

AGENDA

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE

April 7, 2021 – 2:00 P.M.

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

COMMITTEE MEMBERS:

Alex Brennan-Martin (Chair), Jay Zeidman (Vice-Chair), Sofia Adrogué, John Johnson, Council Member Dave Martin, Ryan Martin, David Mincberg

In accordance with the Texas Open Meetings Act, this Agenda is posted for public information, at all times, for at least 72 hours preceding the scheduled time of the meeting on the bulletin board located on the exterior wall of the Houston City Hall building, located at 901 Bagby. The Agenda is also available online at <https://www.houstonfirst.com>.

To reserve time to appear, come to the meeting at least ten minutes prior to the scheduled public session shown on the Agenda.

Any questions regarding this Agenda, or requests for special needs assistance, should be directed to Lisa K. Hargrove, General Counsel at either 713.853.8965 or Lisa.Hargrove@houstonfirst.com

- I. Call to Order**
- II. Public Comments**
- III. Minutes – November 13, 2020**
- IV. Presentations, Reports, and Updates**
 - A. Financial Report
- V. Adjournment**

III. Minutes – November 13, 2020

MINUTES

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION, AND FINANCE COMMITTEE

November 13, 2020 – 10:00 A.M.

Live Video and Audio Conference Meeting

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 via live video and audio conference on, Friday, November 13, 2020 commencing at 10:00 a.m.

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>.

1. The Chair called the meeting to order at 10:00 a.m. and a quorum of Committee Members was established with the following members present virtually: Alex Brennan-Martin (Chair), Jay Zeidman (Co-Chair), Sofia Adrogué, John Johnson, and Ryan Martin. Board Member Desrye Morgan was also in attendance.
2. **Public Comments.** None.
3. **Review and approval of minutes from prior meeting.** Following a motion duly seconded, the minutes of October 16, 2020 were approved as presented. David Mincberg and Council Member Dave Martin were not present for the vote, but did appear later in the meeting.
4. **Committee Business.**
 - A. *Consideration and possible approval of the annual election of Officers pursuant to the Houston First Corporation Bylaws.*
 - i. *Michael Heckman, Acting President & CEO*
 - ii. *Frank Wilson, Treasurer*
 - iii. *Lisa Hargrove, Secretary*
 - iv. *Frank Wilson, Investment Officer*

Following a motion duly seconded, the annual election of Officers pursuant to the Houston First Corporation Bylaws was approved unanimously.
 - B. *Consideration and possible recommendation of the Houston First Corporation 2021 Budget.*

Michael Heckman, HFC Acting President & CEO, gave a presentation of the 2021 Budget and Corporate Strategy. He stated that staff has done a tremendous job working on the budget in an uncertain year. He also informed the Committee that he and several members of the Executive Team had a meeting with Mayor Sylvester Turner to discuss the 2021 Budget, and Mayor Turner is well aware of what HFC is facing as an organization. He then discussed the severe impact of COVID-19 on HFC's operations and the hotel and hospitality industry. HFC's COVID response strategy, he explained, is a three-phase approach that includes reaction, recovery, and resilience. As part of the recovery phase, according to Mr. Heckman, HFC created a Recovery Task Force that generated great ideas, some of which were implemented immediately, such as the creation of a virtual studio at George R. Brown Convention Center (GRB). He added that HFC's focus in the recovery phase has been rebooking business, stewardship, and repurposing and modifying facilities due to COVID-19.

Jay Zeidman asked about registration for the upcoming NAPE Conference. Mr. Heckman replied that the event organizers believe there will be 3,000-4,000 attendees and 50% of the trade show floor is now sold.

Mr. Heckman then continued with his presentation and explained that business in the latter half of 2021 could be very good as there have been no cancellations after July 1, 2021. HFC's strategic theme for 2021, he said, is "Value Creation" and will connect to one of five value drivers. Mr. Heckman stated that the key priorities for next year include continued budget forecasting, addressing changes to the sales model, overseeing the creation of a unified brand for the City of Houston (City), building consumer confidence that Houston is a safe travel destination, expanding digital marketing efforts, and refocusing international efforts on Mexico.

Council Member Dave Martin asked for further information on creating a unified brand for the City. Mr. Heckman then discussed Mayor Sylvester Turner's vision. Council Member Martin stated that creating a unified brand will be a challenge and Mr. Heckman concurred.

John Johnson stated that it is great to see that HFC is adapting and going after smaller conventions in the short-term. He also asked as larger conventions return with less attendees, will HFC provide audio-visual services to accommodate virtual attendees. He also suggested that HFC host a holiday event on Avenida Plaza to generate more business downtown. Mr. Heckman stated that audio-visual services will play an important role for meetings going forward and HFC's in-house contractor, Staging Solutions, will play a critical role. He also confirmed that HFC has allocated \$700,000 for programming on Avenida Houston in the 2021 budget.

Sofia Adrogué asked if the event hosted by HFC on November 20, 2020 is still moving forward. Mr. Heckman explained that a window display at GRB will include a number of Christmas trees normally displayed at the Alley Theatre. He also stated that HFC engaged a promoter to host a drive-thru event for the holidays, but HFC will be unable to execute its plan this year. Mr. Heckman then introduced HFC Chief Financial Officer, Frank Wilson, to discuss the 2021 budget.

Mr. Wilson provided a quick overview of 2020 finances and said HFC is projecting \$135 million in revenues and total expenses of approximately \$140 million, resulting

in a \$5 million deficit. Mr. Wilson informed the Committee that this is great news, as the revised 2020 budget projected a \$35 million deficit, but HFC was able to recover \$40 million in FEMA reimbursements due to Hurricane Harvey. He also explained that HFC's expenses are largely driven by its non-operating expenses and the challenge in 2021 will be overcoming debt service and HFC's expenses related to hotel occupancy taxes (HOT) paid to the City. He noted that HFC was able to cut its operating expenses by 40% in 2020 and anticipates another \$1.2 million in FEMA reimbursements this year.

Mr. Wilson then shared HFC's debt profile through 2040. He said HFC is actively working on refinancing a loan with AIG for the Hilton Americas-Houston Hotel and noted that HFC has \$20 million in notes outstanding at Regions Bank and \$1 million in a subordinated note with J.P. Morgan Chase. HFC's total debt service, he said, is approximately \$60 million a year.

Mr. Wilson said HFC will complete a 12-month rolling forecast for 2021 and anticipates \$97.4 million in revenues and \$152.9 million in expenses. He said this will result in a budget deficit of \$55.5 million that is largely driven by HFC's non-operating expenses and debt service. He also noted that the 164 approved positions are down dramatically from the 249 positions approved in 2018. Mr. Heckman clarified that the 164 approved positions includes furloughed employees and the current number of active personnel is 132.

Desrye Morgan stated that the Committee Chair asked her to join the meeting to discuss ways to reduce HFC's debt service. According to Ms. Morgan, Frank Wilson is working closely with HFC's financial advisors on restructuring HFC's debt. She explained that she has completed restructurings for other organizations and in her experience, rating agencies are receptive to working with convention centers and businesses impacted by COVID-19 in the tourism industry, despite 9 to 12 month look-backs that reflect poor revenues. She said she believes that this shift could provide HFC with more relief going into 2021. Mr. Wilson agreed and stated that HFC has built extraordinary and exhaustive forecasting into the 2021 strategic plan and budget.

Council Member Dave Martin asked Ms. Morgan how HFC's financial position will play into the market. Ms. Morgan explained that institutions will look holistically at how HFC has managed its portfolio prior to COVID-19. She further explained that the Mayor's decision to grant HFC additional funds will be helpful, and although it is not a pretty picture, the market has adjusted for entities like HFC. Council Member Martin asked if HFC is looking for debt refinancing with or without an extension. Mr. Wilson stated that HFC has a 2011A issue that is callable in 2021, but HFC must ensure that it does not violate the City's bond covenant. Council Member Martin explained that City Council is most concerned with how HFC can restructure its debt without extending the loan and why HFC has retained so many employees with such little activity at HFC facilities.

Michael Heckman noted that HFC is a broad organization that includes a number of activities and enterprises and has scaled back tremendously.

Mr. Wilson discussed how HFC will address the 2021 budget deficit. He said a meeting was previously held with Mayor Turner to discuss debt restructuring, and the Mayor did not support HFC's decision, but offered to provide \$48 million as an alternative solution. This number, according to Mr. Wilson, has now increased to \$51 million as

HFC received \$3 million in CARES relief funds. He added that HFC also hopes to receive \$11.3 million in FEMA reimbursements from the City currently being withheld by TDEM. Additionally, he said, the Mayor has offered a \$20 million loan that will go before City Council soon. Mr. Wilson said HFC also use \$10 million in cash reserves and access \$15 million of a subordinated note program. Mr. Wilson said he views 2021 as a transitional year and stated that he will continue to aggressively manage HFC's cash burn and expenses.

Mr. Wilson concluded his presentation by discussing various department budgets. He also thanked Susan Tucker, Director of Strategic Planning, for overseeing the 2021 strategic planning process. Priorities for the Finance and Administration Department, he said, include robust forecasting, debt restructuring, finalizing policy documents, creating a plan to replenish reserves, financial analysis of new events, negotiating forgiveness of the management fee at the Hilton Americas-Houston Hotel, and partnering with HR to create learning and development strategies.

Desrye Morgan asked if there has been any discussion regarding contract parking. Mr. Heckman stated that he participated in a panel with several large companies that anticipate an increase in contract parking in 2021.

The Committee had further discussion and Jay Zeidman asked for an update on the Paycheck Protection Program (PPP) loan. Mr. Wilson stated that the loan received was for \$4.2 million and has been expended. He said HFC is also in the process of seeking loan forgiveness and anticipates that the process will be complete by year end. Rob Jackson, Chief Policy Officer, stated that there is an expectation that there will be additional relief passed by the federal government under the new administration, however, it is not likely that there will be any industry-specific relief.

Alex Brennan-Martin stated that there is no guidance regarding loan forgiveness under the PPP, so he is glad to hear that Mr. Wilson is confident that HFC is eligible for complete loan forgiveness. He thanked Ms. Morgan for attending the meeting and stated that HFC has no choice but to peruse a debt restructuring. He also explained that he understands the City's position, but asked if there has been any consideration on leniency to City policy in light of COVID-19. Council Member Martin stated that, unfortunately, there has not been any discussion at this time.

Mr. Heckman asked about the restructuring of the Harris County-Houston Sports Authority. Council Member Martin stated that HFC is controlled by the City and the Harris County-Houston Sports Authority is a different organization, but he believes they were able to extend their loan by three years. Desrye Morgan offered to share the case study for the Harris County-Houston Sports Authority with the Committee.

Alex Brennan-Martin asked if there is a way to reintroduce a conversation with Mayor Turner about HFC's debt. Council Member Martin stated he will discuss matters with Mayor Turner, but expressed concerns about the number of personnel currently working at HFC. He stated that, before he can have the discussion about extending the debt, he must evaluate what steps HFC has taken to reduce expenses.

Desrye Morgan asked how far the organization could go without impacting future business and if those reductions will make a substantial impact on HFC's finances. Mr. Heckman responses that he will continue to look at right-sizing the organization and

reducing expenses, but he must ensure HFC is capable of doing what is expected of the organization. He also stated that the Mayor has made clear to him that HFC's job is to sell and market Houston and that is what the organization will continue to do.

Council Member Martin stated that the HFC Board must come together because when members of the City request funds from HFC, he is often ostracized when he is against doing so. He further explained there needs to be a cultural shift in the organization so that the City understands HFC is a different organization going forward. He said that, while he appreciates the work of HFC and does not want to see more cuts, the days of HFC giving freely are no more because the organization is in worse shape than the City.

Alex Brennan-Martin agreed with some of the sentiments expressed by Council Member Martin and suggested that staff provide a breakdown of personnel when presenting the 2021 budget.

Following a motion duly seconded, a recommendation of the Houston First Corporation 2021 Budget was approved unanimously.

C. *Consideration and possible ratification of the Second Amendment to the Lease Agreement between the City of Houston and Houston First Corporation.*

Mr. Wilson stated that HFC staff are asking for the Committee's ratification of an amendment to the Lease Agreement with the City that will allow the City to transfer funds to HFC that include reimbursement of \$3 million worth of COVID relief funds with \$180,000 of those funds to go to Discovery Green, and \$20 million of insurance proceeds, conditioned on HFC executing a promissory note with the City.

Alex Brennan-Martin asked if HFC has done its due diligence. Lisa Hargrove, HFC General Counsel, stated that the document has already been executed by Mr. Heckman to ensure that the item is presented to City Council in a timely manner. She further explained that certain COVID-19 relief funds given to HFC must be spent by year end.

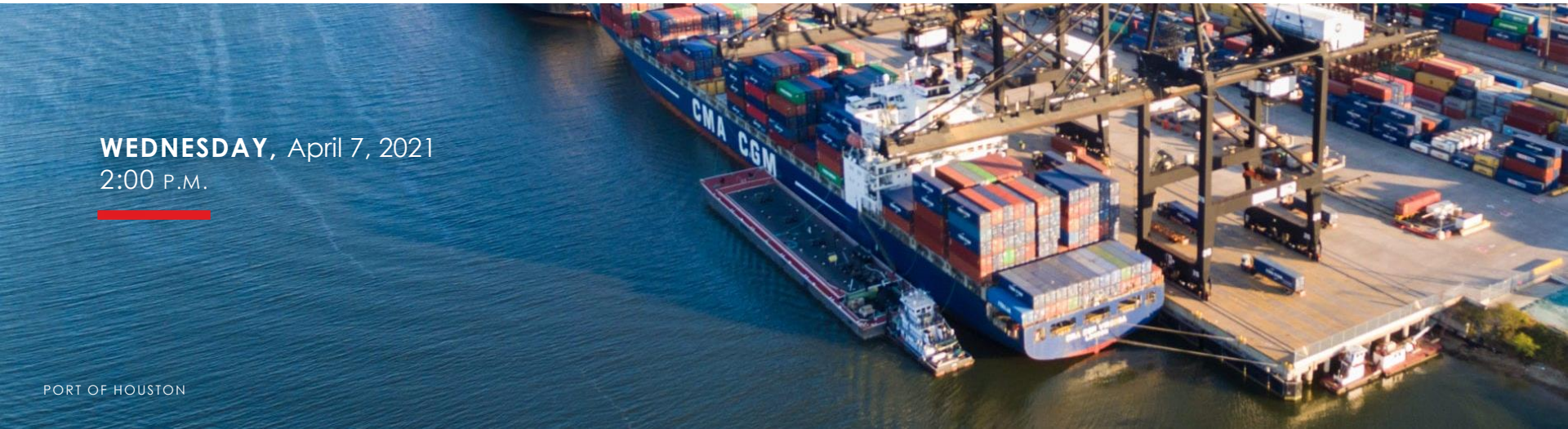
Following a motion duly seconded, ratification of the Second Amendment to the Lease Agreement between the City of Houston and Houston First Corporation was approved unanimously.

5. **Adjournment.** The meeting was adjourned at 11:32 a.m.

HOUSTON FIRST CORPORATION

BENEFITS, COMPENSATION & FINANCE COMMITTEE MEETING

WEDNESDAY, April 7, 2021
2:00 P.M.





PUBLIC COMMENTS

Anyone who wishes to address the Committee during the Public Comment session may do so by signing up on the Public Comment sign-in sheet at the front of the room.

**HFC BENEFITS, COMPENSATION & FINANCE
COMMITTEE MEETING**

April 7, 2021



MINUTES

November 13, 2020

**HFC BENEFITS, COMPENSATION & FINANCE
COMMITTEE MEETING**

April 7, 2021

Houstonfirst



HOUSTON FIRST ACTING PRESIDENT & CEO REPORT

MICHAEL HECKMAN

**HFC BENEFITS, COMPENSATION & FINANCE
COMMITTEE MEETING**

April 7, 2021

Houstonfirst

MANAGEMENT PERSPECTIVE

- Status Update and Overview
- Processes by Management
- Stimulus Funding Opportunities



HOUSTON FIRST FINANCIAL REPORT

FRANK WILSON

Chief Financial Officer

**HFC BENEFITS, COMPENSATION & FINANCE
COMMITTEE MEETING**

April 7, 2021

Houstonfirst

UPDATES

- **2020 financial audit ongoing**
 - New GASB 87 Rule requires examination of leases (HFC has 35), to gross up balance sheet by the PV of lease payments over life of leases.
 - Report to be presented to BCF in June or July.
- **To date, received \$2.9 M in CRF grant reimbursements for COVID-response strategies, facility modifications, and equipment purchased late last year.**
- **Hopeful to get some of the 2021 American Rescue Plan Act funding.**

PANDEMIC PROGRESS

- US has reported 30.6 M cases
- Ongoing recovery hampered by 4th wave of pandemic

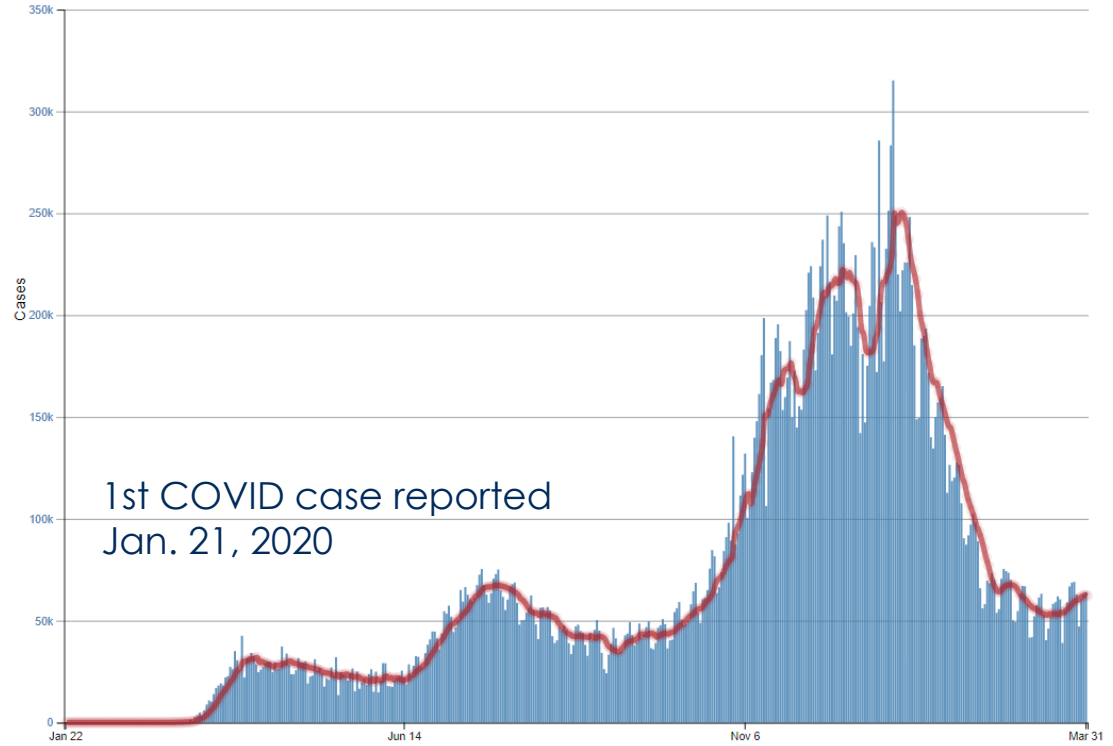
Vaccinations Rise, but So Do Cases

The Wall Street Journal, April 2, 2021

Vaccinations Rise, but Variants and Factory Mix-Up Present Hurdles

New York Times, April 4, 2021

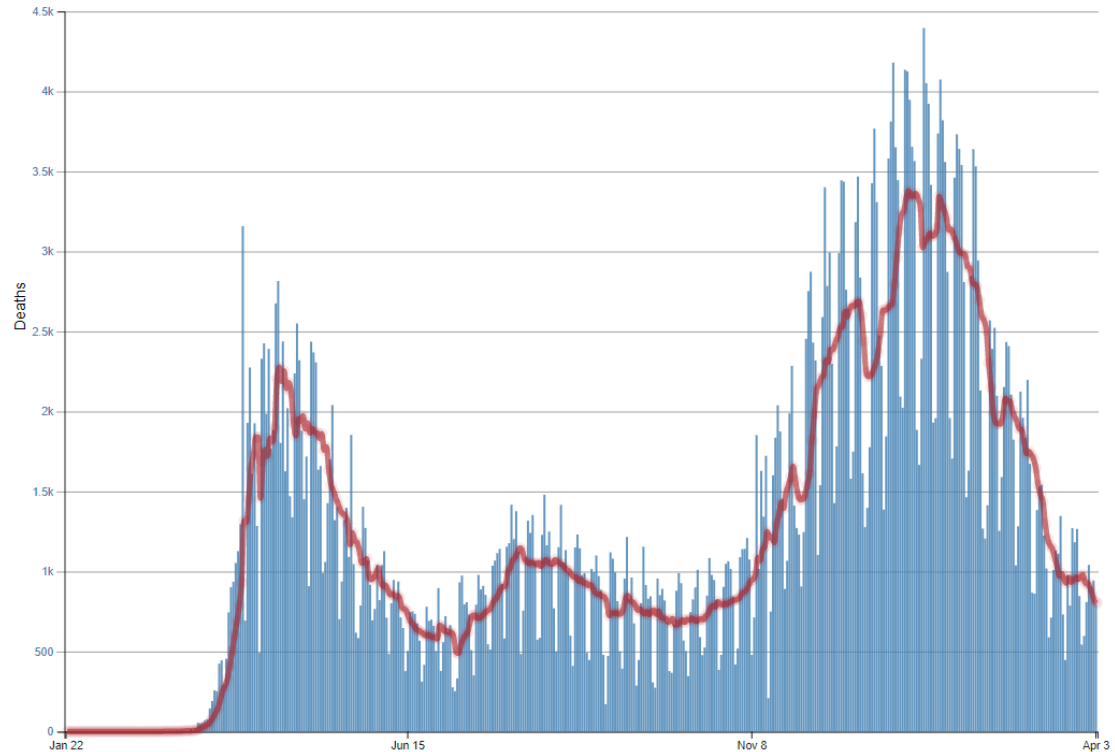
Daily Trends in Number of COVID-19 Cases in the U.S. Reported to CDC
CASES OVER TIME



PANDEMIC PROGRESS

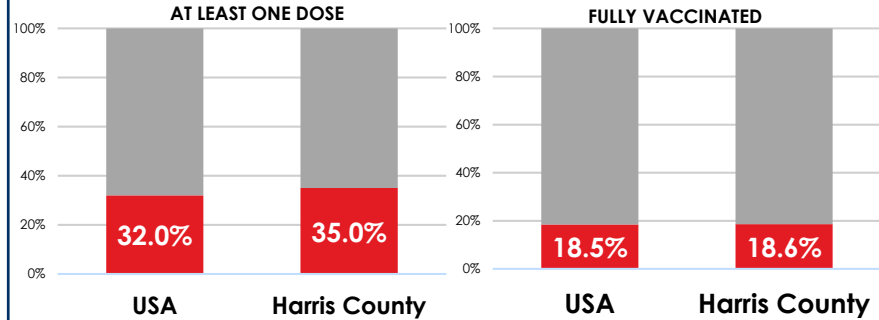
- Deaths are down dramatically, from 4,396 on Jan 20, 2021 to 789 on April 3, 2021.
- In Houston, test positivity rate < 5% for last 14 days.
- According to the TMC, on April 1, there were only 129 new hospitalizations, down almost 100 from 226 on March 18th.
- Seven-day trend is downward.

Daily Trends in Number of COVID-19 Cases in the U.S. Reported to CDC
DEATHS OVER TIME



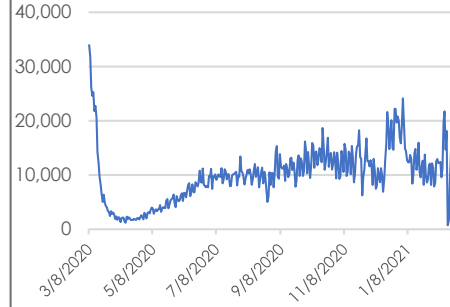
ECONOMIC INDICATORS

COVID-19 Vaccine Information



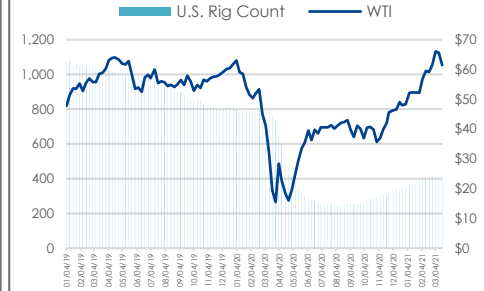
Source: CDC | Data as of April 4, 2021

Houston Airport Arrivals IAH & HOU



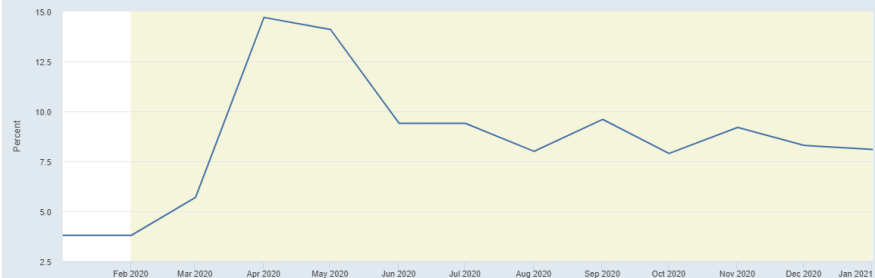
Source: Arrivalist

U.S. Rig Count vs. WTI



Source: Baker Hughes; U.S. Energy Information Admin. retrieved from FRED, Federal Reserve Bank of St. Louis

FRED — Unemployment Rate in Houston-The Woodlands-Sugar Land, TX (MSA)



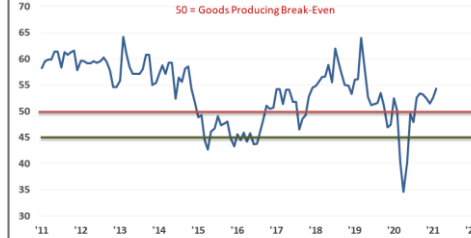
U.S. recessions are shaded; the most recent end date is undecided.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

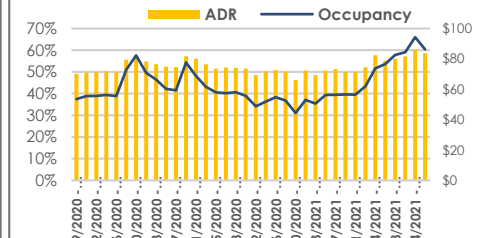
Houston Purchasing Managers Index

45 = Overall Break-Even Point
50 = Goods Producing Break-Even Point



Source: Greater Houston Partnership & Institute for Supply Management Houston

Houston Weekly ADR & Occ.



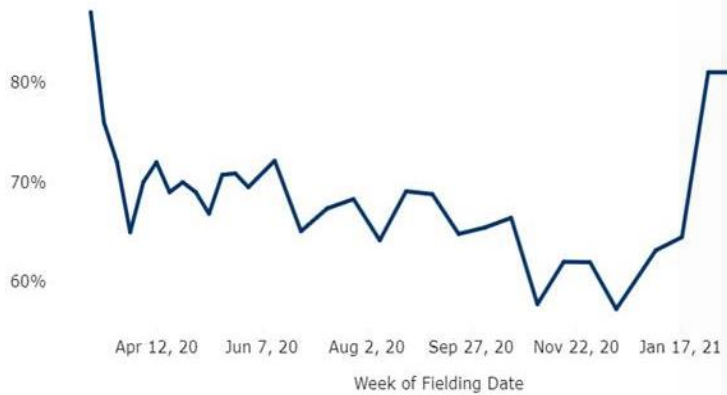
Source: STR

MARKET ANALYSIS

TRAVEL SENTIMENT & AIR TRAVEL BOOKINGS

Travel Sentiment

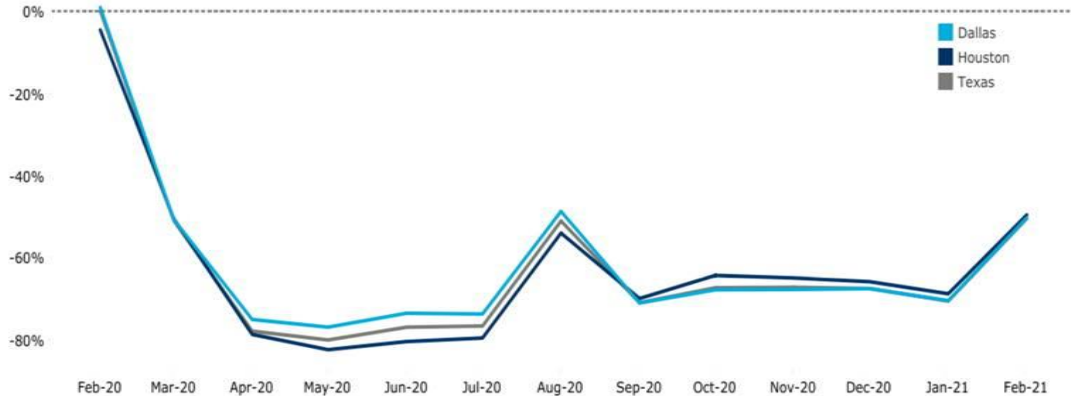
Travelers with Travel Plans in the Next Six Months



Air Travel Bookings with Dallas, Houston, Texas as Destination

February 2021

% change in bookings by month, compared to same month in 2019



MARKET ANALYSIS

WEEKLY TRENDS

Row Labels	Occ (%)	ADR (\$)
4/26/2020 - 5/2/2020	28.0%	\$61.09
5/24/2020 - 5/30/2020	35.1%	\$68.20
6/21/2020 - 6/27/2020	38.7%	\$71.27
7/26/2020 - 8/1/2020	38.8%	\$70.97
8/23/2020 - 8/29/2020	51.0%	\$79.48
9/27/2020 - 10/3/2020	41.5%	\$74.61
10/25/2020 - 10/31/2020	40.5%	\$73.53
11/22/2020 - 11/28/2020	34.1%	\$69.28
12/6/2020 - 12/12/2020	38.4%	\$72.62
12/13/2020 - 12/19/2020	36.8%	\$71.54
12/20/2020 - 12/26/2020	31.1%	\$66.14
12/27/2020 - 1/2/2021	37.1%	\$72.40
1/3/2021 - 1/9/2021	35.4%	\$69.26
1/10/2021 - 1/16/2021	39.4%	\$72.19
1/17/2021 - 1/23/2021	39.5%	\$73.22
1/24/2021 - 1/30/2021	39.5%	\$71.47
1/31/2021 - 2/6/2021	39.5%	\$71.33
2/7/2021 - 2/13/2021	43.3%	\$74.60
2/14/2021 - 2/20/2021	51.7%	\$82.47
2/21/2021 - 2/27/2021	53.6%	\$78.83
2/28/2021 - 3/6/2021	57.8%	\$79.86
3/7/2021 - 3/13/2021	59.2%	\$81.62
3/14/2021 - 3/20/2021	66.0%	\$86.14
3/21/2021 - 3/27/2021	60.4%	\$83.74

- Weekly trends have improved since early February.
- Demand in March is showing improvement each week.
- Leisure demand is down just 12% in March, over last year.

HFC CY19 & CY20 ACTUALS vs. CY21 BUDGET

	CY19 Actuals ¹	CY20 Actuals ²	CY21 Budget
TOTAL REVENUES	\$ 288,025,607	\$ 139,053,228	\$ 108,770,673
TOTAL EXPENSES	\$ 214,251,655	\$ 149,446,098	\$ 164,271,917
TOTAL REVENUES LESS TOTAL EXPENSES	\$ 73,773,953	\$ (10,392,870)	\$ (55,501,244)

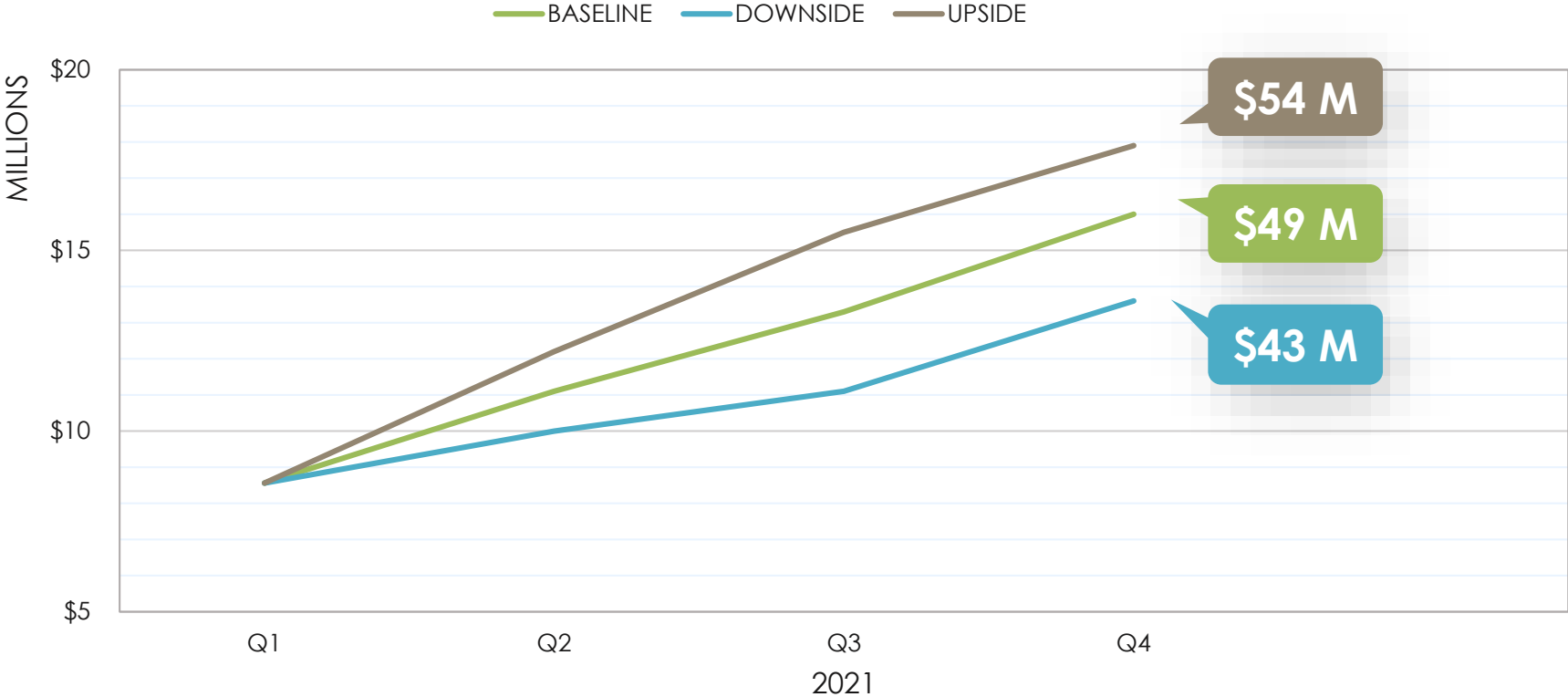
- 1) Includes \$103 M of FEMA reimbursement and insurance proceeds and \$26.4 M of disaster expense.
- 2) Includes \$42.1 M of FEMA reimbursement and insurance proceeds and \$12.6 M of disaster expense.

* Insurance claims paid: Wortham sprinkler, Avenida South parking garage fire and switch gear event.

ORIGINAL 2021 BUDGET ASSUMPTIONS

- **\$11.3 M FEMA reimbursements held by TDEM**
 - Timing uncertain.
 - Part of \$48 M suggested by Mayor in July 2020 as alternative to debt restructuring / extension.
 - Funding not yet received.
- **\$16 M release of HFC FEMA receipts: part of \$45 M City transfer received in 2020.**
- **\$20 M loan from City**
 - \$10 M of loan proceeds received.
 - \$10 M to be drawn in June through September.
- **18 Citywide conventions.**
- **Transient hotel stays predicted to be back by the fall.**
- **Leisure hotel stays – staycations — would return first.**

HOT COLLECTIONS FORECAST



HILTON AMERICAS BUDGET REFORECAST

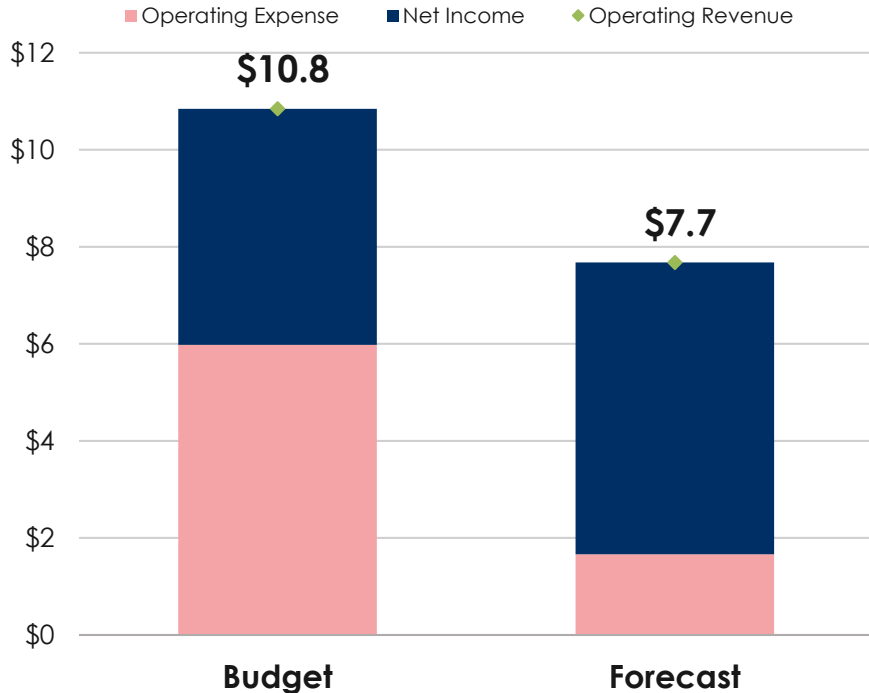
- Original 2021 Budget projected **\$1.2 M of Net Cash to HFC**.
- Budget being revised beginning in April for second half of 2021.
- Expect projected **cash to HFC to increase** based on strength of **group business** on its books, including:

July 3 – 7	Shriners	Oct 5 – 7	TX Muni League
Jul 18 – 20	CAMT	Oct 11 – 15	Dynamic Com
July 30 – 31	Archdiocese	Oct 17 – 19	ARMA
Aug 4 – 6	Vision Source	Oct 17 – 30	Quilts
Aug 17 – 19	NAPE / OTC	Nov 8 – 11	Rockwell
Aug 23 – 28	Mensa	Nov 16 – 18	INTA
Sept 1 – 5	NRA	Dec 4 – 8	WPC / So ACE
Sept 8 – 9	SOHO	Dec 13 – 15	Turbo
Sept 13 & 16	Walmart	Dec 28 –31	Texas Bowl / GYC
Sept 27	HCA		

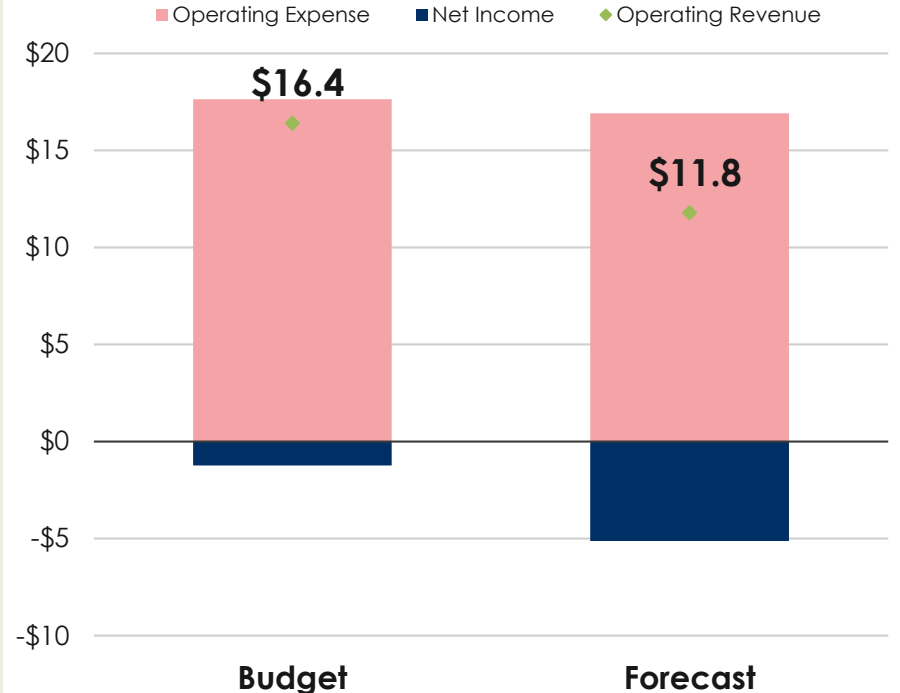
CY21 MAJOR REVENUES BUDGET vs FORECAST

PARKING & GRB

PARKING

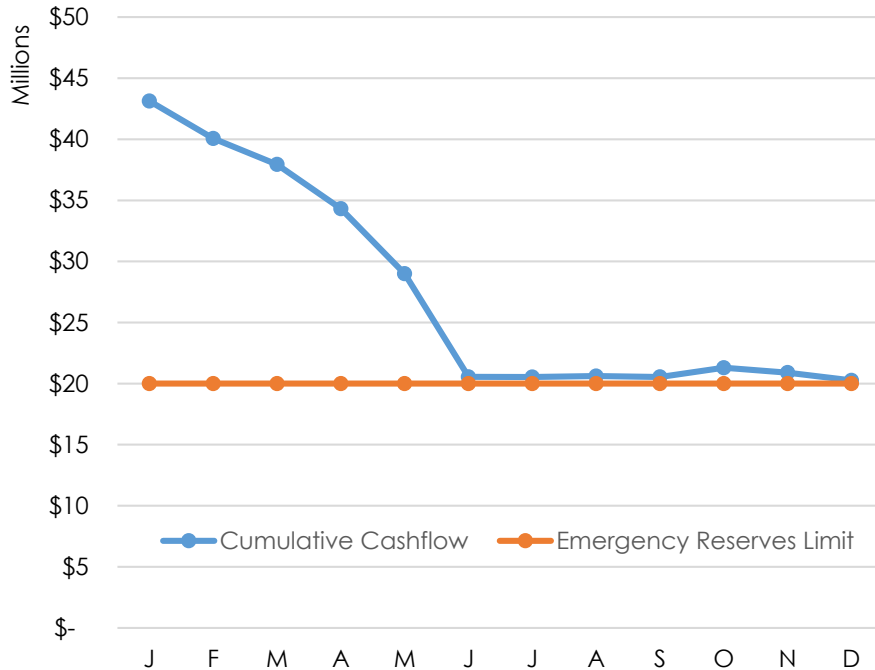


GRB

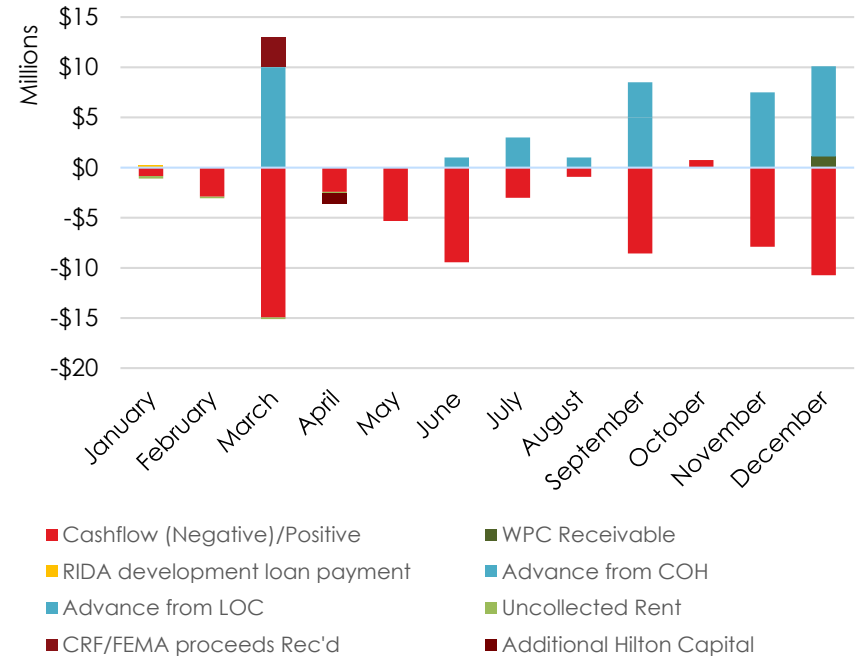


CASH FLOW ANALYSIS

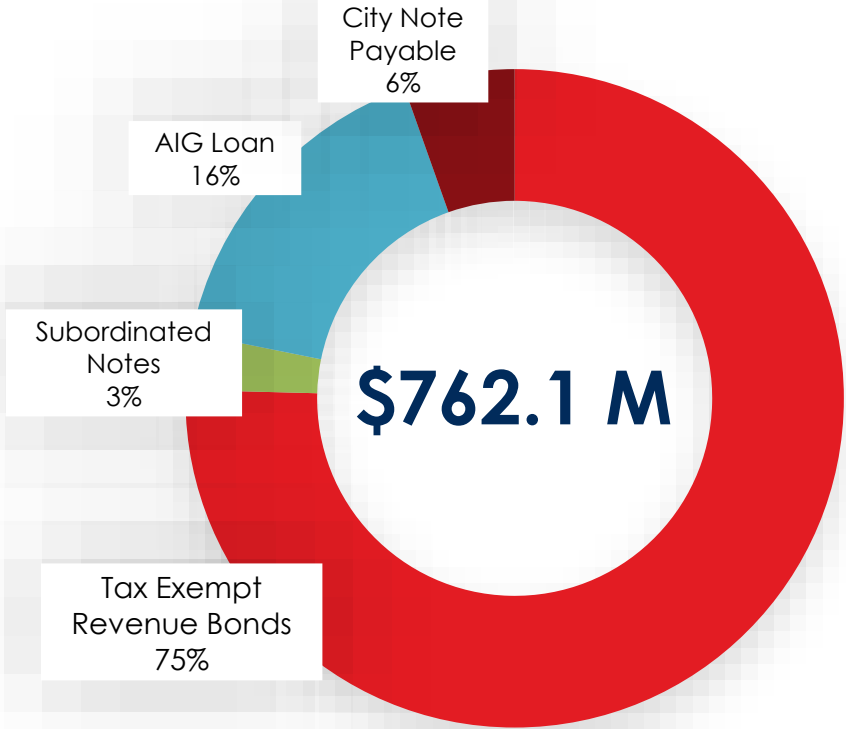
2021 Cash Flow Forecast



2021 Cash Flow & Sources



OUTSTANDING DEBT



PRINCIPAL BALANCE

AS OF DECEMBER 21, 2020

	<i>In millions</i>
City Notes Payable (2021 – 2026)	\$ 41.4
AIG Loan (2026)	125.0
Subordinated Notes (Regions & JPMorgan)	21.0
Tax-Exempt Rev Bonds (2034)	574.7
TOTAL:	\$762.1

BOND RATING

MOODY'S AFFIRMED RATING:
A2 – STABLE

- Rating based on approved City loan (\$20 M), access to adequate liquidity
- Long term, analysts believe the strength of the economy will lift pledged revenue and allow debt service coverage to improve
- Awaiting discussion with S&P

BOND REFUNDING

ISSUE TO BE REFUNDED: C & E HOT Bonds, Series 2011A

Par Amount of bonds to be refunded:	<u>\$34.9 M</u>
Amount of 2021 refunding bonds:	<u>\$36.3 M</u>
Averaged life of refunded bonds:	<u>6.9 Years</u>
NPV Savings:	<u>\$5.5 M</u> (rates as of March 18, 2021)
Tentative Closing:	<u>June 5, 2021</u>

BOND RESTRUCTURING

Scoop and Toss Debt Restructuring Considerations:

- **Additional Bonds Test:**
Demonstrate pledged revenues in the last 12 out of 18 months = to 1.35x maximum annual debt service (MADS) of \$56 M.
- Extending the average life of existing bonds violates City Financial Policies and requires super majority vote in favor at City Council.
- Attorney General will require 1x coverage of MADS of all liens of obligations, including subordinate debt.

PENSION UPDATE

- January 19th participated in COH-led mediation with HMEPS.
- Based on prior court ruling, judge encouraged City to make a settlement offer.
- Settlement offers were proffered.
- Difference between two parties remains significant.
- No follow up mediation scheduled.
- Begin contributions to HMEPS January 2022.
- Phase out the 401(k) and create a 457 Plan.
- Transfer all employees to HFC.

PPP LOAN UPDATE

- \$2 M loan for CCSI funded March 25th.
- Will cover two months of employee payroll expense.
- \$2.6 M loan application for Houston First Holdings (Hilton) pending SBA approval.