

2. Chairman's Report

a. Update on 2020 collections of the Authority's hotel occupancy tax and motor vehicle tax. Chairman Friedman noted that the Authority has been working on the possibility of issuing new bonds, and thanked Directors Catuzzi, Callier and Kendrick for agreeing to serve on the task force and spending many hours evaluating the financing options available to the Authority. He also extended the appreciation of the Board to Ms. Burke, Mr. Waggoner and Mr. Ochoa from the Authority's staff for the time and effort that they have expended, as well. Chairman Friedman said that today, approval is being sought from the Board to proceed with a specific plan and that the resolution with its attachments were previously circulated.

Before calling for a vote on the resolution, Chairman Friedman asked Mr. Waggoner to present a summary of year-to-date 2019 revenues as compared to 2020. Mr. Waggoner responded that Hotel Occupancy Tax collections through August 2019 were \$24,754,497, compared to \$16,055,996 for the same period of 2020, or a negative dollar change of (\$8,698,501) and a negative (35.14%) percentage change over the same period of 2019. The Motor Vehicle Rental Tax collections through August 2019 were \$16,756,638, compared to \$11,263,761 for the same period of 2020, or a negative dollar change of (\$5,492,877) and a negative 32.78% percentage change over the same period of 2019.

Chairman Friedman said that this freefall of collections has created a cash flow crunch for the Authority. He then asked Mr. Cash to summarize the Authority's plan for refinancing. Mr. Cash said that the first quarter of 2020 doesn't look all that bad, but what is of major concern is 2021 and 2022. He noted that this economic recovery will end up being slower and deeper than it has been in the past. Mr. Cash said that the proposed refunding plan is trying to set the groundwork for getting through the next three to four years, as opposed to being so focused on 2020. He noted that there have always been plans to restructure in 2024. Mr. Cash said that the negatives of this proposed transaction is that the Authority is adding additional debt service interest, which will be approximately \$4.5 million per year until 2054, 2055 and 2056 principal payments are due. He noted that if nothing is done at this time, the Authority will be pulling on reserves and insurance until there is a recovery, all of which has to be repaid with interest.

Chairman Friedman noted that as late as April of this year, it was believed the Authority could make its November debt payment, but circumstances have changed and reserves will be needed to make up what is perceived at this time to be a slight shortfall to cover debt service, and hopefully to fund the G&A distribution needed for the Authority's 2021 operations. He said that under current assumptions, however, full debt service for 2021 and 2022 and the G&A distribution will not be met. He asked Mr. Cash if the proposal being considered was the recommendation of Masterson Advisors as the Authority's financial advisors.

Mr. Cash said that Masterson Advisors believes this is the right thing to do at this time; otherwise, the Authority will be pulling on reserves and at the mercy of the insurers to satisfy debt service until the planned 2024 restructuring. He explained that the reason for moving now is because an additional bonds test based on historic revenues that represent 12 consecutive months out of the last 15 is required for restructuring debt service, and every month that passes when nothing is done means that a good month from last year is being replaced with a bad month from this year. Mr. Cash said that will eventually ratchet down bond capacity.

Because of the way the documents that govern the Authority are written, Mr. Cash stated that the City and the County both need to approve the transaction. He said that Chairman Friedman had reached out to the leadership of both the City and the County. It was approved by Harris County Commissioners Court on August 25, and the item is on City Council Agenda for September 2.

In response to a question from Director Alexander, Mr. Cash said that the rating agencies met earlier in the year and the bonds have received some downgrades, but this was not unexpected considering the pandemic. He said that there will be other meetings with the rating agencies within the next few weeks, and he expects the plan for restructuring will have a positive reaction from the agencies.

Director Burke mentioned to the group that the additional cost to the Authority for the restructuring is approximately \$20 million, and Mr. Cash concurred and noted this is on a present-day basis and can fluctuate because it is rate sensitive.

Director Catuzzi asked about the bond insurers and their reaction to the proposal. Mr. Cash said that the Authority has to obtain permission from the bond insurers when a refinancing is contemplated, and through a significant number of conversations with the insurers, he reports that they are being very cooperative and appear motivated to see the transaction completed. Mr. Campbell reported that Assured, one of the bond insurers, is going to Committee next week and expects to receive credit approval for the restructuring. Additionally, he said that feedback and comments from MBIA, the other bond insurer, have been relatively minimal, yet favorable.

Chairman Friedman closed the discussion by noting that while there is a cost of approximately \$20 million for this restructuring, when put into perspective, the overall savings from the 2014 restructuring was over \$100 million. In response to a question from Director Callier, the net savings number will be approximately \$80 million, when added to what was done in 2014.

Chairman Friedman called for a motion to approve the resolution and supporting documents that was circulated and posted to the Authority’s website. Motion was made by Director Catuzzi, seconded by Director Callier, and passed unanimously by the Board members in attendance.

In response to a request from Chairman Friedman, Mr. Campbell said that the current plan is to put the Preliminary Official Statement into the market right after Labor Day; that he expects to receive insurers’ approvals soon; that meetings with rating agencies should occur shortly thereafter; he expects to price the transaction on September 29 or September 30; and to close and fund the transaction around October 15, which will be completed before the Authority’s next principal and interest payment that is due on November 15.

He said that Wells Fargo will be leading the transaction, Morgan Stanley and Estrada Hinojosa will be co-managers, and it is anticipated to be predominantly a sale to institutional investors. Mr. Campbell stated that it is believed that the market is in very solid shape for this type of transaction. He said that there are two stadium and convention center transactions going into the market within the next week – one in Chicago and one in Columbus – and there will be more stadium and convention center transactions going into the market as time goes on. Mr. Campbell said that the timing for getting into the marketplace in less than two weeks is perfect.

5. Adjournment. There being no further business to come before the Board, and after motion made by Director Callier, and seconded by Director Catuzzi, the meeting was adjourned at approximately 3:00 p.m.

Adopted and approved this 24th day of September, 2020.

J. Kent Friedman, Chairman of the Board

Laura Murillo, Secretary