



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

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Massachusetts Convention Center Authority

For the period July 1, 2008 through June 30, 2010



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The Massachusetts Convention Center Authority (MCCA) is an independent public authority of the Commonwealth of Massachusetts that owns and operates several public facilities primarily for the use of conventions, tradeshow, and industry meetings. It was established by Chapter 190 of the Acts of 1982 and Chapter 152 of the Acts of 1997 to acquire and operate the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage, to oversee the construction and operation of the Boston Convention and Exhibition Center, and to acquire and operate the Springfield Civic Center.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of MCCA. The objective of our audit was to review the adequacy of MCCA's management controls over administrative costs and expenses, the leasing of convention center facilities, employee compensation, contract management, and the collection and deposit of revenue, including a review of accounts receivable.

Based on our review we have concluded that, for the period July 1, 2008 through June 30, 2010, MCCA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

INTRODUCTION

Background

The Massachusetts Convention Center Authority (MCCA) is an independent public authority of the Commonwealth of Massachusetts that owns and operates several public facilities primarily for the use of conventions, tradeshow, and industry meetings. MCCA was established by Chapter 190 of the Acts of 1982 and Chapter 152 of the Acts of 1997 to acquire and operate the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage, to oversee the construction and operation of the Boston Convention and Exhibition Center, and to acquire and operate the Springfield Civic Center.

MCCA is governed by a Board of Directors that appoints an Executive Director to serve as the Chief Executive Officer of MCCA.

John B. Hynes Veterans Memorial Convention Center (the Hynes)

The Hynes, located in Boston, was acquired from the Commonwealth by Chapter 190 of the Acts of 1982. MCCA remodeled and expanded the former Hynes auditorium building, creating the John B. Hynes Veterans Memorial Convention Center, which reopened for business in 1988. A multi-year restoration and renovation project was initiated beginning in 2007 that included fire alarm and technology upgrades and interior design enhancements. As part of the project, MCCA renovated two areas of the Hynes totaling approximately 22,000 square feet for restaurant and retail lease space. The Towne Stove and Spirits restaurant opened for business in July 2010, and The Capital Grille restaurant opened in the summer of 2011.

Located on a 5.3-acre site, the Hynes consists of 193,000 square feet of exhibition space that can accommodate up to four concurrent events; 71,644 square feet of meeting space; a 24,544 square foot Grand Ballroom; 60,000 square feet of registration and function space, and a cafeteria and coffee house located in the central lobby that accommodates 400 to 500 people.

The Hynes generates event-related revenue primarily from the sale and use of meeting and exhibition space; the sale of services that support the use of that space, such as cleaning, electricity, security, and telecommunications; and commissions on food and beverage sales at the facility.

The Boston Common Parking Garage

MCCA also acquired the Boston Common Parking Garage from the Commonwealth under Chapter 190 of the Acts of 1982. The underground public parking garage is located in the Back Bay/Beacon Hill neighborhood of Boston and holds 1,367 vehicles. The garage, managed by Central Parking, Inc., provides parking for commuters, nearby residents, and tourists. The garage generates revenue almost exclusively from parking fees.

Boston Convention and Exhibition Center (BCEC)

The Enabling Act, Chapter 152 of the Acts of 1997, authorized the design and construction of the BCEC project. The BCEC, located in South Boston, officially opened for business in the summer of 2004 and is the largest convention center in the northeast. The facility is approximately 2.1 million square feet in area and is located on a 60-acre site. It contains 84 meeting rooms, a 40,200 square foot Grand Ballroom, and 516,000 square feet of contiguous exhibition space, 160,000 square feet of flexible meeting space, and over 300,000 square feet of registration and function space.

In addition, as part of the BCEC project, MCCA also ground leased¹ a portion of the project site to the Boston Convention Center Hotel, LLC, to design, construct, and operate a 790-room Westin Hotel that is adjacent to but connected to the BCEC via a skybridge. MCCA was responsible for site preparations and infrastructure at the site. The Westin Hotel officially opened for business in June 2006. The negotiated ground lease is for 95 years, and MCCA will receive revenue from the lease starting in 2012.

The BCEC generates event-related revenue primarily from the sale and use of meeting and exhibition space, the sale of services that support the use of that space, and commissions on food and beverage sales at the facility.

MassMutual Center (MMC)

Under Chapter 152 of the Acts of 1997, MCCA obtained ownership and control from the Commonwealth of the Springfield Civic Center located in Springfield. The Massachusetts Legislature authorized funding for MCCA to expand and renovate the facility. In September 2003, MCCA entered into an agreement with the Massachusetts Mutual Life Insurance Company for

¹ A ground lease is a long-term lease of land in which the tenant is allowed to occupy and develop the land during the lease period, after which the land and all improvements are turned over to the property owner.

naming rights of the new Springfield Civic Center. In consideration for a payment of \$5 million, the Springfield Civic Center was designated as the MassMutual Center (MMC).

The MMC opened for business in the fall of 2005. It contains 100,000 square feet of flexible space including a ballroom, five fully functional meeting rooms, a 40,000 square foot exhibit space, and a renovated 8,000-seat arena that serves as the home for the Springfield Falcons of the American Hockey League and the Springfield Armor of the National Basketball Association's Development League. The MMC generates both arena event revenue (hockey, basketball games, etc.) and convention event revenue from the attached convention center.

In October 2005, MCCA contracted out the management of the MMC to Global Spectrum. MCCA recently renewed the management agreement on July 1, 2010 for a term of three years with an option for two one-year extensions.

Boston Tea Party Ship and Museum

In August 2001, lightning caused a fire at the Boston Tea Party Ship and Museum (BTPSM) site located in the Fort Point Channel in Boston that resulted in the demolition of the entire site. Historic Tours of America, the owner and operator of the BTPSM since 1993, planned to construct a new facility in its place. Historic Tours will invest no less than \$4 million for the restoration and expansion of the site, which has been a tourist attraction for a number of years. In addition, the Boston Redevelopment Authority authorized a \$3 million grant from the City of Boston to support the renovation and expansion of the site. However, Historic Tours was unable to obtain the additional \$18 million needed to finance the remainder of the cost of the project. In connection with its mission to generate significant economic impact by hosting meetings and conferences and to promote tourism in the Boston metropolitan area, MCCA proposed to partner with Historic Tours and extend an \$18 million loan into the BTPSM site to allow Historic Tours to complete construction and commence operations.

The BTPSM project encompasses the construction of (a) a Bridge House structure on a fixed platform supported by pilings attached to the Congress Street Bridge that will include a retail store, restrooms, storage, two re-enactment pre-show areas, and offices; (b) a floating barge housing a museum on the first floor and a tavern/tea room on the second floor, and a storage work area below decks; (c) moored replicas of two of the original Tea Party ships; and (d) piles, foundations, utility connections, and other appurtenances as necessary.

MCCA will not own the project or incur any operating expenses. MCCA will receive principal and interest loan repayments along with nonexclusive rights to market the project. MCCA will also be listed as the principal sponsor of the project and have advertising rights within the project and on marketing materials for the project, including its Web site, and will be able to use the project for six corporate, convention, or visitor entertainment events annually. MCCA will also receive 200 free admission tickets per quarter for use in its marketing and convention sales efforts for the BCEC.

MCCA loaned Historic Tours the \$18 million via a draw from the Massachusetts Convention Center Fund through a 30-year loan agreement with an annual percentage rate of 4.5%. The \$18 million loan will be repaid at approximately \$91,200 per month, or approximately \$33 million over the life of the loan. Under the Memorandum of Agreement between MCCA and the Secretary of the Executive Office for Administration and Finance (EOAF), the mortgage loan repayments can be used by MCCA for any corporate purpose without further approval, provided that any amount received by MCCA shall be subject to and credited against the limitation of funds available from the Convention Center Fund, as described below.

MCCA Financial Information

MCCA's enabling legislation, as amended by Section 439 of Chapter 26 of the Acts of 2003, created the Massachusetts Convention Center Fund to provide funding for the activities of MCCA. Section 439 amended Section 10(c) of the Act to provide authorization of up to \$23 million annually to cover MCCA's net loss from operations. This use of state funding requires that the State Treasurer and Secretary of EOAF annually certify the availability of funds within the \$23 million cap after payment of debt service, which is required to be made first. MCCA also receives funding from the Massachusetts Convention Center Fund to cover its Capital Expenditures and Other Program costs, including MCCA's previously discussed \$18 million loan to the BTPSM project.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of MCCA. Our performance audit, which covered the period July 1, 2008 through June 30, 2010, was conducted in accordance with generally accepted government auditing standards for performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis

for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of our audit was to review the adequacy of MCCA's management controls over administrative costs and expenses, the leasing of MCCA facilities, employee compensation, contract management, and the collection and deposit of revenue, including a review of accounts receivable.

To accomplish our objectives, we examined MCCA's accounting records and other related documents and interviewed MCCA officials and personnel. We reviewed MCCA's policies and procedures in these areas and examined documentation in support of selected transactions to determine the adequacy and effectiveness of MCCA's management controls. Our methodology also included a review of reports prepared by MCCA's public accounting firm on MCCA's internal controls and financial statements for fiscal years 2009 and 2010. In addition, we reviewed MCCA's compliance with applicable laws, rules, and regulations relative to the funding of new project activities. At the conclusion of our review, we provided MCCA officials with a draft report for comment and considered their responses in the preparation of this final report.

Based on our review we have concluded that, during the period July 1, 2008 through June 30, 2010, MCCA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.