Houstonfirst

MINUTES

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE
April 17, 2020 – 10:00 A.M.
Live Video and Audio Conference Meeting

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

All interested persons are hereby advised that the Houston First Corporation Benefits, Compensation and Finance Committee Meeting was duly held on April, 17, 2020.

Due to technical difficulties with the virtual meeting platform, Items 1, 2 and a portion of Item 3A were not captured by the recording device. Type-written minutes have been provided below for those items. The recorded portion of the meeting is available at following the link:

HFC Benefits, Compensation & Finance Committee Meeting Recording

The Chairman of the Committee called the meeting to order at 10:07 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 February 14, 2020 were unanimously approved as presented.

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

A. Chief Financial Officer Update. Frank Wilson, Chief Financial Officer, provided the Committee with a financial update. Mr. Wilson said with the rapid onset of COVID-19, adjectives like chaotic, unprecedented and catastrophic have regularly been used to describe conditions in the travel, convention and hospitality industries, suggesting a substantial decline in Houston First's revenues from virtually all of its important sources, Hotel Occupancy Tax, Hilton Hotel net revenues, George R. Brown facility rental and food and beverage, as well as downtown parking revenues. Although some of the revenue decline will be offset by reduced expenditures, according to Mr. Wilson, the net revenue loss will be substantial. He noted that federal government's stimulus and liquidity programs, on an unprecedented scale, may provide some measure of support as it puts cash in certain businesses that operate within the convention and hospitality industries and others. Mr. Wilson explained that CCSI applied for and was approved by the Small Business Administration (SBA) for a $4.2 million Paycheck Protection Program loan that, if received and used as prescribed in the loan program guidelines, (i.e., salaries, utilities), will be forgiven.

Mr. Wilson then presented the Committee with four slides of macro-economic indicators. Since mid-2019, Houston purchasing managers have reversed from a very positive view of their economic prospects, to a negative view almost on par with the Great Recession of 2008 and 2009. The COVID-19 virus outbreak appears to have precipitated the possibility of a national recession and an oil price shock, based on declining demand and international interplay regarding control of the oil price. He said HFC and hotels throughout Houston, are facing a "perfect storm" of hospitality/travel decrease, oil price decrease, and national recession that has never been experienced. The recently announced OPEC and supply reductions of 10 million barrels a day seem to have been 10 million barrels a day short of the excess supply, while many or most Americans are telecommuting. Also evidencing a lack of demand for oil, airline travel has been dramatically reduced since the beginning of March. A year ago weekly travelers cleared by the Transportation Safety Administration ranged between 2 million to 2.5 million. A week ago, that number was in the 90,000 range for the entire week.

With fewer people traveling during the weeks of shelter-in-place, fewer people are staying in hotels. Some hotels are seeing members of the medical community staying in hotels, thereby achieving between 12%-15% occupancy. Mr. Wilson presented the Committee with CBRE's projected changes in Occupancy, RevPAR and Demand by upper-priced and lower-priced hotels and noted that upper-priced hotels have been negatively impacted the most. CBRE predicted a second quarter RevPAR decline of -95%. For all hotels, for the entire year, the projected changes reflect occupancy down -34%, RevPAR down -47% and ADR down -19%. Occupancy for 2020 is projected at 41.3%.

Mr. Wilson said last year, based on advice from consultants, and on the strength of $87 million in HOT collected in 2019, HFC budgeted $91 million of current HOT. At the suggestion of the Chair, staff adopted a stress test for the 2020 budget. The current stress test for the 2020 budget assumes $46 million of current HOT, due to the COVID-19 Recession. He referenced Dr. Bill Gilmer's analysis on his thoughts regarding HOT. Based on the analysis, Dr. Gilmer believes recovery could come in two waves. The first wave would see the COVID-19 recession end in late 2020, with "a nice recovery of HOT revenue." Then, once oil prices begin to rise, it is possible to see growth again in early 2022. The second wave of growth in HOT is condition upon oil prices.

B. <u>Human Resources Update.</u> Tim Moyer, Human Resources Director, provided the Committee with an update. He stated that, with everyone working from home, there are some communication and engagement challenges so that has been a focus for the Human Resources Department. Prior to the pandemic, he said, a new initiative for department open houses began as a way to for employees to learn more about each departments job function and team member responsibilities. He said that this initiative will continue virtually with tours of Jones Hall, Wortham Theater, GRB, and the Hilton Hotel. Also, he stated, training and development has not taken a back seat, as employees are encouraged to complete online training in cyber security and sexual harassment prevention; HR is also working with a company called Bias Sync to create an online training program that will help employees recognize their own bias and how that may impact their decision making.

Mr. Moyer went on to say that HR continues to find way to recognize employees through virtual service anniversaries, birthday celebrations, and for those whose performance goes above and beyond, the Team Member of the Quarter. He noted that HR produced its first podcast, featuring Rob Jackson discussing the CARES Act and Mr. Moyer talked about the FSCR Act. This, according to Mr. Moyer, will serve as an important and unique way to engage employees and make them aware of important topics and, in the future, bring guests from other departments to discuss timely issues that impact their area of responsibility during the crisis. Mr. Moyer also noted that HR hosted its first group chat via Microsoft Teams to allow employees to connect with one another and share their success stories of working remotely and better understand employee's concerns. He noted that HR is also working on a plan to safely bring employees back to work when the time comes.

Sofia Adrogué raised questions concerning the low number of participants in the podcast and group chat. Mr. Moyer responded that both efforts are new and he expects to see increases over the next few weeks.

Frank Wilson interjected to inform the Committee Chair that they skipped over a presentation by Michael Heckman regarding World Petroleum Council ("WPC"), which he intended to include at the end of his CFO Update.

Mr. Heckman stated the impact of the global pandemic on WPC at the end of the year is being evaluated and changes by the day. He noted that the WPC Organizing Committee is in a good financial cash position and has made both payments on time for repayment of the $4 million loan start up to the organizing committee. He added that, to date, $3 million of the $4 million has been repaid, with the final payment to be made by the end of June. Mr. Heckman said there are a number of conditions to consider with the current state of the oil and gas industry and everyone has been in constant communication with all stakeholders and leadership. He went on to say that he is the current plan is to continue with the event in December, although it is unlikely to look like the original event.

Alex Brennan-Martin inquired as to the likelihood that the event would occur. Mr. Heckman responded by noting the fluidity of the situation and stated that more would be known in four weeks as more information is gathered.

John Johnson inquired if contingency plans should be made to adapt to WPC changes being made. Mr. Heckman responded by noting that decision-making will be made jointly between the WPC Organizing Committee and WPC with regard to scope and social distancing plans. Ryan Martin noted that some event changes and social distancing measures are inevitable and should be anticipated as much as possible.

Frank Wilson interjected to add a brief addendum to the CFO report by informing the Committee that HFC received an additional $2 million of FEMA reimbursements. Mr. Wilson explained that HFC project worksheets have been subjected by the City of Houston to a 3-5% administrative cost, in addition to the 10% holdback for potential de-obligations and asked Council Members Martin and Robinson, as well as and the Chairman, for their assistance in allowing HFC to access those funds.

C. Operations Update. Luther Villagomez, Chief Operations Officer, provided an event update at HFC facilities. He noted that 40 days have passed without any activity in the GRB and it will likely be another 60 days before events resume. He added that they are work closely with event organizers and groups are looking to host their events safely while adhering to social-distancing guidelines. However, he said, there is a possibility that the events may be postponed even into the fourth quarter, and they have already made accommodations to scale down events scheduled in October and November. In the theaters, according to Mr. Villagomez, most of the spring seasons have been cancelled with no events likely to take place until September; Miller Outdoor Theatre currently has an event scheduled for June, but they are still working through logistics on how the event may take place.

Mr. Villagomez stated HFC has received notice from Pappas and Rustic for rental relief, as their restaurants have been impacted by the pandemic. As a result, he said, HFC will be looking to extend the terms of those lease agreements or amortize rental fees over time.

D. Hilton Americas-Houston Hotel Update. Jacques D'Rovencourt, General Manager at the Hilton Americas-Houston Hotel, stated that, at the conclusion of March, HFC received a revised full year projection for 2020 that reflected a total decline of revenue by $35 million. As many mentioned, he said, forecasting has become extremely fluid due to a number of cancellations related to the global pandemic. Mr. D'Rovencourt stated that the hotel creates a contingency plan on an annual basis to address decreases in revenues, and the plan for 2020 was revised after the cancellation of CERA Week. The contingency plan, he noted, took effect approximately March 9, 2020 once stay-at-home orders and social distancing guidelines were put in place, resulting in a decrease in expenses and the furlough of majority of employees.

Hilton Corporation, according to Mr. D'Rovencourt, is working on a comprehensive recovery plan to gradually resume services when the time is appropriate and address changes in business operations going forward in to 2021. He added that the hotel had 40,000 group room nights cancelled for the year, but they have replaced approximately 4,500 group room nights as many groups have still expressed interest.

Alex Brenan-Martin asked how many Hilton employees have been furloughed; Mr. D'Rovencourt responded that 550 have been furloughed.

Ryan Martin asked if any federal relief was expected from new stimulus bills. Rob Jackson explained that the CARES Act was the third piece of legislation passed by the federal government and that, at each level, discussions have become more political. Mr. Jackson stated there has been additional discussion about adding relief to the Paycheck Protection Program in the amount of $250 billion, though it is already gridlocked along partisan lines. He noted that the travel and hotel industries have been very aggressive about seeking relief, similar to the airlines, but with significantly fewer positive results. There is a recognition amongst Congress that the hotels are suffering, Mr. Jackson stated, but less appetite for direct grants. He said that loans are more likely than grants going forward, though the pending legislation will be more like a continuation of the CARES Act. In conclusion, Mr. Jackson noted that social distancing standards and guidelines are being developed by the federal government and that the governor had a press conference scheduled to announce his plans for Texas.

Council Member Dave Martin shared the problem that the City of Houston is facing regarding federal relief is that much of the funds provided are restricted to use for expenses related to COVID-19, and the City does not have the same expenses as cities like New York, New Orleans, and L.A., due to successful preventative measures, even though Houston could use those funds for lost revenues.

He encouraged staff to keep any lobbying organizations aware that pending legislation could be amended to allow use of funds for lost revenues. Brenda Bazan responded that U.S. Travel was leading just such a lobbying effort and, despite the limitations of the original CARES Act, continue to advocate for the industry as supplemental legislation moves forward.

E. 2019 Diversity Update. Roger Harris, Development Specialist Manager, made a presentation to the Committee on the 2019 diversity update. Mr. Harris stated since the inception of the program, $213 million has been paid to diverse businesses, with $56 million paid in 2019. Mr. Harris stated that the ethnic breakdown of diverse business working with HFC is closely reflective of the Houston population.

Mr. Harris went on to discuss diversity outreach activities and noted that HFC representatives attend multiple events throughout the year, such as HFC Opportunity Day, to give prime contractors and sub-contractors an opportunity to network.

Sofia Adrogué asked Mr. Harris to explain, looking at the ethnicity historical data, the apparent decline in the Asian community. Mr. Harris responded by attributing recent fluctuations due to the volume of construction projects in recent years.

IV. Committee Business

A. Consideration and possible recommendation for interim financing with AIG Asset Management, LLC for the Hilton Americas-Houston Hotel.

Frank Wilson discussed an extension with AIG of the first mortgage loan on the Hilton Americas-Houston Hotel. He noted that due to the current pandemic, AIG decided not to refinance now, but are willing to enter into a one-year extension on existing terms, with the exception of a slight revision to their rate.

Following a motion duly seconded, the recommendation for interim financing with AIG Asset Management, LLC for the Hilton Americas-Houston Hotel was approved unanimously by the Committee. All members were present for the vote.

B. Consideration and possible recommendation of a First Amendment to an agreement with Walker & Dunlop, LLC for brokerage services related to a refinancing for the Hilton Americas-Houston Hotel.

Frank Wilson discussed the brokerage services provided by Walker & Dunlop, LLC and the amendment proposed due. According to Mr. Wilson, the original fee proposal was $200,000 for permanent financing; Walker & Dunlop have proposed to accept $100,000 for the extension, to be followed by an additional $200,000 to secure permanent financing.

David Mincberg provided additional information regarding the terms of the new deal with Walker & Dunlop, LLC and why he feels the agreement is favorable to HFC based on current market conditions.

Following a motion duly seconded, the recommendation of a First Amendment to an agreement with Walker & Dunlop, LLC for brokerage services related to a refinancing for the Hilton Americas-Houston Hotel was approved unanimously by the Committee. All members were present for the vote.

V. Adjournment. The meeting was adjourned at 11:25 a.m.