrease in new hotel construction, 20% increase costs, 1% increase in interest rates, 20% decrease in Hynes and Boston center volume, 20% increase in operating costs over projections in Final

- Convention Fund balance drops in 2003 as 125% first year's service is put escrow



Key provisions for

- Up to 40% of convention center financing fee available to City until 6/30/02
- $1 of car/truck rental tax revenue to City
- City allowed to retain revenue from hotel parcels

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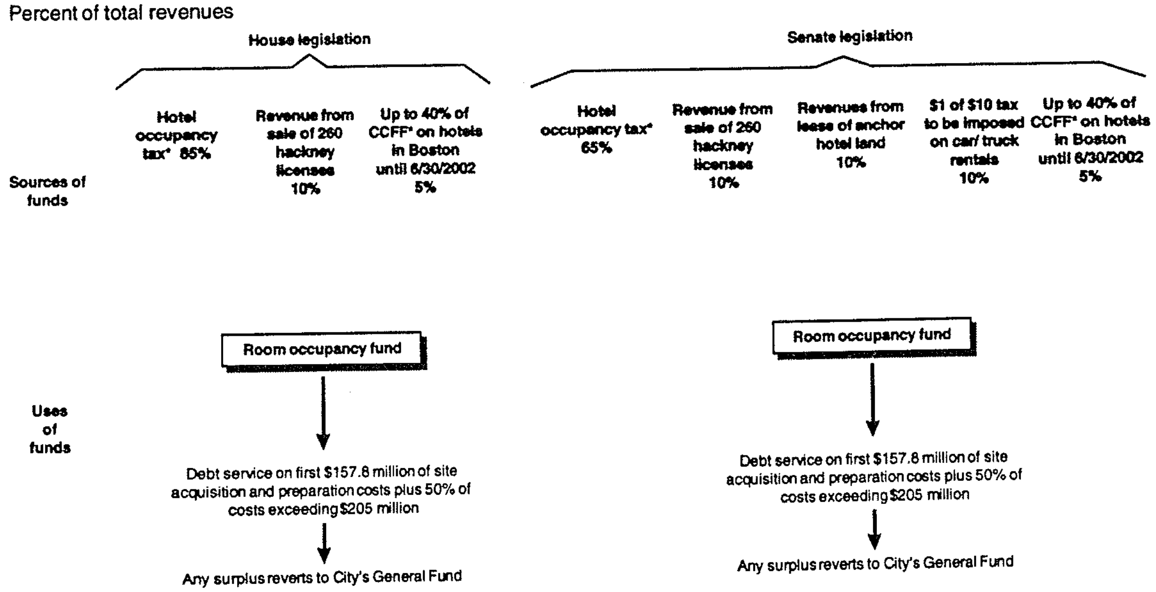
This is primarily due to an increase in the room occupancy tax to establish a convention center financing fee, the creation of a convention center finance district, and the addition of the car and truck rental surcharge (which adds $11 million annually). Even under a downside scenario and the establishment of an escrow account with 125 percent of the first year debt requirement in 2003, the Commonwealth's convention center fund balance remains positive and increasingly grows through 2012. With the adoption of either version of the legislation, or a combination of both, the Commonwealth will have more than sufficient new revenue available to meet its debt service obligation with respect to the convention center. As a result, the Commonwealth's overall credit profile with the rating agencies and investors should not be adversely impacted by the Legislature's actions.

Exhibit 4

FINANCING MECHANISM FOR CITY'S SHARE OF BCEC SITE COSTS

Percent of total revenues



* Hotel occupancy tax currently 4.0% but can be raised to 4.5%

** CCFF = Convention center financing fee; a room occupancy surcharge set at 2.75% in House legislation and 2.3% in Senate legislation

Source: BCEC legislation

For the City, the financing mechanisms in both the House and the Senate versions of the legislation are adequate if the assumptions in the Final Report regarding costs and revenues are met. After a thorough evaluation, these assumptions appear to be reasonable. Nevertheless, if the assumptions in regard to new hotel construction, site acquisition and preparation costs, and interest rates are *not* met, the City will be required to tap into its existing revenues. This risk needs to be minimized through the adoption of key provisions in the Senate legislation, as well as by City actions that could help ensure adequate new hotel construction and optimal use of the hackney license revenue.

¶ **Using the assumptions in the Final Report, the financing mechanism is adequate.** Legislation from both the House and the Senate requires the City to finance the majority of site acquisition and preparation costs. Both versions require the City to create a "room occupancy fund" to finance the debt service, which is primarily funded by occupancy taxes on new hotel construction. New tax revenues to the City will exceed outlays if the projections in the Final report are met. However, successful financing also entails an opportunity cost to the City as most of the new hotel taxes and all of the proceeds from the sale of hackney licenses would accrue to the City even if the convention center were not built.

¶ **However, the City is at risk of using its existing revenues, particularly under the House version**

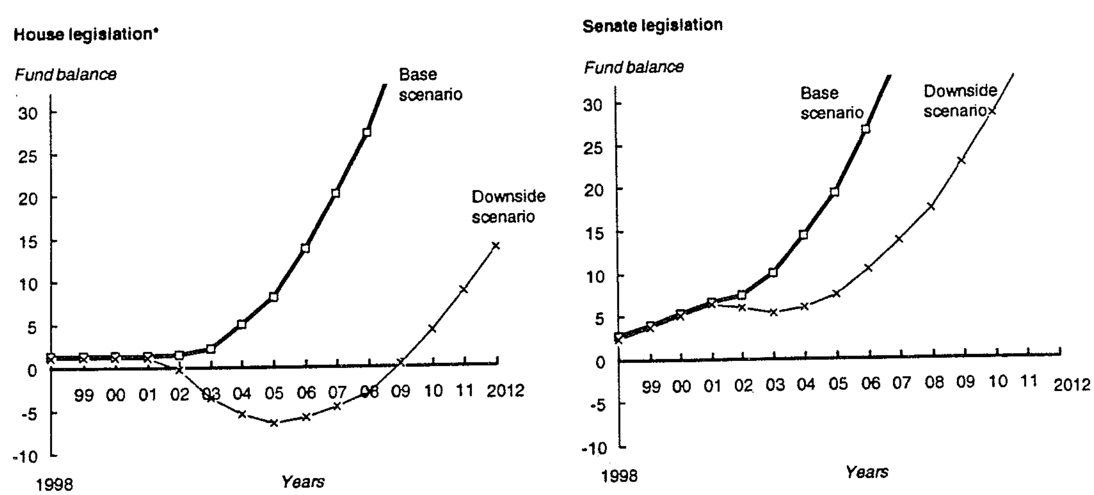
- New hotel construction projections are the most critical factor for revenues: a 20 percent decrease in the number of new hotels constructed would bring the City very close to a negative balance in the occupancy fund. Site acquisition and preparation costs, as well as interest rates, are two other important factors.

- The City is more likely to tap into existing revenues under the House legislation because it relies more heavily on new hotel occupancy taxes, and it exposes the City to the cost of any overruns in site acquisition and preparation costs. In addition, the Senate version includes sources of revenue not included in the House version.

Exhibit 5

ROOM OCCUPANCY FUND BALANCE UNDER DOWNSIDE SCENARIO

$ Millions



* Assumes City raises occupancy tax to 4.5%

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¶ **The Commonwealth and the City can take actions that lower the risk to the City without creating significant risk for the Commonwealth.** The Commonwealth's financing is sufficiently secure to allow adoption of key provisions in the Senate version to lower the City's risk and to ensure the successful financing of the project. Therefore, the Legislature should adopt a final bill that includes the provision which grants the City a share of the new tax on car and truck rentals and/or the provision which authorizes the City to retain revenue from the lease of hotel parcels. The final bill should also adopt the standards in the Senate version concerning the building of new hotels that must be met before the convention center project is authorized to proceed. At the same time, the City should consider using the hackney license revenue as a reserve to protect against early-year financing gaps. It should also take actions to improve the likelihood that new hotel construction meets projections.

SETTING THE STAGE: THE BOSTON CONVENTION CENTER AND EXHIBITION CENTER

The House and the Senate, in their respective legislative versions (H4747 and S1911), authorize the building of a new Boston Convention and Exhibition Center (BCEC) of 600,000 square feet to be located in South Boston. The main thrust of both bills is similar, but a few key differences remain that need to be resolved by House and Senate leadership and in Conference Committee. Both the House and the Senate versions of the legislation cover the same main points. The Commonwealth and the City of Boston will jointly finance the BCEC with the Commonwealth responsible for the funding of the facility and the City primarily responsible for site acquisition and preparation. Minimum numbers of new hotel rooms to be built are seen as "triggers" for the beginning of construction. Finally, the Massachusetts Convention Center Authority (MCCA) will own and operate the convention center along with the Hynes Convention Center. There are additional differences between the two bills regarding Worcester and Springfield. This report is limited to a description of the legislation as it affects the convention center in Boston. Sections in the House and the Senate legislation involving Worcester and Springfield are excluded.

The House and the Senate legislation differ on three main points – the financing mechanism employed, the project triggers utilized, and the governance mechanism established.

¶ **Financing the BCEC.** The total cost of the convention center is estimated at $665 million under the House legislation and $709 million under the Senate legislation. Site acquisition costs are higher under the Senate legislation as it includes five parcels of land facing Summer Street not included in the House legislation. The City is responsible for the first $157.8 million in site acquisition and preparation costs in both bills. The Commonwealth is responsible for the next $47.2 million and both split the costs over $205 million, up to $25 million each. The facility construction expenses to be funded by the Commonwealth are estimated at $535 million.

The financing mechanisms established in both bills attempt to support the debt incurred for the BCEC project by the Commonwealth and City through new revenues not currently realized. New hotel rooms represent an important new source of revenue for this project but much more so for the City than for the Commonwealth.

- **Commonwealth funding:** A "convention center fund" is established to which a variety of new revenues are earmarked for convention center expenditures funded by the Commonwealth. As part of the financing mechanism, a "convention center finance district" is established covering much of the South Boston/waterfront area proximate to the project site and up just past Fort Point Channel. Revenues allocated to the convention center fund include the following:

  - The Commonwealth's 5.7 percent room occupancy tax from existing and new hotel rooms in the convention center finance district. New hotel rooms are defined as those that first opened for patronage on or after July 1, 1997.

  - The 5.7 percent from new hotel rooms in Boston outside of the finance district and in Cambridge.

  - A "convention center excise" is established by increasing the room occupancy tax by 2.75 percent in the House bill and the equivalent "convention center financing fee" in the Senate legislation increases the excise by 2.3 percent.

  - Meals, beverage, and sales taxes generated in the finance district and in new hotels in Boston and Cambridge. These taxes are not being increased, rather receipts collected in the finance district are earmarked for the convention center fund.

  - A surcharge on sightseeing and entertainment vehicles.

  - A car/truck rental surcharge.

  - A parking surcharge at the convention center garage.

  These special receipts are included in both the House and the Senate legislation, but some differences exist in application and scope. For example, in the House legislation, the car and truck rental surcharge is seven percent of each contract up to a maximum of $10.00 per vehicle contract in Boston and Cambridge. In the Senate legislation, this surcharge is $10.00 per vehicle contract in Boston only. In addition, the Senate bill allocates $1.00 of the surcharge to the Room Occupancy Excise Fund to be used by the City of Boston while the House bill does not.

  When the increase of the room occupancy tax of 2.3 percent in the Senate legislation and 2.75 percent in the House legislation is added to the Commonwealth's 5.7 percent and the City of Boston's four percent, the total room occupancy tax imposed in Boston would be 12 percent and 12.45 percent respectively.

As a protection for the Commonwealth, the House and Senate legislation provide for a shelf tax that would allow, under certain conditions, the Commonwealth's room occupancy tax to increase. The House legislation authorizes the excise to increase up to 14 percent and the Senate legislation allows an increase of up to 13.5 percent but limits the increase to Boston hotels only.

- **City funding:** The City of Boston's financing mechanism for the funding of its debt for the acquisition and preparation of the site provides for the establishment of a Room Occupancy Excise Fund. Receipts allocated to this fund in both legislative versions include the following:

  - The City's four percent of the room occupancy excise for existing and new hotels. Funds from the excise not required in any fiscal year may be deposited in the City's general fund.

  - Proceeds from the sale of 260 hackney licenses which is expected to generate approximately $21 million.

  - Receipts from the Commonwealth's convention center fund to make up the difference between the City's receipts from occupancy taxes on new hotels and the interest on the City's bond anticipation notes until June 30, 2002. No more than 40 percent of the convention center fund receipts from Boston hotels can be pledged to the City.

  The intent of this financing mechanism is to fund the City's site acquisition and preparation capital expenses from new revenues and not rely on its existing revenue base. That means that the City will depend on occupancy excise receipts from new hotels so that the receipts from the four percent from existing hotels can continue to be used for general fund operations. Use of the convention center fund receipts helps the City with its early debt service costs until more new hotels are built. Both legislative versions also authorize the City to increase its room occupancy excise from four percent to 4.5 percent if necessary.

  The major difference between the House and Senate legislation with regard to the Room Occupancy Excise Fund is that in the Senate bill $1.00 from the car and truck rental surcharge is allocated to this fund for the City's use. The House bill does not include this provision.

Another key difference involving funding sources for the City is the size of the site and the City's ability to generate revenue through leasing parcels on the site. As noted above, the Senate legislation includes five parcels of land for the convention center site that were excluded in the House legislation. The City had considered retaining ownership of some of these parcels with the intent of leasing the parcels for a convention center hotel. The lease revenues would help the City defray its convention center debt service costs.

¶ **Hotel triggers**: The House and Senate bills have different standards concerning the building of new hotel rooms that must be met before the convention center project is authorized to proceed. These "triggers" are intended to insure that the funding of the project is viable before either the Commonwealth or City commits to its financing. The Commonwealth's ability to finance its obligations is far less dependent on the construction of new hotel rooms than the City. The City will be reliant on new hotel rooms for 65 to 85 percent of its total revenues for land acquisition and preparation costs. The City is more dependent on new hotel rooms under the House bill because fewer non-hotel revenue sources are authorized than under the Senate bill.

The House legislation requires that as of June 30, 1998, no less than 2,800 new hotel rooms be subject to the room occupancy excise in Boston and Cambridge or be scheduled to be in service before December 31, 2000. Also on June 30, 1998, a marketability study must be submitted that gives assurance that before the convention center begins operations, 4,800 new rooms will be available. On June 30, 1998, the developers of the planned hotels must present a financing commitment letter from a recognized lender for these hotels which may not be built until 2000 or later.

The Senate legislation, on the other hand, requires that by June 30, 1998, a market study must be prepared showing that not less than 2,500 new hotel rooms will be in service in Boston and Cambridge by the time the convention center opens for operation.

Non-hotel triggers in both bills require approval of a convention center development plan by the Mayor and City Council, collection of an amount of special receipts tied to first-year debt service costs in the convention center fund by June 30, 1998 and assurances that the restructured MCCA's net loss from operations will not exceed $12 million before applying Tourism Fund proceeds.

¶ **Governance**: The House and Senate agree that the MCCA should own and operate the new convention center along with the Hynes Convention Center and the Boston Common Parking Garage. However, the respective bills of the two branches disagree about the structure of the MCCA Board and the accountability of the Chief Executive Officer. The Senate legislation is satisfied with the current governance structure of the MCCA. The Board consists of seven members with four appointed by the Governor and two by the Mayor of Boston. The Treasurer of the Commonwealth serves as Chairman. The Executive Director is appointed by the Board to serve as Chief Executive Officer of the Authority. The salary of the Executive Director is set by the Board but cannot be reduced without his consent. The Executive Director has secure tenure since he can only be removed for cause after public notice and hearing.

The House legislation proposes a new board structure of 11 members of which seven are appointed by the Governor and two by the Mayor of Boston. Also, the Massachusetts Secretary of Administration and Finance and the City's Chief Financial Officer are Ex Officio members. The Chair would be selected by the Governor from among the 11 members with the approval of the Mayor. The MCCA Board would appoint a Chief Executive Officer who would serve at the pleasure of the MCCA and be accountable to the Board. The House legislation also provides that the tenure of the present Executive Director of the MCCA would not be affected by the act but that the same person could not serve as Chief Executive Officer and Executive Director simultaneously.

FINAL REPORT ASSUMPTIONS FOR COST AND REVENUE MAKE THE FINANCING MECHANISM ADEQUATE

Under both the House and the Senate versions of the legislation for a new convention center, the City will be responsible for the majority of the site acquisition and preparation costs. To pay for the debt service on these costs, the City has committed itself to dedicating all new hotel occupancy tax revenue accrued from hotels constructed after 1997. Given the hotel construction projections from the Final Report and a stable interest rate environment, this revenue should sufficiently cover debt service on the City's portion of these site acquisition and preparation costs. At the same time, while the hotel occupancy tax revenues from new hotel construction used to finance the convention center are technically "new" (in that they are additional to the current budgeted revenues), they would have accrued to the City even without the construction of a convention center. They, therefore, represent an opportunity cost.

Projected new revenues are adequate to cover the City's estimated costs

Both versions of the legislation require the City to establish a "room occupancy fund." The main source of new revenues into this fund are hotel occupancy taxes on new hotel construction in Boston. The Final Report projects construction of 3,717 hotel rooms in Boston by 2003 and 8,158 by 2012. Revenues derived from occupancy taxes on these hotels, combined with the additional sources of revenue provided in the legislation, should be sufficient to meet outlays if cost projections are accurate and interest rates remain stable.

¶ Under both versions of the pending legislation, the City's main source of revenue is its four percent hotel occupancy tax on new hotels. New hotel construction is projected to increase with an additional 3,717 hotel rooms coming on line in 2003 and 8,158 in 2012.

¶ Revenues of $20.8 million are expected to be generated from the sale of hackney licenses. Under the Senate version of the proposed legislation, the City would receive an additional $1.3 million annually from its share of the new tax on car and truck rentals, as well as $2 million annually from the lease of the hotel parcels.

¶ Finally, the Commonwealth has pledged to assist the City with interest payments until 2002. The Commonwealth will make up the difference between the City's revenues from occupancy taxes on new hotels and the total interest payments required from the City so long as that does not exceed 40 percent of the revenues from the convention center financing fee on Boston hotels. The Senate legislation does not include the City's share of revenues from the new tax on car and truck rentals when determining the amount of assistance from the Commonwealth.

These new sources of revenue will be sufficient to meet outlays if the Final Report projections on new hotel construction are accurate, if site acquisition and preparation costs come in as projected, and if the interest rate environment remains stable.

There is an opportunity cost to the City

Most of the new hotel construction projected in the Final Report results from increases in "baseline" demand rather than from the demand generated from a new convention center. Revenues derived from occupancy taxes on these "baseline" hotels, as well as revenues from the sale of hackney licenses, would accrue to the City even if the convention center was not built. Use of these revenues to finance the convention center represents an opportunity cost to the City which must be balanced against the projected benefits.

¶ Over 4,300 new hotel rooms are projected to be built in Boston by 2012 as a result of "baseline" increases in hotel room demand, while 3,800 hotel rooms are projected to be constructed as a result of the demand generated by a new convention center. Currently, 483 hotel rooms are under construction and 1,189 rooms have been approved by the BRA.

¶ Revenues from these "baseline" hotel rooms, and from the sale of the hackney license revenues, are required for the successful financing of the convention center and, therefore, represent an opportunity cost to the City.

¶ This opportunity cost should be balanced against the significant financial and non-financial benefits of a new convention center to the City.

The planned issuance of tax-exempt debt to finance the City's portion of the Convention Center should not have a material impact on the City of Boston's credit rating

The City is expected to borrow approximately $130 million under the House legislation, and approximately $157.8 million under the Senate legislation for site acquisition and preparation costs. In either case, the City expects to sell a combination of Bond Anticipation Notes (BANs) and long-term revenue bonds to fund these costs.

¶ Under both the House and Senate versions of the legislation, the City will pay the interest costs associated with the BANs from revenues from occupancy taxes on new hotels with the balance funded by the Commonwealth until June 30, 2002.

¶ The final security structure for the City's bonds has not yet been determined. However, it is expected that the revenue bonds will be secured by a combination of new tax revenues, reserves, and some form of credit enhancement from the City.

¶ The City's strong credit position, coupled with new revenue streams which will be either directly or indirectly allocated to the bond issue, should provide the rating agencies with sufficient comfort that the project's debt service will not have a material impact on the City's direct debt burden.

¶ Assuming a stable interest rate environment, the annual debt service obligation of the City for the project will average between $10.5 million and $14 million.

THE CITY IS AT RISK OF USING EXISTING REVENUES IF ASSUMPTIONS ARE NOT MET

While the Final Report projects everything from convention center attendance to multiplier effects in the Massachusetts economy, only three variables will significantly impact the City's ability to finance the project. Those three factors are: (1) new hotel construction; (2) interest rates; and (3) total site acquisition and preparation costs. Of these, new hotel construction will have the largest impact, with the caveat that in the House version of the bill, site acquisition and preparation costs also play an important role. Moreover, given key differences in site size and revenue sources between the House and Senate bills, the City is at risk of using existing sources of revenue under the House legislation, but not under the Senate bill.

New hotel construction is the critical factor

Importantly, a 20 percent variance in hotel demand would bring the City close to using its existing revenues. This is particularly true in the House legislation because it does not include supplementary sources of revenue.

¶ The Final Report projects that 3,717 new hotel rooms will be built in Boston before 2003. Given that there are currently 483 hotel rooms under construction, 1,189 approved by the BRA, and an additional 2,145 proposed to be constructed, this seems like a reasonable estimate.

¶ However, the Pioneer Institute and others have questioned the total amount of new hotel construction that will take place. This is particularly important because the financing is quite sensitive to changes in the number of new hotel rooms. A 20 percent decrease in new hotel construction would result in a room occupancy fund balance in 2003 of $8 million under the Senate legislation and only $50,000 under the House legislation.

¶ The House legislation is much more sensitive to changes in the number of hotel rooms because the Senate legislation includes the protection of additional, non-hotel based sources of income (i.e., the lease of the convention center hotel land and the first dollar of the new car rental tax in Boston). Consequently, the hotel occupancy tax from new hotels provides 85 percent of the City's convention center cost revenues under the House legislation, but only 65 percent under the Senate legislation.

Site acquisition and preparation costs are more important in the House legislation than in the Senate legislation

The projections for site acquisition and preparation costs in the Final Report are conservative. In both legislative versions, the City is responsible for the first $157.8 million of site acquisition and preparation costs. However, the projection for this cost in the House version of the legislation is $130 million, which makes the City responsible for the projected $130 million and the first $27.8 million of cost overruns and 50 percent of anything over $205 million, up to $25 million. By contrast, in the Senate legislation, the Commonwealth is responsible for the initial $47.2 million in overruns, and the City is responsible for the first $157.8 million and then only 50 percent of the portion over $205 million, also up to a total of $25 million.

¶ *Site acquisition costs.* The Final Report projects $133.5 million as the total site acquisition cost. Actual costs should be at least $10 million lower because the appraisal methods used to determine site acquisition costs in the Final Report were based on conservative assumptions regarding property valuation, the acquisition cost of public land, and the impact of litigation. In addition, the House version excludes the hotel parcel, thereby lowering costs by an additional $30 million to $40 million.

- *Site preparation costs.* The Final Report estimates site preparation costs to be $40.2 million. While these costs are substantially lower than initial projections, the reduction is the result of decreased costs of soil removal from the construction of a multilevel garage and should be achievable.

  Most importantly, this change in design makes the initial projection of $205 million for site acquisition and preparation costs irrelevant for the total cost. While the Commonwealth has maintained the $205 million as a cap on its 100 percent responsibility for costs, with the first $50 million in costs above $205 million split with the City, actual costs are unlikely to reach even $205 million.

Interest rate variations have a lesser effect on the total outlays required for the City

Interest rates have been relatively stable over the past few years. However, as recently as 1993-1994 interest rates have been as much as one percent (100 basis points) higher than those projected in the final report. If interest rates rise, the change in the City's total borrowing costs would be higher under the Senate legislation because of the inclusion of the hotel parcels. At the same time, additional sources of revenue in the Senate version provide a larger cushion against needing existing revenues. Conversely, if interest rates fall, the City's borrowing costs would be reduced.

- The interest rate environment appears to be relatively stable, and the current projections for interest rates seem reasonable.
- A one percent change has a large impact on the City's outlays, particularly under the Senate version of the bill.

While interest rates are an important factor, they are the only factor that is less favorable to the City in the Senate version than the House version. As such, it actually dampens the difference between the two versions of the legislation.

The City is more likely to tap into existing revenues in the House version

Given that the three variables discussed above will not necessarily move in isolation, a reasonable downside scenario was created for the City. Under this scenario, all three of the critical variables necessary for successful financing differ from the projections in the Final Report. This discrepancy leads to significant deficits in the case of the House legislation, but not in the Senate legislation.

¶ A 20 percent decrease in the amount of new hotel construction, a $30 million increase in projected site acquisition and preparation costs, and a one percent increase in interest rates represents a reasonable downside scenario.

¶ Under the House legislation, the room occupancy fund would run a deficit of $3.6 million in 2003 which would grow to a peak of $6.5 million in 2005 and continue to run over until 2009.

¶ Under the Senate legislation, the City would not require existing revenues, even under this downside scenario. Revenues from the car and truck rental surcharge, but not from lease of the hotel parcel, would be required to maintain a positive balance in the fund under the downside scenario.

RECOMMENDATIONS

THE COMMONWEALTH AND CITY CAN TAKE ACTIONS TO LOWER THE CITY'S RISK

The Legislature's adoption of key provisions in the Senate legislation would help to ensure the successful financing of the project. In addition, the City can take actions to increase the likelihood of successful financing. In particular, using the hackney license revenue as a reserve, and fostering new hotel construction would aid considerably.

Commonwealth actions

1. **The Commonwealth's financing of the convention center is sufficiently secure to confidently proceed with this project.** The range of revenue sources proposed will be more than adequate to finance the Commonwealth's commitments and not adversely impact its debt burden. As a result, the Commonwealth's overall credit profile with the rating agencies and investors should not be adversely impacted by the Legislature's actions. Indeed, the Commonwealth's position is secure enough to allow adoption of key provisions in the Senate legislation to lower the City's risk.

    a. *Downside scenario* – A reasonable downside scenario for the Commonwealth would be a 20 percent decrease in the amount of new hotel construction, a $30 million increase in projected site acquisition and preparation costs, and a one percent increase in interest rates, a 20 percent decrease in Hynes and BCEC convention center volume, and a 20 percent increase in BCEC operating costs over projections in the Final Report.

    b. *The Commonwealth's financing mechanism in both the House and Senate legislation provides sufficient funds to allow successful financing of the project, even under the reasonable downside scenario.* This is primarily due to an increase in the room occupancy tax by 2.3 percent or 2.75 percent (based on the Senate and the House versions) to establish a convention center financing fee, the creation of a convention center finance district, and the addition of the car and truck rental surcharge (which adds $11 million annually). Even under a downside scenario and the establishment of an escrow account with 125 percent of the first year debt requirement in 2003, the Commonwealth's convention center fund balance remains positive and increasingly grows through 2012.

2. **In light of the strong financial position of the Commonwealth regarding the convention center, the Legislature should adopt a final bill that similarly strengthens the City's financial position, including the following:**

   a. *Adopt a provision that grants the City a share of the new tax on car and truck rentals and/or authorize the City to retain revenue from the lease of hotel parcels.* This change would create no risk for the Commonwealth but would protect a positive balance in the City's room occupancy excise fund should a downturn or change in the Final Report estimates occur. The car rental excise would generate for Boston about $1.3 million a year and the land lease would generate about $2.0 million a year.

   b. *Adopt the Senate provisions for hotel triggers that must be met before the convention center may proceed.* The Commonwealth's ability to finance its obligations is far less dependent on the construction of new hotel rooms than the City. The City's reliance on new hotel rooms for 65 to 85 percent of its revenues for the land costs ensures that new hotels will be a high priority. Hotel triggers in the House legislation are more strict than necessary to protect the Commonwealth's financial interest. The Senate provisions require that prior to June 30, 1998, the Boston Redevelopment Authority and MCCA must prepare a market study showing that not less than 2,500 new hotel rooms will be in service in Boston and Cambridge by the time the convention center opens for operation. That number should satisfy the Commonwealth's needs and is less than the number of new hotel rooms currently projected.

   c. *Include the City's share of revenues from the new tax on car and truck rentals*, if adopted, in the determination of the Commonwealth's support from the convention center financing fee of the City's debt service for land costs until 2002. The Commonwealth has pledged to assist the City with interest payments until 2002, making up the difference from its occupancy taxes on new hotels and the total interest required. The Senate legislation that authorizes the car and truck rental surcharge for Boston does not factor this new revenue in the amount paid the City.

   d. *Establish a governance structure for the MCCA that fits the increased responsibilities and the competitive challenges it will face.* Somewhere between $665 million and $709 million of the taxpayers' money will be expended for a new convention center in Boston. Such an amount and the concomitant risks require that the operation of this investment be prudently and efficiently managed and that performance be adequately measured, managed, and incented. The Bureau believes that as a matter of principle the Chief Executive Officer of the MCCA should be accountable to the Board and serve as its behest.

City actions

1. **Use hackney license revenue as a reserve.** If the City uses the hackney license revenue as a reserve rather than as a means of lowering the total amount of debt, existing revenues will not be required even under the downside scenario and the House version of the legislation.

   a. The City's financing is most tenuous during the period from June 30, 2002, through 2006 as debt service rises faster than revenues from new hotel construction.

   b. Holding the hackney license revenues as a reserve helps the City to adequately cover its obligations during this critical period under a downside scenario.

   c. The City will likely be able to earn a rate of return on the monies held in reserve which meets or exceeds its cost of funds; thus ensuring that holding the revenues in reserve does not impact the City's net interest expense.

2. **Facilitate new hotel construction.** While significant demand presently exists for new hotel construction, the City will likely need to take actions to meet the projections in the Final Report.

   a. Significant demand exists at present for new hotel rooms with hotels experiencing high occupancy rates and high room rates.

   b. Despite this demand, the City will need to take constructive action to facilitate the permitting of new hotels. The City's heavy reliance on revenues from new hotel rooms to finance 65 to 85 percent of its site acquisition and preparation costs makes it necessary for the permitting of hotels in Boston to be a high priority within an overall development plan.

   c. City officials should market Boston aggressively to hotel developers and convention planners to spur new hotel development.

   d. Some form of public assistance may be required to encourage the development of some new hotels. In the past, new hotel construction in Boston has required the use of subsidies.

* * *

The City and the Commonwealth can both successfully finance their proposed portions of the Boston Convention and Exhibition Center using new sources of revenue as long as the Commonwealth adopts provisions to strengthen the City's financing in the final legislation and the City takes action to ensure new hotel construction. The recommendations of this report outline the required actions to help make the financing of the convention center a success.

Assessment of the Proposed Financing of the Boston Convention and Exhibition Center

BOSTON MUNICIPAL RESEARCH BUREAU

Discussion document

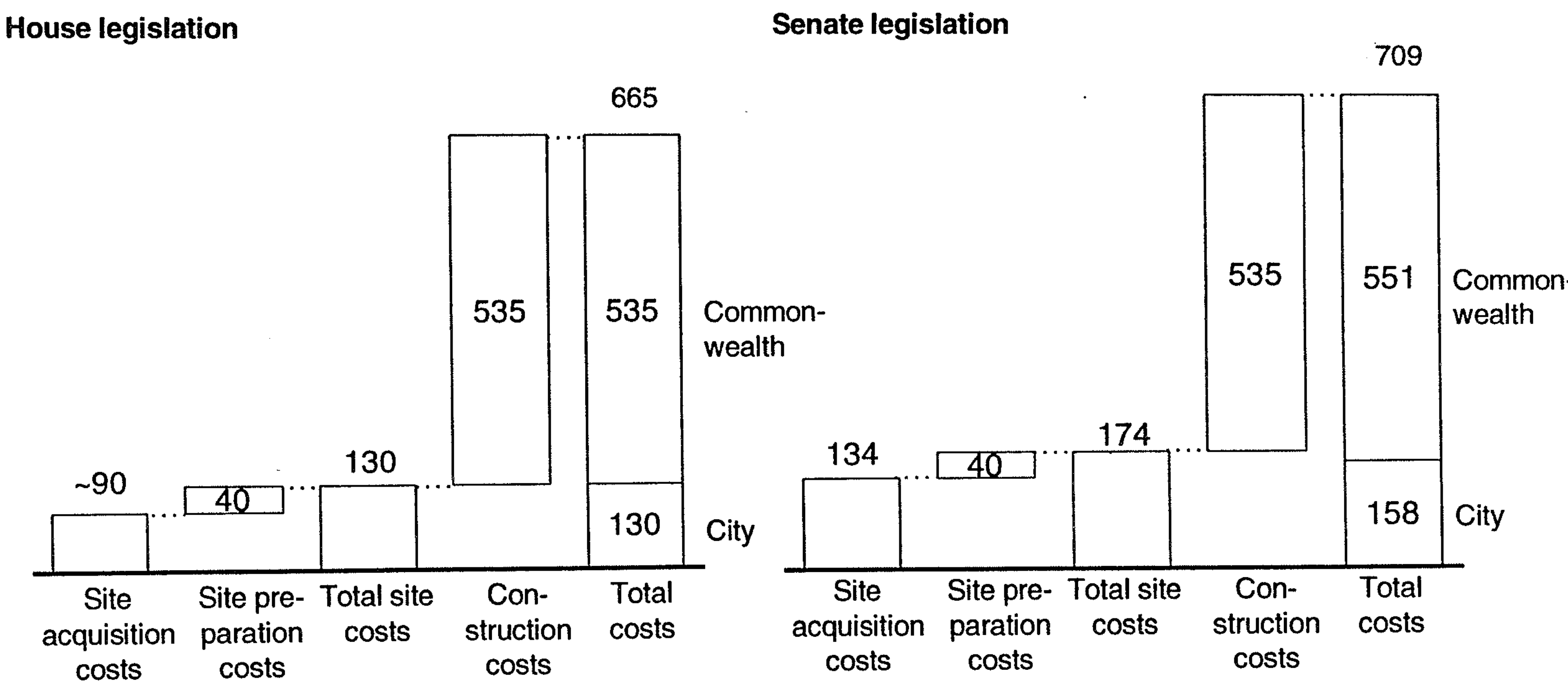
October 6, 1997

BACKGROUND

The total projected cost of the convention center is $665 million under the House legislation and $709 million under the Senate legislation. The City's share of these costs is projected at $130 million under the House legislation and $157.8 million under the Senate legislation.

TOTAL COSTS OF THE PROPOSED NEW CONVENTION CENTER

$ Millions



Site acquisition costs are higher under the Senate legislation as it includes parcels of land (the hotel parcels) not included in the House legislation

- The City is responsible for the first $157.8 million in site acquisition and preparation costs
- The Commonwealth is responsible for the next $47.2 million in site acquisition and preparation costs as well as construction costs

Source: BCEC Final Report; Fort Point Associates; BCEC legislation

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KEY DIFFERENCES FOR THE CITY BETWEEN HOUSE AND SENATE LEGISLATION

	House	Senate
Financing – costs	• Excludes 5 parcels and land from the convention center site which includes land which is probable site of convention center hotel	• Includes 5 parcels in convention center site
Financing – revenues	• City's revenues include occupancy taxes, Hackney revenues, and up to 40% of convention center financing fee on City of Boston; City must turn over convention center site to MCCA* for $1	• In addition to revenues outlined in the House bill, the City is also entitled to $1 of car and truck rental surcharge and land lease revenues from convention center hotel site
Governance	• The MCCA shall be governed by an eleven member board, which can appoint a chief executive officer to serve at its behest	• Leaves current MCCA governance intact; day-to-day operations overseen by existing MCCA management
Triggers	• Prior to June 30, 1998, at least $13.2 million credited to the Commonwealth's Convention Center Fund • Prior to June 30, 1998, at least 2,800 hotel rooms in Boston or Cambridge must have been either placed in service since July 1, 1997, under construction, or subject of project notification • Financing commitment letters for a total of 4,800 hotel rooms in Boston or Cambridge by June 30, 1998, for hotel rooms constructed prior to the projected start of the convention center	• Prior to June 30, 1998, the BRA* and MCCA shall have prepared a market ability study showing that not less than 2,500 hotel rooms will be placed in service in Boston or Cambridge between July 1, 1997 and project opening

* MCCA – Massachusetts Convention Center Authority; BRA – Boston Redevelopment Authority

Source: BCEC legislation

KEY DIFFERENCES FOR THE COMMONWEALTH BETWEEN HOUSE AND SENATE LEGISLATION

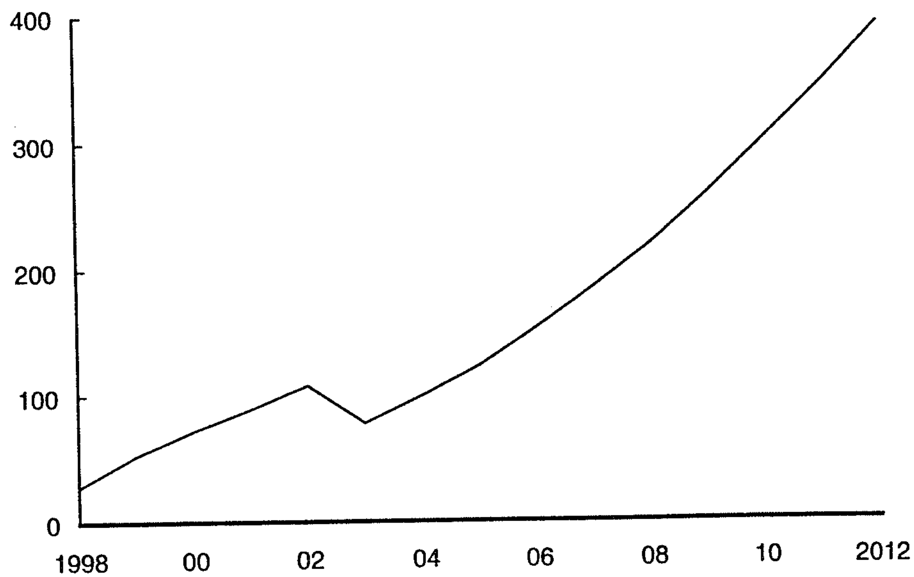
	House	Senate
Financing fee	• Convention center financing fee of 2.75% is applied to hotels in Boston, Cambridge, Springfield, and Worcester	• Convention center financing fee of 2.3% is applied to hotels in Boston and Cambridge
Debt service	• $67.5 million for Springfield and Worcester convention centers to be financed by convention center fund	• $67.5 million for Springfield and Worcester convention centers to be financed from general obligation debt

The Commonwealth's financing of the convention center is sufficiently secure to confidently proceed with this project. The range of revenue sources proposed will be more than adequate to finance the Commonwealth's commitments and will not adversely impact its debt burden.

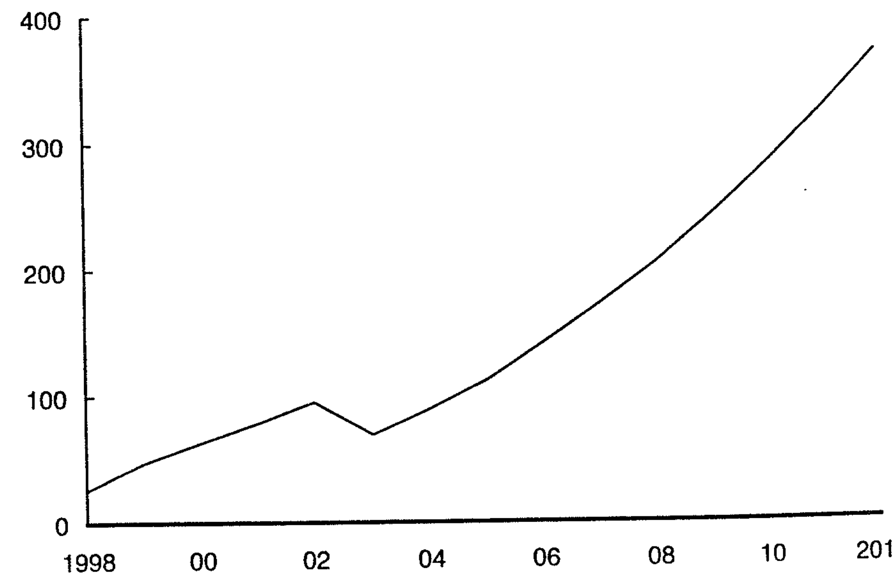
CONVENTION CENTER FUND BALANCE

$ Millions

House bill



Senate bill



Note: Convention Center fund balance drops dramatically in 2003 as 125% of first year's debt service is put in escrow account

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FINAL REPORT ASSUMPTIONS FOR COST AND REVENUE MAKE THE FINANCING MECHANISM ADEQUATE

The City's share of site costs will be financed primarily from revenues derived from occupancy taxes on new hotels The Senate legislation includes revenue sources for Boston not included in the House legislation.

FINANCING MECHANISM FOR CITY'S SHARE OF BCEC SITE COSTS

Percent of total revenues

Sources of funds

House legislation

- **Hotel occupancy tax* 85%**
- **Revenue from sale of 260 hackney licenses 10%**
- **Up to 40% of CCFF** on hotels in Boston until 6/30/2002 5%**

Senate legislation

- **Hotel occupancy tax* 65%**
- **Revenue from sale of 260 hackney licenses 10%**
- **Revenues from lease of anchor hotel land 10%**
- **$1 of $10 tax to be imposed on car/ truck rentals 10%**
- **Up to 40% of CCFF** on hotels in Boston until 6/30/2002 5%**

Uses of funds

House legislation:

Room occupancy fund

↓

Debt service on first $157.8 million of site acquisition and preparation costs plus 50% of costs exceeding $205 million

↓

Any surplus reverts to City's General Fund

Senate legislation:

Room occupancy fund

↓

Debt service on first $157.8 million of site acquisition and preparation costs plus 50% of costs exceeding $205 million

↓

Any surplus reverts to City's General Fund

* Hotel occupancy tax currently 4.0% but can be raised to 4.5%

** CCFF = Convention center financing fee; a room occupancy surcharge set at 2.75% in House legislation and 2.3% in Senate legislation

Source: BCEC legislation

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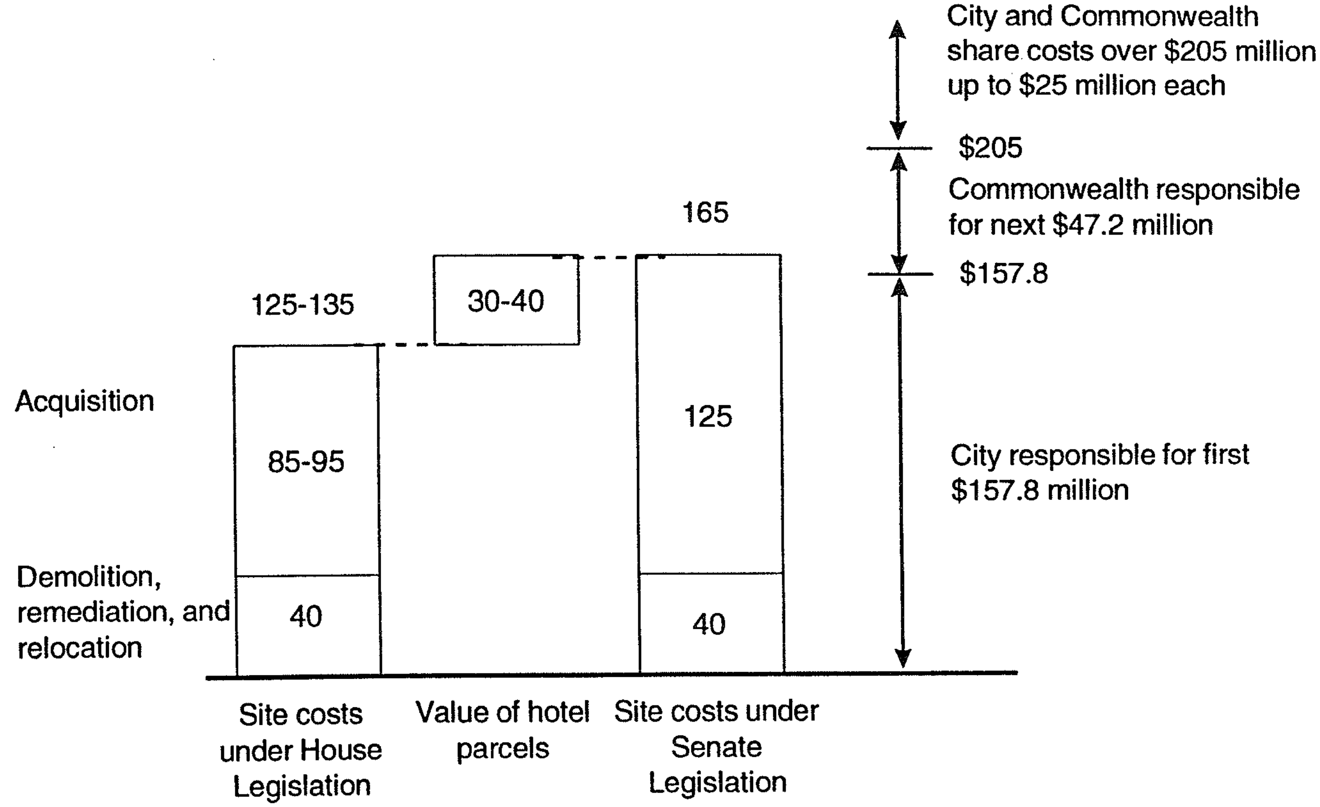
Projected new revenues are adequate to cover the City's estimated costs

The total site acquisition and preparation costs are likely to be approximately $130 million under the House legislation and $165 million under the Senate legislation. The City is responsible for the first $157.8 million of these costs under both bills.

TOTAL SITE ACQUISITION AND PREPARATION COSTS UNDER HOUSE AND SENATE LEGISLATION

$ Millions



Note: House version excludes 5 parcels on Summer Street that include parcels that would be used for the convention center hotel

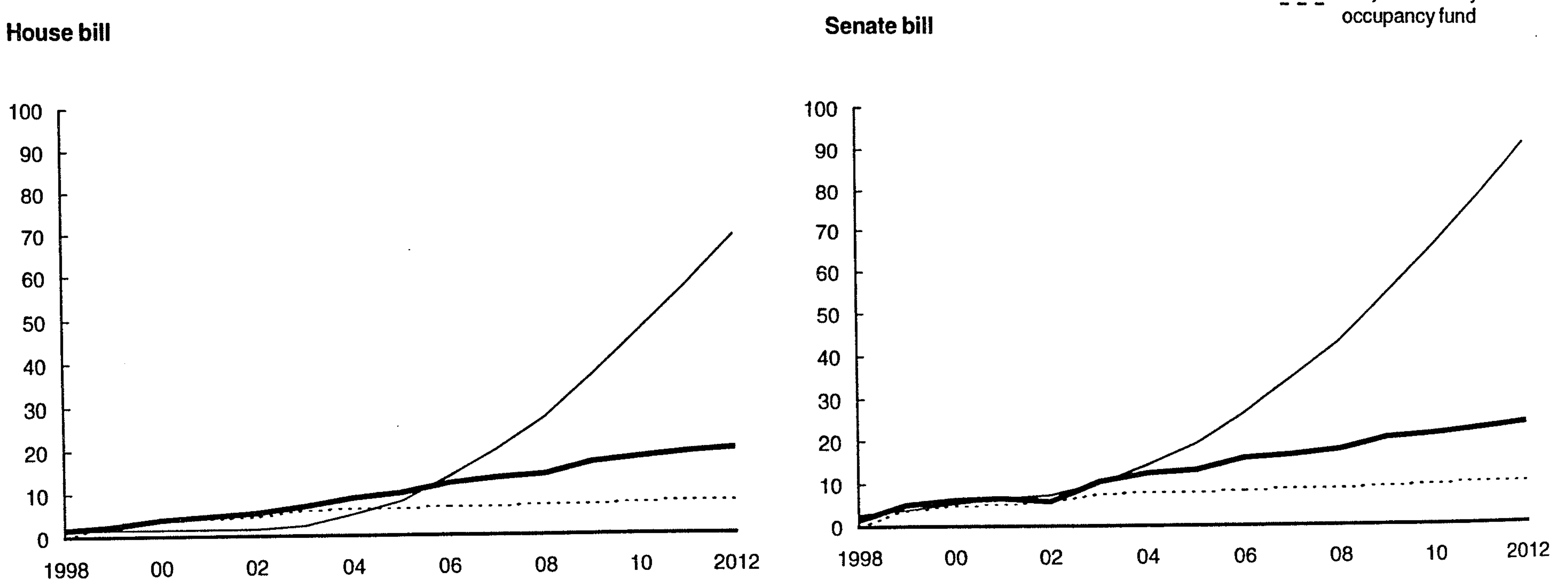
Source: BCEC legislation; BCEC Final Report

Outlays from the Room Occupancy Fund will be higher under the Senate legislation because of the increased site costs. Under both versions, outlays will step up in 2003 as financing switches from short-term notes to long-term bonds. Outlays rise moderately thereafter, reflecting increasing principal payments.

BOSTON'S ROOM OCCUPANCY FUND*

$ Millions

- Senate legislation requires an additional $30 million-40 million in financing
- Lower interest rate short-term financing used until 2002



* Assumes City borrow 60% in 1998, 80% in 1999, 90% in 2000, and 100% in 2001 of total site costs; City uses 4.25% notes through 2002, and then 25 year revenue bonds, 3% annual increase in debt service, 5.75% TIC; revenues from sale of hackney licenses used to lower total debt

Source: Smith Barney; McKinsey analysis

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New hotel construction from convention center demand is driven by both convention center volume and demand/attendee.

CONVENTION CENTER HOTEL DEMAND

Convention center volume x number of nights per attendee = convention center hotel demand

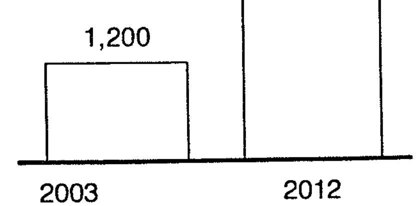
Convention center volume

- Nationally convention center space demand and the number of attendees have grown 7.5% annually from 1989 to 1996; the growth in space requirement has slowed more recently, growing only 3.6% annually since 1994
- Projections in the Final Report for convention center volume of 300,000 in 2003 and 560,000 in 2012
- If convention center demand was to grow at an annual rate of 4.5%, these projections require Boston to increase its market share from the current 4% to approximately 6%: a level consistent with that of other major metropolitan areas

Number of room nights per attendee

- The Final Report projections of 1.4 nights of hotel room demand per conference attendee are based on estimates provided by the International Association of Convention and Visitors Bureaus
- This projection is based on the assumption that the new convention center will host primarily conventions and trade shows and not consumer shows
- The Pioneer Institute hotel room demand estimates of 1 room night per delegate, based on convention room block bookings, represent a minimal estimate, as they exclude bookings outside the room block and often include consumer shows that generate fewer room nights per attendee than conventions and trade shows

Projected hotel construction from convention center demand
No. of rooms



Source: BCEC Final Report; IACVB, Tradeshow Week Databooks

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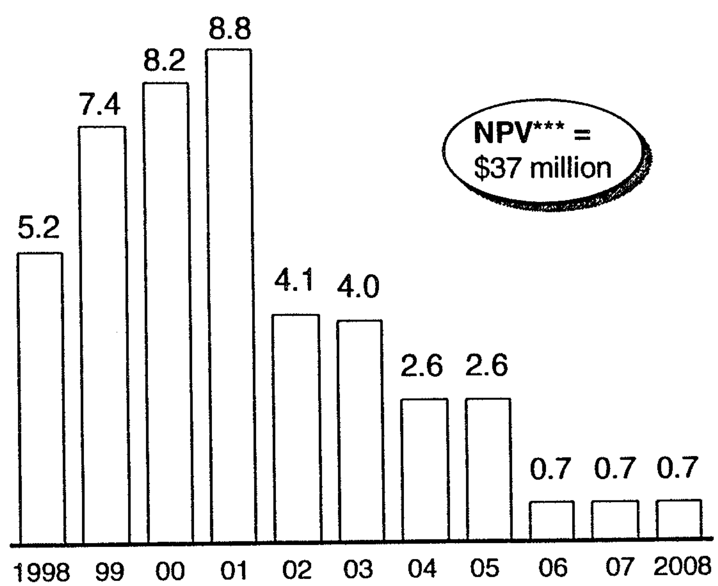
The opportunity cost which results from the use of revenues from the sale of hackney licenses and occupancy tax on baseline hotels to finance the convention center must be balanced against the projected benefits.

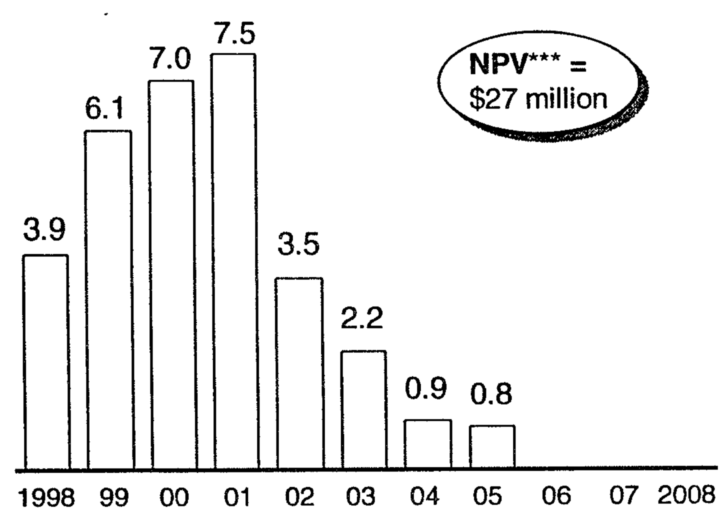
OPPORTUNITY COST AND BENEFITS OF THE PROPOSED CONVENTION CENTER

$ Millions

Opportunity cost*; House legislation



Opportunity cost*: Senate legislation



Projected benefits

- $5.5** million in property tax revenue annually
- 4,717 permanent jobs
- 7,875 construction related jobs
- More rapid urban renewal of Fort Point area

* Revenues from hackney license sales and occupancy taxes on hotels resulting from baseline demand required to pay debt service; excludes increased cost of municipal services such as police, fire, public works, transportation, and inspectional services

** Property taxes on 3,800 hotel rooms; excludes tax incentives which may be required to spur hotel construction

*** Calculated using 5.0% cost of funds

Source: BCEC Final Report; McKinsey analysis

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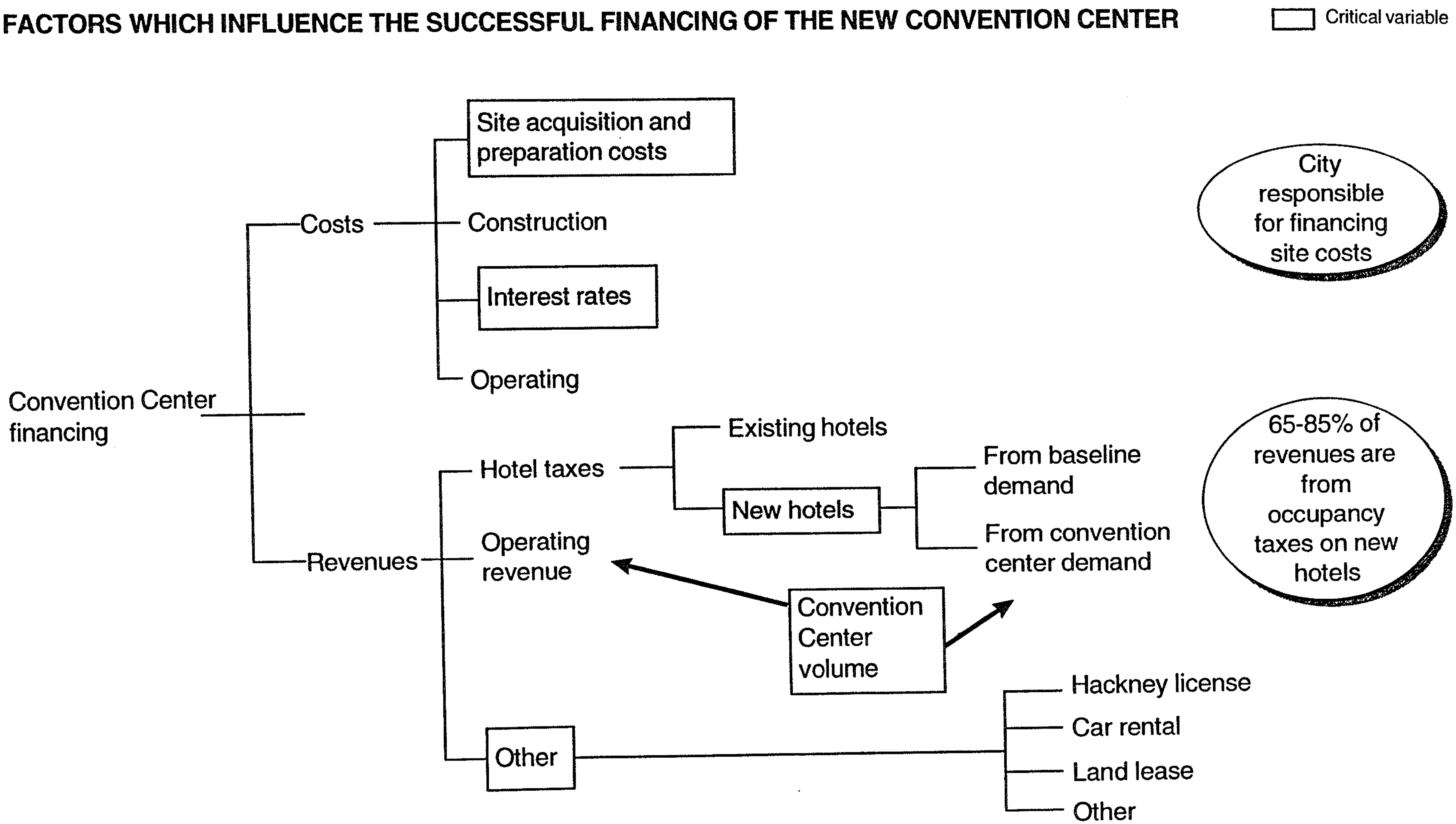
THE CITY IS AT RISK OF USING EXISTING REVENUES IF PROJECTIONS ARE NOT MET

Five variables affect the city's ability to successfully finance the convention center; of these, only three are critical to the City – site acquisition and preparation costs, the amount of new hotel construction, and interest rates.

FACTORS WHICH INFLUENCE THE SUCCESSFUL FINANCING OF THE NEW CONVENTION CENTER



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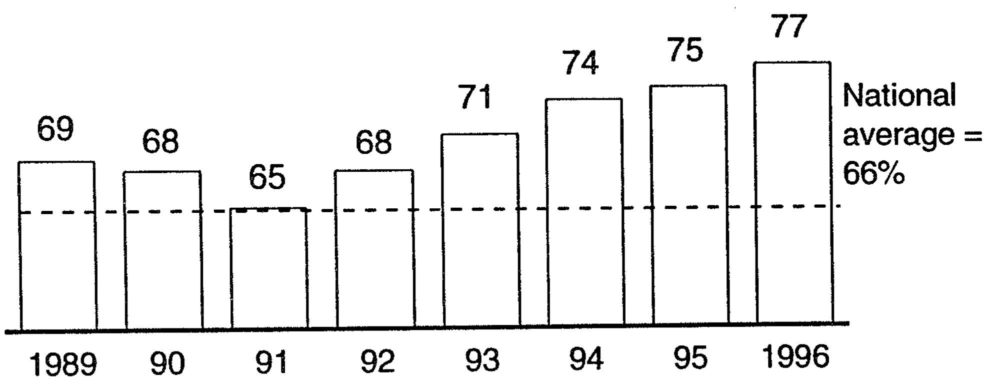
New hotel construction is the critical factor

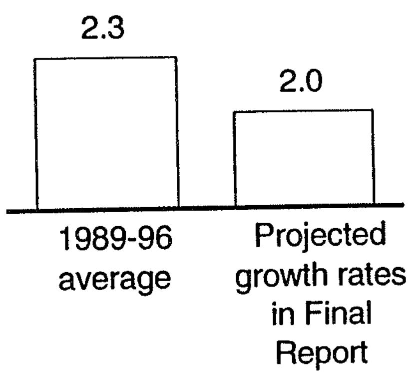
The presence of significant pent-up demand for hotel space and the conservative nature of the growth rates used to project new hotel construction from baseline demand make the projections for new baseline demand seem reasonable.

BASELINE HOTEL DEMAND

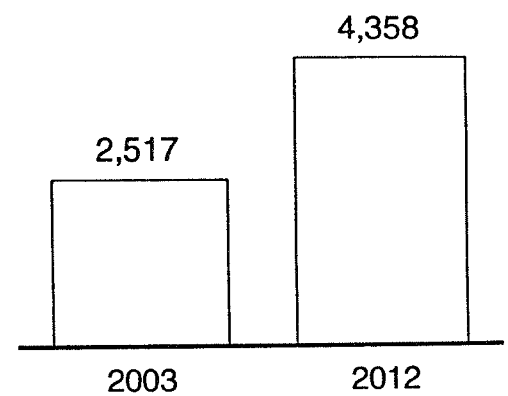
Occupancy rates in Greater Boston*
Percent



Growth rates in hotel demand in Greater Boston
Percent



Projected baseline new hotel construction in Boston
No. of rooms



- Since the recession in 1991-2, occupancy rates in Boston have risen steadily above the national average, indicating significant pent-up demand
- The growth rate in baseline hotel demand used in the Final Report's projections is lower than the historical growth rate

* Greater Boston includes Boston, Cambridge, and Route 128

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New hotel construction from convention center demand is driven by both convention center volume and demand/attendee.

CONVENTION CENTER HOTEL DEMAND

Convention center volume x number of nights per attendee = convention center hotel demand

Convention center volume

- Nationally convention center space demand and the number of attendees have grown 7.5% annually from 1989 to 1996; the growth in space requirement has slowed more recently, growing only 3.6% annually since 1994
- Projections in the Final Report for convention center volume of 300,000 in 2003 and 560,000 in 2012
- If convention center demand was to grow at an annual rate of 4.5%, these projections require Boston to increase its market share from the current 4% to approximately 6%: a level consistent with that of other major metropolitan areas

Number of room nights per attendee

- The Final Report projections of 1.4 nights of hotel room demand per conference attendee are based on estimates provided by the International Association of Convention and Visitors Bureaus
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Projected hotel construction from convention center demand
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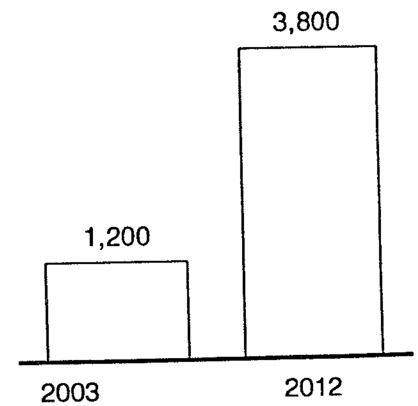
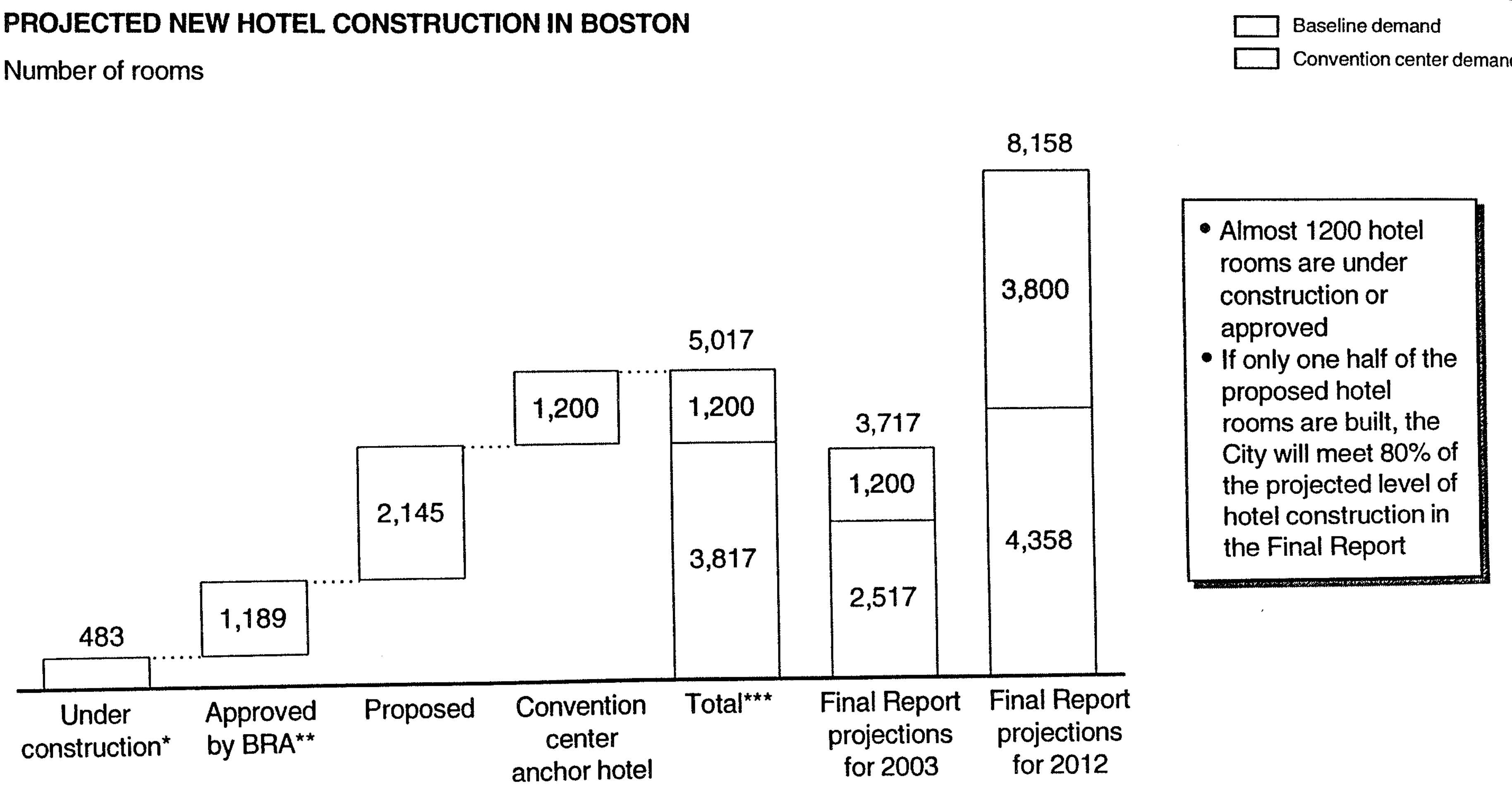


Source: BCEC Final Report; IACVB, Tradeshow Week Databooks

Existing, approved, and proposed new hotel construction already exceeds the Final Report projections for 2003.

PROJECTED NEW HOTEL CONSTRUCTION IN BOSTON

Number of rooms



- Almost 1200 hotel rooms are under construction or approved
- If only one half of the proposed hotel rooms are built, the City will meet 80% of the projected level of hotel construction in the Final Report

* Excludes 340 corporate and timeshare rooms
** BRA = Boston Redevelopment Authority
*** Excludes Sheraton hotel reduction of 57 rooms

Source: BRA

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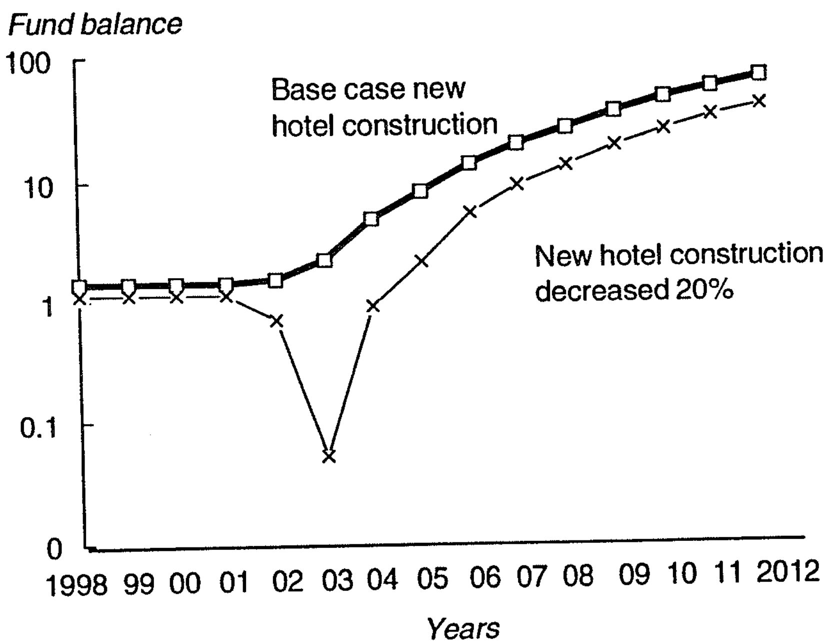
A 20% decrease in new hotel construction means the City will have a balance of only $50,000 in 2003 under the House legislation.

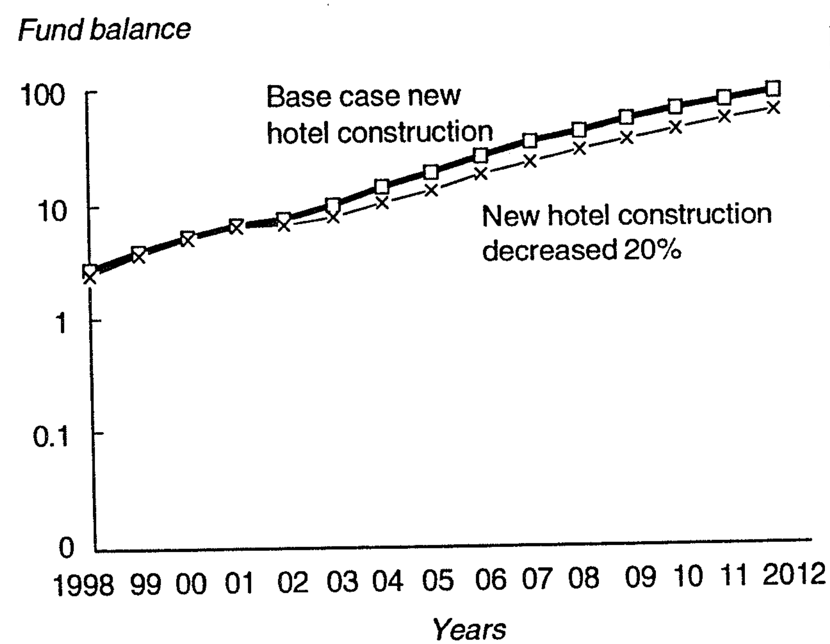
ROOM OCCUPANCY FUND BALANCE SENSITIVITY TO NEW HOTEL CONSTRUCTION

$ Millions

House legislation



Senate legislation



Drivers of new hotel construction
- Baseline demand
- Convention center volume
- Regulatory approval
- Public incentives

Lowest balance	2003 – $50,000	1998 – $2,400,000

Key difference: under Senate legislation, City has additional sources of revenue, reducing its reliance on new hotel construction

* Assumes City leaves occupancy tax at 4.0%

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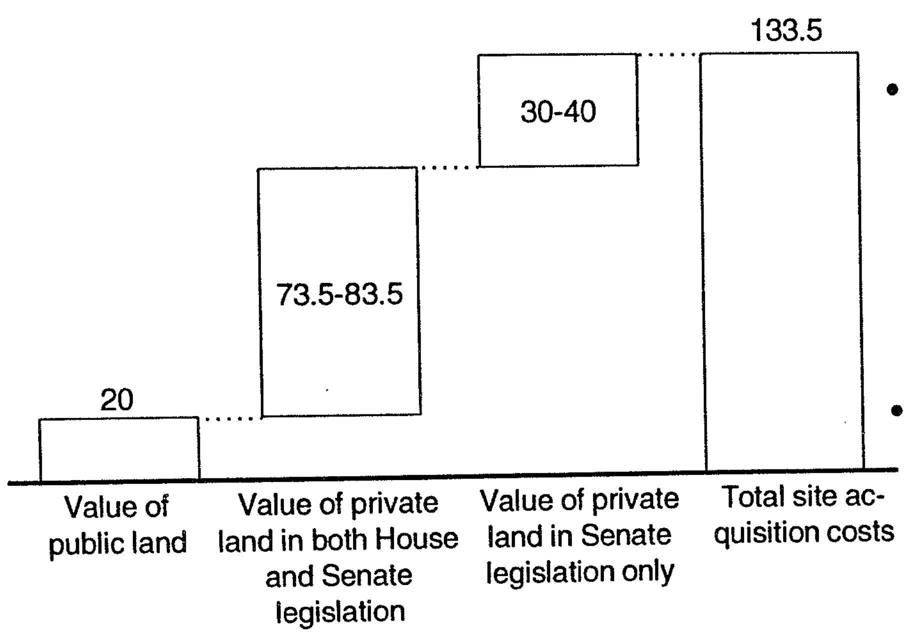
Site acquisition and preparation costs are more important in the House legislation than in the Senate legislation

Actual size acquisition cost will likely be lower than the $133.5 million projected by the consultants who prepared the Final Report.

PROJECTED SITE ACQUISITION COSTS

$ Millions



- Purchase of this land not required in House legislation
- Public land will likely be acquired for less than market value

Site acquisition costs will likely be $85-$95 million under House legislation and $125 million under Senate legislation

Final Report appraisal approach
- Be as conservative as possible – make the numbers at the high end of reasonable
- Values public land at full market price
- Assumes all private land goes to litigation and is settled for full value owner will best be able to argue in court
- Valuations based on proximity to Summer Street, extent of current development, and high end of range on current and future income potential
- Excludes speculative value based on impact of convention center

Source: BCEC Final Report; Byrne McKinney Associates; Municipal Research Bureau

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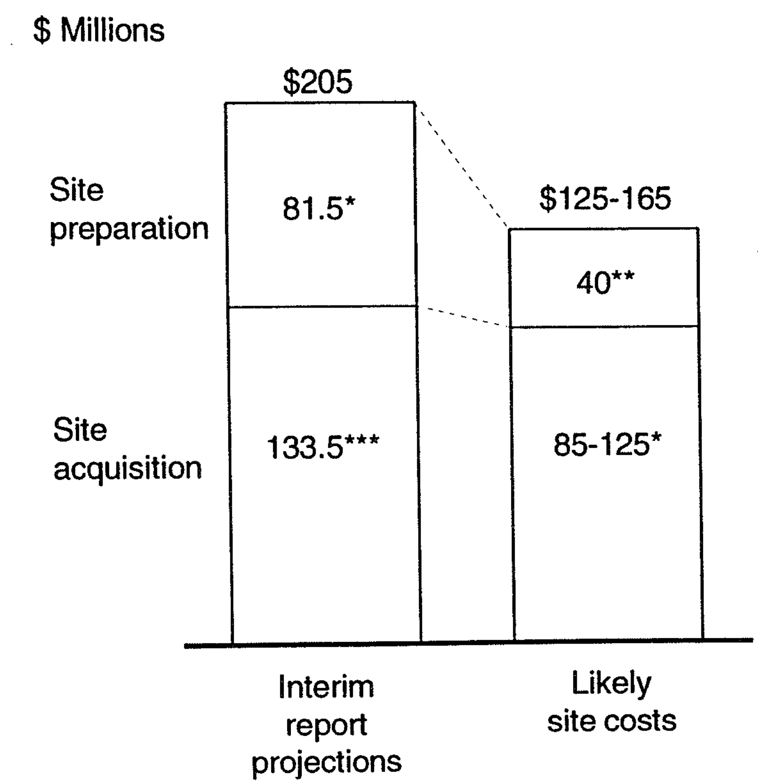
Site costs are likely to be far less than the $205 million projected in the interim report. This decrease is attributable to both decreased acquisition costs and preparation costs, but not to a reclassification of expenses.

PROJECTED SITE ACQUISITION AND PREPARATION COSTS



- Site preparation costs include demolition, relocation, remediation, and gravel removal
- Site preparation costs decreased from $81.5 million to $40.0 million because a change from a single level to a multilevel garage greatly decreases the amount of contaminated soil that needs to be removed
- Construction costs increased from $490 million to $535 million
  - Change in garage design from single level to multilevel increased costs by $20 million
  - Additional meeting rooms added to the facility design increased costs by $25 million

* Interim report of $65.0 million excluded $10 million in demolition costs, and $6.5 million of relocation costs

** Final report total of $20.5 million excluded $10 million in demolition costs, $7.7 million in relocation costs, and $2.2 million in asbestos remediation costs, required for site preparation

*** Interim report estimate of $140 million includes relocation costs of $6.5 million

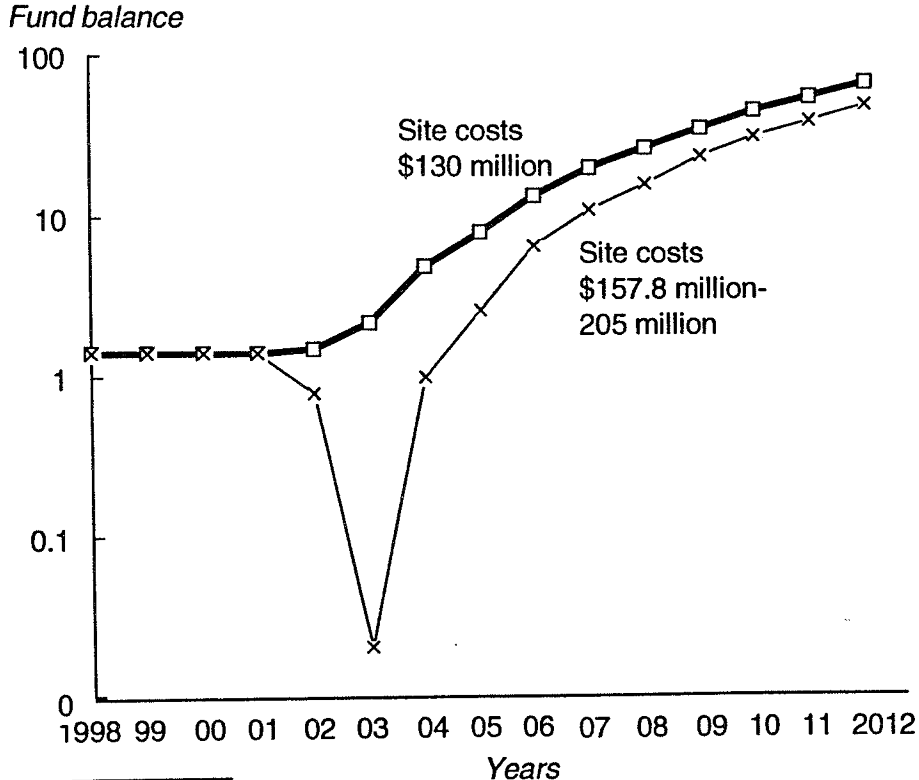
Source: BCEC Final Report; Fort Point Associates

A $30 million increase in the likely site costs will affect the City only under the House legislation.

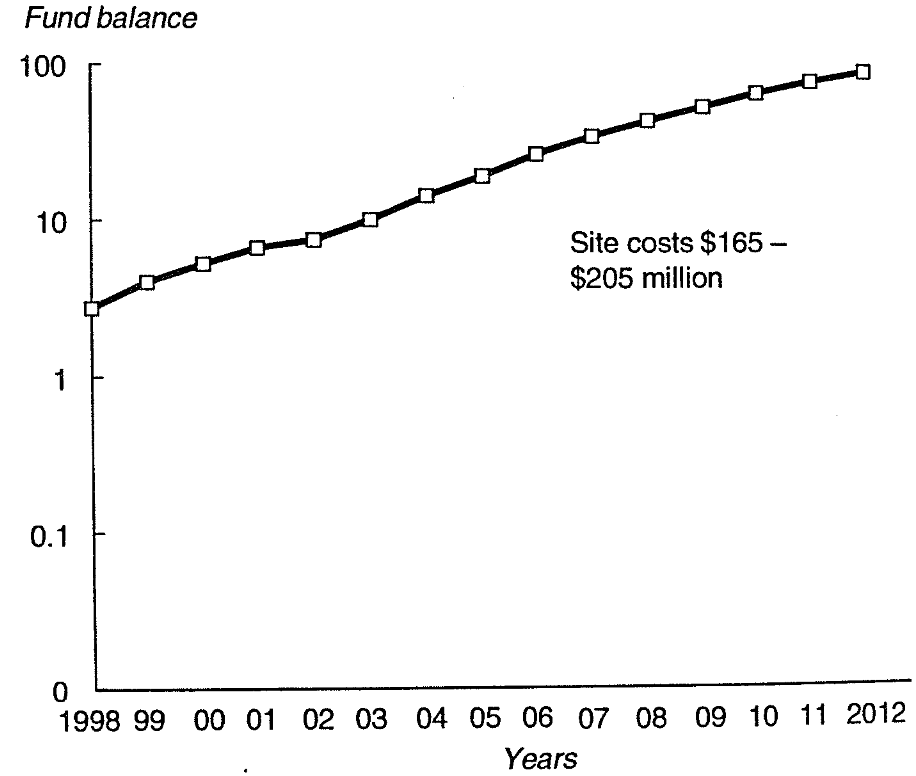
ROOM OCCUPANCY FUND BALANCE SENSITIVITY TO SITE ACQUISITION AND PREPARATION COSTS

$ Millions

House legislation



Senate legislation



Lowest balance	House legislation	Senate legislation
	2003 – $30,000	1998 – $2,700,000

Key difference: Under the House legislation, but not the Senate legislation, the City bears the risk for the first $28 million of cost overruns based on actual project costs of $130 million

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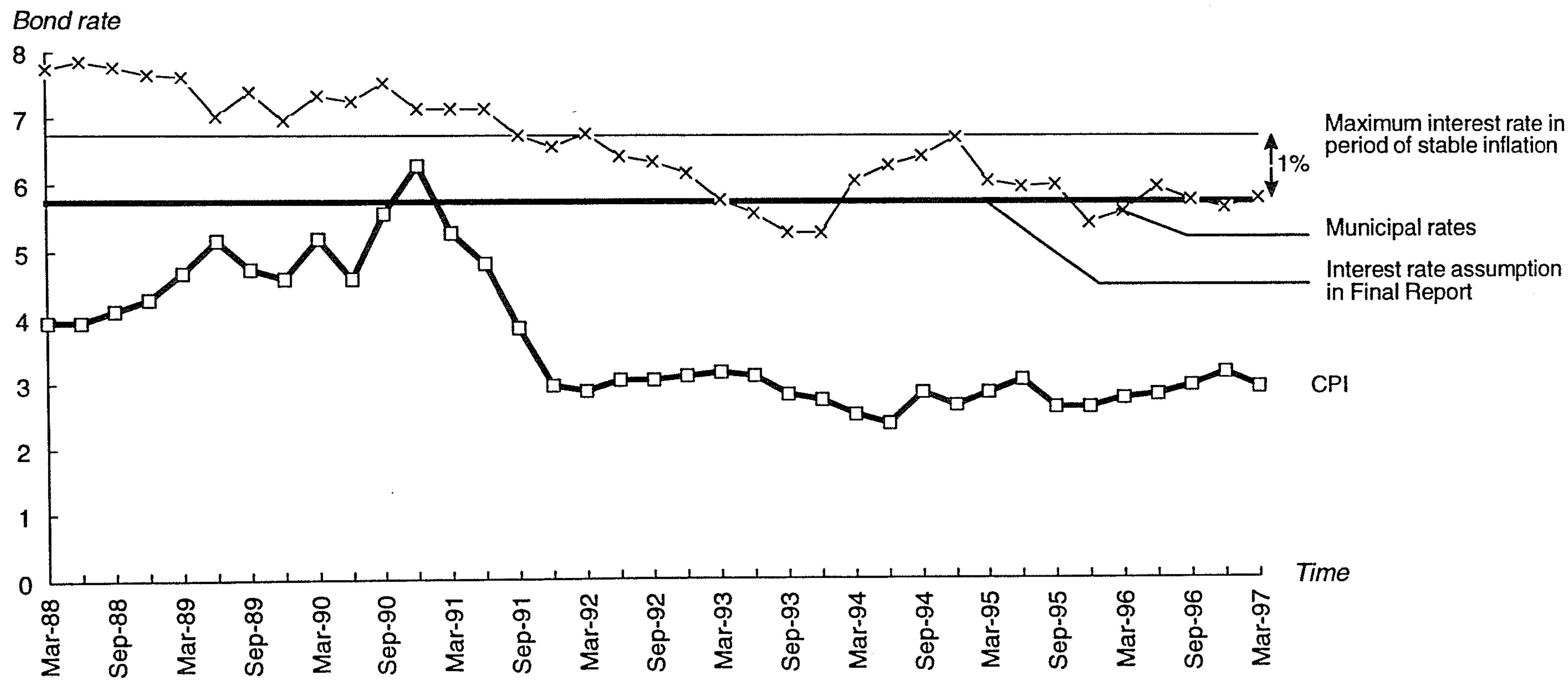
Interest rate variations have a lesser effect on the total outlays required for the City

Over the past five years, during a period of stable inflation, municipal bond rates peaked at 6.75 percent, 1 percent higher than the projected rate.

MUNICIPAL BOND RATES VERSUS CHANGES IN THE CONSUMER PRICE INDEX

Percent



Note: 20 year municipal bond rate from BBI/McGraw Hill

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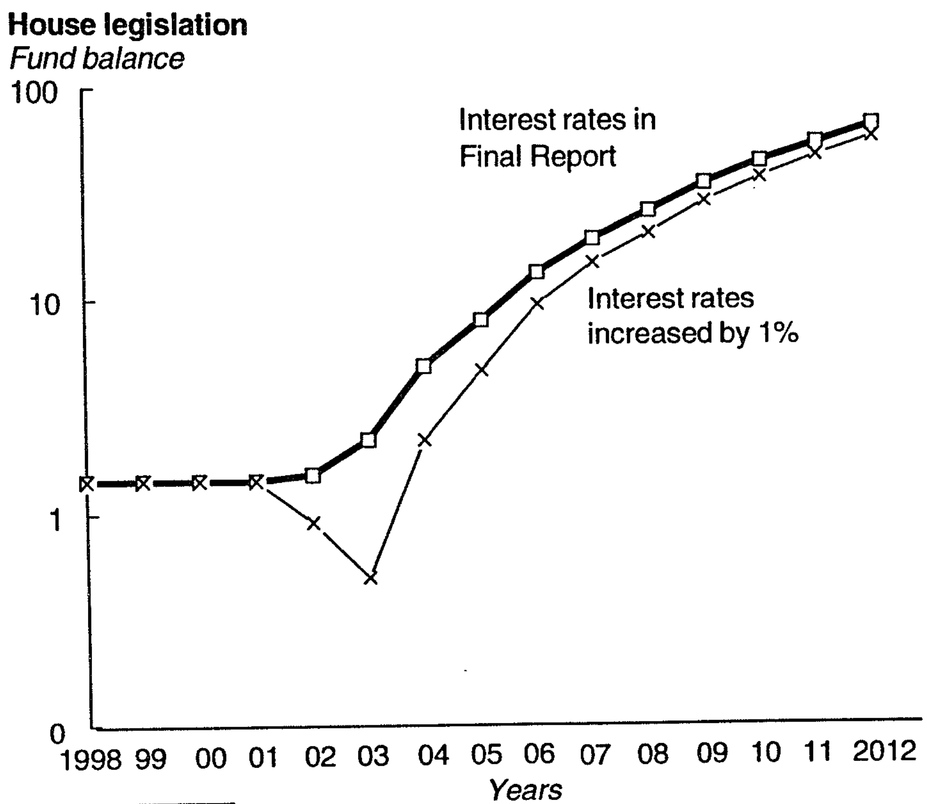
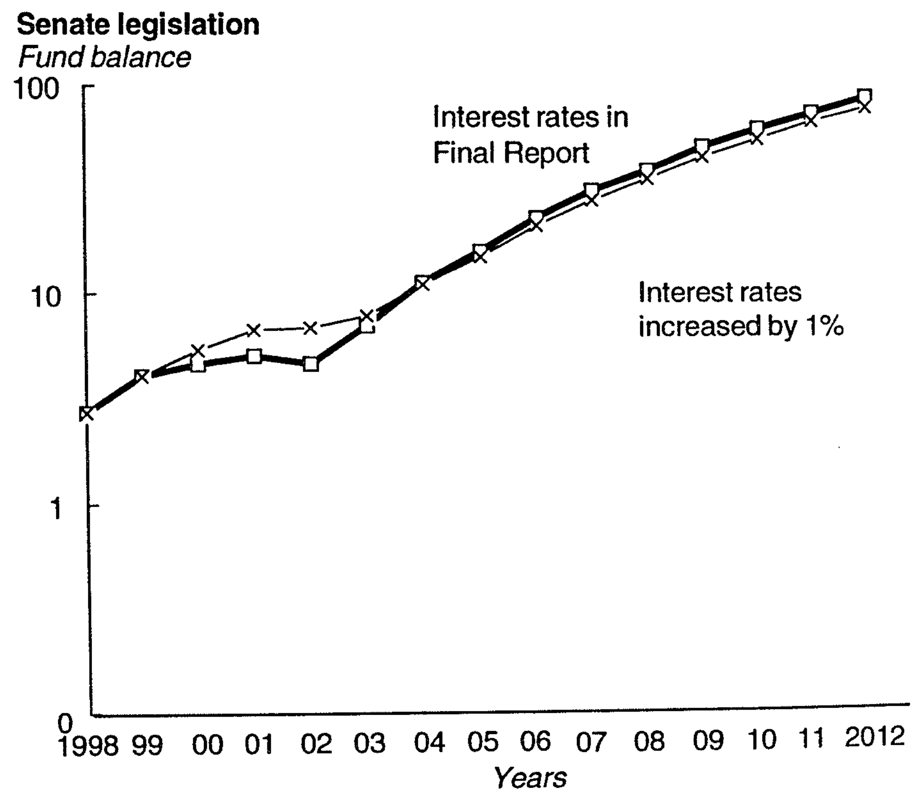
A 1% increase in interest rates results in a minimum Room Occupancy Fund balance of $500,000 under the House legislation and $2.7 million under the Senate legislation.

ROOM OCCUPANCY FUND BALANCE SENSITIVITY TO INTEREST RATES

$ Millions





Lowest balance	2003 – $500,000	1998 – $2,700,000

Key difference: higher debt level but additional sources of revenue under Senate legislation

* Assumes City leaves occupancy tax at 4.0%

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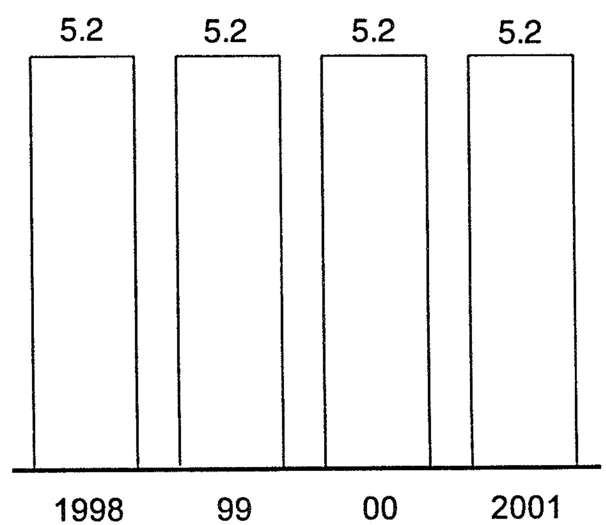
Revenues from the sale of 260 hackney licenses will generate approximately $20.8 million.

REVENUES FROM THE SALE OF HACKNEY LICENSES

$ Millions

- The current market value of a hackney license is $105,000-120,000
- A conservative value of $80,000 was assigned
  - The impact of 260 new licenses for sale may depress current market value
  - Some licenses will be for taxis that can accommodate disabled persons and will likely be less valuable



Assumes

- City sells 65 licenses each year for 4 years beginning by 1998
- Each license sells for an average of $80,000

The City is more likely to tap into existing revenues in the House version

Given that the three variables discussed above will not necessarily move in isolation, a reasonable downside scenario was created for the City. Under this scenario, all three of the critical variables necessary for successful financing differ from the projections in the final report.

DESCRIPTION OF DOWNSIDE SCENARIO

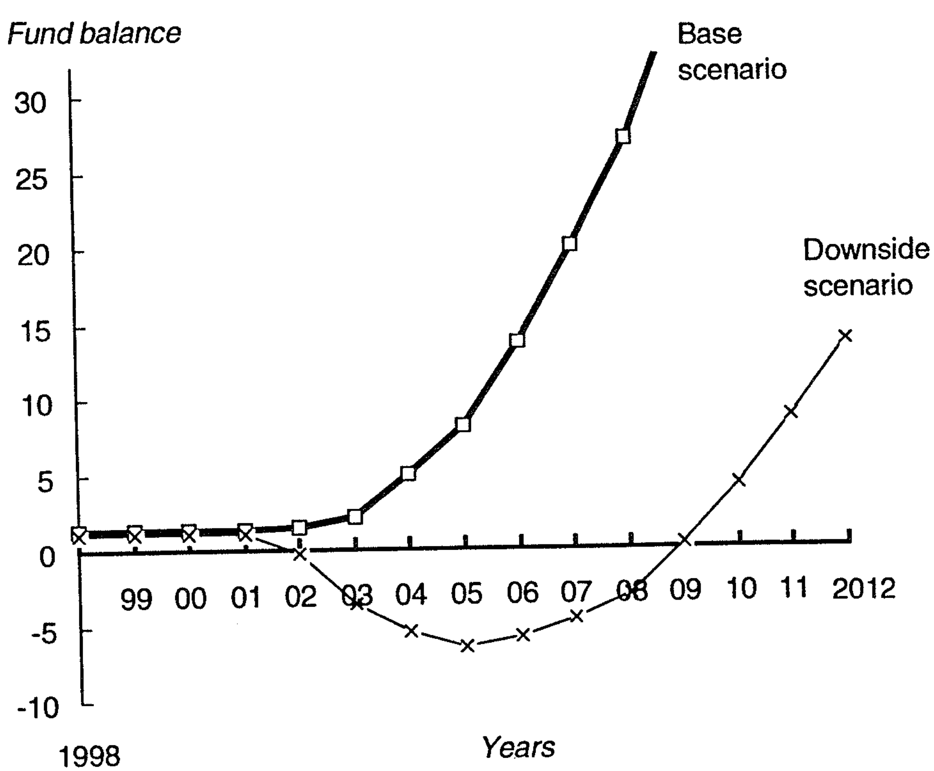
- New hotel construction 20% below Final Report projections
- Interest rates 1% higher than assumptions in Final Report
  - 5.25% for notes
  - 6.75% for long-term bonds
- Site acquisition and preparation costs increased by $30 million

The City is at risk of using $3.6 million of existing revenue in 2003 under a downside scenario if the House legislation is enacted. That deficit would peak in 2005 at $6.5 million and continue to run over until 2009. Under the Senate legislation, the City does not require existing revenues, even under a downside scenario.

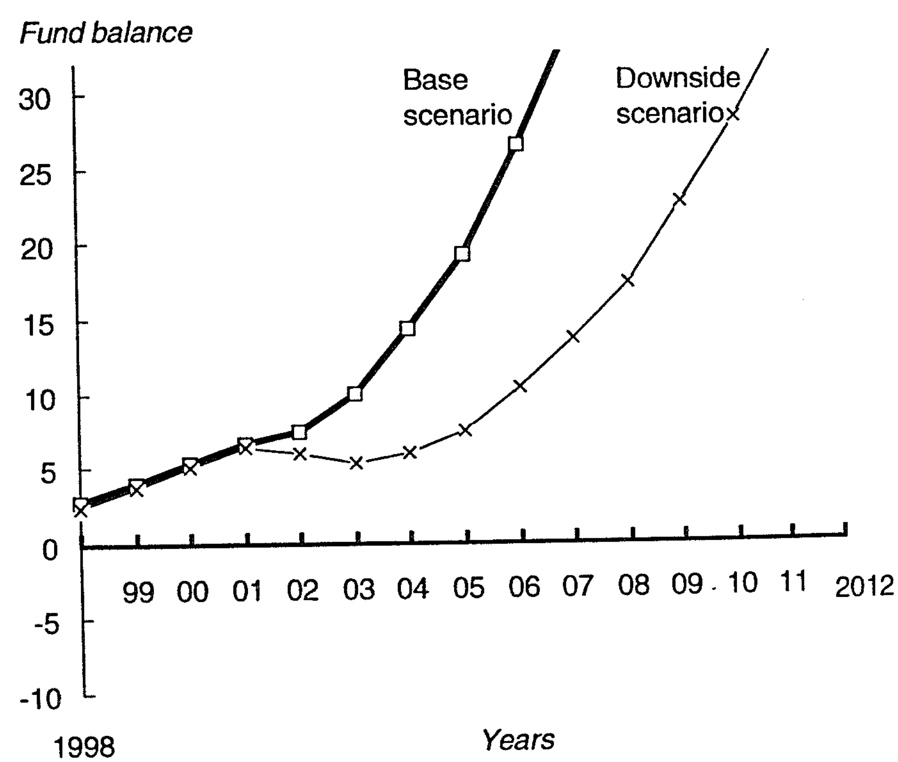
ROOM OCCUPANCY FUND BALANCE UNDER DOWNSIDE SCENARIO

$ Millions

House legislation*



Senate legislation



* Assumes City raises occupancy tax to 4.5%

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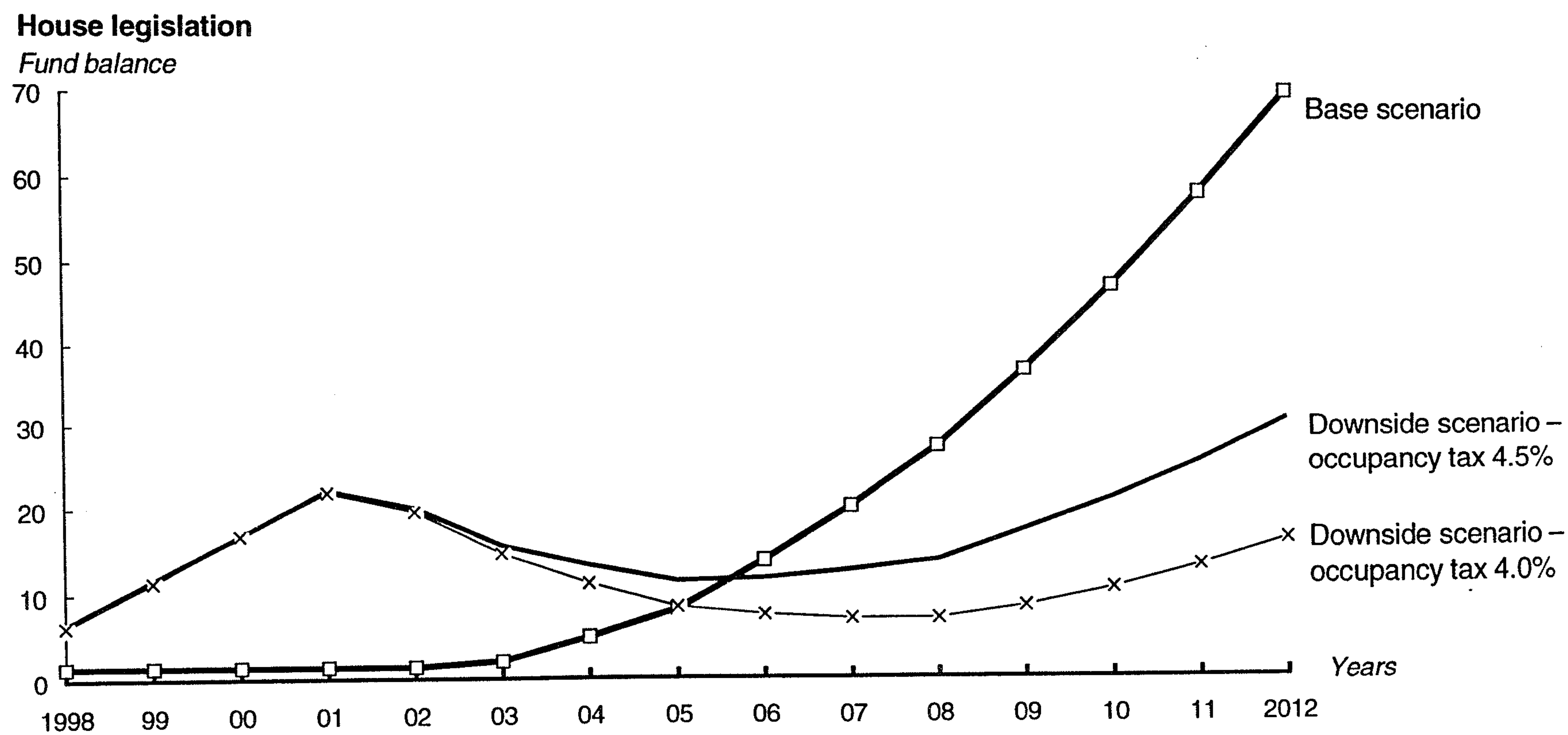
THE CITY AND COMMONWEALTH CAN TAKE ACTIONS TO LOWER THE CITY'S RISK

The use of hackney license revenue as a reserve will allow the City to avoid the use of existing revenue, even under the House legislation.

ROOM OCCUPANCY FUND BALANCE IF HACKNEY LICENSE REVENUE HELD AS RESERVE

$ Millions



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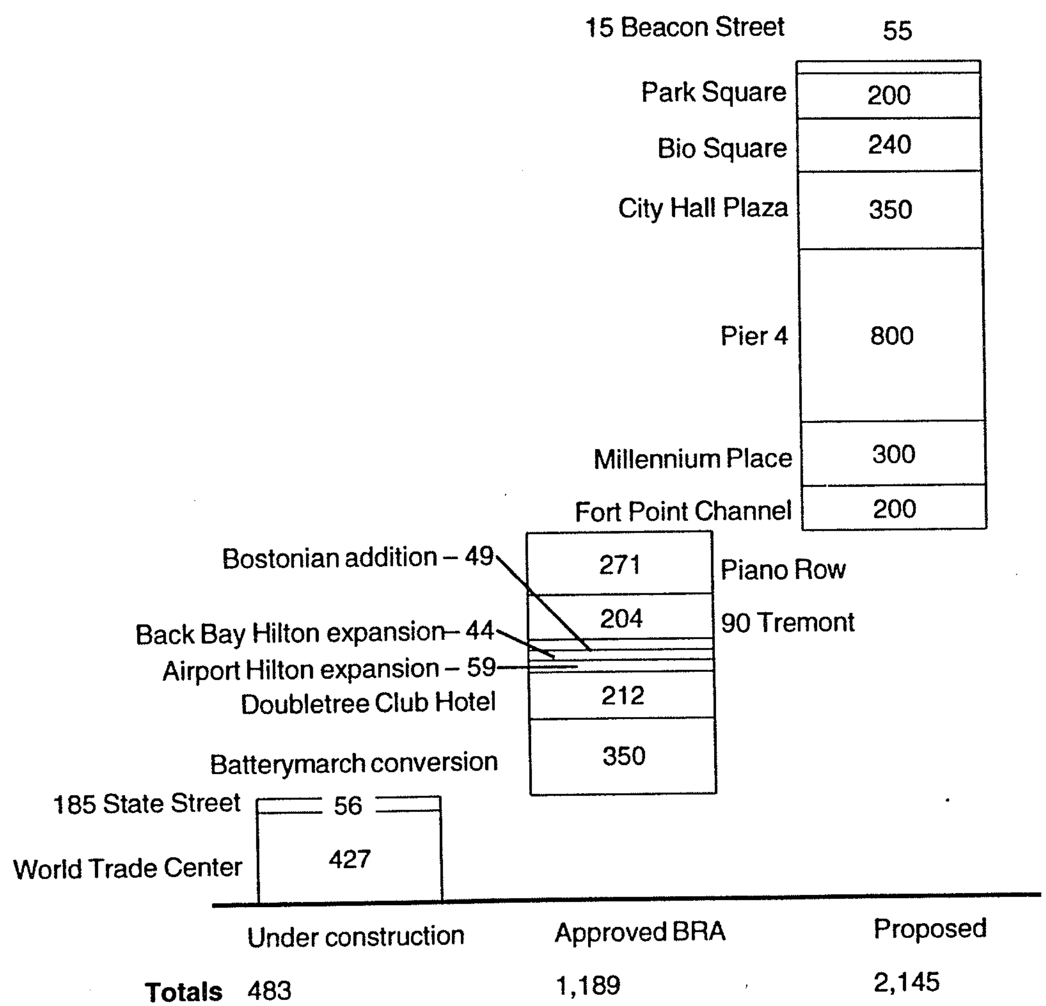
The City can take actions to spur development of new hotel rooms.

NEW AND PROPOSED HOTEL CONSTRUCTION IN BOSTON



Historically, the City has provided incentives, such as reduced ground rent or tax abatement to many new hotel developers

In the future, the City can spur development of new hotels without direct public subsidy by improving the permitting process and marketing Boston to potential developers

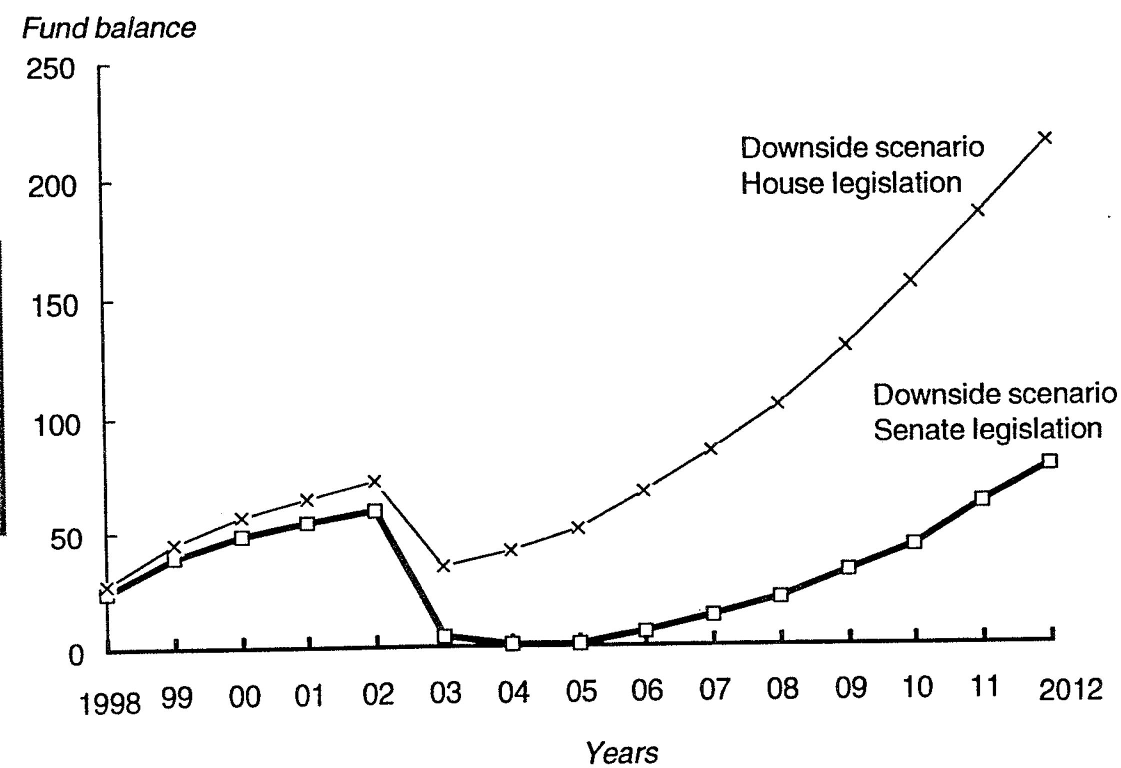
The Commonwealth's financing is sufficiently secure to allow adoption of key provisions which provide additional revenue to the City.

CONVENTION CENTER BALANCE UNDER DOWNSIDE SCENARIO

$ Millions

Downside scenario – 20% decrease in new hotel construction, 20% increase in site costs, 1% increase in interest rates, 20% decrease in Hynes and Boston convention center volume, 20% increase in operating costs over projections in Final Report

- Convention Center Fund balance drops dramatically in 2003 as 125% of first year's debt service is put in escrow account



Key provisions for City

- Up to 40% of convention center financing fee available to City until 6/30/02
- $1 of car/truck rental tax revenue to City
- City allowed to retain revenue from hotel parcels

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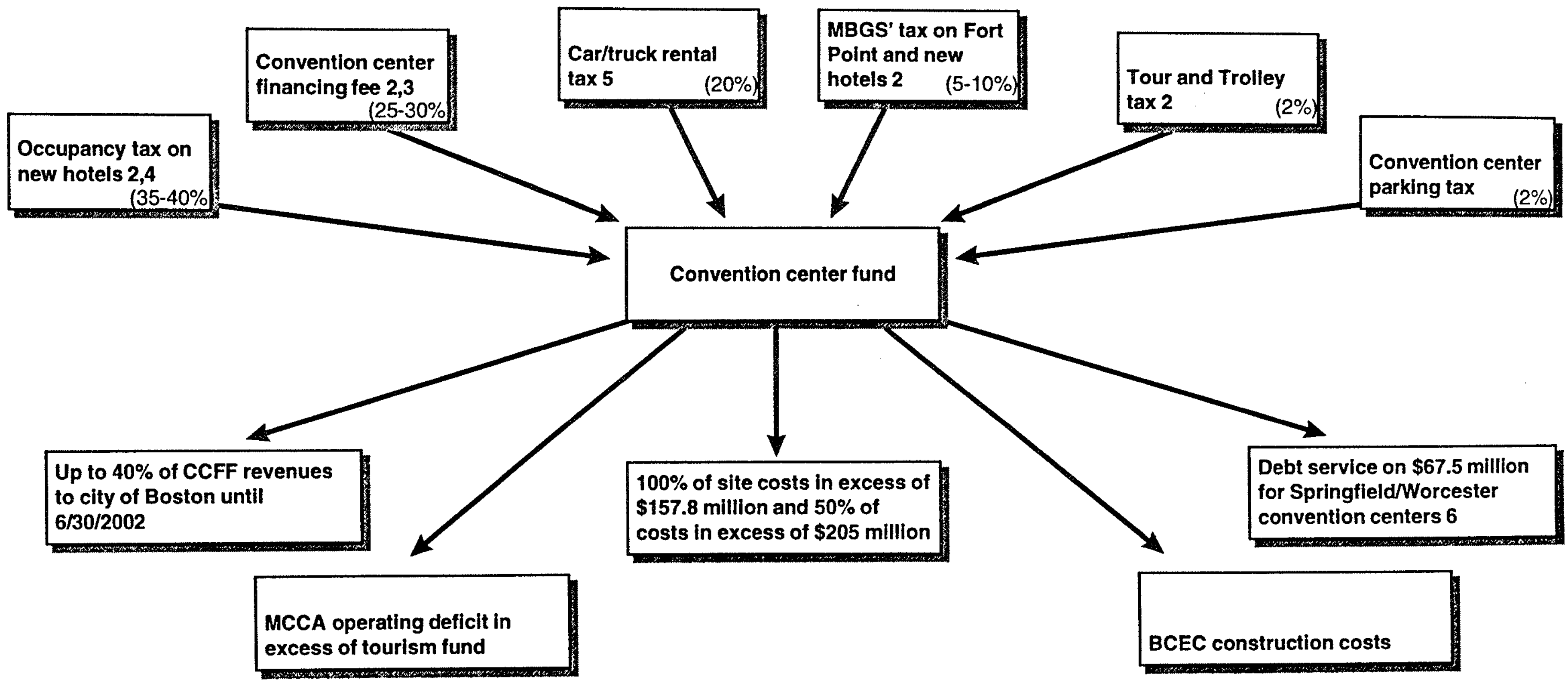
APPENDIX

FINANCING MECHANISM FOR COMMONWEALTH'S SHARE OF BCEC COSTS



1. MBGS = meals, beverage, goods and services 2. Boston and Cambridge only in Senate bill; House bill also includes Springfield and Worcester
3. 2.75% in House bill; 2.3% in Senate bill 4. Occupancy tax currently 5.7% but can be raised to 6.2% 5. 7% or $10 whichever is less in House bill, $9 in Senate bill
6. House bill only 7. Establishments opened after 7/1/97 only

Source: BCEC legislation

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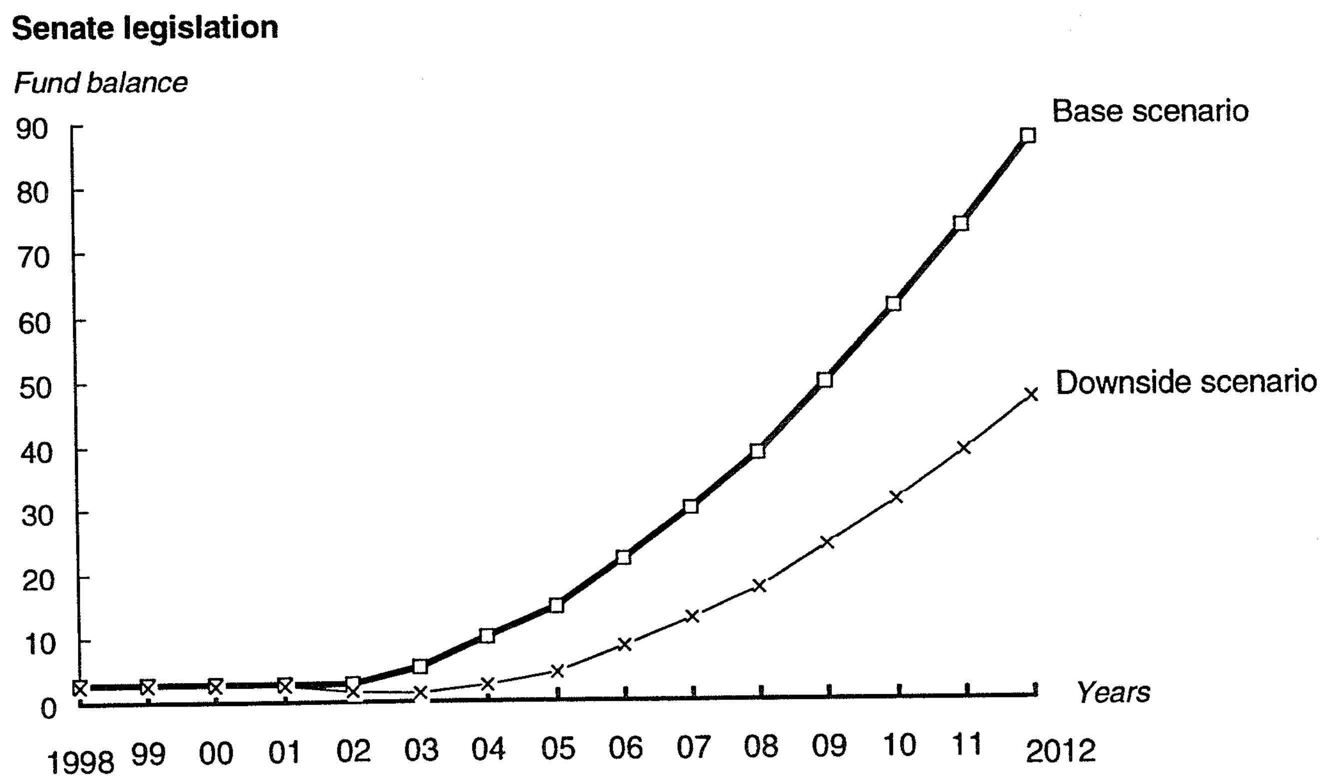
ROOM OCCUPANCY FUND BALANCE – CAR RENTAL REVENUES INCLUDED IN CALCULATION OF CITY'S REVENUES FROM CONVENTION CENTER FINANCING FEE

$ Millions



* City's room occupancy tax rate left at 4%

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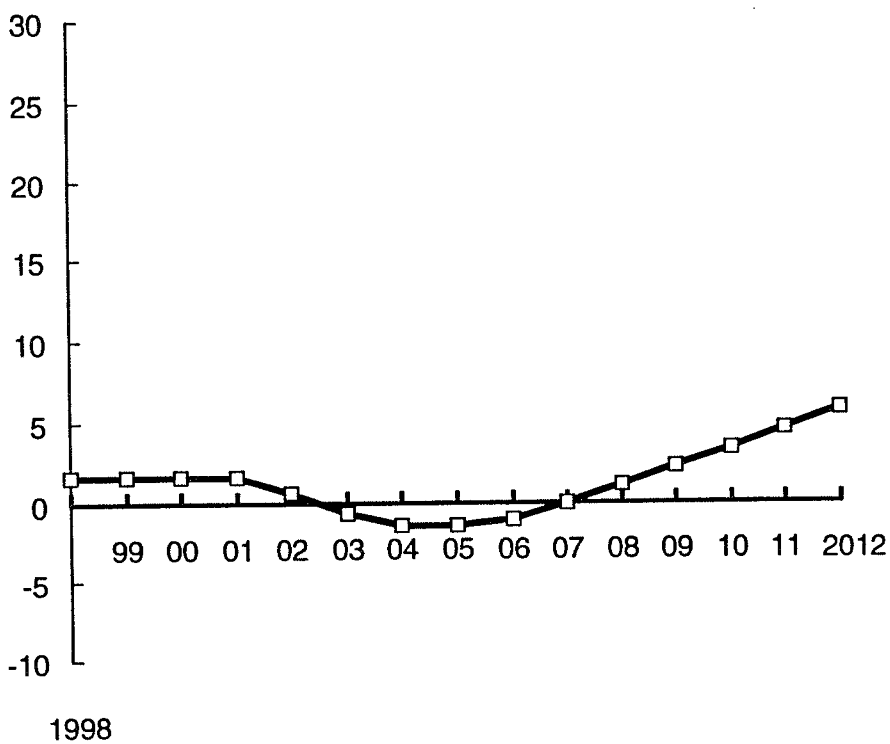
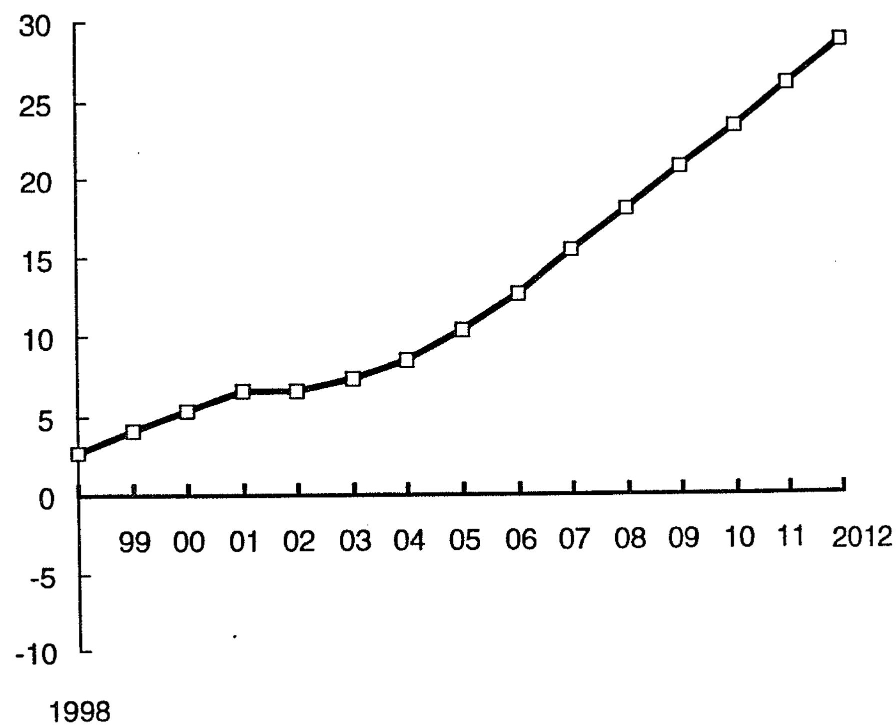
ROOM OCCUPANCY FUND BALANCE IF ONLY 4,500 CURRENTLY PROJECTED HOTEL ROOMS ARE BUILT UNDER DOWNSIDE SCENARIO

$ Millions

House legislation*



Senate legislation



* Assumes City increases occupancy tax to 4.5%

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