

MINUTES

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE

April 18, 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, Monday, April 18, 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 (Chair), John Johnson, Mayor Pro-Tem Dave Martin, Ryan Martin.

1. **Call to order.** The Chairman called the meeting to order at 1:47 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 March 3, 2022, were approved as presented.
4. **Presentations and Reports.**
 - A. **2021 Audit Discussion**

Frank Wilson introduced Mr. Joel Perez, Partner with RSM US LLP. Mr. Perez stated the purpose of his presentation was to open lines of communication, to provide an understanding regarding the scope of the 2021 audit plan and deliverables, and to give a timeline for the audit and issuance of reports. Mr. Perez emphasized that the 2021 audit included a compliance audit and he identified the audit timeline to be from March 2022 to June 2022.
 - B. **2021 Budget Actuals**

Chief Financial Officer, Frank Wilson, presented the 2021 final financial results. Mr. Wilson focused on the major themes: recovery, financial stimulus funding, and strong expense management. The forecasted 2021 budget was \$-27,375,844 and

the actual number was \$-15,277,189. The actual number reflects the \$4 million contribution for Lynn Wyatt Square that was not forecasted.

The total revenue variance was \$14.4 million. The major variance was the \$10 million net cash received by Houston First (HFC) from the Hilton Americas-Houston Hotel ("Hotel"). When Hilton management presented their budget in October 2020, there was not a vaccine and they did not have a good view of what to expect in 2021. Hilton's budget was re-forecasted in June 2021 and net cash was expected to be \$10 million above original forecast.

Mr. Wilson reported that other revenues not budgeted were the \$2.3 million from the Shuttered Venue Operator Grant and the \$2.6 million in PPP loans; these were not revenues, but rather reductions in expenses.

Mr. Wilson then presented the capital expenditures which reflect a total of \$8.46 million for 2021, which included expenditures for Lynn Wyatt Square (\$5 million), Hilton (\$1.7 million), George R. Brown Convention Center (GRB) (\$1 million), Wortham Theater (\$381,000), Jones Hall (\$96,000), Miller Outdoor Theater (MOT) (\$20,000), and Parking Garage (\$62,000).

Mr. Wilson provided the recovery trends for major revenues from 2018 to current. He said Hotel Occupancy Tax (HOT) is expected to beat budget by \$25 million plus as HOT, in the first quarter of 2022, is about \$600,000 better. Hilton net cash is expected to be three times higher than 2021; from \$11.2 million to \$30 million. Food and Beverage in 2021 was \$7.3 million compared to 2022 at \$22.2 million. Parking revenues continue to struggle, but are better than 2021 by about \$3 million; Facility Rental – Events is about even with 2021 at \$6 million; and Building/Space Rental is less than 2021 by \$200,000 at \$4 million. Mr. Wilson concluded with the total revenues and expenses. Total revenues for 2022 is \$183.2 million compared to 2021 at \$123.4 million. Next, Mr. Wilson illustrated the breakdown of expenses: Operating Expense - \$92 million in 2022 compared to \$55 million in 2021; Debt Service Expense - \$67 million in 2022 compared to \$58 million in 2021; and City of Houston (COH) Contract Obligation Expense - \$17 million in 2022 compared to \$13 million in 2021.

C. Q1 Financial Report

Mr. Wilson stated the themes are return to large meetings, return to 2019ish ADR, occupancy, and RevPAR revival. 2022 revenues have outperformed budget by \$3.3 million and expenses have been below budget by \$4.9 million. HOT is \$600,000 better than budget and Hilton is forecasted to finish stronger than budget.

There is a variance of \$900,000 in personnel expenses due to not filling all 2022 positions, which were budgeted, and paying personnel for one week worked in December 2021 that would have normally been paid in January 2022, if not for the

switch from CCSI to HFC. Building maintenance is better than budget by \$500,000, advertising and promotion is better by \$1.1 million, travel promotion is better by \$400,000. However, more is being spent in janitorial services due to more events resulting in the need for more staff to keep facilities clean and make attendees feel safe.

Mr. Wilson reported to the Committee that Moody's Investor Services informed HFC that its review of HFC's credit has resulted in no action and Moody's is comfortable with HFC's present rating.

Mr. Wilson concluded his report by stating that, in 2021, HFC ended with \$37.3 million in cash reserves. He added that the cash forecast for 2022 through the end of February, will likely require the issuance of sub notes in September 2022, for operating purposes only, and HFC will also be issuing some sub notes in the second quarter to pay for capital.

D. 2022 – 2023 Insurance Discussion

Lisa Hargrove informed the committee of two items related to the purchase of the 2022-2023 insurance coverages for the Hotel. First, management has an opportunity to buy-down the deductible for the Hotel's property insurance for 2022 (from a deductible of 5% to 3%) at a cost of \$500,000, which management recommends against. Second, there would be an increase of approximately \$300,000 in cost for the umbrella liability coverage for the Hotel due to the recent \$44 million judgment against the Hotel.

5. **Adjournment.** The meeting was adjourned at 2:44 p.m.