

AGENDA

HOUSTON FIRST CORPORATION

BOARD OF DIRECTORS MEETING

June 22, 2023 – 3:00 P.M.

Partnership Tower, 701 Avenida de las Americas, Suite 200

Houston, Texas 77010

HOUSTON FIRST BOARD ROOM

BOARD MEMBERS:

David Mincberg (Chair), Desrye Morgan (Vice-Chair), Sofia Adrogué, Elizabeth Brock, Nicki Keenan, Reginald Martin, Ryan Martin, Alex Brennan-Martin, Paul Puente, Bobby Singh, Tom Segesta, Gerald Womack, Jay Zeidman, Mayor Pro-Tem Dave Martin, Ex-officio, Council Member Robert Gallegos, Ex-officio

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

Code of Business Conduct and Ethics – As a reminder, under Houston First Corporation's Code of Business Conduct and Ethics Policy, if you have a potential conflict of interest that you have not previously disclosed relating to a transaction or arrangement being discussed or voted on, you should notify the Chair and refrain from voting on the transaction or arrangement and recuse yourself from the discussion on the matter at hand. You should have received a copy of the Policy, but if not, let us know and we will provide one for you.

- I. Call to Order**
- II. Public Comments**
- III. Minutes – May 25, 2023**
- IV. Presentations, Reports, and Updates**
 - A. Houston First Chairman's Report
 - B. Houston First President & CEO's Report

V. Board Business

- A. Consideration and possible approval of the Houston First 2022 Annual Financial Audit.

- B. Consideration and possible approval of a Commercial Waste Removal and Recycling Services Agreement between Houston First Corporation and Republic Services of Houston.

VI. Adjourn

III. – Minutes – May 25, 2023

MINUTES

HOUSTON FIRST CORPORATION

BOARD OF DIRECTORS MEETING

May 25, 2023 – 3:00 P.M.

Partnership Tower, 701 Avenida de las Americas, Suite 200

Houston, Texas 77010

HOUSTON FIRST BOARD ROOM

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 at Partnership Tower, 701 Avenida de las Americas, Suite 200, Houston, Harris County, Texas 77010 on Thursday, May 25, 2023, commencing at 3:00 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 Board Members participated in the meeting: David Mincberg (Chair), Desrye Morgan (Vice-Chair), Sofia Adrogué, Alex Brennan-Martin, Reginald Martin, Ryan Martin, Gerald Womack, Council Member Robert Gallegos

I. **Call to Order.** The Chairman of the Board called the meeting to order at 3:05 p.m. A quorum was established at 3:16 p.m. upon the arrival of Sofia Adrogué, Board Member.

II. **Public Comments.**

Willy Gonzalez, of Unite Here-Houston (“Unite Here”), explained that he represented workers in Hilton Americas Hotel (“Hilton”) and Marriott Marquis (“Marriott”). Mr. Gonzalez reminded the Board that the pandemic impacted the hospitality industry the hardest and described that Unite Here worked with employees at Hilton, Marriott, and Levy at the George R. Brown Convention Center (“GRB”) during and after the pandemic. He noted that he was attending the meeting to address health insurance concerns. He reported that he attempted to communicate with Hilton to ensure workers would retain their health insurance, but Hilton did not respond. According to Mr. Gonzalez, Hilton could amend its agreement to address his health insurance issues.

Jose Luis Piedra, a Hilton employee, stated that he worked for Hilton for 18 years. Mr. Piedra continued that previously, he was stressed due to the uncertainty of his insurance status when seeking medical care. According to Mr. Piedra, medical facilities asked him if he was insured, but his inconsistent insurance status caused anxiety. Mr. Piedra noted that he planned to visit cardiologists and lung specialists through July 2023, but was unsure if he would be insured. He added that he did not have health insurance issues before the pandemic, and he and his coworkers sought assistance.

Oscar Galvez, a Hilton employee, said he worked for Hilton for 11 years and wished to communicate his health insurance concerns. He provided that during Hilton's busy work periods, he and his coworkers work 14 to 15-hour days; however, during Hilton's slow periods, there was not enough work to qualify for health insurance. Mr. Galvez explained how his hands, shoulders, and back would become numb and how he was concerned about not having health insurance. He said he and his coworkers attended the meeting because they enjoyed their jobs and were proud to serve. However, he and his coworkers seek Hilton to recognize their concerns.

Niorca Perez, a Hilton employee, stated that she worked for Hilton for 20 years and received a bypass in 2014 due to a severe medical condition. Ms. Perez also indicated that her diabetes and progressive kidney failure required medication and highlighted that she was alarmed about how Hilton mistreated her after her years of service. She asked the Board to help her and her coworkers acquire the coverage they deserved.

Veronica Ortez, a Hilton employee, stated that she worked for Hilton for five years and attended the meeting to ask for assistance with health insurance. She provided that she required surgery, prohibiting her from working for two months. According to Ms. Ortez, her procedure would occur during Hilton's slower working months, specifically July 2023 and August 2023, when she would likely be uninsured. Ms. Ortez asked that the Board handle the issue with Hilton on behalf of Hilton's employees and their families. She also specified that she looked forward to a positive solution for a permanent fix.

Olga Mireles, a Hilton employee, stated that she worked for Hilton for ten years. Ms. Mireles explained that she had diabetes and a heart issue and how everyone should treat one another equally and humanely. Ms. Mireles said she felt dehumanized and scared to seek medical treatment due to the inconsistency of her health insurance coverage. Ms. Mireles emphasized that HFC was a decisive and responsive organization and asked that HFC aid Hilton's employees; otherwise, Hilton's employees would be left without health insurance when business slows.

Modesta Reyes, a Hilton employee, emphasized that the Board heard her coworkers' statements. Ms. Reyes indicated that she did not need health insurance because she had Medicare; nevertheless, she supported her coworkers because it pained her to see them unable to pay for medication or treatment. Ms. Reyes illuminated that she and her coworkers assisted their peers without coverage by speaking with Hilton's Human Resources Department and General Manager, but they did not respond. Ms. Reyes highlighted that the months with the least amount of work were imminent, which would exacerbate the situation. She added that Hilton reduced full-time employees' hours to four hours per day, which negatively affected their qualification for health insurance. She also noted that employees took time to prepare and pay to get to work to only work four hours. Ms. Reyes said that HFC could make Hilton comply and asked that it immediately act. She implored the Board to let her, and her coworkers know what they needed to do to have health insurance, and they would do what was necessary. She said it was not just for Hilton to fail to respond to their requests after she worked for the Hotel for eighteen years.

Norma Martinez, a Hilton employee, shared that Hilton's employees had to verify on the first of each month if they had insurance. Ms. Martinez explained that previously she contacted her insurance company on the first of the month, which informed her that she was insured; however, upon arrival to her appointment, the facility required her to pay out of pocket because it conveyed that she was uninsured. Ms. Martinez stated that Hilton's Human Resources Department informed her that it failed to cancel her insurance on the first of the month. Ms. Martinez added it was stressful not knowing whether she would have health insurance when she scheduled her appointments. Ms. Martinez also indicated that she received a stress test before the meeting and was trying to complete all her medical visits this month since she had insurance. According to Ms. Martinez, she went without her medications during her uninsured months because her medicine costs \$400 compared to a \$5 copay when insured. She asked the Board Members to help resolve this issue for her and her coworkers.

Chairman David Minchberg stated that the Board could not act and asked Michael Heckman, President & CEO, to investigate and report on the matter at the next meeting scheduled for June 22nd, 2023. Mr. Gonzalez expressed his frustration and disappointment with HFC. He said he believed that HFC was aware of this issue because HFC released a statement that the matter only affected 24 employees and because there was a collective bargaining agreement. He added that he knew that the City of Houston contacted HFC and reiterated that HFC understood the problem. Chairman Minchberg clarified that HFC was aware of the issue and that his statement referred to his inability to address the concern since it was not on the agenda.

Gerald Womack, Board Member, suggested that Mr. Heckman discuss this matter with Jacques D'Rovencourt, Hilton's General Manager, who was receptive to resolving issues in the past. Mr. Womack requested that Mr. Heckman speak with Mr. D'Rovencourt before the next Board meeting due to the issue's urgency. Mr. Heckman agreed to meet with Mr. D'Rovencourt to define the problems and review the contents of the comprehensively negotiated agreement entered into in July 2022. Mr. Gonzalez suggested that the union speak with HFC to clarify any mischaracterizations, and Mr. Heckman agreed to meet with Mr. Gonzalez whenever he was available.

Reginald Martin, Board Member, thanked the attendees for their time. He explained he understood the importance of front-line workers because of his twenty years as a chef and assured the Hilton employees that the Board would work through this process. Mr. Martin voiced his concern for HFC's lack of labor relations and his surprise that HFC lacked an employee tasked with avoiding the worsening of labor issues.

Ms. Adrogué thanked everyone for their attendance, service, and passion for their work. She added that many Board Members learned about the issue for the first time during the meeting and assured the speakers that their stories were impactful. She also reiterated that HFC would investigate the problem and that she hoped for a positive outcome.

Alex Brennan-Martin, Board Member, stated that HFC needed to be legally cautious because HFC was not a party to any of the contracts and could cause a contractual breach. He recommended seeking legal counsel before engaging in negotiations.

III. **Review and approval of minutes from prior meeting.** Following a duly seconded motion, the April 27th, 2023, minutes were approved as presented.

IV. **Presentations, Reports, and Updates.**

A. **Houston First Chairman's Report**

Chairman Mincberg reported that he toured Lynn Wyatt Square for the Performing Arts and that it looked terrific. He noted the project had a few challenges, but was advancing.

He informed the Board Members that the Texas Chapter of the American Public Works Association ("APWA") recognized HFC as APWA's Public Works Projects of the Year – Disaster or Emergency Construction Repair (Greater than \$75 million) in 2023 for HFC's Wortham Theater Center work.

B. **Market Update and Financial Report**

Nathan Tollett, Vice President of Citywide Convention Sales, reported that in HFC's first quarter for 2023, hotel revenues were up by 23% compared to the same period in 2022. According to Mr. Tollett, HFC had not recently experienced any significant event cancellations. Mr. Tollett also explained that compared to 2019, HFC revenues were up by 13.7%, and he emphasized that demand was up 5% compared to 2019, with more supply this year.

Mr. Tollett identified the competitive markets by Central Business District and highlighted that Houston's occupancy rate ranks fifth in the top 25 markets in the nation at 60.8% compared to 63% in 2019. Mr. Tollett explained that Houston ranks sixth, in ADR, in the downtown market, with rates up by 11.4% compared to 2019. He also illuminated that lodging, including short-term rentals, grew from October 2022 to March 2023 and returned to \$300 million in aggregate revenue. He added that short-term rentals comprised less than 10% of total revenue.

Mr. Tollett transitioned into reporting on the three recent significant events, including the 2023 NCAA Final Four, the Taylor Swift Concert, and the First Robotics Competition. In his comparison of the 2023 NCAA Final Four to 2016, Mr. Tollett stated that occupancy was down 4.6% due to 16,000 additional rooms added to the market, ADR was up 5.1%, and market revenue was up 29.2%. He also conveyed that the Taylor Swift Concert and First Robotics Competition significantly impacted market revenue during the weekend of the events. Mr. Tollett explained how the Downtown market was up by 115%, the Galleria market was up by 152%, the Medical Center/NRG market was up by 285%, and Houston's total market revenue was almost \$34 million.

Ryan Martin, Board Member, exclaimed his amazement at the results and urged HFC to continue to focus on selling conventions two to three years from the event date.

Frank Wilson, Chief Financial Officer, reported HFC's financial performance from 2019 through 2022. He stated that FEMA reimbursements from Hurricane Harvey in 2017 trickled to HFC between 2019 and 2021. Mr. Wilson explained that revenue recovery from 2021 and 2022 grew by 72.6% year over year and had a 9.8% increase over 2019. He also noted that expense recovery in 2021 and 2022 was 39%.

Mr. Wilson reported that in 2022, total revenues exceeded budget by \$18.8 million, primarily comprised of Hilton's Net Cash of \$41 million, which was \$11 million better than its expected \$30 million budget. He added that total expenses were \$2.5 million below budget, resulting in a variance of \$21.4 million in total revenues less expenses.

Mr. Wilson transitioned into identifying revenues with the more significant favorable variances, like \$11 million for Hilton's Net Cash, \$3 Million for Venues, \$4.4 million for Parking, and \$727,000 for Hotel Occupancy Tax ("HOT"). Mr. Wilson also explained expenses with notable favorable variances like \$3.8 million for Personnel, \$1.0 million for Food & Beverage, \$786,000 for Facility Maintenance, \$700,000 for Travel, Promotion & Events, and \$767,000 for Advertising & Promotion. He illuminated that the favorable variances were because, in 2022, meetings returned to GRB and the convention district, like fourteen major meetings, each hosting thousands of attendees.

Mr. Wilson reported significant revenues and expenses year-to-date as of April 30th, 2023. He stated that all significant revenues, except for Avenida Parking, outperformed their budget through April 30th, 2023. According to Mr. Wilson, Final Four parking was less than anticipated due to parking diversions to the Theater District. He also emphasized that as of May 5th, HOT exceeded expectations by \$1.7 million, and Hilton's Net Cash was \$3.6 million better than expected due to solid group and local catering business. Mr. Wilson highlighted that March 2023 was a record month for Hilton, which produced \$14 million in operating revenue and \$7.8 million in EBITDA. According to Mr. Wilson, the Hotel experienced strong transient demand caused by spring break and the final week of the Rodeo. He also noted that the Final Four drove group stays.

Mr. Wilson explained that Food and Beverage ("F&B") revenues continued outperforming other revenues relative to budget. He added that March 2023 experienced almost a \$2.9 million favorable variance due to large groups, including CERA Week, United Rentals, and the Final Four. He noted that, except for F&B, all expenses were near or below budget. According to Mr. Wilson, due to unfilled positions, Personnel variance was the highest at \$496,000; however, between February 2023 and April 2023, HFC made nine new hires, which would likely reduce variance for the remainder of the year.

According to Mr. Wilson, Security and Building Maintenance had significant budget variances of \$341,000 and \$444,000 due to staffing levels in HFC facilities. He emphasized that reductions were helpful due to an unexpected \$1 million increase in yearly property insurance costs. Mr. Wilson noted through April 30th, 2023, HFC's Total Actual Revenues of \$88.8 million exceeded Total Expenses of \$75.1 million by \$13.6 million, primarily driven by the \$15 million favorable revenue variance to budget. Mr. Wilson explained that \$49 million in Operating Revenues provided a favorable variance with \$11.5 million in Operating Revenues and \$39.6 million in Non-Operating Revenues, which exceeded expectations by \$3.5 million. He added that Expenses exceeded budget by \$276,000, but it was still early in the year, and he anticipated increased expenses in the months ahead.

Chairman Minberg acknowledged Mr. Dennis Littlejohn, III, from Congresswoman Sheila Jackson Lee's office presence at the meeting.

C. Houston First President & CEO's Report

Mr. Heckman provided a legislative update on Senate Bill 1057 ("SB 1057"), which would provide state funding to transform the GRB and convention district. He stated that in 2013, Dallas and Fort Worth passed state legislation to allow incremental state HOT to return to municipalities for defined projects. He added that Houston was omitted then, but pursued similar legislation during this legislative session through an amendment. Mr. Heckman emphasized that SB 1057 achieved bipartisan support and passed the Senate in April 2023 by a 26 to 5 vote and recently passed the House by a 110 to 29 vote. He clarified that SB 1057 must return to the Senate for concurrence, which should pass, and then the legislature would send the bill to the Governor for his signature. Mr. Heckman highlighted that SB 1057 might provide Houston with up to \$2 billion in funding from incremental HOT.

Mr. Heckman congratulated the HFC team for an outstanding job on the 2023 NCAA Men's Final Four. He also informed the Board that HFC planned to provide it with detailed information about upcoming programming and events. Mr. Womack asked HFC for procurement information for the Final Four. Mr. Heckman informed Mr. Womack that the Sports Authority would have procurement information.

Mr. Heckman transitioned into reporting on Houston Week and explained that HFC sought to improve Houston Week in Mexico by making it bigger and stronger than previously. He noted that Mexico was Houston's most significant foreign market. According to Mr. Heckman, this year's trip would include representatives from the Texas Medical Center, the Houston Rockets, and a larger delegation led by Mayor Sylvester Turner. He also conveyed that two STEM-related Memorandums of Understanding were signed.

Jorge Franz, Vice President of Tourism and Industry Relations, mentioned that most tourists from Mexico were booking travel through agencies, wholesalers, and tour operators. He continued that it was important for Houston Week to include representatives from hotels, museums, airport systems, airlines, destination management companies, and other Houston entities that sell the Houston experience because the Mexican travel sector shifted. According to Mr. Franz, Mexican travel industry members were new and required training to market Houston most effectively. Mr. Franz added that Houston Week was also an attempt to remedy a drop in Houston travel, which had not returned to pre-pandemic levels.

Holly Clapham, Chief Marketing Officer, stated that the Houston Week concept amplified Houston marketing and noted that the events needed consolidation and branding. Ms. Clapham added that 2022 was HFC's first integrated marketing campaign launched in Mexico. She highlighted that this year, seventy media outlets rsvp'd to the Hola Houston event, three times the amount from 2022. According to Ms. Clapham, HFC left Houston Week with 275 million media impressions and planned to coordinate fourteen trips to Houston for Mexican journalists and about thirty influencers. Ms. Clapham highlighted that Houston was so amplified in Mexico that chefs volunteered to leave their Houston restaurants for a week to participate in the event. She concluded, "Houston came, Houston left, Houston remains through 2023."

Reginald Martin suggested that HFC present its Houston Week report at the subsequent Sales, Tourism, and Marketing Committee Meeting.

Roksan Okan-Vick, Urban Development Officer, reported that Lynn Wyatt Square's construction was progressing well and had noticeably advanced since its landscaping installation. Ms. Okan-Vick also clarified that the project completion date had shifted to early September due to unforeseen delays caused by product unavailability and issues related to extending the park. She also added that HFC would be planning tours for interested Board Members. Ms. Okan-Vick announced that in addition to receiving the APWA award, HFC received national recognition from the National APWA for Excellence in Management and Administration of Public Works Projects.

Mr. Heckman announced that HFC would host the third annual DE&I Hospitality Industry Internship Program, which received positive feedback. He indicated the program would run from June 5th, 2023, through July 28th, 2023. Mr. Heckman also announced that HFC would again participate in the Tourism Diversity Matters' Apprenticeship Program by employing one apprentice in 2023. He highlighted HFC hired Cory Young as a Convention Services Representative after his 2022 apprenticeship.

V. **Adjourn.** The meeting adjourned at 4:53 p.m.

V. (A) – Consideration and possible approval of the Houston First 2022 Annual Financial Audit.

Consideration and possible approval of the Houston First Corporation 2022 Annual Financial Audit

DESCRIPTION: RSM US LLP has finalized and presented its audit report for Houston First's consolidated financials for the year ending December 31, 2022. Management requests Board approval and acceptance of the audit as presented.

RESOLVED, that the Board of Directors of Houston First Corporation approves and accepts the following resolution with respect to the audit of Houston First Corporation's consolidated financials for the year ending December 31, 2022:

RESOLVED, that the Board of Directors hereby approves and accepts the audit of Houston First Corporation's consolidated financials for the year ending December 31, 2022, as presented by RSM US LLP.

Houston First Corporation

(A Component Unit of the City of Houston, Texas)

Financial Report
December 31, 2022

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PRELIMINARY DRAFT
For Review and Discussion Purposes Only
Subject to Change

Independent Auditor's Report

Board of Directors
Houston First Corporation

Opinion

We have audited the financial statements of Houston First Corporation (the Corporation), a component unit of the City of Houston, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed on the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 14, the Corporation adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. The impact to the financial statements, as a result of adoption is disclosed in Note 14. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of the Corporation's proportionate share of net pension liability and schedule of contributions-Houston Municipal Employees' Retirement System be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Antonio, Texas
May _____, 2023

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

The following discussion of Houston First Corporation (the Corporation or HFC) should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Historical results and trends that might appear should not be taken as indicative of future operations. The results of operations and financial condition of the Corporation, as reflected in the accompanying financial statements and related notes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions, and other factors that could affect the ongoing viability of the Corporation.

The Houston Convention Center Hotel Corporation (Hotel Corporation) was formed on behalf of the City of Houston, Texas (the City), in February 2000 pursuant to Chapter 431, Subchapter D, of the Texas Transportation Code, and Chapter 394 of the Texas Local Government Code. It was organized for the specific purpose of constructing, improving, enlarging, equipping, repairing, operating, and maintaining a convention center hotel (the Hotel) located near and connected to the George R. Brown Convention Center (the Convention Center). In this regard, the Hotel Corporation was responsible for overseeing the construction and development of the Hotel; a 1,600-space parking garage (the Parking Garage); and three skywalks connecting the Hotel, the Parking Garage, and the Convention Center (the Project). Construction was completed and the Project opened for business in December 2003 as the Hilton Americas–Houston (the Hilton). Hilton Management LLC manages the Hotel through a qualified management contract (the Management Agreement).

On June 1, 2011, the Houston City Council (the City Council) approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as the "Houston First Corporation," which assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the board of directors appointed and approved by the Mayor and the City Council.

The City entered into a lease agreement and an interlocal agreement (the Consolidation Interlocal Agreement) with the Corporation, whereby the Corporation (a) leases all previously existing Department facilities and Department managed facilities; (b) operates, manages, maintains, develops, and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget, including, but not limited to, municipal HOT receipts, license fees, and concession revenues; and (d) as the City's agent, collects, administers, and audits HOT funds in accordance with terms of City ordinances. The Corporation paid the City a onetime fee of \$8,620,000 during the City's fiscal year ended June 30, 2012 from operating revenues of the Hotel. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

On March 4, 2013, the Corporation formed Houston First Holdings, LLC, a wholly owned subsidiary of the Corporation, as a "special purpose" entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, and otherwise managing with the Hilton and its parking garage.

On June 18, 2014, the Corporation entered into a services agreement with the Greater Houston Convention and Visitors Bureau (the Bureau or GHCVB), which engaged the Corporation to provide marketing, advertising and promotional programs on behalf of the Bureau at a minimum of the same levels previously funded by the Corporation to the Bureau. The services agreement required the Corporation to amend its Certificate of Formation to increase the number of authorized board members from 11 to 13 to include 2 Bureau board members. The expenses incurred as a result of the services agreement are included in operating expenses as Visit Houston expenses.

The City and the Corporation entered into the First and Second Amendment to the lease agreement between the parties to amend and restate certain provisions pertaining to insurance, disasters, damage from casualty and City Council approvals, allocations and appropriations.

Overview of the Financial Statements

The Statement of Net Position presents information on all of the Corporation's assets, deferred outflows and inflows of resources and liabilities, with the difference reported as net position. Comparisons in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The Statements of Net Position can be found on page 10 of this report.

The Statements of Revenues, Expenses, and Changes in Net Position report the Corporation's revenues, expenses, and resulting change in net position during the period reported, regardless of when cash is received or paid. Therefore, revenues and expenses are reported in the Statement of Revenues, Expenses, and Changes in Net Position for some items that will affect cash flow in future fiscal years. The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 11 of this report.

The Statement of Cash Flows reports how much cash was provided by, or used for, the Corporation's operations, financing and investing activities, and acquisition or retirement of capital assets. The Statement of Cash Flows can be found on pages 12--13 of this report.

The notes to the financial statements provide additional information that is essential for a complete understanding of the data in the financial statements described above. The notes to the financial statements can be found on pages 14--33 of this report.

Financial Highlights

COVID-19: The wide availability of vaccines has loosened the impact of COVID-19 to revenues in 2021 with several larger events being held in the summer of 2021 and leisure travel returning. Some Houston businesses have employees returning to work, albeit a more hybrid model. However, COVID-19 variants caused some cancelations and postponement of some large events (particularly in the first half of the year). COVID-19 continued to impact the hospitality and convention industries in 2021 and, to a lesser extent, has continued into 2022.

Debt: The corporation has continued to manage expenses in 2022, which eased cash flow concerns and allowed a pay down of approximately \$6 million in excess of the scheduled debt service requirements for FY2022.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Pension: The pension lawsuit was settled in 2022 between the City and Houston Municipal Employees' Retirement System. The settlement resulted in the provision of certain pension benefits to the Corporation's employees. Consistent with cost sharing pension plan requirements, the City determined the Corporation's allocable share of the pension costs based on the proportionate share of the annual required contributions. In accordance with GASB 68, the Corporation has been allocated a portion of the City's pension liability, deferred outflows, deferred inflows and pension expense as more fully discussed in Note 14.

Condensed Statements of Net Position Information
December 31, 2022 and 2021

	2022	2021
Current assets	\$ 92,257,967	\$ 84,508,871
Noncurrent assets	140,314,020	141,762,975
Capital assets	477,480,453	486,369,297
Total assets	710,052,440	712,641,143
Deferred outflows of resources	16,812,280	3,777,885
Current liabilities	74,342,550	83,501,919
Long-term liabilities	452,392,633	470,234,511
Total liabilities	526,735,183	553,736,430
Deferred inflow of resources	54,078,612	54,590,506
Net investment in capital assets	136,839,889	120,696,516
Restricted for debt service	6,000,139	7,493,341
Restricted-other	5,478,468	3,554,451
Unrestricted deficit	(2,267,572)	(23,652,216)
Net position	\$ 146,050,924	\$ 108,092,092

Net position: The Corporation's net position increased \$37,958,832 to \$146,050,924 at December 31, 2022 from \$108,092,092 at December 31, 2021, representing a 35.1% increase. This increase is attributable to a decrease in total liabilities of \$27,001,247, combined with an increase in deferred outflows of resources of \$13,034,394, offset by a decrease in total assets of \$2,588,703.

Total liabilities decreased \$27,001,247 to \$526,735,183 in 2022, from \$553,736,430 in 2021. The change was attributable to a decrease in current portion and long-term portion of notes payable of \$4,469,198 and \$26,415,205, respectively, as described below, as well as a decrease of \$10,746,688 in due to City of Houston caused by the use of working capital. These decreases were offset by an increase in pension liability of \$11,069,398 as described above and in Note 14, combined with a \$2,844,721 increase in accounts payable due to the return of normal operations.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Total assets decreased \$2,588,703 to \$710,052,440 at December 31, 2022, from \$712,641,143 at December 31, 2021. This decrease was primarily the result of a decrease of \$8,888,845 in capital assets, as described below, combined with an increase in current assets of \$7,749,097. The increase in current assets was largely caused by an increase in deposits held by others of \$4,721,717 from a new debt service reserve requirement by the hotel mortgage lender, along with a modest \$3,756,060 net increase cash, restricted cash and investments.

Capital Assets

Property, plant, and equipment—net decreased by \$8,888,844 to \$477,480,453 at December 31, 2022 from \$486,369,297 in 2021. This decrease was caused by depreciation and amortization expense of \$24,280,364 offset by capital acquisitions and lease assets of \$15,517,459, the majority from the Lynn Wyatt Square project.

Debt Payment and Issuance

The Corporation made required principal payments totaling \$16,420,000 and \$14,245,000 in 2022 and 2021, respectively. In addition, in 2022 the Corporation paid \$6,066,290 on the City of Houston Note payable for the 2017 Subordinated Note Program, and had the PPP loan of \$2,601,405 forgiven.

The total notes payable balance includes the Corporation's allocable portion of the unamortized bond premiums, net of discounts, which totaled \$19,136,637 and \$22,552,662 at December 31, 2022 and 2021, respectively.

The Corporation funds 1/12th of the annual debt service payment each month so that, on March 1 and September 1 of each year, the full amount will be available for payment. These funds, along with the required reserve funds are held by the City. Funds held by the City, listed as equity in pooled investments—restricted, are invested in the City's general investment pool. The amount of the investments held by the City was \$26,441,392 and \$25,430,065 at December 31, 2022 and 2021, respectively.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Condensed Statement of Changes in Net Position
December 31, 2022 and 2021

	2022	2021
Operating revenues:		
Hotel revenues	\$ 86,468,109	\$ 42,647,280
Venue Revenues	41,064,524	21,088,569
Parking revenues	18,259,329	11,530,132
Other operating revenues	6,794,487	3,322,346
Total operating revenues	152,586,449	78,588,327
Operating expenses:		
Hotel expenses	28,322,267	15,178,296
Venue expenses	48,766,246	31,189,518
Parking expenses	8,284,621	6,450,028
Visit Houston expenses	20,089,020	11,933,427
General administration	35,871,192	27,637,398
Enterprise development	3,261,769	1,994,216
Disaster expenses	-	190,359
Depreciation and amortization	21,952,952	21,992,150
Total operating expenses	166,548,067	116,565,392
Operating loss	(13,961,618)	(37,977,065)
Nonoperating revenues (expenses):		
Intergovernmental revenue from primary government	74,216,712	57,127,628
Sponsorship expenses	(4,498,942)	(4,025,864)
Grants	-	2,291,457
Intergovernmental expenses-primary government	(17,215,414)	(28,706,851)
Other contributions	13,531,655	8,000,000
Interest expenses	(16,990,550)	(17,188,230)
Interest income	2,876,989	2,064,148
Total nonoperating revenues	51,920,450	19,562,288
Change in net position	37,958,832	(18,414,777)
Net position—beginning of period	108,092,092	126,506,869
Net position—end of period	\$ 146,050,924	\$ 108,092,092

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Operating Revenues

Total operating revenues for 2022 and 2021 were \$152,586,449 and \$78,588,327, respectively, which represents a 94.16% increase of \$73,998,122. The majority of the increase in operating revenues for 2022 was attributable to the recovery from the impact of the COVID-19 pandemic. Hotel revenues showed the largest increase with a 102.75% increase year over year making up \$43,820,829 of the increase. Venue revenues showed a 94.72% increase and made up \$19,975,955 of the increase. Food and beverage revenues and other concession revenues drove this increase due to increase in attendance at events.

Operating Expenses

Total operating expenses increased \$49,982,675 to \$166,548,067 in 2022, from \$116,565,392 in 2021. As discussed above, the increase was mainly due to the recovery from the pandemic, noting a \$13,143,971 increase in hotel expense representing an 86.66% increase. Venue expense increased 56.35% to \$48,766,246 in 2022 from \$31,189,518 in 2021 due to increases in food and beverage and janitorial expenses from increased attendance.

The Corporation's operating loss, which includes the noncash charge of depreciation, totaled \$13,961,618, and \$37,977,065, in 2022 and 2021, respectively.

Nonoperating Revenues (Expenses)

Intergovernmental Revenue From Primary Government

In the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to fund operating expenses, capital expenditures, and for any other lawful purpose. The intergovernmental revenue represents the HOT and pledged parking revenues remaining after debt service and other debt-related expenses, and the transfer of other remaining Department fund balances.

In 2022, the intergovernmental revenue from Primary Government increased \$17,089,084 to \$74,216,712 from \$57,127,628 in 2021. This increase was caused by the increase in HOT and pledged parking revenues from the pandemic recovery and additional intergovernmental revenues of \$10 million from the City's Convention and Entertainment Facilities Department for working capital, offset by an increase in debt-related expenses.

Intergovernmental Expenses To Primary Government

In the Consolidation Interlocal Agreement, the Corporation agreed to make certain payments to the City for obligations previously paid directly by the Department. At December 31, 2022, and 2021, these payments totaled \$17,215,414, and \$28,706,851, respectively. Of this decrease, \$16,080,615 is due to the 2021 pension settlement described in Note 8. As these payments are primarily based on HOT revenues, the offsetting increase was directly related to the corresponding increase in HOT revenues.

Grant Award

In 2021, the Corporation received a one-time \$2,291,457 grant from the US Small Business Association in the form of a Shuttered Venue Operators Grant. The Corporation did not receive a similar award in FY2022.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Other Contributions

The Corporation began a project to redesign the City-owned property, formerly named Jones Plaza. The majority of the redesign costs for the renamed Lynn Wyatt Square is being funded by private contributions. The Lynn Wyatt Square project is schedule to be completed at the end of 2023. In 2022 and 2021, the Corporation received \$10,930,250 and \$8,000,000 respectively, of contributions from the fund-raising organization to offset construction costs. The amount of unspent proceeds appears as restricted cash.

Also showing in other contributions in 2022 is the forgiveness of the PPP loan of \$2,601,405.

Economic Factors and Next Year's Budget

The 2023 budget includes increases in operating and interest costs due to the continuing impact of inflation which includes higher interest expense. In spite of this economic landscape, the corporation's approved 2023 budget reflects a return to a balanced budget with the expectation to borrow for major capital funding. Current forecast of 2023 major revenues projects streams in excess of pre-pandemic levels with the growth expectation to carry forward into 2024. Proactive management of major expenses will continue on a go forward basis with concurrent monitoring of macroeconomic conditions. The Corporation refinanced the AIG mortgage loan on the Hilton Americas-Houston Hotel to obtain more favorable terms as well as offset debt related costs such as rising rates. The refinancing included a paydown of \$10 million via the use of the existing reserves.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Net Position
December 31, 2022

Assets

Current assets:

Cash and cash equivalents	\$ 25,770,315
Cash and cash equivalents—restricted	5,478,468
Accounts receivable, net	7,436,842
Notes receivable—current	296,420
Prepaid expenses and other current assets	4,477,999
Deposits held by others—current	13,934,351
Lease receivable	2,042,315
Short-term equity in pooled investments	32,821,257
Total current assets	<u>92,257,967</u>

Non-current assets:

Notes receivable	59,738,331
Equity in pooled investments—restricted	26,441,392
Property plant and equipment—net	477,480,453
Lease receivable	54,134,297
Total non-current assets	<u>617,794,473</u>

Total assets

710,052,440

Deferred outflow of resources:

Deferred amounts of pension	13,349,780
Deferred amounts from refunding of debt	3,462,500
Total deferred outflows of resources	<u>16,812,280</u>

Total assets and deferred outflows of resources

\$ 726,864,720

Liabilities

Current liabilities:

Accounts payable	\$ 19,398,698
Accrued interest	5,981,260
Accrued expenses	7,609,204
Due to City of Houston	18,376,997
Subordinated management fee	1,342,536
Current portion of note payable	18,925,000
Current portion of lease payable	2,371,820
Current portion of unearned revenue	337,035
Total current liabilities	<u>74,342,550</u>

Long-term liabilities:

Accounts payable to City of Houston	16,080,615
Note payable	411,294,663
Unearned revenue	6,375,583
Net pension liability	11,069,398
Lease payable	7,572,374
Total long-term liabilities	<u>452,392,633</u>

Total liabilities

526,735,183

Deferred inflow of resources—Deferred amounts from lease

51,516,773

Deferred inflow of resources—Deferred amounts from pension

2,561,839

Total liabilities and deferred inflows of resources

\$ 580,813,795

Net Position

Net investment in capital assets	\$ 136,839,889
Restricted for debt service	6,000,139
Restricted-other (Note 2)	5,478,468
Unrestricted deficit	(2,267,572)
Total net position	<u>\$ 146,050,924</u>

See notes to financial statements.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statements of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022

Operating revenues:	
Hotel revenues	\$ 86,468,109
Venue revenues	41,064,524
Parking revenues	18,259,329
Other operating revenues	6,794,487
Total operating revenues	<u>152,586,449</u>
Operating costs and expenses:	
Hotel expenses	28,322,267
Venue expenses	48,766,246
Parking expenses	8,284,621
Visit Houston expenses	20,089,020
General administration	35,871,192
Enterprise development	3,261,769
Depreciation	21,952,952
Total operating costs and expenses	<u>166,548,067</u>
Operating loss	<u>(13,961,618)</u>
Nonoperating revenues (expenses):	
Intergovernmental revenue from primary government	74,216,712
Sponsorship expense	(4,498,942)
Intergovernmental expenses-primary government	(17,215,414)
Other contribution	13,531,655
Interest expense	(16,990,550)
Interest income	2,876,989
Total nonoperating revenues	<u>51,920,450</u>
Increase in net position	37,958,832
Net position—beginning of period	<u>108,092,092</u>
Net position—end of period	<u>\$ 146,050,924</u>

See notes to financial statements.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:	
Receipts from customers	\$ 149,738,419
Payments to vendors	(83,861,099)
Payments to employees	(53,483,180)
Net cash provided by operating activities	<u>12,394,140</u>
Cash flows from noncapital financing activities:	
Payments from the City	74,216,712
Payments to the City	(27,026,083)
Payments to sponsorship	(4,498,942)
Payments to disaster	(16,111)
Proceeds from notes receivable	295,502
Payments for interest	(2,456,041)
Net cash provided by noncapital financing activities	<u>40,515,037</u>
Cash flows from capital and related financing activities:	
Other contribution	10,930,250
Payments received from leasing activities	3,872,731
Payments made on leasing activities	(2,451,262)
Payments for interest	(17,088,810)
Principal payments on notes payable	(24,866,974)
Proceeds from debt financing	219,316
Payment for deposits held by others	(4,721,717)
Acquisition of property, plant, and equipment	(14,988,719)
Net cash used in capital and related financing activities	<u>(49,095,185)</u>
Cash flows from investing activities:	
Interest received on investments	953,392
Purchase of investments	(45,376,082)
Proceeds from sales and maturities of investments	37,944,650
Net cash provided by investing activities	<u>(6,478,040)</u>
Net decrease in cash and cash equivalents	(2,664,048)
Cash and cash equivalents, beginning of period	<u>33,912,831</u>
Cash and cash equivalents, end of period	<u>\$ 31,248,783</u>

(Continued)

Year Ended December 31, 2022

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (13,961,618)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	21,952,952
Leasing activity	(1,620,480)
Decrease in accounts receivable	562,728
Decrease in current prepaid expenses	263,914
Increase in accounts payable	2,844,721
Increase in accrued expenses	1,838,667
Increase in accrued expenses-management fee	568,825
(Decrease) in unearned revenue	(337,026)
Increase in pension liability	11,069,398
(Decreased) in deferred outflows - pension	(13,349,780)
Increase in deferred inflows - pension	2,561,839
	<hr/>
Net cash provided by operating activities	\$ 12,394,140
	<hr/> <hr/>
Noncash transactions:	
Fair market value adjustment related to investment	\$ (33,238)
Contributions-PPP loan payable	2,601,405
Premium amortization	3,416,024

See notes to financial statements.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 1. Organization

Houston First Corporation, the Corporation or HFC (formerly Houston Convention Center Hotel Corporation (the Hotel Corporation)), a component unit of the City of Houston, Texas (the City), was formed on February 18, 2000, under the provisions of Chapter 431, Subchapter D of the Texas Transportation Corporation Act and Chapter 394, Vernon's Texas Codes Annotated, Local Government Code. The purpose of the Hotel Corporation was to aid and act on behalf of the City in establishing, constructing, improving, enlarging, equipping, repairing, operating or maintaining (any or all) a 1,200-room convention center hotel in downtown Houston (such hotel to be within 1,000 feet of the George R. Brown Convention Center (the Convention Center)) (the Hotel) and a parking garage (the Parking Garage) for approximately 1,600 vehicles adjacent to the Hotel. The Hotel was completed in 2003 and opened on December 4, 2003.

On June 1, 2011, Houston City Council approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as Houston First Corporation, and Houston First Corporation assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the Board of Directors appointed and approved by the mayor and City Council.

The Corporation (a) leases all previously existing Department facilities and Department-managed facilities; (b) operates, manages, maintains, develops and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget including, but not limited to, municipal HOT receipts, license fees and concession revenues; and (d) as the City's agent, collects, administers and audits HOT funds in accordance with terms of City ordinances. The Corporation currently has no employees but has entered into personnel services contracts to provide the personnel and expertise required to operate its facilities. The City has entered into an interlocal agreement with the Corporation (the Consolidation Interlocal Agreement), whereby the Corporation will pay \$1,380,000 for each agreement year to lease all existing Department facilities and Department-managed facilities; provided, that, on each adjustment date, the rent described in this clause shall be adjusted to an amount equal to the lesser of (1) 105% of the rent in effect for the agreement year immediately preceding the adjustment date, and (2) the product of the rent of effect for the agreement year immediately preceding the adjustment date, multiplied by the adjustment factor. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

The Corporation is presented as a discretely presented component unit of the City (legally separate from the City). Board members are appointed by the mayor of the City and confirmed by the City Council. There is fiscal dependency by the Corporation on the City as well as a financial burden on the City.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 1. Organization (Continued)

On March 4, 2013, the Corporation formed Houston First Holdings, LLC (HFH), a wholly owned subsidiary of the Corporation, as a special-purpose entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, managing and otherwise dealing with the property known as the Hilton Americas–Houston and its parking garage. The subsidiary is included in the financial statements of the Corporation as a blended component unit; accordingly, all intercompany accounts and transactions are eliminated.

On June 18, 2014, the Corporation entered into a Services Agreement with the Greater Houston Convention and Visitors Bureau (the Bureau), which engaged the Corporation to provide advertising and promotional programs on behalf of the Bureau at a minimum of the same levels as previously funded by the Corporation to the Bureau. The Services Agreement required the Corporation to amend the Certificate of Formation to increase the number of authorized board members from 11 to 13. The expenses incurred are included in operating expenses as Visit Houston expenses.

On May 22, 2018, the City and the Corporation entered into the First Amendment to the lease agreement between the parties to amendment and restate certain provisions pertaining to insurance, damage from casualty and City Council approvals, allocations and appropriations.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Corporation have been prepared on the accrual basis of accounting, a flow of economic resources measurement focus. Under the measurement focus, resources are recognized in the period earned and expenses are recognized in the period incurred.

The Corporation defines operating revenues and expenses consistent with the precepts of Statement of Government Accounting Standards No. 9. Generally, receipts collected or due from customers for providing services are considered operating revenues. The payments or amounts due to provide these services are considered operating expenses. All other receipts and payments are considered nonoperating. The significant accounting policies are described below.

Cash and cash equivalents: The Corporation defines cash and cash equivalents as cash and investments that are highly liquid, with less than three-month maturities when purchased.

Accounts receivable: Accounts receivable are stated at the historical carrying amount net of an allowance for uncollectible accounts. An allowance for uncollectible accounts receivable has been established based on historical experience and any specific customer collection issues that have been identified. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when management has determined that the balance will not be collected. The allowance for doubtful accounts totaled \$4,256,168 as of December 31, 2022.

Prepaid expenses: Prepaid expenses include prepaid insurance, interest and other miscellaneous prepaid expenses. Prepaid insurance is expensed on a straight-line basis over the period of the coverage.

Other assets: Other assets consist of the unamortized balance of prepaid rent that was paid by the Corporation to the City under the Consolidation Interlocal Agreement and the unamortized balance of rent concessions.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: The Corporation participates in a City investment pool managed internally by City personnel. The Corporation also invests in the Texas Short-Term Asset Reserve Program (TexSTAR). TexSTAR was created in April 2003 under the Interlocal Cooperation Act of the State of Texas Article 4413 (32C), Vernon's Texas Civil Statutes, as amended. It is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. The City's investment funds are administered using a pooling concept, which combines the monies of various City departments for investment purposes (the City's Investment Pools). The Corporation's pro rata share of participation in the City's Investment Pools is displayed in the statement of net position as equity in pooled investments held by the City in accordance with the Governmental Accounting Standard Board (GASB) statement *Accounting Standards Codification on Accounting and Financial Reporting for Certain Investments for External Investment Pools* and are carried at fair value. The fair value adjustment is included as part of interest income. The Corporation is apportioned interest earnings from the City's investment pools based upon the Corporation's relative pro rata share of the applicable investment pool. All of the Corporation's funds in the City's investment pools are restricted for debt service and the TexSTAR investments are unrestricted.

Property, plant and equipment: Property, plant and equipment are recorded at original cost for items purchased. Capital assets are defined as assets with an initial cost of \$1,000 or more for Hotel operation and \$5,000 or more for others, and an estimated useful life in excess of one fiscal year. Ordinary maintenance and repairs are charged to expense when incurred. Expenses related to the development of real estate are carried at cost, plus capitalized carrying charges.

Management reviews its long-lived assets for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future undiscounted cash flows (without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Depreciation: Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets, ranging from three to 40 years.

Deferred Outflows of Resources: Deferred outflows of resources represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. At December 31, 2022, the statement of net position included deferred outflows of resources related to pensions and debt issuance which result in a deferred gain or loss on refunding.

Deferred Inflows of Resources: Deferred inflows of resources represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At December 31, 2022, the statement of net position included deferred outflows of resources related to pensions and leases.

Leases: The Corporation follows GASB Statement No. 87, *Leases*, which defines the Corporation's leasing arrangement as the right to use an underlying asset as a lessor or lessee.

As lessor, the Corporation recognizes a lease receivable. The lease receivable is measured using the net present value of future lease payments to be received for the lease term and deferred inflow of receivables at the beginning of the lease term. Periodic payments are reflected as a reduction of the discounted lease receivable and as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Re-measurement of lease receivables occurs when there are modifications including, but not limited to, changes in the contract price, lease term and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the related deferred inflow of resources will be reduced and will include a gain or loss for the difference.

As lessee, the Corporation recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying asset. The right-of-use lease assets are measured based on the net present value of the future lease payments at inception using the incremental borrowing rate. Remeasurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability. The Corporation calculates the amortization of the discount on the lease liability and reports that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the lease liability.

As a lessee or lessor, the Corporation does not consider variable lease payments in the lease liability and lease receivable calculations but are recognized as outflows of resources in the period in which the obligation was incurred.

For lease contracts that are short-term, the Corporation recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Pension: For purpose of measuring the net pension liability, deferred inflows and deferred outflows of resources related to pensions and pension expenses, information about the fiduciary net position of the Houston Municipal Employee Pension System (HMEPS) and additions to/deductions from HMEPS's fiduciary net position have been determined on the same basis as reported by HMEPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by HMEPS are reported at fair value.

Debt issuance costs/notes payable: Premiums and discounts included in notes payable are amortized as a component of interest expense over the applicable term using the effective interest method. Debt issuance costs are expensed when incurred.

Unearned revenue: A parcel of land was conveyed to the Corporation by the City for the construction of the Hilton Parking Garage (the Parking Garage), which is attached to the Hotel. The cost of the land was included as unearned revenue at the City's recorded acquisition value of \$3,144,362 at the date of transfer. In addition, the City made a grant to the Corporation in the amount of \$10 million, which provides the City the right to use up to one-half of the spaces available in the Parking Garage and to share in the net income of the parking proceeds in perpetuity. This right was transferred to the Corporation upon formation.

The Corporation recognizes the unearned revenue as garage revenue ratably over the estimated 39-year useful life of the Parking Garage. Amortization of unearned revenue for the year ended December 31, 2022, totaled \$337,035, which is included in garage revenues.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: Service and other sales revenues are recognized when services are rendered or when revenue is earned, net of sales tax.

Intergovernmental revenue from Primary Government: As part of the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to pay for operating expenses, capital expenditures and for any other lawful purpose, and they are shown as intergovernmental revenue from Primary Government. The amount of intergovernmental revenue from the City totaled \$74,216,712 for 2022 and represents the net HOT and parking revenues of \$63,080,039 and other of \$11,136,673.

Intergovernmental expenses to Primary Government: As part of the Consolidation Interlocal Agreement, the Corporation agreed to make certain payments primarily for City obligations to the local arts previously paid directly by the Department. At December 31, 2022, the interlocal agreement expenses totaled \$21,714,356 of which \$17,215,414 and \$4,498,942 were related to funding of the arts and sponsorship expense, respectively.

Income taxes: The Corporation is exempt from federal income tax under Section 115 (1) of the Internal Revenue Code of 1986.

Effective for taxable years beginning on January 1, 2007, the State of Texas enacted the Revised Texas Franchise Tax, which imposes a tax at the entity level. The Corporation is exempt from the Revised Texas Franchise Tax.

Use of estimates in financial statement preparation: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported financial statement amounts, as well as disclosures. The Corporation's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

New accounting pronouncements: In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 99, *Omnibus 2022*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to derivative instruments, leases, PPP and APA arrangements, SBITAs and various other topics. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections-Amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this statement are effective for financial statements for reporting periods beginning after December 15, 2023.

The Corporation is evaluating the impact that adoption of these Statements will have on its financial position, results of operations and cash flows.

Note 3. Cash and Cash Equivalents

The Corporation's cash and cash equivalents balance of \$31,248,783 as of December 31, 2022, are maintained in cash, demand accounts, escrow and money market mutual funds. The accounts that comprise this balance (which includes the remaining restricted contributions of \$5,478,468) are described below:

Demand deposit accounts	\$ 12,147,914
Money market	13,414,543
Cash on hand	207,858
Restricted cash	5,478,468
Total	<u>\$ 31,248,783</u>

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Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

The demand deposit accounts are either fully collateralized by the depository institution primarily in direct obligations of the U.S. government or its agencies, or insured by the Federal Deposit Insurance Corporation (FDIC) except for \$13,414,543. The money market account is the sweep balance of one of the demand deposit accounts with a balance of \$13,414,543. It is held with a mutual fund managed by Bank of America and invests primarily in direct obligations of the U.S. government or its agencies. There are deposits held by others, as required escrow reserves with VALIC as described at Note 9 and included in the statement of net position totaled \$13,934,351 which is not collateralized for amounts in excess of FDIC limit.

Note 4. Equity in Pooled Investments

Short-term equity in pooled investments: As of December 31, 2022, the Corporation's pooled investments included \$32,821,257, invested in the TexSTAR. TexSTAR was created in April 2003, under the Interlocal Cooperation Act of the State of Texas Article 4413 (32C), Vernon's Texas Civil Statutes, as amended. It is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. The TexSTAR investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

As with all the investment pools, funds are readily available to support daily cash requirements while maintaining yields slightly higher than standard bank deposit accounts.

Equity in pooled investments—restricted: The City issued bonds in 2001, 2011, 2012, 2014, 2015, 2017 and 2019, a portion of which was for the benefit of the Corporation to fund construction, interest and operating expenses incurred during the construction of the Hotel, the Convention District Projects and the Development and Funding Agreement discussed in Note 6. Certain proceeds were designated as debt service reserve funds to be used by the Corporation to service the debt during the initial months of the Hotel's operations and during periods of decreased operational liquidity. In addition, the Corporation makes monthly payments to the City to fund the semiannual bond payments made by the City. These funds are restricted as debt service funds. All above-referenced funds are held in the City's investment pools. The balance of such accounts at December 31, 2022, totaled \$26,441,392.

The City of Houston Investment Pool consists of U.S. Treasury Notes, Agency Notes, Municipal Bonds, Commercial Paper, Certificates of Deposits, Money Market Funds and Mortgaged Backed Securities. Certain investments of the Corporation are commingled in this pool to gain operational efficiency. The City of Houston included the required risk disclosures for its Internal Investment Pool as part of the City's Annual Comprehensive Financial Report which is available on the City's website.

As of December 31, 2022, the Corporation's exposure to interest rate risk as measured by the segmented time distribution by investment type is summarized below:

	Fair Value	Investment Maturities in Years	
		Less than 1	1–5
TexSTAR	\$ 32,821,257	\$ 32,821,257	\$ -
Total	\$ 32,821,257	\$ 32,821,257	\$ -

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Notes to Financial Statements

Note 4. Equity in Pooled Investments (Continued)

The Corporation's exposure to credit risk at December 31, 2022, is presented below by investment category as rated by Standard & Poor's:

	Fair Value	Rating
TexSTAR	<u>\$ 32,821,257</u>	AAAm by Standard and Poor's
Total investment pools	<u><u>\$ 32,821,257</u></u>	

Fair value measurements: The Corporation is required to disclose the fair value level of its investments within the fair value hierarchy established by GASB Statement No. 72. In the fair value hierarchy, there are three levels:

Level 1: Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs (other than quoted prices included within level one) that are observable for an asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for an asset or liability.

The Corporation invests in both the City's general pool and TexSTAR investment pool. The City general pool investment is a Level 2 investment. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third-party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments measured at net asset value do not have terms or conditions for redemptions or commitments for additional funding.

TexSTAR is reported at fair value measured at net asset value. Under this method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. When sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics, such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

Note 5. Deposits Held By Others

As discussed in Note 9, the Corporation closed a \$125,000,000 mortgage loan with Variable Annuity Life Insurance Company, (VALIC), which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon and certain personal property. In consideration of the Mortgage Loan, VALIC required the Corporation to fund certain reserves to be held with their agent. These reserves represent debt service reserve, the subordinated management fee and the deferred fee from hotel operator, as discussed in Note 9, and a reserve for furniture, fixtures and equipment replacement and renewal. As of December 31, 2022 the deposits held by others included in the statement of net position totaled \$13,934,351.

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Notes to Financial Statements

Note 6. Notes Receivable

Development and funding agreement: On April 9, 2013, the Corporation entered into a Development and Funding Agreement with the Houston Center Hotel, LLC (Hotel Owner), for the development of an approximately 1,000-room new hotel facility located on the north end of the Convention Center. The Development & Funding Agreement called for the Corporation to purchase and convey the hotel site land to the Hotel Owner and, subject to certain benchmarks, loaned \$27 million to the Hotel Owner. The purchase price of the hotel site land and other closing costs totaled \$32,153,221. The Hotel Owner was obligated to a) design, construct, operate and maintain the hotel facility, and b) reimburse the Corporation annually for the hotel site land and the loan commencing on January 5th of the year following opening of the hotel facility.

The total receivable from the Hotel Owner to the Corporation was \$57,636,102 as of December 31, 2022, with \$250,000 reported in current other assets in the statement of net position. The note does not bear interest.

Buffalo Bayou Partnership: the Corporation entered into an earnest money contract (the Contract) with Buffalo Bayou Partnership (the Seller). The Seller agreed to sell to the Corporation certain real estate that called for all building and improvements on the property to be modified in accordance with the Contract. Prior to closing, the Seller agreed to receive and the Corporation agreed to advance the purchase price to construct, restore and rehabilitate the improvements located on the land. On September 17, 2018, the Corporation paid the purchase price of \$2,499,765 to allow the Seller to complete the design and construction of the Project. The Seller did not complete the improvements. Accordingly, the Corporation and the Seller agreed to execute a termination agreement of the Contract which included a repayment of the purchase price paid. The total remaining balance as of December 31, 2022 is \$2,398,649.

The scheduled payments on the above two loans are as follows:

Years ending December 31:

2023	\$	296,420
2024		297,357
2025		298,313
2026		299,289
2027		550,283
2028-2032		2,767,057
2033-2037		5,295,119
2038-2042		7,826,130
2043-2047		7,860,412
2048-2052		8,898,269
2053-2057		10,440,119
2058-2062		10,069,880
2063-2066		5,136,103
	\$	<u>60,034,751</u>

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Notes to Financial Statements

Note 7. Property, Plant and Equipment—Net

The changes in the Corporation's property, plant and equipment for the year ended December 31, 2022, were as follows:

	December 31, 2021	Additions	Retirements and Reclassifications	December 31, 2022
Property, plant, and equipment not subject to depreciation:				
Land	\$ 14,824,298	\$ -	\$ -	\$ 14,824,298
Work in process	10,476,517	12,676,377	(938,579)	22,214,316
Total property, plant, and equipment not subject to depreciation	25,300,815	12,676,377	(938,579)	37,038,614
Property, plant, and equipment subject to depreciation:				
Buildings	608,268,589	1,481,366	938,579	610,688,534
Furnishings and equipment	44,195,864	1,126,476		45,322,340
Leased equipment	419,496	233,239	(125,939)	526,796
Leased real estate	16,252,603	-	-	16,252,603
Total property, plant, and equipment subject to depreciation	669,136,552	2,841,081	812,640	672,790,273
Less accumulated depreciation for:				
Hotel and garage buildings	(166,541,074)	(19,667,145)	-	(186,208,219)
Furnishings and equipment	(36,680,265)	(2,285,807)		(38,966,072)
Leased equipment	(203,131)	(5,611)	-	(208,742)
Leased real estate	(4,643,600)	(2,321,801)	-	(6,965,401)
Total accumulated depreciation and amortization	(208,068,070)	(24,280,364)	-	(232,348,434)
Total property, plant, and equipment, net	\$ 486,369,297	\$ (8,762,906)	\$ (125,939)	\$ 477,480,453

Depreciation and amortization includes approximately \$2.3 million in amortization expenses which are part of venue expenses.

Note 8. Accounts Payable To City Of Houston

In March 2022, the Houston Municipal Employees Pension System (HMEPS) and the City of Houston entered into a settlement agreement which required additional funding of HMEPS by the City of Houston. The impact of the agreement resulted in a liability of approximately \$16 million which is presented as accounts payable to City of Houston on the statement of net position. The Corporation's tentative terms for the long term liability will allow for an interest rate of 2.6%.

Note 9. Long Term Debt

The Corporation's notes payable and related premium for the year ended December 31, 2022, were as follows:

	January 1, 2022	Retirements/ Amortization	Additions	December 31, 2022	Current Portion
Notes payable:					
Notes payable—City of Houston	\$ 310,950,000	\$ (25,086,289)	\$ 219,317	\$ 286,083,028	\$ 18,925,000
Premium—net of discount	22,552,661	(3,416,024)		19,136,637	-
Total notes payable—City of Houston	333,502,661	(28,502,313)	219,317	305,219,665	18,925,000
Note payable—VALIC	125,000,000	-	-	125,000,000	-
Lease liabilities	12,016,802	(2,305,848)	233,239	9,944,193	2,371,820
PPP Loan payable	2,601,405	(2,601,405)	-	-	-
Total long term liabilities	\$ 473,120,868	\$ (33,409,566)	\$ 452,556	\$ 440,163,858	\$ 21,296,820

Payment of the Corporation's notes payable to the City is based on the amortization of the City hotel-allocated bonds and HFC-allocated bonds. The VALIC loan requires monthly interest payments only until maturity on May 1, 2024.

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Notes to Financial Statements

Note 9. Notes Payable (Continued)

Scheduled principal and interest payments on debt are summarized as follows:

Years ending December 31:	Notes payable-City of Houston			Notes payable-VALIC		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 18,925,000	\$ 11,895,532	\$ 30,820,532	\$ -	\$ 8,912,500	\$ 8,912,500
2024	40,678,028	11,333,191	52,011,219	125,000,000	2,970,833	127,970,833
2025	21,295,000	10,086,800	31,381,800	-	-	-
2026	23,010,000	9,200,363	32,210,363	-	-	-
2027	22,055,000	8,319,325	30,374,325	-	-	-
2028-2032	94,885,000	30,852,046	125,737,046	-	-	-
2033-2037	48,365,000	9,570,560	57,935,560	-	-	-
2038-2042	13,020,000	2,250,400	15,270,400	-	-	-
2043-2045	3,850,000	232,600	4,082,600	-	-	-
	<u>\$ 286,083,028</u>	<u>\$ 93,740,817</u>	<u>\$ 379,823,845</u>	<u>\$ 125,000,000</u>	<u>\$ 11,883,333</u>	<u>\$ 136,883,333</u>

On April 3, 2013, the Corporation closed a \$125,000,000 mortgage loan with VALIC, which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon and certain personal property. The proceeds were used to further economic development in and around the Convention Center and the Hilton, including a new 1,000-room convention center hotel, and to fund the Convention District Projects, including a new 1,900-space parking garage and certain other residential and retail opportunities to be located on the north end of the Convention Center. The initial loan advance of \$50,000,000 was funded on April 4, 2013, at an initial interest rate of 3.90%. In March 2014, an additional \$30,000,000 was drawn and bears interest at 4.78%. In July 2014, the final draw of \$45,000,000 was funded and bears interest at 4.81%. In April 30, 2021, the Maturity date of the note has been extended to May 1, 2024, subject to borrower's right to extend the maturity date up to two (2) times for an additional twelve (12) months each, unless such maturity date, as the same may be extended by Borrower, is further extended or renewed by lender in accordance with the terms of the note, or unless the maturity shall be accelerated for any reason. The acceleration of the outstanding balance will result in a default rate of the greater of 15% or a per annum rate of 5% plus the prime rate as defined in the agreement. Provided, however, that such rate shall not exceed the maximum permitted by applicable law. The outstanding balance as of December 31, 2022, is \$125,000,000.

In August 2014, the City issued \$73,725,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2014. This issue included \$52,195,000 of Serial Bonds with stated interest rates between 2% and 5% maturing in various amounts from 2015 to 2032, and \$21,530,000 of Term Bonds with stated interest rates of 5% maturing in various amounts from 2033 to 2039. The true interest cost was 4%. Proceeds were used to (a) refund the City's Outstanding Convention & Entertainment Facilities Department Hotel Occupancy Tax and Special Revenue Refunding Bonds, Series 2012, (b) finance certain project costs and (c) pay the costs of issuance of the bonds. Net present value savings totaled \$4.6 million or 11% of the refunded bonds. The outstanding balance as of December 31, 2022, is \$66,695,000.

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Notes to Financial Statements

Note 9. Notes Payable (Continued)

On March 19, 2015, the City issued \$132,590,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2015. This issue included \$99,620,000 Serial Bonds with stated interest rates between 2% and 5% maturing in various amounts from 2015 to 2035, and \$32,970,000 of Term Bonds with stated interest rates between 4.0% and 5.0% maturing in various amounts from 2035 to 2044. The true interest cost was 3.3%. Proceeds were used to (a) refund a portion of the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011, (b) refund outstanding commercial paper, (c) finance certain project costs and (d) pay the costs of issuance of the bonds. Of the \$132,590,000, the City loaned the Corporation \$99,620,000. The outstanding balance as of December 31, 2022, is \$74,025,000.

On November 16, 2017, the City issued \$12,030,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2017. This issue has a stated interest rates of 2.55% maturing in 2033. Proceeds were used to refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011B. Net present value savings totaled \$1.9 million or 16.5% of the refunded bonds. The outstanding balance as of December 31, 2022, is \$9,210,000.

On November 16, 2017, the City issued \$75,000,000 of Convention & Entertainment Facilities Subordinate Lien HOT and Parking Revenue Flexible Rate Notes, Series A (Credit Facility Series A). The Corporation used \$6,000,000 of the available Credit Facility Series A in 2021. The taxable variable rate is equal to 100% London Interbank Offered Rate (LIBOR), plus 1.08%. The tax-exempt variable rate is equal to 65.01% LIBOR, plus 0.69%. The commitment fee is equal to 0.20%. The outstanding balance as of December 31, 2022, is \$20,153,027.

On April 9, 2019, the City issued \$106,320,000 of Convention & Entertainment Facilities Department HOT and Special Revenue and Refunding Bonds, Series 2019. This issue has a stated interest rates of 4% and 5% maturing in 2036. Proceeds were used to (a) refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2001 C-1 and 2001 C-2, (b) finance certain Hurricane Harvey related project costs and (c) pay the costs of issuance of the bonds. Net present value savings totaled \$5.6 million or 8% of the refunded bonds. The outstanding balance as of December 31, 2022, is \$78,800,000.

On May 2, 2019, the City closed on a \$50 million Subordinate Lien Hotel Occupancy Tax and Parking Revenue Flexible Rate Notes, Series B (Credit Facility Series B). As of December 31, 2022, there was a \$1,000,000 draw on this note and \$49,000,000 is available. Interest is variable at the greater of JPMorgan prime or the adjusted one-month LIBOR, plus a spread based upon the rating of the existing senior lien Hotel Occupancy Tax and Parking Revenue Bonds. The commitment fee is equal to 0.1% and the notes terminate on May 2, 2026. The outstanding balance as of December 31, 2022, is \$1,000,000.

On May 3, 2019, the City loaned the Corporation \$12,500,000, which was used to help finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 2.134% on December 31, 2019, and the note matures on September 1, 2030. The outstanding balance as of December 31, 2022, is \$12,500,000.

On December 12, 2019, the City loaned the Corporation an additional \$8,900,000, to finance project costs related to Hurricane Harvey. Interest will accrue based on the rate received on the City's commercial paper Series E line, which was 2.50% at December 31, 2022. The note matures on March 1, 2024. The outstanding balance as of December 31, 2022, is \$3,700,000.

Houston First Corporation
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Notes to Financial Statements

Note 9. Notes Payable (Continued)

In March and July of 2021, the City loaned the Corporation \$10,000,000 and \$10,000,000, respectively, which was used to help finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 1.340% on March 1, 2021, and the note matures on September 1, 2027. The outstanding balance as of December 31, 2022, is \$20,000,000.

Of the total \$310,950,000 notes payable to the City, \$245,150,000 of the principal balance relates to the City's fixed rate bonds and carries interest rates ranging from 2% to 5%; \$21,000,000 related to the flexible rate notes and the remaining \$38,800,000 related to the notes from the City. Interest presented on the above payment schedule is calculated on the stated interest rate on the fixed-rate bonds and the interest rate on the variable rate notes as of December 31, 2022. The Notes payable to the City contain a provision that in the event of default, outstanding amounts are due immediately.

Note 10. Commitments and Contingencies

Hotel Management Agreement: The Corporation entered into a hotel management agreement (the Management Agreement) on March 21, 2001, with the Hilton Hotels Corporation (the Hotel Operator). The Management Agreement had a term of 15 years and commenced with the opening of the Hotel.

On October 1, 2014, the Corporation executed a Management Agreement Termination Agreement (the Termination Agreement) to terminate the Management Agreement described above and executed a new Management Agreement (the New Management Agreement) with the Hotel Operator for the Hilton, with an effective date of January 1, 2014. In connection with the Termination Agreement, the Hotel Operator released the Corporation from repayment of the unamortized inducement fee from the original agreement, and the Corporation disbursed the accrued subordinated management fee. The New Management Agreement is effective for 15 years and, consistent with the original Management Agreement, the New Management Agreement provides for a base management fee of \$1,900,000 and a subordinated management fee of \$850,000 (collectively referred to as the Management Fees). The Management Fees adjust annually based on the percentage change in the competitive set's prior 12-month revenue per available room with the base fee to commence adjustment, effective January 1, 2015, and the subordinate fee to commence adjustment, effective January 1, 2017. The subordinate fee is also subject to sufficient operating cash flows (as defined) and any unpaid subordinated fees will accrue. Upon termination of the new management agreement, any unpaid subordinated fees will be due and payable.

Lynn Wyatt Square: The Corporation has undertaken a project to redesign the City property formerly known as Jones Plaza. The \$26 million project is being funded by contributions and a \$5 million commitment from the Corporation. The Corporation expects to fund its portion in mid-2023.

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Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

Guarantee: Every three years, the World Petroleum Council (Council) organizes the World Petroleum Congress as the principal meeting place for a global discussion of oil and gas issues. Following a 12-month campaign period, the City of Houston was selected by its fellow Council members to host the 23rd World Petroleum Congress in December 2021. The WPC Organizing Committee (the Organizing Committee) was established as a 501(c)(6) nonprofit corporation to assist with the organization, administration, management, promotion and operations relating to hosting the event. To induce the Council to execute the agreement with the Organizing Committee, the Corporation agreed to guarantee the full payment and performance of all liabilities, obligations and duties imposed upon the Organizing Committee. The Corporation has no potential liability as of December 31, 2022.

Note 11. Risk Management

As the owner of the Hotel operated as the Hilton, and as a local government corporation, the Corporation maintains, or has maintained on its behalf, various policies and/or insurance programs to cover the various risks of loss to which it is exposed. Through commercial policies, the following coverages have been secured: property, general liability, umbrella liability, auto and theft. In lieu of a workers' compensation policy, the Hilton has procured a nonsubscriber program administered by a third-party administrator. Due to the division of responsibilities, the Corporation maintains separate policies for directors and officers, employment practices liability, crime and property.

The Corporation is a defendant in various pending lawsuits arising out of the conduct of its business. Management does not believe that the outcome of any of these matters will have a material adverse effect on the Corporation's financial position, results of operations or cash flows.

Note 12. Convention Services Agreements

The Corporation has agreements with various hotels to rebate a portion or all of their HOT. The purpose of these agreements is to encourage the development of hotels in the City's central business district, promote local economic development and stimulate business and commercial. These agreements vary based on the hotel's proximity to the Convention Center and other criteria determined by the Corporation and require a room block agreement. The room block agreement grants the Corporation access to a specified number of room nights for use with city-wide events.

The agreement with Hampton Inn Homewood Suites requires that 100% of their HOT paid will be rebated to them. The hotel has agreed to provide HFC with room blocks for various events in exchange for the agreement. The agreement with Hampton Inn Homewood Suites is valid until April 1, 2023. The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian and Alessandra state that 50% of their HOT paid will be rebated to them. The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian and the Laura has expired or will expire on September 1, 2021, December 1, 2023, October 1, 2032 and October 1, 2024, respectively. All hotels have agreed to provide HFC with room blocks for various events in exchange for this agreement.

The Corporation paid the following under the aforementioned agreements. Such amounts are included in venue expenses for the year ended December 31, 2022.

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Notes to Financial Statements

Note 12. Convention Services Agreements (Continued)

JW Marriott	\$ 264,169
Hampton Inn Homewood Suites	529,672
Aloft Houston	100,537
The Laura Hotel	17,323
LeMeridian	139,361
Total	\$ 1,051,062

Note 13. Leases

As lessor: The Corporation leases retail, office, rehearsal and equipment space in its managed facilities to others. The majority of these facilities are subleased from the City of Houston. These leases have terms between 22 months and 60 years, with payments required monthly, semiannually or annually. In addition to the above payments, the Corporation receives variable payments for common area maintenance, percentage of sales, pro rata operating expenses and various utility reimbursements associated with the spaces that are not included in the measurement of lease receivable.

The total amount of inflows of resources recognized for the period ending December 31, 2022, is as follows:

	Inflows
Lease revenue	\$ 2,942,715
Interest income	1,923,597

The Corporation did not have any revenue associated with residual value guarantees and termination penalties.

Below is a schedule of future payments that are included in the measurement of the lease receivable:

	Principal	Interest	Total
Years ending December 31:			
2023	\$ 2,042,315	\$ 1,861,904	\$ 3,904,219
2024	2,176,162	1,791,720	3,967,882
2025	2,215,822	1,718,420	3,934,241
2026	2,157,954	1,644,434	3,802,388
2027	2,131,130	1,573,302	3,704,432
2028-2032	12,388,185	6,680,262	19,074,904
2033-2037	15,951,366	4,308,647	20,790,649
2038-2042	10,765,589	1,888,798	12,654,387
2043-207	5,876,698	492,592	6,369,291
2048-2052	471,391	28,611	500,000
Total	\$ 56,176,612	\$ 21,988,689	\$ 78,702,393

As lessee: The Corporation leases facilities and equipment from others. These leases have terms between three years and six years requiring monthly or annual payments.

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Notes to Financial Statements

Note 13. Leases (Continued)

The real estate right to use lease asset is leased from the City of Houston and parts of these facilities are leased to others, as noted above. There are no variable payments for the period ending December 31, 2022. The Corporation did not have other payments attributable to residual value guarantees or termination penalties not previously included in the measurement of the lease liability.

As of December 31, 2022, the principal and interest requirements to maturity for the lease liability are as follows:

	Principal	Interest	Total
Year ending December 31:			
2023	\$ 2,371,820	\$ 351,084	\$ 2,722,904
2024	2,428,558	264,095	2,692,653
2025	2,475,577	175,237	2,650,814
2026	2,643,554	83,333	2,726,887
2027	24,685	475	25,160
Total	<u>\$ 9,944,194</u>	<u>\$ 874,224</u>	<u>\$ 10,818,418</u>

Note 14. Pension

As a component unit of the City of Houston, the Corporation participates in the Houston Municipal Employees' Pension System (HMEPS or the Plan). The participation in the Plan, which publishes separate financial statements, was effective during FY2022. The participation requires the Corporation to report a proportionate share of the net pension liability. The proportionate share of the Corporation increased from 0.0% to 0.69% as of December 31, 2022 and was determined based on the annual required employer contributions which were effective during the year. The change in the proportionate share was the result of the extension of pension benefits to (participation in HMEPS) the Corporations' employees for the first time in 2022. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from HMEPS at 1201 Louisiana St., Suite 900, Houston, Texas 77002-5608 or via <http://www.hmeps.org>.

As outlined below, the summarized impact of the extension of pension benefits is as follows:

- Net pension liability for its proportionate share of \$11.1 million
- Deferred Outflow of resources of \$13.3 million
- Deferred Inflow of resources of \$2.5 million
- Pension expenses of \$3.1 million

Plan description

HMEPS is a single employer, defined benefit pension plan, which covers all eligible municipal employees of the City, including all employees of Houston First Corporation. HMEPS was created under Chapter 358, Acts of the 48th Texas Legislature, Regular Session, 1943 (Article 6243g, Vernon's Texas Civil Statutes) and reenacted and continued under HB1573, 77th Texas Legislature, Article 6243h, Vernon's Texas Civil Statutes, (the "Pension Statute") as amended. An independent Board of Trustees administers the Plan. The fiscal year of HMEPS ends June 30. In this Financial Report, the Corporation reports separately from the City and is required to report as a cost-sharing plan since the Corporation is allocated a proportionate share of the net pension liability ("NPL"). The schedules of Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources show the Corporation's cost share of the City's plan.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 14. Pension (Continued)

Benefits Provided

HMEPS includes three contributory groups, groups A, B, and D, and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of credited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of between 0% and 2% depending on investment returns. The maximum pension benefit is 90% of the participant's average monthly salary. As defined by the Plan, pension benefits are increased annually by a Cost of Living Adjustment (COLA) except for Group D members who terminated employment prior to July 1, 2017 who do not receive COLAs. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Employees Covered by Benefit Terms

In March 2022, employees of the Corporation were determined to be eligible to participate in the Plan based on a settlement agreement between the City and HMEPS. Under the Plan, participants eligibility is based on hire date by the City of Houston or the Corporation. Employees hired on or after January 1, 2008 automatically become members of Group D. with normal retirement eligibility at age 62 with five years or credited service and option to elect an early reduced retirement benefit.

A former participant in the Plan who is rehired as an employee of the Corporation on or after January 1, 2008 is a member of the group in which the employee participated at the time of the employee's immediately preceding separation from service. For those participants in Group A and Group B employed effective January 1, 2005, a participant who terminates employment with the Corporation is eligible for a normal retirement pension beginning on the member's effective retirement date after the date the member completes at least five years of credited service and attains:

- 62 years of age, or
- A combination of years of age and years of credited service, including parts of years, the sum of which equals the number 75, provided the participant is at least 50 years of age, or
- Any combination of age and credited service that when added together equal 70 or more, provided that the member, prior to January 1, 2005 completed at least five years of credited service and attained a combination of age and credited service that when added together equal 68 or more.

Contributions

Employer and employee obligation to contribute, as well as employee contribution rates, are included in the enabling pension statutes. The contribution rates for employees in the HMEPS are either eight percent, four percent, or three percent for group A, B and D participants, respectively. HFC's employer annual required contributions to the plan were approximately \$3.1 million for the year ended December 31, 2022 of which approximately \$1.7 million is in accounts payable.

The HMEPS annual required contributions are determined in accordance with the Pension Statute as amended, and consist of (a) an actuarially determined percentage of payroll multiplied by actual payroll and (b) a fixed dollar amount which is based on the Unfunded Actuarial Accrued Liability as of July 1, 2016, amortized over 30 years beginning July 1, 2017. The Corporation's required contribution rate was 8.41% of payroll for the period from January 1 through June 30, 2022 and 8.44% plus a fixed dollar amount of approximately \$1.7 million for the period of July 1 through December 31, 2022.

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 14. Pension (Continued)

Actuarial Assumptions

The net pension liability as of June 30, 2022, was determined by an actuarial valuation of July 1, 2021 and rolled-forward using generally accepted actuarial principles. As of June 30, 2021, the last experience study was performed in 2015. The following are the actuarial assumptions used to determine the total pension liability:

Inflation	2.25%
Salary changes	3.00% to 5.25%
Investment rate of return	7.00%
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	26 and 27 years
Asset valuation method	5 Year smoothed market, direct offset of deferred gains and losses
Mortality assumption	RP-2000 Table scaled by 125% for males and 112% for females
	The rates are then projected on a fully generational basis by scale BB

Long-Term Expected Rate of Return

The long term expected rate of return on the investment was supported using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimate of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation are as follows for June 30, 2022:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	32.50 %	7.30 %
Private equity	17.00	10.25
Fixed income	10.00	5.88
Real estate	12.50	6.35
Absolute return	8.00	7.00
Inflation linked	15.00	7.70
Private debt	5.00	7.80
Cash/liquidation	-	3.65
	100.0 %	

Pension Expense

For the year ended June 30, 2022, the Corporation's proportionate share recognized as pension expense is \$267,000 plus the allocation of the proportionate share due to the change in benefits of \$2.8 million net of contributions subsequent to the measurement date for a total current period expense of \$3.1 million.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Notes to Financial Statements

Note 14. Pension (Continued)

Deferred Outflows and Inflows of Resources

At December 31, 2022 the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Differences between expected and actual experience	\$ 134,000	\$ 96,000	\$ 38,000
Change of assumptions	-	149,000	(149,000)
Net difference between projected and actual earnings on pension plan investments	-	2,316,839	(2,316,839)
Change in proportion	10,719,000	-	10,719,000
Subsequent contribution	2,496,780	-	-
Total	<u>\$ 13,349,780</u>	<u>\$ 2,561,839</u>	<u>\$ 8,291,161</u>

For the year ended December 31, 2022, the Corporation recognized an adjustment to pension expense of \$2,496,780 resulting from the Corporation's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the next fiscal year. Net deferred outflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized in pension expense over five years as of the beginning of each measurement period. Other deferred inflows and outflows are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources for the year ended December 31, 2022 will be recognized as a component of future pension expense are as follows:

Years ending June 30:		
2023		\$ (3,137,261)
2024		(3,181,389)
2025		(1,865,483)
2026		(107,028)
Total		<u>\$ (8,291,161)</u>

**Houston First Corporation
(A Component Unit of the City of Houston, Texas)**

Notes to Financial Statements

Note 14. Pension (Continued)

Discount rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the Plan's annual required contributions will continue to follow the current funding policy. Based on the actuarial assumptions applied, the Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current plan members for all future years and hence, the blended GASB discount rate is equal to the long-term rate of return of 7.0%. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Corporation's proportionate share of the net pension liability to the changes in the discount rate. The following represents the sensitivity of the proportionate share of the net pension liability to changes in the discount rate if it were calculated using a single discount rate that is one percentage-point lower or one percentage point higher than the single discount rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension	\$ 2,180,572,000	\$ 1,609,795,000	\$ 1,129,984,000
The Corporation's proportionate share of NPL (0.69%)	\$ 14,994,000	\$ 11,069,000	\$ 7,770,000

The Corporation reported a payable to the City of Houston as an employer remittance to the Plan of \$1.7 million as of December 31, 2022.

Note 15. Subsequent Event

Refinance of the VALIC Note Payable:

On June 1, 2023, the Corporation executed a refinancing agreement with Equitable Financial Life Insurance Company in the amount of \$115 million. The new loan converted the variable rate VALIC Note Payable into a stated fixed rate of 6.5% note and will mature over the next 83 months with the option to pay down a portion of the outstanding balance prior to maturity.

Required Supplementary Information (unaudited)
Schedule of the Corporation's
Proportionate Share of Net Pension Liability-Houston Municipal Employees Retirement System
Year Ended December 31, 2022

	2022
Corporation's proportionate percentage of collective net pension liability	0.687630%
Corporation's proportionate share amount of collective net pension liability	\$ 11,069,435
Corporation's covered payroll	15,411,145
Corporation proportionate amount of the collective net pension liability as a percentage of the employer's covered payroll	71.83%
Plan fiduciary net position as a percentage of total pension liability	\$ 71.06%

Information prior to 2022 is not available and the information presented is as of the measurement date for HMEPS which is June 30, 2022.

Change in benefit terms

Prior to FY2022, the Corporation was not a participant in the Plan. The pension plan benefit provisions of HMEPS were adopted in fiscal year 2022.

Change in assumptions

Economic and demographic assumptions changes over which HMEPS, the City of Houston and the Corporation do not have influence are not presented.

Required Supplementary Information (unaudited)
Schedule of the Corporation's
Contributions-Houston Municipal Employees' Retirement System
Year Ended December 31, 2022

Schedule of Employer Contributions

<u>Year Ending December 31,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll (1)</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2022	3,040,030	1,312,334	1,727,696	15,411,145	8.5%

(1) The covered payroll reported is based on total gross compensation on which contributions to the plan are based.

The information presented in the required supplementary schedules was determined as part of the June 30, 2022 actuarial valuation and excludes payables associated with separately finance specific liabilities.

Prior to FY2022, the Corporation was not a participant in the Plan. The pension plan benefit provisions of HMEPS were adopted in fiscal year 2022.

V. (B) – Consideration and possible approval of a Commercial Waste Removal and Recycling Services Agreement between Houston First Corporation and Republic Services of Houston.

Consideration and possible approval of a Commercial Waste Removal and Recycle Services Agreement between Houston First Corporation and Republic Services of Houston.

DESCRIPTION: On April 7, 2023, Houston First issued a Request for Proposals for Commercial Waste Removal and Recycling Services from experienced, highly-qualified commercial waste removal and recycling service providers capable of providing, on an as-needed basis at Houston First facilities, (a) solid waste and recycling containers and compactors; (b) collection, transportation, and disposal of non-hazardous solid waste; and (c) collection, transportation, and recycling of paper, corrugated containers, metal cans, wooden pallets, and plastic in an environmentally-responsible manner for the George R. Brown Convention Center, Partnership Tower, Wortham Theater Center, Jones Hall, Miller Outdoor Theatre, and S. Jensen Theater (known commonly as Talento Bilingue de Houston).

On May 23, 2023, five proposals were received. All proposers were evaluated by the selection committee and Republic Services of Houston was selected.

Management recommends contracting with Republic Services of Houston to perform commercial waste removal and recycling services, described above, subject to the parameters set forth below:

- The term of the agreement begins on August 1, 2023, and is for five years; and
- The Diversity Participation Goal remains at 10%.

RESOLVED, that the Board of Directors of Houston First Corporation approves the following resolutions based upon the above description of services and parameters:

RESOLVED, that the Board of Directors of Houston First Corporation hereby approves and authorizes the execution of a Commercial Waste Removal and Recycling Services Agreement (the "Agreement") between Houston First Corporation and Republic Services of Houston, together with such conditions or modifications that are approved by the President and Chief Executive Officer, as he may determine to be in the best interest of Houston First Corporation, and to execute such Agreement; the President and Chief Executive Officer hereby is, without the necessity for joinder of any other person, authorized, empowered and directed for and on behalf of Houston First Corporation to execute and deliver the Agreement in a form as approved by the President, or any Authorized Person (defined below), such approval to be conclusively established by the execution and delivery of the Agreement by any Authorized Person; and

FURTHER RESOLVED, that each of the President and Chief Executive Officer and General Counsel of Houston First Corporation are each hereby designated by Houston First Corporation as an "Authorized Person" for purposes of this resolution and with respect to the Agreement to be executed hereunder; and

FURTHER RESOLVED, that the Agreement executed by any Authorized Person, for and on behalf of and in the name of Houston First Corporation before or following the adoption of the foregoing resolution, in connection with the described transaction, be and is hereby ratified, confirmed, and approved in all respects for all purposes.

HOUSTON FIRST CORPORATION

BOARD OF DIRECTORS MEETING

Lost Lake – Buffalo Bayou Park
WASHINGTON CORRIDOR

HFC BOARD ROOM
Partnership Tower
Thursday, June 22, 2023
3:00 p.m.

PUBLIC COMMENTS

Anyone who wishes to address the Board 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 BOARD OF DIRECTORS MEETING

June 22, 2023



MINUTES

May 25, 2023

HFC BOARD OF DIRECTORS MEETING

June 22, 2023

HOUSTON FIRST
**CHAIRMAN'S
REPORT**

DAVID M. MINCBERG

HFC BOARD OF DIRECTORS MEETING

June 22, 2023



HOUSTON FIRST PRESIDENT & CEO REPORT

MICHAEL HECKMAN

HFC BOARD OF DIRECTORS MEETING

June 22, 2023

MAJOR REVENUES & EXPENSES

YTD AS OF MAY 31, 2023

MAJOR REVENUES	2023 Budget	2023 Actual	Over (Under) Budget (\$)	Over (Under) Budget (%)
Hotel Occupancy Tax Collections	\$42,500,000	\$50,716,818	\$8,216,818	19.3%
Hilton Americas Net Cash	\$18,625,000	\$24,500,000	\$5,875,000	31.5%
GRB Facility Rental	\$3,442,720	\$3,694,551	\$251,831	7.3%
GRB Food and Beverage	\$11,793,088	\$15,010,682	\$3,217,594	27.3%
Parking Revenue-Avenida	\$5,048,747	\$4,569,081	(\$479,666)	(9.5%)
Parking Revenue-Theater District	\$2,687,589	\$3,392,677	\$705,088	26.2%
MAJOR EXPENSES	2023 Budget	2023 Actual	Over (Under) Budget (\$)	Over (Under) Budget (%)
Personnel	\$10,782,251	\$10,280,842	(\$501,409)	(4.7%)
Security Contract	\$2,267,347	\$1,864,379	(\$402,968)	(17.8%)
Bldg. Maintenance Contract	\$2,584,056	\$2,190,921	(\$393,135)	(15.2%)
Parking Contract	\$1,016,562	\$1,040,103	\$23,541	2.3%
Janitorial Contract	\$2,750,080	\$2,814,289	\$64,209	2.3%
GRB Food and Beverage	\$7,079,317	\$9,616,835	\$2,537,518	35.8%

FINANCIAL PERFORMANCE

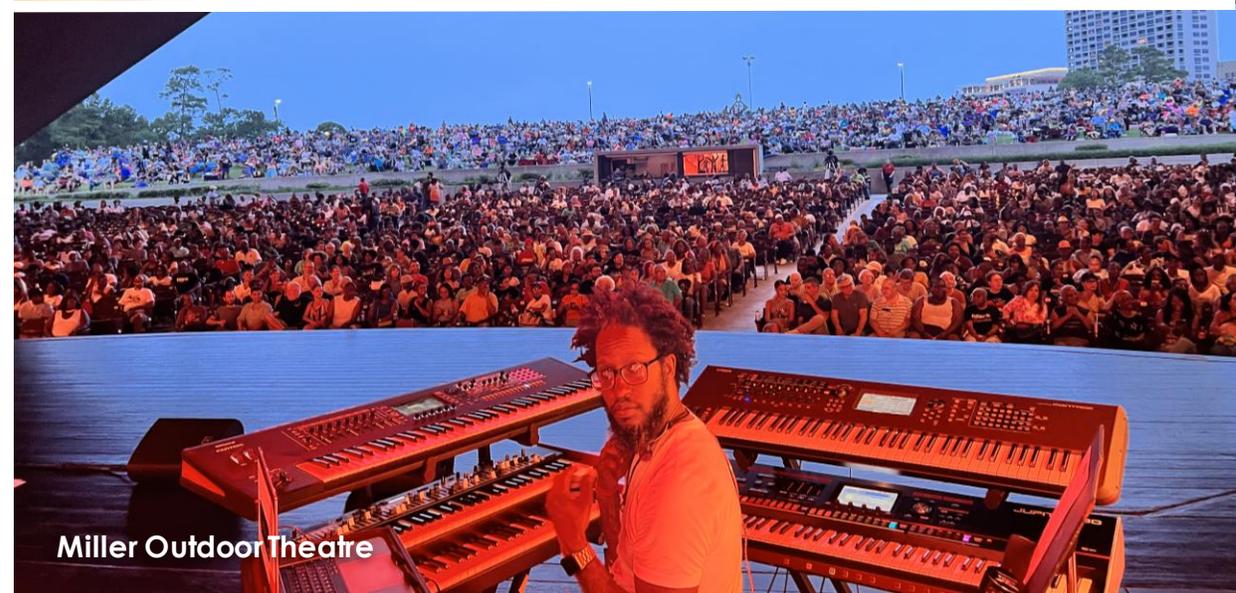
YTD AS OF MAY 31, 2023

	2023 Budget	2023 Actual	Variance
TOTAL REVENUES	\$90,493,990	\$106,739,216	\$16,245,226
TOTAL EXPENSES	\$89,165,890	\$85,031,826	\$(4,134,064)
TOTAL REVENUES LESS EXPENSES	\$1,328,100	\$21,707,390	\$20,379,290

2023 JUNETEENTH CELEBRATIONS

Juneteenth – The Musical Journey Continues

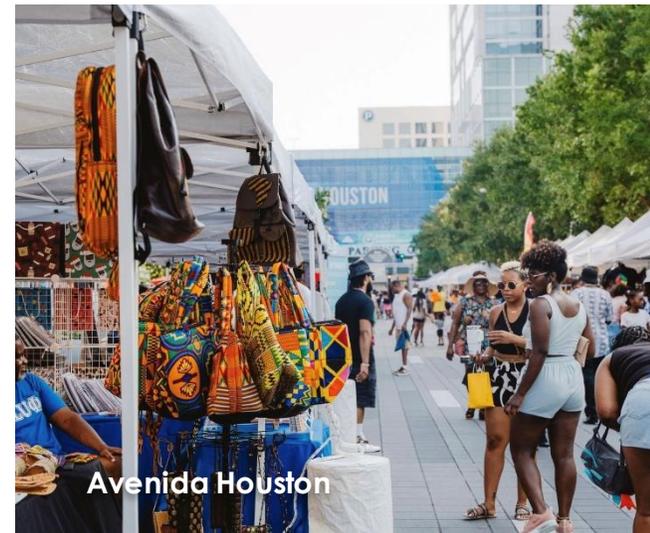
- June 16th & June 17th at Miller Outdoor Theatre.
- 2-night musical journey through the sounds of Blues, Classic R&B and Hip-Hop, Jazz and Gospel.



2023 JUNETEENTH CELEBRATIONS

Juneteenth – A Celebration of Freedom

- June 18th at Avenida Houston & Discovery Green.
- Celebration featured entertainment, market, music, and more.



RNC UPDATE





BOARD BUSINESS

A. Consideration and possible approval of the Houston First 2022 Annual Financial Audit.

PRESENTERS

FRANK WILSON

Chief Financial Officer, HFC

STEPHANY BLAND

Controller, HFC

TINO ROBLEDO

Senior Director, Audit Services — RSM

HFC BOARD OF DIRECTORS MEETING

June 22, 2023

ANNUAL AUDIT REPORT SCOPE

INCLUDED:

- Venues (operations formerly included in CEFD and Partnership Tower)
- Hilton Americas-Houston Hotel
- Visit Houston (Destination Marketing, Tourism, Destination Sales)
- Parking Garages

EXCLUDED:

- City's Convention and Entertainment Facilities Department (CEFD) debt and fixed assets

RESULTS OF OPERATIONS

CHANGE IN NET POSITION FROM 2021 TO 2022

↑ \$38.0 M Increase in 2022

USES OF FUNDING

↓ \$25.0 M Pay Down Debts

↑ \$13.0 M Capital Project
Funding without
Debt Increase

NET POSITION

DECEMBER 31, 2022

	2022	2021	Variance
Current assets	\$92,257,968	\$84,508,871	\$7,749,097
Non-current assets	\$140,314,020	\$141,762,975	(\$1,448,955)
Capital assets	\$477,480,452	\$486,369,297	(\$8,888,845)
TOTAL ASSETS	\$710,052,440	\$712,641,143	(\$2,588,703)
Liabilities			
Current liabilities	\$74,342,550	\$83,501,919	\$9,159,369
Long-term liabilities	\$452,392,633	\$470,234,511	\$17,841,878
TOTAL LIABILITIES	\$526,735,183	\$553,736,430	\$27,001,247
Deferred Inflow/outflow	\$37,266,333	\$50,812,621	\$13,546,288

NET POSITION OVERVIEW

TOTAL ASSETS DECREASED \$2.6 MILLION OVER 2021

- Current assets increased by **\$7.7 M** (majority of change is deposits held by others offset by the decrease in cash balance)
- Non-current assets increased by **\$1.5 M** (\$3.0 M is due to increased in capital assets and \$2.1 M is due to decrease in lease receivable)
- Capital assets decreased **\$8.9 M** due to depreciation of \$24 M offset by acquisitions of \$15.5 M.

TOTAL LIABILITIES DECREASED \$27.0 MILLION OVER 2021

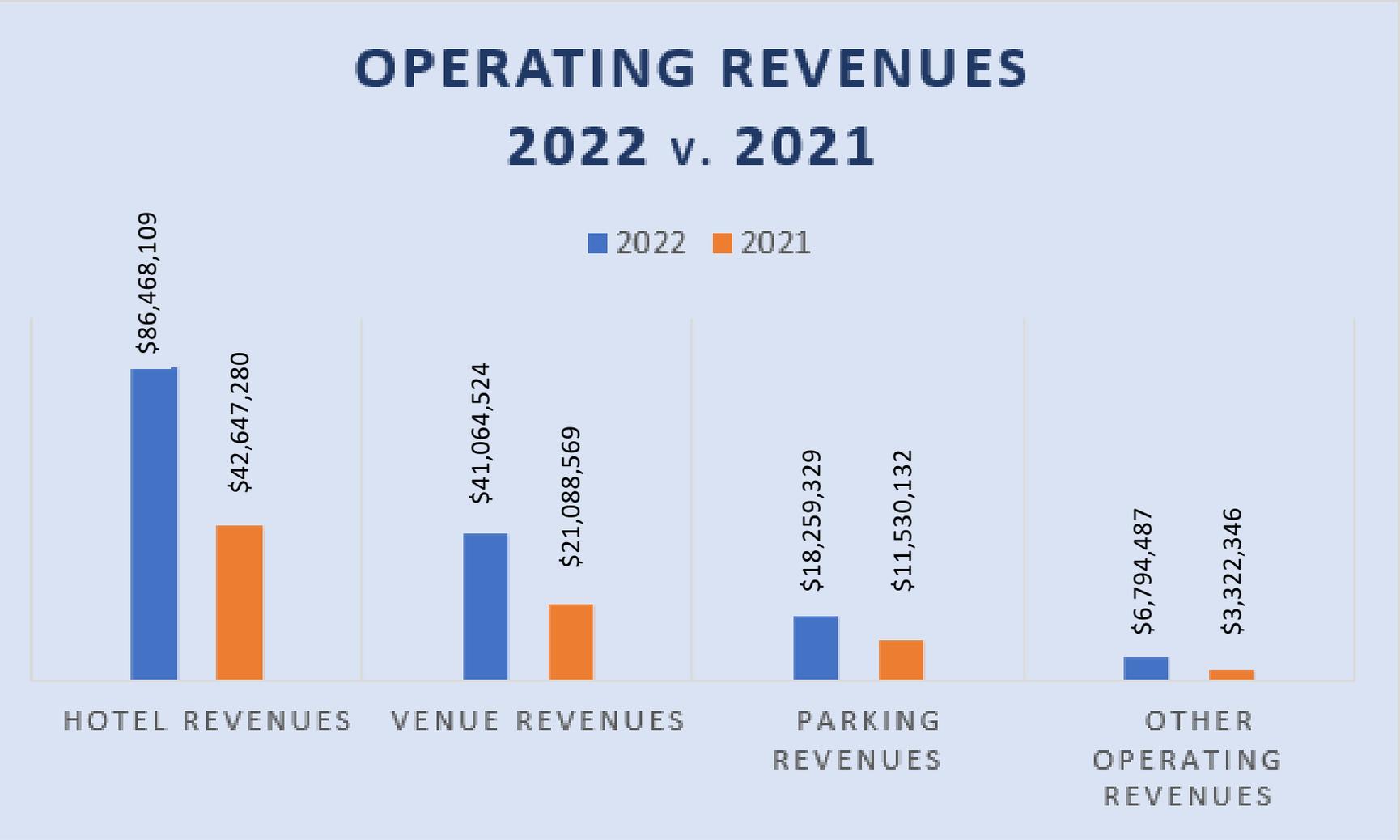
- Principal payments on underlying bonds - **\$25.0 M**

REVENUES IN 2022

FROM HIGH TO LOW

- **\$86.5 M** Hotel Revenues
- **\$74.2 M** Intergovernmental Revenues from Primary Government
(HOT + Pledged Parking + Harvey Reimbursements - CEFD Debt Service)
- **\$41.1 M** Venue Revenues
- **\$18.3 M** Avenida Parking Revenues

OPERATING REVENUES VARIANCE SUMMARY



OPERATING REVENUES VARIANCE SUMMARY

2022 V. 2021 Revenue Variance Chart

Revenue Type	Variance (\$)	Variance (%)
Hotel	\$43,820,829	103%
Venue	\$19,975,955	95%
Parking	\$6,729,197	58%
Other	\$3,472,141	105%

EXPENSES IN 2022

FROM HIGH TO LOW

- **\$48.8 M** Venue Expenses
(Maintenance, Personnel, Janitorial, Security, Utilities)
- **\$35.9 M** General and Administrative Expenses
(Indirect Marketing, Finance, Management Fees, Rebates, Legal, Information Technology)
- **\$28.3 M** Hotel Expenses
(Cost of Goods Sold, Direct Costs related to Hilton)
- **\$20.1 M** Visit Houston Expenses
(Destination Marketing, Tourism, Destination Sales)

OPERATING EXPENSES VARIANCE SUMMARY



OPERATING EXPENSES VARIANCE SUMMARY

2022 V. 2021 Expense Variance Chart

Expense Type	Variance (\$)	Variance (%)
Hotel	\$13,143,971	87%
Venue	\$17,576,728	56%
Parking	\$1,834,593	28%
Visit Houston	\$8,155,593	68%
General Adm.	\$8,233,794	30%

OPERATING REVENUES/EXPENSES VARIANCES

2022 VERSUS 2021

- **Total operating revenues** increased **94%** to **\$152.6 M** due to the recovery in the hospitality and convention industries from the impact of the COVID-19 pandemic. Hotel revenues benefited from the increase in leisure travel in Houston and increase in occupancy rate.
- **Operating expenses** increased **43%** to **\$166.5 M** in 2022 from \$116.6 M in 2021. The increase was due to the recovery, noting a \$13.0 M increase in hotel expenses and \$17.6 M increase in venue expenses.

NON-OPERATING REVENUE & EXPENSE VARIANCE(S)

2022 VESUS 2021

- **Total non-operating revenues (expenses) increased \$32.4 M from 2021**
- It is a combination of:
 - **\$16.0 M** one time cost in 2021 related to pension settlement; and
 - **\$17.1 M** revenue increase from primary government.

2022 ANNUAL REPORT VS. CFO MONTHLY REPORT

- **\$38.0 M** Net Gain in 2022 Annual Report
- **\$13.0 M** Net Gain in CFO Monthly Report as of 12/31/22

REPORT SCOPE VARIANCE HIGHLIGHTS

Two Expenses not in CFO Report Scope

\$22.0 M Depreciation Expense

\$3.0 M Additional Pension Expense

Expenses in CFO report but not in the Annual Report

\$33.0 M All Principal Payment

\$16.0 M Interest related to CEFD debts



HOUSTON FIRST CORPORATION

FY 2022 AUDIT RESULTS

Report to the Benefits, Compensation and,
Finance Committee and the Board of Directors

June 15, 2023

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING





June 15, 2023

To the Members of the Benefits, Compensation and Finance Committee and the Board of Directors of Houston First Corporation

We are pleased to present this report related to our audit of the basic financial statements of Houston First Corporation (the Corporation) as of and for the year ended December 31, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Corporation's financial reporting process.

It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Houston First Corporation.



Helping you meet requirements, turn challenges into opportunities and improve your business.

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EXECUTIVE SUMMARY

Audit Status

The 2022 audit is nearing completion.

Upon approval by management, we expect to issue an unqualified opinion on the financial statements.

Significant Changes to the Planned Audit Strategy

There were no significant changes to the planned audit strategy as communicated to the Benefits, Compensation and Finance Committee (the Committee) in our report dated March 21, 2023.

Significant Risks

We did not identify any significant risks subsequent to those we communicated to you in our report dated March 21, 2023.

Adoption of New Accounting Policy

In 2022, the Corporation adopted the accounting and financial reporting standard for Pensions.

Audit Adjustments or Uncorrected Misstatements

During our audit, we did not identify any audit adjustments and uncorrected misstatements.

Deficiencies in Internal Control

We did not identify any reportable internal control deficiencies.



DIVERSITY PARTICIPATION-YOE CPA, LLC

- Maintaining the diversity participation commitment.
- Continue to work with Yoe CPA, LLC, a subcontractor to RSM.
- Yoe CPA, LLC worked side-by-side with RSM service team throughout the audit.
- Yoe CPA, LLC was issued RSM laptops to facilitate integration of the two firms and provide for a seamless client service experience.
- Areas primarily worked on included the following:
 - Investments
 - Capital assets
 - Long-term debt
 - Selected income statement line items

Accounting policies and practices

The following required communications summarize our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Matter to Report	Yes	No
Changes to the planned scope and timing of the audit		ü We did not have changes to the planned scope and timing of our audit.
Accounting policies and practices		
Preferability of accounting policies and practices		<p>ü Under accounting principles generally accepted in the United States of America, management may select among alternative accounting practices in certain circumstances.</p> <p>In our view, in such circumstances, management has selected the preferable accounting practice.</p> <ul style="list-style-type: none"> • During the period ending December 31, 2022, the Corporation extended certain retirement benefits (pension benefits) to its employees. The Corporation adopted the accounting and financial reporting standards of Statement No. 68 of the Governmental Accounting Standards Board -<i>Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27</i>. Statement No. 68 established standards for measuring and recognizing liabilities, deferred outflows or resources, deferred inflows of resources and expenses for pension benefits provided to the employees of state and local government employers through pension plans that are administered through a trust.
Significant accounting policies		ü We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Significant unusual transactions		ü We did not identify any significant unusual transactions.

Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

Allowance for uncollectible accounts receivable

Accounting policy

An allowance for uncollectible accounts receivable has been established based on historical experience and any specific customer collection issues that have been identified.

Management's estimation process

The determination is made based on the account receivable aging report at end of year with a specific focus on outstanding balances older than 90 days and consideration for the specific customer collection issues identified at year end.

Basis for our conclusion on the reasonableness of the estimate

We concluded the estimates used by management are reasonable

(in thousands)	2022	2021
The allowance for doubtful accounts	\$4,256,168	\$4,661,592

Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

The Depreciable Life of Property and Equipment

Accounting policy

The depreciable life of property and equipment is set at the estimated useful life of the related asset.

Management’s estimation process

The determination is made at the time the asset is placed into service and involves various judgments and assumptions, including the estimated useful life and prior experience.

Basis for our conclusion on the reasonableness of the estimate

We concluded the estimates used by management are reasonable.

(in thousands)	2022
The Depreciable Life of Property and Equipment	3 years to 40 years on Straight Line

Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

Leases

Accounting policy

The policy requires recognition of certain assets and liabilities for leases that are considered long term and require a present value calculation using a discount rate which may be an imputed rate/incremental borrowing rate.

Management’s estimation process

The calculation of the present value is made upon the execution of a lease agreement/implementation of the standard based on the terms and conditions on the date of implementation (January 1, 2020).

Basis for our conclusion on the reasonableness of the estimate

We concluded the estimates used by management are reasonable based on the present value calculations and related terms used at the date of implementation and changes made subsequent to the initial measurement date.

Leases	2022
Lease Receivable as a Lessor	\$56,176,612
Lease Payable as a Lessee	(\$9,944,194)

Net Pension Liability

Accounting policy

The policy requires recognition of the net pension liability, deferred outflows, deferred inflows and pension expense based on the calculation provided by the City of Houston for the Corporation’s proportionate share of net pension liability and related balances.

Management’s estimation process

The management of the City of Houston obtains an independent actuarial valuation for its Houston Municipal Employee Pension Plan (the Plan). The City of Houston provided HFC its proportionate share of the City’s net pension liability. The allocation of the proportionate percentage is based on total HFC employer contributions in relation to total employer contributions to the Plan. HFC reviews/approves the calculation of the related balances of its proportionate share of the totals for participation in the Plan.

Basis for our conclusion on the reasonableness of the estimate

We concluded the estimates used by management are reasonable based on the use of an actuarial specialist who reviewed the assumptions used in calculating the pension liability of the Plan.

Net Pension Liability	2022
Pension Liability	(\$11,069,398)

Pension Accounting Pronouncement Impact

The following is the impact of the pension accounting pronouncement as of December 31, 2022:

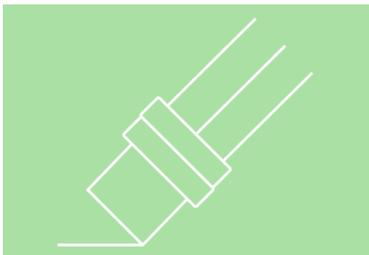
Account	Total Pension values	Houston First Corporation's Proportionate share (.0068763)
Net pension liability	\$1,609,795,214	\$11,069,000
Current pension expense	\$38,788,992	\$267,000
Amortization of change in proportionate share		\$2,778,000
Deferred outflow of resources	\$19,452,212	\$134,000
Change in proportionate share (differences between actual and expected experience)		\$10,719,000
Deferred Inflow of resources (difference between projected and actual earnings on pension plan investments—includes immaterial amounts of experience and assumption changes)	\$372,562,031	\$2,561,839

Audit Adjustments and Uncorrected Misstatements



AUDIT ADJUSTMENTS

There were no audit adjustments made to the final trial balance presented to us for the audit.



UNCORRECTED MISSTATEMENTS

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process

Matter to Report	Yes	No
Observations about the audit process		
Significant issues discussed with management		ü No significant issues arising from the audit were discussed or the subject of correspondence with management.
Disagreements with management		ü There were no disagreements with management.
Significant difficulties encountered in performing the audit		ü We did not encounter any significant difficulties in dealing with management during the audit.
Consultations with other accountants		ü We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Difficult or contentious matters that required consultation		ü We did not encounter any significant and difficult or contentious matters that required consultation outside our engagement team.

Independence

Shared Responsibilities: AICPA Independence

The AICPA regularly emphasizes that auditor independence is a **joint responsibility** and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For RSM to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and RSM each play an important role.

Our responsibilities



- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

The Corporation's responsibilities



- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
 - New affiliates, directors, officers, or person in financial reporting oversight roles.
 - Change in reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint venture, component units, jointly governed organizations.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the Corporation and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with RSM.
- Not entering into relationships resulting in RSM, RSM covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Company.

RSM CONTACTS

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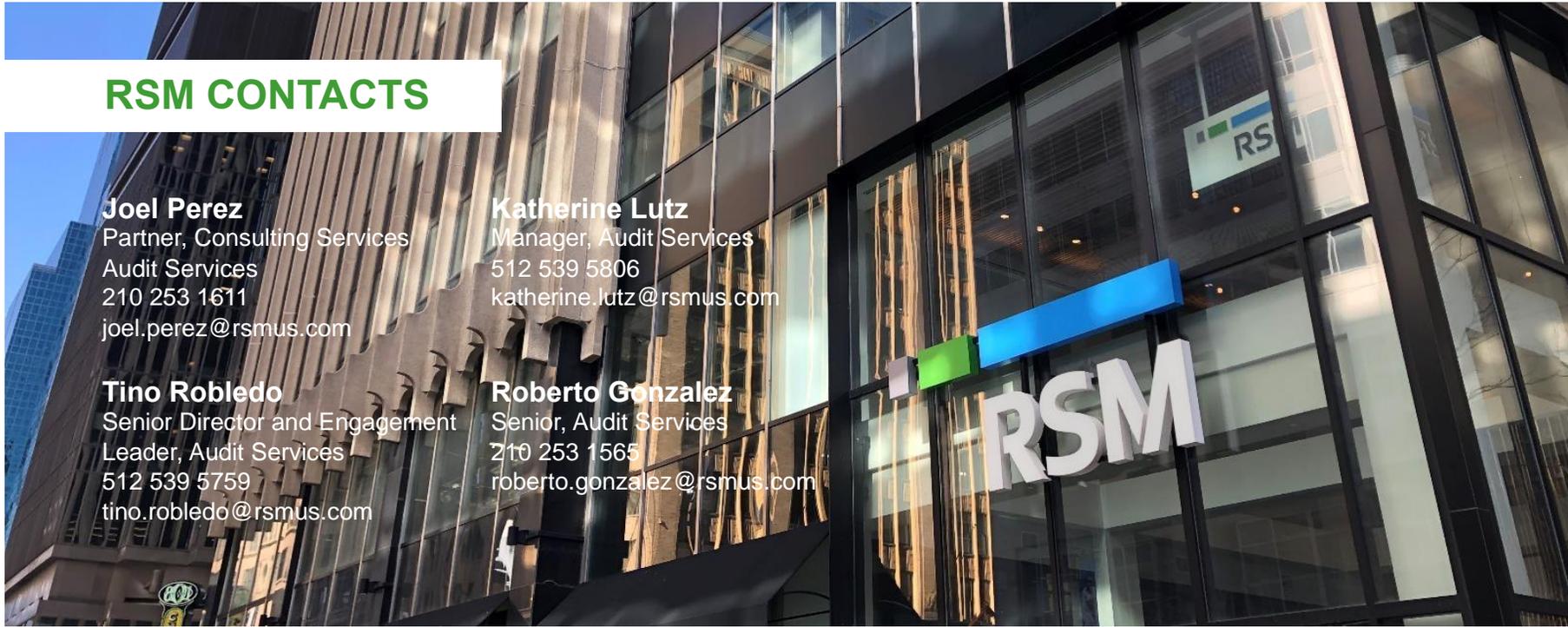
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BOARD BUSINESS

- B. Consideration and possible approval of a Commercial Waste Removal and Recycling Services Agreement between Houston First Corporation and Republic Services of Houston.

FRANK WILSON
Chief Financial Officer

HFC BOARD OF DIRECTORS MEETING

June 22, 2023

Houstonfirst

RECOMMENDATION

Commercial Waste Removal and Recycling Services

REPUBLIC SERVICES OF HOUSTON

- Request for Proposals Issued April 7, 2023.
- 5 Responses Received.
- Current provider of commercial waste services.
- **Current Clients Include:**
 - Clutch City Sports/Toyota Center
 - Bayou Processing
 - Northshore ISD
 - Klein ISD



- **Diversity Partner (10% Goal)**
 - XD Ventures
 - COH DBE certified

✓ **Unanimously approved by the HFC Operations Committee on June 13, 2023.**

HoustonfirstSM