Downtown Redevelopment Authority

Board of Directors Meeting

October 10, 2023

Tax Increment Reinvestment Zone, Number Three
City of Houston

Downtown Redevelopment Authority
Tax Increment Reinvestment Zone Number Three, City of Houston

Board of Directors Meeting
October 10, 2023

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MINUTES OF THE REGULAR MEETING
OF THE
DOWNTOWN REDEVELOPMENT AUTHORITY

September 12, 2023

The Board of Directors (the "Board") of the Downtown Redevelopment Authority (the "Authority") convened in regular session, in person and open to the public, inside the Large Conference Room at the Authority's office, located at 1221 McKinney Street, Suite 4250, Houston, TX 77010, on the 12th of September 2023, and the roll was called of the duly constituted officers and members of the Board, to wit:

Curtis Flowers	Chair
Michele Sabino	Vice Chair
Barry Mandel	Secretary
Keith Hamm	Treasurer
Regina Garcia	Director
James Harrison	Director
Sherman Lewis	Director
Tiko Reynolds-Hausman	Director
William Taylor	Director

and all of said persons were present except for Chair Flowers, Secretary Mandel, and Director Lewis. Also present were Allen Douglas, Executive Director ("ED"); Kris Larson, President; Jana Gunter, Director of Finance; and staff members Brett DeBord, Jamie Perkins, Albert Sanchez, Ann Taylor and Candace Williams, all with the Authority; Algenita Davis and Ryan LeVessuer, consultants to the Authority; and Clark Lord, outside counsel to the Authority.

Also in attendance were guests and presenters Cmdr. Paula Read and Lt. Jennifer Kennedy with HPD; Council Member Abbie Kamin with Houston City Council District C; Ginger Baldwin and Paul Lock with CenterPoint Energy. Andrew Busker with the City of Houston's Office of Economic Development attended from the public.

DETERMINE QUORUM; CALL TO ORDER

Vice Chair Sabino conducted a roll call and quorum was established. The meeting was called to order at 12:07 PM.

INTRODUCTION OF GUESTS AND PUBLIC COMMENTS

Vice Chair Sabino invited meeting attendees to introduce themselves and welcomed all. Next, she asked if there were any comments from the public. There were no comments from the public.

MINUTES OF PREVIOUS MEETING

The Board considered approving the minutes of the June 13, 2023 regular joint board meeting. Hearing no questions or need for discussion; Vice Chair Sabino called for a motion, moved by Director Harrison, and seconded by Treasurer Hamm, and the minutes of the June 13, 2023 regular joint board meeting were approved as presented.

FINANCE & ADMINISTRATION

Personnel Announcements

ED Douglas updated the Board on recent personnel changes. He began by announcing Lonnie Hoogeboom's resignation, which happened over the summer. Next, he introduced Luis Nunez, who recently came onboard as Director of Urban Strategy & Design. Finally, he announced Cassie Hoeprich will join the team beginning September 18th as Director of Planning & Economic Development.

<u>Check Registers - June, July & August 2023</u>

Vice Chair Sabino asked Jana Gunter to provide updates from finance and administration. Ms. Gunter shared highlights from the check registers for the months ending June 30, July 31 and August 31, 2023. She then asked if there were any questions or comments. There were no questions or comments.

A motion to accept the June, July and August check registers was entertained by Vice Chair Sabino; moved by Director Taylor, seconded by Treasurer Hamm, and check registers for the months June, July and August were accepted as presented.

<u>Financial Statements – 4Q / FY23</u>

Vice Chair Sabino asked Jana Gunter to continue by providing updates on the 4Q / FY23 Financial Statements. Ms. Gunter shared statement highlights, then asked if there were any questions or comments. There were no questions or comments.

A motion was called by Vice Chair Sabino to accept the 4Q / FY23 Financial Statements; moved by Treasurer Hamm, and seconded by Director Garcia, and 4Q / FY23 Financial Statements were accepted as presented.

<u>Investment Report – 4Q / FY23</u>

Ms. Gunter continued providing updates from the 4Q / FY23 Investment Report. She announced the auditors, while conducting the annual audit, discovered $500,000 of interest income will be paid to Authority from the City. Questions were asked and answered, and discussion ensued over how the interest income would be spent. It was noted the Board has sole discretion on how the interest income will be spent.

A motion was called to accept the 4Q / FY23 Investment Report; moved by Treasurer Hamm, seconded by Director Garcia, and the 4Q / FY23 Investment Report was accepted as presented.

<u>DBE Report – 4Q / FY23</u>

Lastly, Ms. Gunter concluded the Finance & Administration updates by providing highlights from the 4Q / FY23 DBE Report. Director Taylor suggested the idea of providing additional detail in the DBE Reports. Discussion ensued and questions were asked and answered. It was noted that going forward, additional details will be added to the DBE Reports.

A motion was called to accept the 4Q / FY23 DBE Report; moved by Director Taylor, seconded by Director Garcia, and the 4Q / FY23 DBE Report was accepted as presented.

MUNICIPAL SERVICE INITIATIVES

ED Douglas opened discussion and invited Cmdr. Read and Lt. Kennedy to share a presentation about recent municipal service initiatives. Cmdr. Read and Lt. Kennedy shared details on HPD's focus in the following areas have shaped the overall safety and reduction of criminal activity in downtown: (i) civility enforcement efforts; (ii) BMV auto thefts, notably the dismantlement of a large group targeting theft of high-end vehicles; and (iii) the efforts to increase education and safety of electric scooter use and the reduction of street racing. Discussion ensued about the recent opening of the satellite security station near the Beacon, how success is measured with the focused initiatives discussed, and the outlook of new recruits joining the police force. Questions were asked and answered. No action was required.

REQUEST TO OPERATE AND MAINTAIN ELECTRIC VEHICLE CHARGING STATIONS

Vice Chair Sabino asked ED Douglas to continue with the next topic. He introduced the team behind the electric vehicle charging station project; namely Abbie Kamin, Houston City Council Member – District C; and CenterPoint Energy representatives Ginger Baldwin and Paul Lock. ED Douglas then invited CM Kamin to share a presentation. CM Kamin gave a detailed overview of the project, emphasizing the opportunity and need for the charging stations along Allen Parkway.

Discussion ensued, questions were asked and answered. Ms. Baldwin answered questions about the use of solar energy to power the charging stations. CM Kamin noted District C will contribute $100,000 toward the project. Questions were raised on whether or not the agreement itself would be brought to the Board for consideration once the terms were negotiated. ED Douglas affirmed it would.

Vice Chair Sabino called for a motion; moved by Director Garcia, seconded by Director Harrison, and the Board approved the request authorizing staff to negotiate an agreement for further Board approval with a chosen vendor/supplier to operate, maintain and charge for the use of two electric vehicle charging stations along Allen Parkway.

DISCUSS UPDATES WITH DOWNTOWN LAUNCHPAD 2.0

Vice Chair Sabino invited ED Douglas to share an update on Downtown Launchpad 2.0. He began by announcing the recent grant award from the highly competitive MBDA Capital Access Program administered by the Department of Commerce to a collaborative group of central city focused organizations who applied under the umbrella name of the Socially and Economically Disadvantaged Individual Entrepreneurs (SEDIE) Support Stack and which will be able to utilize space in the Downtown Launchpad under licensee agreements for Board consideration. Next, he shared a presentation and talked about how receiving this grant will help shape the best use of space within the Launchpad. No questions were asked and discussion did not occur. No action was necessary.

REVIEW TIRZ POLICIES RECENTLY ADOPTED BY CITY COUNCIL

ED Douglas continued and referred to a summary of policies recently adopted by City Council in the materials previously provided. He stated the purpose behind City Council adopting these policies was to create a uniform set of guidelines and best practices for all 27 of the City's TIRZ to follow. ED Douglas noted prior to City Council's formal adoption, the Authority was already complying with a majority of these policies through the internal adoption and annual review of the Authority's Administrative Policies & Procedures Manual. Questions were asked and answered. No action was required.

REVIEW AND ADOPT UPDATED DRA/TIRZ #3 POLICIES & PROCEDURES MANUAL

Vice Chair Sabino asked ED Douglas to continue. He referred to the draft Administrative Policies & Procedures Manual in the materials previously provided. ED Douglas noted a majority of the changes in the redline draft were necessary in order to align with the updated Central Houston Employee Handbook. Questions were asked and answered, and discussion ensued.

A motion was made; moved by Director Garcia and seconded by Treasurer Hamm, and the Board approved the revisions made in the draft Administrative Policies & Procedures Manual, and adopted the Manual as proposed, recognizing that the Manual comes before the Board on an annual basis for consideration and approval.

STRATEGIC ALIGNMENT UPDATES

President Larson provided an overview of the prior month's progress on cross-organizational Strategic Initiatives. No action was needed.

OTHER BUSINESS

No further business was brought forth before the Board.

NEXT MEETINGS

Vice Chair Sabino announced the next Board meeting will take place on Tuesday, September 12, 2023 at 12:00 PM.

ADJOURNMENT

There being no further business to come before the Board, a motion was called to adjourn at 1:47 PM.

Barry Mandel, Secretary
Downtown Redevelopment Authority ("Authority")

MINUTES OF THE REGULAR MEETING
OF THE
TAX INCREMENT REINVESTMENT ZONE NUMBER THREE

September 12, 2023

The Board of Directors (the "Board") of the Tax Increment Reinvestment Zone Number Three (the "Zone") convened in regular session, in person and open to the public, inside the Large Conference Room at the Zone's office, located at 1221 McKinney Street, Suite 4250, Houston, TX 77010, on the 12th of September 2023, and the roll was called of the duly constituted officers and members of the Board, to wit:

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Barry Mandel, Secretary
Tax Increment Reinvestment Zone Number Three ("Zone")

Check register for September 2023

Downtown Redevelopment Authority

- Total checks issued in September 2023 were $771K
  - – 401 Franklin Street (PostHTX)
    - Economic Development Grant - $312,179
  - – Central Houston, Inc.
    - Administrative Contractors - $198,641
  - – Structura
    - Trebly Park - $162,536
  - – AECOM Technical Services
    - Office Conversion Study - $42,750

Statement of Net Position, September 30, 2023

Downtown Redevelopment Authority

Assets

- Cash and Investments are $25.8 million
- Other Receivables – $414K
  - HDMD support for DLI - $414K
- Accounts Payable & Accrued Expense are $3.0 million.
  - DLI and Economic Development Grants outstanding $2.1million
  - Retainage Payable – $738K, Bagby $470K, Trebly $268K
- Bonds Payable due Aug 2024 – $2.34 million

Statement of Activities, September 30, 2023

Downtown Redevelopment Authority

- Total Revenues of $8 million is $309K over budget due to interest income reflecting better rates than forecasted.

- Project Costs are $1 million, $2.5 million under budget due to forecasted DLI/Economic grant payments will not be paid until the tax increment is received in June, 2024.

Downtown Redevelopment Authority

Cash & Investments, September 30, 2023

- Cash balance - $260,448
- Investment Funds
  - – Logic Increment - $19.401 million
  - – Morgan Stanley Investment Fund
    - Debt Service - $1.011 million, interest payments are issued in September and March.
    - Bond Reserve - $4.422 million
  - – Bank of New York Mellon
    - Pledged Funds - $689,031
- Capital Assets, Net
  - – Downtown Launchpad Lease - $1.6 million
  - – Trebly Park Lease - $8.8 million

DRA/ TIRZ #3 PAID INVOICE DETAIL: SEPT 2023

OPERATING ACCOUNT			
PAYEE	**CHECK**	**MEMO**	**AMOUNT**
Central Houston, Inc	3096	Payroll	$ 198,641.07
Carr, Riggs & Ingram	3234120	Professional Services	$ 18,000.00
Central Houston, Inc	3101	2023 Annual Meeting Friends	$ 2,500.00
Main Lane Industries	319618	Bagby St. Construction	$ 12,096.26
Ryan M LeVasseur	319640	Professional Services	$ 20,000.00
401 Franklin Street	319641	DLI payment	$ 312,179.00
AECOM Technical Services	5743429	Office Repositioning	$ 42,750.00
Structura, Inc	6433987	SoDo park	$ 162,535.76
Bracewell	7477108	General Counsel	$ 2,480.00
		GRAND TOTAL:	$ 771,182.09

Downtown Redevelopment Authority
Statement of Net Position
September 30, 2023 and September 30, 2022

	2024 YTD Balance	2023 YTD Balance
Assets		
Cash	$ 260,448	$ 389,629
Investments - Project Funds	-	-
Investments - Debt Service	6,122,189	5,388,172
Investments - General	19,400,643	18,090,608
Tax Increments Receivable	6,280,919	6,081,551
Other Receivables & Prepaid Expenses	415,142	280,478
Capital Assets, Net	10,442,632	11,030,789
Cost of Issuance	349,980	380,194
Total Assets	$ 43,271,953	$ 41,641,421
Liabilities		
Accounts Payable & Accrued Expenses	$ 3,002,252	$ 2,184,808
Accrued Interest Payable	158,846	509,014
Lease Liabilities Due in One Year	309,169	352,231
Lease Liabilities Due After One Year	10,559,425	10,910,569
Notes Payable Due in One Year	-	-
Bonds Payable Due in One Year	2,340,000	2,250,000
Notes Payable Due After One Year	-	-
Bonds Payable Due After One Year	40,164,708	42,727,848
Total Liabilities	56,534,400	58,934,471
Net Position		
Net Position	(13,262,448)	(17,293,050)
Total Liabilities & Net Position	$ 43,271,953	$ 41,641,421

Downtown Redevelopment Authority
Statement of Activities
For the First Quarter ended September 30, 2023

	2024 Q1 Actual	2024 YTD Actual	2024 YTD Budget	Fav (Unfav) Variance
Revenues				
Tax Increments	$ 7,724,396	$ 7,724,396	$ 7,724,395	0
Other Revenues	-	-	-	-
Interest Income	373,721	373,721	65,081	308,640
Total Revenues	**$ 8,098,117**	**$ 8,098,117**	**$ 7,789,477**	**$ 308,640**
Transfers				
Administrative Fees	298,476	298,476	298,476	-
HISD Adjustment	1,145,000	1,145,000	1,145,000	-
	1,443,476	1,443,476	1,443,476	-
Net Revenues	**$ 6,654,640**	**$ 6,654,640**	**$ 6,346,000**	**$ 308,640**
Expenses				
Project Costs	1,005,463	1,005,463	3,532,208	2,526,745
Municipal Services	-	-	-	-
Accounting	-	-	-	-
Auditing	18,000	18,000	10,000	(8,000)
Administrative Contractor	303,476	303,476	175,000	(128,476)
Legal Fees	8,580	8,580	4,500	(4,080)
Insurance	1,504	1,504	1,000	(504)
Consulting Fees	3,230	3,230	25,000	21,770
Office Expense	6,240	6,240	1,875	(4,365)
Interest Expense - Bonds	426,148	426,148	432,566	6,419
Cost of Issuance	7,554	7,554	7,554	-
Total Expenses	**$ 1,780,195**	**$ 1,780,195**	**$ 4,189,703**	**$ 2,409,508**
Change in Net Position	**4,874,446**	**4,874,446**	**2,156,297**	**2,718,148**
Net Position Beginning of Year		(18,136,893)	(18,136,893)	-
Net Position End of Period		**$ (13,262,448)**	**$ (15,980,596)**	**$ 2,718,148**

Downtown Redevelopment Authority
Statement of Activities
For the First Quarter ended September 30, 2023 and September 30, 2022

	2024 YTD Actual	2023 YTD Actual	Fav (Unfav) Variance
Revenues			
Tax Increments	$ 7,724,396	$ 6,835,266	889,130
Other Revenues	-	-	-
Interest Income	373,721	127,506	246,215
Total Revenues	**$ 8,098,117**	**$ 6,962,772**	**$ 1,135,345**
Transfers			
Administrative Fees	298,476	284,998	(13,478)
HISD Adjustment	1,145,000	554,402	(590,599)
	1,443,476	839,400	(604,077)
Net Revenues	**$ 6,654,640**	**$ 6,123,372**	**$ 531,268**
Expenses			
Project Costs	1,005,463	3,565,373	2,559,910
Municipal Services	-	-	-
Accounting	-	-	-
Auditing	18,000	18,000	-
Administrative Contractor	303,476	82,094	(221,382)
Legal Fees	8,580	1,094	(7,486)
Insurance	1,504	3,613	2,109
Consulting Fees	3,230	3,640	410
Office Expense	6,240	1,191	(5,049)
Interest Expense - COH	-	-	-
Interest Expense - Bonds	426,148	790,229	364,081
Cost of Issuance	7,554	7,554	-
Total Expenses	**$ 1,780,195**	**$ 4,472,787**	**$ 2,692,592**
Change in Net Position	**4,874,446**	**1,650,585**	**3,223,861**
Net Position Beginning of Year	(18,136,893)	(18,943,634)	806,741
Net Position End of Period	**$ (13,262,448)**	**$ (17,293,050)**	**$ 4,030,602**

Downtown Redevelopment Authority
Project Cost Detail
For the First Quarter ended September 30, 2023

	2024 YTD Actual	2024 YTD Budget	Fav (Unfav) Variance
Project Costs			
Capital Improvement Projects			
Main Street Market Square 2.0	15,032	250,000	234,968
Allen Parkway	-	-	-
Southern Downtown Pocket Park	344,203	208,937	(135,266)
Bagby Street Improvements	12,096	-	(12,096)
NHHIP Civic Opportunities	-	-	-
Lynn Wyatt Square For The Performing Arts	-	-	-
Total Capital Improvement Projects	**371,332**	**$ 458,937**	**$ 87,606**
Future Project Costs	-	250,000	250,000
Buffalo Bayou Park	-	-	-
806 Main/JW Marriott	-	46,385	46,385
Hotel Alessandra	-	14,995	14,995
Holiday Inn/Savoy Hotel	-	5,993	5,993
723 Main/AC Hotel	-	7,039	7,039
Downtown Living Initiative	-	2,500	2,500
Economic Development/Retail Program	45,722	12,500	(33,222)
Texaco Building/The Star	-	71,105	71,105
SkyHouse Houston	-	72,615	72,615
Fairfield Block 334	2,943	39,585	36,642
Hines Market Square	-	110,140	110,140
Market Square Tower	-	177,611	177,611
SkyHouse Main	-	68,234	68,234
Fairfield Residential	-	70,114	70,114
Post HTX	-	-	-
Hike & Bike Trails East of Allens Landing	-	-	-
Downtown Launchpad	199,829	249,455	49,626
Gener8tor	-	-	-
Montrose Bridge at Allen Parkway	277,475	250,000	(27,475)
Targeted Blight Remediation	97,872	1,250,000	1,152,128
Pedestrian Lighting Improvements	10,291	375,000	364,709
Total Developer/Project Reimbursements	**634,131**	**3,073,271**	**2,439,139**
Total Project Costs	**1,005,463**	**$ 3,532,208**	**$ 2,526,745**

DOWNTOWN REDEVELOPMENT AUTHORITY
INVESTMENT REPORT, FOURTH QUARTER FYE 2023
FOR THE PERIOD JULY 1, 2023 THROUGH SEPTEMBER 30, 2023

FUND	BEGINNING BAL. BOOK VALUE	BEGINNING BAL. MARKET VALUE	GAIN (LOSS) TO MARKET FILE	INTEREST EARNED / ACCRUED THIS PERIOD	NET DEPOSITS OR (WITHDRAWALS)	ENDING BALANCE BOOK VALUE	ENDING BALANCE MARKET VALUE	ENDING BALANCE % OF PORTFOLIO	SIMPLE INTEREST YIELD	WT AVG MAT. DAYS
OPERATING										
JP MORGAN CHASE OPERATING	616,130.70	616,130.70	0.00	0.00	(355,682.51)	260,448.19	260,448.19	1.01%	N/A	1
JP MORGAN CHASE BOND OPERATING	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	N/A	1
TOTAL JPM	616,130.70	616,130.70	0.00	0.00	(355,682.51)	260,448.19	260,448.19	1.01%		
POOLED INVESTMENT FUNDS										
LOGIC INCREMENT	21,270,676.35	21,270,676.35	0.00	279,966.30	(2,150,000.00)	19,400,642.65	19,400,642.65	75.25%	5.4291%	32
LOGIC BOND	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%		
TOTAL POOLED	21,270,676.35	21,270,676.35	0.00	279,966.30	(2,150,000.00)	19,400,642.65	19,400,642.65	75.25%		
REPURCHASE AGREEMENTS										
BAYERISCHE LANDESBANK	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%		
TOTAL BLB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%		
DEBT SERVICE										
MORGAN STANLEY INVESTMENT FUND	4,214,206.00	4,214,206.00	0.00	37,375.01	(3,240,203.00)	1,011,378.01	1,011,378.01	3.92%	3.8745%	1
BOND RESERVE										
MORGAN STANLEY INVESTMENT FUND	4,365,400.00	4,365,400.00	0.00	56,379.70	0.00	4,421,779.70	4,421,779.70	17.15%	3.8745%	1
PLEDGED FUNDS										
BANK OF NEW YORK MELLON	5,620.00	5,620.00	0.00	0.00	683,411.18	689,031.18	689,031.18	2.67%	N/A	1
PROJECT FUNDS										
BANK OF NEW YORK MELLON	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	N/A	1
TOTAL BNY	8,585,226.00	8,585,226.00	0.00	93,754.71	(2,556,791.82)	6,122,188.89	6,122,188.89	23.74%		
GRAND TOTAL	30,472,033.05	30,472,033.05	0.00	373,721.01	(5,062,474.33)	25,783,279.73	25,783,279.73	100%		

AGENDA ITEM	FY23 Audit Report
FIRM	Carr, Riggs & Ingram, LLC
REQUEST	Review and discuss the current draft of the FY23 Audit Report for year ending June 30, 2023.
ITEM HISTORY	**6/13/2023 –** Board granted full approval of Carr, Riggs & Ingram as auditors for FY23. **6/5/2023 –** Budget & Finance Committee authorized a recommendation for full Board approval of the drafted FY23 audit report as presented.
ACTION ITEM	Authorize approval of the drafted FY23 audit report as presented.
CONTACTS	Carr, Riggs & Ingram, LLC: Alyssa Hill, Partner DRA: Jana Gunter, Director of Finance DRA: Allen Douglas, Executive Director

Main Street Market Square Redevelopment Authority d/b/a Downtown Redevelopment Authority

REQUIRED COMMUNICATIONS

June 30, 2023

October XX, 2023

The Board of Directors and Management
Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority

We are pleased to present the results of our audit of the 2023 financial statements of Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority (the Authority).

This report to the Board of Directors and management summarizes our audit, the reports issued and various analyses and observations related to the Authority's accounting and reporting. The document also contains the communications required by our professional standards.

Our audit was designed, primarily, to express opinions on the Authority's 2023 basic financial statements. We considered the Authority's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of the Authority's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 832-333-7403 or ahill@cricpa.com.

Very truly yours,

Alyssa Hill
Partner

Required Communications

As discussed with the Board of Directors and management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Authority. Specifically, we planned and performed our audit to:

- Perform audit services, as requested by the Board of Directors, in accordance with auditing standards generally accepted in the United States of America and the standards in order to express opinions on the Authority's financial statements for the year ended June 30, 2023;
- Communicate directly with the Board of Directors and management regarding the results of our audit procedures;
- Address with the Board of Directors and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Board of Directors and management, and
- Address other audit-related projects as they arise and upon request.

We have audited the financial statements of the governmental activities and each major fund of Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority (the Authority) as of and for the year ended June 30, 2023, and have issued our report thereon dated October XX, 2023. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Auditors' responsibility under Generally Accepted Auditing Standards	As stated in our engagement letter dated June 9, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities. As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
Client's responsibility	Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position and changes in financial position in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud. Management is responsible for overseeing nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Planned scope and timing of the audit	Our initial audit plan was not significantly altered during our fieldwork.
Management judgments and accounting estimates *The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.*	See section titled "Accounting Policies, Judgment, and Sensitive Estimates & CRI Comments on Quality".
Potential effect on the financial statements of any significant risks and exposures *Major risks and exposures facing the Authority and how they are disclosed.*	No such risks or exposures were noted other than those disclosed in the notes to the financial statements.
Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles	The significant accounting policies used by the Authority are described in note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in fiscal year 2023. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were: • Note 7 - Tax increment contract revenue bonds • Note 8 - Leases • Note 11 -Commitments and contingencies The Authority's financial statement disclosures are neutral, consistent, and clear.
Significant difficulties encountered in the audit *Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.*	We encountered no significant difficulties in dealing with management in performing and completing our audit.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Disagreements with management *Disagreements, whether or not subsequently resolved, about matters significant to the financial accounting, reporting, or auditing matter, that could be significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.*	We are pleased to report that no such disagreements arose during the course of our audit.
Other findings or issues *Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.*	None noted.
Matters arising from the audit that were discussed with, or the subject of correspondence with, management *Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.*	None noted.
Corrected and uncorrected misstatements *All significant audit adjustments arising from the audit, whether or not recorded by the Authority, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Board of Directors about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.*	See section titled "Summary of Audit Adjustments".
Major issues discussed with management prior to retention *Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.*	Discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Consultations with other accountants *When management has consulted with other accountants about significant accounting or auditing matters.*	To our knowledge, there were no such consultations with other accountants.
Written representations *A description of the written representations the auditor requested (or a copy of the representation letter).*	See "Management Representation Letter" section.
Internal control deficiencies *Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditors' attention during the audit.*	See "Internal Control Findings" section.
Fraud and illegal acts *Fraud involving the Authority's management or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving senior management and any other illegal acts, unless clearly inconsequential.*	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
Significant unusual accounting transactions *Auditor communication with governance to include auditors' views on policies and practices management used, as well as the auditors' understanding of the business purpose.*	No significant unusual accounting transactions were noted during the year.
Other information in documents containing audited financial statements *The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.*	Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether: • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Supplementary information *The auditors' responsibility for supplementary information accompanying the financial statements, as well as any procedures performed and the results.*	We applied certain limited procedures to the required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI. Other supplementary information, requested by the City of Houston, which accompanies the basic financial statements but is not RSI, was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures. The supplementary information includes an in relation opinion to the basic financial statements as a whole.

Accounting Policies, Judgement, and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Board of Directors may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	AUDITORS' CONCLUSIONS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Leases	The Authority determines its estimated incremental borrowing rate to calculate the present value of the lease payments and the lease term at inception of the lease.	X	Judgment in this area relates to the determination of the incremental borrowing rate and likelihood of options to extend or terminate the lease at commencement of leases under GASB Statement No. 87.	The Authority's policies are in accordance with all applicable accounting guidelines.

Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the Authority and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by the Authority or passed (uncorrected). Uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even if, in the auditors' judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

There were no unrecorded misstatements.

Recorded adjustments:

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
PBC adjustment to adjust accrued interest so it is properly reflect interest in the right accrued account			
202.200	INTEREST ON BOND 2012	8,964	
202.200	INTEREST ON BOND 2012	17,928	
202.200	INTEREST ON BOND 2012	35,420	
202.300	Accrued Interest - 2015 Bonds		53,348
605.300	INTEREST EXPENSE BONDS-2012		8,964
Total		**62,312**	**62,312**
Adjusting Journal Entries JE # 2			
To reclass interest and amortization of leases expenses from Project costs			
505.400	CRI - Interest Expense - Leases	223,521	
999.100	CRI - Depreciation Expense - Leases	588,157	
461.507	PROJ COST-SOUTH DT PARK-RENT		540,236
462.672	PROJ COST-DT INNOVATION HUB-RENT		271,442
Total		**811,678**	**811,678**
Adjusting Journal Entries JE # 3			
PBC entry to reclass expeneses to Woodbranch and Jones Plaza.			
460.000	PROJECT COSTS	150,681	
461.307	PROJ COST- BMS MKT SQ-WOODBRANCH		75,681
462.621	PROJ COST-JONES PLAZA-CONSTRUCTION		75,000
Total		**150,681**	**150,681**
Adjusting Journal Entries JE # 4			
To record interest earned on tax increments			
162.000	ACCTS RECEIVABLE-OTHER	549,675	
450.000	INTEREST INCOME (INC)		549,675
Total		**549,675**	**549,675**

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Authority's operating environment that has been identified as playing a significant role in the Authority's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.

To be inserted after signature

The Board of Directors and Management
Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority

In planning and performing our audit of the financial statements of the governmental activities and major funds of Main Street Market Square Redevelopment Authority, dba Downtown Redevelopment Authority (the Authority) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been detected.

This communication is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Houston, Texas
October XX, 2023

Main Street Market Square Redevelopment Authority d/b/a Downtown Redevelopment Authority

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

June 30, 2023

Table of Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Houston, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority (the Authority), a component of the City of Houston, Texas, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Authority'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.

Auditors’ 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 auditors’ report that includes our opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Authority’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 Authority’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 revenues, expenditures and change in fund balance – budget to actual 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of operating expenses and capital expenditures for the year ended June 30, 2023 and the schedule of estimated project costs to actual costs for the period from July 6, 1999 (date of inception) through June 30, 2023 (supplementary information), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Houston, Texas
October XX, 2023

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

GENERAL

This Management's Discussion and Analysis of Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority (the Authority), provides an overview of the Authority's financial performance including comparative data for the year ended June 30, 2023 with the year ended June 30, 2022 and a brief explanation for significant changes between fiscal years. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the Authority's basic financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The Authority paid $2,706,949 to the Buffalo Bayou Partnership in accordance with the economic development agreement for the continued operation of project facilities at Buffalo Bayou Park.

- The Authority completed the Allen Parkway reconstruction project in 2017 and turned operation and maintenance of the improvements over to the City of Houston. During fiscal year 2019, the Authority board determined that the area needed special attention as a major gateway into downtown and agreed to take over maintenance responsibility for an initial three-year period which has now been extended to 2027. A total of $149,145 was spent during the fiscal year 2023.

- The Authority continued working on its fourth major capital project provided for in the 2015 bond offering: to develop Trebly Park (Southern Downtown Pocket Park). The Authority paid $1,531,718 in current year expenditures related to this project. Funds went to Structura, Inc. as the general contractor for construction at the park, Renfrow Metalsmiths, LLC for park furniture, Project Surveillance, Inc. for oversight, Core Design Studio for signage, $29,666 per month in rent to the landlord for the long-term ground lease. The Authority also paid $103,801 in property taxes on the site. The park opened to the public on January 27, 2023.

- The Authority continued work on the next capital project identified through Plan Downtown for redevelopment and reconstruction of Bagby Street on the west side of downtown. Expenditures totaling $942,569 were paid in connection with this project in fiscal year 2023. A large portion of those funds were paid to the construction contractor, Main Lane Industries to finish out the final work items on the punch list.

- The Authority paid $1,882,161 in fiscal year 2023 to the City of Houston for Municipal Services in the Zone that were allocated to support the City budget, including $882,161 dedicated to the City's Police Department Overtime Program.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

- The Authority entered into an agreement in 2012 with Rusk at San Jacinto Partners, LP for the historic preservation and redevelopment of the Texas Company Building into a luxury residential tower with 286 units named The Star. The Authority accrued $337,569 in 2023 for reimbursements related to the 2022 tax year and accrued $327,664 in 2022 for reimbursements related to the 2021 tax year.

- The Authority entered into an agreement in 2013 with 806 Main Hotel, LLC for the historic preservation and redevelopment of the Carter Building into the J. W. Marriott Hotel. The Authority accrued $142,723 in fiscal year 2023 for reimbursements related to the 2022 tax year and accrued $215,815 in fiscal year 2022 for reimbursements related to 2021 tax year.

- The Authority entered into an agreement in 2014 with HDT Hotels, LLC to provide an economic development grant for the redevelopment of the Savoy Hotel into a full-service Holiday Inn at 1616 Main Street. The Authority accrued $23,274 in fiscal year 2023 for reimbursements related to the 2022 tax year and paid $16,386 in fiscal year 2022 for reimbursements related to 2021.

- The Authority entered into an agreement in 2014 with HA Hotel Partners to provide an economic development grant for the construction of the Hotel Alessandra in the GreenStreet development. The 223-room luxury hotel was completed and opened in October of 2017. The hotel suspended operations in January 2021 due to the impacts of the COVID pandemic. The hotel has re-opened as The Laura and was eligible for payments to resume in 2023 for the 2022 tax year. The Authority accrued $56,032 in fiscal year 2023 for reimbursements related to the 2022 tax year.

- In 2012, the Authority created a program called the Downtown Living Initiative (DLI) which was designed to incentivize residential development in the Zone. Developers were eligible to receive a rebate equal to 75% of the incremental City of Houston ad valorem taxes generated by the project upon completion for a fifteen-year period up to a maximum of $15,000 per residential unit. As of the end of the year, five residential projects were open and submitted requests for reimbursement. The Authority accrued for the fiscal year 2023 installments to; Market Square Tower in the amount of $613,712, and Fairfield Block 334 in the amount of $153,552.

- The Authority pledged a total of $10 million to the renovation of Jones Plaza and submitted the last payment of $7,485,490 in 2023. The project has achieved significant fundraising goals, including a $10 million donation from Lynn Wyatt and $1.4 million in support from local philanthropic foundations. The plaza has been re-named The Lynn Wyatt Square for the Performing Arts and will open by the end of 2024.

- In November of 2018, the Authority board approved an economic development agreement with MassChallenge in the amount of $2.5 million over five years. MassChallenge is a global non-profit startup accelerator with a focus on developing high-impact, early-stage entrepreneurs in Downtown Houston. In 2023 the Authority board ended its agreement with Mass Challenge due to Mass Challenge's focus changing to a virtual platform because of COVID pandemic to cultivate entrepreneurs around the world and moving away from development of entrepreneurs in Downtown Houston. The Authority paid out a total of $2.1 million over a four-year period.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

- In November of 2018, the Authority board approved an economic development agreement with 401 Franklin St, LTD for restoration and redevelopment of the Barbara Jordon Post Office building to develop a mixed-use project called Post HTX. The site, on the northwest side of downtown will be a hub of visual and immersive art, entertainment, cultural exhibition, shopping, dining, commercial office space and a rooftop farm/garden. The agreement provides a 75% rebate of the annual incremental City of Houston ad valorem taxes up to a cap of $23 million for the project. The site was completed in fiscal year 2022 and is eligible for funding in fiscal year 2023. The Authority accrued $344,032 in fiscal year 2023 for reimbursements related to the 2022 tax year.

- In September of 2019, the Authority board approved an economic development agreement with Gener8tor in the amount of $1.25 million over five years. Gener8tor is a nationally recognized pre-accelerator, specializing in translating ideas into start-up businesses. The Authority paid $250,000 in fiscal year 2023 for this project.

- In November of 2019, the Authority board entered into a lease agreement with Amegy Bank to establish the 10th floor of 1801 Main as an innovation hub, named The Downtown Launchpad. The goal of the Downtown Launchpad is to bring together in one space all the life-cycle components necessary to create companies and generate local jobs in the innovation sector. This project brings together our partners: pre-accelerator Gener8tor, incubator Impact Hub, and accelerator MassChallenge, as well as co-working leader, The Cannon. The Launchpad opened in July of 2020. The Authority paid $557,349 in fiscal year 2023 for this project.

- In November of 2019, the Authority board approved capital project support to the Buffalo Bayou Partnership for construction of hike & bike trails east of Allen's landing on the southern bank of Buffalo Bayou in the amount of $2 million. The Authority paid $448,719 in fiscal year 2023 for this project.

- The Authority continued its funding for the North Houston Highway Improvement Project with a contribution of $250,000 to Central Houston Civic Improvement. The purpose of these funds is to further develop the civic opportunities that may be achieved through parks, hike and bike trails, enhanced landscaping, and understory uses that are adjacent to TxDOT's new freeway alignment.

- During fiscal year 2015, the Authority issued $41,505,000 in Tax Increment Contract Revenue Bonds (Series 2015 Bonds). The bonds were issued at a premium of $4,462,805 and have a series of maturities from 2022 through 2035. $775,000 in principal payments were required in fiscal year 2023, as well as the Authority recorded $1,949,717 in interest expense, and amortized $30,214 in issuance costs.

- During fiscal year 2023, the Authority recorded $1,405,000 and $44,602 in principal and interest expense, respectively, related to the Series 2012 Bonds.

- In December of 2022 Houston's City Council approved the DRA/TIRZ#3 Board's Resolution of November 8, 2022 adopting the Eighth Amended Project Plan and Reinvestment Zone Financing Plan (Plan). This Plan expanded the boundaries of the DRA/TIRZ#3 by approximately 10 acres and is framed by Allen Parkway, Taft, and McKinney Streets. The plan provides for the opportunity to engage in the public enhancement and public improvement of a proposed mixed-used development poised to engage with the Buffalo Bayou Park, one of Houston's premier public assets whose operation and maintenance costs are substantially covered through annual installments from the DRA/TIRZ#3.The public improvements proposed for the mixed-use development will further redound to the benefit of the surrounding residential neighborhood and the Downtown core.

- Since creation of Reinvestment Zone Number Three (Main Street Market Square TIRZ) in 1995, and the expansion of the Zone in 1998, 2005, 2007, 2011 and 2019 the appraised value for real property located within the Zone has increased to approximately $615 million, $3.1 billion, $107 million, $146 million, and $2.1 billion and $31 million for the original (Part A), and expanded zones (Part B, Part D, Part F, Part G and Part I) areas, respectively. This total increase of approximately $4.7 billion, over the base years has been generated due to multiple developments of housing and commercial projects in addition to increased land values throughout the Zone.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. According to the definition in Governmental Accounting Standards Board, the Authority qualifies as a special purpose government with one program – redevelopment of certain areas located in the Central Business District of the City of Houston, Texas.

Government-wide statements report information about the Authority as a whole using accounting methods similar to those used in private-sector companies. The Statement of Net Position includes all of the Authority's assets and liabilities, with the difference between assets and liabilities presented as net position. Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The fund financial statements report information about the Authority on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period.

Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for the reconciling items are provided as part of the financial statements.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

Statement of Net Position

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. The following table reflects condensed information on the Authority's net deficit at June 30:

		2023		2022
Assets				
Capital assets, net	**$**	**10,589,671**	$	11,177,828
Other assets:				
Cash and investments		**30,472,033**		33,165,430
Tax increment and other receivables		**1,198,602**		860,581
Other assets		**360,672**		419,816
Total assets		**42,620,978**		45,623,655
Liabilities				
Accounts, interest and retainage payable	**$**	**4,979,581**	$	5,992,738
Lease liabilities - due in one year		**408,374**		392,471
Lease liabilities - due after one year		**10,559,425**		10,968,447
Bonds payable - due in one year		**2,250,000**		2,180,000
Bonds payable - due after one year		**42,560,493**		45,033,633
Total liabilities		**60,757,873**		64,567,289
Net deficit				
Restricted for debt service		**8,585,226**		8,559,039
Unrestricted		**(26,722,121)**		(27,502,673)
Total net deficit	**$**	**(18,136,895)**	$	(18,943,634)

Tax increment funds not needed for immediate operations are invested in Texas public funds investment pools (TexStar or LOGIC) or money market funds. All investments of the Authority are allowable under the Authority's investment policy and the Public Funds Investment Act. Total operating cash was $616,131, debt service was $8,585,226 and total general fund investments were $21,270,676 at June 30, 2023. Total operating cash was $2,231,071, debt service was $8,559,039 and total general fund investments were $22,375,320 at June 30, 2022.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

Tax increments are based on calendar year taxes which are then received the next fiscal year. Tax increment receivables of $136,966 at June 30, 2023, represent payments due from Harris County. Other accounts receivable of $1,061,636 at June 30, 2023, includes $511,961 due from the Houston Downtown Management District for its share of the Downtown Living Initiative grants and $549,675 of interest on tax increments for fiscal year 2016 through fiscal year 2023. The Authority is expected to receive the interest on tax increments in September 2023.

Capital assets of the Authority include $11,765,985 of leased assets upon adoption of GASB Statement No. 87, $1,176,314 of accumulated amortization expense, for a net capital asset balance of $10,589,671.

Other assets include costs of premiums paid for credit enhancement insurance for the Series 2015 Bonds which are amortized over the life of the bonds (through fiscal year 2035). The net unamortized balance at June 30, 2023, and 2022 was $357,533 and $387,747, respectively. Other assets also include prepaid expenses totaling $3,139 and $32,069 at June 30, 2023, and 2022, respectively for insurance premiums in 2023 and prepaid rent on the Southern Downtown Park and insurance premiums in 2022.

Accounts payable and accrued expenses on June 30, 2023, of $3,574,432 represents grant payments due of $3,216,851, capital project expenditures of $250,000 and payments due to the administrative contractor for staffing of $107,581. Accounts payable and accrued expenses on June 30, 2022 of $4,810,945 represents grant payments due of $2,455,354, amounts for the municipal services fee of $1,994,664, capital project expenditures of $278,658, and payments due to the administrative contractor for staffing of $82,269. Retainage payable at June 30, 2023 and 2022 totaled $738,032 and $495,597, respectively. Accrued interest at June 30, 2023, and June 30, 2022, totaled $667,117 and $686,196, respectively. Effective July 1, 2021, the Authority adopted GASB Statement No. 87. At June 30, 2023 and 2022 the lease liability outstanding was $10,967,799 and $11,360,915, respectively.

Unrestricted net position represents that which can be used to finance day-to-day operations without the constraints established by debt covenants. The Authority has used bond and loan proceeds to pay various project costs during previous fiscal years and has increased its debt for new projects with the Series 2015 bond issue, causing the Authority to have an accumulated deficit. At June 30, 2023 and June 30, 2022, the Authority has an unrestricted net deficit of $18,136,895 and $18,943,634, respectively. The Authority had net position restricted for debt service of $8,585,226 and $8,559,039 at June 30, 2023 and June 30, 2022, respectively.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

Statement of Activities

The Statement of Activities presents the operating results of the Authority. The following table reflects condensed information on the Authority's operations for the years ended June 30:

	2023	2022
Revenues		
Tax increments	$ **21,248,518**	$ 21,858,148
Interest on tax increments	**549,675**	-
Investment and other income	**636,628**	2,470,508
Total revenues	**22,434,821**	24,328,656
Expenses		
Current	**2,661,257**	2,406,006
Capital outlay	**16,941,911**	16,224,936
Debt service	**2,024,914**	2,078,085
Total expenses	**21,628,082**	20,709,027
Change in net position	**806,739**	3,619,629
Net deficit - beginning of year	**(18,943,634)**	(22,563,263)
Net deficit - end of year	$ **(18,136,895)**	$ (18,943,634)

The City of Houston (the City), Harris County and Harris County Flood Control District, Harris County Hospital District, and Port of Houston (collectively, the County) and Houston Independent School District (HISD) have agreed, subject to certain limitations, to deposit to the Tax Increment Fund established for the Zone, a certain percentage of tax collections arising from their respective taxation of the increase, if any, in the appraised value of real property located in the Zone since a designated base year. Tax increments deposited into the Tax Increment Fund are based on the current tax rates or the portion of a tax rate that an entity has agreed to pay to the Zone. The City remits tax increments collected by the City, the County and HISD on an annual basis.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

Project costs include the following for the years ended June 30:

	2023	2022
Capital Improvement Projects		
Lynn Wyatt Square	**$ 7,485,490**	$ 11,855
Southern Downtown Pocket Park	**1,336,688**	5,813,298
Bagby Street Improvements	**942,569**	3,445,985
NHHIP Civic Opportunities	**250,000**	250,000
Allen Parkway Reconstruction	**149,145**	174,867
Total Capital Improvement Projects	**10,163,892**	9,696,005
Historic Preservation		
The Star Residential	**337,569**	393,810
806 Main (JW Marriott)	**142,723**	166,214
723 Main (Marriot AC Collection Hotel)	**27,334**	54,084
Economic Development Agreements		
Buffalo Bayou Park	**2,706,949**	2,521,546
Market Square Tower Residential	**613,712**	632,435
Downtown Launchpad	**528,859**	488,405
Hike & Bike Trails East of Allen's Landing	**448,719**	500,000
MassChallenge	**-**	404,000
Aris Market Square Residential	**427,508**	361,393
Gener8tor	**250,000**	250,000
SkyHouse Main Residential	**243,726**	235,802
SkyHouse Houston Residential	**242,926**	234,751
Block 334 Residential	**153,552**	159,472
Economic Development Retail	**118,684**	74,677
1616 Main (Holiday Inn Hotel)	**23,274**	16,386
Downtown Living Initiative	**19,379**	35,956
Post HTX	**344,032**	-
Hotel Alessandra/Laura	**56,032**	-
Targeted Blight Remediation	**38,612**	-
Other	**54,429**	-
Total Project Costs	**$ 16,941,911**	$ 16,224,936

Other current operating costs include the following for the years ended June 30:

	2023	2022
Administrative services	**$ 690,945**	$ 347,333
Consulting	**10,320**	15,454
Accounting and auditing	**19,228**	17,500
Legal fees	**15,369**	11,615
Office expense	**37,954**	8,554
Insurance	**5,280**	10,886
Total other operating costs	**$ 779,096**	$ 411,342

In fiscal years 2023 and 2022, the Authority paid $1,882,161 and $1,994,664, respectively, to the City under the Authority's Municipal Service Costs Agreement.

CAPITAL ASSETS

Effective July 1, 2021, the Authority adopted GASB Statement No. 87 resulting in leased capital assets of $11,177,828, net of accumulated amortization of $588,157. As of June 30, 2023, the Authority had $10,589,671 in leased capital assets, net of accumulated amortization of $1,176,314. Capital assets constructed by the Authority in the public domain are conveyed to the City of Houston upon completion. Leasehold improvements constructed by the Authority are conveyed to the landlord upon expiration or termination of the lease agreement.

GOVERNMENTAL FUNDS

At the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of approximately $27.4 million which is approximately $1.5 million less than the prior fiscal year due to spending on capital projects that were delayed in prior years. Approximately 67% of the fund balances, or $18.3 million is committed or assigned to various historic preservation, parks and recreation, theater district and economic development projects of the Authority. 2% of the fund balance or $0.5 million is available for spending at the government's discretion provided expenditures are allowable by the Authority's project plan and other legal authorities. The remainder of the fund balance is restricted to indicate that it is committed to pay debt service in the amount of approximately $8.6 million.

DEBT

In May of 2015, the Authority issued $41,505,000 in Tax Increment Contract Revenue Bonds (Series 2015 Bonds). The bonds were issued at a premium of $4,462,805 and have a series of maturities from 2022 through 2035. The Authority accrued and paid during fiscal years 2023 and 2022 $1,960,050 and $1,975,550 in interest expense and amortized $30,214 in premiums for credit enhancement insurance for both 2023 and 2022. Bonds maturing on or after September 1, 2016, are subject to redemption at the option of the Authority at a price equal to par value plus accrued interest. Additional insurance premiums are required if these bonds are not redeemed beginning in 2026.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Management's Discussion and Analysis (Unaudited)

The Authority issued $22,745,000 of Tax Increment Contract Revenue Refunding Bonds Series 2012 in June 2012 for the purposes of refunding the Series 2002A and the Series 2009 Bonds in the amounts of $8,371,036 and $16,734,546 respectively, which includes both principal and interest. During fiscal years 2023 and 2022 the Authority accrued and paid $44,602 and $84,536 of interest payments related to the Series 2012 Bonds, respectively.

More detailed information about the Authority's debt is presented in the notes to the basic financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Authority receives and records amounts available for the portion of the project plan that the Authority will implement in the future. The Authority does not record tax increments from the original Zone set aside for HISD educational facilities which equaled $1,922,208 and $2,130,491 for the years June 30, 2023, and June 30, 2022, respectively. In addition, the City, County, and HISD charge an administrative fee prior to payment of their increments which totaled $993,784 and $1,022,034 for the years June 30, 2023, and June 30, 2022, respectively. These deductions have been netted out of gross increment revenue in the financial statements. The Authority's budget was not amended during fiscal year 2023.

FUTURE PROJECTS

The Authority anticipates a 3% increase in the costs attributed to the operation and implementation of the TIRZ Project and Financing Plans. The TIRZ/Authority has an agreement with Central Houston, Inc. for administrative and professional services support.

The Authority has been working with the City of Houston and TxDOT on the North Houston Highway Improvement Project (NHHIP). The NHHIP represents a unique opportunity to develop multiple civic enhancements beyond the freeway construction itself that will promote economic development and provide enjoyment for the community as a whole for years to come. As part of that effort, a new bond offering will be considered in the future.

The Authority will also continue to assist in economic development projects, historic facade restorations, capital improvement projects and residential development efforts.

* * * * *

This financial report is designed to provide a general overview of the Main Street Market Square Redevelopment Authority's finances for all those with an interest in the government's finances and to show the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Allen Douglas, Executive Director, 1221 McKinney, Suite 4250, Houston, Texas 77010.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Governmental Funds Balance Sheet and
Statement of Net Position

June 30, 2023	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash and cash equivalents	$ 616,131	$ 5,620	$ 621,751	$ -	$ 621,751
Investments	21,270,676	8,579,606	29,850,282	-	29,850,282
Tax increment receivables	136,966	-	136,966	-	136,966
Other receivables	1,061,636	-	1,061,636	-	1,061,636
Capital assets, net	-	-	-	10,589,671	10,589,671
Other assets	3,139	-	3,139	357,533	360,672
Total assets	$ 23,088,548	$ 8,585,226	$ 31,673,774	$ 10,947,204	$ 42,620,978
Liabilities					
Accounts payable	$ 3,574,432	$ -	$ 3,574,432	$ -	$ 3,574,432
Interest payable	-	-	-	667,117	667,117
Retainage payable	-	-	-	738,032	738,032
Lease liabilities - due in one year	-	-	-	408,374	408,374
Lease liabilities - due after one year	-	-	-	10,559,425	10,559,425
Bonds payable - due in one year	-	-	-	2,250,000	2,250,000
Bonds payable - due after one year	-	-	-	42,560,493	42,560,493
Total liabilities	3,574,432	-	3,574,432	57,183,441	60,757,873
Deferred inflow of resources					
Deferred tax increment revenue	136,966	-	136,966	(136,966)	-
Interest on tax increments	549,675	-	549,675	(549,675)	-
Total deferred inflow of resources	686,641	-	686,641	(686,641)	-
Fund balances					
Restricted	-	8,585,226	8,585,226	(8,585,226)	-
Committed	17,172,404	-	17,172,404	(17,172,404)	-
Assigned	1,143,000	-	1,143,000	(1,143,000)	-
Unassigned	512,071	-	512,071	(512,071)	-
Total fund balances	18,827,475	8,585,226	27,412,701	(27,412,701)	-
Total liabilities, deferred inflows of resources and fund balances	$ 23,088,548	$ 8,585,226	$ 31,673,774	$ 29,084,099	$ -
Net deficit					
Restricted for debt service				$ 8,585,226	$ 8,585,226
Unrestricted				(26,722,121)	(26,722,121)
Total net deficit				$ (18,136,895)	$ (18,136,895)

Total fund balance of governmental funds	$ 27,412,701
Amounts reported for governmental activities in the Statement of Net Position are different because	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	10,589,671
Long-term liabilities and related interest are not due and payable in the current period and therefore are not reported in the funds	(56,445,409)
Cost of issuance for the premiums on credit enhancement insurance are amortized over the life of the bonds in the government-wide statements	357,533
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds	(738,032)
Tax increments and interest on tax increments are not available for current period expenditures and therefore are deferred in the funds	686,641
Net deficit of governmental activities	$ (18,136,895)

The accompanying notes are an integral part of these financial statements.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Governmental Funds Revenues, Expenditures and Changes in Fund Balances and Statement of Activities

For the year ended June 30, 2023	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Tax increments	$ 17,187,077	$ 4,219,585	$ 21,406,662	$ (158,144)	$ 21,248,518
Investment and other income	636,628	-	636,628	-	636,628
Interest on tax increments	-	-	-	549,675	549,675
Total revenues	17,823,705	4,219,585	22,043,290	391,531	22,434,821
Expenditures/expenses					
Current					
Consultants	728,722	-	728,722	-	728,722
Administrative support/office expenses	45,094	-	45,094	-	45,094
Insurance	5,280	-	5,280	-	5,280
Municipal services	1,882,161	-	1,882,161	-	1,882,161
Capital outlay	16,504,438	-	16,504,438	437,473	16,941,911
Debt Service					
Principal payments on bonds	-	2,180,000	2,180,000	(2,180,000)	-
Interest expense	223,521	2,013,398	2,236,919	(242,219)	1,994,700
Costs of issuance	-	-	-	30,214	30,214
Total expenditures/expenses	19,389,216	4,193,398	23,582,614	(1,954,532)	21,628,082
Excess (deficiency) of revenues over expenditures	(1,565,511)	26,187	(1,539,324)	1,539,324	
Change in net position				806,739	806,739
Fund balances/net deficit:					
Beginning of year	20,392,986	8,559,039	28,952,025	(47,895,659)	(18,943,634)
End of year	$ 18,827,475	$ 8,585,226	$ 27,412,701	$ (45,549,596)	$ (18,136,895)

(Continued)

The accompanying notes are an integral part of these financial statements.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Governmental Funds Revenues, Expenditures and Changes in Fund Balances and Statement of Activities (Continued)

Net change in total fund balances of governmental funds	$	(1,539,324)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Tax increment revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds		(158,144)
Interest on tax increments in the Statement of Activities that do not provide current financial resources are not reported in the funds		549,675
Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets		(588,157)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the Statement of Activities and are reported as interest expense:		
Repayment of bond principal		2,180,000
Repyament of lease liability		393,119
Amortization of bond premium		223,140
Cost of issuance		(30,214)
Some revenue reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(223,356)
Change in net position of governmental activities	$	806,739

The accompanying notes are an integral part of these financial statements.

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Notes to Basic Financial Statements

Note 1: DESCRIPTION OF ORGANIZATION

Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority (the Authority), is a not-for-profit local government corporation, created June 30, 1999 under the laws of the State of Texas, and operating under Chapter 431, Texas Transportation Code, and Chapter 394, Texas Local Government Code. The Authority was created by the City of Houston (the City) pursuant to Resolution No. 1999-39 to aid, assist and act on the behalf of the City in the performance of the City's obligations with respect to Reinvestment Zone Number Three, City of Houston, Texas (Main Street Market Square TIRZ or Zone).

Reinvestment Zone Number Three

Reinvestment Zone Number Three, City of Houston, Texas, also known as the Main Street Market Square Tax Increment Reinvestment Zone (the Zone) was created by City Council on December 13, 1995 under Chapter 311, Texas Tax Code, as a tax increment reinvestment zone (TIRZ). The Zone originally consisted of nine city blocks around Market Square Park in Downtown Houston (Part A). In 1998, the City approved the expansion of the Zone by adding approximately 65 blocks primarily along Main Street (Part B), and in 1999, the City amended and restated the goals and objectives of the Part A and Part B Plans and incorporated changes regarding HISD's participation in the Zone (Part C). In 2005, the City approved the addition of two city blocks to facilitate and support the development of a mixed-use retail and office complex known as the GreenStreet project (Part D). In 2007, the Zone was expanded to include the city blocks encompassing City Hall, the Julia Ideson Building, the Central Library, City Hall Annex, Sam Houston Park, and certain Buffalo Bayou parkland east of Sabine Street (Part E). In 2011, the Zone was expanded to include approximately 300 acres of land, including the 158-acre existing City park extending west of Downtown from Sabine Street to Shepherd Drive and other areas to the northwest of Downtown (Part F). The fifth amendment in 2011 (Part F), also established an economic development program, as authorized by Chapter 380 of the Texas Local Government Code, to fund maintenance and operations for the project known as Buffalo Bayou Park. In 2019, the City approved expansion of the Zone to include five areas contiguous with the current boundaries of the Zone to facilitate civic opportunities that will arise as a result of the North Houston Highway Improvement Project (Part G). In 2020, Sam Houston Park was de-annexed from TIRZ #3 and incorporated into another zone. In 2022, the City approved the expansion of the Zone to include approximately 10 acres bounded by Allen Parkway, Stanford, Taft, and McKinney streets and appurtenant to the Zone via Allen Parkway as a northern terminus (Part I). The plan provides for the opportunity to engage in the public enhancement and public improvement of a proposed mixed-used development poised to engage with the Buffalo Bayou Park, one of Houston's premier public assets whose operation and maintenance costs are substantially covered through annual installments from the Zone.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these basic financial statements represent all the funds of the Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority. The Authority is a component unit of the City of Houston. Component units are legally separate entities for which the primary government is financially accountable. In evaluating the Authority as a reporting entity, management has considered all potential component units in accordance with Section 2100: Defining the Financial Reporting Entity of the Governmental Accounting Standards Board (GASB) Codification.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. These statements are prepared on the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flow.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. Business-type activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The Authority does not have any business-type activities.

Under the government-wide financial statements, net position is classified into the following two components:

Restricted – This component of net position consists of that on which constraints have been placed through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.

Unrestricted – This component of net position consists of that which does not meet the definition of "Restricted".

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Authority considers all revenue available if it is collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred as under accrual accounting, However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fund Accounting

The Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate entity with a self-balancing set of accounts. The funds the Authority uses are described below:

General Fund - The general fund is the general operating fund of the Authority. It accounts for all activities except those required to be accounted for in other funds.

Capital Projects Fund - The capital projects fund accounts for the construction of Authority's projects funded with bond proceeds. All capital funds have been fully expended as of June 30, 2020.

Debt Service Fund - The debt service fund accounts for the accumulation of financial resources for the payment of principal and interest on bonds issued by the Authority. City tax increments from the expanded area of the TIRZ are pledged for the payment of principal and interest on the Authority's bonds.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The provision of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, specifies the following classifications:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Authority did not have any nonspendable resources as of June 30, 2023.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted – amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the tax increment contract revenue bonds and are restricted through debt covenants. Capital Projects resources are also restricted through debt covenants.

Committed – amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Authority's Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the Authority's Executive Director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund.

The Authority would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Tax Increments and Participation Agreements

The City, Harris County (the County) and the Houston Independent School District (HISD) (each a Participant) has agreed to deposit to the Tax Increment Fund established for the Main Street Market Square TIRZ (the Tax Increment Fund) a certain percentage of tax collections arising from their taxation of the increase, if any, in the appraised value of real property (Captured Appraised Value) located in the Main Street Market Square TIRZ since January 1 of each respective year for the following areas within the Zone:

1995	Original Area (Part A)
1998	Expanded Area (Part B)
2005	Expanded Area (Part D)
2011	Expanded Area (Part F)
2019	Expanded Area (Part G)
2022	Expanded Area (Part I)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The land annexed to the Zone in 2007 for Part E is all publicly owned and is not presently taxed. Similarly, most of the land annexed in 2011 for Part F is publicly owned and only a small portion of the property annexed by the Zone is subject to property tax. Part G de-annexed the area known as Sam Houston Park. It did not alter the project costs, goals or the Financial Plan for the Zone.

The amount of a Participant's tax increment contribution for a year is the amount of property taxes levied by the Participant for that year on the Captured Appraised Value of real property taxable by the Participant and located in the Main Street Market Square TIRZ.

Tax Increments must be deposited into the Tax Increment Fund established for the Main Street Market Square TIRZ no later than the 90th day after the delinquency date for the Participant's property taxes. Thus, Tax Increments are due to be deposited by May 1st annually.

The City has agreed to pay 100% of their Tax Increments into the Tax Increment Fund for all parts of the Zone; however, the City is not obligated to pay to the Authority an amount that exceeds the budget approved by City Council for the then current fiscal year. For purposes of Part A of the Zone, Participants also include Harris County, Harris County Flood Control, Harris County Hospital District, Harris County Port of Houston Authority (the County Authorities), and HISD. The County Authorities have agreed to pay 100% of their Tax Increment to the Tax Increment Fund up to the earlier of the collection of the Tax Year 2025 payment or payment of a total contribution of $8,500,000. The part A cap for the County Authorities was reached in fiscal year 2018. HISD's participation ends with the collection of the Tax Year 2025 payment. In addition, Tax Increments arising from Part A of the Zone are pledged to the payment of amounts due under an agreement among the TIRZ, the City and the Houston Housing Finance Corporation (HHFC) dated September 11, 1996, as amended, to redevelop the historic Rice Hotel into residential units. The HHFC loan was paid in full as of June 30, 2021.

The City and HISD are Participants in Part B of the Zone. The County Authorities do not participate in Part B. HISD's participation ends with the collection of the Tax Year 2025 payment.

In addition to the City, Participants in expanded Part D of the Zone (the two GreenStreet blocks) include Harris County and Harris County Flood Control (the County Authorities). The County Authorities have agreed to pay 51% of their Tax Increment to the Tax Increment Fund up to the earlier of the collection of the Tax Year 2025 payment, payment of a total contribution of $8,500,000, or a maximum Captured Appraised Value of $200,700,000 is reached. HISD does not participate in Part D. The City's Tax Increments are based on $.0231 per $100 valuation of the Captured Appraised Value for Part D of the Zone rather than the current tax rate.

The City is the sole Participant in Part E, F, G and I of the Zone; however, as mentioned previously much of the land included in these expansions is publicly owned and not subject to property tax.

The Authority is dependent upon Tax Increments. Default by any of the governmental entities involved in the Zone would impact the Authority's ability to repay its outstanding bonds and other obligations.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments consist of demand and time deposits, money market investments in U.S. Government Securities, and funds maintained in a public funds investment pool.

Investments consist of various U.S. Government securities and Local Government Investment Cooperative (LOGIC), a local government investment pool created under the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. LOGIC is administered by First Southwest Asset Management, Inc. and JPMorgan Chase Asset Management, Inc. LOGIC uses amortized costs to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost.

Leases

Lease contracts that provide the Authority with control of a non-financial asset for a period of time in excess of twelve months are reported as a leased asset with a related lease liability in the government-wide financial statements. The lease liability is recorded at the present value of the future lease payments. The leased asset is recorded for the same amount as the related lease liability plus any prepayment and indirect cost to place the asset in service. Leased assets are amortized by the straight-line method over the shorter of the useful life of the asset or the lease term. The lease liability is reduced for lease payments made, less the interest portion of the lease payment. In the fund financial statements, the leased asset used in the governmental fund operations is accounted for as a capital outlay expenditure of the appropriate governmental fund upon acquisition and the related lease liability is reported as other financing sources.

Deferred Inflow of Resources

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred tax increment and interest revenue are only reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Other Assets

Costs of issuance for the premiums on credit enhancement insurance related to the Tax Increment Contract Revenue Bonds, Series 2015, are being amortized using the straight-line method over the life of the bonds in the government-wide statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt

All debts to be repaid from governmental resources are reported as liabilities in the government-wide statements. Bonds payable consists of Tax Increment Contract Revenue Bonds.

Debt for the governmental funds is not reported as a liability in the fund financial statements. The debt proceeds and premiums received are reported as other financing sources and payment of principal and interest is reported as expenditures. Bond premiums are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium. Debt issuance costs, net of unamortized premiums for credit enhancement insurance, are reported as an expenditure.

Use of Estimates

The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Federal Income Tax

The Authority is exempt from Federal income taxes under section 501(a) as an organization described in Section 501(c)3 of the Internal Revenue Code. Furthermore, the Internal Revenue Service has ruled that the Authority is a publicly-supported organization and is not a private foundation. Under the provisions of Internal Revenue Procedure 95-48, the Authority is not required to file public information returns on Form 990.

Note 3: AUTHORIZED INVESTMENTS

The Board of Directors has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act of 1997 (the Act) (Chapter 2256, Texas Government Code). Such investments include (1) obligations of the United States or its agencies; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies; (4) certificates of deposit; (5) commercial paper that complies with the Act; and (6) repurchase agreements that complies with the Act.

Note 4: DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At June 30, 2023, bank balances totaled $2,498,292 at JP Morgan Chase and $5,620 at Bank of New York Mellon, which approximates fair value.

Note 4: DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2023, $2,248,292 of balance held at JP Morgan Chase was under collateralized due to checks issued but not cleared.

In addition, on June 30, 2023, the Authority held $21,270,676 in an investment pool. The investment pool is an eligible investment pursuant to the provision of the Public Funds Investment Act, the Tri-Party Agreement, and the Authority's administrative policy. The debt service reserves of $8,579,606 have been invested in the Morgan Stanley ILF Govt/Inst Money Market Fund, also an eligible investment under the Texas Public Funds Investment Act and do not require collateralization.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. In accordance with the Authority's investment policy, the Authority limits its exposure to interest rate risk by structuring its portfolio to provide safety and liquidity of funds while maximizing yields for operating funds not immediately needed. The investment policy limits the maximum maturity on any investments to three (3) years. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Authority's investment policy does not limit the amount of funds that may be invested in any authorized investment.

Investments that are obligations of or guaranteed by the U.S. Government do not require disclosure of credit quality. The Authority's money market funds are recorded at fair value and mature in less than one year. The Authority's investment in LOGIC fund, which is recorded at amortized cost, is rated AAAm by Standard & Poors and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The Authority considers the investments in LOGIC to have maturities of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

Note 5: RESTRICTED ASSETS

Certain amounts of cash and investments are restricted by covenants set forth in the indenture for the Series 2012 and 2015 Bonds. A summary of these restricted assets held in cash and U.S. Government Securities on June 30, 2023 are as follows:

	Cash and Cash Equivalents	Money Market Fund	Total
Debt service funds	$ 5,620	$ 8,579,606	$ 8,585,226

Note 6: CAPITAL ASSETS

A summary of changes in capital assets during 2023 is as follows:

	Balance at July 1, 2022	Additions	Retirements	Balance at June 30, 2023
Right to use land	$ 9,579,411	$ -	$ -	$ 9,579,411
Right to use office space	2,186,574	-	-	2,186,574
Total capital assets	11,765,985	-	-	11,765,985
Less: accumulated amortization	(588,157)	(588,157)	-	(1,176,314)
	$ 11,177,828	$ (588,157)	$ -	$ 10,589,671

Amortization expense for the year ended June 30, 2023 totaled $588,157 and is reported as capital outlay expenses in the accompanying statement of activities.

Note 7: TAX INCREMENT CONTRACT REVENUE BONDS

A summary of changes in Tax Increment Contract Revenue Bonds follows:

Balance at July 1, 2022	$ 44,350,000
Additions	-
Retirements	(2,180,000)
Balance at June 30, 2023	42,170,000
Current portion	$ 2,250,000

Tax Increment Contract Revenue Bonds on June 30, 2023 consist of the following:

Date Series Issued	Outstanding Balance
2012	$ 1,440,000
2015	40,730,000
Total principal payable	42,170,000
Unamortized premium	2,640,493
Total bonds payable	$ 44,810,493

Note 7: TAX INCREMENT CONTRACT REVENUE BONDS (Continued)

In May of 2015, the Authority issued $41,505,000 in Tax Increment Contract Revenue Bonds (Series 2015 Bonds). The bonds were issued at a premium of $4,462,805 and have a series of maturities from 2022 through 2035. For the year ended June 30, 2023, the Authority incurred $775,000 and $1,726,577 in principal and interest (net of insurance amortization), respectively, and amortized $30,214 in issuance costs.

Bonds maturing on or after September 1, 2016, are subject to redemption at the option of the Authority at a price equal to par value plus accrued interest. Additional insurance premiums are required if these bonds are not redeemed beginning in 2026. The Series 2015 Bonds bear interest at rates between 4% and 5%, resulting in an average interest rate of 4.14% and have semi-annual interest payments due March 1 and September 1.

Principal and interest payments are due as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 810,000	$ 1,917,550	$ 2,727,550
2025	2,340,000	1,814,651	4,154,651
2026	2,635,000	1,685,281	4,320,281
2027	2,770,000	1,553,436	4,323,436
2028	2,910,000	1,416,036	4,326,036
2029-2033	16,950,000	4,759,785	21,709,785
2034-2036	12,315,000	700,289	13,015,289
	$ 40,730,000	$ 13,847,028	$ 54,577,028

In June 2012, the Authority issued Tax Increment Contract Revenue Refunding Bonds Series 2012 (the 2012 Bonds) in the aggregate principal amount of $22,745,000. The 2012 Bonds mature serially September 1, in each year 2012 through 2023. The 2012 Bonds are callable in whole or in part any date beginning September 1, 2021 at par. The 2012 Bonds bear interest at 2.49% and have semi-annual interest payments due on March 1 and September 1. The Authority incurred in $1,405,000 and $44,602 in principal and interest expense, respectively.

Net proceeds from the Series 2012 Bonds totaling $22,057,231 along with $3,048,351 from the Authority's debt service and debt service reserve accounts were used to refund the Series 2002A and Series 2009 Bonds with a total principal amount of $26,345,000 and an average interest rate of 5.7%. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for the debt service payments on the refunded bonds. Debt service on the refunded bonds was paid in full on June 13, 2012. The refunding was undertaken to reduce total debt service payments over the next 12 years by $2,067,006 and resulted in an economic gain of $982,679.

Note 7: TAX INCREMENT CONTRACT REVENUE BONDS (Continued)

Principal and interest payments are due as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 1,440,000	$ 5,976	$ 1,445,976
	$ 1,440,000	$ 5,976	$ 1,445,976

The Series 2015 issuance required a Debt Service Reserve Fund in the amount of $4,365,400 in addition to the Debt Service Fund of $4,273,781 required at June 30, 2021 for short term principal and interest payments due on both the 2015 and 2012 bond obligations. The Debt Service Fund was fully funded in July 2021 with receipt of the City's tax increment.

Note 8: LEASES

On April 14, 2018, a ground lease agreement was executed between the Legacy Trust Company, N.A., Successor Trustee of the Anna B. Williams Combined Trust, Legare H. Bethea Combined Trust and Shirley B. Morgan Combined Trust, and Broadway National Bank, Successor Trustee of the Legare H. Bethea Trust "L" (the Lessors), and the Authority. The ground lease covers 44,878 square feet (approximately ¾ block) of land in the southern portion of downtown bounded by Fannin, Leeland, Bell, and San Jacinto Streets. The lease commenced on April 1, 2019, with a 30-year term. At the commencement date, the Authority began payment of rent of $29,666 per month which is subject to a 10% escalation once every five years. The Authority has two renewal options of ten years each. The Authority is not reasonably certain the renewal options will be exercised. The Authority is currently in the process of constructing improvements on the property to convert the site to a public park. In accordance with the terms of the lease agreement, these improvements will automatically pass to the lessor without payment or consideration of any kind upon expiration or termination of this agreement.

At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The Authority has used the Authority's estimated incremental borrowing rate of 2.09% to discount the annual lease payments to recognize the leased asset (right to use land) and the related lease liability as of July 1, 2021 totaling $9,579,411. At June 30, 2023 the balance on the lease liability totaled $9,243,845.

The principal and interest payments of $161,609 and $195,031, respectively, for the year ended June 30, 2023 have been reported as capital outlay and interest expense, respectively, in the accompanying governmental funds revenues, expenditures and changes in fund balances.

Note 8: LEASES (Continued)

On February 13, 2020, a lease agreement was executed between Zions Bancorporation, N.A., a national banking association, d/b/a Amegy Bank and the Authority. The lease covers the 10th floor of the Amegy Bank building located at 1801 Main Street of 16,982 square feet of rented space to be an Innovation Hub known as the Downtown Launchpad. The lease commenced on June 19, 2020, with a 10-year term. At the commencement date, the Authority began payment of rent of $15.31 base rent per square foot (lease payment) plus a proportionate share of building operating expenses (non-lease component). In accordance with GASB 87, the non-lease components have been excluded in the measurement of the lease liability. There is no escalation of the base rent. The Authority has an option for one renewal term of five years. The Authority is not reasonably certain this renewal option will be exercised. The Authority also has licensing agreements with its partners in the innovation hub: MassChallenge, Gener8tor, Impact Hub and The Cannon, who will occupy space within the Downtown Launchpad.

At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The Authority has used the Authority's estimated incremental borrowing rate of 1.54% to discount the annual lease payments to recognize the leased asset (right to use office space) and the related lease liability as of July 1, 2021 totaling $2,186,574. At June 30, 2023 the balance on the lease liability totaled $1,723,954. The principal and interest payments of $231,510 and $28,490, respectively, for the year ended June 30, 2023 have been reported as capital outlay and interest expense, respectively, in the accompanying governmental funds revenues, expenditures and changes in fund balances.

Annual requirements to amortize the lease liabilities and related interest are as follows:

For the years ending June 30,	Principal	Interest	Total
2024	$ 408,374	$ 216,518	$ 624,892
2025	442,703	208,888	651,591
2026	450,710	200,882	651,592
2027	458,864	192,727	651,591
2028	467,170	184,421	651,591
2029-2033	1,842,037	802,346	2,644,383
2034-2038	1,700,281	636,540	2,336,821
2039-2043	2,133,355	437,148	2,570,503
2044-2048	2,638,686	188,868	2,827,554
2049	425,619	3,721	429,340
	$ 10,967,799	$ 3,072,059	$ 14,039,858

Note 8: LEASES (Continued)

A summary of changes in the Authority's lease liabilities follows:

Balance at July 1, 2022	$ 11,360,918
Additions	-
Retirements	(393,119)
Balance at June 30, 2023	$ 10,967,799
Current portion, lease liabilities	$ 408,374

Note 9: FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2023, fund balances of the governmental funds are classified as follows:

	General Fund	Debt Service Fund	Total
Restricted for			
Debt service	$ -	$ 8,585,226	$ 8,585,226
Committed to			
Roadways and streets	40,163	-	40,163
Infrastructure/mobility	2,500,000	-	2,500,000
Real property improvements	5,010,000	-	5,010,000
Historic preservation	469,963	-	469,963
Parks and recreation	2,387,346	-	2,387,346
Retail/economic development	6,764,932	-	6,764,932
Assigned to			
Historic preservation	1,000,000	-	1,000,000
Infrastructure mobility improvement	143,000	-	143,000
Unassigned	512,071	-	512,071
	$ 18,827,475	$ 8,585,226	$ 27,412,701

NOTE 10: TAX INCREMENTS

The Authority's tax increment revenue, as reflected in the Statement of Activities, was received from the following Participants:

	Gross Increment	Transfers: Administrative Fee	Transfers: Educational Facilities	Net Increments
City of Houston	$ 19,065,040	$ (953,252)	$ -	$ 18,111,788
Houston Independent School District	4,946,972	(25,000)	(1,922,208)	2,999,764
Harris County	144,175	(7,209)	-	136,966
Total tax increments	$ 24,156,187	$ (985,461)	$ (1,922,208)	$ 21,248,518

The Authority's tax increment revenues, as reflected in the governmental funds, was received from the following Participants:

	Gross Increment	Transfers: Administrative Fee	Transfers: Educational Facilities	Net Increments
City of Houston	$ 19,065,040	$ (953,252)	$ -	$ 18,111,788
Houston Independent School District	4,946,972	(25,000)	(1,922,208)	2,999,764
Harris County	310,642	(15,532)	-	295,110
Total tax increments	$ 24,322,654	$ (993,784)	$ (1,922,208)	$ 21,406,662

Note 11: COMMITMENTS AND CONTINGENCIES

The Authority has entered into various developer agreements whereby the developers agreed to advance money to renovate and operate historic structures, construct retail and residential improvements and other projects. All property is owned by the developers.

Municipal Service Costs Agreement

The Authority, the Zone, and the City entered into an agreement whereby the Authority will pay to the City incremental costs of providing increased municipal services incurred as a result of the creation of the Zone or the development or redevelopment of the land in the Zone. Payment of the incremental service costs is from the City's Tax Increment and is limited to the available Tax Increment received by the Authority as defined in the agreement and the amount included in the Authority's annual approved budget. If the City's available Tax Increment is not sufficient in any year to pay the amount included in the approved budget, the amount due will accrue without interest. The agreement renews annually on June 30.

Note 11: COMMITMENTS AND CONTINGENCIES (Continued)

Buffalo Bayou Partnership

In January 2012, the Authority, Buffalo Bayou Partnership (the Partnership), Harris County Flood Control District and the City entered into a project facilities agreement. The Authority is obligated under this agreement for start-up costs totaling $581,000 and annual City Project Facility Fees (annual fee) through December 31, 2043. The annual fee is $2,063,653 and is increased annually based on increases in the Employment Cost Index. Payments are made semi-annually no later than January 10 and July 10 of each calendar year. The Park opened in October 2015, and payment of the annual fee commenced in January 2016. Fiscal year 2019 marked the first review of operating and maintenance expenditures as required in the agreement. No changes were made to the calculation of the Authority's annual payment; however, the park was severely damaged by Hurricane Harvey and the Authority agreed to provide a one-time payment of $375,000 to the Buffalo Bayou Partnership to replenish the Capital Maintenance Fund which had been completely depleted for the repairs to the park after Hurricane Harvey.

Downtown Living Initiative

In 2012, the Authority created a program called the Downtown Living Initiative (DLI) which was designed to incentivize residential development in the Zone. Developers were eligible to receive a rebate equal to 75% of the incremental City of Houston ad valorem taxes generated by the project upon completion for a fifteen-year period up to a maximum of $15,000 per residential unit. The program was closed in accordance with the ordinance which created it on June 30, 2016.

Seven Downtown Living Initiative agreements were executed from the program's inception in 2012 through the end of fiscal year 2016. The first grant was approved by the Authority under this program to SkyHouse Houston for development of a 24-story, 336-unit high-rise residential tower on Block 350. The maximum grant available for this project over the term of the grant is approximately $5 million. Construction was completed on this project, and it opened in 2014. The ninth installment under the grant was accrued in fiscal year 2023.

A second grant was approved under the Downtown Living Initiative and a historic preservation grant was given to Rusk at San Jacinto Partners, LP for redevelopment of the 97-year-old Texas Company building at 1111 Rusk aka "The Star" into 286 luxury apartment units. The maximum grant available for this project over the term of the grant is approximately $12.1 million. The project was completed in 2017. The sixth installment under the grant was estimated and accrued in fiscal year 2023.

A third grant was approved under the Downtown Living Initiative to Alliance Realty Partners, LLC for a 207-unit midrise multifamily residential building located on Block 334. The maximum grant available for this project over the term of the grant is approximately $3.1 million. The project was completed in 2016. The seventh installment under the grant was accrued in fiscal year 2023.

Note 11: COMMITMENTS AND CONTINGENCIES (Continued)

A fourth grant was authorized in 2014 under the Downtown Living Initiative program for development of a 33-story, 274-unit high rise residential tower by Hines at Market Square Park aka Aris Market Square, which completed construction in 2018. The maximum grant available for this project over the term of the grant is approximately $4.1 million. The fifth installment under the grant was accrued in fiscal year 2023.

A fifth grant was approved under the Downtown Living Initiative to BMS Market Square, now Woodbranch Tower aka Market Square Tower, for development of a 40-story, 463-unit high rise residential building which completed construction in 2016. The maximum grant available for this project over the term of the grant is approximately $6.9 million. The seventh installment under the grant was paid in fiscal year 2023.

A sixth grant was approved under this program to SkyHouse Main for the development of a 338-unit high rise residential tower on block 368. The maximum grant available for this project over the term of the grant is approximately $5 million. The project was completed in 2016. The seventh installment under the grant was accrued in fiscal year 2023.

A seventh grant was approved by the Authority under this program to FF Realty II LLC for the development of a 290-unit midrise residential tower on block 387. The maximum grant available for this project over the term of the grant is approximately $4.4 million. The project was completed in 2022 and will be eligible for its first grant in 2024.

1616 Main Street/Holiday Inn Hotel

The Authority entered into an economic development agreement with HDT Hotel, LLC for renovation of the former Savoy Hotel. The Authority has reimbursed $500,000 in street level improvements and will provide an incremental tax rebate over a 10-year period for development of a full-service 213-room Holiday Inn at 1616 Main. The project was completed in the fall of 2015. The total amount of incremental tax rebate is estimated to be $5 million over the term of the grant.

806 Main/JW Marriott Hotel

The Authority entered into an agreement with Pearl Hospitality to reimburse up to $2.3 million in infrastructure improvements and to provide an incremental tax rebate over a 25-year period for development of a 323-room JW Marriott hotel at 806 Main on the corner of Main and Rusk. The project completed construction and the infrastructure payment was made during the fiscal year 2015. The total amount of incremental tax rebate is capped at $9.5 million over the term of the grant.

Note 11: COMMITMENTS AND CONTINGENCIES (Continued)

GreenStreet/Hotel Alessandra

The Hotel Alessandra is a 227-room luxury hotel constructed as an addition to the GreenStreet project. The Authority entered into an economic development agreement with HA Hotel Partners, LP to rebate 50% of the annual incremental City of Houston ad valorem taxes from the project for a 10-year period. The hotel was completed and opened in October 2017.

The hotel was required to create at least twenty-five new full-time jobs and 6,016 square feet of retail space for soft goods in order to receive the rebate. The hotel closed during 2021, reopened as Hotel Laura, and became eligible for the rebate in 2023. The fourth installment of the rebate was accrued in fiscal year 2023.

723 Main/AC Hotel

In June 2016 the Authority entered into an Economic Development Agreement with Supreme Bright Houston, LLC for the development of a 194-room the AC Hotel located at 723 Main Street. The grant is a reimbursement of 50% of the City portion of the incremental ad valorem taxes for a time period of ten years or an amount not to exceed $1,171,750. The terms require the creation of at least fifty new full-time jobs and that the project retain the Marriott flag or equivalent. Construction was completed and the hotel opened in July 2019.

MassChallenge

In November 2018, the Authority board approved an economic development agreement with MassChallenge in the amount of $2.5 million over five years. MassChallenge is a global non-profit startup accelerator with a focus on high-impact early-stage entrepreneurs. MassChallenge did not comply with the requirements of the economic development agreement by changing its platform as a result of COVID to virtual and no longer utilized the Downtown Launchpad as mandated by the agreement to focus on development of early-stage entrepreneurs in Downtown Houston. The fifth payment of $404,000 was not made.

Gener8tor

In September of 2019, the Authority board approved an economic development agreement with Gener8tor in the amount of $1.25 million over five years. Gener8tor is a nationally recognized pre-accelerator, specializing in translating ideas into start-up businesses. The Authority paid the fourth installment of its grant in fiscal year 2023.

Note 11: COMMITMENTS AND CONTINGENCIES (Continued)

Post HTX

In November 2018, the Authority board approved an economic development agreement with 401 Franklin St., LTD for restoration and redevelopment of the Barbara Jordon Post Office building to develop a mixed-use project called Post HTX. The agreement provides a 75% rebate of the annual incremental City of Houston ad valorem taxes from the project up to a maximum amount of $23 million. Construction was completed in December 2021. The first rebate payment was accrued in fiscal year 2023.

Lynn Wyatt Square for the Performing Arts

The Authority has pledged a total of $10 million in funding support to Houston First Corporation for the redevelopment of Jones Plaza into the Lynn Wyatt Square for the Performing Arts. The total project cost is estimated to be $28 million. Fundraising for the project currently stands at $26.6 million and it began construction in May of 2021. Lynn Wyatt Square is scheduled to open in the fall of 2023.

Buffalo Bayou Partnership Hike & Bike Trails East of Allen's Landing

The Buffalo Bayou Partnership and the Houston Parks Board are expanding the trail system along the bayou on the north side of downtown east of Allen's Landing, including blocks 6 and 7, purchased by the City. In February 2019 the Authority board agreed to provide financial support for construction in the amount of $2 million over two years. The project has been delayed due to the subsidence of the bayou and environmental issues.

Consultants

The Authority has entered into agreements with various consultants to provide professional services.

Note 12: ADMINISTRATIVE AGREEMENT

The Authority has entered into an administrative agreement with Central Houston, Inc. for executive management, general administrative support, project management and development, construction management and other services as may be deemed necessary by the Authority's Board of Directors in the course of its various activities. The Authority paid Central Houston, Inc. $758,870 for these services for the year ended June 30, 2023.

Note 13: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage and no settlements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS AND SUPPLEMENTARY INFORMATION

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Schedule of Revenues, Expenditures, and Change in Fund Balance – Budget to Actual – All Funds (Unaudited)

For the year ended June 30, 2023	Original and final budgeted amounts	Actual amounts (budgetary basis)	Variance with final budget
Budgetary fund balance - beginning of year	$ 21,839,949	$ 28,952,025	$ 7,112,076
Resources			
Tax increments	29,544,001	24,322,654	(5,221,347)
Miscellaneous revenue	-	168	168
Interest income	25,000	636,460	611,460
Total available resources	51,408,950	53,911,307	2,502,357
Expenses			
Management consulting services	807,500	779,096	28,404
Project costs and capital expenditures	12,739,126	16,504,438	(3,765,312)
Debt service	4,193,398	4,416,919	(223,521)
Other interfund transfers:			
HISD educational facilities	4,580,001	1,922,208	2,657,793
Municipal services - public safety	2,045,000	1,882,161	162,839
Administrative fees	1,126,225	993,784	132,441
Total uses of resources	25,491,250	26,498,606	(1,007,356)
Budgetary fund balance - end of year	$ 25,917,700	$ 27,412,701	$ 1,495,001

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenses

Sources/inflows of resources:	
Actual amounts (budgetary basis)	$ 53,911,307
Differences - budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource current year revenue for financial reporting purposes	(28,952,025)
Budgeted revenues include HISD educational facilities transfers and City administrative charges while the Authority's funds report revenues net of these transfers	(2,915,992)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances	$ 22,043,290
Uses/outflows of resources	
Actual amounts (budgetary basis)	$ 26,498,606
Differences - budget to GAAP	
Budgeted expenditures include HISD educational facilities transfers and city administrative charges while the Authority's funds report revenues net of these transfers	(2,915,992)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	$ 23,582,614

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Schedule of Operating Expenses and Capital Expenditures

For the year ended June 30, 2023	Vendor	Budget	Actual Expenditures	Variance
Management Consulting Services				
Administrative Support	Central Houston, Inc.	$ 700,000	$ 690,945	$ 9,055
Office Expenses	Various	7,500	37,954	(30,454)
Insurance	W. M. Jones & Company	36,500	5,280	31,220
Accounting	TNC CPAs	2,500	-	2,500
Auditor	Carr, Riggs & Ingram, LLC	18,000	19,228	(1,228)
Bond Trustee Services	Bank of New York Mellon	10,000	3,180	6,820
Financial Advisor	Masterson Advisors, LLC	5,000	3,500	1,500
Taxroll Advisor (ITM)	ITM Services	10,000	3,640	6,360
Total administration and overhead		789,500	763,727	25,773
Legal	Bracewell & Giuliani LLP	18,000	15,369	2,631
Total management consulting services		$ 807,500	$ 779,096	$ 28,404
Capital Expenditures and Developer/Project Reimbursements				
Developer/Project Reimbursements:				
Aris Market Square Residential	HM Market Square, LLC	$ 478,683	$ 427,508	$ 51,175
Buffalo Bayou Park	Buffalo Bayou Partnership	2,618,719	2,706,949	(88,230)
The Star Residential	Rusk@San Jacinto Partners, LP	407,571	337,569	70,002
806 Main (JW Marriott)	806 Main Hotel, LLC	260,344	142,723	117,621
Downtown Living Initiative	Central Houston, Inc.	-	19,379	(19,379)
Economic Development Retail	Central Houston, Inc.	60,000	118,684	(58,684)
SkyHouse Houston Residential	SPSU9 - North Tower	312,996	242,926	70,070
SkyHouse Main Residential	SPSU9 - South Tower	324,395	243,726	80,669
Block 334 Residential	Fairflield Block 334, LP	198,710	153,552	45,158
Market Square Tower Residential	Woodbranch Tower LLC	720,688	613,712	106,976

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Schedule of Operating Expenses and Capital Expenditures (Continued)

For the year ended June 30, 2023	Vendor	Budget	Actual Expenditures	Variance
Hotel Alessandra/Laura	HA Hotel Partners, LP	$ 73,976	$ 56,032	$ 17,944
1616 Main (Holiday Inn Hotel)	HDT Hotel, LLC	29,392	23,274	6,118
Fairfield Residential	Central Houston, Inc.	283,506	-	283,506
Hike and Bike Trails East of Allens Landing	Buffalo Bayou Partnership	1,000,000	448,719	551,281
Mass Challenge	Mass Challenege, Inc.	404,000	-	404,000
Post HTX	401 Franklin Street, LTD.	425,000	344,032	80,968
Future Project Development		1,000,000	54,429	945,571
Gener8tor	Gener8tor Management, LLC	250,000	250,000	-
723 Main (Marriott AC Collection Hotel)	Supreme Bright Houston, LLC	17,326	27,334	(10,008)
Downtown Innovation Hub	Amegy Bank - Operating Expenses	497,820	408,538	
	Central Houston, Inc.	-	109,213	
Total Downtown Innovation Hub		497,820	517,751	(19,931)
Total Developer/ Project Reimbursements		$ 9,363,126	$ 6,728,299	$ 2,634,827
Capital Improvement Projects:				
T-0307 Trebly Park (Southern Downtown Pocket Park)	Structura, Inc.		$ 627,002	
	Central Houston, Inc.		208,569	
	Legacy Trust - Rent		111,824	
	Ann Harris Bennett - Property Tax		103,801	
	Renfrow Metalsmiths, LLC		85,027	
	Project Surveillance, Inc.		67,305	
	Core Design Studio		54,237	
	Broadway Bank - Rent		49,137	
	W.M. Jones & Co., Inc.		22,840	
	Weingarten Art Group		15,000	
	Instituform Technologies		8,000	
	Strategic Coating Solutions		8,000	
	Wakefield AV & Cabling, LLC		5,650	
	Bega US Inc		3,683	
	Bartlett Tree Experts		3,168	
	Alpha Testing		2,650	
	CW Lighting		2,332	
	Reign Home Innovations		2,170	
	Gurrola Reprographics Inc.		90	
	Corner Bakery Café		88	
	Houston Downtown Management District		27	
Total T-0307 Trebly Park (Southern Downtown Pocket Park)		$ 1,456,000	$ 1,380,600	$ 75,400

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Schedule of Operating Expenses and Capital Expenditures (Continued)

For the year ended June 30, 2023	Vendor	Budget	Actual Expenditures	Variance
T-0308 Jones Plaza	Central Houston, Inc.	$ -	$ 7,485,490	$ (7,485,490)
T-0319 Allen Parkway	Houston Downtown Management District	150,000	149,145	855
T-0325 Bagby Street	Main Lane Industries		452,599	
	Central Houston, Inc		42,175	
	Centerpoint Energy		(28,360)	
	Houston Downtown Management District		3,014	
	Quiddity Engineering		1,964	
	ASCE Texas		900	
Total T-0325 Bagby Street		-	472,292	(472,292)
T-0326 NHHIP Civic Opportunities	Central Houston Civic Improvement	250,000	250,000	-
T-0337 Montrose Bridge at Allen Parkway		1,000,000	-	1,000,000
T-0340 Targeted Blight Remediation	AECOM Technical Services		26,250	
	Ryan M. LeVasseur		10,000	
	The Business Journal		1,056	
	Houston Defender Network		706	
	Southern Chinese Daily News		600	
Total T-0340 Targeted Blight Remediation		500,000	38,612	461,388
T-0399 Concrete Panel Replacement		20,000	-	20,000
Total capital expenditures		3,376,000	9,776,139	(6,400,139)
Total capital expenditures and developer/project reimbursements		**$ 12,739,126**	**$ 16,504,438**	**$ (3,765,312)**

Main Street Market Square Redevelopment Authority
d/b/a Downtown Redevelopment Authority
Schedule of Estimated Project Costs to Actual Costs
July 6, 1999 (Date of Inception) through June 30, 2023

	Estimated Total Costs	Total Expenditures	Remaining Balance
Project costs			
Infrastructure improvements			
Roadways and streets	$ 47,500,000	$ 64,754,426	$ (17,254,426)
Infrastructure, mobility, transit improvements	43,334,450	27,751,507	15,582,943
Total Infrastructure improvements	90,834,450	92,505,933	(1,671,483)
Real property improvements	57,520,266	23,623,604	33,896,662
Parking facilities	10,156,417	-	10,156,417
Historic preservation improvements	26,351,008	17,670,022	8,680,986
Parks and recreational	273,044,167	17,548,028	255,496,139
Theater district improvements	11,504,799	14,610,972	(3,106,173)
Cultural and public facility improvements	10,000,000	1,503,555	8,496,445
Economic development programs	166,800,000	53,773,464	113,026,536
Institutional facilities	22,000,000	10,678,800	11,321,200
Total project costs	668,211,107	231,914,378	436,296,729
Operating and financing costs			
Financing costs	48,930,000	29,006,381	19,923,619
Administration	16,934,426	8,007,439	8,926,987
Total operating and financing costs	65,864,426	37,013,820	28,850,606
Educational facilities	82,541,820	52,471,417	30,070,403
Project plan total	$ 816,617,353	$ 321,399,615	$ 495,217,738

(a) Costs for the life of the Zone as provided in the Project Plan and Reinvestment Zone Financing Plan. This includes costs for both original and annexed areas in the Zone. The estimated total costs are reported based on the Authority's 8th Amendment to the Project Plan and Reinvestment Zone Financing Plan that was approved by City Council in December 2022.

DISCLAIMER

This presentation is specifically prepared for the City of Houston Downtown Redevelopment Authority (DRA) Board.

The recommendations included are specific to DRA's capacity and authority and are intended as a guide for DRA's decisions.

AECOM

Downtown Redevelopment Authority

Downtown Houston
Office Conversion Study

Downtown Redevelopment Authority Board Meeting

October 10, 2023

Agenda

1 Context
2 Methodology
3 Building Concepts
4 Feasibility Summary
5 Policy Recommendations
6 Next Steps

AECOM

Hunter Gillaspie
Senior Analyst,
Economics

Chris Law
Manager,
Economics

Follow-up to June presentation with purpose of recommending policy approach that supports office-to-residential conversion in Downtown Houston

In response to high office vacancy and potential fiscal impact, City leadership requested study of potential office conversion program in Downtown Houston, including current state of market and potential incentive structures.

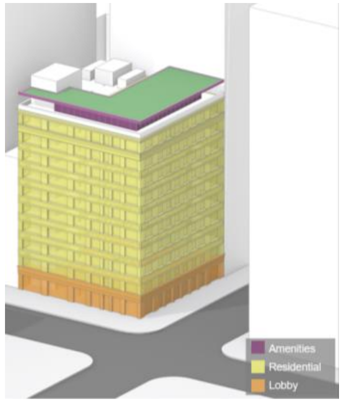
Last Time *(June 13, 2023)*

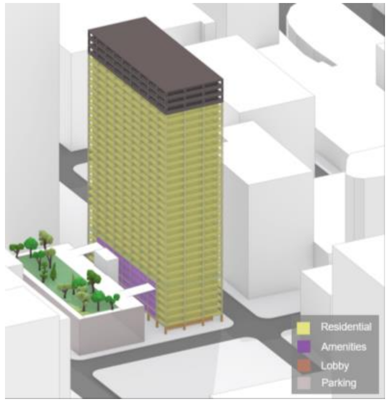
- Introduction to consulting team and scope
- Downtown market analysis
- Building conversion scoring analysis
- Selection of three concept buildings

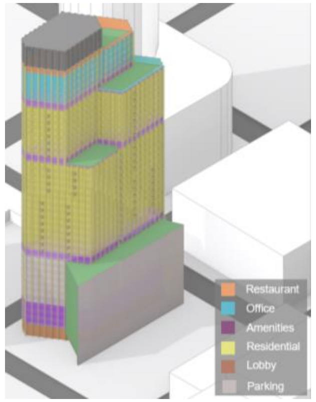
Property Address	Built	RBA (SF)	Total Score
1021 Main St	1960	608,660	26
919 Milam St	1956	542,078	25
708 Main St	1923	98,253	24
808 Travis St	1941	599,107	23
1415 Louisiana St	1983	520,602	22
800 Bell St	1962	1,314,350	22
700 Milam St	1975	694,021	22
1001 Texas Ave	1982	119,436	21
1010 Lamar St	1981	277,991	21
1600 Smith St	1984	1,098,399	21
1301 Fannin St	1983	369,486	21
1001 McKinney St	1947	375,440	20
440 Louisiana St	1983	379,382	20
1331 Lamar St	1983	985,896	20

This Time *(October 10, 2023)*

- Test fits for three conversion concept buildings
- Key factors affecting feasibility
- Financial feasibility model results
- Recommendations







To avoid future property tax losses and increase downtown residency, City should create a suite of office-to-residential tools and incentives that builds upon prior new construction program

Problem

Post-pandemic telework and migration patterns have led to increasing office vacancy in downtown Houston, with 30% of square footage currently available; risk that property tax revenue will not just stagnate but **significantly decrease** as office values decline

Complication

Real estate market has not addressed these challenges due to several unique characteristics of downtown Houston office stock:

Larger floor plates which can limit efficiency of residential programs

Larger buildings which result in unit counts difficult for the market to absorb

"Sticky" office tenants which can result in higher acquisition and lease buy-out costs

Newer building stock which cannot access historic tax credit funds

Solution

City can address current private funding gap for most office buildings by creating program with the following components:

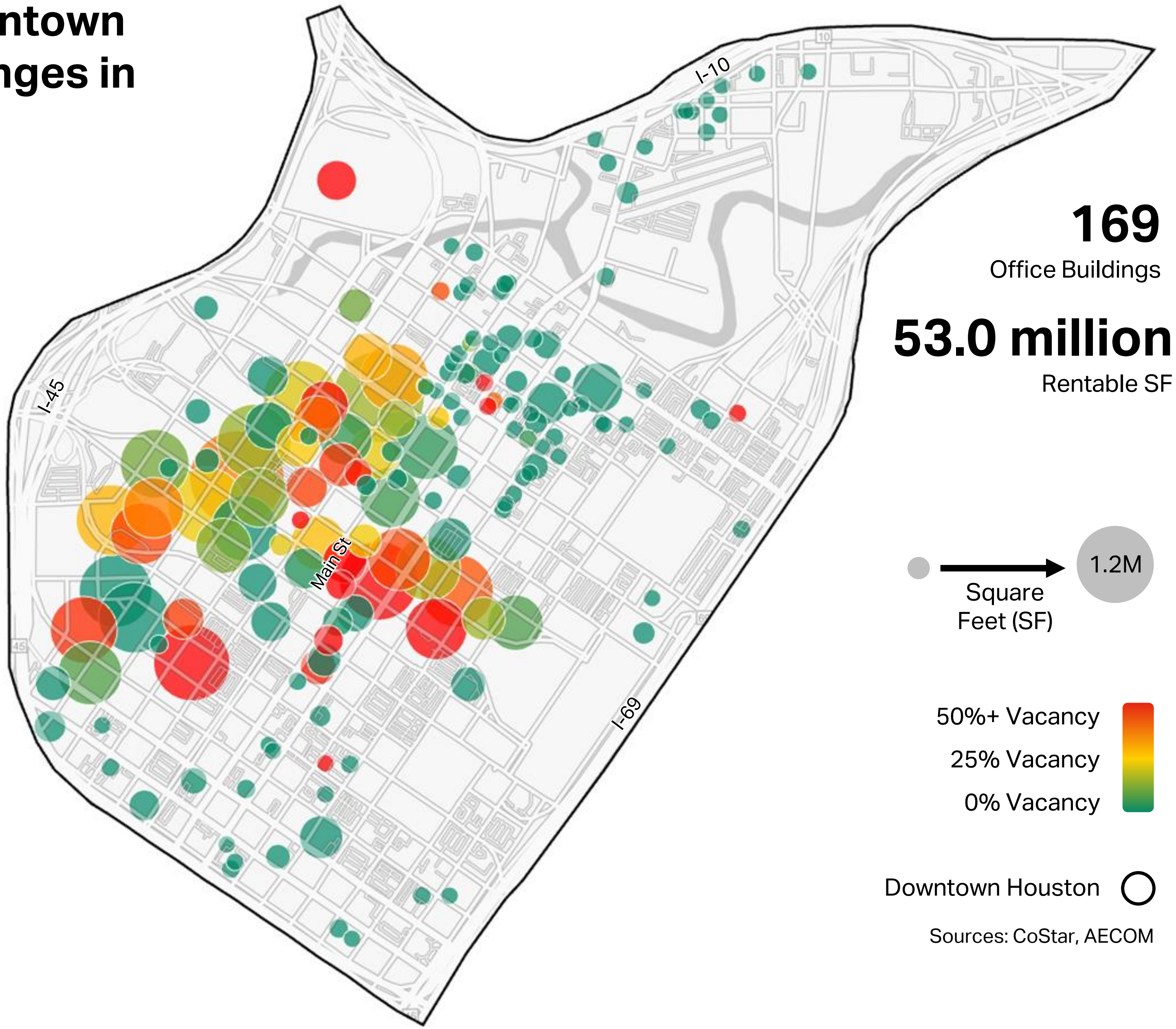
- Offer annual reimbursement for **100% of incremental tax revenues for 30 years** based on **2023 assessed value**
- Seek **Harris County participation** which increases available base from 28% to 51% of taxes
- Consider **integrating adjacent TIRZ districts** into shared program to facilitate larger downtown initiative
- Provide **technical assistance** to streamline permitting and access additional funding sources

Context

Commercial office fundamentals in Downtown Houston are troubling and mirror challenges in other cities

- **Vacancy rate of 24%*,** third highest among 35 largest downtowns in America, up from 9% in 2014
- **Availability rate of 30%*,** meaning space that is not yet vacant but nearing lease expiration without renewal
- Risk that downtown property tax revenue will **not just stagnate but significantly decrease** as office assessed values "catch up" to declining market values
    - Two illustrations: Since 2014, the tax assessed value for 1021 Main has decreased from $115M to $52M (↓ 55%)
    - 1415 Louisiana has decreased from $65M to $46M (↓ 29%).

**Vacancy and availability figures include direct and sublet space*



Sources: CoStar, AECOM

Some cities are publicly exploring or have implemented programs to incentivize office-to-residential conversion, while Houston has opportunity to lead Southeast U.S. peers

Regulation Relaxation

- Expedited permitting, streamlined approvals, increased allowable density, exemption from zoning restrictions and code requirements, etc.
- ***Less applicable for Houston due to less burdensome regulatory environment***

Technical Assistance & Solicitation

- Invitations for proposals, “concierge” services, technical assistance for developers, feasibility studies, building prioritization
- ***Potential to provide similar technical support to reduce risk and accelerate timelines***

Leveraging Existing Funding Incentives

- State & Federal Historic Credits, Low-Income Housing Tax Credits, specific state/local incentives
- ***Other funding sources unlikely to be widely available given Houston building characteristics***

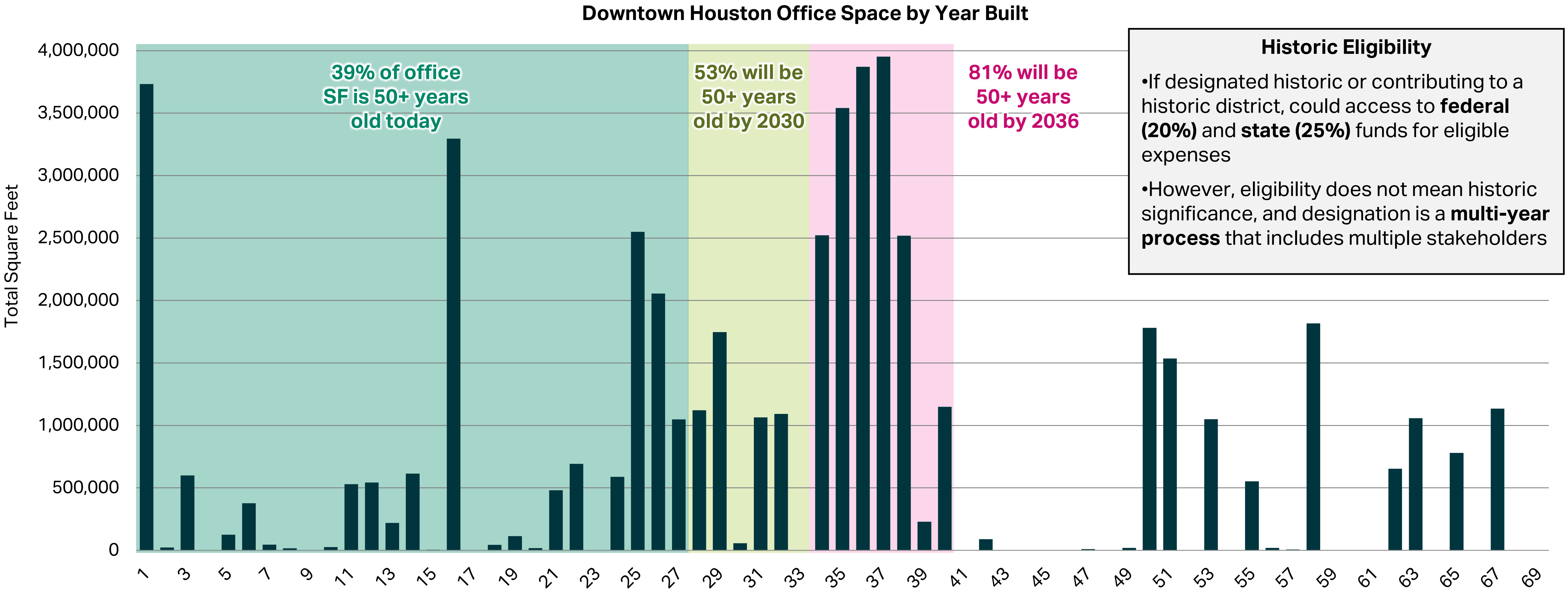
Creating New Funding Incentives

- Property tax abatement, grants, tax exempt bonds/soft financing
- ***Tax incentives likely necessary due to expected funding gap with most typical office buildings***

National Survey of Office Conversion Incentives

Location	Program Status	Types of Incentives			Total Funding Allocated
		Property Tax Abatement	Grants	Soft Financing or Bonds	
Calgary	Active		$37-75 per SF		$153 million
Chicago	Active	30%, 30 years	Variable	Bonds	
Boston	Active	75%, 29 years			
State of California	Active		Variable	Soft Financing	$400 million
Philadelphia	Active	50%, 10 years			
District of Columbia	Active	Variable, 20 years			$50 million
Pittsburgh	Active		Up to $1-3M		
Portland	Active		Up to $3M		
Denver	Pending	TBD	TBD	TBD	TBD
San Francisco	Pending	TBD	TBD	TBD	TBD
Los Angeles	Pending	TBD	TBD	TBD	TBD
New York	Pending	TBD	TBD	TBD	TBD
Houston	Being Studied	TBD	TBD	TBD	TBD
Atlanta	Being Studied	TBD	TBD	TBD	TBD
Phoenix			No specific office conversion funding incentive		
Dallas			No specific office conversion funding incentive		
Austin			No specific office conversion funding incentive		

Downtown Houston office buildings are generally younger, however an increasing number are becoming eligible for historic designation



Historic Eligibility

•If designated historic or contributing to a historic district, could access to **federal (20%)** and **state (25%)** funds for eligible expenses

•However, eligibility does not mean historic significance, and designation is a **multi-year process** that includes multiple stakeholders

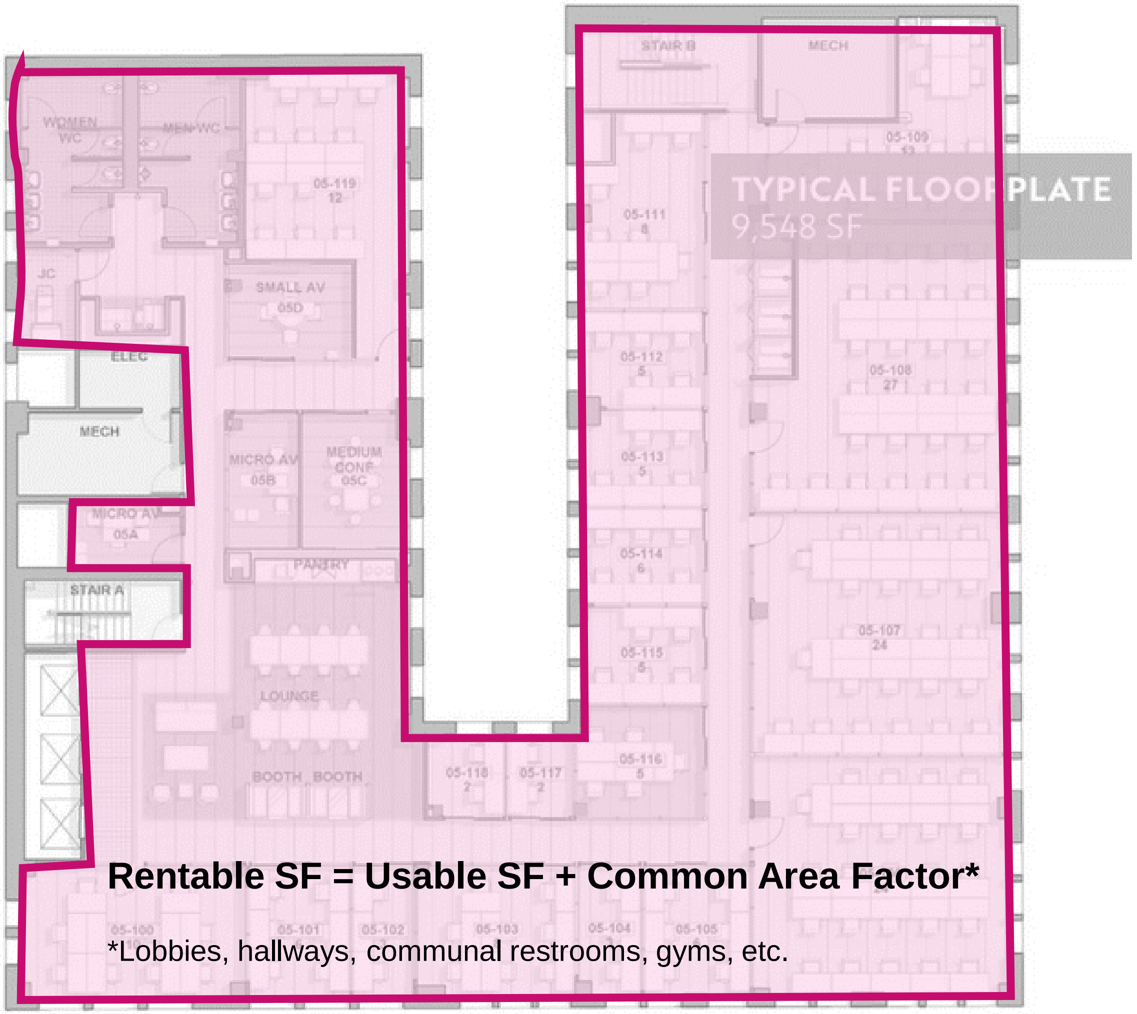
76% of office stock was built after 1970, **11th lowest** among 35 largest downtowns in America

Feasibility of residential conversion is driven by floor plate geometry and the ability to capture sufficient rentable area from gross square footage

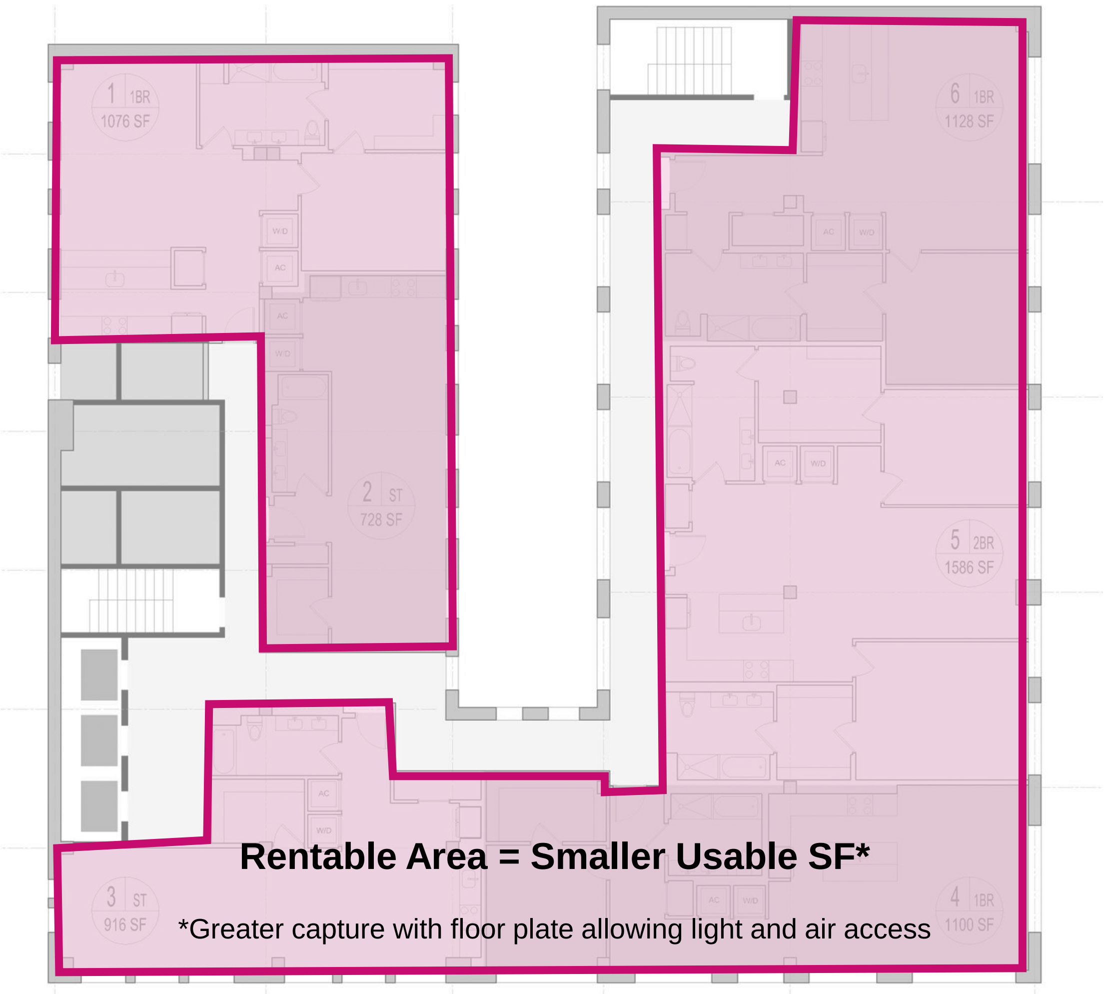
Office Floor Plate

Residential Floor Plate

Feasibility of residential conversion is driven by floor plate geometry and the ability to capture sufficient rentable area from gross square footage



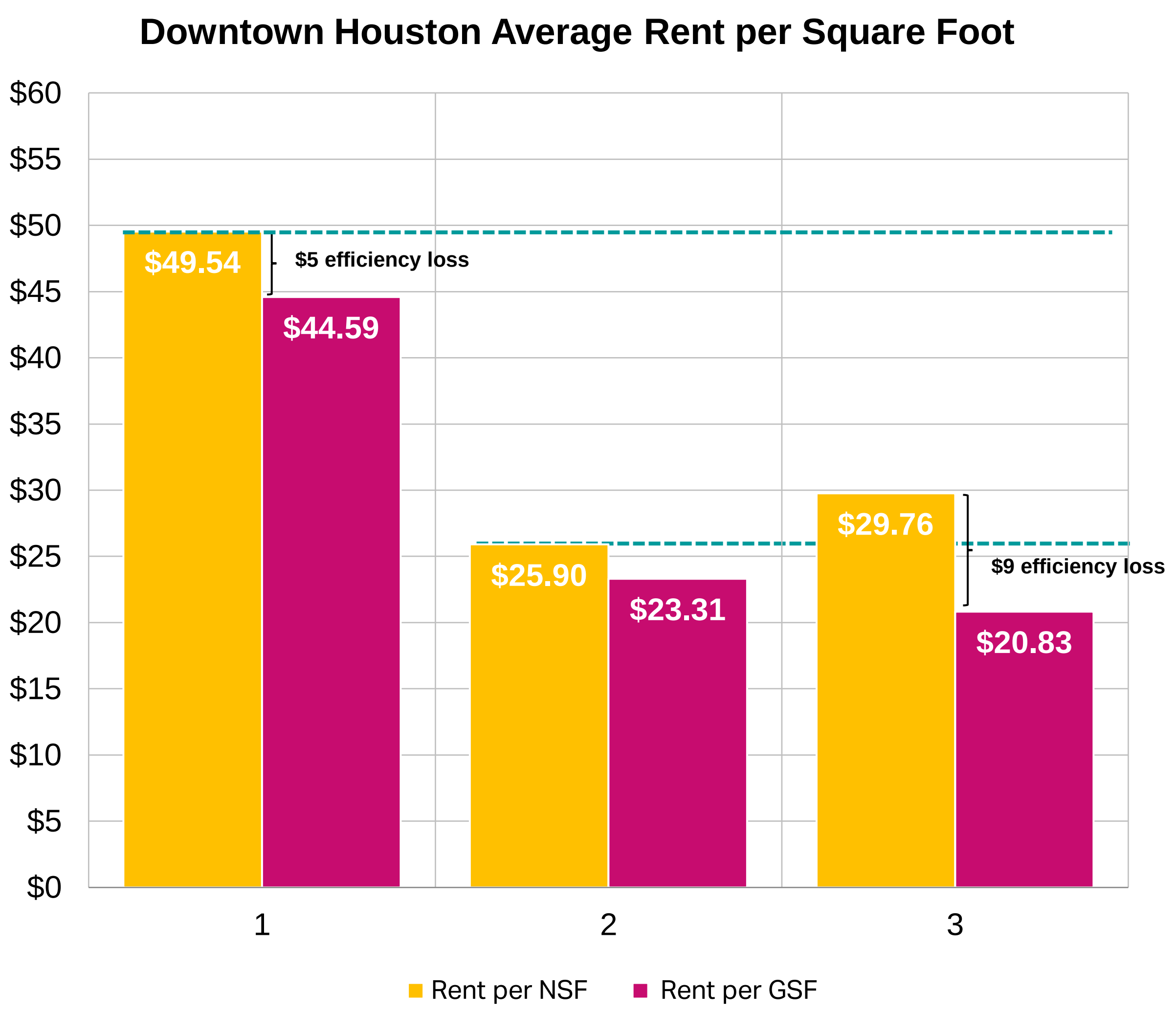
Office Floor Plate



Residential Floor Plate

Revenue capture

Class A Commercial Office use has typically been "highest and best use" in Downtown Houston due to higher rent per SF, assuming full occupancy and limited concessions



- Given limited land use restrictions, acquisition values in Houston are based upon office as highest and best use
    - Office also allows owners to capture revenue from higher portion of the building's square footage
    - Office Class A rent is **$49.54** per SF per year
    - Apartment Class A rent is **$29.76** per SF per year
- As evidence of this calculus, recent office reinvestments include:
    - Houston Center: $300M renovation by Brookfield Properties
    - Memorial City Plazas: $25M by MetroNational
- However, office investors are all competing for top of the market:
    - Rental rates for Class A residential start to exceed Class B and Class C office on a per SF basis
    - Fully occupied Class A residential can also be expected to outperform partially occupied Class A office in revenue

Aside from age and building layout, several other factors that may limit investor risk-taking for downtown residential conversions

Additional Downton Houston Characteristics Impacting Feasibility

Large Building Size

81% of total office stock is in buildings larger than 500,000 square feet, leading to concerns with market's ability to absorb a full complement of residential units if fully converted.

Sticky Tenants

While many office buildings have seen drops in occupancy, only **16 of 169** office buildings are greater than 50% vacant, which may result in a high cost to buy out remaining tenants for redevelopment

Low Residential Baseline

Despite recent growth with new multifamily product, downtown Houston's population density is **10th lowest** among 35 largest downtowns in America, which may impact prospective investors and resident interest

Urban Living Competition

Downtown Houston is **competing with other established submarkets** nearby for residents seeking urban living, including Midtown, Uptown, Greenway, Montrose, and Buffalo Bayou. Ground-up multifamily development in these areas has similar construction costs to conversion

Despite challenging office-to-residential economics, Downtown Houston has a compelling story for prospective investors and residents

Organizational Framework

DRA, CHI are already in place and have tools available – DLI generated over **5,000 new units** since 2012

Regional Population Momentum

Houston Metro Area's population grew by **20%** between 2010 and 2020, **the highest** of any major metropolitan area

Visitor Rebound

Tourist visitation has recovered to **85%** of pre-pandemic levels, **14th highest** of 35 largest downtowns in America

Return to Office

Office worker visitation has recovered to **60%** of pre-pandemic levels, **15th highest** of 35 largest downtowns in America

Market Familiarity with Product

13th highest of 35 largest metro areas in America in terms of share of housing in 50+ unit structures

Multifamily Performance

Multifamily sector has stable occupancy, appealing rental rates, and high absorption rates attractive to investors.

Class B and C Performance

Class C office rent of **$ 25.90** per SF per year is below Class A apartment rent of **$29.76** per SF per year

Nearing NRHP Eligibility

39% of buildings are 50+ years old today, but **81%** will be by 2036, which may open historic financing

Methodology

AECOM and DRA staff selected three representative buildings from scoring exercise to evaluate residential test fit and financial feasibility

- Selections from office-to-residential conversion scoring tool presented in June
- Representative of Houston's downtown office stock based on several factors:
  - **Building size**: small ↔ medium ↔ large
  - **Lease span**: shallow ↔ medium ↔ deep
  - **Floorplates**: uniform ↔ unique
  - **Historic status**: registered ↔ eligible ↔ not eligible
  - **Parking**: none ↔ adjacent ↔ on-site
  - **Vacancy**: high ↔ moderate ↔ low
- AECOM architects conducted residential test fits of selected buildings based on available office floor plans and stacking

1

708 Main

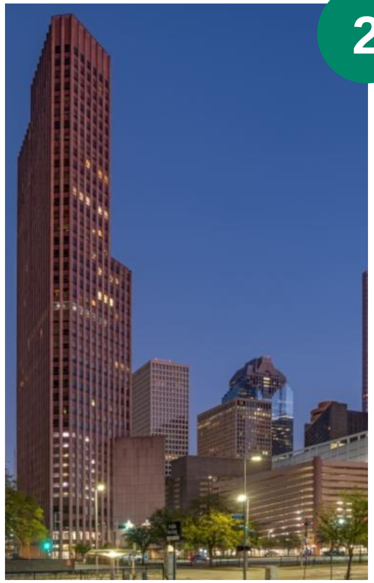
"The Houston Shoebox"

Small building

Small floorplates

Fully vacant

2



1415 Louisiana

"The Typical Atypical"

Large building

Large irregular floorplates

Partially occupied

3

1021 Main

"What's Old is New Again"

Large building

Large uniform floorplates

Partially occupied

Several factors have the greatest impact on the financial feasibility of office-to-residential conversions, as identified during financial modeling

Building Efficiency	Construction Costs	Acquisition Costs	Current Tenants
• Residential floor plates are possible in each building, but **more efficient in smaller buildings** • Larger and more complicated floor plates lead to **high load factor** (i.e. non-rentable SF), which reduces financial performance • These floor plates can also result in **larger average unit size** compared to typical new construction • Concern over **market's ability to absorb unit size** (i.e. achieving projected PSF vs. per unit rents) **as well as number of units** for high-rise buildings	• **Conversion/renovation costs are similar to ground-up development**; both approximately $200-250 PSF in hard costs • **More detailed cost estimates are required** for each project to firmly assess feasibility	• **Basis from building acquisition** is the largest contributor to funding gap • Sale price is expected to be far below historic averages, at $50-70 PSF based on comparable projects • While buildings that do not change ownership would reduce funding gap, **current owners may not have capability for residential conversion** which requires equity interest/partnership	• Owners would also need to **buy out remaining office leases** • Expected to be difference in market rent plus move and fit-out costs

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Building Efficiency	Construction Costs	Acquisition Costs	Current Tenants
• Residential floor plates are possible in each building, but **more efficient in smaller buildings** • Larger and more complicated floor plates lead to **high load factor** (i.e. non-rentable SF), which reduces financial performance • These floor plates can also result in **larger average unit size** compared to typical new construction • Concern over **market's ability to absorb unit size** (i.e. achieving projected PSF vs. per unit rents) **as well as number of units** for high-rise buildings	• **Conversion/renovation costs are similar to ground-up development**; both approximately $200-250 PSF in hard costs • **More detailed cost estimates are required** for each project to firmly assess feasibility	• **Basis from building acquisition** is the largest contributor to funding gap • Sale price is expected to be far below historic averages, at $50-70 PSF based on comparable projects • While buildings that do not change ownership would reduce funding gap, **current owners may not have capability for residential conversion** which requires equity interest/partnership	• Owners would also need to **buy out remaining office leases** • Expected to be difference in market rent plus move and fit-out costs

Several factors have the greatest impact on the financial feasibility of office-to-residential conversions, as identified during financial modeling

Building Efficiency	Construction Costs	Acquisition Costs	Current Tenants
• Residential floor plates are possible in each building, but **more efficient in smaller buildings** • Larger and more complicated floor plates lead to **high load factor** (i.e. non-rentable SF), which reduces financial performance • These floor plates can also result in **larger average unit size** compared to typical new construction • Concern over **market's ability to absorb unit size** (i.e. achieving projected PSF vs. per unit rents) **as well as number of units** for high-rise buildings	• **Conversion/renovation costs are similar to ground-up development**; both approximately $200-250 PSF in hard costs • **More detailed cost estimates are required** for each project to firmly assess feasibility	• **Basis from building acquisition** is the largest contributor to funding gap • Sale price is expected to be far below historic averages, at $50-70 PSF based on comparable projects • While buildings that do not change ownership would reduce funding gap, **current owners may not have capability for residential conversion** which requires equity interest/partnership	• Owners would also need to **buy out remaining office leases** • Expected to be difference in market rent plus move and fit-out costs

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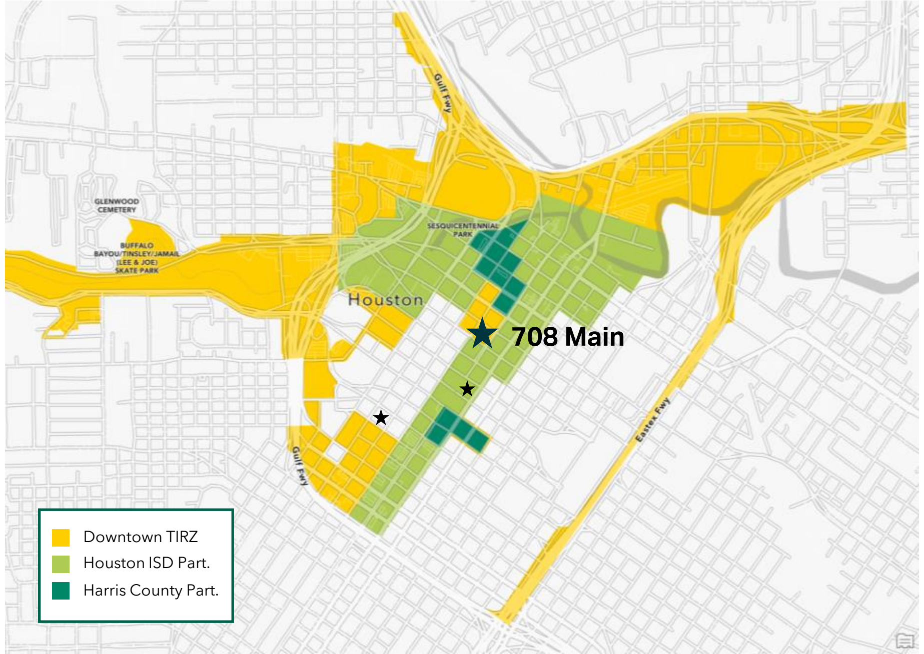
Building Concepts

1

Concept 1: 708 Main Street – "The Houston Shoebox"

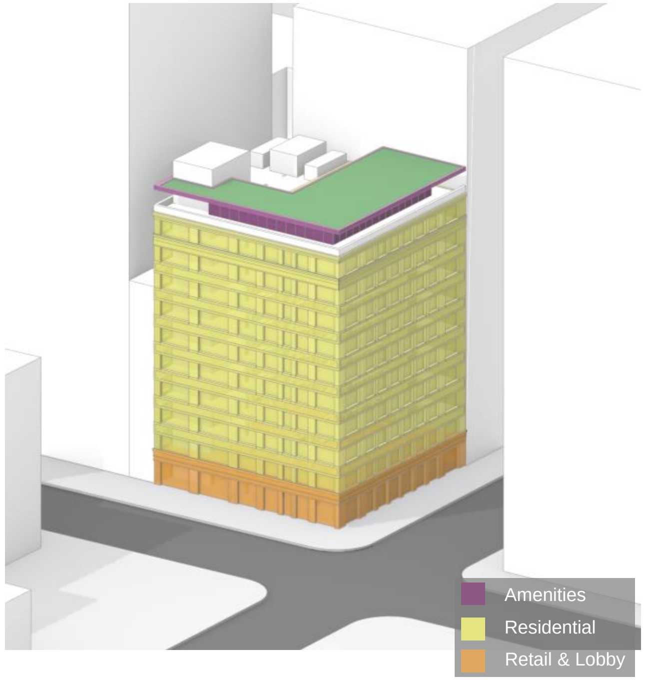
Overview

Location



Existing Building

Conversion Concept



Distinguishing Factors

- **Smaller size** based on height and lease span; limited floor plate complications
- **Full office vacancy/availability** at time of study
- **Older building** that is eligible for NRHP listing but not submitted

Program

Residential	59,417 SF	95%
Office	0 SF	0%
Retail	2,803 SF	5%
Total RBA	**62,220 SF**	**100%**

1

Concept 1: 708 Main Street – "The Houston Shoebox"

Test Fit

Building Efficiency

54
Residential Units

96,960
GSF

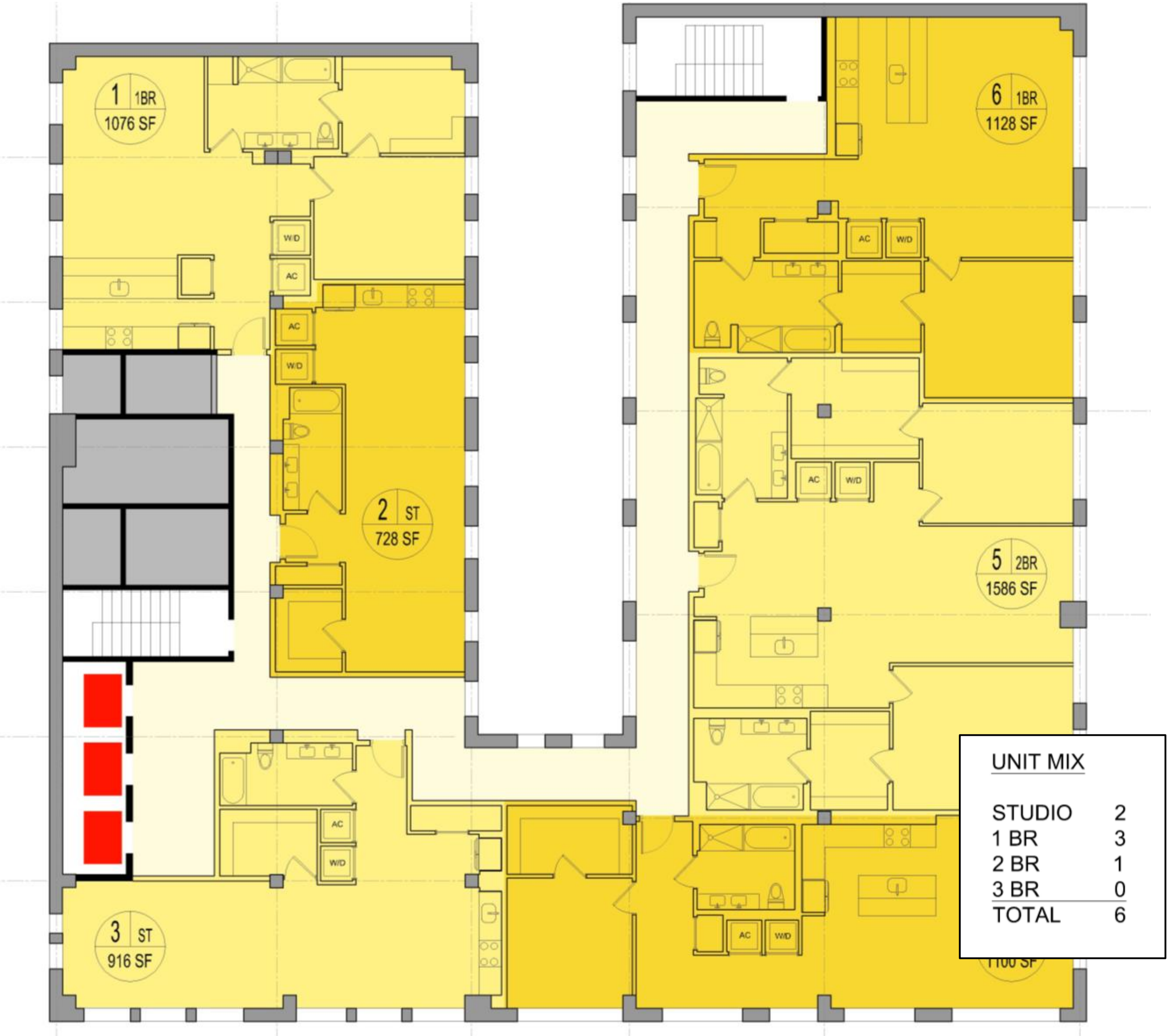
977
Avg. Unit Size

64%
Building Efficiency

Building-Level Unit Mix

Unit	Count	% Total	Average SF
Studio	22 units	41%	764 SF
1-Bedroom	23 units	43%	987 SF
2-Bedroom	9 units	17%	1,475 SF
3-Bedroom	0 units	0%	N/A
Total Units	**54 units**	**100%**	**977 SF**

Typical Floor Plan



AECOM economists developed real estate pro formas based on residential or mixed-use program provided by architects

Model identifies funding gap based on estimated total development cost (TDC) and maximum debt and equity that could be raised based on property performance, with following thresholds and scenarios:

Feasibility Test

Feasible	No funding gap
Potentially	Funding gap is less than 10% of total development costs
Not Feasible	Funding gap is greater than 10% of total development costs

Occupancy Scenarios

Vacant Building	Assuming investor redevelops vacant building
Existing Lease Buyout	Assuming investor redevelops with current rent roll and subsequent lease buyout costs

Incentive Scenarios

No Incentives	Baseline private sector feasibility with no public support or tax incentives
Basic Tax Reimbursement	Incentive structure that reimburses 75% of tax increment for 15 years
Basic Tax Reimbursement plus Historic Tax Credits	If building were to achieve state and federal tax credit eligibility *(Note: No concept buildings are currently historically designated or contributing)*
Enhanced Tax Reimbursement	Incentive structure that reimburses 100% of tax increment for 30 years with County participation

1

Concept 1: 708 Main Street – “The Houston Shoebox”

Financial Summary

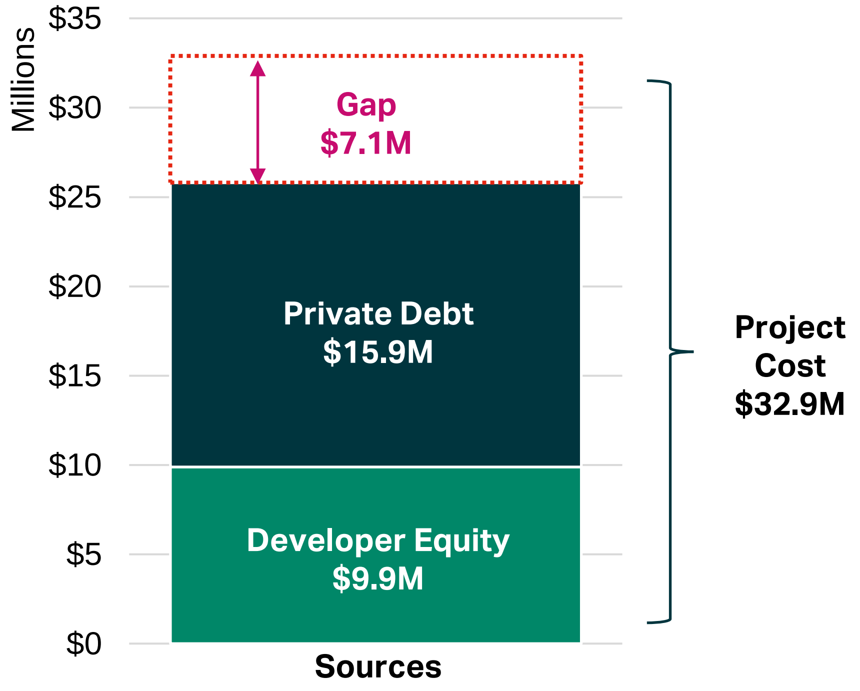
Financial Results

- 708 Main is **FEASIBLE** under enhanced tax reimbursement (100% of tax increment for 30 years with County involvement)
- 708 Main is **POTENTIALLY FEASIBLE** under status quo, and particularly if it were to access historic tax credits in the future
- Building is currently fully vacant besides retail tenants

Feasibility by Scenario

Scenario	Vacant Building	Lease Buyout
No Incentives	Potentially	Potentially
Basic Tax Reimbursement	Potentially	Potentially
Basic plus Historic Tax Credits	Feasible	Feasible
Enhanced Tax Reimbursement	Feasible	Feasible
Factors	• Min. decrease in building efficiency • Low acquisition cost • Fully vacant • Lower construction complexity	

Capital Stack*



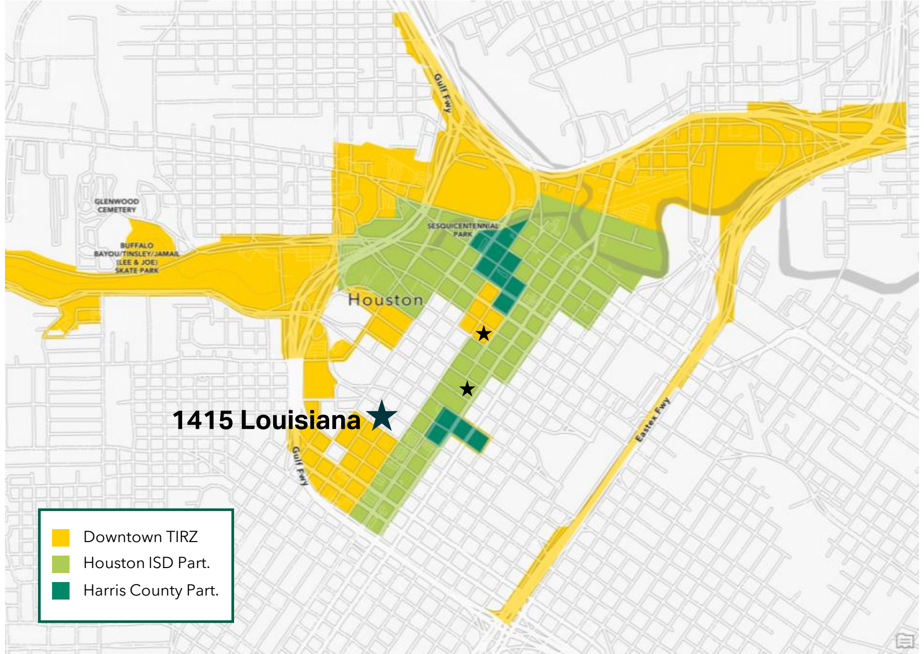
* Status Quo scenario (no public support) with acquisition and lease buyout costs

2

Concept 2: 1415 Louisiana Street – "The Typical Atypical"

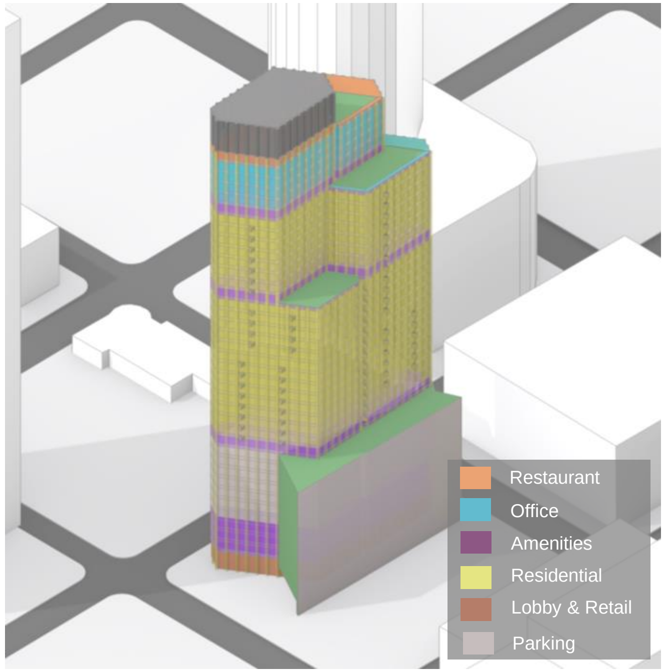
Overview

Location



Existing Building

Conversion Concept



Distinguishing Factors

- **Larger tower** with **large varying floor plates**
- **Partial vacancy** but still revenue-producing at time of study, at 56% occupied
- **Not eligible** for historic listing

Program

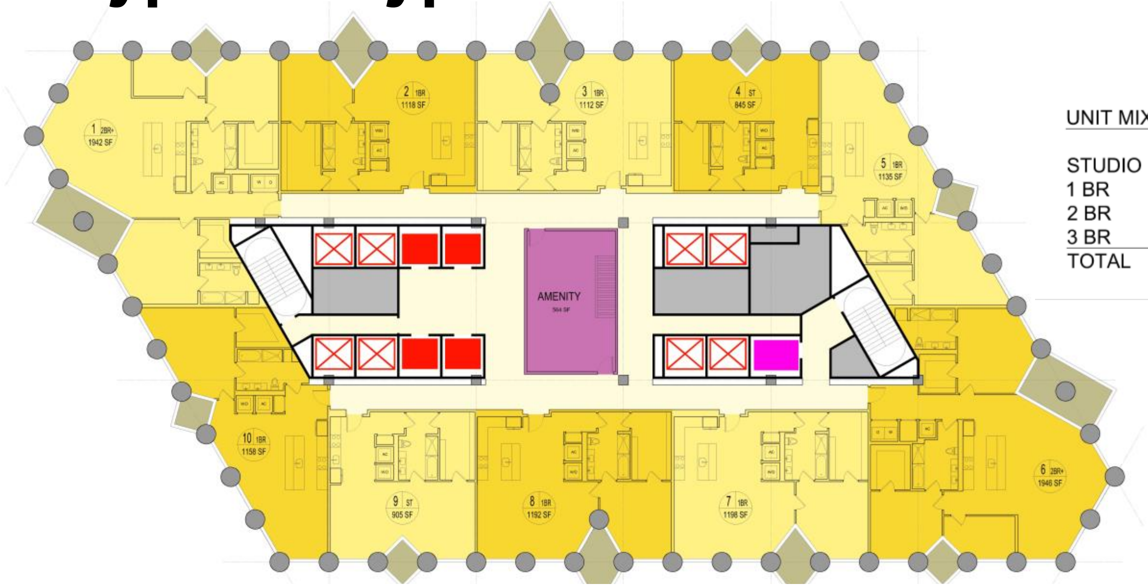
Residential	262,124SF	70%
Office	44,025 SF	12%
Retail	7,396 SF	2%
Parking	59,562 SF	16%
Total RBA	**373,107 SF**	**100%**

2

Concept 2: 1415 Louisiana Street – "The Typical Atypical"

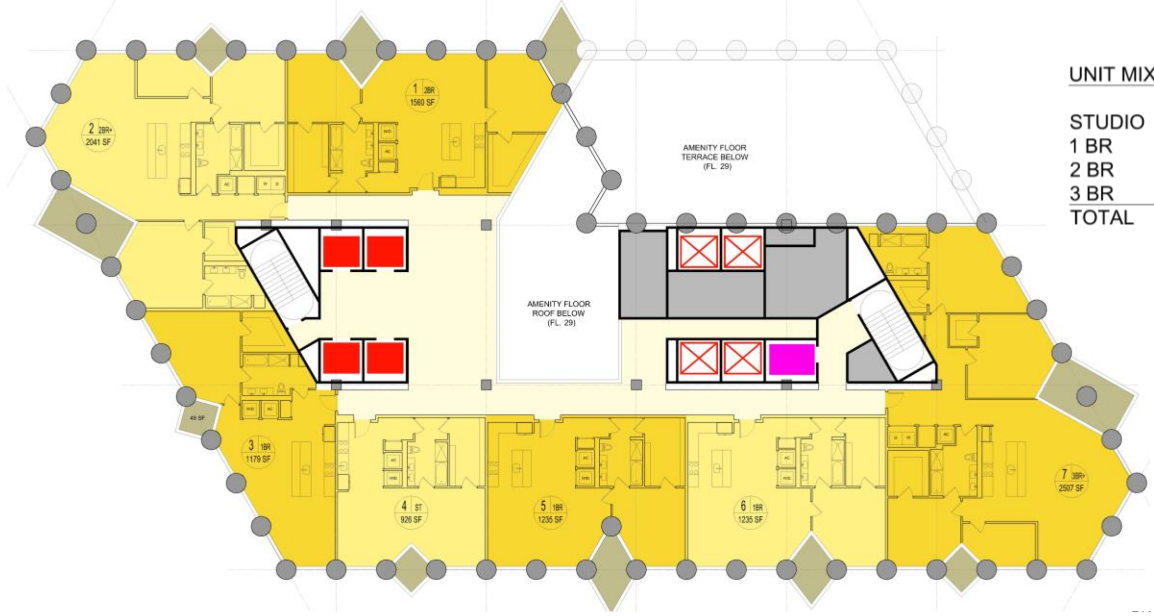
Test Fit

Typical Floor Plans



UNIT MIX

STUDIO	2
1 BR	6
2 BR	2
3 BR	0
TOTAL	10



UNIT MIX

STUDIO	1
1 BR	3
2 BR	2
3 BR	1
TOTAL	7

Building Efficiency

186
Residential Units

626,322
GSF

1,240
Avg. Unit Size

60%
Building Efficiency

Building-Level Unit Mix

Unit	Count	% Total	Average SF
Studio	34 units	18%	812 SF
1-Bedroom	102 units	55%	1,066 SF
2-Bedroom	42 units	23%	1,818 SF
3-Bedroom	8 units	4%	2,241 SF
Total Units	**186 units**	**100%**	**1,240 SF**

2

Concept 2: 1415 Louisiana Street – "The Typical Atypical"

Financial Summary

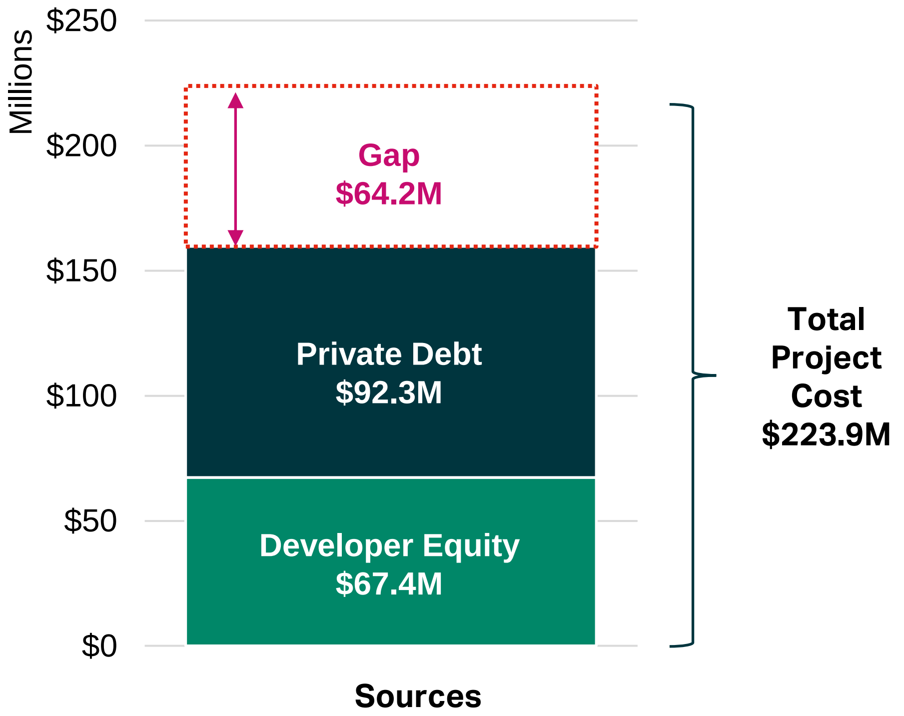
Financial Results

- 1415 Louisiana is **POTENTIALLY FEASIBLE** after enhanced tax reimbursement (100% for 30 years with County involvement) if fully vacant
- 1415 Louisiana is **NOT FEASIBLE** under all other scenarios; not historically eligible, so not evaluated for historic tax credits

Feasibility by Scenario

Scenario	Vacant Building	Lease Buyout
No Incentives	Not Feasible	Not Feasible
Basic Tax Reimbursement	Not Feasible	Not Feasible
Enhanced Tax Reimbursement	Potentially	Not Feasible
Factors	• Poor layout efficiency • High acquisition cost • Partially occupied	

Capital Stack*



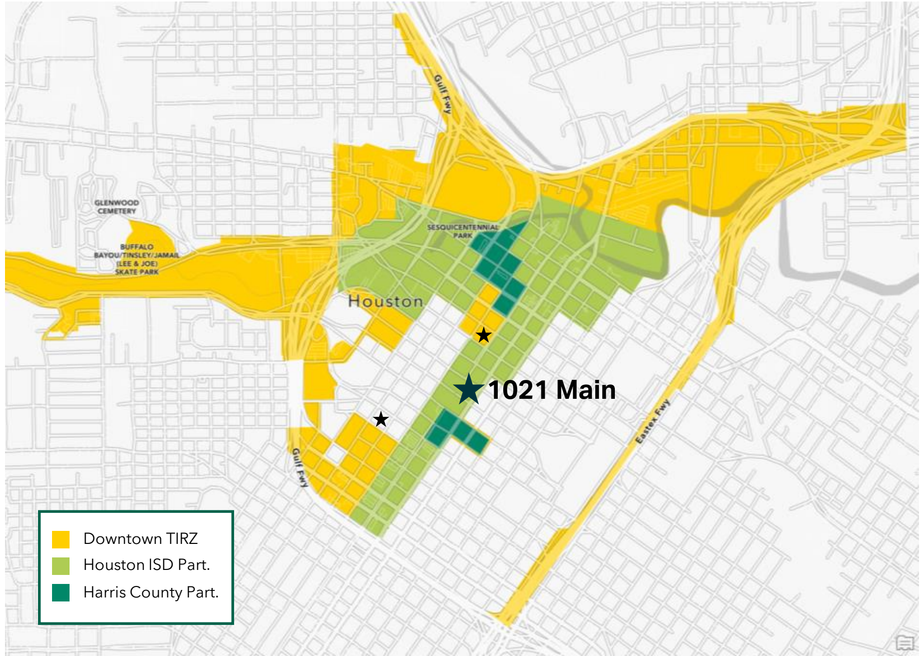
* Status Quo scenario (no public support) with acquisition and lease buyout costs

2

Concept 3: 1021 Main Street – "What's Old is New Again"

Overview

Location



Existing Building

Conversion Concept

Distinguishing Factors

- **Larger tower** with relatively **consistent floor plates**
- Mostly but **not fully vacant**, at 36% occupancy
- **Older building** that is eligible for NRHP listing but not submitted

Program

Residential	407,877 SF	94%
Office	0 SF	0%
Retail	25,528 SF	6%
Total RBA	**433,405 SF**	**100%**

Concept 3: 1021 Main Street – "What's Old is New Again"

Test Fit

Building Efficiency

310
Residential Units

688,544
GSF

1,184
Avg. Unit Size

63%
Building Efficiency

Building-Level Unit Mix

Unit	Count	% Total	Avg SF
Studio	51 units	16%	747 SF
1-Bedroom	149 units	48%	998 SF
2-Bedroom	54 units	17%	1,472 SF
3-Bedroom	56 units	18%	1,799 SF
Total Units	**310 units**	**100%**	**1,184 SF**

Typical Floor Plan

UNIT MIX

STUDIO	2
1 BR	6
2 BR	2
3 BR	2
TOTAL	12

3

Concept 3: 1021 Main Street – “What’s Old is New Again”

Financial Summary

Financial Results

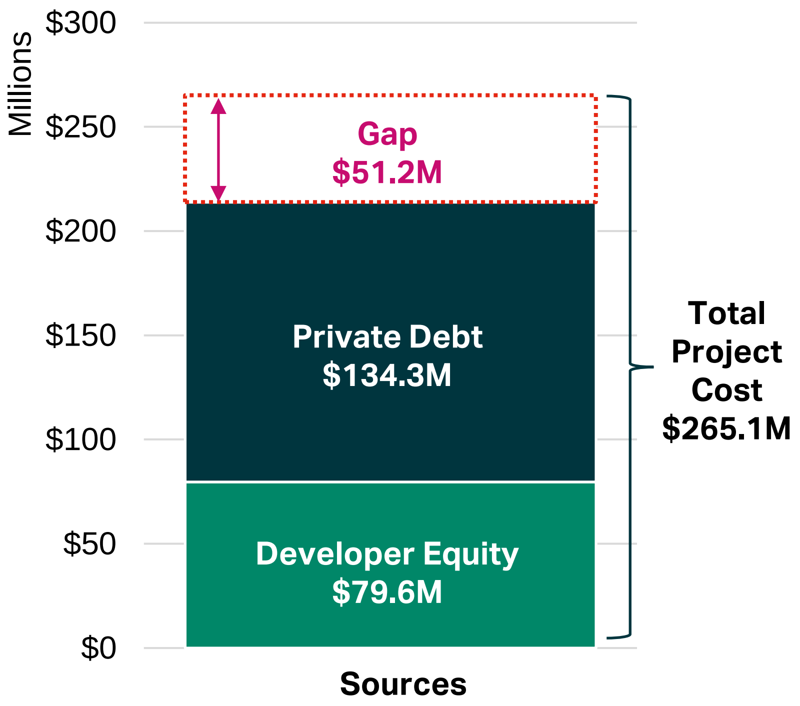
- 1021 Main is **FEASIBLE** enhanced tax reimbursement (100% of tax increment for 30 years plus County involvement)
- 1021 Main is **POTENTIALLY FEASIBLE** under basic tax reimbursement (75% of tax increment for 15 years)
- 1021 Main is **NOT FEASIBLE** under status quo or current occupancy with basic tax reimbursement

Feasibility by Scenario

Scenario	Vacant Building	Lease Buyout
No Incentives	Not Feasible	Not Feasible
Basic Tax Reimbursement	Potentially	Not Feasible
Basic plus Historic Tax Credits	Feasible	Feasible
Enhanced Tax Reimbursement	Feasible	Feasible

Factors	
	• Poor layout efficiency • High acquisition cost • Mostly vacant

Capital Stack*



* Status Quo scenario (no public support) with acquisition and lease buyout costs

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Feasibility Summary

Most selected building types are infeasible under status quo, besides 708 Main which is potentially feasible given small size and efficient floor plates

1

2

3

	708 Main "The Houston Shoebox"		1415 Louisiana "The Typical Atypical"		1021 Main "What's Old is New Again"	
Factors	• Good layout efficiency • Low acquisition cost • Fully vacant • Lower construction complexity		• Poor layout efficiency • High acquisition cost • Partially occupied		• Moderate layout efficiency • High acquisition cost • Mostly vacant	
Scenario	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout
No Incentives	Potentially	Potentially	Not Feasible	Not Feasible	Not Feasible	Not Feasible

Baseline private sector feasibility with no public support or tax incentives

With 75% of increment for 15 years, 708 Main and 1021 Main are potentially feasible, but only if fully vacant and dependent on final construction cost estimates

1

2

3

	708 Main "The Houston Shoebox"		1415 Louisiana "The Typical Atypical"		1021 Main "What's Old is New Again"	
Factors	• Good layout efficiency • Low acquisition cost • Fully vacant • Lower construction complexity		• Poor layout efficiency • High acquisition cost • Partially occupied		• Moderate layout efficiency • High acquisition cost • Mostly vacant	
Scenario	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout
Basic Tax Reimbursement	Potentially	Potentially	Not Feasible	Not Feasible	Potentially	Not Feasible

Default incentive structure that reimburses 75% of tax increment for 15 years based on 2023 baseline

Why Basic Tax Reimbursement structure is insufficient for most existing office buildings to convert to residential

- Downtown Living Initiative, which focused on new multifamily construction, provided reimbursement for the lesser of **$15,000 per unit** or **75% of the tax increment for 15 years** based upon assessed value the year the building was incorporated into the Downtown TIRZ
- When compared in present value terms, an annualized reimbursement based on this tax incentive covers a **small portion of total development costs (see below)**, which is not enough to cover funding gap
- Requires longer timeframe, larger reimbursement percentage, and/or participation from other taxing entities
- However, historically eligible buildings would be feasible under a basic reimbursement scenario

Impact of Basic Tax Reimbursement based on DLI

Impact of 75% of incremental over 15 years			
	708 Main	1415 Louisiana	1021 Main
Annual Reimbursement (Average)	$54,000	$186,000	$310,000
Up-Front Value (NPV)	$608,000	$2,400,000	$4,000,000
Total Development Costs	$32.9 M	$223.9M	$265.1M
% of Total Development Costs	**1.9%**	**1.1%**	**1.6%**

While no selected buildings are currently historically eligible, analysis shows that funding gap would be dramatically reduced with access to historic tax credits and basic reimbursement

	1		2		3	
	708 Main "The Houston Shoebox"		**1415 Louisiana** "The Typical Atypical"		**1021 Main** "What's Old is New Again"	
Factors	• Good layout efficiency • Low acquisition cost • Fully vacant • Lower construction complexity		• Poor layout efficiency • High acquisition cost • Partially occupied		• Moderate layout efficiency • High acquisition cost • Mostly vacant	
Scenario	**Vacant Building**	**Lease Buyout**	**Vacant Building**	**Lease Buyout**	**Vacant Building**	**Lease Buyout**
Basic Plus Historic Tax Credits	**Feasible**	**Feasible**	N/A	N/A	**Feasible**	**Feasible**

If building were to receive state (25%) and federal (20%) historic tax credits; no buildings are currently listed or contributing

With 100% of increment for 30 years, plus County involvement, 708 Main and 1021 Main are fully feasible, and 1415 Louisiana is potentially feasible if fully vacant

1


2


3


	708 Main "The Houston Shoebox"		1415 Louisiana "The Typical Atypical"		1021 Main "What's Old is New Again"	
Factors	• Good layout efficiency • Low acquisition cost • Fully vacant • Lower construction complexity		• Poor layout efficiency • High acquisition cost • Partially occupied		• Moderate layout efficiency • High acquisition cost • Mostly vacant	
Scenario	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout	Vacant Building	Lease Buyout
Enhanced Tax Reimbursement	Feasible	Feasible	Potentially	Not Feasible	Feasible	Feasible

Recommended incentive structure that reimburses 100% of tax increment for 30 years based on 2023 baseline with County participation

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Recommendations

Recommend that DRA advocate for office-to-residential program that builds upon prior ground-up residential program by reimbursing 100% of tax increment for 30 years

By increasing the percentage, timeframe, and participating entities of the tax reimbursement program, the City can better facilitate the economics for converting all but the most challenging existing office buildings to residential.

	Basic Tax Abatement	Enhanced Tax Abatement
Frequency of Reimbursement	Annual	Annual
Percentage of Tax Increment	75%	100%
Number of Years	15 years	30 years
Assessed Value Baseline	2023	2023
Per Unit Cap	$15,000	No Limit
Participating Entities	City of Houston (Downtown Redevelopment Authority), Houston Downtown Management District	City of Houston (DRA), Houston Downtown Management District, Harris County, Harris County Flood Control District, Harris County Hospital District

Several opportunities to increase incentive program effectiveness and potentially reduce reimbursement term or percentage:

(1) Enlist additional taxing entities

(2) Enlist additional TIRZs

(3) Capture increment from adjacent properties

For each considered scenario, DRA budgets would need to account for the following; differences due to longer timeframe, higher %, and additional taxing entity involvement

	708 Main		1415 Louisiana		1021 Main	
Annual Tax Reimbursement at Stabilization (In 2028)						
Scenario	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)
Applicable Property Taxes	$265,000		$1,200,000		$2,700,000	
Projected Tax Reimbursement *	**$57,000**	**$136,000**	**$260,000**	**$624,000**	**$571,000**	**$1,368,000**
City/DRA	$46,000	$61,000	$210,000	$280,000	$461,000	$614,000
Combined County Entities	$0	$60,000	$0	$277,000	$0	$607,000
HDMD Assessment	$11,000	$15,000	$50,000	$67,000	$110,000	$147,000
Long-Term Tax Reimbursement (Length of Program)						
Scenario	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)	**Basic Tax Reimbursement** (15 yrs, 75%, City/HDMD, $15K cap)	**Enhanced Tax Reimbursement** (30 yrs, 100%, City/ HDMD/County, No cap)
Aggregated Total Property Taxes	$8,300,000	$21,800,000	$44,900,000	$122,600,000	$74,600,000	$196,700,000
Projected Tax Reimbursement *	**$800,000**	**$7,700,000**	**$2,800,000**	**$38,900,000**	**$4,700,000**	**$74,400,000**
City/DRA	$700,000	$3,400,000	$2,300,000	$17,400,000	$3,800,000	$33,400,000
Combined County Entities	$0	$3,400,000	$0	$17,200,000	$0	$33,000,000
HDMD Assessment	$200,000	$800,000	$500,000	$4,200,000	$900,000	$8,000,000

* Illustrative calculations only; more detailed budget study required for final incentive program

(1) Enlist additional taxing entities: Seek Harris County and Houston ISD participation to reduce their own exposure to tax revenue losses and improve project feasibility

Property Tax Contribution by Jurisdiction

29%
DRA and HDMD

51%*
DRA and County

95%
DRA, County, and ISD

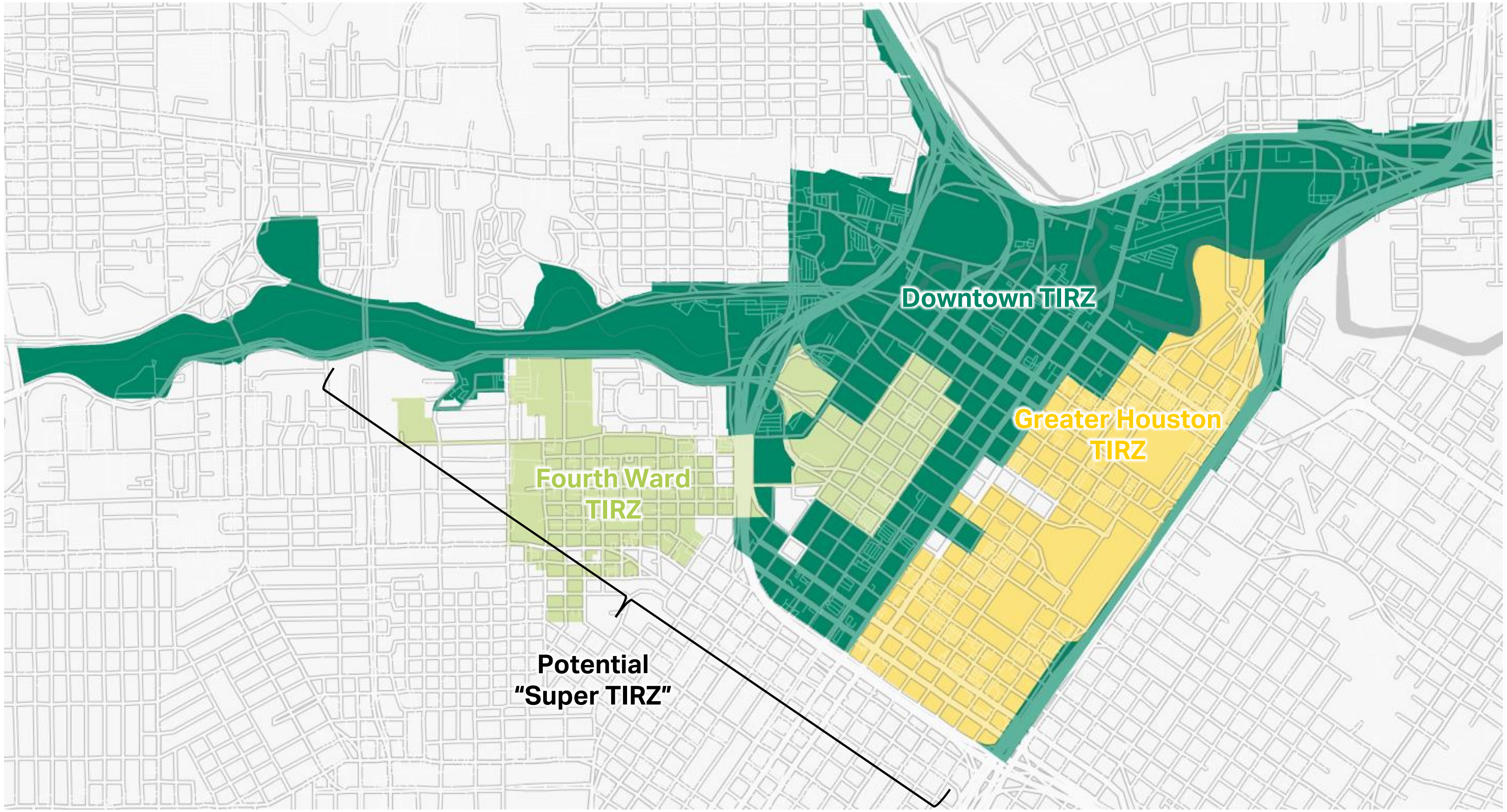
*Modeled scenario

Entity	Jurisdictions	2022 Rate*	% Total	Basic Tax Scenario	Enhanced Tax Scenario
City	CITY OF HOUSTON (C/O DOWNTOWN REDEV AUTH)	$0.5336	22.9%	Full Participation (81% of Contribution)	Full Participation (45% of Contribution)
County	HARRIS COUNTY	$0.3437	14.8%	No Participation (0% of Contribution)	Full Participation (44% of Contribution)
	HARRIS CO FLOOD CNTRL	$0.0306	1.3%		
	HARRIS CO HOSP DIST	$0.1483	6.4%		
	HARRIS CO EDUC DEPT	$0.0049	0.2%		
Local Agencies	HOUSTON ISD	$1.0372	44.5%	No Participation (0% of Contribution)	No Participation (0% of Contribution)
	PORT OF HOUSTON AUTHY	$0.0080	0.3%		
	HOU COMMUNITY COLLEGE	$0.0956	4.1%		
District	HOUSTON D'TOWN MGMT D	$0.1275	5.5%	Full Participation (19% of Contribution)	Full Participation (11% of Contribution)
Total		**$2.3294**	**100.0%**	100%	100%

** $ per $100*

- If can secure County and ISD involvement, **potential to capture up 95% of total increment** and lessen the percentage reimbursement and/or timeframe of the office-to-residential TIRZ program
- If the other unit(s) agree to participate, need to **execute an Interlocal Agreement** that stipulates several conditions/limitations
  - Houston Independent School District and Harris County (including Flood, Port, and Hospital, but not Education) both participate in the Downtown TIRZ already
  - County and ISD agreements both stipulate contribution caps; Harris County contribution is capped at $17 million in total and Houston ISD is capped at $410,000 per year; County and ISD have also declined to participate in annexed areas as Downtown TIRZ expanded

(2) Enlist additional TIRZs: Seek agreement with adjacent TIRZ districts to expand catchment area for office-to-residential program and increase increment base

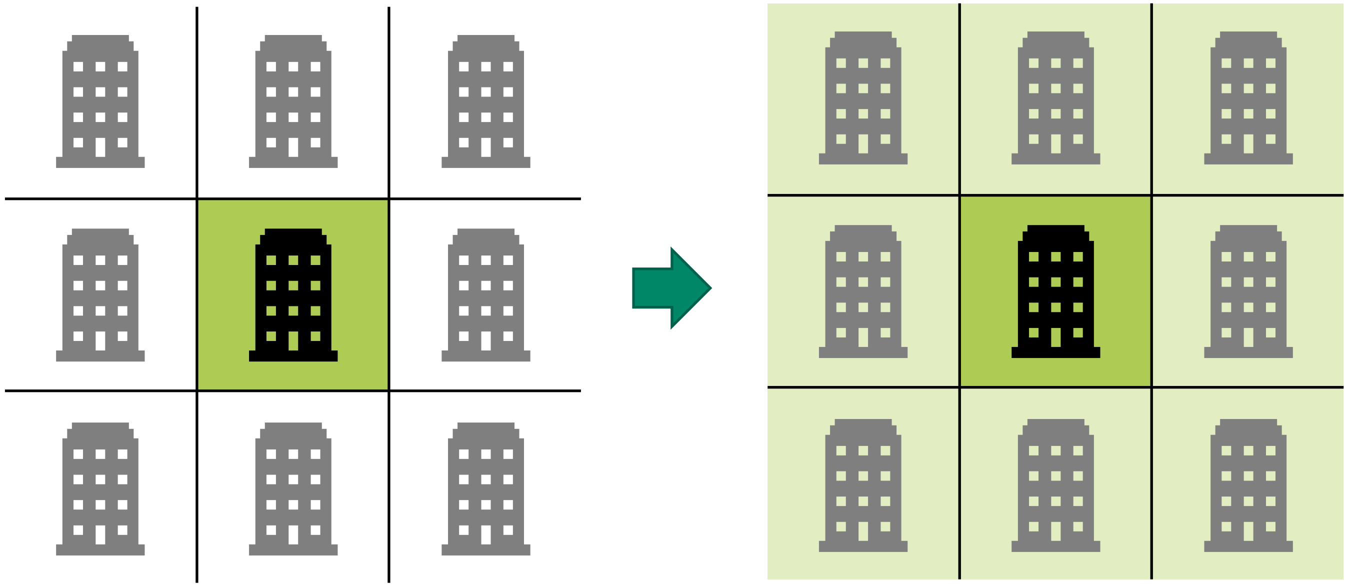


(3) Capture adjacent increment: Study the potential to capture increment generated to include other properties within a certain distance of the subject property

- Potential to define tax increment generated to include the conversion property and nearby properties, similar to peer cities like Chicago
- Increases tax increment base due to net benefits from program
- Greatest tax benefit seen by "first movers" who carry out office-to-residential conversion

Downtown Living Initiative Tax Incentive

Potential Office Conversion Tax Incentive



Legend

- Incentivized Project Building
- Adjacent Buildings
- Parcels Generating Full Tax Increment Incentive
- Parcels Generating Partial Tax Increment Incentive
- Parcels Not Generating Tax Increment Incentive

Additional Measures: City can further facilitate office-to-residential completions by targeting specific building types and providing technical assistance

City can take additional measures to decrease the amount of funding requested for projects seeking public support:

Project Selection Criteria

Areas of focus for future project solicitation:

- Prioritize projects with **chronic, high availability** of **at least 75%** in the portion of the building being converted to reduce lease buyout cost
- Prioritize projects with **no change in ownership** (owner/developer) and **residential capability** to reduce acquisition costs
- Prioritize projects with potential **historic tax credit eligibility**

Technical Assistance Program

Ways to reduce entitlement risk and provide expertise:

- Create dedicated FTE from within City to serve as **office-to-residential liaison** for prospective projects
- Streamline permitting process by **accelerating permit timelines** for office-to-residential conversions
- Increase potential access to historic tax credits by **facilitating historic nomination process** and **coordinating with State Historic Preservation Officer**; potential additional FTE
- Potential to **offset acquisition costs for buildings with prohibitive lease buyouts** with additional up-front incentive program

Next Steps

To move from study to implementation, DRA will need to bring other public entities into the conversation and finalize program details

With this completed analysis and set of recommendations, the DRA board can move the following tasks forward:

Next Steps

Public Entity Coordination	Private Entity Coordination	Additional Study
• **Taxing Entity Participation:** Engage City, County, and ISD in potential program participation and discuss any additional requirements. • **TIRZ Participation:** Engage other TIRZs in potential shared program and discuss governance structure. • **Finalize Incentive Structure:** Once governance structure is established, finalize program terms (percentage, years) with additional fiscal impact testing.	• **Detailed Cost Estimate:** Identify "prototype project" partner to evaluate funding gap with detailed cost estimate. • **Market Sounding**: Once program details are finalized, meet with stakeholders to confirm feasibility and collect feedback on terms. • **Formal Solicitation**: Once program details are finalized, begin to draft application requirements for prospective projects, including thresholds for participation.	• **Affordable Housing:** Based on feedback from other public entities, evaluate impact of affordability requirements and 4% or 9% LIHTC tax credits on funding gap. • **Complementary Programs:** To address challenge of persistent low vacancy (i.e. remaining tenants), explore upfront funds towards acquisition costs for prospective investors considering purchasing an occupied office building for residential conversion.

General Limiting Conditions

Deliverables and portions thereof shall be subject to the following General Limiting Conditions:

AECOM devoted the level of effort consistent with (i) the level of diligence ordinarily exercised by competent professionals practicing in the area under the same or similar circumstances, and (ii) consistent with the time and budget available for the Services to develop the Deliverables. The Deliverables are based on estimates, assumptions, information developed by AECOM from its independent research effort, general knowledge of the industry, and information provided by and consultations with Client and Client's representatives. No responsibility is assumed for inaccuracies in data provided by the Client, the Client's representatives, or any third-party data source used in preparing or presenting the Deliverables. AECOM assumes no duty to update the information contained in the Deliverables unless such additional services are separately retained pursuant to a written agreement signed by AECOM and Client.

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CENTRAL HOUSTON, INC.

STRATEGIC ALIGNMENT PLAN UPDATES

OCTOBER 2023

GOAL 1

Champion major projects, initiatives and investments that improve Downtown.

1.1 Plan collaboratively for Downtown's evolving edges, connections, and major attractions.

Highlight: Throughout September, CHI staff worked alongside transportation planning staff at the City of Houston's Planning and Development Department on an Infrastructure Investment and Jobs Act (IIJA) grant application. The grant application effort resulted from a Notice of Funding Opportunity (NOFO) via the Federal Highway Administration (FHWA) Reconnecting Communities Neighborhood Access and Equity Grant Program. The grant funding amount sought by the City of Houston and partner agencies totals roughly $60 million. Awards are expected to be announced in Spring 2024. If selected, the funds will be leveraged by partner agencies to cover the structural delta for future amenity improvements envisioned at various caps and bridges in Segment 3 (the Downtown / Midtown segment) of TxDOT's North Houston Highway Improvement Project (NHHIP). The grant application was completed and submitted successfully to the FHWA on September 28.

Participating Agencies:

Central Houston | downtown district | Downtown Redevelopment Authority

1.3 Collaborate with partners such as the City of Houston, Harris County, Greater Houston Partnership, and Houston First to leverage opportunities for shared strategies to improve Downtown Houston.

Highlight: In late September, CHI partnered to co-produce an event honoring the global icon Beyonce back to her hometown of Houston. The event was a request from Mayor Turner asking for a grand gesture to put Houston in the headlines. In a matter of weeks, CHI worked alongside Houston First, the City of Houston and Discovery Green to plan and implement the spectacle that included a live R&B show, fireworks, a giant video board and concluded with a 12-minute drone show over the park featuring 400 drones piloted by a central computer. Thousands of Houstonians attended the event, and it received widespread publicity from both local and national media.

Participating Agencies:

Central Houston | downtown district

Enhance and maintain a comfortable, welcoming, and well-managed public realm.

2.1 Maintain and advance the standard of care for Downtown's cleanliness and well-kept appearance.

Highlight: Houston is located along one of the largest bird migratory paths in North America which typically starts in October and extends through May. During this time, a bird abatement services contractor is deployed throughout Downtown. Each night at dusk, 5 trained employees walk the streets and point bird safe lasers into trees and onto buildings to encourage birds to relocate their roosting spots. By doing this, it greatly reduces the amount of bird droppings onto sidewalks and street amenities which helps ease daily cleaning requirements.

Participating Agency:

downtown district

2.7 Expand collaboration and explore novel approaches to maintain a low crime rate and make Downtown feel safe.

Highlight: On September 21st, the newly revamped Off Duty Police Officer program rolled out. As part of the overhauled program, the Off Duty Officers were given new law enforcement golf carts which allows for quicker response times to public safety issues. In addition, the utilization of golf carts provides more visibility and expands their coverage footprint. The new golf carts are labeled with "Police" and outfitted with emergency police lights. The Officers will work 2 shifts, 11a – 3p and 5p -9p daily.

Participating Agency:

downtown district

GOAL 3

Drive vibrancy through improved street-level connectivity, a commitment to walkability, and inclusive programming strategies.

3.8 Prioritize investments in pedestrian lighting on key walking corridors and near residential buildings.

Highlight: Arup continued their Survey of Existing Conditions throughout Downtown in September and identified 14 key locations for the Nighttime Vulnerability Assessment (NVA). Each location identified represents a unique example of lighting conditions that a pedestrian may experience when walking around Downtown at night. During the NVA, Arup will document how the lighting conditions benefit or hinder the nighttime pedestrian experience through an examination of each location's technical lighting, context, and physical characteristics. Specific NVA measurements to be collected at each location include ambient luminance, color temperature, color rendering, vertical illuminance, horizontal illuminance, and facial illuminance. Findings from the NVA will reveal an atlas of models for what works—and what does not—for nighttime lighting in Downtown, which will serve as critical foregrounding for the Downtown Pedestrian Lighting Framework's Strategic Master Plan. The Master Plan is expected to yield strategies to illuminate the 32 murals across Downtown and recommendations for phased lighting improvement projects.

Participating Agencies:

downtown district

3.12 Leverage partnerships to produce smaller scale, high impact activations and events that appeal to a diverse set of Downtown stakeholders and visitors.

Highlight: For Nigerian Independence Day, Market Square Park Farmers Market feted Downtown chefs in partnership with the inaugural Chop'd & Stew'd Fest at POST Houston. As home to one of the nation's largest West African communities and a bountifully diverse food scene, the table was set to honor West African foodways. Finn Hall's Food Network celebrity and Chopped champion, Shannen Tune hosted a chef competition built on farmers market finds and West African ingredients. Chef Chris Zettlemoyer of Bravery Chef Hall's Figo Sugo won the trophy, and more than 930 attendees who danced, shopped, and sampled also savored a prized experience.

Participating Agency:

downtown district

GOAL 4

Foster a vital and thriving economy through business growth, residential expansion, and enhanced reasons to be in Downtown.

4.6 Facilitate the delivery of more residential development, building toward a residential population of 15,000 by 2027.

Highlight: CHI staff worked internally in September to initiate an affordable housing strategy that will ultimately be incorporated into a new and improved version of the Downtown Living Initiative (i.e., DLI 2.0). Staff will continue to work internally, but also collaborate externally with affordable housing advocates and stakeholders in October to refine an affordable housing funding resources matrix. The matrix will be a tool that developers interested in Downtown Living Initiative 2.0 can easily consider as part of their capital resources stack to improve project feasibility. CHI staff hopes to continue refining program goals and objectives in October and into the remainder of 2023, especially as we begin to consider a timeline for launching the new initiative. The DLI 2.0 initiative is envisioned to promote affordable housing, economic development, diversify Downtown's portfolio of offerings and tax base, bring more retail uses to the ground floor that activate the street-level, and, ultimately, a new crop of residents to Downtown Houston.

Participating Agencies:

Central Houston · downtown district · Downtown Redevelopment Authority

4.9 Research and develop return-to-office strategies to accelerate the return of employees to Downtown.

Highlight: An innovative Downtown employer with a 7,000-strong Houston workforce asked CHI to curate and facilitate an employers' roundtable examining the leading edge of physical workspace, amenities, and what's working in return-to-office company culture. As the candid conversation flowed, developers, building owners, brokers, HR leaders, and top consulting firms explored a rich trove of common interests and shared successes. The future of happy and productive in-office work hinges on employers' ability to transform it from obligation to destination.

Participating Agency:

Central Houston

GOAL 5

Develop a hivemind of intelligence and goodwill by genuinely engaging and convening stakeholders.

5.6 Improve and expand external communications to increase awareness of CHI, its actions, and general Downtown happenings.

Highlight: Tech-enabled marketing boosts turnout at Market Square Park Farmer's Market each week, with 1,568 subscribers receiving timely updates on vendors and activities. In addition, text alerts keep more than 3,000 produce partisans apprised of the freshest market news. As a result, attendance has grown steadily, with a 55% increase in traffic from week 1 to week 4, and a sales uplift of 29%.

Participating Agencies:

Central Houston · downtown district

5.7 Develop programs and collateral to orient new companies, employees, and residents to Downtown.

Highlight: Keeping the best of the long-favored "Above and Below" map and injecting a promotional spin from the former Downtown magazine, our most popular marketing piece received a makeover. Rebranded as the Downtown Houston Field Guide, this handy reference puts the center city's notable locations at the fingertips of locals and visitors alike with helpful tips on parking, public art, parks, entertainment, food & drink, and the low-down on the underground tunnel system. This new collateral was delivered in September.

Participating Agencies:

Central Houston · downtown district