

MINUTES

HOUSTON FIRST CORPORATION

BOARD OF DIRECTORS MEETING

October 22, 2020 – 3:00 P.M.

Live Video and Audio Conference Meeting

The Board of Directors ("Board") 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., held a meeting via Live Video and Audio Conference on Thursday, October 22, 2020, commencing at 3:00 p.m.

In accordance with the modified Texas Open Meetings Act provisions announced by Texas Governor Greg Abbott on March 16, 2020, this Agenda was posted for public information, at all times, for at least 72 hours preceding the scheduled time of the meeting online at <https://www.houstonfirst.com>.

The following Board members participated in the meeting: David Mincberg (Chair), Desrye Morgan (Co-Chair), Sofia Adrogué, Nicki Keenan, Reginald Martin, Ryan Martin, Alex Brennan-Martin, Bobby Singh, Tom Segesta, Jay Zeidman, Council Member Dave Martin, Ex-Officio, and Council Member David Robinson, Ex-Officio.

1. **Call to Order.** The Chairman called the meeting to order at 3:00 p.m. and a quorum was established, with all Board members virtually present.
2. **Public Comments.** Gino Herrera, President of EDH Plumbing Contractors, stated he has worked with the City of Houston and Houston First Corporation for over 30 years, and it has helped his business grow. He explained that he has worked as a trade partner at various HFC facilities and the staff is a great group of people to work with. He further explained that HFC staff is very responsive and takes care of businesses. He concluded his remarks by stating that despite the challenges with the pandemic, everyone will come out of it, and he thanked HFC for the opportunity.

David Mincberg thanked Mr. Herrera for his remarks and acknowledging HFC staff.

Mr. Herrera stated that staff goes above and beyond to help contractors succeed.
3. **Review and approval of minutes from prior meeting.** Following a motion duly seconded, the meeting minutes of October 1, 2020 were approved with a correction on page 9.
4. **Presentations and Reports.**

Before the Chairman gave his report, he asked Council Member David Robinson to provide an update on the City of Houston (City).

Council Member David Robinson stated things remain tenuous with the COVID-19 pandemic as the numbers continue to trend upward. The City continues to process COVID claims, he said, and the HFC Board and staff continue to creatively think through this crisis. He requested prayers for the City after attending the funeral of arson investigator and Houston firefighter, DJ Bruce and said he would attend a funeral next week for a Houston police officer and various others. Council Member Robinson stated that these are very trying times so close to the election with so many areas of contention for our country at large, at the state level, and locally. Council Member Robinson stated he shares the enthusiasm of Mr. Herrera regarding the hardworking and diligent staff at HFC. He also asked that the Board continues to hold up the City and those who are suffering and to work together to emerge just as safely and quickly as possible.

The Chairman thanked Council Member Robinson for his remarks. He also stated that we should bear in mind that many of our fellow countrymen have died due to COVID-19.

- A. Houston First Chairman Report. The Chairman said he has been working diligently and talking to HFC Acting President & CEO, Michael Heckman, on a regular basis. He stated that it is a challenging time for HFC and he is very appreciative of all Board members and staff working through these difficult times. The Chairman stated that HFC is experiencing the impact of the pandemic firsthand, but he is confident in the senior leadership and that of the HFC Board.
- B. HFC Acting President & CEO Report. Michael Heckman began his presentation with several updates followed by a preview of the 2021 business plan and budget. He announced that, as a result of previous discussion regarding HFC's cultural evolution in the face of the pandemic and a complete disruption of business operations, two working groups were formed to generate new ideas on revenue generation. The sessions, he explained, were very refreshing for the staff members that participated, and HFC now has a pipeline of ideas to carry into 2021 and future years. He also informed the Board that the process to gain approval from the Mayor's Office for events next year has gone well and he is working closely with Luther Villagomez. Additionally, he said that the Sales team is beginning to generate new leads for the latter half of 2021. He also informed the Board that a team member is in Orlando for a socially distanced industry event, which is a step in the right direction for future business opportunities. According to Mr. Heckman, the State of the City functions held by the Greater Houston Partnerships, including the Mayor's address was broadcast from the virtual studio at George R. Brown Convention Center (GRB), and an event with the Society of Petroleum Engineers will be held next week. He added that Mayor Turner has also asked HFC to lead an initiative to create a unified brand for Houston.

In November, Mr. Heckman stated, the HFC staff will bring forth the 2021 business plan and budget for consideration and possible approval. As HFC faces a lot of uncertainty, Mr. Heckman thought it was important to provide the Board with a preview. He explained that a presentation was previously made to the Benefits, Compensation, and Finance Committee and asked Committee Chair, Alex Brennan-Martin, if he had any comments.

Mr. Brennan-Martin stated that the Committee had a good conversation and, from the information presented, it will become clear that HFC is facing tough times, but the organization can make it with some discipline and tough choices. He also stated that staff is keenly aware and focused and he was pleased with the discussion overall.

Jay Zeidman explained that HFC must balance making the appropriate cuts while avoiding sending the company into a downward spiral. Mr. Zeidman further explained as the company looks to the latter half of 2021, there is a need for marketing and other services, but it is a tricky balance.

Michael Heckman then continued with his presentation and discussed the historic disruption of the tourism and convention industry. He noted that all of HFC's major revenue streams were severely impacted due to COVID-19, and staff do not anticipate business to return until the second half of 2021. Mr. Heckman then asked HFC Chief Financial Officer, Frank Wilson, to discuss the budget forecast.

Mr. Wilson informed the Board that a revised 2020 budget was approved in July that forecast a \$35.5 million deficit. The forecast has improved, he said, and reflects a \$25 million deficit through expenses reductions, managing the monthly burn rate, and FEMA reimbursements.

Mr. Heckman then discussed the importance of HFC's role as a destination marketing organization in creating value for its stakeholders and the Houston community. He informed the Board that the strategic plan should be viewed as a bridge between recovery and the 2021 budget. He explained that the 2021 strategic theme is "value creation" and all goals or KPIs will connect to one of five value drivers. He said that the 2021 budget will be the most difficult in the history of the organization to prepare due to a lack of revenues and visibility, and HFC must balance necessary budget cuts with strategic investments. He further explained that the 2021 budget should be seen as a transitional budget that will be normalized in 2022.

Frank Wilson explained that the budget will be designed in a way that most of the expenses are due in the latter half of the year; there will also be a rolling 12-month forecast and minimal capital expenditures. He also provided a high-level preliminary budget estimate to show the areas of discretionary funds compared to non-discretionary funds. He also shared some of HFC's fixed obligations that support the City's general fund.

Desrye Morgan asked when HFC's match contribution will expire. Mr. Wilson stated he believes that the obligation will expire in five-to-six years, but he will confirm.

Lastly, Mr. Wilson stated that the budget process during a dual health and economic crisis requires difficult choices to ensure the survival of HFC. Staff are planning in a volatile environment, he said, but HFC is committed to conservative stewardship of its assets and its stakeholders in the hospitality sector.

The Chairman thanked Mr. Heckman and Mr. Wilson for their report.

Mr. Brennan-Martin explained that, based on the preliminary budget estimate provided, much of HFC's expenditures simply cannot be addressed at this time. He further explained that he hopes the information will help everyone to focus on the reality that HFC is facing, and he supports staff's decision to differ expenses to the latter half of the year in 2021.

Tom Segesta thanked staff for the presentation and challenged them to review DMO expenses, especially from a long-term perspective, to focus on improving the overall health of the destination.

Council Member David Robinson asked if Mayor Pro-Tem, Council Member Dave Martin, had an update regarding HFC's debt service.

Council Member Martin stated that hotel occupancy will decrease going forward, because everyone is used to working in a virtual environment. He also believes that commercial property in downtown Houston is changed forever. He added that business travel will also change and explained that he was to attend a meeting in San Diego that was held virtually and went very well. He urged staff to keep an eye on debt service and personnel expenses and stated that, if HFC continues to move on its current path, it should make some additional cuts. He commented that he was disappointed that the Mayor would not allow HFC to extend its debt, but was happy that the Mayor approved the issuance of insurance proceeds due to HFC.

Desrye Morgan thanked Mr. Wilson and Mr. Heckman for their report. She also thanked them for their insight and forward thinking. She echoed the sentiments of Council Member Martin and stated that HFC may want to revisit restructuring in light of how well it has gone for the Houston Sports Authority.

- C. Executive Search Firm Update. Vice Chair, Desrye Morgan, gave the Executive Search Firm Update. She thanked Mr. Heckman for his leadership as Acting President & CEO and acknowledged the challenging time for the organization. She announced that HFC is moving forward with the search for an executive search firm to find a permanent President & CEO. She noted that HFC received a total of 36 proposals and the selection committee has reviewed 24 of the 36 proposals received. The selection committee, she added, will meet next week to review the remaining proposals. Ms. Morgan said that they anticipate conducting interviews with the top five firms before Thanksgiving, expect to make the selection by December, and enter into an engagement by January 2021. Most executive search firms, she explained, anticipate that the process for selecting a candidate for President & CEO will take several months.

Council Member Dave Martin asked who was on the selection committee. Ms. Morgan stated herself, Adrian Patterson, former Council Member Ellen Cohen, Irma Diaz, and Hasu Patel.

The Chairman thanked the Vice Chair for her efforts in overseeing the selection process.

5. Board Business

A. *Consideration and possible approval of the Houston First 2019 Annual Financial Audit.*

Frank Wilson introduced Deputy Controller, Karen Tang, to provide an overview of the 2019 financial audit. He thanked Ms. Tang for her work along with other members of the Finance team. He explained that Ms. Tang was an intern at KPMG for a year and earned a Masters of Accounting from the University of Houston and is a CPA. He added that she previously worked at Houston Metro for eight years before coming to HFC.

Ms. Tang began her presentation by announcing that HFC's net position increased by \$99 million over 2018 and total liabilities increased by \$20 million over 2018. She added that HFC's net profit was \$79 million and the reason for this large increase is related to transfers from the City of Houston, FEMA, and insurance proceeds. She also provided highlights on HFC's revenue fluctuations. She then introduced Joel Perez of RSM.

Mr. Joel Perez thanked everyone for the opportunity to work as an audit partner with HFC and informed the Board that he served as the audit leader for the engagement. He also recognized his audit team and Tom Rourick, Managing Partner of the Houston office. He then asked Mr. Rourick to share a few words.

Mr. Rourick thanked the Board for the opportunity to partner with HFC and explained that he was participating in the meeting in support of the RSM audit team.

Mr. Perez then moved forward with his report. He explained RSM's responsibilities during the audit process, which include an assessment of internal controls, accounting principles, and the issuance of an opinion. According to Mr. Perez, RSM has issued an unmodified opinion and HFC has a clean bill of health. He also stated that there are no reportable deficiencies. He then introduced Margie Oyedepo of RSM to discuss the required communications.

Ms. Oyedepo thanked the Board and stated it was a pleasure to work with the HFC team. Ms. Oyedepo then discussed several key matters, including HFC's accounting policies and practices, audit adjustments, and uncorrected misstatements, confirming that HFC had none. He said there were no disagreements during the audit process with HFC staff, nor did RSM uncover any significant issues. Ms. Oyedepo also explained that RSM is required to complete an estimate based on the depreciable life of property and equipment and found the estimates provided by management to be reasonable.

Mr. Perez then introduced Stephen Yoe of Yoe CPA, LLC to discuss his role as a subcontractor working with RSM.

Stephen Yoe stated that he is the owner of Yoe CPA firm, which is a registered small minority-owned enterprise. He said that he and his partner had the opportunity to work with the RSM team to conduct HFC's 2019 financial audit and, although there was a quick turnaround, the two firms worked together very well. Mr. Yoe stated that he worked seamlessly with the RSM team and that they shared a wealth of guidance and knowledge. He also thanked RSM and HFC for giving

him the opportunity to participate in the audit engagement. He concluded his remarks by stating that participating in the audit process has helped his firm to prosper.

Mr. Perez concluded his presentation by thanking HFC for the opportunity and the confidence placed in RSM. He said that HFC is a large organization with diverse operations and revenue streams and, combined with a non-routine year highlighted by COVID-19, a substantial remote work environment, and compressed timeline, it made for a unique challenge. However, he concluded, the commitment of both HFC and RSM to facilitate the success of the audit was key.

The Chairman thanked the RSM team and Mr. Yoe for his remarks. He also recognized Frank Wilson and the finance team and who was able to complete the audit in a compressed timeline.

Following a motion duly seconded, the Houston First 2019 Annual Financial Audit was approved unanimously.

Bobby Singh recognized Mr. Wilson and the finance team for getting HFC to the finish line as well as the RSM team for their efforts.

B. Consideration and possible approval of an Operations and Maintenance Services Agreement with TDI Industries, Inc.

Mitch Miskowski, Purchasing Agent, provided an overview of the solicitation process for an operations and maintenance services contractor. He explained that HFC previously issued a solicitation for operations and maintenance services in January 2020; however, HFC only received two proposals and made the decision to issue a new solicitation in August 2020. Mr. Miskowski said a total of 47 participants attended the virtual pre-bid meeting and that the solicitation was advertised for two weeks in various publications including the Houston Business Journal. Mr. Miskowski also outlined the selection criteria and the possible total number of points awarded. He said that the selection committee was comprised of HFC staff and two outside representatives from BBVA Compass Stadium and NRG Park.

Mr. Miskowski said HFC received four proposals and that all proposers were interviewed virtually by the selection committee. He announced that the proposer that earned the highest score was TDI Industries, Inc. (TDI). He added that TDI received the maximum score for diversity participation and finished 1st or tied for 1st in 6 out of 7 categories. He noted that the management fee for the first year of the agreement and reviewed several scores and pricing received from other proposers. Mr. Miskowski stated that TDI is the recommendation of the selection committee and the incumbent proposer. He concluded his presentation by discussing TDI's commitment to diversity participation.

Reginald Martin explained that the Operations Committee had a good discussion on this item and thanked Mr. Miskowski, John Gonzalez, and Frank Wilson for the work they did on the procurement. The Committee, he added, did express some concerns regarding minority spend, but he is glad to see the work Roger Harris has done to ensure contracts such as this are not segmented out. He

informed the Board that, under the new contract, HFC will ensure that diversity spend applies to the entire contract. He also explained that one Board member, Bobby Singh, challenged the staff to put incentives in place to monitor minority spend on an annual basis. Mr. Martin stated he was happy with the feedback received from staff and supports moving forward with the recommendation.

Bobby Singh echoed Mr. Martin's comments. He explained that there were several questions at the Committee meeting and staff followed up with a response. He also stated that a lot of due diligence went into the decision to ensure a better outcome for small businesses.

Following a motion duly seconded, an Operations and Maintenance Services Agreement with TDIndustries, Inc. was approved unanimously.

- C. *Consideration and possible approval of (i) a Lease Agreement between the City of Houston, as Landlord, and Houston First Corporation, as Tenant, for approximately 2.4668 acres of land at Hermann Park and (ii) a Sublease between Houston First Corporation, as Sublessor, and the Hermann Park Conservancy, as Sublessee, for the subject land to facilitate the renovation and restoration of the historic golf clubhouse building for continued operations of such facility.*

Reginald Martin stated that the Operations Committee reviewed the item and he will defer to General Counsel to provide addition information as the request does include two parts; however, he expressed confidence that the obligation HFC has been asked to enter into is positive for the City, Hermann Park Conservancy, and HFC's budget.

The Chairman then asked Lisa Hargrove, HFC General Counsel, to provide an overview of the item followed by Doreen Stoller of the Hermann Park Conservancy (HPC).

Ms. Hargrove confirmed that the item does include two parts; the first is a lease agreement from the City to HFC under which HFC is the tenant under the lease of a small acreage of land inclusive of the historic golf clubhouse at Hermann Park. The second component, she explained, is a sublease of the same acreage of land from HFC to the HPC. HFC is acting as an intermediary in the transaction, she explained, and has been asked by the City to get involved because HPC wants to use historic tax credits to complete the renovation project. In order to do so, according to Ms. Hargrove, they must hold a leasehold interest in the property for a term longer than 30 years; however, the City's Charter will only allow the City to enter into an agreement that exceeds 30 years with a public entity such as HFC.

She noted that the clubhouse is currently being renovated by HPC with private funding and some funds provided by the City for infrastructure. Upon completion, she said, the golf clubhouse will be operated at no expense to HFC and available for rent to the public. Ms. Hargrove said the provisions of the lease agreement between the City and HFC mirror those of the sublease between HFC and HPC and, in the event of any default under the sublease, HFC may terminate its lease with the City. Ms. Hargrove informed the Board that the transaction was thoroughly vetted by the Operations Committee and approved unanimously. She then introduced the President of HPC, Doreen Stoller and noted that Mary Buzak of the

City Legal Department and Lucy Correa of the City Parks and Recreation Department were in attendance and available to answer any questions.

Ms. Doreen Stoller thanked HFC for its participation. She explained that municipalities are not permitted to participate in the tax credit program, although their partners can. She added that, while it has taken some time for the agreements to move through the City Legal Department and HFC, it will add to the City's inventory of historic buildings. She noted that HPC will be eligible for state tax credits up to 25% of the construction cost for the renovation project and 20% of federal credits.

Ms. Hargrove then asked the Vice Chair and Chair of the Operations Committee to provide any comments.

The Vice Chair commented that the renovation project is interesting and added that the Committee discussed accessibility of the golf clubhouse and rental fees. She stated that she supports the recommendation and confirmed that there is no cost to HFC in the transaction.

Council Member Dave Martin asked if the tax credit program discussed would compete with tax credits Council Members may use to complete housing projects.

Ms. Stoller replied that the project will not impact any allocation of tax credits to the City and that the tax credits for the renovation are related to state and federal programs run by the National Park Service and the Texas Historical Commission.

Council Member Robinson stated he serves on the advisory board for HPC and the project has been a long time in the making. He explained that he is very excited for Hermann Park and the adjacent facilities. He added that Ms. Stoller is scrutinizing the design, which is of the highest caliber, and the beautiful and historic building is going to be brought back to its former glory. Council Member Robinson stated while a non-voting member of the Board, he is enthusiastically in support of the recommendation.

Chairman Minberg thanked City Legal and Lisa Hargrove. He stated that Ms. Stoller contacted him nine months ago and all parties involved have moved through the process expeditiously. Hermann Park, he added, is a jewel for the City of Houston and has one of the most outstanding people in terms of her capability and commitment to the transformation at Hermann Park. He said that Ms. Stoller has worked hard to make the park the kind of place that is warm and welcoming to all Houstonians from all walks of life. The Chairman then thanked Ms. Stoller on behalf of HFC and the City of Houston.

Ms. Stoller thanked the Chairman and stated that she is happy to give anyone a walking tour of Hermann Park.

Following a motion duly seconded, (i) a Lease Agreement between the City of Houston, as Landlord, and Houston First Corporation, as Tenant, for approximately 2.4668 acres of land at Hermann Park and (ii) a Sublease between Houston First Corporation, as Sublessor, and the Hermann Park Conservancy, as Sublessee, for the subject land to facilitate the renovation and restoration of the

historic golf clubhouse building for continued operations of such facility was approved unanimously.

6. **Adjournment.** The meeting was adjourned at 4:29 p.m.