

HOUSTON FIRST CORPORATION

MINUTES OF THE

HOTEL COMMITTEE

November 2, 2011

The Hotel Committee of the Houston First Corporation (the "Corporation"), a Texas non-profit 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., held a committee meeting in Room 326 at the Hilton Americas-Houston Hotel, 1600 Lamar, Harris County, Texas 77010, on November 2, 2011, commencing at 11:00 a.m. Written notice of the meeting including the date, hour, place and agenda for the meeting, was posted in accordance with the Texas Open Meeting Act. The following committee members participated in the meeting: David Solomon, Joe Ting and Dawn Ullrich.

Chairperson Solomon called the meeting to order at approximately 11:10 a.m. and a quorum was established.

1. Review and Approval of Minutes from Prior Meeting of August 31, 2011. After a motion duly seconded, the minutes of the August 31, 2011 were approved.
2. Discussion of and possible action on, the recommendation to the Board of Directors with regard to the approval of Hilton's operating and capital budgets for calendar year 2012. Joe Palmieri presented an overview of the budgets for calendar year 2012. Discussion followed concerning risk factors of the budget, growth rate and comparisons with previous years. After a motion duly seconded, the committee agreed to recommend Hilton's operating and capital budgets to the Board of Directors. A copy of such budget is attached as Exhibit A.
3. Discussion of and possible action on, the recommendation to the Board of Directors with regard to Houston First Corporation's Hotel Administration operating and capital budget for calendar year 2012. Peter McStravick gave a brief overview of the proposed operating and capital budgets for the Hotel Administration. Discussion followed concerning the Crawford Street project updated design. After a motion duly seconded, the committee agreed to recommend the corporate operating and capital budgets for the Hotel Administration for calendar year 2012 to the Board of Directors for approval. A copy of such budget is attached as Exhibit B.
4. Discussion of and possible action on, the recommendation to the Board of Directors on the acceptance of the list of obsolete property, presented by Hilton. Peter McStravick

explained to the committee that periodically the hotel compiles a list of items that are no longer in use due to age or condition and these items are presented for approval to be liquidated per the Corporation's policy. After a motion duly seconded, the committee agreed to recommend to the Board that the list of items presented be accepted.

5. Discussion of and possible action on, the recommendation to the Board of Directors with regard to the Policy Regarding Disposition of Obsolete or Excess Personal Property. Peter McStravick advised the committee that the purpose of this item was to update our obsolete property policy to give the senior management of Houston First Corporation the authority to approve Hilton's disposal of property and report back to the Board. Discussion followed and Chairperson Solomon asked if there would be a dollar amount that would require Board approval. The Committee agreed to recommend to the Board of Directors that the disposition policy be changed to allow the senior management of Houston First Corporation the authority to approve the disposition of obsolete or excess property valued at no more than \$50,000 and report such to the Board.

After motion duly seconded, the meeting was adjourned at approximately 12:15 p.m.



Dolores Kerr, Secretary

HOUSTON *First*

C O R P O R A T I O N TM

Hilton Americas-Houston 2012 Proposed Budget Summary of 2012 Proposed Budget and 2011 Forecast

| | <u>2012 Budget</u> | <u>2011 Forecast</u> | <u>Variance</u> | <u>% Variance</u> |
|----------------------------------|----------------------|----------------------|---------------------|-----------------------|
| Revenues | | | | |
| Rooms | \$ 45,785,000 | \$ 42,175,925 | \$ 3,609,075 | 8.56% |
| Food & Beverage | \$ 29,891,344 | \$ 27,768,502 | \$ 2,122,842 | 7.64% |
| Other | \$ 7,189,823 | \$ 6,722,089 | \$ 467,734 | 6.96% |
| Total Revenues | <u>\$ 82,866,167</u> | <u>\$ 76,666,516</u> | <u>\$ 6,199,651</u> | 8.09% |
| Expenses | | | | |
| Rooms | \$ 10,539,424 | \$ 10,170,281 | \$ 369,143 | 3.63% |
| Food and Beverage | \$ 16,600,079 | \$ 15,616,948 | \$ 983,131 | 6.30% |
| Other | \$ 3,696,400 | \$ 3,664,937 | \$ 31,463 | 0.86% |
| Total Expenses | <u>\$ 30,835,903</u> | <u>\$ 29,452,166</u> | <u>\$ 1,383,737</u> | 4.70% |
| Undistributed Operating Expenses | <u>\$ 18,005,325</u> | <u>\$ 16,922,035</u> | <u>\$ 1,083,290</u> | 6.40% |
| Income Before Fixed Charges | \$ 34,024,939 | \$ 30,292,315 | \$ 3,732,624 | 12.32% |
| Rent and Insurance | <u>\$ 1,728,910</u> | <u>\$ 1,665,092</u> | <u>\$ 63,818</u> | 3.83% |
| EBITDA | \$ 32,296,029 | \$ 28,627,223 | \$ 3,668,806 | 12.82% |
| Management Fees | | | | |
| Base | \$ 2,314,886 | \$ 2,079,883 | \$ 235,003 | 11.30% |
| Subordinated | \$ 1,157,270 | \$ 1,039,786 | \$ 117,484 | 11.29% |
| Other Non-EBITDA Expense | \$ - | \$ 495,283 | \$ -495,283 | -100.00% |
| Net Interest (Income)/Expense | <u>\$ (360)</u> | <u>\$ (385)</u> | <u>\$ 25</u> | -6.49% |
| Profit Before Taxes | <u>\$ 28,824,233</u> | <u>\$ 25,012,656</u> | <u>\$ 3,811,577</u> | 15.24% |
| Occupancy | 66.60% | 66.80% | -0.20% | -0.30% |
| Average Rate | \$156.58 | \$144.19 | \$12.39 | 8.59% |
| RevPAR | \$104.25 | \$96.29 | \$7.96 | 8.27% |

| | 2012 | | | 2011 | | | 2010 | | | 12B/11F Variance | 12B/10A Variance | 11F/10A Variance |
|---|-------------------|----------------|---------------|---------------|-------------------|----------------|---------------|---------------|-------------------|------------------|------------------|------------------|
| | Budget | % Rev | PORIS | PARS | Forecast | % Rev | PORIS | PARS | Actual | | | |
| Revenues: | | | | | | | | | | | | |
| Rooms/Suite | 45,785,000 | 55.23% | 155.14 | 104.25 | 42,175,925 | 55.01% | 142.80 | 99.29 | 40,483,543 | 52.54% | 144.97 | 92.38 |
| Food and Beverage | 29,891,344 | 36.07% | 101.28 | 68.05 | 27,168,502 | 36.22% | 93.94 | 63.40 | 28,194,379 | 37.91% | 104.60 | 66.65 |
| Telephone | 751,083 | 0.91% | 2.54 | 1.71 | 747,185 | 0.97% | 2.63 | 1.71 | 797,854 | 1.04% | 2.85 | 1.92 |
| Parking | 3,656,462 | 4.39% | 12.32 | 8.28 | 3,429,412 | 4.47% | 11.60 | 7.83 | 3,988,086 | 4.40% | 12.14 | 7.74 |
| Business Center | 0 | 0.00% | 0.00 | 0.00 | 27,797 | 0.04% | 0.09 | 0.06 | 105,203 | 0.14% | 0.39 | 0.24 |
| Health Club/Spa | 389,349 | 0.49% | 1.25 | 0.84 | 351,965 | 0.46% | 1.19 | 0.80 | 397,301 | 0.49% | 1.39 | 0.88 |
| Other Operating | 1,930,495 | 1.97% | 5.52 | 3.71 | 1,464,760 | 1.91% | 4.96 | 3.34 | 1,349,049 | 1.75% | 4.83 | 3.08 |
| Guest Laundry | 98,726 | 0.12% | 0.33 | 0.22 | 100,853 | 0.13% | 0.34 | 0.23 | 121,301 | 0.15% | 0.35 | 0.22 |
| Other | 704,718 | 0.85% | 2.39 | 1.50 | 600,237 | 0.76% | 2.03 | 1.37 | 647,881 | 0.85% | 2.24 | 1.52 |
| Total Revenues | 82,365,166 | 100.00% | 280.78 | 188.63 | 76,686,517 | 100.00% | 258.36 | 173.04 | 77,014,309 | 100.00% | 275.93 | 178.83 |
| Expenses: | | | | | | | | | | | | |
| Rooms/Suite | 10,539,424 | 23.02% | 35.71 | 24.00 | 10,170,281 | 24.11% | 34.41 | 23.22 | 9,619,015 | 23.77% | 34.46 | 21.95 |
| Food and Beverage | 16,600,079 | 55.53% | 56.25 | 37.30 | 15,616,948 | 56.24% | 52.63 | 35.66 | 15,989,936 | 54.77% | 57.29 | 36.50 |
| Telephone | 624,171 | 0.81% | 2.11 | 1.42 | 601,918 | 0.95% | 2.04 | 1.37 | 22,253 | 3.70% | 2.02 | 1.29 |
| Parking | 1,515,470 | 4.16% | 5.13 | 3.45 | 1,454,881 | 4.24% | 4.92 | 3.32 | 1,477,269 | 4.30% | 5.29 | 3.37 |
| Business Center | 0 | - | 0.00 | 0.00 | 29,746 | 0.07% | 0.10 | 0.07 | 94,582 | 0.90% | 0.34 | 0.22 |
| Health Club/Spa | 333,636 | 0.39% | 1.13 | 0.76 | 300,518 | 0.40% | 1.02 | 0.69 | 311,457 | 0.40% | 1.12 | 0.71 |
| Other Operating | 1,196,595 | 79.84% | 3.92 | 2.63 | 1,217,703 | 83.13% | 4.12 | 2.78 | 1,220,881 | 80.42% | 4.37 | 2.79 |
| Guest Laundry | 66,828 | 0.17% | 0.22 | 0.15 | 60,172 | 0.13% | 0.20 | 0.14 | 64,207 | 0.19% | 0.23 | 0.15 |
| Total Expenses | 30,835,303 | 37.21% | 104.48 | 70.21 | 29,432,166 | 38.42% | 99.63 | 67.24 | 29,347,527 | 38.10% | 105.12 | 66.99 |
| Department Profits: | | | | | | | | | | | | |
| Rooms/Suite | 35,245,576 | 76.98% | 119.42 | 80.25 | 32,005,645 | 75.99% | 108.27 | 73.07 | 30,844,528 | 76.23% | 110.51 | 70.42 |
| Food and Beverage | 13,291,265 | 44.47% | 45.04 | 30.26 | 12,151,554 | 43.76% | 41.11 | 27.74 | 13,205,442 | 45.23% | 47.31 | 30.15 |
| Telephone | 126,912 | 16.90% | 0.43 | 0.29 | 146,217 | 19.44% | 0.49 | 0.33 | 232,704 | 29.17% | 0.83 | 0.53 |
| Parking | 2,119,983 | 59.31% | 7.16 | 4.63 | 1,974,531 | 57.98% | 6.88 | 4.51 | 1,910,787 | 56.40% | 6.85 | 4.36 |
| Business Center | 0 | - | 0.00 | 0.00 | (1,947) | (7.01%) | (0.01) | (0.00) | 10,621 | 10.10% | 0.04 | 0.02 |
| Health Club/Spa | 35,512 | 29.08% | 1.12 | 0.68 | 51,397 | 14.60% | 0.17 | 0.12 | 15,975 | 19.59% | 0.27 | 0.17 |
| Other Operating | 473,900 | 32.82% | 1.51 | 1.08 | 247,057 | 16.87% | 0.84 | 0.56 | 226,943 | 91.82% | 0.46 | 0.29 |
| Guest Laundry | 32,398 | 32.82% | 0.11 | 0.07 | 40,581 | 40.34% | 0.14 | 0.09 | 33,684 | 34.41% | 0.12 | 0.09 |
| Other | 704,718 | 100.00% | 2.39 | 1.50 | 600,237 | 100.00% | 2.03 | 1.37 | 647,881 | 100.00% | 2.41 | 1.52 |
| Total Department Profit | 52,030,263 | 62.73% | 176.30 | 118.47 | 47,214,351 | 61.58% | 159.72 | 107.80 | 47,672,782 | 61.90% | 170.80 | 108.94 |
| Undistributed Operating Expenses: | | | | | | | | | | | | |
| General and Administrative | 5,016,193 | 6.05% | 17.00 | 11.42 | 4,846,259 | 6.32% | 16.39 | 11.06 | 4,951,982 | 6.43% | 17.74 | 11.31 |
| Marketing | 6,235,784 | 7.53% | 21.13 | 14.20 | 5,703,923 | 7.46% | 19.30 | 13.02 | 5,717,288 | 7.42% | 20.48 | 13.05 |
| Property Operations | 3,565,627 | 4.30% | 12.08 | 6.12 | 3,332,604 | 4.38% | 11.27 | 7.61 | 3,441,894 | 4.47% | 12.33 | 7.86 |
| Energy | 3,187,720 | 3.85% | 10.80 | 7.26 | 3,039,249 | 3.95% | 10.28 | 6.94 | 3,251,256 | 4.22% | 11.65 | 7.42 |
| Total Undistributed Oper. Expenses | 18,005,325 | 21.73% | 81.01 | 41.00 | 18,922,035 | 22.07% | 57.25 | 38.63 | 17,362,411 | 22.84% | 62.21 | 39.64 |
| Income Before Fixed Charges | 34,024,938 | 41.06% | 115.29 | 77.47 | 30,292,316 | 39.51% | 102.48 | 68.16 | 30,310,371 | 39.36% | 108.60 | 69.26 |
| Flow - through | | | | | | | | | | | | |
| Fixed Charges: | | | | | | | | | | | | |
| Site Rental | 47,630 | 0.06% | 0.16 | 0.11 | 53,659 | 0.07% | 0.18 | 0.12 | 40,001 | 0.05% | 0.14 | 0.09 |
| Real Estate, Prop Taxes, and Insurance | 1,681,300 | 2.03% | 5.70 | 3.83 | 1,611,433 | 2.10% | 5.45 | 3.68 | 1,759,689 | 2.28% | 6.30 | 4.02 |
| Total Capital Expenses | 1,728,930 | 2.09% | 5.86 | 3.94 | 1,665,092 | 2.17% | 5.63 | 3.60 | 1,795,570 | 2.34% | 6.45 | 4.11 |
| EBITDA | 32,296,028 | 38.97% | 109.43 | 73.53 | 28,627,224 | 37.34% | 95.84 | 65.36 | 28,510,801 | 37.02% | 102.15 | 65.09 |
| EBIT | 32,296,028 | 38.97% | 109.43 | 73.53 | 28,627,224 | 37.34% | 95.84 | 65.36 | 28,510,801 | 37.02% | 102.15 | 65.09 |
| Base Management Fees | 3,472,156 | 4.19% | 11.76 | 7.91 | 3,119,669 | 4.07% | 10.55 | 7.12 | 2,879,730 | 3.74% | 10.32 | 6.57 |
| Other Non-EBITDA Expense | 0 | 0.00% | 0.00 | 0.00 | 485,283 | 0.65% | 1.68 | 1.13 | (495,283) | (100.00%) | 0.00 | 0.00 |
| Net Interest Income/Expense | (380) | 0.00% | (0.00) | (0.00) | (385) | 0.00% | (0.00) | (0.00) | (468) | (0.00%) | (0.00) | (0.00) |
| Profit (Loss) Before Taxes | 28,824,232 | 34.78% | 97.67 | 65.63 | 25,012,657 | 32.63% | 84.62 | 57.11 | 25,631,539 | 33.28% | 91.83 | 58.52 |
| Statistics | | | | | | | | | | | | |
| Occupancy % | 66.6% | | | | 66.9% | | | | 62.1% | | | |
| Average Rate | \$158.58 | | | | \$144.19 | | | | \$148.64 | | | |
| REV/PAR | \$104.25 | | | | \$96.29 | | | | \$92.38 | | | |
| Total Rooms Sold | 292,410 | | | | 292,504 | | | | 272,222 | | | |
| Comp | 2,382 | | | | 2,272 | | | | 2,272 | | | |
| Occupied Incl Comp | 294,792 | | | | 294,776 | | | | 278,184 | | | |
| Occupied including Com/Room Use | 295,130 | | | | 295,604 | | | | 278,184 | | | |
| Total Rooms Available | 439,200 | | | | 439,000 | | | | 438,015 | | | |

HILTON HOTELS CORP
HILTON AMERICAS HOTEL - HOUSTON
Capital Expenditures Listing for 2012

| Project Number | Description of Project | Original Budget |
|--|--|---------------------|
| | NORMAL CAPITAL EXPENDITURES | |
| | SECURITY DEPARTMENT | |
| 001 | Install CCTV's with Receiver in Hotel | 190,847.76 |
| | PROPERTY OPERATIONS DEPARTMENT | |
| 002 | Chiller room modifications per Hilton Worldwide & Hines | 165,000.00 |
| 003 | Replace exterior caulk on building. Estimate based on FEA report. | 660,000.00 |
| 004 | Install new railing on 24th floor terrace. Estimate based on CDC report. | 135,000.00 |
| 005 | Install VFD controls on chill water pumps & condenser pumps for chillers | 120,120.00 |
| 006 | Purchase 2 new heat exchangers for guestroom hot water supply. | 150,000.00 |
| 007 | Chilled Water pump rebuild | 15,000.00 |
| | HOTEL MANAGER | |
| 008 | Café Restaurant Renovation & Refresh | 367,241.00 |
| 009 | SPA Refresh | 75,000.00 |
| 010 | West Sidewalk Enhancement by Entry to Spencer's Restaurant | 100,000.00 |
| | IT DEPARTMENT | |
| 011 | ATT Refresh for Stay Connected-Remediation Contract/w Hardware | 125,000.00 |
| 012 | Permanent Wireless for Meeting Space | 85,000.00 |
| 013 | Global Labor Mgmt. System | 40,661.00 |
| 014 | IT Security - Data Loss Prevention | 24,774.10 |
| 015 | PCI-POS LAN upgrade | 5,000.00 |
| 016 | Sound System upgrade | 175,000.00 |
| Subtotal of Normal Capital Expenditures | | 2,433,643.86 |
| | SCHEDULE A | |
| | ROOMS DEPARTMENT | |
| 017 | Purchase desk chairs for front offices & PBX | 6,582.24 |
| | HOUSEKEEPING DEPARTMENT | |
| 018 | Purchase 20 new vacuums | 8,595.29 |
| 019 | Purchase new cushions for exterior furniture | 8,162.00 |
| 020 | Reupholster public area furniture | 13,712.16 |
| | SECURITY DEPARTMENT | |
| 021 | CCTV's for Hotel | 60,078.68 |
| 022 | Install electronic controlled doors at east entrance of lobby. | 36,577.36 |
| 023 | Golf carts for Security (garage). | 16,000.00 |
| | PROPERTY OPERATIONS DEPARTMENT | |
| 024 | Replace carpet in Front Office | 14,553.00 |
| 025 | Replace carpet on Banquet Risers | 5,582.50 |
| 026 | Install electrical outlets in 3 locations-Lobby, 2nd Floor PF & 4th Floor PF | 28,265.60 |
| 027 | Install chemical controller for pool & SPA pumps. | 8,464.50 |

| | | |
|--|---|---------------------|
| 028 | ADA Lift for Pool & SPA | 6,061.00 |
| 029 | Install window tint on all elevator landing windows on east landings | 9,100.00 |
| 030 | Install addition directional signage for meeting rooms and lobby | 20,000.14 |
| 031 | Replace copper piping in pool with schedule 80 PVC | 30,166.50 |
| 032 | Replacement Guestroom TV's. | 10,000.00 |
| HOTEL MANAGER | | |
| 033 | Purchase 6 grandier ash urns for exterior & 20 waste receptacles for garage | 24,040.80 |
| 034 | Purchase chairs for conference room, sofa, love seat for reception area | 22,820.72 |
| 035 | Purchase 32 trash cans for guest elevator landings & 2 SS for lobby RR's | 28,386.80 |
| 036 | Purchase 30" Pots for Rhaps Palm Tree & 48" Pot for Large Palm | 6,294.00 |
| 037 | Cafeteria Renovation to include refrigeration/wall vinyl/ceramic columns | 25,000.00 |
| 038 | Brand Standard Equipment for Fitness Center | 45,518.26 |
| 039 | Brand Standard Equipment for Fitness Center | 27,588.60 |
| IT DEPARTMENT | | |
| 040 | Purchase 50 IBM workstations with hardware support & software/ OnQ refresh | 49,000.00 |
| 041 | Purchase Brand Standard Hilton Connectivity Stations for Lobby/w labor | 37,158.22 |
| 042 | Purchase Brand Standard 4 PC's/4 Macs/Printers for Lobby Work Stations | 23,034.65 |
| OUTLETS | | |
| 043 | Install new pop corn texture in ceiling in Spencer's Restaurant | 21,600.00 |
| 044 | Build side station bar in Spencer's | 16,000.00 |
| 045 | Install ice bins in Lobby Bar & Spencer's Restaurant | 5,743.60 |
| 046 | Install new cooler in Java Jive | 14,350.47 |
| 047 | Purchase In IRD Hot Boxes | 23,807.39 |
| CULINARY | | |
| 048 | Kitchen equipment: Smoker. | 11,268.59 |
| 049 | Purchase 3 tilt skillfets for main kitchen-2nd floor | 53,057.66 |
| 050 | Purchase new slicer for Garde Manger on 2nd floor | 6,922.78 |
| 051 | Purchase 24 sheives for 2nd floor coolers | 8,006.95 |
| 052 | Purchase 12 new heat lamps for Spencer's line | 5,304.80 |
| 053 | Purchase 8 tilt trucks for trash removal | 6,889.88 |
| BANQUETS | | |
| 054 | Reupholster 2500 banquet chairs | 190,100.00 |
| 055 | Purchase 6 moveable partitions | 14,876.04 |
| 056 | Reupholster 42 leather chairs in meeting rooms | 45,887.40 |
| 057 | Purchase 8 ice chests for banquets | 11,960.11 |
| 058 | Purchase various size banquet tables | 6,728.88 |
| 059 | Purchase 36 new easels | 7,708.32 |
| 060 | Purchase podiums for banquets | 11,639.94 |
| 061 | Purchase various size rolling tables for banquets | 19,030.83 |
| 062 | Purchase carpet cleaning machine for Facilities | 5,830.00 |
| 063 | Purchase 6 portable bars to match current inventory | 26,982.62 |
| CONTINGENCY | | |
| 064 | FF&E Contingency | 100,000.00 |
| Subtotal of Normal Capital Expenditures | | 1,184,439.28 |
| GRAND TOTAL | | 3,618,083.14 |

HILTON AMERICAS – HOUSTON
CAPITAL EXPENDITURES 2012

| CODE | DESCRIPTION | Normal Capital Expenditure | EXPLANATION |
|---------------------------------------|---|----------------------------|--|
| SECURITY DEPARTMENT | | | |
| 001 | Install CCTV's with Receiver in Hotel | | Install security cameras on floors 6 through 22 in guest corridors |
| PROPERTY OPERATIONS DEPARTMENT | | | |
| 002 | Chiller room modifications per Hines and Hilton Worldwide | | Suggested modifications to chiller room as mentioned in the Hines & Corporate Director's report to improve efficiency in chiller operations. Replace exterior caulk of building that has failed. |
| 003 | Replace exterior caulk on entire building | | Install new railing on 24th floor terrace. Estimate based on CDC report. |
| 004 | Install new railing on 24th floor terrace. Estimate based on CDC report. | | |
| 005 | Install VFD controls on chill water pumps and condenser pumps for chillers | | Currently motors run constantly at full load. Installing VFD's will save energy by ramping the pumps based on demand. |
| 006 | Purchase 2 new heat exchangers for guestroom hot water supply | | Current hot water capacity is not sufficient to handle large groups such as Mary Kay, Sysco etc. By adding two new heat exchangers will give us redundancy to handle large groups. |
| 007 | Chilled water pump rebuild | | Rebuild five pumps in chiller room |
| HOTEL MANAGER | | | |
| 008 | Café Restaurant Renovation & Refresh | | New carpeting, refinish flooring, lighting improvements, wall treatments, buffet and PDR enhancements, reupholstery, entryway |
| 009 | SPA Refresh | | Refresh entry corridor and treatment rooms |
| 010 | West Sidewalk Enhancement by Entry to Spencer's Restaurant | | Enhance Exterior West Sidewalk of Hotel by Spencer's Restaurant Entry |
| IT DEPARTMENT | | | |
| 011 | ATT Refresh for Stay Connected-Remediation Contract w/ Hardware | | ATT Stay Connected Refresh – The hotel guest room floors wireless infrastructure no longer meets standards for providing coverage for all wireless devices. This is highly due to the influx of low powered devices (iphones, smart phones, ipads, and tablets) that require a stronger signal. The corner rooms suffer the most criticism as signal to these devices and even laptops are very weak. A remediation is needed to relocate and add wireless access points to meet new standards and provide adequate signal strength to guests. |

**HILTON AMERICAS – HOUSTON
CAPITAL EXPENDITURES 2012**

| CODE | DESCRIPTION | EXPLANATION |
|--------------------------------|---|---|
| 012 | Permanent Wireless for Meeting Space | Permanent Wireless Network (Meeting Space) – the hotel has never had a wireless infrastructure since opening. With the high demand from incoming groups increasing year by year, the hotel needs a wireless solution to remain competitive. With a managed permanent wireless network, more tools and options are available for clients (advertising, customization, private networks, and user friendly environment). The hotel will be hosting IT intense groups such as HP and Microsoft by next year. A permanent wireless network will ensure proper handling of capacity for their internet users who also bring with them low powered devices (iphones, smart phones...) that require wireless access as well. |
| 013 | Global Labor Mgmt. System | Required |
| 014 | IT Security - Data Loss Prevention | Required |
| 015 | PCI-POS LAN upgrade | Required |
| 016 | Sound System upgrade | Required |
| Schedule A | | |
| ROOMS DEPARTMENT | | |
| 017 | Purchase desk chairs for front offices & PBX | Replace worn seating. |
| HOUSEKEEPING DEPARTMENT | | |
| 018 | Purchase 20 new vacuums | Routine replacement vacuums. None purchased in 2011. |
| 019 | Purchase new cushions for exterior furniture | Seating at main entrance and east entrance |
| 020 | Reupholster public area furniture | Floral seating at north east entrance and concierge – 8 pieces |
| SECURITY DEPARTMENT | | |
| 021 | CCTVs for Hotel | NEW CAMERAS: 19 th floor exec lounge, GB 1, GB 2, GB 3, 4 th floor Kitchen area, 4 th floor beverage area, 3 rd floor by IT, 3 rd floor by Gerson's (West), 3 rd floor by Gerson's (East), 3 rd floor south side 335 (North), 3 rd floor ice room, 3 rd floor freight, 2 nd floor IT room, Ballroom Of Americas, 1 st floor kitchen time clock area, Back Hallway of Front Office, Security Entrance, Inside Employee Café, Basement by HSKP, Basement by Pride Café, Uniform area |
| 022 | Install electronic accessible doors at east entrance of lobby | REPLACEMENT CAMERAS: GB 1, GB 2, GB 3, Ballroom Of Americas, Room 155 Camera - 2 New DVR's for new cameras |
| 023 | | Secure east entrance after hours while allowing for fire egress. |

**HILTON AMERICAS – HOUSTON
CAPITAL EXPENDITURES 2012**

| CODE | DESCRIPTION | EXPLANATION |
|---------------------------------------|--|--|
| 023 | Golf carts for Security | The golf carts are 8 years old. One died a couple months ago (engine bad). The 2 nd golf cart stalls when used too much, it is close to dead also. The seats have been re-welded twice and it just broke again. They have made way past their life time. New carts will be electric instead of gas. (Same cost) |
| PROPERTY OPERATIONS DEPARTMENT | | |
| 024 | Replace carpet in Front Offices | Carpet is over 6 years old and badly stained. This has been documented in several QA Audits. |
| 025 | Replace carpet on risers used for banquets. | Carpet is worn and needs to be replaced. It is not a good presentation to our guests in meeting rooms |
| 026 | Install electrical outlets in 3 locations (Lobby, 2 nd floor PF & 4 th floor PF) | Electrical outlets are needed on the wood columns in the pre functions on 2 & 4. This will prevent running cables across the carpet & causing a trip hazard. Electrical outlets are needed in the east end of the lobby under the east escalator for displays. |
| 027 | Install chemical controller for pool & SPA pumps | By installing a chemical feed controller for the pool & SPA will allow us to manage the chemicals and discontinue outsourcing to outside contractors. |
| 028 | ADA Lift for Pool & Spa | ADA Compliance required for 2012. |
| 029 | Install window tint on all elevator landing windows on east landings | By installing window tint on the windows in the East Elevator Landings on floors 6-19 will save energy and keep the landings cooler. |
| 030 | Install additional directional signage for meeting rooms and lobby | Additional directional signage needed for lobby and meeting room floors. |
| 031 | Replace copper piping in pool with schedule 80 PVC | Copper from the piping is being deposited on the plaster in the pool and is causing large stains in the pool. Copper piping will be replaced with scheduled 80 PVC piping per code. |
| 032 | Replace guestroom TV's | Purchase 10 New TV Sets |
| HOTEL MANAGER | | |
| 033 | Purchase 6 grandier ash urns for exterior and 20 waste receptacles for garage | 6 "smokers' poles" for hotel exterior and garage. 20 replacement receptacles for garage. |
| 034 | Purchase chairs for conference room, sofa, love seat for reception area | Replace current 5 th floor reception seating, 5 th floor conference room chairs and small conference room. These areas are used to entertain and meet with potential customers and current customers. |
| 035 | Purchase 32 trash cans for guest elevator landings & 2 SS for lobby RRs | Consistent landing receptacles to match new corridor carpet. Add two waste baskets in lobby restrooms by main door. |

**HILTON AMERICAS – HOUSTON
CAPITAL EXPENDITURES 2012**

| CODE | DESCRIPTION | EXPLANATION |
|----------------------|--|--|
| 036 | Purchase 30" Pots for Rhaps Palm Tree and 48" Pot for Large Palm | Several pots leaking and need replaced. |
| 037 | Cafeteria Renovation | Refrigerator, wall vinyl, ceramic column, paint refresh |
| 038 | Brand Standard Equipment for Fitness Center | Replacement of 7 pieces of strength equipment, bench, work station, 4 elliptical and an addition of 1 treadmill |
| 039 | Brand Standard Equipment for Fitness Center | Purchase Elliptical Fitness Cross trainers for Fitness Center |
| IT DEPARTMENT | | |
| 040 | Purchase 50 IBM workstations with hardware support & software | 50 OnQ workstations/Cisco network switch replacement – Hotel is on schedule for refresh of 25% of equipment annually. Next year's refresh includes replacement of network switches that have been in place since the hotel opening. The switches will reach their end of life after 2011. Replacing the remaining 25% of workstations next year will have the hotel up to standards and on schedule. |
| 041 | Purchase Brand Standard Hilton Connectivity Stations for Lobby w/ labor. | 6 seat workstation |
| 042 | Purchase Brand Standard 4 PC's/4 Macs/Printers for Lobby Work Stations | Hilton Connectivity Stations - Purchase 4 PC's & 4 Macs for Kiosks in Lobby |
| OUTLETS | | |
| 043 | Install new popcorn texture in ceiling in Spencer's Restaurant | Repaint ceiling in Spencer's Restaurant as we have many water stains and holes showing in current ceiling |
| 044 | Build side station bar in Spencer's | Current operation does not have a permanent side stand to work out of. Building the permanent station on the West side of the bar would improve efficiency, overall service and ambiance of the bar area |
| 045 | Install ice bins in Lobby Bar & Spencer's Restaurant | Current set up does not allow servers to get soda refills for guests and they currently have to wait for the bartender. Installing these units in each bar will improve overall service and speed of service to our guests |
| 046 | Install new cooler in Java Jive | Purchase new open air cooler for java to increase overall variety and quantity of product displayed. Current configuration requires and abundance of re-stocking during peak times |
| 047 | Purchase IRD Hot Boxes | Purchase new IRD hot box inventory as current system is constantly in repair. The new inventory would allow us to increase the overall presentation of the food in room as we're quite limited due to the size of plates that will fit into the box |
| CULINARY | | |

HILTON AMERICAS – HOUSTON
CAPITAL EXPENDITURES 2012

| CODE | DESCRIPTION | EXPLANATION |
|-----------------|---|---|
| 048 | Kitchen Equipment: Smoker | Purchase a smoker for the culinary operation to be used for all kitchens. This will add to menu options help in reducing cost of smoked products currently purchased. |
| 049 | Purchase 3 tilt skillets for main kitchen-2nd floor | Current skillets have been in service since opening and in the past 18 months have been constantly repaired, costing a lot of money each time. Down time of this equipment has also led to loss in productivity |
| 050 | Purchase new slicer for Garde Manger on 2nd Floor | Current slicers have been in service since opening; need another one to help with higher demand of "Delji" menu package. |
| 051 | Purchase 24 shelves for 2 nd floor coolers | Sanitation issue - Current shelves are rusted and are against all sanitation codes. Recommended by Q&A Auditor and Ecosure Inspector |
| 052 | Purchase 12 new heat lamps for Spencer's line | Improve food quality - Need these to increase hot spot on the food pick up line as we've had some complaints on cold steaks. |
| 053 | Purchase 8 tilt trucks for trash removal | Replace damaged trucks that have been in service since opening. Current inventory does not allow us a smooth flow in the operation during busy season. |
| BANQUETS | | |
| 054 | Reupholster 2500 banquet chairs | Looking to reupholster 2500 chairs as opposed to purchasing new ones at twice the cost. This will enhance our overall presentation of meeting rooms set up and get us some points back on our QA |
| 055 | Purchase 6 moveable partitions | Current inventory has been in service since opening and is starting to show a lot of ware. Some of the panels have holes in them and many of the wheels are coming off. |
| 056 | Reupholster chairs in meeting rooms | Current inventory has been in service since opening and has been noted on our last QA. Completing this project will enhance the overall presentation of our meeting rooms and increase the overall ambiance |
| 057 | Purchase 8 ice chests for banquets | Currently have 5 of these in inventory and when we have larger functions we're mixing and matching. This will improve the overall F&B presentation in our Banquet Department |
| 058 | Purchase various size banquet tables | Looking to purchase new tables to increase overall F&B presentation and increase the creativity of our set ups. We currently have 6 of the Southern Aluminum tables in our inventory |
| 059 | Purchase 36 new easels | Current inventory has been in service since opening in 2003. Many are scratched, dented and some have broken parts. This will increase availability to guests and overall presentation. |

HILTON AMERICAS – HOUSTON
 CAPITAL EXPENDITURES 2012

| CODE | DESCRIPTION | EXPLANATION |
|------|---|---|
| 060 | Purchase podiums for banquets | Current inventory has been in service since opening in 2003. Some are scratched, dented and have been removed from service. This will increase the overall ambiance of our meeting room set ups |
| 061 | Purchase various size rolling tables for banquets | This purchase will be an increase to our current par level of tables and allow us some more flexibility with breaks, roll in lunches and continental breakfasts. |
| 062 | Purchase carpet/chair cleaning machine for Facilities | Currently we have an outside company clean our banquet chairs. This machine will allow our facilities department to take over these responsibilities and maintain these on a consistent basis |
| 063 | Purchase 6 portable bars to match current inventory | When we opened up the hotel we had Formica bars given to us by Coca-Cola. This is the 3rd out of my 4th purchase to replace and upgrade these bars which increases our overall presentation. |
| 064 | FF&E Contingency | FF&E contingency. |

Houston First Corporation - Hotel Administration: Summary of Cash Flows
Summary of Actual and Projected Cash Flows as of October 31, 2011
December 2009 through December 31, 2020

Date and Time: 11/1/2011 8:52

Interest Rate Assumptions: Earnings: 0.70% in 2011, 1.2% in 2012 and 2% thereafter
 Hotel Growth after 2016: 3%
 Variable Rate Bonds: 2% in 2012, 3.5% in 2013, 5.2% 2014 and out.

| Sources of Funds | Estimate Full Year 2011 | Fcst Full Year 2012 | Fcst Full Year 2013 | Fcst Full Year 2014 | Fcst Full Year 2015 | Fcst Full Year 2016 | Fcst Full Year 2017 | Fcst Full Year 2018 | Fcst Full Year 2019 | Fcst Full Year 2020 |
|--|-------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Distribution from Hotel | \$ 12,357,298 | \$ 25,881,917 | \$ 28,533,863 | \$ 28,417,923 | \$ 30,326,443 | \$ 32,879,328 | \$ 33,750,708 | \$ 34,655,729 | \$ 20,845,401 | \$ 37,070,763 |
| City's Garage Income - from Hilton | 538,880 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Primary Capital Allocation | 14,392,702 | 3,618,083 | 2,250,000 | 2,700,000 | 4,250,000 | 4,500,000 | 4,750,000 | 5,000,000 | 20,000,000 | 5,000,000 |
| Total Distributions from Hilton | 27,288,880 | 29,500,000 | 30,783,863 | 31,117,923 | 34,776,443 | 37,379,328 | 38,500,708 | 39,655,729 | 40,845,401 | 42,070,763 |
| Rebates | 8,316,141 | 8,864,393 | 9,603,606 | 1,170,514 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Earnings/Deposits | 116,235 | 399,418 | 1,475,561 | 2,701,466 | 2,712,302 | 800,728 | 848,855 | 926,853 | 877,793 | 646,654 |
| Total Sources of Funds | 35,721,256 | 38,763,812 | 41,863,031 | 34,889,902 | 37,488,745 | 38,180,057 | 39,349,563 | 40,582,582 | 41,723,194 | 42,717,417 |
| Debt Service | 19,835,014 | 22,357,402 | 20,564,306 | 19,843,494 | 19,566,556 | 19,425,119 | 18,196,091 | 19,394,319 | 19,303,681 | 19,088,669 |
| Ex. PR + \$300M | 4,308,849 | 5,464,986 | 2,942,588 | 4,735,694 | 5,456,506 | 5,733,444 | 5,874,881 | 7,103,909 | 5,905,681 | 5,996,319 |
| Contractual Distribution to the City + Lease | 5,000,000 | 6,380,000 | 1,380,000 | 5,872,446 | 2,648,124 | 3,788,702 | 3,768,610 | 5,737,819 | 4,257,359 | 6,392,026 |
| Total Payments to City | 29,143,863 | 34,202,388 | 24,886,904 | 30,451,633 | 27,871,187 | 28,947,265 | 27,829,582 | 32,235,047 | 29,466,721 | 31,477,014 |
| HFC - Hotel Administration | 695,613 | 885,983 | 588,112 | 616,538 | 647,365 | 666,786 | 686,789 | 707,393 | 728,615 | 750,473 |
| Contractual Payments to Hilton - Sub Man Fe | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000,000 | 6,000,000 | 8,048,923 |
| Payment to City for Garage Income | 698,282 | 719,241 | 755,203 | 792,963 | 832,612 | 857,590 | 883,318 | 909,817 | 937,112 | 965,225 |
| HFC - Hotel Administration Capital | 112,000 | 1,163,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Expense | 3,135,544 | 3,618,083 | 2,250,000 | 2,700,000 | 4,250,000 | 4,500,000 | 4,750,000 | 5,000,000 | 20,000,000 | 5,000,000 |
| Rooms & Corridors Renovation | 11,257,158 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Uses | 45,042,470 | 40,888,695 | 28,480,220 | 34,561,135 | 33,401,163 | 34,971,641 | 34,149,689 | 43,853,257 | 57,132,447 | 46,241,635 |
| Net Cash Activity | (9,321,213) | (1,824,884) | 13,382,811 | 428,768 | 4,087,582 | 3,208,416 | 5,199,874 | (3,270,675) | (15,409,254) | (3,524,218) |
| Cumulative Ending Balance | \$ 26,567,121 | \$ 24,742,237 | \$ 38,125,048 | \$ 38,553,816 | \$ 42,641,398 | \$ 45,849,814 | \$ 51,049,687 | \$ 47,779,013 | \$ 32,369,759 | \$ 28,845,541 |

Analysis of Restricted Liabilities and Reserves

| | |
|---|---------------|
| Accrued and Unfunded Reserves | |
| Primary Capital Reserves (2% - 4%) | \$ 3,070,078 |
| Secondary Capital Reserves (1% - 2%) | \$ 1,535,039 |
| Less Capital Spent | (14,392,702) |
| Net Amount Current Period | (9,787,584) |
| Balance Due BOY | 16,125,418 |
| Balance Due EOY | \$ 6,337,834 |
| Accrual of Subordinated Management Fees | |
| Annual Fee Per Hilton's Forecast | \$ 1,066,170 |
| Cumulative Fee Payable | \$ 6,735,003 |
| Remaining Balance net of Cap and Fees | \$ 13,256,720 |
| Corporate Reserve Fund | \$ 12,406,165 |
| Balance net of Corporate Res. Fund | \$ 850,555 |
| Contractual Distribution to C&E | \$ - |

HOUSTON *First*

C O R P O R A T I O N

Hotel Administration

Proposed Budget - Calendar 2012

| | | <u>Proposed Budget</u> |
|--|-------------------|----------------------------|
| Cash Flow From Hilton Americas-Houston | | \$ 29,500,000 |
| Less Capital Expense for 2012 | | \$ (3,618,083) |
| Estimated Rebates | | \$ 8,864,393 |
| Interest Earnings | | <u>\$ 399,418</u> |
| Total Operating Cash Flow | | \$ 35,145,729 |
| Operating Expenses (less E.C. expense) | \$ 885,983 | |
| Crawford/Dallas Street Improvements | \$ 1,163,000 | |
| 2012 Debt Service | \$ 22,357,402 | |
| 2011 Excess Preferred Return | \$ 5,164,986 | |
| Payments to the City of Houston | \$ 6,380,000 | |
| Payments to HFC for CC portion of Garage | \$ 719,241 | |
| Contract for Discovery Green | <u>\$ 300,000</u> | <u>\$ 36,970,612</u> |
| Net Cash Activity | | <u>\$ (1,824,884)</u> |

Houston First Corporation - Hotel Administration
As of October 26, 2011

| | Adopted Calendar 2011 | Projected Calendar 2011 | % Change | \$ Change | Proposed Calendar 2012 | 2012 vs 2011 % Change | 2012 vs 2011 \$ Change |
|--|--------------------------|----------------------------|-------------|----------------|---------------------------|--------------------------------|---------------------------------|
| Personnel | | | | | | | |
| Admin.'s Total Wages & Benefits (1) | \$ 279,899.08 | \$ 272,970.26 | -2.5% | \$ (7,028.82) | \$ 292,532.90 | 7.2% | \$ 19,562.64 |
| EC's Total Wages & Benefits (1) | 2,042,141.00 | 1,984,186.00 | -2.8% | (57,955.00) | 2,128,278.00 | 7.2% | 142,092.00 |
| Sub-total | \$ 2,322,140.08 | \$ 2,257,156.26 | -2.8% | (64,983.82) | \$ 2,418,810.90 | 7.2% | \$ 161,654.64 |
| Supplies | | | | | | | |
| Postage | \$ 300.00 | \$ 654.68 | 118.2% | \$ 354.68 | \$ 300.00 | -54.2% | \$ (354.68) |
| Office Supplies | 1,200.00 | 1,800.00 | 50.0% | 600.00 | 2,000.00 | 11.1% | 200.00 |
| Printing (Lease of Color Copier) | 5,000.00 | 4,000.00 | -20.0% | (1,000.00) | 4,000.00 | 0.0% | - |
| Computer Supplies | 1,000.00 | - | -100.0% | (1,000.00) | 500.00 | #DIV/0! | 500.00 |
| Courier Services | 200.00 | 100.00 | -50.0% | (100.00) | 200.00 | 100.0% | 100.00 |
| Sub-total | \$ 7,700.00 | \$ 6,554.68 | -14.9% | (1,145.32) | \$ 7,000.00 | 6.8% | \$ 445.32 |
| Services | | | | | | | |
| Advertising (Web site & Phonebooks) (2) | \$ 2,000.00 | \$ 809.50 | -59.5% | (1,190.50) | \$ 650.00 | -19.7% | (159.50) |
| Office Equipment | 1,000.00 | - | -100.0% | (1,000.00) | 1,000.00 | #DIV/0! | 1,000.00 |
| Telephone | 1,300.00 | 1,300.00 | 0.0% | - | 1,300.00 | 0.0% | - |
| Audit Services (3) | 77,000.00 | 79,615.00 | 3.4% | 2,615.00 | - | -100.0% | (79,615.00) |
| Insurance (D&O) (4) | 45,150.00 | 58,360.00 | 29.3% | 13,210.00 | 65,000.00 | 11.4% | 6,640.00 |
| Financial Advisors | 10,000.00 | 12,255.00 | 22.6% | 2,255.00 | - | -100.0% | (12,255.00) |
| Asset Manager | 162,000.00 | 162,000.00 | 0.0% | - | 162,000.00 | 0.0% | - |
| Legal Services (5) | 30,800.00 | 66,000.00 | 120.0% | 36,000.00 | 165,000.00 | 150.0% | 99,000.00 |
| Corporate Support (6) | 10,000.00 | 8,000.00 | -20.0% | (2,000.00) | 7,500.00 | -6.3% | (500.00) |
| Consolidation Consultant (J. Gorte) | - | 50,000.00 | #DIV/0! | 50,000.00 | 100,000.00 | #DIV/0! | 160,000.00 |
| Consultant for RFP/RFPQ Development and Evaluation | - | - | - | - | 50,000.00 | #DIV/0! | 50,000.00 |
| Consultant for Activating Front of Hotel | - | - | - | - | 9,000.00 | 140.0% | 9,000.00 |
| Electricity Consultant | 4,200.00 | 3,750.00 | -10.7% | (450.00) | - | - | - |
| Sub-total | \$ 342,850.00 | \$ 442,089.50 | 29.0% | \$ 99,439.50 | \$ 561,450.00 | 27.0% | \$ 119,360.50 |
| Special Projects | | | | | | | |
| Crawford/Dallas Street Improvements | \$ 555,000.00 | \$ 112,000.00 | -79.8% | (443,000.00) | \$ 1,163,000.00 | 9.38% | \$ 1,051,000.00 |
| Sub-total | \$ 555,000.00 | \$ 112,000.00 | -79.8% | (443,000.00) | \$ 1,163,000.00 | 938.4% | \$ 1,051,000.00 |
| Contingency | | | | | | | |
| Contingency | \$ 25,000.00 | \$ 25,000.00 | 0.0% | \$ - | \$ 25,000.00 | - | \$ - |
| Sub-total | \$ 25,000.00 | \$ 25,000.00 | 0.0% | \$ - | \$ 25,000.00 | 0.0% | \$ - |
| Distributions, Preferred Return and Rent | | | | | | | |
| Total Monthly P & I Payments (7) | \$ 22,502,000.00 | \$ 19,835,013.63 | -11.9% | (2,666,986.37) | \$ 22,157,402.01 | 11.7% | \$ 2,322,388.38 |
| 2012 Remainder of Preferred Return | 2,498,000.00 | - | -100.0% | (2,498,000.00) | 2,842,597.99 | #DIV/0! | 2,842,597.99 |
| 2010 Remainder of Preferred Return | 3,174,000.00 | 4,008,849.00 | 26.3% | 834,849.00 | 5,164,986.37 | #DIV/0! | 5,164,986.37 |
| Closing Fee and Annual Rent Payment | - | 5,000,000.00 | #DIV/0! | 5,000,000.00 | 6,380,000.00 | -100.0% | (4,008,849.00) |
| Distribution for Discovery Green | 300,000.00 | 300,000.00 | 0.0% | - | 300,000.00 | 27.6% | 1,380,000.00 |
| Distribution to Development Fund | - | - | - | - | 0.00 | #DIV/0! | 0.00 |
| Sub-total | \$ 28,474,000.00 | \$ 29,143,862.63 | 2.4% | \$ 669,862.63 | \$ 38,844,986.37 | 26.4% | \$ 7,701,123.74 |
| Total Expenses | \$ 31,726,490.08 | \$ 31,986,663.07 | 0.8% | \$ 260,172.99 | \$ 41,020,247.27 | 28.2% | \$ 9,033,584.20 |

(1) Details on second page.
(2) Advertising - HCCHC website terminated in 2011
(3) Grant Thornton charged fee to review 2010 audit workpapers
(4) CY11 Actuals reflect 14 months of premium plus increase for addition of HFF D&O
(5) Legal Expenses: 2011 budget overage due to unanticipated consolidation. Hotel Administration's 2012 budget includes \$40,000 settlement with V&E. \$25,000 for GC. \$50,000 for new development and \$50,000 for potential lawsuit.
(6) Corporate Support includes travel/cost of mandatory training, monthly incidentals and contribution to Discovery Green's bi-annual fund raiser.
(7) Assumed variable rate at 2% including 26 basis points for expenses.