

MINUTES

HOUSTON FIRST CORPORATION

Hotel Committee
September 5, 2018 – 12:00 P.M.
Hilton Americas-Houston, Room 346
1600 Lamar Street, Houston, Texas 77010

The Hotel 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 the Hilton Americas-Houston, 1600 Lamar Street, Room 346, Houston, Harris County, Texas, 77010, on Wednesday, September 5, 2018, commencing at 12:00 p.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 Hotel Committee members were present for the meeting: David Solomon (Chair), David Mincberg, and George DeMontrond.

The Chairman of the Committee called the meeting to order at 12:10 p.m. and a quorum was established.

1. **Public Comments.** None.
2. **Review and approval of minutes from prior meeting.** After a motion duly seconded, the meeting minutes of February 14, 2018 and July 30, 2018 were approved as presented.
3. **Presentations and Reports.**
 - A. **Houston First Report.** Peter McStravick, Chief Development Officer, explained that a Policy Regarding Convention Services Agreements (the "Policy") was implemented several years ago to encourage new hotel development that would support the convention business (providing for room blocks), create active block faces, and provide incentives for hotel developers. With the Policy in place over 3,000 hotel rooms have been created in the downtown area.

In 2017, the HFC Board made a decision that the Policy would be put on hiatus to allow the new supply of hotel rooms to be absorbed into the market and evaluate if HFC should continue to encourage the development of hotels in the central business district or be more strategic about future hotel development in promoting large hotels that support convention business.

Mike Waterman, President & CEO of Greater Houston Convention & Visitors Bureau, explained that in order for Houston to compete with other large cities it was important to create a more compact package surrounding the George R. Brown Convention Center ("GRB") and supported development of larger hotels near the GRB.

HFC staff will make a recommendation in October to review the Policy and possibly narrow its scope for the development of 700+ room hotels. A number of small hotels have already expressed interest.

David Minberg, Chair suggested HFC revise the Policy to clearly outline HFC's interest in the development of one or more large hotels that connect to the GRB.

Rob Jackson, Chief Policy Officer, discussed a newsletter circulated by the Texas State Comptroller's Office called "Fiscal Notes." In short, the newsletter contained an unfavorable article on convention centers. While similar articles have been circulated in years past, HFC should duly note the increased attention by both state and local governments regarding hotel occupancy tax (HOT) revenues and incentives.

Mike Waterman went on to discuss the Fiscal Notes and explained that HFC needed incentives to fund another 1,000-room hotel.

David Solomon asked if there would be legislation in the upcoming session to limit or eliminate incentives to hotels in proximity to convention centers. Rob Jackson stated that may be an item for discussion.

Peter McStravick advised that Stephen Jacobs of Locke Lord anticipates having a new draft of the Development Agreement for the Partnership Tower Hotel project prepared by the end of September. Peter does not anticipate that the legislature will take issue with this proposed development, but there will be increased attention due to the project.

- B. Hilton Americas-Houston General Manager Report. Jacques D'Rovencourt, General Manager of the Hilton Americas-Houston Hotel ("Hotel") gave a very positive General Manager Report.

Total (gross) revenue is up almost \$10,000,000 due to an increase in transient business, improved group pick up and stronger local catering than expected. ADR is down slightly, but the volume has increased due to the Astros, Rockets, Hi-Tech, and a number of concerts at Toyota Center. Visitors are finding that there is a lot more to do in downtown Houston.

Group food and beverage sales at the Hotel have been very strong due to large programs and the sales numbers for local catering have increased, as well as growth in parking revenues.

This is the first full year of using the new labor management program, which has drastically reduced labor costs.

David Solomon thanked Jacques for his hard work and dedication, despite some of the hardships HFC has faced this year. He asked if the Hotel had been unable to complete certain projects and whether HFC should focus its attention on not falling even further behind. Jacques stated that some preventative maintenance has been completed, but the renovation of the ballrooms were being finished in phases.

Hotel occupancy is also up five percent with an average rate of \$180 per night. There has also been an increase in daily sellouts at the Hotel.

In comparison to the Marriott Marquis, the Hotel is more stabilized and the ability to show the new model rooms for 2020 has really helped.

Mike Waterman explained while many guests go to the Marriott for the Texas-themed pool, a lot of guests would rather stay at another hotel and spend their dollars in the new and improved downtown Houston. The mindset of Houston as a stay-cation has shifted as seen in great articles like the recent article in GQ Magazine.

George DeMontrond asked if all the increase in the number of restaurants and changes to the downtown area had negatively impacted business in other parts of Houston. Mike Waterman attributed a lot of those changes to the aftermath of Hurricane Harvey.

The Houston Chronicle named Hilton Americas-Houston a top place to work three years in a row and the Hotel is also ranked #1 in Hilton's Big Box Ranking of Guest Satisfaction Scores for 2018.

C. Hilton Americas-Houston Sales and Marketing Report.

Jacques continued by presenting the sales numbers for the Hotel. There has been an increase in group room nights and booking position in 2018. The pace looks good moving forward.

The total budget for the Hotel room renovation is \$37,000,000. This includes base scope such as carpet, wall paper, paint, new furniture, beds, etc. and additional scope for items such as tub to shower conversion, new toilets, etc.

David Solomon asked if the Hotel would remain competitive having only completed the base services. There was further discussion of the need for additional services and aesthetic appeal.

Peter McStravick stated that in order for the Hotel to move forward and begin soliciting bids for the project, the Committee was being asked to approve the

parameters for a not-to-exceed budget of \$37 million and to approve partial funding of \$5 million in 2018 to allow orders to be placed for long lead items such as carpet, wallpaper, fabrics and tile.

David Minberg asked about cash flow. Frank Wilson stated that HFC hopes to receive 75-80% reimbursement from FEMA in the next five years and there is also some bond capacity.

Frank Wilson reported that he had received a refreshed term sheet from Regions Bank for \$50,000,000 with terms and conditions similar to what HFC has previously accepted.

The Committee discussed bookings with the room renovation and displacement.

The presentation concluded with a video filmed in the Hotel that is being used as a global advertisement for the Hilton brand.

- D. Asset Manager Report-Jones Lang LaSalle. Tom Reifert of Jones Lang LaSalle participated via conference call to give his report. The Total Revenues for the Hotel will exceed budget by over \$9,000,000 due to transient room sales and food and beverage sales.

This time last year, the budgeting process was more challenging because the Hotel was down six percent in revenues. There was also a lot of uncertainty with the oil and gas industry and overall economy. Experts projected growth to decline, but the Hotel has exceeded 2018's budget.

The Marriott Marquis is up six percent year-over-year over budget while the Hotel is up ten percent. Everything is going in the right direction as 2018 has become the third highest revenue year for the Hotel.

Experts predict growth at a rate of 2.5% within industry and approximately 2.1% growth within Houston. Overall, the Hotel is performing well due to the hard work of Jacques and his team.

Peter McStravick announced that the contract with Jones Lang LaSalle expires December 2018 and that a request for proposals was going out for a Hotel Asset Manager.

4. **Committee Business**. [Item 4A was taken out of turn].

- A. Consideration of and possible acceptance of design parameters for the 2019 Hilton Americas-Houston Hotel capital plan for the guest room renovation project.

A motion was made for acceptance of the design parameters for the 2019 Hilton Americas-Houston Hotel capital plan for the guest room renovation project. The motion passed unanimously.

5. **Adjournment**. The meeting was adjourned at 1:16 p.m.