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AGENDA

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE
October 16, 2020 – 10:00 A.M.
Live Video and Audio Conference Meeting
Join the Meeting Here
Meeting Room Password: **762331**

COMMITTEE MEMBERS:

Alex Brennan-Martin (Chair), Jay Zeidman (Co-Chair), Sofia Adrogué, John Johnson, Council Member Dave Martin, Ryan Martin, David Mincberg

In accordance with the modified Texas Open Meetings Act provisions announced by Texas Governor Greg Abbott on March 16, 2020, this Agenda is posted for public information, at all times, for at least 72 hours preceding the scheduled time of the meeting online at https://www.houstonfirst.com.

Any questions regarding this Agenda, should be directed to Lisa K. Hargrove, General Counsel at either 713.853.8965 or Lisa.Hargrove@houstonfirst.com

I. **Call to Order**

II. **Public Comments**

III. **Minutes** – June 12, 2020

IV. **Presentations, Reports, and Updates**
   A. 2021 Business Plan and Budget Preview

V. **Committee Business**
   A. Consideration and possible approval of the Houston First 2019 Annual Financial Audit.

VI. **Adjournment**

III. Minutes – June 12, 2020

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MINUTES

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE
June 12, 2020 – 10:00 A.M.
Live Video and Audio Conference Meeting

The Benefits, Compensation, and Finance Committee ("Committee") of Houston First Corporation (the "Corporation" or "HFC"), a Texas local corporation created and organized by the City of Houston as a local government corporation pursuant to TEX. TRANSP. CODE ANN. §431.101 et seq. and TEX LOC. GOV'T. CODE ANN. §394.001 et seq., posted a meeting via live video and audio conference on, Friday, June 12, 2020 commencing at 10:00 a.m.

In accordance with the modified Texas Open Meetings Act provisions announced by Texas Governor Greg Abbott on March 16, 2020, the Agenda was posted for public information, at all times, for at least 72 hours preceding the scheduled meeting time online at https://www.houstonfirst.com.

The following Committee Members were present for the meeting: Alex Brennan-Martin (Chair), Jay Zeidman (Co-Chair), David Mincberg, Reginald Martin, Sofia Adrogué, John Johnson, and Council Member Dave Martin.

The Chairman of the Committee called the meeting to order at 10:00 a.m. and a quorum was established, with all Committee members virtually present.

I. **Public Comments.** None.

II. **Review and approval of minutes from prior meeting.** Following a motion duly seconded, the minutes of May 21, 2020 were unanimously approved as presented.

III. **Presentations, Reports, and Updates**

A. Chief Financial Officer Update. Mr. Frank Wilson began his report with several recent updates. Mr. Wilson informed the Committee that HFC submitted a request for COVID-19 relief funds to the City of Houston (City) and participated in a challenge meeting. The City has decided to make available $2 million for capital improvements, including touchless bathroom features at Jones Hall, Wortham Theater, and Miller Outdoor Theatre, as well as other equipment and PPE. Funds will also be used for an environmental firm to clean facilities if a positive case of COVID-19 is confirmed. HFC has also begun the procurement process for the purchase of equipment and supplies needed to welcome guests back to HFC facilities, including thermal cameras. John Gonzalez, Sr. VP of Operations, provided a sample of the technology and a video was shot by the HR team to show how the technology works and can be used to complete temperature checks of up to 100 people per minute. Additionally, HFC ordered some electronic spray misters to clean and sanitize the facilities. Mr. Wilson also discussed additional modifications to the CARES Act that have extended the use of Paycheck Protection Program (PPP) funds from eight weeks to twenty-four weeks. This change will allow HFC to completely expend the entire $4.2 million forgivable loan in ten weeks. Mr. Wilson was also happy to report that the IT Department performed an enterprise reporting program upgrade for the accounting section ahead of schedule and below budget. Mr. Wilson thanked Controller, Stephany Bland, and Tim Smith, Director of IT, and his team for completing the project before the end of the year. For his final update, he informed the Committee that HFC's diversity partner, 7th Echelon LLC, the sub-contractor to JLL for the Hilton guestroom renovation, received a $10,000 grant from Hilton Corporation from the Hilton Supply Management's Diversity Advancement Fund.

Mr. Wilson then discussed HFC's financials. Second quarter hotel occupancy tax (HOT) collections are complete and year-to-date revenues are approximately $40 million. Due to strong collections in the months of January and February, HFC is just $6 million or 13% below budget. However, HFC continues to project HOT collections for the year could fall 50% short of the 2020 approved budget of $93 million. Hilton net cash to HFC through May is $10 million below budget, but the hotel has a strong book of group business through the fall. HFC also hopes there will be a realization of pent up demand from regional and drive markets. Just yesterday, the Hilton hosted its first banquet style luncheon for 200 people with the new social distancing protocols in place and the event went very well. Other major revenues continue to struggle during May while all HFC facilities remain closed. None of the facilities earned food and beverage revenues and fall $2.3 million below budget year-to-date through the end of May. Parking revenues are $4.4 million below budget and GRB facility rentals are $1.5 million below budget. All major expenses are at or below budget through May.

Mr. Wilson also provided an update on HFC's outstanding debt. Previously he discussed the successful extension of the $125 million loan at the Hilton. Since March, HFC has $20 million in subordinate notes outstanding and an additional $592 million of HOT and parking secured bonds. With regard to the Hurricane Harvey recovery project, most of the invoices have been paid, except for a few invoices related to mitigation design work. HFC has received $103.9 million in FEMA proceeds to-date and most of the proceeds have been used to pay down debt related to the project or to replenish HFC's reserves. Since the beginning of 2020, HFC has made draws from and additions to cash reserves, leaving $20 million in emergency reserves and $26.6 million in cash reserves, in addition to bond reserves.

To provide further prospective of the impact of COVID-19, Mr. Wilson shared HFC's value proposition to the City, which reflects losses in HOT revenues due to cancelled meetings and conventions beginning in early March 2020 through December 2020. In total, these cancellations reflect a loss of 261,000 room nights, not including the impact of the early closure of the Houston Rodeo and cancellation of the NCAA regional playoffs. These figures reflect a $2.6 million loss in HOT and an overall loss of $183 million in economic impact to the City of Houston.

Mr. Wilson then continued his report with HFC's budget forecast. According to Cindy Decker, VP of Market Strategy, the HOT forecast in the third quarter of 2020 will be $4.5 million, compared to the $23 million budgeted by HFC. For the fourth quarter, Ms. Decker assumes there will be $6.5 million in HOT collections. The first quarter of 2021 also reflects a challenging time for HFC with $9.6 million in HOT collections. The second quarter will also be a challenge, but by third and fourth quarter 2021, Ms. Decker has forecast a recovery back to previous levels of HOT collections. Mr. Wilson also presented a forecast of HOT collections and Hilton net cash prepared by Dr. Phil Scheps. Both Dr. Scheps and

Ms. Decker have similar forecast for HOT collections through 2021, but Dr. Scheps forecast runs through 2023. Dr. Scheps forecast for Hilton net cash is similar to HOT collections and reflects a slow return to pre-pandemic levels in four years.

Council Member Dave Martin requested that the year-over-year comparison include 2019 as well. The Committee Chair also asked that the information be circulated to the Committee.

Sofia Adrogué acknowledged Council Member Dave Martin, Mayor Pro-Tem for his service. She also asked Mr. Wilson for further clarification on the allocation of COVID-19 relief funds from the City. Mr. Wilson explained that the information provided to the Committee had been updated prior to the meeting. He confirmed that the City has allocated approximately $2 million and is considering the release of additional funds, however, HFC will not receive the $6.2 million originally requested.

B. Human Resources Update. [This item was taken out of order and discussed at the conclusion of Item IV]. Frank Wilson provided the Human Resources Update on behalf of Tim Moyer, Human Resources Director. Mr. Wilson stated he is very proud with employee participation for the on-line unconscious bias training at 92%. Additional unconscious bias training or micro-lessons will begin in July. The next on-line training will be on ethics and compliance and will serve as a thirty-five-minute interactive training to supplement HFC's revised Code of Conduct. A training video regarding return to work protocols was shot yesterday at Partnership Tower and HFC hopes to welcome employees back to the office after Labor Day. A contact tracing system has already been rolled out and Mr. Wilson explained that he has to complete a health survey every morning before entering the office.

Alex Brennan-Martin commented that the Texas Restaurant Association and Texas Department of Health have implemented similar measures at restaurants and they appear to be working. However, there have been some restaurants that have had to close temporarily due to an employee testing positive for COVID-19. He predicts all business will be impacted at some point.

IV. Committee Business.

A. *Consideration and possible recommendation of an External Audit Services Agreement with RSM US LLP.*

Mr. Frank Wilson discussed the goals and objectives of the External Audit Services RFQ. He also discussed the solicitation process, advertisements, selection criteria, and the selection committee. HFC received eight statements of qualifications and conducted virtual interviews with the top three firms with the highest scores, RSM US LLP, BKD LLP, and Deloitte & Touche LLP. The firm that received the highest score was RSM US LLP with 325 points out of 390 points. BKD received the second highest score with 318 points and Deloitte received 300 points. Mr. Wilson then provided some background information on the firm selected, including its experience with the public sector and hospitality industry such as the Austin Convention Center. The total fees under the contract will not exceed $184,328 per year, which is lower then the fees charged by Deloitte last year. RSM US LLP has also committed to meet and/or exceed a 30% diversity goal. Mr. Wilson also provided the names and photos of RSM team members and identified two individuals that have prior experience working with HFC.

Council Member Dave Martin asked for the fees provided by the other top firms. Mr. Wilson explained that the solicitation is an RFQ so HFC only negotiated fees with the firm selected. As a data point, he also stated last year HFC paid Deloitte fees in the amount of $186, 750 for External Audit Services.

Council Member Dave Martin made a motion for discussion that was seconded by Sofia Adrogué.

Jay Zeidman asked if Barry Margolis was the head of RSM US LLP. Mr. Wilson stated he could not confirm that information. Mr. Zeidman further stated that he had some familiarity with Mr. Margolis's participation in the community. He also added that the firm's diversity participation is satisfactory. There was further discussion on the principals of RSM US LLP and Yoe CPA.

Sofia Adrogué asked if the solicitation was also advertised with the Houston Hispanic Chamber. Mr. Wilson confirmed that the RFQ was advertised with the Houston Hispanic Chamber, Indo-American Chamber and the Women's Business Enterprise Alliance. Ms. Adrogué also recommended that staff work with the Greater Houston Women's Chamber of Commerce for future solicitations.

There was further discussion about the work previously completed by Deloitte. Council Member Martin stated he's an advocate of thought leadership and while working with the Houston Sports Authority found that Deloitte did not present any new ideas. Frank Wilson stated he was pleased with their audit of HFC, but was told their presentation included a lot of boiler-plate language, whereas RSM appeared enthusiastic about doing business with HFC.

Council Member Martin asked Brenda Bazan if there had been any opposition to HFC's selection. Ms. Bazan stated there have been discussions, but the HFC Procurement Manual includes a provision for protest procedures, which to her knowledge have not been exercised. Council Member Martin also asked if staff has communicated with Gerald Womack as Chair of the Procurement Committee in order to avoid similar issues addressed with Griffin Partners. Frank Wilson stated he has not contacted Mr. Womack at this time.

There was further discussion on potential issues with staff's recommendation and failure to communicate with the Procurement Chair. Frank Wilson clarified that due to HFC's consolidated financials with the Hilton, its objective was to hire a firm with hotel experience and firms that did not have that experience did not score as high.

Reginald Martin stated what's most important to him is perception and finding the best partner at the best price. Mr. Martin further explained even though HFC followed the procurement process, it is important that HFC states its objectives clearly in relation to criteria and scoring. He also stated its difficult to know if we got the best price if we only negotiated with one firm.

Lisa Hargrove, HFC General Counsel, explained that the RFQ process is governed by state statute. Per statue, the RFQ process will not allow an entity to request pricing up front. Then you must rank the top firms by their qualifications as you deem most important and are only allowed to request pricing from the top-ranked proposer. If you do not select the top-ranked proposer, you may move on to the second-ranked proposer, but you may not go back to the first. Mr. Martin stated he appreciated being educated on the process and the technical aspects of the solicitation, but the Committee deals with the political so it is important that staff does a better job of reconciling the two.

Mr. Wilson stated he would be happy to speak with Mr. Womack and agreed with many of the comments made by Committee members. He also asked that Committee members help protect the integrity of the procurement process.

Council Member Dave Martin amended the motion for recommendation of an External Audit Agreement with RSM US LLP and requested that staff have additional discussion with the Procurement Chair prior to the Board meeting. The motion was duly seconded by Sofia Adrogué and passed unanimously.

B. *<u>Consideration and possible recommendation of a revised 2020 budget for Houston First Corporation.</u>*

As a reminder, Mr. Wilson informed the Committee that department heads have made reductions to their respective budgets since 2018. He explained that the revised 2020 budget will have even more significant budget cuts due to the impact of the pandemic. HFC has a significant deficit of revenues for the year-end, but does not anticipate difficulty making any debt service payments in 2020 or 2021. Staff is proposing a calendar year 2020 budget of $103.5 million in total revenues compared to the approximately $200 million in revenues approved by the HFC Board and $139 million in total expenses in response to the pandemic. This will leave HFC with a $35 million deficit that will be covered by bank borrowings and reserves. Mr. Wilson stated this year will be HFC's most challenging and they have made sever reductions in the budget in order to ensure survival. This will require significant change and a wholesale reset of the entire organization. Operating revenues are projected to go down $66 million in 2020 and operating expenses are projected to go down $39 million. Non-operating revenues are projected to be down $28 million due to HOT and non-operating expenses are projected to be down $18.9 million due to a reduction in financial obligations to the City.

John Johnson stated it would be helpful to see what percentage of the proposed budget has been achieved and Mr. Wilson accessed the report for further review.

Alex Brennan-Martin stated that this is a bitter pill to swallow, but it is often better to look at the operating expenses line versus the debt service line.

Sofia Adrogué echoed the sentiments of the Committee Chair and stated she is having a hard time getting past the personnel number and what that will ultimately entail.

The motion for recommendation of a revised 2020 budget for Houston First Corporation was approved unanimously. David Mincberg was not present for the vote.

V. **Adjournment.** The meeting was adjourned at 11:08 a.m.

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HOUSTON FIRST

BENEFITS, COMPENSATION & FINANCE MEETING

LIVE VIDEO & AUDIO CONFERENCE MEETING

Friday, October 16, 2020

10:00 a.m.

PUBLIC COMMENTS

Anyone who wishes to address the committee during the Public Comment session may do so by clicking the **“Raise Hand”** icon to be acknowledged. You may also click the **Q&A** icon to type in your comments.

HFC BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING
October 16, 2020

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James Turrell's Twilight Epiphany, Skyspace
RICE UNIVERSITY

MINUTES

June 12, 2020

HFC BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING
October 16, 2020

HOUSTON FIRST

2021 BUSINESS PLAN & BUDGET PREVIEW

MICHAEL HECKMAN
Acting President & CEO

FRANK WILSON
Chief Financial Officer

HFC BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING
October 16, 2020

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STATE OF PLAY

- Historic Disruption of Tourism & Convention Industries
- Since March – Nearly 200 Meetings & Conventions Canceled or Rescheduled
- Nearly 550,000 Room Nights & $330M Economic Impact Have Evaporated
- HFC's Revenue Streams Severely Impacted
- Soft 1st Half of 2021 for Conventions
- Extraordinary Lack of Visibility

2020 FORECAST

- In July, Forecast was for - $35.5 M operating deficit
- Now forecast is for - $25M
- Achieved through:
  - Expense Reductions & Management of Burn Rate
  - FEMA Reimbursements of $16M

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HFC'S ROLE

- In addition to operating Houston's Convention & Entertainment Facilities, HFC drives economic impact and demand generation as the Destination Marketing Organization.

- These efforts create value for numerous stakeholders across our Community and create jobs through the economic impact of tourists and visitors.

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OUR STAKEHOLDERS

2021 STRATEGIC THEME: VALUE CREATION

VALUE CREATION will drive the Houston First recovery and long-term resiliency efforts, serving as the foundation for 2021 business planning.

It includes innovation in everything we do and sell, promoting Houston's brand appeal and awareness, lowering costs while improving productivity, generating revenue, and delivering unparalleled experiences. A unified commitment to Value Creation benefits our company, as well as our hospitality community and other stakeholders.

VALUE DRIVERS

- Organizational Innovation
- Destination Brand/Image Enhancement
- Operational Efficiency
- Revenue Generation
- Exceptional Visitor/Customer Experience

2021 BUDGET DESIGN PREVIEW

- Due to the economic and pandemic uncertainty, we are preparing the most challenging budget in the corporation's history
- Our fiscal stewardship will balance budget cuts with targeted investments that will drive business and demand and will align with our strategy for recovery.
- 2021 Budget prepared as a transition year to put company in best possible position for post-pandemic period
- Budget planned so that expenses will be lower in the first half of the year, and higher in the second half of the year
- Minimal capital expenditures

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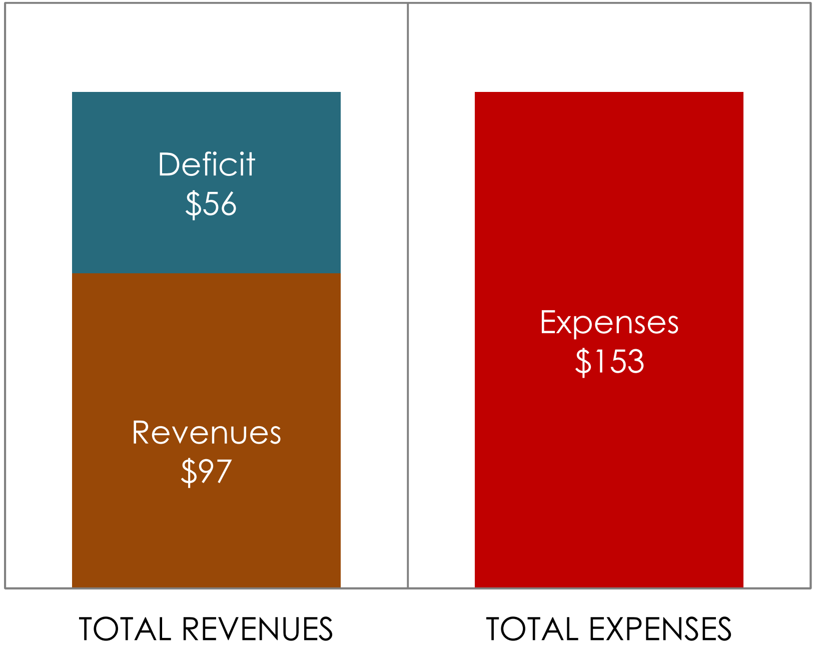
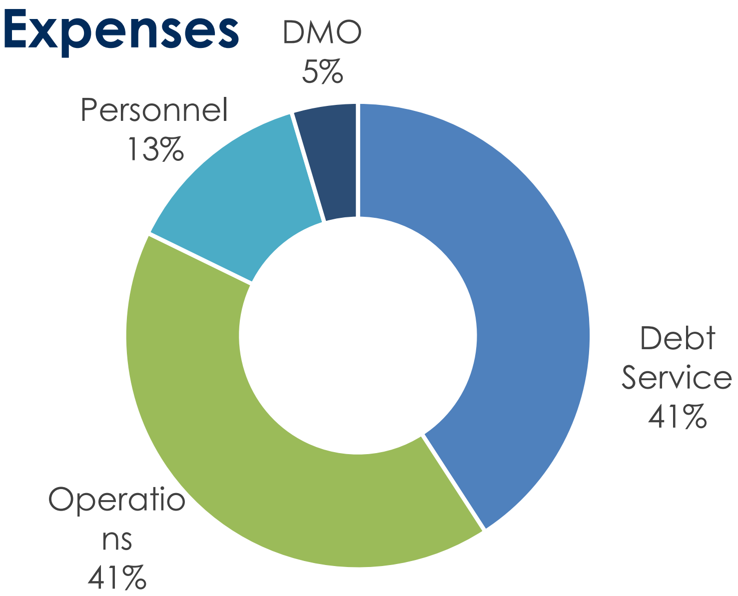
2021 PRELIMINARY BUDGET ESTIMATE





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Graffiti Park, GONZO247
EAST END

EXPENSE OBLIGATIONS

Annual General Fund Contributions $3.1 M
$1.45 M lease payment
470 K Promotion
450 K Protocol
240 K Traffic Administration
450 K MATCH

HAA Contribution – HOT
$16.5 M in 2019

Annual Contributions to City Assets (not managed by HFC) $2.8 M
$1.1 M Hobby Center Foundation
1.2 M Discovery Green
505 K Buffalo Bayou Maintenance

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2021 BUDGET KEY TAKEAWAYS

- Budget process during dual health and economic crises requires difficult choices to assure survival of the HFC enterprise
- We are planning in climate best characterized by its VUCA (volatility, uncertainty, complexity and ambiguity)
- Our commitment is to conservative stewardship of the assets entrusted to Houston First, while fulfilling our commitments to our broad array of stakeholders and partners in the hospitality sector
- Fulfilling these commitments will require difficult choices and careful prioritization of diminished resources

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THANK YOU

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COMMITTEE BUSINESS

A. *Consideration and possible approval of the Houston First 2019 Annual Financial Audit.*

PRESENTERS

Stephany Bland
Controller – Houston First Corporation

Joel Perez
Partner, Audit Services - RSM

Margie Oyedepo
Supervisor, Audit Services - RSM

HFC BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING
October 16, 2020

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HOUSTON FIRST

2019 ANNUAL REPORT

HFC BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING

October 16, 2020

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OPERATING UNITS

- **INCLUDED:**
  - Leased Assets (operations formerly included in CEFD)
  - Hilton Americas-Houston Hotel
  - Visit Houston (operations formerly included in GHCVB)
- **EXCLUDED:**
  - Convention and Entertainment Facilities Department (CEFD) debt and fixed assets
  - Greater Houston Convention and Visitors Bureau remaining operations

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NET POSITION

- **TOTAL ASSETS INCREASED $99 MILLION OVER 2018**
  - Cash and cash equivalents up $31 million
  - Fixed Assets-net up $44 million
- **TOTAL LIABILITIES INCREASED $20 MILLION OVER 2018**
  - New money borrowings
    - 2019 bonds - $50 million
    - COH new loans - $21.4 million
    - Principal payments - $54 million

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RESULTS OF OPERATIONS

- **INCOME OVER EXPENSES - $79 million**
  - $68 million increase over 2018
  - largest increase was in non-operating revenues from transfers from COH for FEMA and insurance proceeds.

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REVENUE SOURCE IN 2019

(FROM HIGH TO LOW)

- Transfer from City of Houston $154M
- Hotel revenue $92M
- Venue revenue $25M
- Parking revenue $14M

EXPENSES OF 2019
(FROM HIGH TO LOW)

- **Hotel expenses** (cost of good sold, direct costs related to Hilton) $41M
- **General and administrative** (indirect marketing, management fees, rebates, legal, information technology)$40M
- **Venue expenses** (maintenance, personnel, janitorial, utilities) $31M
- **Visit Houston** (destination marketing, tourism, destination sales) $23M

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REVENUE FLUCTUATIONS

- **Transfer from City of Houston –** increased $65 million from City transfer of FEMA and insurance proceeds

- **Hotel revenue (Hilton America's revenue) –** decreased $5 million from taking rooms out of service for the Room Refresh project

EXPENSE FLUCTUATIONS
FROM 2018 TO 2019
(FROM HIGH TO LOW)

EXPENSES DECREASED:

- Disaster expense decreased by about $7 million – 2019 Harvey spend capital rather than expense
- General and administrative expenses decreased by $6 million – one-time payment in 2018 to exit lease and personnel reductions
- Sponsorship expense decreased $1 million – 2018 included DNC bid expenses

EXPENSES INCREASED:

- Interest expense increased $3 million – increase in average principal outstanding
- Hotel expense increased $3 million - Hilton room renovation cost in 2019

THANK YOU

THE POWER OF BEING UNDERSTOOD

RSM

HOUSTON FIRST CORPORATION

Report to the Members of the Benefits, Compensation and Finance Committee of the Board of Directors

Audit for the Year Ended December 31, 2019

October 16, 2020

RSM

To the Members of the Benefits, Compensation and
Finance Committee of the Board of Directors
Houston First Corporation
Houston, Texas

Dear Members:

We are pleased to present this report related to our audit of the financial statements of Houston First Corporation (the Corporation) as of and for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Corporation's financial reporting process.

This report is intended solely for the information and use of the members of the Benefits, Compensation and Finance Committee, Board of Directors and management of the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Houston First Corporation.

Agenda

Audit overview and scope

- The Corporation's financial statements
  - Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
  - Our responsibility is to express an opinion on the financial statements based on our audit.
  - Scope of the audit:
    - Includes examining evidence, on a test basis, supporting the amounts and disclosures included in the financial statements
    - Includes an assessment of the internal control structure for purposes of auditing the amounts and disclosures in the financial statements, but not for providing an opinion on internal control
    - Includes an assessment of accounting principles, significant estimates made by management and disclosures to the financial statements
  - Objective of financial statement audit—to report whether the financial statements are fairly presented in conformity with required standards

Results of the independent audit

- Financial statement audit results:
  - Opinion on the financial statements: **Unmodified**
  - The **financial statements are presented fairly**, in all material respects, in conformity with accounting principles generally accepted in the United States of America
  - **No reportable deficiencies** on internal control were noted

Required communications

Matter to Report	No	Yes	Comments
Preferability of accounting policies and practices	√		In our view, in such circumstances, the Corporation has selected the preferable accounting practice and follows standards set fourth by the Governmental Accounting Standards Board (GASB).
Adoption of, or change in, accounting policies	√		The Corporation did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.
Significant unusual transactions	√		We noted no significant unusual transactions during the course of our audit.
Audit adjustments	√		There were no audit adjustments made to the final trial balance presented to us for our audit.
Uncorrected misstatements	√		We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

RSM

Required communications (continued)

Matter to Report	No	Yes	Comments
Disagreements with management	√		We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
Consultations with other accountants	√		We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant issues discussed with management	√		No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant difficulties encountered in performing the audit	√		We did not encounter any significant difficulties in dealing with management during the audit.
Internal controls over financial reporting	√		There were no reportable internal control deficiencies noted during the course of our audit.

Required communications (continued)

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciable life of property and equipment	The depreciable life of property and equipment is set at the estimated useful life of the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions, including the estimated useful life and prior experience.	Based on the results of the audit procedures performed, we concluded the estimates used by management are reasonable.

Role of subcontractor—Yoe CPA, LLC

- In an effort to partner with and assist the Corporation in its responsibility to foster the development and growth of diverse companies, we have teamed up with Yoe CPA, LLC, a subcontractor to RSM. This firm is a diverse company and is classified as a HUB enterprise.
- Yoe CPA, LLC service team included Stephen Yoe and Victor Bustamante.
- Worked side-by-side with RSM service team throughout the audit.
- First time working together as one firm.
- Yoe CPA, LLC was issued RSM laptops to facilitate integration of the two firms and provide for a seamless client service experience.
- Areas primarily worked on included the following:
  - Investments
  - Capital assets
  - Long-term debt
  - Revenues
  - Expenses

Closing comments

- Thank you for the vote of confidence and opportunity to serve as Houston First Corporation's independent audit firm.
- The Corporation is a large organization with diverse operations and revenue streams
- Non-routine year:
  - COVID-19 pandemic
  - Substantial remote environment
  - Compressed timeline
- Factors contributing to successfully completing the audit:
  - Experienced and committed management team
  - RSM's hospitality (hotel) and GASB industry experience
  - Constant and sound communication
  - Great teamwork

RSM

QUESTIONS AND ANSWERS

RSM

THANK YOU FOR YOUR TIME AND ATTENTION

RSM US LLP

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THANK YOU

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WWW.HOUSTONFIRST.COM

V. (A) Consideration and possible approval of the Houston First 2019 Annual Financial Audit

Consideration and possible approval of the Houston First 2019 Annual Financial Audit

DESCRIPTION: Houston First Corporation (the "Corporation") entered into an External Audit Services Agreement with RSM US LLP to conduct the year-end audit of the Corporation's consolidated financials for the year ending December 31, 2019. Staff now requests Board approval of the audit as presented.

RESOLVED, that the Board of Directors hereby approves the Houston First 2019 Annual Financial Audit.

Houston First Corporation

(A Component Unit of the City of Houston, Texas)

Financial Statement as of and for the Years Ended
and Independent Auditor's Report
December 31, 2019 and 2018

Contents

Independent Auditor's Report

Board of Directors of
Houston First Corporation
Houston, Texas

Report on the Financial Statements
We have audited the accompanying financial statements of Houston First Corporation (the Corporation), which comprise the Statements of Net Position as of December 31, 2019, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended; and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed on the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston First Corporation as of December 31, 2019 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

2018 Financial Statements
The financial statements of the Corporation as of and for the year ended December 31, 2018, were audited by other auditors whose report, dated July 9, 2019, expressed an unmodified opinion on those statements.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Houston, Texas
October___, 2020

The following discussion of Houston First Corporation (the Corporation or HFC) should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Historical results and trends that might appear should not be taken as indicative of future operations. The results of operations and financial condition of the Corporation, as reflected in the accompanying financial statements and related notes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions, and other factors that could affect the ongoing viability of the Corporation.

The Houston Convention Center Hotel Corporation (Hotel Corporation) was formed on behalf of the City of Houston, Texas (the City), in February 2000 pursuant to Chapter 431, Subchapter D, of the Texas Transportation Code, and Chapter 394 of the Texas Local Government Code. It was organized for the specific purpose of constructing, improving, enlarging, equipping, repairing, operating, and maintaining a convention center hotel (the Hotel) located near and connected to the George R. Brown Convention Center (the Convention Center). In this regard, the Hotel Corporation was responsible for overseeing the construction and development of the Hotel; a 1,600-space parking garage (the Parking Garage); and three skywalks connecting the Hotel, the Parking Garage, and the Convention Center (the Project). Construction was completed and the Project opened for business in December 2003 as the Hilton Americas–Houston (the Hilton). As of December 31, 2019, and 2018, Hilton Management LLC managed the Hotel through a qualified management contract (the Management Agreement).

On June 1, 2011, the Houston City Council (the City Council) approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as the "Houston First Corporation," which assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the board of directors appointed and approved by the Mayor and the City Council.

The City has entered into a lease agreement and an interlocal agreement (the Consolidation Interlocal Agreement) with the Corporation, whereby the Corporation (a) leases all previously existing Department facilities and Department-managed facilities; (b) operates, manages, maintains, develops, and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget, including, but not limited to, municipal HOT receipts, license fees, and concession revenues; and (d) as the City's agent, collects, administers, and audits HOT funds in accordance with terms of City ordinances. The Corporation also agreed to pay the City a one-time fee of $8,620,000 during the City's fiscal year ended June 30, 2012 from operating revenues of the Hotel. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

On March 4, 2013, the Corporation formed Houston First Holdings, LLC, a wholly owned subsidiary of the Corporation, as a "special-purpose" entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, managing, and otherwise dealing with the Hilton and its parking garage.

On June 18, 2014, the Corporation entered into a services agreement with the Greater Houston Convention and Visitors Bureau (the Bureau or GHCVB), which engaged the Corporation to provide marketing, advertising and promotional programs on behalf of the Bureau at a minimum of the same levels previously funded by the Corporation to the Bureau. The Bureau's employees have been added to the Corporation's existing personnel services contract effective July 1, 2014. The services agreement required the Corporation to amend its Certificate of Formation to increase the number of authorized board members from 11 to 13 to include 2 Bureau board members. The expenses incurred as a result of the services agreement are included in operating expenses as Visit Houston expenses.

On May 22, 2018, the City and the Corporation entered into the First Amendment to the lease agreement between the parties to amend and restate certain provisions pertaining to insurance, damage from casualty and City Council approvals, allocations and appropriations.

Financial Highlights

For the years ended December 31, 2019 and 2018, the combination of interest earned from investments and net revenues from the operations of the Hilton were sufficient to fund expenses of the Hilton, pay the monthly debt service expense of the Hilton, and fund the remaining obligations between the Hilton and the City.

Overview of the Financial Statements

The Statements of Net Position present information on all of the Corporation's assets, deferred outflows and inflows of resources and liabilities, with the difference reported as net position. Comparisons in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The Statements of Net Position can be found on page 11-12 of this report.

The Statements of Revenues, Expenses, and Changes in Net Position report the Corporation's revenues, expenses, and resulting change in net position during the period reported, regardless of when cash is received or paid. Therefore, revenues and expenses are reported in the Statements of Revenues, Expenses, and Changes in Net Position for some items that will affect cash flow in future fiscal years. The Statements of Revenues, Expenses, and Changes in Net Position can be found on page 13 of this report.

The Statements of Cash Flows report how much cash was provided by, or used for, the Corporation's operations, financing and investing activities, and acquisition or retirement of capital assets. The Statements of Cash Flows can be found on pages 14-15 of this report.

The notes to the financial statements provide additional information that is essential for a complete understanding of the data in the financial statements described above. The notes to the financial statements can be found on pages 15–30 of this report.

Net position: The Corporation's net position increased $79,027,354 to $162,680,811 at December 31, 2019 from $83,653,457 at December 31, 2018, representing a 94.47% increase. Of this increase, $99,491,817 is attributable to an increase in assets offset by an increase in liabilities of $20,701,282, as described below.

The Corporation's Net Position increased $10,575,265 to $83,653,457 at December 31, 2018 from $73,078,192 at December 31, 2017, a 14.47% increase. Of this increase, $15,602,244 is attributable to an increase in assets offset by an increase in liabilities of $4,742,849, as described below.

CONDENSED STATEMENT OF NET POSITION INFORMATION
DECEMBER 31, 2019, 2018 AND 2017

	December 31, 2019	December 31, 2018	December 31, 2017
Current assets	$ 141,874,193	$ 89,821,532	$ 115,135,428
Noncurrent assets	96,009,189	92,420,951	90,238,084
Capital assets	483,451,673	439,927,783	401,194,510
Total assets	$ 721,335,055	$ 622,170,266	$ 606,568,022
Deferred outflow of resources	$ 4,408,659	$ 4,171,840	$ 4,455,970
Current liabilities	$ 124,848,281	$ 89,711,827	$ 97,554,150
Long-term liabilities	438,214,622	452,976,822	440,391,650
Total liabilities	$ 563,062,903	$ 542,688,649	$ 537,945,800
Net investment in capital assets	$ 140,129,459	$ 107,994,717	$ 80,544,811
Restricted for debt service	3,943,537	366,708	167,081
Restricted—other (Note 2)	217,627	715,898	4,675,000
Unrestricted (deficit)	18,390,188	(25,423,866)	(12,308,700)
Net position	$ 162,680,811	$ 83,653,457	$ 73,078,192

Total assets increased $99,164,789 to $721,335,055 at December 31, 2019, from $622,170,266 at December 31, 2018. This increase was primarily the result of an increase in cash and cash equivalents, and short-term equity in pooled investments in current assets, and an increase in property, plant, and equipment – net in noncurrent assets.

Total assets increased $15,602,244 to $622,170,266 at December 31, 2018, from $606,568,022 at December 31, 2017. This increase was primarily the result of an increase in capital assets offset by a decrease in cash and cash equivalents from the permanent work phase of the Harvey recovery efforts.

Total liabilities increased $20,374,254 to $563,062,903 in 2019, from $542,688,649 in 2018. The change was attributable to an increase in current liabilities offset by a net decrease in long-term debt. See the "Debt Payment and Issuance" section below for the details of the changes in each of the bonds that comprise the notes payable to the City.

Total liabilities increased $4,742,849 to $542,688,649 in 2018, from $537,945,800 in 2017. The change was caused by drawing down the remaining balance of the Subordinate Lien HOT and Parking Revenue Flexible Rate Notes, offset by principal payments to the City for the HFC allocated bonds, and the decrease in accounts payable and accrued liabilities. See the "Debt Issuance" section below for the details of the changes in each of the bonds that comprise the notes payable to the City.

Property, Plant and Equipment

Property, plant, and equipment—net increased by $43,523,890 to $483,451,673 in 2019 from $439,927,783 in 2018. This increase was caused by acquisitions of $61,235,564, offset by depreciation expense of $17,715,532. Acquisitions were the result of continuing work on Hurricane Harvey reconstruction and the Hilton room refresh project.

Property, plant, and equipment—net increased by $38,733,273 to $439,927,783 in 2018 from $401,194,510 in 2017. This increase was caused by acquisitions of $55,610,387, offset by depreciation expense of $16,877,114. Acquisitions were the result of reconstruction work from damages caused by flooding from Hurricane Harvey.

Debt Payment and Issuance

On April 9, 2019, the City issued $106,320,000 of Convention & Entertainment Facilities Department HOT and Special Revenue and Refunding Bonds, Series 2019. This issue has a stated interest rates of 4% and 5% maturing in 2036. Proceeds were used to (a) refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2001 C-1 and 2001 C-2, (b) finance certain project costs, and (c) pay the costs of issuance of the bonds. Net present value savings totaled $5.6 million, or 7.98% of the $70,150,000 in refunded bonds.

On May 2, 2019, the City closed on a $50 million Subordinate Lien Hotel Occupancy Tax and Parking Revenue Flexible Rate Notes, Series B. As of December 31, 2019 there were no draws on this note and the entire amount is available. Interest is variable at the greater of JPMorgan prime or the adjusted one month LIBOR rate plus a spread based upon the rating of the existing senior lien Hotel Occupancy Tax and Parking Revenue Bonds. The commitment fee is equal to 0.1% and the notes terminate on May 2, 2026.

On May 3, 2019, the City loaned the Corporation $12,500,000, which was used to finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 2.134% on December 31, 2019 and the note matures on September 1, 2030.

On December 12, 2019 the City loaned the Corporation an additional $8,900,000, to finance project costs related to Hurricane Harvey. Interest will accrue based on the rate received on the City's commercial paper series E line, which was 1.3% at December 31, 2019. The note matures on March 1, 2024.

The Corporation made required principal payments totaling $10,920,000 and $9,565,000 in 2019 and 2018, respectively. In addition, in 2019 the Corporation made additional principal payments totaling $43,000,000 on the 2017 Subordinate Lien Flexible Rate Notes, Series A using the reimbursements from the City of the FEMA claims and insurance proceeds. The total notes payable balance includes the Corporation's allocable portion of the unamortized bond premiums, net of discounts, which totaled $29,693,354 and $15,110,892 at December 31, 2019 and 2018, respectively.

The Corporation funds 1/12th of the annual debt service payment each month so that, on September 1 of each year, the full amount will be available for payment. These funds, along with the required reserve funds are held by the City. Funds held by the City, listed as equity in pooled investments—restricted, are invested in the City's general investment pool. The amount of the investments held by the City was $22,946,278 and $18,645,229 at December 31, 2019 and 2018, respectively.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION INFORMATION
DECEMBER 31, 2019, 2018, AND 2017

	December 31, 2019	December 31, 2018	December 31, 2017
OPERATING REVENUES:			
Hotel revenues	$ 91,626,259	$ 96,388,440	$ 85,212,181
Venue revenues	24,674,003	22,338,128	21,894,656
Parking revenues	14,042,926	14,394,721	11,112,728
Other operating revenues	4,182,050	3,667,437	3,164,259
Total operating revenues	134,525,238	136,788,726	121,383,824
OPERATING EXPENSES:			
Hotel expenses	41,264,764	38,223,923	34,737,078
Venue expenses	31,363,911	29,376,279	31,071,598
Parking expenses	9,791,712	8,589,231	8,697,558
Visit Houston expenses	23,867,221	24,077,586	25,585,747
General and administrative	40,320,876	46,334,068	42,545,839
Enterprise development	4,375,535	4,004,519	4,145,342
Hurricane Harvey costs	294,706	7,485,821	60,289,168
Depreciation and amortization	17,715,532	16,877,114	16,254,144
Total operating expenses	168,994,257	174,968,541	223,326,474
OPERATING LOSS	(34,469,019)	(38,179,815)	(101,942,650)
NONOPERATING REVENUES (EXPENSES):			
Transfers from City of Houston	154,617,775	89,370,399	67,132,522
Sponsorship expense	(5,789,215)	(7,357,990)	(16,685,953)
Transfers to City of Houston	(18,328,517)	(18,546,544)	(17,584,302)
Interest expense	(19,126,549)	(15,808,703)	(9,036,968)
Interest income	2,119,022	1,097,918	452,502
Loss on capital assets disposal	3,857	-	(1,472,650)
Total nonoperating revenues	113,496,373	48,755,080	22,805,151
CHANGE IN NET POSITION	79,027,354	10,575,265	(79,137,499)
NET POSITION—Beginning of year	83,653,457	73,078,192	152,215,691
NET POSITION—End of year	$ 162,680,811	$ 83,653,457	$ 73,078,192

Operating Revenues

Total operating revenues for 2019 and 2018 were $134,525,238 and $136,788,726, respectively, which represents a 1.65% decrease of $2,263,488. The majority of the decrease in operating revenues for 2019 was attributable to a decrease in hotel revenue offset by an increase in venue revenue. The decrease in hotel revenues occurred as a result of rooms being taken out of service during the room refresh capital project. The increase in venue revenue is a result of higher food & beverage revenues combined with an increase in retail leasing income.

Total operating revenues for 2018 were $136,788,726, which represents a 12.69% increase of $15,404,902. The majority of the increase in operating revenues for 2018 was attributable to an increase in hotel revenue caused by an increase in occupancy and revenue per available room, combined with an increase in parking revenue. The parking revenue increase was due to the realization of the convention district parking garages full operation and a full convention and show season.

Operating Expenses

Total operating expenses decreased $5,974,284 to $168,994,257 in 2019, from $174,968,541 in 2018. The decrease was primarily due to disaster expenses from Hurricane Harvey and general and administrative costs off set by increases in hotel expenses.

Total operating expenses decreased $48,357,933 to $174,968,541 in 2018, from $223,326,474 in 2017. The decrease is primarily due to the disaster expenses from Hurricane Harvey, offset by an increase in general and administrative expenses and hotel expenses.

Hotel

Hotel expenses increased $3,040,841 to $41,264,764 in 2019 from $38,223,923. This increase was caused by non-capitalizable expenses associated with the room refresh capital project.

Hotel expenses increased $3,486,845 to $38,223,923 in 2018 from $34,737,078. This increase correlates with an increase in room and food and beverage revenue.

General and Administrative

General and administrative expenses decreased $6,013,192 to $40,320,876 in 2019 from $46,334,068 in 2018. In 2018, there was a one-time payment to early terminate a long-term lease of office space. In addition, there was a decrease in personnel costs.

General and administrative expenses increased $3,788,229 to $46,334,068 in 2018 from $42,545,839 in 2017. The majority of the increase from 2017 to 2018 was caused by a one-time payment to early terminate a long-term lease of office space. In addition, the Hilton realized a Work Opportunity Tax credit for payroll taxes in 2017.

Hurricane Harvey Costs

The properties damaged as a result of Hurricane Harvey are the Theater District Garages, Wortham Theater Center, and Jones Hall. The Jones Hall and Theater District Garages were temporarily closed, but reopened in October and November 2017, respectively. Wortham Theater was reopened in September 2018. The majority of these costs may be reimbursed by the City based on approval of claims and obligation of such funds by FEMA.

Hurricane Harvey costs decreased in 2019 by $7,191,115 to $294,706, and in 2018 by $52,803,347 to $7,485,821, compared with $60,289,168 in 2017. The costs incurred in 2017 were for non-capitalizable recovery expenses, as compared to 2018 and 2019 which primarily were costs related to permanent work.

The Corporation's operating loss, which includes the noncash charge of depreciation, totaled $34,469,019, $38,179,815, and $101,942,650, in 2019, 2018, and 2017, respectively.

Nonoperating Revenues (Expenses)

Transfers from Primary Government
In the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to fund operating expenses, capital expenditures, and for any other lawful purpose. The transfers represent the HOT and pledged parking revenues remaining after debt service and other debt-related expenses, and the transfer of other remaining Department fund balances.

In 2019 the transfers from Primary Government increased $65,247,376 to $154,617,775. This increase was due to reimbursement from the City for the claims filed with FEMA and from insurance proceeds which totaled $82,456,557.

For 2018, the amount transferred from the Department was $89,370,399, an increase of $22,237,877 from 2017. Included in the 2018 transfer was $14,427,915 for the Corporation's portion of insurance proceeds from Harvey and other claims.

Sponsorship Expense
Sponsorship expense decreased $1,568,775 in 2019 to $5,789,215 from $7,357,990 in 2018. The decrease was caused by one-time major event bid costs incurred in 2018 and the discontinuation of the tourism incentive program.

Sponsorship expense decreased $9,327,963 in 2018 to $7,357,990 in 2018 from $16,685,953 in 2017. The decrease in 2018 was primarily due to the Corporation's support for the Super Bowl event in 2017.

Transfers to Primary Government
In the Consolidation Interlocal Agreement, the Corporation agreed to make certain payments to the City for obligations previously paid directly by the Department. At December 31, 2019, 2018, and 2017, these payments totaled $18,328,517, $18,546,544, and $17,584,302 respectively. As the largest of these payments is based on HOT revenues, the decrease of $218,027 in 2019, and the increase of $962,242 in 2018 were directly related to the corresponding change in HOT revenues for those respective years.

Interest Expense
Interest expense increased $3,317,846 in 2019 to $19,126,549 in 2019, from $15,808,703 in 2018. The increase was primarily due to the increase in notes payable and the cost of issuance from new debt offerings in 2019.

Interest expense increased $6,771,735 in 2018 to $15,808,703, from $9,036,968 in 2017. The increase was primarily due to the Corporation's implementation of Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* which eliminated the capitalization of interest. Interest expense related to debt issued in November 2017 is recognized for the whole year of 2018 compared to 1.5 months in 2017 which contributes to the increase.

Economic Factors and Next Year's Budget

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. As a result of the pandemic and the various restrictions and guidelines related to controlling its spread, numerous event organizers and arts groups have cancelled or postponed revenue-producing events and productions in Corporation-managed facilities for practically all of 2020. This has a material impact on the revenues available to pay debt service and operate the Corporation's managed facilities.

In response to the projected reduction in most sources of revenue, and the significantly reduced use of the managed facilities, the Corporation's Board of Directors adopted an emergency budget for the remainder of calendar year 2020. The reduced expenditure budget recognizes a period of limited activity in all facilities managed by the Corporation and reduces virtually all allowed expenditures except for debt service. Personnel contract service expense reductions have been implemented and include both layoffs (48 individuals) and furloughs (34 individuals), as well as salary reductions of remaining contractor personnel.

The City, as the parent organization of HFC, has offered financial assistance in the amount of $48 million to allow continued operation until conditions in the travel and hospitality sectors improve.

The calendar year 2021 budget is being drafted for board consideration in November 2020 and will include flexibility to anticipate rapid changes in revenues and expenses designed to allow the Corporation to anticipate a slow return to pre-pandemic levels.

The measures noted above, combined with existing reserves will ensure the Corporation has adequate funds to service debt, and maintain the facilities for 2020 and 2021.

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)

STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 65,042,278	$ 33,523,925
Cash and cash equivalents—restricted	217,627	715,898
Accounts receivable—net	11,828,590	10,091,603
Prepaid expenses and other assets	7,010,752	5,848,480
Deposits held by others	8,696,115	8,551,389
Notes receivable-current	250,000	250,000
Short-term equity in pooled investments	48,828,831	30,840,237
Total current assets	141,874,193	89,821,532
NONCURRENT ASSETS:		
Notes receivable	58,136,102	58,386,102
Equity in pooled investments—restricted	22,946,278	18,645,229
Property, plant, and equipment—net	483,451,673	439,927,783
Other assets-net	14,926,809	15,389,620
Total noncurrent assets	579,460,862	532,348,734
TOTAL ASSETS	721,335,055	622,170,266
DEFERRED OUTFLOW OF RESOURCES—Deferred amounts from debt	4,408,659	4,171,840

(Continued)

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)

STATEMENTS OF NET POSITION —Continued
DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	31,058,094	37,369,834
Accrued interest	4,605,400	3,278,210
Accrued expenses	8,914,692	9,140,929
Due to City of Houston	33,643,233	25,953,618
Subordinated management fee	850,000	850,000
Current portion of notes payable	45,360,419	12,702,793
Current portion of unearned revenue	416,443	416,443
Total current liabilities	124,848,281	89,711,827
LONG-TERM LIABILITIES:		
Notes payable	430,827,935	445,253,100
Unearned revenue	7,386,687	7,723,722
Total long-term liabilities	438,214,622	452,976,822
Total liabilities	563,062,903	542,688,649
NET POSITION		
Net investment in capital assets	140,129,459	107,994,717
Restricted for debt service	3,943,537	366,708
Restricted—other (Note 2)	217,627	715,898
Unrestricted (deficit)	18,390,188	(25,423,866)
TOTAL NET POSITION	$ 162,680,811	$ 83,653,457

See notes to the financial statements.

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Hotel revenues	$ 91,626,259	$ 96,388,440
Venue revenues	24,674,003	22,338,128
Parking revenues	14,042,926	14,394,721
Other operating revenues	4,182,050	3,667,437
Total operating revenues	134,525,238	136,788,726
OPERATING EXPENSES:		
Hotel expenses	41,264,764	38,223,923
Venue expenses	31,363,911	29,376,279
Parking expenses	9,791,712	8,589,231
Visit Houston expenses	23,867,221	24,077,586
General and administrative expenses	40,320,876	46,334,068
Enterprise development expenses	4,375,535	4,004,519
Hurricane Harvey costs	294,706	7,485,821
Depreciation and amortization	17,715,532	16,877,114
Total operating costs and expenses	168,994,257	174,968,541
OPERATING LOSS	(34,469,019)	(38,179,815)
NONOPERATING REVENUES (EXPENSES):		
Transfers from City of Houston	154,617,775	89,370,399
Sponsorship expense	(5,789,215)	(7,357,990)
Transfers to City of Houston	(18,328,517)	(18,546,544)
Interest expense	(19,126,549)	(15,808,703)
Interest income	2,119,022	1,097,918
Loss on capital assets disposal	3,857	-
Total nonoperating revenues	113,496,373	48,755,080
INCREASE IN NET POSITION	79,027,354	10,575,265
NET POSITION—Beginning of year	83,653,457	73,078,192
NET POSITION—End of year	$ 162,680,811	$ 83,653,457

See notes to the financial statements.

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 149,167,748	$ 148,484,093
Cash payments to suppliers for goods and services	(113,629,950)	(100,297,653)
Cash payments for personnel services contract	(56,775,164)	(58,422,134)
Cash transfers from the City of Houston per agreements	162,584,528	87,593,367
Cash payments to the City of Houston per agreements	(18,328,517)	(18,546,544)
Cash payments for sponsorships	(5,789,215)	(7,357,990)
Cash payments for Hurricane Harvey costs	(10,743,368)	(14,955,935)
Net cash provided by operating activities	106,486,062	36,497,204
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for interest	(2,624,933)	(5,548,500)
Net cash used in noncapital financing activities	(2,624,933)	(5,548,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for interest	(16,155,565)	(11,480,680)
Principal payment on notes payable	(53,920,000)	(9,565,000)
Proceeds from debt financing	74,225,284	24,790,000
Payment for debt issuance costs	(1,328,503)	-
Payment for deposits held by others	(144,726)	(3,083,225)
Acquisition of property, plant, and equipment	(55,346,918)	(60,950,101)
Net cash used in capital and related financing activities	(52,670,428)	(60,289,006)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	2,119,022	1,097,916
Purchase of investments	(140,050,289)	(57,470,218)
Proceeds from sales and maturities of investments	117,760,648	78,049,631
Net cash (used in) provided by investing activities	(20,170,619)	21,677,329
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	31,020,082	(7,662,973)
CASH AND CASH EQUIVALENTS—Beginning of year	34,239,823	41,902,796
CASH AND CASH EQUIVALENTS—End of year	$ 65,259,905	$ 34,239,823

(Continued)

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)

STATEMENTS OF CASH FLOWS—CONTINUED
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (34,469,019)	$ (38,179,815)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	17,715,532	16,877,114
(Increase) decrease in accounts receivable—net	(1,736,987)	(181,718)
Decrease (increase) in prepaid expenses and other assets	(1,162,271)	447,470
(Increase) in other assets	712,811	(2,293,882)
Increase (decrease) in accounts payable	(4,830,935)	3,218,888
Increase in accrued expenses	2,575,832	2,727,463
(Decrease) increase in due to primary government	7,689,615	(1,812,993)
(Decrease) increase in accounts payable related to Hurricane Harvey costs	(10,448,662)	(7,470,114)
Nonoperating income (expenses):		
Transfers from City	154,617,775	89,370,399
Other City obligations	(18,051,379)	(18,510,583)
Sponsorship expense	(5,789,215)	(7,357,990)
Decrease in deferred revenue	(337,035)	(337,035)
Net cash provided by (used in) operating activities	$ 106,486,062	$ 36,497,204
NONCASH TRANSACTIONS		
Fair market value adjustment related to investments	$ 272,039	$ (200,468)

See notes to the financial statements.

Note 1. ORGANIZATION

Houston First Corporation (the Corporation or HFC) [formerly, Houston Convention Center Hotel Corporation (the Hotel Corporation)], a component unit of the City of Houston, Texas (the City), was formed on February 18, 2000, under the provisions of Chapter 431, Subchapter D of the Texas Transportation Corporation Act, and Chapter 394, Vernon's Texas Codes Annotated, Local Government Code. The purpose of the Hotel Corporation was to aid and act on behalf of the City in establishing, constructing, improving, enlarging, equipping, repairing, operating, or maintaining (any or all) a 1,200-room convention center hotel in downtown Houston [such hotel to be within 1,000 feet of the George R. Brown Convention Center (the Convention Center)] (the Hotel) and a parking garage (the Parking Garage) for approximately 1,600 vehicles adjacent to the Hotel. The Hotel was completed in 2003 and opened on December 4, 2003.

On June 1, 2011, City's city council (the City Council) approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as "Houston First Corporation," and Houston First Corporation assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the board of directors appointed and approved by the mayor and City Council.

The Corporation (a) leases all previously existing Department facilities and Department-managed facilities; (b) operates, manages, maintains, develops, and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget, including, but not limited to, municipal HOT receipts, license fees, and concession revenues; and (d) as the City's agent, collects, administers, and audits HOT funds in accordance with terms of City ordinances. The Corporation currently has no employees but has entered into personnel services contracts to provide the personnel and expertise required to operate its facilities. The City has entered into an interlocal agreement with the Corporation (the Consolidation Interlocal Agreement), whereby the Corporation will pay $1,380,000 for each agreement year to lease all existing Department facilities and Department-managed facilities; provided, that, on each adjustment date, the rent described in this clause shall be adjusted to an amount equal to the lesser of (1) 105% of the rent in effect for the agreement year immediately preceding the adjustment date and (2) the product of the rent of effect for the agreement year immediately preceding the adjustment date multiplied by the adjustment factor. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

The Corporation is presented as a discretely presented component unit of the City (legally separate from the City). Board members are appointed by the mayor of the City and confirmed by the City Council.

Note 1. ORGANIZATION (Continued)

On March 4, 2013, the Corporation formed Houston First Holdings, LLC (HFH), a wholly owned subsidiary of the Corporation, as a “special-purpose” entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, managing, and otherwise dealing with the property known as the Hilton Americas–Houston and its parking garage. The subsidiary is included in the financial statements of the Corporation as a blended component unit; accordingly, all intercompany accounts and transactions are eliminated.

On June 18, 2014, the Corporation entered into a Services Agreement with the Greater Houston Convention and Visitors Bureau (the Bureau), which engaged the Corporation to provide advertising and promotional programs on behalf of the Bureau at a minimum of the same levels as previously funded by the Corporation to the Bureau. The Bureau’s employees have been added to the Corporation’s existing personnel services contracts effective July 1, 2014. The Services Agreement required the Corporation to amend the Certificate of Formation to increase the number of authorized board members from 11 to 13. The expenses incurred as a result of the Services Agreement are included in operating expenses as Visit Houston expenses.

On May 22, 2018, the City and the Corporation entered into the First Amendment to the lease agreement between the parties to amendment and restate certain provisions pertaining to insurance, damage from casualty and City Council approvals, allocations, and appropriations.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting—The financial statements of the Corporation have been prepared on the accrual basis of accounting, a flow of economic resources measurement focus. Under the measurement focus, resources are recognized in the period earned, and expenses are recognized in the period incurred.

The Corporation defines operating revenues and expenses consistent with the precepts of Statement of Government Accounting Standards No. 9 paragraphs 16-19 and 31. Generally, receipts collected or due from customers for providing services are considered operating revenues. The payments or amounts due to provide these services are considered operating expenses. All other receipts and payments are considered nonoperating. The significant accounting policies are described below.

Cash and Cash Equivalents—The Corporation defines cash and cash equivalents, including restricted cash and cash equivalents, as cash and investments that are highly liquid, with less than three-month maturities when purchased. Restricted cash and cash equivalents of $217,627 and $715,898 as of December 31, 2019 and 2018, respectively, represents monies expected to be utilized for tenant allowance.

Accounts Receivable—Accounts receivable are stated at the historical carrying amount net of an allowance for uncollectible accounts. An allowance for uncollectible accounts receivable has been established based on historical experience and any specific customer collection issues that have been identified. Uncollectible accounts receivable is written off when a settlement is reached for an amount that is less than the outstanding historical balance or when management has determined that the balance will not be collected. The allowance for doubtful accounts totaled $613,323 and $1,201,028 as of December 31, 2019 and 2018, respectively.

Note 2. Summary of Significant Accounting Policies (Continued)

Prepaid Expenses—Prepaid expenses include prepaid insurance, interest, and other miscellaneous prepaid expenses. Prepaid insurance is expensed on a straight-line basis over the period of the coverage.

Other Assets—Other assets consist of the unamortized balance of prepaid rent that was paid by the Corporation to the City under the Consolidation Interlocal Agreement and the unamortized balance of rent concessions (see Note 9).

Investments—The Corporation participates in a City investment pool managed internally by City personnel. The investment funds are administered using a pooling concept, which combines the monies of various City departments for investment purposes (the City's Investment Pools). The Corporation's pro rata share of participation in the City's Investment Pools is displayed in the statements of net position as "Equity in pooled investments" held by the City in accordance with the GASB statement *Accounting Standards Codification on Accounting and Financial Reporting for Certain Investments for External Investment Pools* and are carried at fair value. The fair value adjustment is included as part of interest income. The Corporation is apportioned interest earnings from the City's investment pools based upon the Corporation's relative pro rata share of the applicable investment pool. All of the Corporation's funds in the City's investment pools are restricted for debt service.

Property, Plant, and Equipment—Property, plant, and equipment are recorded at original cost for items purchased. Capital assets are defined as assets with an initial cost of $1,000 or more for Hotel operation and $5,000 or more for others, and an estimated useful life in excess of one fiscal year. Ordinary maintenance and repairs are charged to expense when incurred. Expenses related to the development of real estate are carried at cost, plus capitalized carrying charges.

Management reviews its long-lived assets for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future undiscounted cash flows (without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions. There were no impairment charges recognized by the Corporation during the years ended December 31, 2019 and 2018.

Depreciation—Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets, ranging from three to 40 years.

Capitalized Interest—The Corporation previously capitalized interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the Corporation's average cost of borrowed funds. Such capitalized interest became part of the cost of the related asset and depreciated over its estimated useful life. Beginning January 1, 2018, Management elected to implement GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* and no longer capitalizes interest on construction projects.

Debt Issuance Costs/Notes Payable—Premiums and discounts included in notes payable are amortized as a component of interest expense over the applicable term using the effective interest method. Debt issuance costs are expensed when incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Unearned Revenue—A parcel of land was conveyed to the Corporation by the City for the construction of the Hilton Parking Garage (the Parking Garage), which is attached to the Hotel. The cost of the land was included as unearned revenue at the City's recorded acquistion value of $3,144,362 at the date of transfer. In addition, the City made a grant to the Corporation in the amount of $10 million, which provides the City the right to use up to one-half of the spaces available in the Parking Garage and to share in the net income of the parking proceeds in perpetuity. This right was transferred to the Corporation upon formation.

The Corporation recognizes the unearned revenue as garage revenue ratably over the estimated 39-year useful life of the Parking Garage. Amortization of unearned revenue for the years ended December 31, 2019 and 2018 totaled $337,035, which is included in garage revenues.

Revenue Recognition—Service and other sales revenues are recognized when services are rendered or when revenue is earned, net of sales tax.

Transfers from Primary Government—As part of the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to pay for operating expenses, capital expenditures, and for any other lawful purpose, and they are shown as transfers from Primary Government. The amount transferred from the City was $154,617,775 and $89,370,399 for 2019 and 2018, respectively, and represents the HOT and parking revenues remaining after debt service; other reimbursed expenses' insurance proceeds and FEMA reimbursements.

Transfers to Primary Government—As part of the Consolidation Interlocal Agreement, the Corporation agreed to make certain transfers primarily for City obligations to the local arts previously paid directly by the Department. At December 31, 2019 and 2018, these transfers totaled $18,328,517 and $18,546,544, respectively.

Income Taxes—The Corporation is exempt from federal income tax under Section 115 (1) of the Internal Revenue Code of 1986.

Effective for taxable years beginning on January 1, 2007, the State of Texas enacted the Revised Texas Franchise Tax, which imposes a tax at the entity level. The Corporation is exempt from the Revised Texas Franchise Tax.

Use of Estimates in Financial Statement Preparation—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported financial statement amounts, as well as disclosures. The Corporation's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

New Accounting Pronouncements—In June of 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB Statement No. 87 are effective for reporting periods beginning after June 15, 2021. The Corporation has not yet determined the impact of this pronouncement on its financial position, results of operations, or cash flows upon implementation.

Note 2. Summary of Significant Accounting Policies (Continued)

In June of 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The primary objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Corporation has applied this statement early in 2018.

In May of 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. The Corporation has determined there will be no effect on its financial position, results of operations, or cash flows upon adoption.

In January of 2020, the GASB issued Statement No. 92, *Omnibus 2020.* The purpose of this statement is to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements, included leases, pensions and OPEB's to name a few. This statement has varying effective dates depending on topic beginning after June 15, 2021. The Corporation has determined there will be no effect on its financial position, results of operations, or cash flows upon adoption.

In March of 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates.* As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Corporation has not yet determined effect on its financial position, results of operations, or cash flows upon adoption.

In March of 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter into public-private and public-public partnership arrangements and provides guidance for availability payment arrangements. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Corporation has not yet determined effect on its financial position, results of operations, or cash flows upon adoption.

In May of 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides. The requirements of this statement are effective immediately. The impact is that the Corporation is allowed to delay the implementation dates of GASB Statements that have not been adopted.

Note 2. Summary of Significant Accounting Policies (Continued)

In May of 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements.* The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for Subscription based information technology arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Corporation has not yet determined effect on its financial position, results of operations, or cash flows upon adoption.

Note 3. Cash and Cash Equivalents

The Corporation's cash and cash equivalents balance of $65,259,905 and $34,239,823 as of December 31, 2019 and 2018, respectively, are maintained in cash, demand accounts, escrow, and money market mutual funds. The accounts that comprise this balance are described below:

	December 31, 2019	December 31, 2018
Demand deposit accounts	$ 63,081,093	$ 21,710,207
Cash on hand	83,750	800,413
Money market	1,877,435	11,013,305
Restricted cash	217,627	715,898
Total	$ 65,259,905	$ 34,239,823

The demand deposit accounts are either fully collateralized by the depository institution primarily in direct obligations of the U.S. government or its agencies, or insured by the Federal Deposit Insurance Corporation except for $4,056,000. The money market account is the sweep balance of one of the demand deposit accounts. It is held with a mutual fund managed by Bank of America and invests primarily in direct obligations of the U.S. government or its agencies and is uninsured. The Corporation's restricted cash is held in a third-party managed deposit accounts and is restricted as to its use under one of its leasing agreements (See Note 9).

Note 4. Equity in Pooled Investments

Short-term Equity in Pooled Investments—As of December 31, 2019 and 2018, the Corporation's pooled investments included $48,828,831 and $30,840,237, respectively, invested in the Texas Short-Term Asset Reserve Program (TexSTAR). TexSTAR was created in April 2003, under the Interlocal Cooperation Act of the State of Texas Article 4413 (32C), Vernon's Texas Civil Statutes, as amended. It is administered by First Southwest Asset Management, Inc., and JPMorgan Chase. The TexSTAR investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

As with all the investment pools, funds are readily available to support daily cash requirements, while maintaining yields slightly higher than standard bank deposit accounts.

Note 4. Equity in Pooled Investments (Continued)

Equity in Pooled Investments—Restricted—The City issued bonds in 2001, 2011, 2012, 2014, 2015, 2017 and 2019, a portion of which was for the benefit of the Corporation to fund construction, interest, and operating expenses incurred during the construction of the Hotel, the Convention District Projects, and the Development and Funding Agreement discussed in Note 6. Certain proceeds were designated as debt service reserve funds to be used by the Corporation to service the debt during the initial months of the Hotel's operations and during periods of decreased operational liquidity. In addition, the Corporation makes monthly payments to the City to fund the semiannual bond payments made by the City. These funds are designated as debt service funds. All above-referenced funds are held in the City's investment pools. The balance of such accounts at December 31, 2019 and 2018 totaled $22,946,277 and $18,645,229, respectively.

The City of Houston Investment Pool consists of U.S. Treasury Notes, Agency Notes, Municipal Bonds, Certificates of Deposits, Money Market Funds, and Mortgaged Backed Securities. Certain investment of the Corporation are commingled in this pool to gain operational efficiency. The City of Houston included the required risk disclosures for its Internal Investment Pool as part of the City's Comprehensive Annual Financial Report which is available on the City's website.

As of December 31, 2019, and 2018, the Corporation's exposure to interest rate risk as measured by the segmented time distribution by investment type is summarized below:

		Investment Maturities in Years	
December 31, 2019	**Fair Value**	**Less than 1**	**1–5**
TexSTAR	48,828,831	48,828,831	-
Total investment pools	$ 48,828,831	$ 48,828,831	$ -

		Investment Maturities in Years	
December 31, 2018	**Fair Value**	**Less than 1**	**1–5**
TexSTAR	30,840,237	30,840,237	-
Total investment pools	$ 30,840,237	$ 30,840,237	$ -

Note 4. Equity in Pooled Investments (Continued)

The Corporation's exposure to credit risk at December 31, 2019 and 2018 is presented below by investment category as rated by Standard & Poor's:

	December 31,2019 Fair Value	Rating
TexSTAR	48,828,831	AAAm by Standard & Poor's
Total investment pools	$ 48,828,831	

	December 31, 2018 Fair Value	Rating
TexSTAR	30,840,237	AAAm by Standard & Poor's
Total investment pools	$ 30,840,237	

Fair Value Measurements—The Corporation is required to disclose the fair value level of its investments within the fair value hierarchy established by GASB Statement No. 72. In the fair value hierarchy, there are three levels:

1. Level one: inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date

2. Level two: inputs (other than quoted prices included within level one) that are observable for an asset or liability, either directly or indirectly

3. Level three: unobservable inputs for an asset or liability

The Corporation invests in both the City's general pool and TexSTAR investment pool.

The City general pool investment is a Level 2 investment. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

TexSTAR is measured at net asset value. Under this method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. When sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

Note 5. Deposits Held by Others

As discussed in Note 8, the Corporation closed a $125,000,000 mortgage loan with VALIC, (Variable Annuity Life Insurance Company), which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon, and certain personal property. In consideration of the Mortgage Loan, VALIC required the Corporation to fund certain reserves to be held with their agent. The reserves represent the subordinated management fee and the deferred fee from hotel operator, as discussed in Note 9, and a reserve for furniture, fixtures, and equipment replacement and renewal. As more fully described in Note 9, the termination of the former Hotel Management Agreement in 2014 caused a corresponding release of the subordinated management fee reserves. As of December 31, 2019 and 2018, the deposits held by others included in the statements of net position totaled $8,696,116, and $8,551,389, respectively.

Note 6. Notes Receivable and Due From Affiliate

Development and Funding Agreement—On April 9, 2013, the Corporation entered into a Development and Funding Agreement with the Houston Center Hotel, LLC (Hotel Owner), for the development of an approximately 1,000-room new hotel facility located on the north end of the Convention Center. The Development & Funding Agreement called for the Corporation to purchase and convey the hotel site land to the Hotel Owner and, subject to certain benchmarks, loan $27 million to the Hotel Owner. The purchase price of the hotel site land and other closing cost totaled $32,153,221. The Hotel Owner was obligated to a) design, construct, operate, and maintain the hotel facility and b) reimburse the Corporation annually for the hotel site land and the loan commencing on January 5th of the year following opening of the hotel facility.

The total receivable from the Hotel Owner to the Corporation was $58,386,102 and $58,636,102 as of December 31, 2019 and 2018, respectively, with $250,000 reported in current other assets in the balance sheets. The Note does not bear interest.

Note 6. Notes Receivable and Due From Affiliate (Continued)

The scheduled payments on the loan are as follows:

	Total Payments
Years Ending December 31:	
2020	$ 250,000
2021	250,000
2022	250,000
2023	250,000
2024	250,000
2025-2029	2,000,000
2030-2034	3,000,000
2035-2039	6,500,000
2040-2044	7,500,000
2045-2049	7,500,000
2050-2054	9,500,000
2055-2059	10,000,000
2060-2064	10,000,000
2065	1,136,102
	$ 58,386,102

Note 7. Property, Plant, and Equipment—Net

The changes in the Corporation's property, plant, and equipment for the years ended December 31, 2019 and 2018, were as follows:

	December 31, 2017	Additions	Retirements and Reclassifications	December 31, 2018
Property, plant, and equipment not subject to depreciation:				
Land	$ 14,824,298	$ -	$ -	$ 14,824,298
Work in process	15,890,164	38,609,548	(10,330,193)	44,169,518
Total property, plant, and equipment not subject subject to depreciation	30,714,461	38,609,548	(10,330,193)	58,993,816
Property, plant, and equipment subject to depreciation:				
Buildings	460,892,676	26,330,765		487,223,441
Furnishings and equipment	47,863,975	1,000,267		48,864,242
Total property, plant, and equipment subject to depreciation	508,756,651	27,331,033	-	536,087,683
Less accumulated depreciation for:				
Hotel and garage buildings	(101,409,544)	(13,864,772)		(115,274,316)
Furnishings and equipment	(36,867,058)	(3,012,342)		(39,879,400)
Total accumulated depreciation	(138,276,603)	(16,877,115)	-	(155,153,716)
Total property, plant, and equipment, net	$ 401,194,509	$ 49,063,466	$ (10,330,193)	$ 439,927,783

	December 31, 2018	Additions	Retirements and Reclassifications	December 31, 2019
Property, plant, and equipment not subject to depreciation:				
Land	$ 14,824,298	$ -	$ -	$ 14,824,298
Work in process	44,169,518	28,006,136	(59,011,709)	13,163,945
Total property, plant, and equipment not subject subject to depreciation	58,993,816	28,006,136	(59,011,709)	27,988,242
Property, plant, and equipment subject to depreciation:				
Buildings	487,223,441	87,673,790	(737,731)	574,159,500
Furnishings and equipment	48,864,242	4,567,348	(4,600,742)	48,830,848
Total property, plant, and equipment subject to depreciation	536,087,683	92,241,139	(5,338,472)	622,990,349
Less accumulated depreciation for:				
Hotel and garage buildings	(115,274,316)	(14,698,779)	737,731	(129,235,365)
Furnishings and equipment	(39,879,400)	(3,016,753)	4,604,599	(38,291,554)
Total accumulated depreciation	(155,153,716)	(17,715,533)	5,342,329	(167,526,919)
Total property, plant, and equipment, net	$ 439,927,783	$ 102,531,743	$ (59,007,852)	$ 483,451,673

Note 8. Notes Payable

The Corporation's notes payable and related premium for the years ended December 31, 2019 and 2018 were as follows:

	January 1, 2019	Retirements/ Amortization	Additions	December 31, 2019
Notes payable:				
Notes payable—City of Houston	$317,845,000	$ (124,070,000)	$ 127,720,000	$321,495,000
Premium—net of discount	15,110,892	(2,072,823)	16,655,285	29,693,354
Total notes payable-City of Houston	332,955,892	(126,142,823)	144,375,285	351,188,354
Note payable—VALIC	125,000,000	-	-	125,000,000
Total notes payable	$457,955,892	$ (126,142,823)	$ 144,375,285	$476,188,354

	January 1, 2018	Retirements/ Amortization	Additions	December 31, 2018
Notes payable:				
Notes payable—City of Houston	$302,620,000	$ (9,565,000)	$ 24,790,000	$317,845,000
Premium—net of discount	16,968,553	(1,857,661)	-	15,110,892
Total notes payable-City of Houston	319,588,553	(11,422,661)	24,790,000	332,955,892
Note payable—VALIC	125,000,000	-	-	125,000,000
Total notes payable	$444,588,553	$ (11,422,661)	$ 24,790,000	$457,955,892

Payment of the Corporation's notes payable to the City is based on the amortization of the City hotel-allocated bonds and HFC-allocated bonds. The VALIC loan requires monthly interest payments only until maturity on May 1, 2020. Subsequent to year-end but prior to issuance of this report, the Corporation renewed the VALIC loan. (See Note 13.)

Note 8. Notes Payable (Continued)

Scheduled principal and interest payments on debt are summarized as follows:

	Total Principal	Interest	Total
Years Ending December 31:			
2020	$ 43,300,000	$ 19,251,699	$ 62,551,699
2021	141,195,000	14,473,653	155,668,653
2022	18,900,000	11,907,031	30,807,031
2023	18,795,000	11,084,936	29,879,936
2024	17,390,000	10,270,665	27,660,665
2025-2029	86,780,000	41,352,761	128,132,761
2030-2034	82,195,000	20,888,346	103,083,346
2035-2039	28,875,000	5,488,250	34,363,250
2040-2044	9,065,000	1,134,250	10,199,250
	$ 446,495,000	$ 135,851,591	$ 582,346,591

On April 3, 2013, the Corporation closed a $125,000,000 mortgage loan with VALIC, which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon, and certain personal property. The proceeds were used to further economic development in and around the Convention Center and the Hilton, including a new 1,000-room convention center hotel, and to fund the Convention District Projects including a new 1,900-space parking garage, and certain other residential and retail opportunities to be located on the north end of the Convention Center. The initial loan advance of $50,000,000 was funded on April 4, 2013, at an initial interest rate of 3.9%. In March 2014, an additional $30,000,000 was drawn and bears interest at 4.78%. In July 2014, the final draw of $45,000,000 was funded and bears interest at 4.81%. The interest rates are effective through maturity.

In August 2014, the City issued $73,725,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2014. This issue included $52,195,000 of Serial Bonds with stated interest rates between 2% and 5% maturing in various amounts from 2015 to 2032, and $21,530,000 of Term Bonds with stated interest rates of 5% maturing in various amounts from 2033 to 2039. The true interest cost was 4%. Proceeds were used to (a) refund the City's Outstanding Convention & Entertainment Facilities Department Hotel Occupancy Tax and Special Revenue Refunding Bonds, Series 2012, (b) finance certain project costs, and (c) pay the costs of issuance of the bonds. Net present value savings totaled $4.6 million or 11% of the refunded bonds.

On March 19, 2015, the City issued $132,590,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2015. This issue included $99,620,000 Serial Bonds with stated interest rates between 2.0% and 5.0% maturing in various amounts from 2015 to 2035, and $32,970,000 of Term Bonds with stated interest rates between 4.0% and 5.0% maturing in various amounts from 2035 to 2044. The true interest cost was 3.3%. Proceeds were used to (a) refund a portion of the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011, (b) refund outstanding commercial paper, (c) finance certain project costs, and (d) pay the costs of issuance of the bonds. Of the $132,590,000, the City loaned the Corporation $99,620,000. Net present value savings totaled $9.2 million or 13.1% of the refunded bonds.

Note 8. Notes Payable (Continued)

On November 16, 2017, the City issued $12,030,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2017. This issue has a stated interest rates of 2.55% maturing in 2033. Proceeds were used to refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011B. Net present value savings totaled $1.9 million or 16.50% of the refunded bonds.

On November 16, 2017, the City issued $75,000,000 of Convention & Entertainment Facilities Subordinate Lien HOT and Parking Revenue Flexible Rate Notes, Series A (Credit Facility Series A). As of December 31, 2019, and 2018, the outstanding balance was $32,000,000 and $75,000,000, respectively. The taxable variable rate is equal to 100% LIBOR+1.08%. The tax-exempt variable rate is equal to 65.01% LIBOR+0.69%. The commitment fee is equal to 0.2%.

On April 9, 2019, the City issued $106,320,000 of Convention & Entertainment Facilities Department HOT and Special Revenue and Refunding Bonds, Series 2019. This issue has a stated interest rates of 4% and 5% maturing in 2036. Proceeds were used to (a) refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2001 C-1 and 2001 C-2, (b) finance certain Hurricane Harvey related project costs, and (c) pay the costs of issuance of the bonds. Net present value savings totaled $5.6 million or 8% of the refunded bonds.

On May 2, 2019, the City closed on a $50 million Subordinate Lien Hotel Occupancy Tax and Parking Revenue Flexible Rate Notes, Series B (Credit Facility Series B). As of December 31, 2019 there were no draws on this note and the entire amount is available. Interest is variable at the greater of JP Morgan prime or the adjusted one month LIBOR rate plus a spread based upon the rating of the existing senior lien Hotel Occupancy Tax and Parking Revenue Bonds. The commitment fee is equal to 0.1% and the notes terminate on May 2, 2026.

On May 3, 2019, the City loaned the Corporation $12,500,000, which was used to help finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 2.134% on December 31, 2019, and the note matures on September 1, 2030.

On December 12, 2019 the City loaned the Corporation an additional $8,900,000, to finance project costs related to Hurricane Harvey. Interest will accrue based on the rate received on the City's commercial paper series E line, which was 1.30% at December 31, 2019. The note matures on March 1, 2024.

Of the total $321,495,000 notes payable to City, $268,095,000 of the principal balance relates to the City's fixed-rate bonds and carries interest rates ranging from 1.50% to 5.25%; $32,000,000 related to the flexible rate notes and the remaining $21,400,000 relates to the notes from the City. Interest presented on the above payment schedule is calculated on the stated interest rate on the fixed-rate bonds and the interest rate on the variable-rate notes as of December 31, 2019.

Note 9. Commitments and Contingencies

Hotel Management Agreement—The Corporation entered into a hotel management agreement (the Management Agreement) on March 21, 2001, with the Hilton Hotels Corporation (the Hotel Operator). The Management Agreement had a term of 15 years and commenced with the opening of the Hotel.

On October 1, 2014, the Corporation executed a Management Agreement Termination Agreement (the Termination Agreement) to terminate the Management Agreement described above and executed a new Management Agreement (the New Management Agreement) with the Hotel Operator for the Hilton, with an effective date of January 1, 2014. In connection with the Termination Agreement, the Hotel Operator released the Corporation from repayment of the unamortized inducement fee from the original agreement, and the Corporation disbursed the accrued subordinated management fee. The New Management Agreement is effective for 15 years and, consistent with the original Management Agreement, the New Management Agreement provides for a base management fee of $1,900,000 and a subordinated management fee of $850,000 (collectively referred to as the Management Fees). The Management Fees adjust annually based on the percentage change in the competitive set's prior 12-month revenue per available room with the base fee to commence adjustment effective January 1, 2015 and the subordinate fee to commence adjustment effective January 1, 2017. The subordinate fee is also subject to sufficient operating cash flows (as defined) and any unpaid subordinated fees will accrue. Upon termination of the New Management Agreement, any unpaid subordinated fees will be due and payable.

Lease Commitments—The Corporation is the lessor and sub-lessor of office space and retail space under various rental agreements that qualify as non-cancelable operating leases. The Partnership Tower is an office building that serves as the headquarters of the Corporation, with 43% of the building leased to other tenants. The building has a total cost of $42,178,371, accumulated depreciation of $3,235,713, and a carrying value of $38,942,658. In addition, 0.64% of the Hotel is leased to a retail tenant operating as a restaurant. The Hotel building has a total cost of $243,690,687, accumulated depreciation of $100,334,302, and a carrying value of $143,356,385. The sub-lease agreements relate to assets that are leased from the City and are more fully described in Note 1. Future annual minimum rental income on all non-cancelable operating leases with a remaining term in excess of one year as of December 31, 2019 is as follows:

	Operating Leases
Years Ending December 31:	
2020	$ 3,148,512
2021	3,085,176
2022	3,124,578
2023	3,143,988
2024 and thereafter	31,768,634
	$ 44,270,888

Certain rent concessions were granted in accordance with the aforementioned leases. Such concessions were capitalized and are being amortized on a straight-line basis over the lease terms. As of December 31, 2019, and 2018, the unamortized balance of rent concessions included in other assets—net was $8,615,448 and $8,874,844, respectively.

Note 9. Commitments and Contingencies (Continued)

For the years ended December 31, 2019 and 2018, the amortization expense included in Venue revenues was $669,687 and $425,457, respectively. Certain retail leases include contingent income that is earned when a percentage of the tenant's sales are higher than the minimum rent amount. Contingent income included in other operating revenues is $121,036 and $118,817 for the years ended December 31, 2019 and 2018, respectively.

Hurricane Harvey—Under the Consolidation Interlocal Agreement, the Corporation is responsible for rebuilding and repairing the leased facilities in the event of a damage from casualty. As such, the Corporation selected a project manager in December of 2017, a designer, and a construction manager at risk in the first quarter of 2018 to fulfill this commitment. The majority of these costs may be reimbursed by the City based on approval of claims and obligation of such funds by FEMA.

Pension—Since March 2015 the City has been involved in a lawsuit with the Houston Municipal Employees Pension System (HMEPS) the subject of which is the determination of whether employees of certain local government corporations and not-for-profit entities are employees of the City for purposes of the pension. If HMEPS prevails, the City may be subject to additional funding requirements which could result in those costs being passed on to the Corporation, the amount of which cannot be determined at this time. The City has appealed and intends to continue to vigorously defend this litigation.

Hilton Room Refresh—The Corporation has undertaken a project to refresh the rooms at the Hilton Americas-Houston. Each of the 1,237 rooms are being updated to include substantial redesign of the bathrooms and improvements to amenities. At December 31, 2019, the project was approximately 50% complete with a remaining obligation of approximately $16,555,000.

Guarantee—Every three years, the World Petroleum Council (Council) organizes the World Petroleum Congress as the principal meeting place for a global discussion of oil and gas issues. Following a twelve month campaign period, the City of Houston was selected by its fellow Council members to host the 23rd World Petroleum Congress in December 2020. The WPC Organizing Committee (the "Organizing Committee") was established as a 501(c)(6) nonprofit corporation to assist with the organization, administration, management, promotion, and operations relating to hosting the event. To induce the Council to execute the agreement with the Organizing Committee, the Corporation agreed to guarantee the full payment and performance of all liabilities, obligations, and duties imposed upon the Organizing Committee. As of December 31, 2019 or 2018 there has been no call on the guarantee. The Corporation is unable to estimate the potential liability, if any.

Note 10. Risk Management

As the owner of the Hotel operated as the Hilton, and as a local government corporation, the Corporation maintains, or has maintained on its behalf, various policies, and/or insurance programs to cover the various risks of loss to which it is exposed. Through commercial policies, the following coverages have been secured: property, general liability, umbrella liability, auto, and theft. In lieu of a workers' compensation policy, the Hilton has procured a nonsubscriber program administered by a third-party administrator. Due to the division of responsibilities, the Corporation maintains separate policies for directors and officers, employment practices liability, crime, and property.

The Corporation is a defendant in various pending lawsuits arising out of the conduct of its business. Management does not believe that the outcome of any of these matters will have a material adverse effect on the Corporation's financial position, results of operations, or cash flows.

Note 11. Convention Services Agreements

The Corporation has agreements with various hotels to rebate their HOT. The purpose of these agreements is to encourage the development of hotels in the City's central business district, promote local economic development, and stimulate business and commercial. These agreements vary based on the hotel's proximity to the George R. Brown Convention Center and other criteria determined by the Corporation, and require a room block agreement. The room block agreement grants the Corporation access to a specified number of room nights for use with city wide events.

The agreement with Hampton Inn Homewood Suites requires that 100% of their HOT paid will be paid back to them. The hotel has agreed to provide HFC with room blocks for various events in exchange for the agreement. The agreement with Embassy Suites expired on February 1, 2018, and was not renewed. The agreement with and Hampton Inn Homewood Suites is valid until April 1, 2022.

The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian, and Alessandra state that 50% of their HOT paid will be paid back to them. The agreements with JW Marriot, Aloft Houston Downtown, LeMeridian, and Alessandra will expire on September 1, 2021, December 1, 2023, October 1, 2032, and October 1, 2024, respectively. All hotels have agreed to provide HFC with room blocks for various events in exchange for this agreement.

The Corporation paid the following under the aforementioned agreements. Such amounts are included in venue expenses for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Embassy Suites	$ 112,153	$ 845,177
JW Marriott	735,785	765,427
Hampton Inn Homewood Suites	866,546	789,333
Aloft Houston	212,530	205,330
Alessandra	221,530	23,993
LeMeridian	303,050	76,484
Total	$ 2,451,594	$ 2,705,744

Note 12. Hurricane Harvey

During the third quarter of 2017, several properties managed by the Corporation on the City's behalf experienced flood-related damage as a result of Hurricane Harvey and its aftermath. The Corporation carries comprehensive property, casualty, flood, and business interruption insurance through the City. The Corporation incurred approximately $0.3 million and $7.5 millions of noncapital expenses during the years ended December 31, 2019 and 2018, respectively. For the period ending December 31, 2019, and 2018, the Corporation received from the City $82,456,557 and $14,385,065 insurance and FEMA proceeds for the damages respectively, which are included in transfers from Primary Government in the Statement of Revenues, Expenses, and Changes in Net Position. Insurance proceeds received are reflected as revenue in the period such proceeds are received.

Note 12. Hurricane Harvey (Continued)

The following list reflects the properties damaged as a result of Hurricane Harvey:

- Theater District Garages—located in downtown Houston, Texas
- Wortham Theater—located in downtown Houston, Texas
- Jones Hall—located in downtown Houston, Texas

Wortham Theater was closed and reopened in September 2018.

Note 13. Subsequent Events

Notes Payable—On January 16, 2020, the Corporation paid off $32,000,000 of outstanding Credit Facility Series A. On March 18, 2020 the Corporation drew $20,000,000 from Credit Facility Series A.

On May 1, 2020, the Corporation renewed the $125,000,000 mortgage loan with VALIC, which has extended maturity date of May 1, 2021.

COVID 19—On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. As a result of the pandemic and the various restrictions and guidelines related to controlling its spread, numerous event organizers and arts groups have cancelled or postponed revenue-producing events and productions in Corporation managed facilities for practically all of 2020. This has a material impact on the revenues available to pay debt service and operate the Corporation's managed facilities.

In response to the projected reduction in most sources of revenue, and the significantly reduced use of the managed facilities, the Corporation's Board of Directors adopted an emergency budget for the remainder of calendar year 2020. The reduced expenditure budget recognizes a period of limited activity in all facilities managed by the Corporation and reduces virtually all allowed expenditures except for debt service. Personnel service contract expense reductions have been implemented and include both layoffs (48 individuals) and furloughs (34 individuals), as well as personnel service contract expense reductions of remaining personnel.

In addition to the Credit Facility Series A and B, the City, as the parent organization of HFC, has offered financial assistance in the amount of $48 million to allow continued operation until conditions in the travel and hospitality sectors improve. Approximately $16 million of this assistance has been received as of date of this report.

The calendar year 2021 budget is being drafted for board consideration in November of 2020 and will include flexibility to anticipate rapid changes in revenues and expenses designed to allow the Corporation to anticipate a slow return to pre-pandemic levels.

The measures noted above, combined with existing reserves will ensure the Corporation has adequate funds to service debt, and maintain the facilities for 2020 and 2021.