

Boston Bound

Home Field Disadvantage:
Boston and Massachusetts Hamstrung by Limited Home Rule

*The First in a Series of Occasional Reports
Further Exploring Home Rule Issues*

The Boston Foundation



Boston Municipal Research Bureau



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The Boston Foundation

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Boston Municipal Research Bureau

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UNDERSTANDING BOSTON is a series of forums, educational events, and research sponsored by the Boston Foundation to provide information and insight into issues affecting Boston, its neighborhoods, and the region. By working in collaboration with a wide range of partners, the Boston Foundation provides opportunities for people to come together to explore challenges facing our constantly changing community and to develop an informed civic agenda.

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Overview

It is often said that Boston is about sports, politics, and revenge. Revenge may have fallen out of favor since the Boston Red Sox broke the “Curse of the Bambino” in 2004, but sports and politics remain defining elements of the region’s culture. But this year around kitchen tables there is more talk about bread and butter economic issues than “Hot Stove League” baseball transactions. The nation’s deepening economic recession has cast a pall over the state budgetary process, with pending cuts having major implications for cities and towns. This report examines how the lack of fiscal autonomy for Massachusetts cities and towns limits their ability to manage in difficult times as well as in good times. It does so by exploring the financial impact on the Cities of Boston and Denver of hosting the 2007 Major League Playoffs games.

The main finding of this report, developed by the Boston Foundation with assistance from the Boston Municipal Research Bureau, is that due to excessive state restrictions on its ability to maintain a balanced revenue stream, the City of Boston not only did not gain revenue from hosting the 2007 playoff games, it actually lost revenue due to limited receipts and incurring costs that were not fully reimbursed. In contrast, the City of Denver, which boasts a wide range of local options with which to generate revenue, gained revenue from hosting the games. These two cities had very different experiences when it comes to benefiting from a major event held in their city.

After calculating tax receipts, reimbursements and expenses, the City of Denver gained \$940,365 from hosting the 2007 postseason while the City of Boston lost \$649,084. As a percentage of total state and local tax revenue, the City of Denver received 63% of total tax revenues from games it hosted, while the City of Boston received only 12%, a ratio of nearly 6 to 1. Simply put, while the Red Sox may have won the World Series in 2007 over the Colorado Rockies, its host City of Boston was at a clear home field disadvantage compared with Denver.

Background

This report builds on a February 2007 study released by the Boston Foundation in conjunction with the Rappaport Institute for Greater Boston, *Boston Bound: A Comparison of Boston’s Legal Powers with Those of Six Other Major American Cities*. That study by Harvard Law School professors Jerry Frug and David Barron found that the City of Boston lacked a wide variety of powers commonly available to peer cities New York, Chicago, San Francisco, Atlanta, Denver, and Seattle, and concluded that Boston was increasingly at a competitive disadvantage as a result. *Boston Bound* provided the most thorough and comparative analysis of this condition to date and argued the rapid advance of the global economy provided new impetus for updating the relationship between Boston (and other cities and towns) and the Commonwealth.

That report was released on the same day on which Massachusetts Governor Deval Patrick filed his Municipal Partnership Act (MPA), which among other items, called for the creation of a home rule commission and for new local revenue options on meals and lodging. While the Legislature did not move to provide cities and towns with new local options for meals and lodging during the last session, it did charge a Special Commission on Municipal Relief to consider them among other proposals. Given the specter of local aid cuts, leaders in the Legislature have signaled that all options are now on the table.

Moreover, in light of recent controversies about the Legislature's role in approving home rule petitions such as liquor licenses (one of which has delayed a major economic development project in Westwood for months), now would appear to be a strategic time for the state to refine its *relationship* with its cities and towns.

This report is the first in a series of occasional reports that highlight key findings and recommendations from *Boston Bound* and cast them in sharper relief through contemporary illustrations.

Boston and Bay State Bound

Boston Bound found that in a world in which the playing field is increasingly flat, Boston and Massachusetts are at a home field disadvantage. And the reason has nothing to do with global economic forces that the region has limited ability to influence. Instead, it is the result of an outdated legal system that ties the hands of both our largest city and other municipalities across the state. The tight restrictions on local power Massachusetts imposes makes it increasingly hard for Boston and other cities and towns to make the kinds of fiscal and development decisions that would enable them to compete on an equal footing. The recent global economic crisis only underscores how much change is needed.

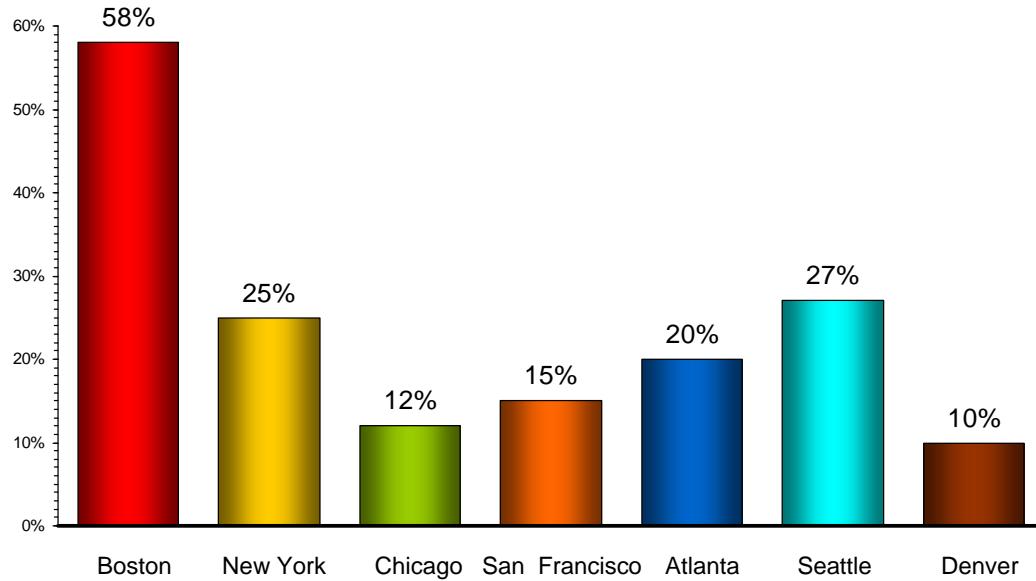
Even setting aside the current economic downturn, there is growing evidence that **Boston and Massachusetts cities and towns are at a competitive disadvantage by not being equipped with basic options for generating balanced revenue streams** that their peer cities and towns across the country take for granted.

Boston Bound shows that from taxing to borrowing to imposing fees, Massachusetts law gives Boston comparatively little authority with which to raise local revenue. As a result, **Boston is exceptionally dependent on a limited number of revenue sources, most notably the property tax.** As the graph shows, the property tax provides more than half the city's total revenue, significantly more than any other city in our study.

None of the other major cities surveyed are as constrained in their ability to operate and generate a balanced and diversified revenue structure. Every other city has significantly more revenue sources that are available to it pending voter approval. As a result, Boston's efforts to plan for its future are artificially constrained by a need to ensure that its development essentially maximizes a single, state-selected revenue source.

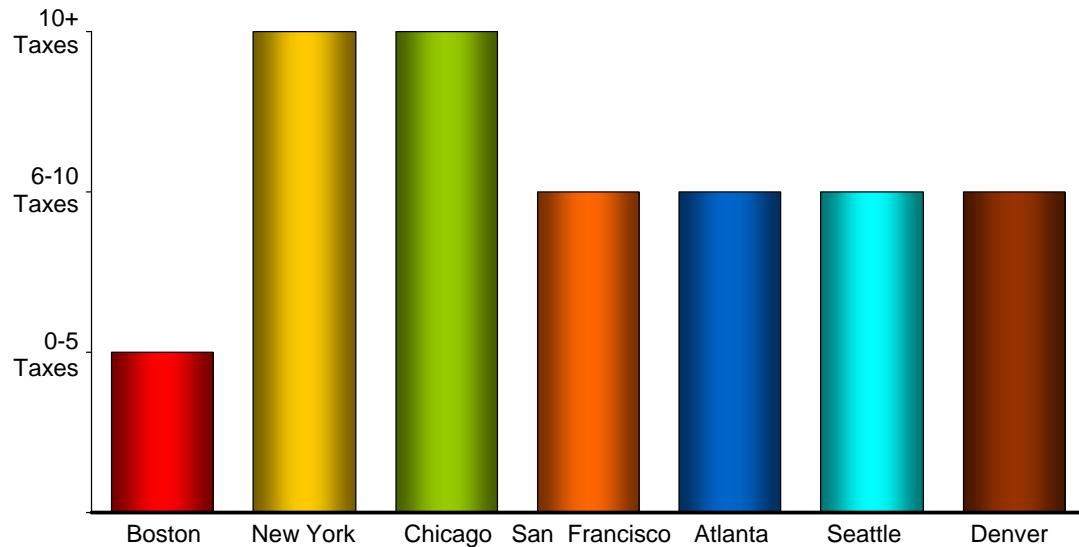
Percent of Total Revenues Derived From the Property Tax in 2003

Boston's reliance on the property tax far exceeds that of the other six cities.



Number of Taxes that Contribute to Municipal Revenues

Boston is empowered to levy smaller number of different taxes than other cities in the study.



Boston Bound also found that competitor cities like Chicago are pursuing innovative development strategies in large part because in Illinois, the state presumes cities and towns have authority, unless stipulated otherwise. In Massachusetts, it's just the opposite. The study also concludes that at the time home rule was last examined in the Commonwealth (late 1960s), one of the intended purposes was to free the State Legislature from some of the minutiae of local affairs to enable it to concentrate on more strategic matters. Nevertheless, based on an analysis of legislative activity, today the Legislature spends as much time on local matters as it did before the amendment.

Frug and Barron's earlier work, *Dispelling the Myth of Home Rule*, shows these state-imposed limitations are not unique to Boston but rather are prevalent across the state's cities and towns. This is highly unusual and often presents barriers to economic development as illustrated by the current case of Westwood Station, a major mixed-use project that promises 2,000 new jobs and has been held up for months in part by the Legislature's delay in approving a liquor license to a major tenant that had been granted by the town. These limitations not only hamstring towns' ability to chart their own course, but also to pursue innovative regional alliances to achieve economies of scale.

Frug and Barron suggest that Boston should not be subject to a legal structure that was designed in a past era for a very different kind of urban center. They pay respect to the historical context in which current state restrictions on cities and towns were established, and note that the region has enjoyed prosperity despite these limitations on its economic potential. They argue, however, that in light of increased global competition, cities and towns need to update their legal relationship with the Commonwealth.

Home Field Disadvantage

In support of greater local options, the *Boston Globe* ran an editorial in October 2007 just prior to the World Series that year entitled *Home Field Disadvantage*. This editorial compared the ability of the two host cities, Boston and Denver, to reap benefits from hosting the fall classic.

The editorial pointed out that while Denver has a meals tax, the 5% meals tax paid by fans and tourists in Boston goes exclusively to the Commonwealth. As reported in *Boston Bound*, Denver also has a lodger's tax, a telecommunications tax, a franchise tax, a car rental tax, a food and beverage and liquor stores tax, a facilities development admissions tax, and an aviation fuel tax, among others. As with every other city in the *Boston Bound* study, Denver also receives revenue from a portion of the state's sales tax.

By comparison, Massachusetts has authorized Boston to impose excise taxes on motor vehicles, hotel and motel rooms, and jet fuel. Boston's efforts to obtain legislative authorization for other targeted taxes have been unsuccessful. Because of these differences, the property tax in Denver accounts for only 10% of the city's general fund revenues. Moreover, its own-source revenue covered 85% of its non-school budget in 2004 whereas Boston's own-source revenue covered only 27%. As the 2007 *Globe* editorial puts it, "in municipal finance terms, it's "a Denver sweep."

One of the consequences of this regime is that Boston is much more reliant on the Commonwealth for state aid, with only New York City comparable in that regard among those surveyed in *Boston Bound*. Cities like Denver instead rely on the authority they receive from the state to raise revenues on their own, as well as from state-local revenue sharing.

New additional in-depth research by the Boston Municipal Research Bureau reveals the even greater extent of the variance of revenue that accrued to Denver and Boston during the 2007 baseball playoffs/World Series than was revealed by the *Globe* editorial.

Boston and Denver – A Tale of Two Cities

The greater local revenue flexibility available to Denver compared with a more restrictive structure in Boston is clearly demonstrated by a comparison of tax collections associated with eight playoff/World Series games in Boston with five such games in Denver in 2007. For reasons explained below, the taxes collected in both cities totaled approximately \$1.5 million. However, the tax distribution to Denver and Boston showed a marked contrast with Denver receiving 63% of total receipts compared to Boston's 12%.

Denver enjoys many more local options with which to generate revenue as enumerated above because it has much more control over its strategic financial structure. Specifically, it enjoys a fiscal flexibility that enables it to impose local option taxes if its citizens approve. As a Home Rule city in Colorado, Denver by charter has the power to collect a local sales tax. It is able to earmark revenues from the tax for specific purposes and to engage in the development of major facilities utilizing its taxing powers.

As an example of the use of this authority, after several previous attempts to bring Major League Baseball to Denver, the Rockies were established in 1993, based in a brand new stadium located in an area that the city was trying to revitalize. The new stadium was financed, in part, by a 0.1 percent sales tax approved by Denver voters. It is striking what Denver has been able to achieve by virtue of its fiscal autonomy. There can be little doubt that Major League Baseball would not have come to Denver – or would have been long delayed – if Denver had been hampered by the fiscal inflexibility under which Boston operates. [Note: Denver had the authority to implement a seat tax but instead used that authority to leverage an additional 0.1% sales tax to finance the stadium]

Denver: Reaping the Benefits of Hosting the 2007 Postseason

The City of Denver garnered substantial tax benefits from hosting the 2007 baseball playoffs and World Series. Of \$1.5 million in tax receipts generated from the sales activity associated with the five playoff/World Series games, the City of Denver received 63% of the total, with the remaining amount going to the State of Colorado. That coupled with the fact that Denver incurred no material expenses as host city, further enhanced the benefit of attracting events to Denver.

Applying economic multipliers provided by the Boston Redevelopment Authority for Boston, people attending the games in Denver spent \$19 million, not including ticket sales. Despite hosting three fewer games, spending in Denver was comparable to spending in Boston, because of the greater attendance at the Rockies games (Coors Field has a seating capacity of just over 50,000, and all five of the playoff games were sellouts. Fenway Park's capacity in 2007 was under 39,000).

The \$19 million of spending is estimated to have generated \$1.5 million in tax revenue, \$940,365 of which was received by the City and \$552,361 received by the State of Colorado. **The City of Denver, received 63% of the total tax revenue generated by the playoff games.** Moreover, Denver's receipts do not include the proceeds of the 7.25% tax on short-term car rentals, which is also credited to the city.

2007 Rockies Playoff/World Series Estimated Attendee Spending and Revenue Collection Analysis - Based on 5 Games				
Tax	Spending *	Total Tax Collected	City Tax Collections**	State Tax Collected
Hotel	\$6,282,247	\$637,648	\$455,463	\$182,185
Sales	5,137,037	328,770	179,796	148,974
Sales Meals	7,627,651	526,308	305,106	221,202
Total	\$19,046,935	\$1,492,726	\$940,365	\$552,361
Percent of Total Collections		100.0%	63.0%	37.0%

* Based on estimated economic impact for attendees of Boston games, adjusted for differences in number of attendees and games, tax rates, and assumed price differential of 90%.

** Including dedicated revenues.

Denver's sales and use tax accounts for over half of all general fund revenues. In 2007, there were four separate sales tax rates:

- The general sales tax rate of 3.5%, on a tax base that appears similar to Massachusetts.
- A prepared food and beverages tax rate of 4.0%, 50 percent of which goes to the General Fund.
- A short-term car rental rate of 7.25%, of which 3.5% goes to the General Fund.
- An aviation fuel tax of 4 cents per gallon, half going to the General Fund.

In addition, Denver benefits from a hotel tax as well as its location in the Regional Transportation District.

- A lodgers' or hotel tax is levied on the purchase price of lodging less than 30 consecutive days, with a 2007 rate of 10.75%. The receipts are divided among the General Fund, the Convention and Visitors Bureau, repayment of bonds for the Colorado Convention Center, and expansion of that center.
- Denver is located in the Regional Transportation District, which has a sales and use tax of 1.0%; the Scientific and Cultural Facilities District with sales and use tax of .1%; and the Football Stadium District with a 0.1% sales and use tax. The state imposed a 2.9% sales tax in 2007.

Boston: Passing along the Benefits of Hosting the 2007 Postseason to the Commonwealth

By contrast, the revenue benefit to the City of Boston during the postseason is minor. Of the \$1.5 million in tax receipts generated from the sales activity in conjunction with eight playoff/World Series games and the parade, the City of Boston received 12% of the total which was less than the associated expenses incurred by the City. Boston estimates that people attending the eight-playoff games spent about \$25 million. That does not include buying tickets for the games, but does include taxable spending such as food, hotel, souvenirs, transportation and luxury items. This \$25 million is estimated to generate \$1.5 million in tax revenue of which only \$166,400 was received by the City of Boston from the hotel tax. The remaining \$1.3 million was collected by the Commonwealth of Massachusetts and included revenue collected from the meals, hotel and sales taxes. **The City of Boston received only 12% of the total tax revenue generated by the playoff games.**

2007 Red Sox Playoff/World Series Estimated Attendee Spending and Revenue Collection Analysis - Based on 8 Games				
Tax	Spending *	Total Tax Collected	City Tax Collections	State Tax Collected
Hotel*	\$8,265,200	\$751,916	\$166,400	\$585,516
Sales	6,758,512	199,587	NA	199, 587
Sales Meals	10,035,272	501,764	NA	501,764
Total	\$25,058,984	\$1,453,267	\$166,400	\$1,286,867
Percent of Total Collections		100.0%	11.5%	88.5%

* Spending of attendees as estimated by the Boston Redevelopment Authority.

Massachusetts sales and use tax of 5.0% on the sale, rental or use of tangible personal property goes directly to the State as does the 5.0% sales tax on meals and beverages provided by a restaurant. Boston's hotel tax is 12.45% which consists of 4.0% as the city's share, 5.7% as the State share, and a 2.75% Convention Center Financing Fee on new hotels in Boston and Cambridge opened for business on or after July 1, 1997. This fee is earmarked to pay for Boston's share of the cost of building the Boston Convention

& Exhibition Center. The City was responsible for the purchase and preparation of the land at the site.

Stunning Revenue Comparison

In comparing these figures, a stunning fact is evident. **The Rockies and Red Sox generated an almost exactly equal amount of total tax collected during last year's playoffs, but whereas the City of Denver received 63% of total tax revenues, the City of Boston received only 12%, a ratio of nearly 6 to 1.**

Cost Differential

This comparison is all the more pronounced when factoring in costs that the City of Boston endured in hosting the games that Denver did not. According to Denver officials, the five-playoff games played in Denver imposed no financial encumbrance on the city.

Under an agreement established in 1995, the Rockies are required to reimburse the city for the salary costs of extra police officers and other employees in an on-duty capacity that are needed for law enforcement and traffic management in the vicinity of Coors Field during games or non-baseball events. That agreement has since been amended to extend the reimbursement requirement to EMT personnel and food license inspectors. For these services the city invoices the team monthly for the required reimbursement amounts. The cost of police officers hired by the Rockies to provide game-time security at Coors Field, are directly paid by the team to the officers, with no involvement of the city.

In Boston, the City did incur additional costs for being the host city of the playoff games. In 2007, Boston hosted two division playoff games, four league championship games and two World Series games as well as a parade. The City estimates its costs for these nine events to total around \$1.5 million, due primarily to overtime costs for public safety, EMS, public works and transportation services. Additionally, the City incurred expenses for security during away games to maintain order around the local bars and clubs. Of the total cost of \$1.5 million, the city was reimbursed a total of \$684,516, meaning it was forced to pay out \$815,484.

In summary, after calculating tax receipts, reimbursements and expenses, the City of Denver gained \$940,365 from hosting the 2007 postseason while the City of Boston lost \$649,084.

This differential was likely repeated to some degree in 2008. Tampa and St. Petersburg, which co-hosted the 2008 American League playoffs with Boston, enjoy diversified revenue sources like Denver that Boston does not. These include a portion of the state sales tax, gas tax, excise tax, franchise tax, utility tax, and occupation license tax.

Put another way, despite that the American League playoffs were a seven-game series; Tampa likely swept Boston in terms of budgetary impact.

What If Scenarios for Boston

Given the limitations of Home Rule in Boston, the City is not able to take advantage of additional taxes and is only able to recoup some of the costs associated with events. In this analysis, we reviewed three revenue sources/taxes that were available to Denver during the playoff games and not to Boston. We then applied those taxes to a “what-if situation” for Boston to illustrate the potential revenue from being the host city to a major sporting event. The three taxes used, based on Denver’s definition, include:

1. **10% admissions tax or seat tax** – The seat tax is 10% on the price of each admission to cultural arts, entertainment, or sports events in city-owned facilities.
2. **4.0% food and beverage tax** - A prepared food and beverages tax rate of 4.0%, fifty percent of which goes to Denver’s General Fund for operational expenses.
3. **\$9.75 per employee Occupational Privilege tax/head tax** - Persons employed within the city limits that receive \$500 or more a month are subject to the tax. The overall tax rate is \$9.75 per month per employee, of which \$4.00 is paid by the employer and the balance of \$5.75 by the employee. [Note the chart below provides an estimate based on an estimated number for vendor employees hired for each game.]

Summary of Potential Tax Collections Based on 8 Games	
Admissions Tax	\$3,823,914
Food & Beverage Tax	\$404,357
Occupational Privilege Tax	\$9,750
Total Estimated Financial Gain	\$4,238,021

Based on the estimates made previously by the City of Boston and information from the Boston Red Sox and MLB, Boston could have collected \$4.2 million in new revenues, due to the eight-playoff games, if the City had the legal authority to institute these taxes without petitioning the Commonwealth of Massachusetts.

Conclusion

While the notion that Boston lacks many of the powers commonly enjoyed by other cities is not a new one, *Boston Bound* produced the most comprehensive study of this phenomenon to date in a gripping and comparative way. *Boston Bound* shows that the current fiscal structure is problematic because it makes the City of Boston unduly focused on a single tax in thinking about how to plan for its future. The city thus lacks the proper incentives to undertake a range of actions that would promote useful development.

These findings have been further reinforced by the analysis of the Boston Municipal Research Bureau on the differential of tax revenue received by Boston and Denver in hosting the 2007 baseball postseason. This is but one example of Boston's inability to perform to its highest economic potential at a time that the capital city and the entire Commonwealth can least afford it. While greater local options may not provide a panacea to cities and towns across the Commonwealth that are grappling with major budgetary challenges, they do provide important tools to help them better manage their own operations in good times and bad.

Edward Glaeser, Director of the Rappaport Institute for Greater Boston, has written extensively about the region's ability to sustain its economic prosperity by periodically reinventing itself. Amidst new competition from around the world during a period of economic turbulence, it is time for the Commonwealth to reinvent its relationship with its cities and towns to enable cities and towns to maintain a more balanced revenue structure and surer economic footing in both good times and bad. A revised relationship would also enable Boston to manage its operations to be more competitive with its peer cities in the United States and around the world for the benefit of the entire Commonwealth.

