

MINUTES

HOUSTON FIRST CORPORATION

**Governance, Audit & Finance
September 13, 2018 – 3:00 P.M.
Partnership Tower, 701 Avenida de las Americas, Ste. 200
Houston, Texas 770103
HFC BOARD ROOM**

The Governance, Audit & 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, September 13, 2018, commencing at 3:00 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: Katy Caldwell (Chair), Alex Brennan-Martin, John Johnson, Ryan Martin, and Linda Toyota.

The Chairman of the Committee called the meeting to order at 3:00 p.m. and a quorum was established.

1. **Public Comments.** None.

2. **Review and approval of minutes from prior meeting.** After a motion duly seconded, the meeting minutes of August 18, 2018 were approved as presented. Ryan Martin was not present for the vote.

3. **Presentations and Reports.**
 - A. **Houston First Report.** Philip Scheps, Financial Analyst, explained that the long-term debt model was used to test future budgetary and reserve scenarios.

Hotel occupancy tax (HOT) consultants recommend a 2019 budget between \$87,000,000 - \$92,000,000. They also anticipate that HOT will grow at a rate of approximately 4.88% per year.

Dr. Scheps clarified that the long-term model did not include pension costs, but Frank Wilson, Chief Financial Officer, stated it was likely that the costs paid to the pension will not be much higher than HFC's current contribution to the 401K plan.

Most of the recent debt acquired by HFC is interest rate sensitive so the long-term model assumes that a number of high priority projects will be completed from borrowed funds, unless such borrowed funds are committed elsewhere.

Katy Caldwell and John Johnson asked for clarification on the interest amount due based on the impact of the overall budget.

Dr. Scheps reviewed line graphs of the optimistic, pessimistic, and recession models. He explained that things were a lot more positive for HFC at this moment in the budget process because the proposed 2019 budget is balanced.

John Johnson asked how HFC determined the figure for emergency reserve funds. Brenda Bazan, President & CEO, stated that the amount was originally based on the deductible for the City's property insurance coverage, but that the number could be changed if needed.

Ryan Martin asked in a worst-case scenario if the long-term model could withstand pension costs. Frank Wilson further explained that HFC would no longer contribute to the 401K plan and contributions will be made to the City of Houston, upon pension implementation.

Lisa Hargrove, General Counsel, explained that there were a number of open issues that remained with the pension decision. A hearing is scheduled for October 1, 2018 to determine if the decision could be applied retroactively and whether the IRS rules allow for both a 401K plan and pension plan.

Alex Brennan-Martin asked what the figure was for the payment of pension funds. Brenda Bazan stated that in a worst case scenario, it could cost an additional \$4,000,000 a year.

Brenda Bazan explained that flood mitigation did not have to be completed if funding was not available. The I-69 project was already funded through 2019, although the exact costs of the project have yet to be determined. The two projects that require funding are the Theater District Parking Garage Reconstruction Project and Hilton Americas-Houston Hotel ("Hotel") renovation.

Alex Brennan-Martin asked about the timing of the Hotel renovation and Brenda Bazan expressed some concerns with delaying the project given new hotels coming on line, especially Marriott Marquis. The Hotel Committee has seen the new room design and recommends that the project go forward.

HFC is working to engage Drew Masterson of Masterson Advisors, LLC. While HFC may have more borrowing capacity, there is a question of what the market will provide. HFC will be reviewed by the rating agencies if we borrow funds, which will cause an increase in interest costs on HFC's variable rate debt.

4. Committee Business.

- A. Consideration of, and possible endorsement of a sponsorship request submitted by Miller Outdoor Theatre Advisory Board for Thriller at Miller Gala on Friday, November 16, 2018. Rob Jackson, Chief Policy Officer, explained that the vast majority of sponsorship requests are vetted by an internal committee. However, if there is a connection between the requesting organization and HFC staff, Committee members, or Board members, the request is vetted through the Governance, Audit & Finance Committee.

Arcy Muñoz, Community Relations Manager, confirmed that Sheila Turkiewicz and Shawn Hauptmann are ex-officio members of the Miller Theatre Advisory Board ("MTAB") and David Minckberg also serves on the MTAB Board of Directors.

The sponsorship request made by the Miller Theatre Advisory Board was for \$25,000.

John Johnson asked if there was a reason HFC needed to contribute at the highest sponsorship level and Ms. Muñoz clarified that \$25,000 was the request made and that the organization was treated similarly to our other resident companies.

Ryan Martin asked if there was a lesser amount that HFC could contribute as a token of good faith.

Peter McStravick, Chief Development Officer, explained that a letter had gone out to sponsorship recipients that funds were tight and it would not come as a surprise if the Committee approved a request less than \$25,000.

A motion was made to amend the sponsorship request submitted by MTAB for Thriller at Miller Gala on Friday, November 16, 2018 in the amount of \$10,000. The motion passed unanimously.

- B. Consideration and possible endorsement of the 2018 Houston Consular Ball on Saturday, October 13, 2018 at the George R. Brown Convention Center. Rob Jackson explained that Mayor Sylvester Turner began organizing the Consular Ball in 2013 and since then HFC has contributed funding in escalating levels annually. For 2018, the request is \$50,000.

The proceeds from the Consular Ball go to the Houston International Initiative to support trade missions.

Ryan Martin stated he understood the importance of supporting this cause and he thought it was important for HFC to have a presence, but he was unsure what amount HFC should contribute.

Linda Toyota stated there are different sponsorship levels, but it was unclear why that information had not been presented to HFC.

Alex Brennan-Martin explained that every organization coming to HFC must understand the answer is no, except in special circumstances.

Arcy Muñoz gave the historical numbers for funding of the Consular Ball.

John Johnson stated HFC should be mindful of the amount of funding it approves because organizations are likely to make the same request for future events.

A motion was made to amend the sponsorship request for the Consular Ball on Saturday, October 13, 2018 at the George R. Brown Convention Center to \$25,000. The motion passed unanimously.

C. Consideration and possible recommendation of the negotiation and finalization of a (i) Services Agreement with WPC Organizing Committee and (ii) various other agreements, including a financial guaranty, that may be required to support and host the 23rd World Petroleum Congress in Houston, December 6-10, 2020.

Michael Heckman, Sr. Vice President of Partnerships and Event Development, began the presentation with some background of the World Petroleum Congress ("WPC"). WPC is made up of 96% of the oil and gas producing nations in the world.

Houston bid on WPC three times before being named the host city. The U.S. last hosted the WPC in 1998, in Houston.

A host committee organization has been formed with Jeff Shellebarger of Chevron as Chair, Mayor Sylvester Turner as Honorary Chair, and a Board of Directors of industry representatives with Brenda Bazan as a member of the Executive Committee.

The host city has full financial responsibility and control over marketing and operations for the event, unlike Super Bowl and Final Four. The overall budget for WPC is \$25,000,000. The economic impact will be \$80,000,000 - \$100,000,000. HFC will receive revenues between \$5,500,000 - \$7,000,000 from rental of the George R. Brown Convention Center, food and beverage, a shared services fee, parking, and HOT.

A Diversity Program similar to the NFL Business Connect Program will be established to host events between diversity vendors and sponsors.

A Services Agreement must be entered into with HFC to serve as financial guarantor for a \$4,000,000 loan with interest. Brenda Bazan will serve as Treasurer of the Executive Committee and has the authority to constrain expenses as needed.

The benefits to HFC include media exposure, revenues, promotion of Avenida Plaza, and establishing connections with the titans of the oil and gas industry.

The theme of WPC is "Innovative Energy Solutions", so the host committee would like to show the cross-functional collaboration between the oil and gas and energy sectors with technology, NASA, and the Texas Medical Center.

Mike Waterman, Chief Sales & Marketing Officer, explained that WPC has not been successful in previous years so this is a great opportunity for Houston and the world to see WPC done right.

A motion was made for the negotiation and finalization of a (i) Services Agreement with WPC Organizing Committee and (ii) various other agreements, including a financial guaranty, that may be required to support and host the 23rd World Petroleum Congress in Houston, December 6-10, 2020. The motion passed unanimously.

5. **Adjournment.** The meeting was adjourned at 4:08 p.m.