

# MINUTES

## HOUSTON FIRST CORPORATION

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**BENEFITS, COMPENSATION, AND FINANCE COMMITTEE**

**March 3, 2022 – 1:30 P.M.**

**Partnership Tower, 701 Avenida de las Americas, Ste. 200  
Houston, Texas 77010  
HFC Board Room**

*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 at Partnership Tower, 701 Avenida de las Americas, Houston, Harris County, Texas 77010 on, Thursday, March 3, 2022, at 1:30 p.m.*

*Written notice of the meeting including the date, hour, place, and agenda for the meeting was posted in accordance with the Texas Open Meetings Act.*

*The following Committee Members were present for the meeting: Alex Brennan-Martin, Jay Zeidman, Sofia Adrogué, and Ryan Martin.*

1. **Call to order.** The Chairman called the meeting to order at 2:14 p.m. and a quorum was established.
2. **Public Comments.** None
3. **Review and approval of minutes from prior meeting.** Following a motion duly seconded, the minutes of November 16, 2021, were approved as presented.
4. **Presentations and Reports.**
  - A. **CCSI to HFC Transition Update**

President and CEO, Michael Heckman updated the Committee regarding the transition of team members from Convention & Cultural Services, Inc. (“CCSI”) to Houston First, effective close of business December 31, 2021. CCSI terminated its 401(k) Plan December 31, 2021, and Houston First opened its 457(b) Plan, effective January 1, 2022. Management held numerous briefings for team members regarding the transition. The transition results from team members beginning active participation in the Houston Municipal Employees Pension System (“HMEPS”) on March 11, 2022. Mr. Heckman then asked General Counsel, Lisa Hargrove, and Chief Financial Officer, Frank Wilson, to provide more detail about the settlement of the pension lawsuit and its financial impact on Houston First.

Alex Brennan-Martin stated the 401(k) Plan provided a voluntary mechanism for employees to save, but the Pension Plan has a mandatory employee contribution.

Sofia Adrogué asked if the voluntary versus mandatory contribution issue has been a distinction for employees. Mr. Heckman stated that the distinction has not been an active issue, but employees are aware of the differences.

General Counsel, Lisa Hargrove stated that the City of Houston ("City") is entering into a final settlement and release of the lawsuit. While not final yet, there is a draft written agreement, which has been produced to Houston First, and the final agreement will be presented to City Council during March. Ms. Hargrove reported that even if the final agreement has not been approved by City Council before March 11, deductions from employee pay will begin with the March 11, 2022 pay date.

The pension settlement addresses three specific tranches. The first tranche is on a go-forward basis. Beginning with the March 11 pay date, for the pay period February 19 through March 4, team members will either have three, four, or eight percent deducted on a pre-tax basis. Employee contributions will be deducted every pay period thereafter. Also beginning March 11, Houston First will send approximately 8.4% of payroll, as the employer pension contribution for each pay period, to HMEPS. Houston First will additionally fund to HMEPS on March 11 amounts due from January 1 - February 18.

The second tranche is a settlement amount payable to HMEPS of \$16 million dollars representing the retroactive amount due, from approximately 2011 through 2021. The City will pay the settlement in three payments over two years. However, HFC has agreed to repay the City the \$16 million in a series of payments that will begin January 2031.

The third tranche constitutes the pension "legacy liability" which represents an amount that the City underfunded HMEPS over a period of years. Several years ago, the City and HMEPS settled their disagreement over the legacy liability and the City agreed to repay the legacy liability over 30 years. Each year, the City and HMEPS calculate the current year's legacy liability and each City department is assigned a portion of the calculated liability to include in their annual budget. Houston First is treated as a City department and must pay its portion of the legacy liability going forward. For CY2022, Houston First did not budget any funds to pay its allocated share of the liability. Since the City, which is on a FY budget, beginning each July 1, has already budgeted for the full year July 1, 2021 through June 30, 2022, it will pay the Houston First portion for this period. Beginning July 1, 2022 through December 31, 2022, the City has informed HFC that it will review our revenues and determine if Houston First can pay its portion of the legacy

liability (\$1.8 million) for the final six months of 2022. For 2023 and beyond, Houston First must budget for the legacy liability, approximately \$3.5 million a year in addition to 8.4% of every payroll.

Alex Brennan-Martin asked if 8.4% constituted funds that were used in the past as employer contributions into the 401(k) Plan. Lisa Hargrove responded affirmatively, and stated that the 401(k) employer contribution concluded December 31, 2021 while funds that would have been used for the employer contribution have been saved and will be utilized against employer contributions to HEMPS.

Michael Heckman commented that HFC was not involved in the actual settlement negotiations between the City and HMEPS and that Houston First had no part in decision-making.

Frank Wilson reiterated that the City is paying the \$16 million settlement. Mr. Wilson then directed the Committee's attention to a proposed repayment schedule for Houston First. By way of explanation, Mr. Wilson stated discussed three different promissory notes previously executed by Houston First to the City titled: Harvey Insurance Proceeds Loan, Harvey Loan, and Pandemic Loan. These notes are in addition to the other debt service structure. The Harvey Loan was originally \$8.9 million, with \$2.6 million paid back in 2021, and another \$2.6 million to be paid in 2022. The payments for the different notes were purposely scheduled so that they were consecutive.

Bond debt service of \$57 to \$58 million is stacked through 2033, so Mr. Wilson proposed to the City that HFC start paying back the \$16 million in 2034. The City requested payment to begin in 2031, which is immediately following the completion of repayment on the other two notes. HFC is deferring and capitalizing interest between 2022 and 2025; also, HFC is not paying principal or interest until 2025.

Mr. Wilson provided some additional background concerning the legacy liability. He explained that when the City was doing pension reform several years ago, it issued a billion dollars of pension bonds, \$250 million of which was given to HMEPS. The City then entered into a structured payment plan for the remaining funds for 30 years. There are 25 years remaining on the payment plan. For 2022, the City owes \$140 million toward that structured plan. Houston First's percentage of the legacy liability is approximately 20% of payroll. This percentage is approximately \$3.4 million annually. Mr. Heckman stated that the Mayor was well-briefed and, ultimately, made the decision.

## B. Market Report

Vice President, Business Intelligence, and Market Sales, Cindy Decker discussed an article in CoStar which indicated a good outlook in the growth of office space and employees returning to the office to work. Alex Brennan-Martin noted an article in the Wall Street Journal indicating the same outlook.

The CoStar article reported that hotels are seeing 70% attendance nationwide. Houston is having similar attendance. Ms. Decker added that Marriott, Hyatt, and Hilton were 20% down from 2019. Ms. Decker then noted that there are two more city-wide conventions in 2022 than in 2019 and Houston is down 18% from 2019, so Houston is in line with trends.

The trends in 2020 were under 30% occupancy; however, the trends now indicate that the Houston market is about 50% occupancy, which is still down from 2019, but ahead of 2021. The ADR (Average Daily Rate) in Houston is down only 2% to 2019 trends, which is great news and indicates that Houston has done a great job of holding rate and pushing through the pandemic.

The downtown market was at 18% occupancy this same time in 2021 and the last three months has been at 40.6% occupancy. Houston is trending in the right direction. Conventions have been driving the rate; when conventions are in town the rates rise. Also, rates are only down 1.7% from 2019.

Ms. Decker said the Galleria market, in the last three months, is averaging 44% occupancy. This time last year occupancy was at 37%. The Galleria market is ahead of 2019 by 11%. Furthermore, the Galleria market, on the weekends, has driven the rate up so high that it is up by 30% from 2019.

Business transient room nights in Houston in 2019 made up about 40% of the market. Houston is ahead of 2021, but is down 30% from 2019. The mix is at 32% versus 40% and although room nights are down, business travel is making up about 32% of Houston business, and that is a really good sign of improvement. The travel industry is indicating that business travel is coming back and, although they are traveling less, clients are staying longer, which is a good opportunity for leisure time to visit attractions and sites in Houston.

Ms. Decker described the mix of business for room nights booked in Houston and room nights booked in Downtown. In February, Houston was at 30% mixed in Downtown for business travel, and in February 2019, Houston was at 39%. Room nights are down in the Houston area by 30% and Houston is trending ahead from 2020.

The mix of business for room nights booked in the Downtown market in February was about 30%, which is down 4% from 2019, and room nights are down about 42% in business travel.

Frank Wilson then stated the financial books for 2021 would be closed by mid-March. He reported Hotel Occupancy Tax (HOT) would be \$900,000 above budget for January 2022, the Hilton Americas-Houston Hotel ("Hotel") net cash is on budget at \$2.5 million, the George R. Brown Convention Center ("GRB") facility rental is \$400,587 better than budget, the GRB food and beverage is down \$684,015 due to cancellations, Avenida parking continues to overperform by \$289,040, and Theater District Parking underperformed by \$145,956.

The highest favorable variance is personnel, due to transitioning from CCSI to HFC. As a result of the transition, the last week of December 2021, which would have normally been paid in January 2022, was paid in December 2021, to ensure charging the appropriate company. Mr. Wilson said that this accounts for approximately \$300,000 of the variance.

Mr. Wilson provided observations on other major revenues that are below budget, primarily because of a \$4 million Lynn Wyatt Square contribution that was budgeted in January, but received in December. Expenses are also significantly below budget, primarily due to timing. While January saw \$2 million of cancellations at the Hotel, the quarter one forecast is very favorable based on significant growth in in-the-year for-the-year business. Group business is driving transient with forecasted ADR growth of +42% YOR and +20% versus 2019, and ADR at Hilton is up to \$4.45 versus budget of \$202.47.

Several major groups for quarters one and two, attendance levels, pandemic/endemic progression, business travel, inflation, price of oil, interest rates, in-the-year for-the-year bookings, in-house meeting pace, international travel, ADR, RevPar, MLB collective bargaining, and labor and supply chain bottlenecks would continue to be monitored. Finally, Mr. Wilson reported that HFC continues to shift from survival to revenue recovery.

5. **Committee Business.**

- A. Consideration and possible recommendation of the 2022 Investment Policy.

After discussion for consideration and possible recommendation of the 2022 Investment Policy, a motion was made and duly seconded and the 2022 Investment Policy was approved.

5. **Adjournment.** The meeting was adjourned at 2:51 p.m.