

# AGENDA

## HOUSTON FIRST CORPORATION

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**BENEFITS, COMPENSATION, AND FINANCE COMMITTEE**

**September 29, 2020 – 10:00 A.M.**

**Live Video and Audio Conference Meeting**

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**Passcode: 762331**

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**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, this Agenda is 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>.*

*Any questions regarding this Agenda, 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 – June 12, 2020**
- IV. Presentations, Reports, and Updates**
  - A. Chief Financial Officer Update
- V. Committee Business**
  - A. Consideration and possible approval of the Houston First 2019 Annual Financial Audit.
  - B. Consideration and possible authorization of the implementation of a Houston First Corporation Board of Director's online Message Board.
- VI. Adjournment**

**III. Minutes – June 12, 2020**

# MINUTES

## HOUSTON FIRST CORPORATION

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

**June 12, 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, June 12, 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>.*

*The following Committee Members were present for the meeting: Alex Brennan-Martin (Chair), Jay Zeidman (Co-Chair), David Minberg, Reginald Martin, Sofia Adrogué, John Johnson, and Council Member Dave Martin.*

The Chairman of the Committee called the meeting to order at 10:00 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 May 21, 2020 were unanimously approved as presented.
- III. **Presentations, Reports, and Updates**
  - A. **Chief Financial Officer Update.** Mr. Frank Wilson began his report with several recent updates. Mr. Wilson informed the Committee that HFC submitted a request for COVID-19 relief funds to the City of Houston (City) and participated in a challenge meeting. The City has decided to make available \$2 million for capital improvements, including touchless bathroom features at Jones Hall, Wortham Theater, and Miller Outdoor Theatre, as well as other equipment and PPE. Funds will also be used for an environmental firm to clean facilities if a positive case of COVID-19 is confirmed. HFC has also begun the procurement process for the purchase of equipment and supplies needed to welcome guests back to HFC facilities, including thermal cameras. John Gonzalez, Sr. VP of Operations, provided a sample of the technology and a video was shot by the HR team to show how the technology works and can be used to complete temperature checks of up to 100 people per minute. Additionally, HFC ordered some electronic spray misters to clean and sanitize the facilities. Mr. Wilson also discussed additional modifications to the CARES Act that have extended the use of Paycheck Protection Program (PPP) funds from eight weeks to twenty-four weeks. This change will allow HFC to completely expend the entire \$4.2 million

forgivable loan in ten weeks. Mr. Wilson was also happy to report that the IT Department performed an enterprise reporting program upgrade for the accounting section ahead of schedule and below budget. Mr. Wilson thanked Controller, Stephany Bland, and Tim Smith, Director of IT, and his team for completing the project before the end of the year. For his final update, he informed the Committee that HFC's diversity partner, 7<sup>th</sup> Echelon LLC, the sub-contractor to JLL for the Hilton guestroom renovation, received a \$10,000 grant from Hilton Corporation from the Hilton Supply Management's Diversity Advancement Fund.

Mr. Wilson then discussed HFC's financials. Second quarter hotel occupancy tax (HOT) collections are complete and year-to-date revenues are approximately \$40 million. Due to strong collections in the months of January and February, HFC is just \$6 million or 13% below budget. However, HFC continues to project HOT collections for the year could fall 50% short of the 2020 approved budget of \$93 million. Hilton net cash to HFC through May is \$10 million below budget, but the hotel has a strong book of group business through the fall. HFC also hopes there will be a realization of pent up demand from regional and drive markets. Just yesterday, the Hilton hosted its first banquet style luncheon for 200 people with the new social distancing protocols in place and the event went very well. Other major revenues continue to struggle during May while all HFC facilities remain closed. None of the facilities earned food and beverage revenues and fall \$2.3 million below budget year-to-date through the end of May. Parking revenues are \$4.4 million below budget and GRB facility rentals are \$1.5 million below budget. All major expenses are at or below budget through May.

Mr. Wilson also provided an update on HFC's outstanding debt. Previously he discussed the successful extension of the \$125 million loan at the Hilton. Since March, HFC has \$20 million in subordinate notes outstanding and an additional \$592 million of HOT and parking secured bonds. With regard to the Hurricane Harvey recovery project, most of the invoices have been paid, except for a few invoices related to mitigation design work. HFC has received \$103.9 million in FEMA proceeds to-date and most of the proceeds have been used to pay down debt related to the project or to replenish HFC's reserves. Since the beginning of 2020, HFC has made draws from and additions to cash reserves, leaving \$20 million in emergency reserves and \$26.6 million in cash reserves, in addition to bond reserves.

To provide further prospective of the impact of COVID-19, Mr. Wilson shared HFC's value proposition to the City, which reflects losses in HOT revenues due to cancelled meetings and conventions beginning in early March 2020 through December 2020. In total, these cancellations reflect a loss of 261,000 room nights, not including the impact of the early closure of the Houston Rodeo and cancellation of the NCAA regional playoffs. These figures reflect a \$2.6 million loss in HOT and an overall loss of \$183 million in economic impact to the City of Houston.

Mr. Wilson then continued his report with HFC's budget forecast. According to Cindy Decker, VP of Market Strategy, the HOT forecast in the third quarter of 2020 will be \$4.5 million, compared to the \$23 million budgeted by HFC. For the fourth quarter, Ms. Decker assumes there will be \$6.5 million in HOT collections. The first quarter of 2021 also reflects a challenging time for HFC with \$9.6 million in HOT collections. The second quarter will also be a challenge, but by third and fourth quarter 2021, Ms. Decker has forecast a recovery back to previous levels of HOT collections. Mr. Wilson also presented a forecast of HOT collections and Hilton net cash prepared by Dr. Phil Scheps. Both Dr. Scheps and

Ms. Decker have similar forecast for HOT collections through 2021, but Dr. Scheps forecast runs through 2023. Dr. Scheps forecast for Hilton net cash is similar to HOT collections and reflects a slow return to pre-pandemic levels in four years.

Council Member Dave Martin requested that the year-over-year comparison include 2019 as well. The Committee Chair also asked that the information be circulated to the Committee.

Sofia Adrogué acknowledged Council Member Dave Martin, Mayor Pro-Tem for his service. She also asked Mr. Wilson for further clarification on the allocation of COVID-19 relief funds from the City. Mr. Wilson explained that the information provided to the Committee had been updated prior to the meeting. He confirmed that the City has allocated approximately \$2 million and is considering the release of additional funds, however, HFC will not receive the \$6.2 million originally requested.

- B. Human Resources Update. [This item was taken out of order and discussed at the conclusion of Item IV]. Frank Wilson provided the Human Resources Update on behalf of Tim Moyer, Human Resources Director. Mr. Wilson stated he is very proud with employee participation for the on-line unconscious bias training at 92%. Additional unconscious bias training or micro-lessons will begin in July. The next on-line training will be on ethics and compliance and will serve as a thirty-five-minute interactive training to supplement HFC's revised Code of Conduct. A training video regarding return to work protocols was shot yesterday at Partnership Tower and HFC hopes to welcome employees back to the office after Labor Day. A contact tracing system has already been rolled out and Mr. Wilson explained that he has to complete a health survey every morning before entering the office.

Alex Brennan-Martin commented that the Texas Restaurant Association and Texas Department of Health have implemented similar measures at restaurants and they appear to be working. However, there have been some restaurants that have had to close temporarily due to an employee testing positive for COVID-19. He predicts all business will be impacted at some point.

#### **IV. Committee Business.**

- A. Consideration and possible recommendation of an External Audit Services Agreement with RSM US LLP.

Mr. Frank Wilson discussed the goals and objectives of the External Audit Services RFQ. He also discussed the solicitation process, advertisements, selection criteria, and the selection committee. HFC received eight statements of qualifications and conducted virtual interviews with the top three firms with the highest scores, RSM US LLP, BKD LLP, and Deloitte & Touche LLP. The firm that received the highest score was RSM US LLP with 325 points out of 390 points. BKD received the second highest score with 318 points and Deloitte received 300 points. Mr. Wilson then provided some background information on the firm selected, including its experience with the public sector and hospitality industry such as the Austin Convention Center. The total fees under the contract will not exceed \$184,328 per year, which is lower than the fees charged by Deloitte last year. RSM US LLP has also committed to meet and/or exceed a 30% diversity goal. Mr. Wilson also provided the names and photos of RSM team members and identified two individuals that have prior experience working with HFC.

Council Member Dave Martin asked for the fees provided by the other top firms. Mr. Wilson explained that the solicitation is an RFQ so HFC only negotiated fees with the firm selected. As a data point, he also stated last year HFC paid Deloitte fees in the amount of \$186,750 for External Audit Services.

Council Member Dave Martin made a motion for discussion that was seconded by Sofia Adrogué.

Jay Zeidman asked if Barry Margolis was the head of RSM US LLP. Mr. Wilson stated he could not confirm that information. Mr. Zeidman further stated that he had some familiarity with Mr. Margolis's participation in the community. He also added that the firm's diversity participation is satisfactory. There was further discussion on the principals of RSM US LLP and Yoe CPA.

Sofia Adrogué asked if the solicitation was also advertised with the Houston Hispanic Chamber. Mr. Wilson confirmed that the RFQ was advertised with the Houston Hispanic Chamber, Indo-American Chamber and the Women's Business Enterprise Alliance. Ms. Adrogué also recommended that staff work with the Greater Houston Women's Chamber of Commerce for future solicitations.

There was further discussion about the work previously completed by Deloitte. Council Member Martin stated he's an advocate of thought leadership and while working with the Houston Sports Authority found that Deloitte did not present any new ideas. Frank Wilson stated he was pleased with their audit of HFC, but was told their presentation included a lot of boiler-plate language, whereas RSM appeared enthusiastic about doing business with HFC.

Council Member Martin asked Brenda Bazan if there had been any opposition to HFC's selection. Ms. Bazan stated there have been discussions, but the HFC Procurement Manual includes a provision for protest procedures, which to her knowledge have not been exercised. Council Member Martin also asked if staff has communicated with Gerald Womack as Chair of the Procurement Committee in order to avoid similar issues addressed with Griffin Partners. Frank Wilson stated he has not contacted Mr. Womack at this time.

There was further discussion on potential issues with staff's recommendation and failure to communicate with the Procurement Chair. Frank Wilson clarified that due to HFC's consolidated financials with the Hilton, its objective was to hire a firm with hotel experience and firms that did not have that experience did not score as high.

Reginald Martin stated what's most important to him is perception and finding the best partner at the best price. Mr. Martin further explained even though HFC followed the procurement process, it is important that HFC states its objectives clearly in relation to criteria and scoring. He also stated it's difficult to know if we got the best price if we only negotiated with one firm.

Lisa Hargrove, HFC General Counsel, explained that the RFQ process is governed by state statute. Per statute, the RFQ process will not allow an entity to request pricing up front. Then you must rank the top firms by their qualifications as you deem most important and are only allowed to request pricing from the top-ranked proposer. If you do not select

the top-ranked proposer, you may move on to the second-ranked proposer, but you may not go back to the first. Mr. Martin stated he appreciated being educated on the process and the technical aspects of the solicitation, but the Committee deals with the political so it is important that staff does a better job of reconciling the two.

Mr. Wilson stated he would be happy to speak with Mr. Womack and agreed with many of the comments made by Committee members. He also asked that Committee members help protect the integrity of the procurement process.

Council Member Dave Martin amended the motion for recommendation of an External Audit Agreement with RSM US LLP and requested that staff have additional discussion with the Procurement Chair prior to the Board meeting. The motion was duly seconded by Sofia Adrogué and passed unanimously.

**B. Consideration and possible recommendation of a revised 2020 budget for Houston First Corporation.**

As a reminder, Mr. Wilson informed the Committee that department heads have made reductions to their respective budgets since 2018. He explained that the revised 2020 budget will have even more significant budget cuts due to the impact of the pandemic. HFC has a significant deficit of revenues for the year-end, but does not anticipate difficulty making any debt service payments in 2020 or 2021. Staff is proposing a calendar year 2020 budget of \$103.5 million in total revenues compared to the approximately \$200 million in revenues approved by the HFC Board and \$139 million in total expenses in response to the pandemic. This will leave HFC with a \$35 million deficit that will be covered by bank borrowings and reserves. Mr. Wilson stated this year will be HFC's most challenging and they have made sever reductions in the budget in order to ensure survival. This will require significant change and a wholesale reset of the entire organization. Operating revenues are projected to go down \$66 million in 2020 and operating expenses are projected to go down \$39 million. Non-operating revenues are projected to be down \$28 million due to HOT and non-operating expenses are projected to be down \$18.9 million due to a reduction in financial obligations to the City.

John Johnson stated it would be helpful to see what percentage of the proposed budget has been achieved and Mr. Wilson accessed the report for further review.

Alex Brennan-Martin stated that this is a bitter pill to swallow, but it is often better to look at the operating expenses line versus the debt service line.

Sofia Adrogué echoed the sentiments of the Committee Chair and stated she is having a hard time getting past the personnel number and what that will ultimately entail.

The motion for recommendation of a revised 2020 budget for Houston First Corporation was approved unanimously. David Mincberg was not present for the vote.

**V. Adjournment.** The meeting was adjourned at 11:08 a.m.

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

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

**DESCRIPTION:** Houston First Corporation (the “Corporation”) entered into an External Audit Services Agreement with RSM US LLP to conduct the year-end audit of the Corporation’s consolidated financials for the year ending December 31, 2019. Staff now requests Board approval of the audit as presented.

**RESOLVED,** that the Board of Directors hereby approves the Houston First 2019 Annual Financial Audit.

**V. (B) Consideration and possible authorization of the implementation of a Houston First Corporation Board of Director's online Message Board.**