

# AGENDA

## HOUSTON FIRST CORPORATION

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**BENEFITS, COMPENSATION, AND FINANCE COMMITTEE**

**October 20, 2022 - 3:00 P.M.**

**Partnership Tower, 701 Avenida de las Americas, Ste. 200**

**Houston, Texas 77010**

**HOUSTON FIRST BOARD ROOM**

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**COMMITTEE MEMBERS:**

Alex Brennan-Martin (Chair), Jay Zeidman (Vice-Chair), Sofia Adrogué, John Johnson, Mayor Pro-Tem Dave Martin, Ryan Martin, David Minchberg

*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](mailto:Lisa.Hargrove@houstonfirst.com)*

- I. Call to Order**
- II. Public Comments**
- III. Minutes – July 15, 2022**
- IV. Presentations, Reports, and Updates**
  - A. President & CEO's Report
  - B. Financial Report
- V. Adjourn**

**III. Minutes – July 15, 2022**

# MINUTES

## HOUSTON FIRST CORPORATION

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### **BENEFITS, COMPENSATION, AND FINANCE COMMITTEE**

**July 15, 2022 – 9:00 A.M.**

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

*The Benefits, Compensation, and Finance Committee (“Committee”) of Houston First Corporation (the “Corporation” or “HFC”), a Texas local corporation created and organized by the City of Houston as a local government corporation pursuant to TEX. TRANSP. CODE ANN. §431.101 et seq. and TEX LOC. GOV’T. CODE ANN. §394.001 et seq., posted a meeting at Partnership Tower, 701 Avenida de las Americas, Houston, Harris County, Texas 77010 on, Friday, July 15, 2022, at 9:00 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 Meetings Act.*

*The following Committee Members were present for the meeting: Alex Brennan-Martin (Chair), John Johnson, Ryan Martin, and David Minberg.*

1. **Call to order**. The Chairman called the meeting to order at 9:07 a.m. and a quorum was established.
2. **Public Comments**. None
3. **Review and approval of minutes from prior meeting**. Following a motion duly seconded, the minutes of April 18, 2022, were approved as presented.
4. **Presentations, Reports, and Updates**
  - A. **Financial Report**

Frank Wilson, Chief Financial Officer, reported that almost all significant revenues year-to-date as of June 30, 2022, continue to outperform budget, with the more significant variances being Hilton Americas-Houston Hotel Net Cash at 24%, GRB Facility Rental at 28.8%, and Avenida Parking Revenue at 54.9%, better than budgeted. Mr. Wilson added that the Theater District Parking Garage is recovering, but is 5.5% under budget.

Mr. Wilson stated that the more significant variances in major expenses are Personnel at -21.5%, Building Maintenance Contracts at -22.1%, and George R. Brown Convention Center food and beverage at -13.7% under budget.

The financial performance year-to-date, as of May 21, 2022, for total revenues are approximately \$5.4 million over budget and total expenses are roughly \$7.6 million under budget.

Mr. Wilson stated that year-to-date recovery trends for operating revenue and expense are improving.

**5. Committee Business**

**A. Consideration and possible recommendation of the Houston First 2021 Annual Financial Audit.**

Mr. Wilson stated that HFC had to undertake a significant adjustment in 2021 due to the pension resolution. In addition, he reminded the committee that the 2021 budget ended with a \$14M deficit.

Karen Tang, Assistant Controller, reported that the leased assets (George R. Brown Convention Center, Wortham Theater, Jones Hall, and Miller Outdoor Theatre, Hilton Americas-Houston Hotel, and destination marketing expenses were included in the annual report, but did not include Convention and Entertainment Facilities Department debt and fixed assets.

Ms. Tang stated that total assets decreased by \$8 million over 2020 and total liabilities increased by \$14.4 million over 2020 due to a \$20 million loan from the City of Houston, a note of \$6 million with Regions, and a \$2.6 million PPP loan that will be forgiven in 2022.

Ms. Tang informed the Committee that the overall results of operations are a net loss of \$18.4 million, which is a decrease of \$2.9 million from 2020. Revenues in 2021 came from four sources; \$57.1 million from Intergovernmental Revenue from the City of Houston, \$42.6 million from Hilton Americas-Houston Hotel, \$21.1 million from venues, and \$11.5 million from Avenida parking. She added that expenses in 2021 were \$28.9 for the facilities, \$27.6 million for general and administrative, \$15.2 million for Hilton Americas-Houston Hotel, and \$11.9 million for Visit Houston.

Ms. Tang reported that total operating revenues increased by \$16.8 million due to the recovery in the hospitality and convention industries from the COVID-19 pandemic. Hotel revenues benefitted from the increase in leisure travel in Houston and a 56% increase in occupancy. In addition, operating expenses increased from \$5.9 million to \$116.6 million in 2021 due to increased use of the managed facilities and an increase of \$1.3 million in depreciation expense.

Ms. Tang stated that the total non-operating revenues decreased by \$9.1 million from 2020 due to \$16 million related to pension settlement and offset by a \$10.3 million revenue increase (\$2.3 million grant revenue and \$8 million from the fund-raising organization for Lynn Wyatt Square).

Stephanie Bland, Controller, reported that the \$16 million pension settlement is treated for accounting purposes as a liability between HFC and the City of Houston. Ms. Bland explained that the City is doing an actuarial study to determine the allocation of pension funds to all City employees, including HFC employees, and will allocate a portion to HFC. Ms. Bland added that repayment to the City will begin in 2031.

Tino Robledo, Senior Director of Audit Services for RSM, stated that the financial and compliance audit report was performed under Government Auditing Standards due to federal funding.

Mr. Robledo reported no significant changes to the planned audit strategy and did not identify audit adjustments and uncorrected misstatements. Mr. Robledo emphasized that RSM did not identify material weaknesses or significant deficiencies and that it was a clean audit.

Mr. Robledo commented that RSM teamed up with Yoe CPA, LLC, subcontractor, to partner with and assisted HFC in its responsibility to foster the development and growth of diverse companies. Mr. Stephen Yoe, Managing Partner, thanked RSM and HFC for the opportunity to participate in and assist with the audit.

Katherine Lutz, Manager of Audit Services for RSM, reiterated that there were no significant issues with the audit and no disagreements with management.

After discussion for consideration and possible recommendation of the Houston First 2021 Annual Financial Audit, a motion was made and duly seconded for approval. The motion passed unanimously.

**B. Consideration and possible approval of the 2022 Convention Sales Incentive Program.**

Michael Heckman reported reactivating the Convention Sales Incentive Program, which had been suspended after the onset of the COVID pandemic.

Mr. Heckman stated the 2022 Incentive Program is substantially similar in structure as before the pandemic. Mr. Heckman cited a couple of differences for 2022, which are split between definite bookings and tentative opportunities and team goals instead of individual goals.

Karen Williams, Senior VP of Finance, reported that the 2022 Sales Incentive Program is a team program that applies to all Sales team members and two Revenue Management Team Members. Ms. Williams emphasized that the team payouts are based on reaching a minimum of 90% of the combined definite bookings and tentative opportunities to be eligible for the annual commission payout.

After discussion for consideration and possible approval of the 2022 Convention Sales Incentive Program, a motion was made and duly seconded for approval. The motion passed unanimously.

**C. Consideration and possible approval of adjusting the requirement for a quorum from a simple majority of the total Committee membership to three members.**

After discussion for consideration and possible approval of adjusting the requirement for a quorum from a simple majority of the total Committee membership to three members, a motion was made and duly seconded for approval. The motion passed unanimously.

**6. Adjourn – The meeting adjourned at 10:03 a.m.**





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HOUSTON FIRST CORPORATION

# BENEFITS, COMPENSATION, AND FINANCE COMMITTEE MEETING

Menil Museum  
MONTROSE

**HFC BOARD ROOM**  
**Partnership Tower**  
Thursday, October 20, 2022  
3:00 p.m.



# PUBLIC COMMENTS

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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, AND  
FINANCE COMMITTEE MEETING**

October 20, 2022





# MINUTES

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July 15, 2022

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

October 20, 2022





# HOUSTON FIRST PRESIDENT & CEO

**MICHAEL HECKMAN**

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

October 20, 2022

**Houstonfirst**



# COMMITTEE UPDATE

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## A. Five-Year Financial Forecast

### PRESENTER

**Frank Wilson**

*Chief Financial Officer*

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

October 20, 2022

**Houston**first

# MAJOR REVENUES & EXPENSES

YTD AS OF SEPTEMBER 30, 2022

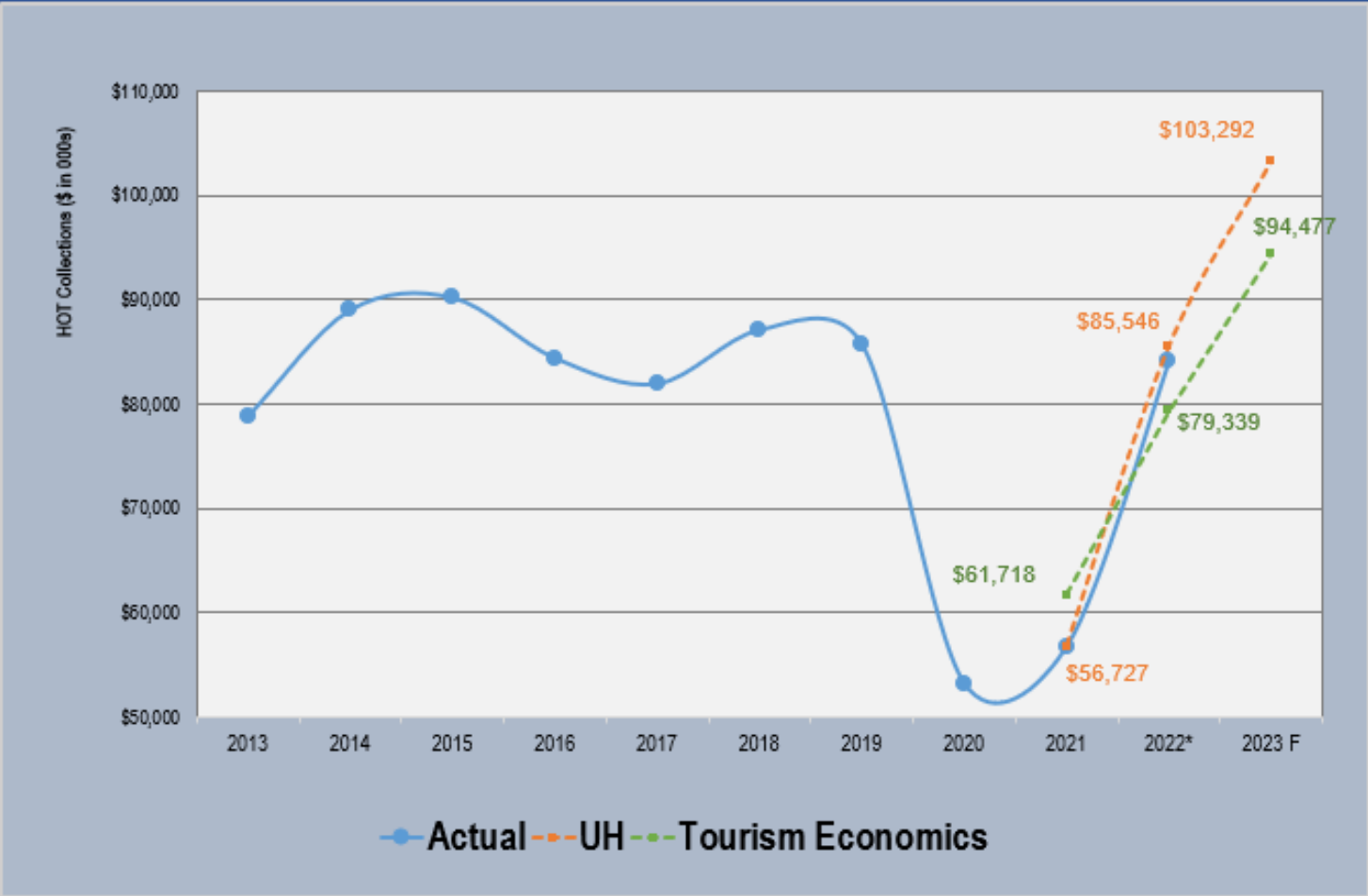
MAJOR REVENUES	2021 Actual	2022 Budget	2022 Actual	Over (Under) Budget (\$)	Over (Under) Budget (%)
Hotel Occupancy Tax Collections	\$39,168,511	\$61,854,202	\$62,776,961	\$922,759	1.5%
Hilton Americas Net Cash	\$3,184,357	\$18,000,000	\$27,500,000	\$9,500,000	52.7%
GRB Facility Rental	\$2,762,625	\$3,869,141	\$5,793,842	\$1,924,701	49.7%
GRB Food and Beverage Revenue	\$2,952,683	\$13,438,625	\$14,057,742	\$619,117	4.6%
Parking Revenue-Avenida	\$4,681,686	\$5,685,344	\$8,871,257	3,185,913	56.0%
Parking Revenue-Theater District	\$2,894,168	\$5,979,097	\$4,412,622	(\$1,566,475)	-26.2%
MAJOR EXPENSES	2021 Actual	2022 Budget	2022 Actual	Over (Under) Budget (\$)	Over (Under) Budget (%)
Personnel	\$10,838,735	\$16,923,141	\$14,216,542	(\$2,706,599)	-16.0%
Security Contract	\$2,246,752	\$2,547,334	\$2,693,901	\$146,567	5.8%
Bldg. Maintenance Contract	\$1,843,768	\$4,382,867	\$3,530,659	(\$852,208)	-19.4%
Parking Contract	\$1,108,173	\$1,616,216	\$1,525,867	(\$90,349)	-5.6%
Janitorial Contract	\$1,633,012	\$3,113,852	\$4,307,585	\$1,193,733	38.3%
GRB Food and Beverage	\$2,536,139	\$9,608,357	\$9,787,041	\$178,684	1.9%



# HISTORICAL HOT AND 2023 FORECAST

## HISTORICAL HOT REVENUE

	Actual	
	(\$ in 000s)	% chng y/y
2004	43,110	6.2%
2005	44,877	4.1%
2006	54,519	21.5%
2007	59,262	8.7%
2008	66,439	12.1%
2009	57,617	-13.3%
2010	54,525	-5.4%
2011	60,801	11.5%
2012	69,392	14.1%
2013	78,777	13.5%
2014	88,979	13.0%
2015	90,183	1.4%
2016	84,395	-6.4%
2017	81,927	-2.9%
2018	87,080	6.3%
2019	85,726	-1.6%
2020	53,208	-37.9%
2021	56,720	6.6%
2022*	85,382	50.5%



\*2022 Forecast assumes fourth quarter revenue is \$22M

# 5-YR REVENUE FORECAST ASSUMPTIONS

## FORECAST MODEL GROWTH AND STRESS FACTORS

Baseline	2023	2024	2025	2026	2027
Revenue Stress / Growth		7%	5%	4%	3%

Mild Recession	2023	2024	2025	2026	2027
Revenue Stress / Growth		-2%	-0.5%	7%	3%

Deep Recession	2023	2024	2025	2026	2027
Revenue Stress / Growth		-8%	-4%	12%	3%

- Possible recession in 2024, negatively impacting revenues in 2024 and 2025
- Continued inflation at 3% beginning in 2024
- Business travel begins meaningful recovery by Q2 or Q3 2023.
- Leisure travel continues and Houston tourism continues to improve.
- Hotels see continued improvement in occupancy and ADR.
- Downtown office occupants slowly return to in-person work in 2023.
- Rising interest rates through 2023

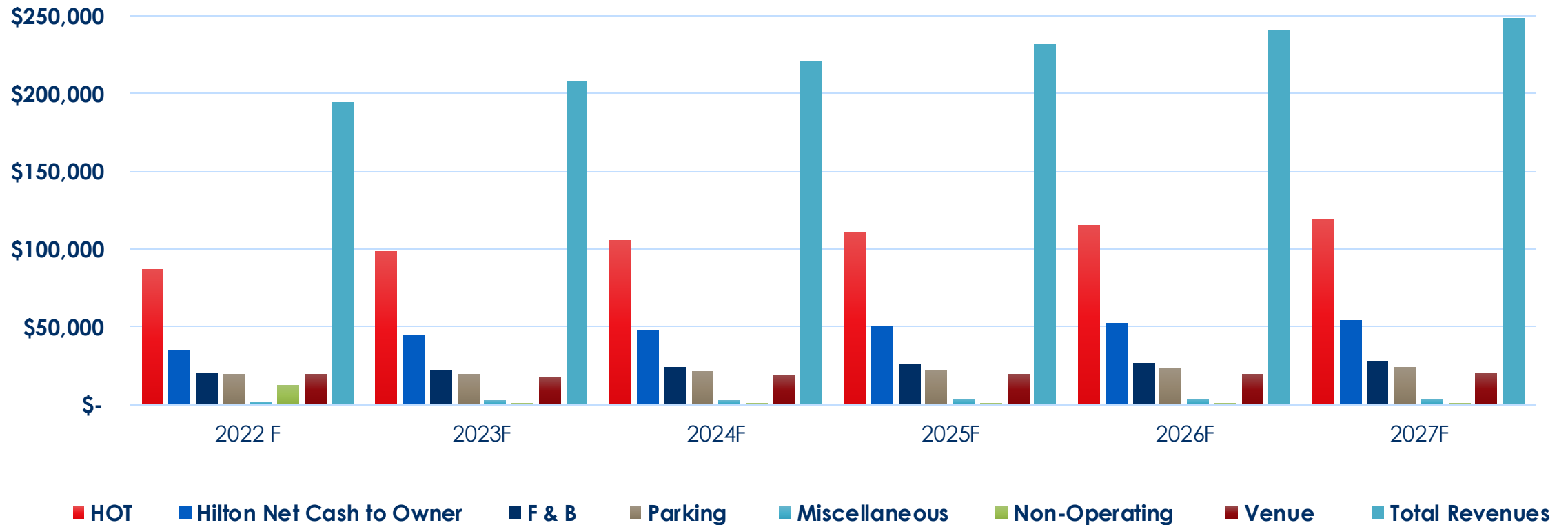
## HISTORICAL HOT REVENUE

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2020	53,208	-37.9%
2021	56,720	6.6%
2022*	85,382	50.5%

\* 2022 Forecast assumes fourth quarter revenue is \$22M

# 5-YR REVENUE FORECAST

## BASELINE REVENUES (000s)





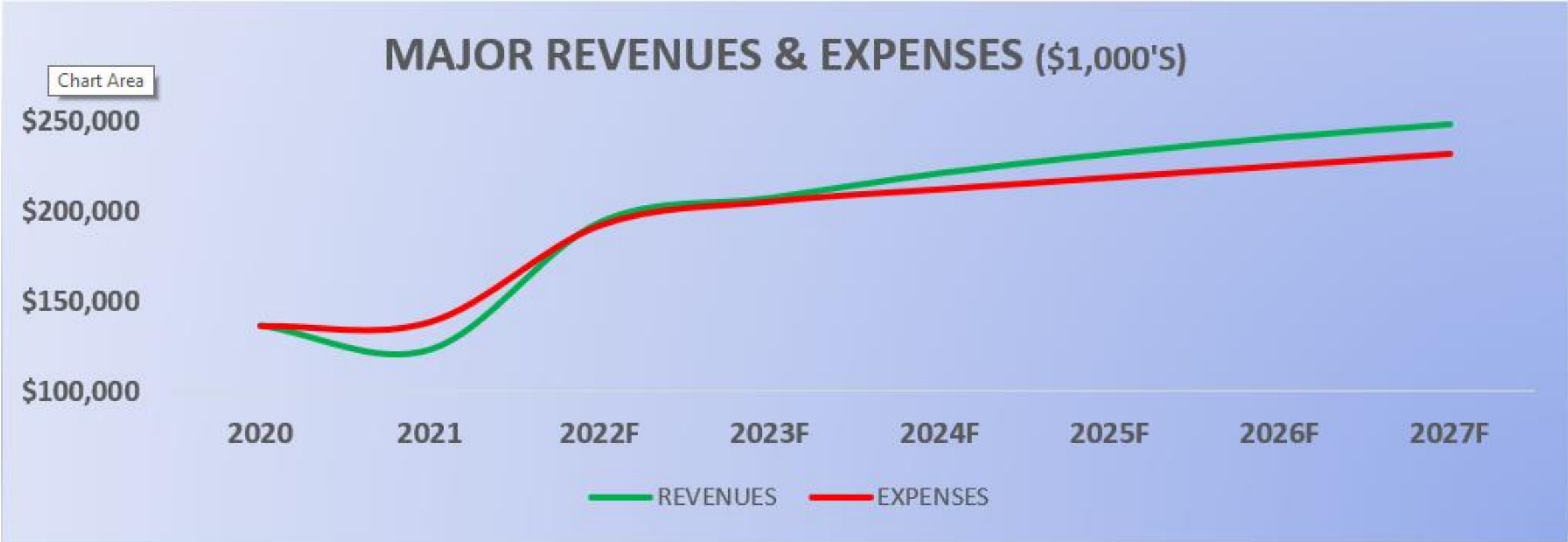
# 5-YR HOT FORECAST

## BASELINE AND RECESSION SCENARIOS \$ in Millions

	2019	2020	2021	2022 F	2023 F	2024 F	2025 F	2026 F	2027 F
<b>Baseline</b>	\$87.5	\$54.7	\$58.7	\$86.7	\$99.0	\$105.9	\$111.2	\$115.7	\$119.1
<b>Mild Recession</b>						\$97.0	\$96.5	\$103.3	\$106.4
<b>Deep Recession</b>						\$91.1	\$87.4	\$97.9	\$100.8

# 5-YR REVENUE & EXPENSE FORECAST

## BASELINE



# 5-YR REVENUE FORECAST

(\$000s)

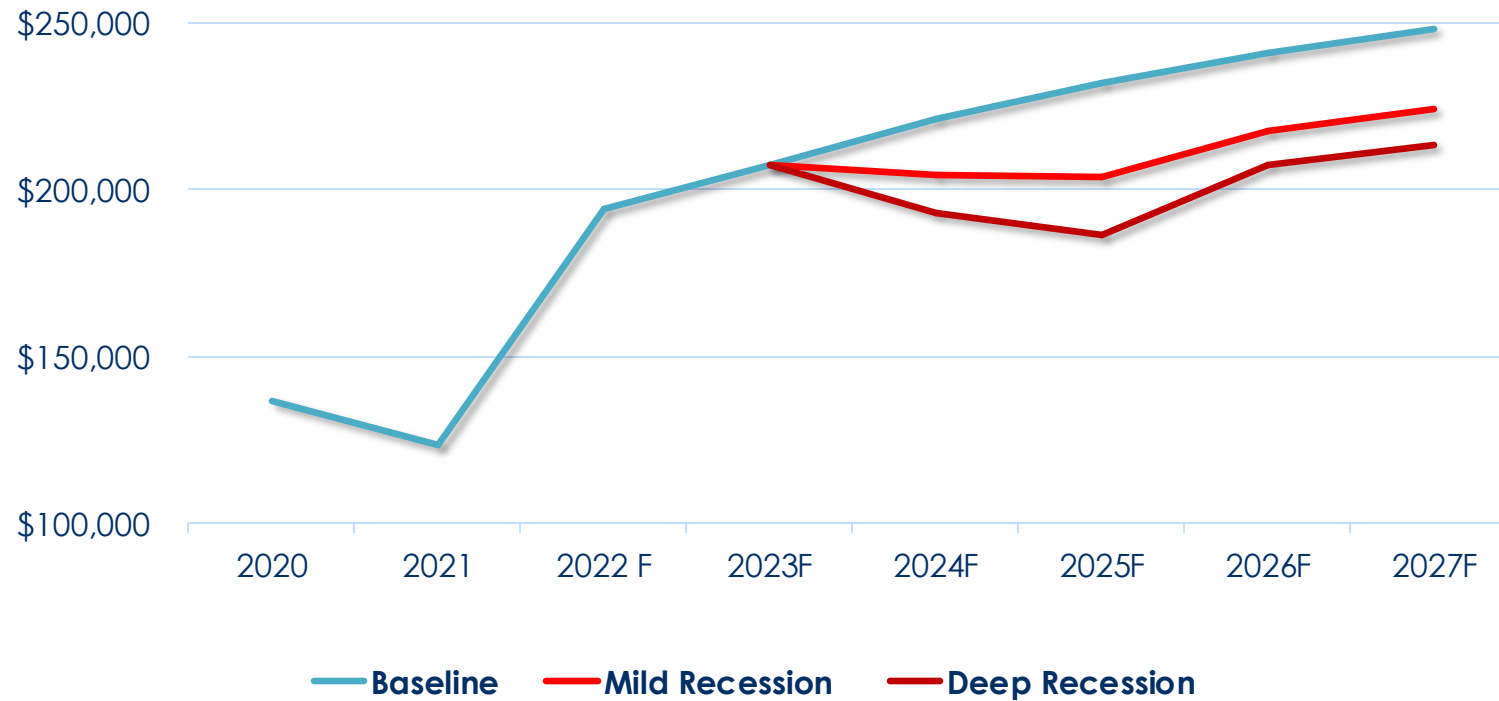
Mild Recession						
Revenues	2022 F	2023F	2024F	2025F	2026F	2027F
HOT	\$ 86,695	\$ 99,000	\$ 97,020	\$ 96,535	\$ 103,292	\$ 106,391
Hilton Net Cash to Owner	\$ 34,500	\$ 44,700	\$ 43,806	\$ 43,587	\$ 46,638	\$ 48,037
F & B	\$ 20,570	\$ 22,578	\$ 22,126	\$ 22,016	\$ 23,557	\$ 24,264
Parking Revenues	\$ 19,173	\$ 19,904	\$ 19,506	\$ 19,408	\$ 20,767	\$ 21,390
Misc. Revenues	\$ 1,690	\$ 2,852	\$ 2,795	\$ 2,781	\$ 2,976	\$ 3,065
Non-Operating Revenues	\$ 12,091	\$ 516	\$ 506	\$ 503	\$ 538	\$ 555
Venue Revenues ( 3% Annual increase)	\$ 19,477	\$ 18,037	\$ 18,578	\$ 19,135	\$ 19,710	\$ 20,301
<b>Total</b>	<b>\$ 194,196</b>	<b>\$ 207,587</b>	<b>\$ 204,337</b>	<b>\$ 203,966</b>	<b>\$ 217,478</b>	<b>\$ 224,002</b>

Deep Recession						
Revenues	2022 F	2023F	2024F	2025F	2026F	2027F
HOT	\$ 86,695	\$ 99,000	\$ 91,080	\$ 87,437	\$ 97,929	\$ 100,867
Hilton Net Cash to Owner	\$ 34,500	\$ 44,700	\$ 41,124	\$ 39,479	\$ 44,217	\$ 45,543
F & B	\$ 20,570	\$ 22,578	\$ 20,772	\$ 19,941	\$ 22,334	\$ 23,004
Parking Revenues	\$ 19,173	\$ 19,904	\$ 18,312	\$ 17,579	\$ 19,689	\$ 20,279
Misc. Revenues	\$ 1,690	\$ 2,852	\$ 2,624	\$ 2,519	\$ 2,821	\$ 2,906
Non-Operating Revenues	\$ 12,091	\$ 516	\$ 475	\$ 456	\$ 510	\$ 526
Venue Revenues ( 3% Annual increase)	\$ 19,477	\$ 18,037	\$ 18,578	\$ 19,135	\$ 19,710	\$ 20,301
<b>Total</b>	<b>\$ 194,196</b>	<b>\$ 207,587</b>	<b>\$ 192,964</b>	<b>\$ 186,546</b>	<b>\$ 207,209</b>	<b>\$ 213,426</b>

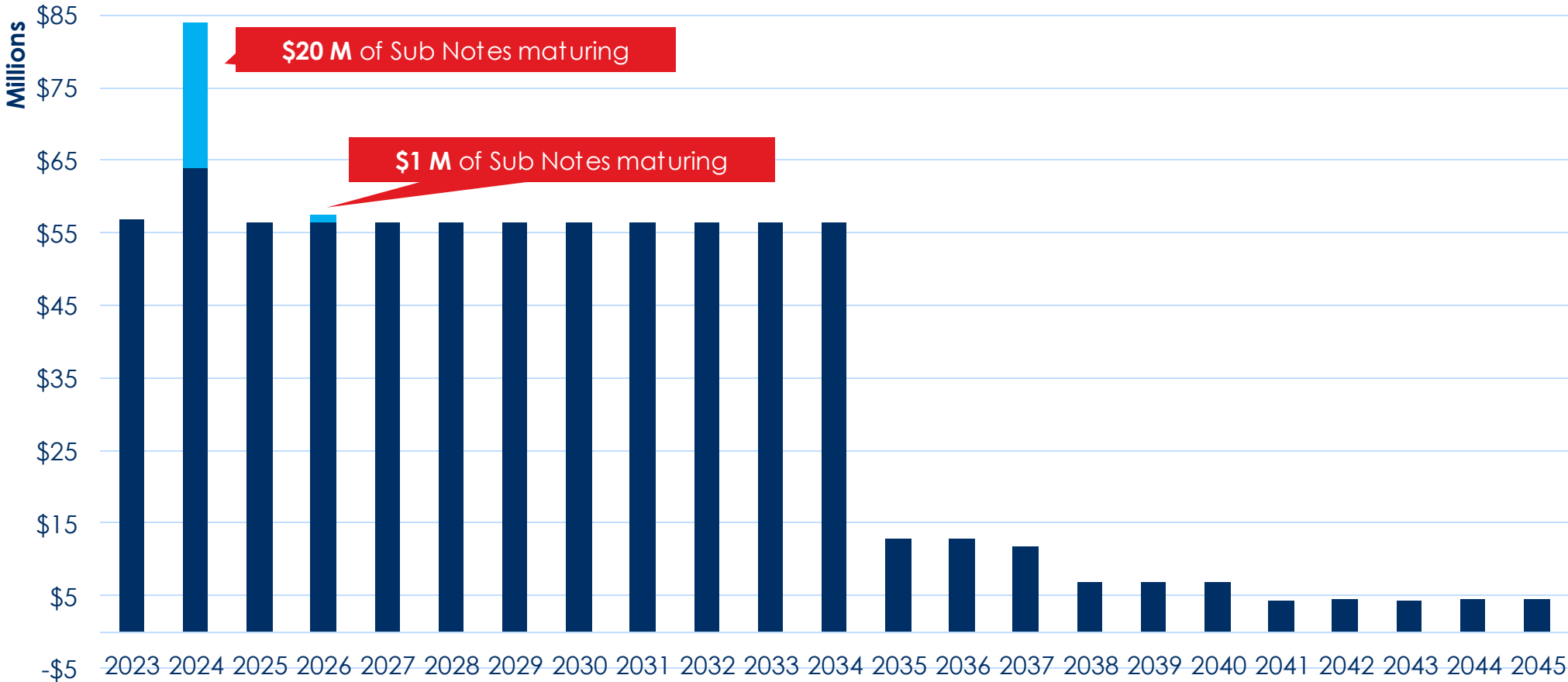


# 5-YR REVENUE FORECAST

## REVENUE STRESS TEST (000s)



# E. ANNUAL C&E AND HFC BOND DEBT SERVICE



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