

**Main Street Market Square
Redevelopment Authority
D/B/A Downtown Redevelopment Authority**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2019



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June 30, 2019

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INDEPENDENT AUDITORS' REPORT

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

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Main Street Market Square Redevelopment Authority, d/b/a Downtown Redevelopment Authority, as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 31 be presented to supplement the basic financial statements. Such information, 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.

Other 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, 2019 and the schedule of estimated project costs to actual costs for the period from July 6, 1999 (date of inception) through June 30, 2019, on pages 32 through 35, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Carri Riggs & Ingram, L.L.C.

Houston, Texas
October 8, 2019

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

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, 2019 with the year ended June 30, 2018 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 footnotes.

FINANCIAL HIGHLIGHTS

- The Authority paid \$3,916,718 to the Buffalo Bayou Partnership in accordance with the economic development agreement for the continued operation of project facilities at Buffalo Bayou Park. The park has now been in operation for five years and in accordance with the terms of the operating and maintenance agreement, the costs of maintenance were reviewed by Buffalo Bayou Partnership and the Maintenance and Operations Committee. 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 Buffalo Bayou Partnership to replenish the Capital Maintenance Fund which had been completely depleted for the repairs to the park after Hurricane Harvey.
- The Authority incurred expenditures related to upgrades to Main Street. While this project was substantially completed in 2018, there was a delay in installing custom artistic pavers at the 700 block of Main because of the construction of the AC Collection Marriott Hotel. Construction on the hotel was completed and the pavers were installed at the end of June. Expenditures for this project during the fiscal year 2019 were \$189,670 and this work was wrapped up in early fiscal year 2020.
- 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 the operation and maintenance responsibility for a three-year period. The Authority board approved \$300,000 to bring the landscaping and lighting back up to the conditions as built by the Authority and an additional \$150,000 per year for maintenance.
- The Authority began working on its fourth major capital project provided for in the 2015 bond offering: to develop a Southern Downtown Park. The Authority paid \$651,199 in current year expenditures related to this project. Funds went to Project for Public Spaces and Lauren Griffith Associates for design of the park, Weston Solutions for environmental work at the site, and \$29,666 per month in rent to the landlord for the long-term ground lease.
- 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 \$2,430,986 were paid in connection with this project in fiscal year 2019. A large portion of those funds were paid for Phase II engineering design performed by Jones and Carter.

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

In addition, the Authority engaged Page Southerland Page, Inc. to develop the Westside City Facilities Master Plan to study and devise a long-term Master Plan for upgrades to City of Houston assets such as the Police and Fire campuses, Municipal Courts complex, City Hall and Annex, and city park facilities on the west side of downtown.

- The Authority paid \$2,045,000 in fiscal year 2019 to the City of Houston for Municipal Services in the Zone that were allocated to support the City budget, including \$980,000 dedicated to the City's Police Department Overtime Program.
- 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 paid \$874,032 in fiscal year 2019 for reimbursements related to the 2017 and 2018 tax years.
- 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 paid \$262,902 in fiscal year 2019 for reimbursements related to the 2018 tax year. The Authority board approved an assignment of this grant to the new owner, Alvero Acquisition Corp.
- 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 paid \$85,834 in fiscal year 2019 for reimbursements related to the 2017 and 2018 tax years.
- 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 unit. As of the end of the year, five residential projects were open and submitted requests for reimbursement. The Authority paid the fiscal year 2019 installment to SkyHouse Houston for a total of \$228,173; SkyHouse Main in the amount of \$247,900; Market Square Tower in the amount of \$574,770; Alliance Block 334 in the amount of \$128,422, and Aris Market Square in the amount of \$438,408.
- The Authority made a second contribution to the redevelopment of Jones Plaza with a contribution to Houston First, the lead organization on the project, in an amount of \$490,000. This second contribution was advanced to the project to continue design development work for the project and additional funding will be contingent on progress in the overall fundraising for Jones Plaza construction, estimated at \$25 million. The Authority has pledged a total of \$10 million to this project once the additional funding sources are identified.
- 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 high-impact, early-stage entrepreneurs. MassChallenge is opening its second Texas location in Houston and will be located in the Zone as part of the Innovation Corridor. The Authority paid \$500,000 in fiscal year 2019 for this project.

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

- 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 58,000 square foot rooftop farm/garden. The agreement provides a 75% rebate of the annual incremental City of Houston ad valorem taxes up to a cap of \$20 million for the project. The site is currently under construction.
- 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. No principal payments were required in the current year, but the Authority recorded \$1,752,410 in interest expense, and amortized \$30,214 in issuance costs.
- During fiscal year 2019, the Authority recorded \$239,308 in interest expense related to the Series 2012 Bonds.
- Since creation of Reinvestment Zone Number Three (Main Street Market Square TIRZ) in 1995, and the expansion of the Zone in 1998, 2005, 2007 and 2011 the appraised value for real property located within the Zone has increased to approximately \$396 million, \$2.7 billion, \$79 million, and \$99 million for the original (Part A), and expanded zones (Part B, Part D, and Part F) areas, respectively. This increase of approximately \$374 million, \$2.5 billion, \$72 million, and \$71 million for Part A, Part B, Part D, and Part F respectively, 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.

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

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.

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 position (deficit) at June 30:

	2019	2018
Assets		
Cash and investments	\$ 45,513,045	\$ 43,938,723
Tax increment and other receivables	3,354,291	973,296
Other assets	525,539	508,604
Total assets	49,392,875	45,420,623
Liabilities		
Accounts payable and interest payable	\$ 6,991,487	\$ 4,570,704
Bonds payable - due in one year	2,100,000	2,045,000
Bonds payable - due after one year	52,228,054	54,551,195
Total liabilities	61,319,541	61,166,899
Net deficit		
Restricted for debt service	8,653,850	8,651,531
Unrestricted deficit	(20,580,516)	(24,397,807)
Total net deficit	\$ (11,926,666)	\$ (15,746,276)

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 \$222,634, debt service was \$8,653,850, project funds were \$144,768 and total investments were \$36,491,793 at June 30, 2019. Total operating cash was \$64,771, debt service was \$8,651,531, project funds were \$543,392 and total investments were \$34,679,029 at June 30, 2018.



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

Tax increments are based on calendar year taxes which are then received the next fiscal year. Tax increment receivables of \$2,960,346 at June 30, 2019 represent increment payments due from Houston Independent School District (HISD) in the amount of \$2,618,217 and Harris County of \$342,129. Other accounts receivable of \$393,945 at June 30, 2019 primarily represents amounts due from the Houston Management Downtown Management District for its share of the Downtown Living Initiative grants. All receivable balances were collected within 60 days of year end except for \$342,129 due from Harris County.

Tax increment receivables of \$731,819 at June 30, 2018 represent increment payments due from Harris County. Other accounts receivable of \$241,477 at June 30, 2018 primarily represents amounts due from the Houston Management Downtown Management District for its share of the Downtown Living Initiative grants.

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, 2019 and 2018 was \$478,390 and \$508,604, respectively. Other assets for 2019 also includes prepaid expenses totaling \$47,149 for prepaid rent on the Southern Downtown Park.

Accounts payable at June 30, 2019 of \$6,256,361 represents accrued amounts for the municipal services fee of \$2,045,000, grant payments due of \$3,956,391, capital project expenditures of \$217,830 and payments due to the administrative contractor for staffing of \$37,140. Accounts payable at June 30, 2018 of \$3,818,106 represents accrued capital project expenses of \$3,771,491 and accounts payable to the administrative contractor for staffing of \$46,615. Accrued interest at June 30, 2019 and 2018 totaled \$735,126 and \$752,598, 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, 2019 and 2018, the Authority has an unrestricted net deficit of \$11,926,666 and \$15,746,276, respectively. The Authority had net position restricted for debt service of \$8,653,850 and \$8,651,531 at June 30, 2019 and 2018, respectively.

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

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:

	2019	2018
Revenues		
Tax increments	\$ 18,833,707	\$ 18,315,783
Investment and other income	860,874	483,199
Total revenues	19,694,581	18,798,982
Expenses		
Current	2,399,069	2,387,479
Capital outlay	11,453,970	7,435,762
Debt service	2,021,932	2,073,145
Total expenses	15,874,971	11,896,386
Change in net position	3,819,610	6,902,596
Net deficit - beginning of year	(15,746,276)	(22,648,872)
Net deficit - end of year	\$ (11,926,666)	\$ (15,746,276)

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
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Management's Discussion and Analysis**

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

	2019	2018
Capital Improvement Projects		
Bagby Street Improvements	\$ 2,430,986	\$ 401,738
Southern Downtown Pocket Park	651,199	260,245
Jones Plaza	495,343	500,000
NHHIP Civic Opportunities	250,411	250,000
Main Street Upgrade Improvements	212,479	580,080
Allen Parkway Reconstruction	12,092	10,225
Shopping District Improvements	5,076	32,897
Julia Ideson Central Library Plaza	-	9,840
Total Capital Improvement Projects	4,057,586	2,045,025
Historic Preservation		
The Star Residential	874,032	103
806 Main (JW Marriott)	262,902	489,299
723 Main (Marriott AC Collection Hotel)	3,487	1,747
412 Main	2,620	591
Kellum Noble House	1,028	2,980
108/110/114 Main	514	456,753
202 Travis	-	77
AIA Building 900 Commerce	-	402,268
Economic Development Agreements		
Buffalo Bayou Park	3,918,547	2,319,731
Market Square Tower Residential	574,770	531,973
Mass Challenge	500,000	-
Aris Market Square Residential	438,408	-
SkyHouse Main Residential	247,900	257,209
SkyHouse Houston Residential	228,173	233,049
Block 334 Residential	128,422	205,045
1616 Main (Holiday Inn Hotel)	87,414	-
Younan Square Development/1111 Main	62,592	187,070
Economic Development Retail	29,660	17,347
Post HTX	17,414	-
Downtown Living Initiative	14,635	11,746
Fairfield Residential	1,835	2,980
GreenStreet	1,286	19,229
Hotel Alessandra	745	1,540
Plan Downtown	-	250,000
Total Project Costs	\$ 11,453,970	\$ 7,435,762

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

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

	2019	2018
Administrative services	\$ 286,744	\$ 271,048
Consulting	16,463	25,300
Accounting and auditing	7,203	23,820
Legal fees	19,169	10,011
Office expense	8,776	9,281
Insurance	15,714	3,019
Total other operating costs	\$ 354,069	\$ 342,479

In each of the fiscal years 2019 and 2018, the Authority paid \$2,045,000 to the City under the Authority's Municipal Service Costs Agreement.

CAPITAL ASSETS

The Authority had no capital assets as of June 30, 2019 and 2018. Capital assets constructed by the Authority in the public domain are conveyed to the City of Houston upon completion.

GOVERNMENTAL FUNDS

At the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of approximately \$42.3 million which is approximately \$1.3 million higher than the prior fiscal year due to delays in spending on capital projects. Less than 1% of the fund balances, or \$145 thousand is committed for various future capital projects authorized by the Authority. Approximately 68% of the fund balances, or \$28.8 million is committed or assigned to various historic preservation, parks and recreation, theater district and economic development projects of the Authority. Approximately 11% or \$4.7 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 \$8.7 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. During the 2019 and 2018 fiscal years, no payments for principal were required, but the Authority recorded \$1,752,410 in interest expense and amortized \$30,214 in premiums for credit enhancement insurance for both 2019 and 2018. 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

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 2019 and 2018 the Authority accrued and paid \$239,308 and \$290,520 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 which are designated for repayment of the HHFC loan which equal \$750,000 annually, nor does it record the amount set aside for HISD educational facilities which equaled \$2,595,881 and \$2,537,691 for the years June 30, 2019 and 2018, respectively. In addition, the City, County, and HISD charge an administrative fee prior to payment of their increments which totaled \$905,838 and \$882,013 for the years June 30, 2019 and 2018, 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 2019.

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, potential expansion of the boundaries and a new bond offering will be considered in the future.

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

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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, 909 Fannin, Suite 1650, Houston, Texas 77010.

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

<i>June 30, 2019</i>	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash and cash equivalents	\$ 222,634	\$ -	\$ 7,626	\$ 230,260	\$ -	\$ 230,260
Investments	36,491,793	144,768	8,646,224	45,282,785	-	45,282,785
Tax increment receivables	2,960,346	-	-	2,960,346	-	2,960,346
Other receivables	393,945	-	-	393,945	-	393,945
Other assets	47,149	-	-	47,149	478,390	525,539
Total assets	\$ 40,115,867	\$ 144,768	\$ 8,653,850	\$ 48,914,485	\$ 478,390	\$ 49,392,875
Liabilities						
Accounts payable	\$ 6,256,361	\$ -	\$ -	\$ 6,256,361	\$ -	\$ 6,256,361
Interest payable	-	-	-	-	735,126	735,126
Bonds payable - due in one year	-	-	-	-	2,100,000	2,100,000
Bonds payable - due after one year	-	-	-	-	52,228,054	52,228,054
Total liabilities	6,256,361	-	-	6,256,361	55,063,180	61,319,541
Deferred inflow of resources						
Deferred tax increment revenue	342,129	-	-	342,129	(342,129)	-
Fund balances						
Restricted	-	-	8,653,850	8,653,850	(8,653,850)	-
Committed	16,230,953	144,768	-	16,375,721	(16,375,721)	-
Assigned	12,547,000	-	-	12,547,000	(12,547,000)	-
Unassigned	4,739,424	-	-	4,739,424	(4,739,424)	-
Total fund balances	33,517,377	144,768	8,653,850	42,315,995	(42,315,995)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 40,115,867	\$ 144,768	\$ 8,653,850	\$ 48,914,485	\$ 12,405,056	\$ -
Net deficit						
Restricted for debt service					\$ 8,653,850	\$ 8,653,850
Unrestricted					(20,580,516)	(20,580,516)
Total net deficit					\$ (11,926,666)	\$ (11,926,666)
Total fund balance of governmental funds						\$ 42,315,995
Amounts reported for governmental activities in the Statement of Net Position are different because						
Long-term liabilities and related interest are not due and payable in the current period and therefore are not reported in the funds						(55,063,180)
Cost of issuance for the premiums on credit enhancement insurance are amortized over the life of the bonds in the government-wide statements						478,390
Tax increments are not available for current period expenditures and therefore are deferred in the funds						342,129
Net deficit of governmental activities						\$ (11,926,666)

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**

<i>For the year ended June 30, 2019</i>	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues						
Tax increments	\$ 14,211,928	\$ -	\$ 4,279,650	\$ 18,491,578	\$ 342,129	\$ 18,833,707
Investment and other income	860,874	-	-	860,874	-	860,874
Total revenues	15,072,802	-	4,279,650	19,352,452	342,129	19,694,581
Expenditures/expenses						
Current						
Consultants	324,683	-	-	324,683	-	324,683
Administrative support/office expenses	20,608	-	-	20,608	-	20,608
Insurance	8,778	-	-	8,778	-	8,778
Municipal services	2,045,000	-	-	2,045,000	-	2,045,000
Capital outlay	11,055,346	398,624	-	11,453,970	-	11,453,970
Debt Service						
Principal payments on bonds	-	-	2,045,000	2,045,000	(2,045,000)	-
Interest expense	-	-	2,232,331	2,232,331	(240,613)	1,991,718
Costs of issuance	-	-	-	-	30,214	30,214
Total expenditures/expenses	13,454,415	398,624	4,277,331	18,130,370	(2,255,399)	15,874,971
Excess (deficiency) of revenues over expenditures	1,618,387	(398,624)	2,319	1,222,082	2,597,528	
Change in net position					3,819,610	3,819,610
Fund balances/net deficit:						
Beginning of year	31,898,990	543,392	8,651,531	41,093,913	(56,840,189)	(15,746,276)
End of year	\$ 33,517,377	\$ 144,768	\$ 8,653,850	\$ 42,315,995	\$ (54,242,661)	\$ (11,926,666)

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	\$ 1,222,082
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	342,129
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	2,045,000
Amortization of bond premium	223,141
Cost of issuance	(30,214)
Some expenses 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	17,472
Change in net position of governmental activities	\$ 3,819,610

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 Houston City Council (the "City") 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). Finally, 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.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Annual assessments are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

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”.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 classifications used in the governmental fund financial statements are as follows:

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, 2019.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Administrator 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)

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.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 and Part F 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.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenue is 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.

Debt

All debts to be repaid from governmental resources are reported as liabilities in the government-wide statements. Debt 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.

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.

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

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, 2019, bank balances totaled \$285,106 at JP Morgan Chase and \$7,626 at Bank of New York Mellon, which approximates fair value. Of the bank balances, \$35,106 was not covered by federal depository insurance.

In addition, at June 30, 2019, the Authority held \$36,636,561 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 \$8,646,224 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 investment in LOGIC fund 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.

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

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, U.S. Government Securities and an investment pool at June 30, 2019 are as follows:

	Cash and Cash Equivalents	Money Market Fund	Investment Pool	Total
Project funds	\$ -	\$ -	\$ 144,768	\$ 144,768
Debt service funds	7,626	8,646,224	-	8,653,850
	<u>\$ 7,626</u>	<u>\$ 8,646,224</u>	<u>\$ 144,768</u>	<u>\$ 8,798,618</u>

NOTE 6: TAX INCREMENT CONTRACT REVENUE BONDS

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

Balance at July 1, 2018	\$ 52,840,000
Additions	-
Retirements	(2,045,000)
Balance at June 30, 2019	50,795,000
Current portion	<u>\$ 2,100,000</u>

Tax Increment Contract Revenue Bonds at June 30, 2019 consist of the following:

Date Series Issued	Outstanding Balance
2012	\$ 9,290,000
2015	41,505,000
Total principal payable	50,795,000
Unamortized premium	3,533,054
Total bonds payable	<u>\$ 54,328,054</u>

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

NOTE 6: 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. No payments for principal were required in the current year, but the Authority incurred \$1,752,410 in interest expense 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 payments begin in 2022.

Principal and interest payments are due as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ -	\$ 1,975,550	\$ 1,975,550
2021	-	1,975,550	1,975,550
2022	-	1,975,550	1,975,550
2023	775,000	1,949,717	2,724,717
2024	810,000	1,917,550	2,727,550
2025-2029	13,715,000	7,740,981	21,455,981
2030-2034	17,820,000	3,918,492	21,738,492
2035-2036	8,385,000	270,005	8,655,005
	<u>\$ 41,505,000</u>	<u>\$ 21,723,395</u>	<u>\$ 63,228,395</u>

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 \$2,045,000 and \$239,308 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.

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

NOTE 6: TAX INCREMENT CONTRACT REVENUE BONDS (Continued)

Principal and interest payments are due as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 2,100,000	\$ 187,746	\$ 2,287,746
2021	2,145,000	134,522	2,279,522
2022	2,200,000	79,970	2,279,970
2023	1,405,000	41,687	1,446,687
2024	1,440,000	5,976	1,445,976
	<u>\$ 9,290,000</u>	<u>\$ 449,901</u>	<u>\$ 9,739,901</u>

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 \$4,280,824 required at June 30, 2019 for short term principal and interest payments due on both the 2015 and 2012 bond obligations.

NOTE 7: FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Restricted for				
Debt service	\$ -	\$ -	\$ 8,653,850	\$ 8,653,850
Committed to				
Roadways and streets	1,245,670	-	-	1,245,670
Real property improvements	750,000	-	-	750,000
Historic preservation	810,015	-	-	810,015
Parks and recreation	7,210,751	144,768	-	7,355,519
Retail/economic development	6,214,517	-	-	6,214,517
Assigned to				
Historic preservation	1,000,000	-	-	1,000,000
Retail/economic development	143,000	-	-	143,000
Parks and recreation	7,144,000	-	-	7,144,000
Theater District	4,260,000	-	-	4,260,000
Unassigned	4,739,424	-	-	4,739,424
	<u>\$ 33,517,377</u>	<u>\$ 144,768</u>	<u>\$ 8,653,850</u>	<u>\$ 42,315,995</u>

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

NOTE 8: TAX INCREMENTS

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

	Gross Increment	Transfers			Net Increments
		Administrative Fee	HHFC Payment	Educational Facilities	
City of Houston	\$ 17,256,617	\$ (862,831)	\$ (520,425)	\$ -	\$ 15,873,361
Houston Independent School District	5,468,673	(25,000)	(229,575)	(2,595,881)	2,618,217
Harris County	360,136	(18,007)	-	-	342,129
Total tax increments	\$ 23,085,426	\$ (905,838)	\$ (750,000)	\$ (2,595,881)	\$ 18,833,707

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

	Gross Increment	Transfers			Net Increments
		Administrative Fee	HHFC Payment	Educational Facilities	
City of Houston	\$ 17,256,617	\$ (862,831)	\$ (520,425)	\$ -	\$ 15,873,361
Houston Independent School District	5,468,673	(25,000)	(229,575)	(2,595,881)	2,618,217
Total tax increments	\$ 22,725,290	\$ (887,831)	\$ (750,000)	\$ (2,595,881)	\$ 18,491,578

NOTE 9: HOUSTON HOUSING FINANCE CORPORATION AGREEMENT

The Houston Housing Finance Corporation (HHFC) Agreement between the TIRZ, the City, and HHFC calls for the City and the TIRZ to pay HHFC the sum of \$750,000 per year, to the extent it receives Tax Increments derived from the original area of the Zone. If Tax Increments from the original area are insufficient to pay the annual sum, the sum accrues interest and is payable when Tax Increments from the original area are available to pay it. The 2018 tax increments from the original area of the Zone were sufficient to pay the \$750,000 HHFC payment in fiscal year 2019. The Authority's commitment under this agreement totals \$18,750,000 and is payable through fiscal year 2026 (tax year 2025). As of June 30, 2019, the Authority has remitted \$17,250,000 to HHFC under this agreement.

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

NOTE 10: 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. In addition, the Authority board agreed to a one-time payment to fund \$143,000 in streetscape improvements at Houston Police headquarters, 1200 Travis.

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 also 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 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 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 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 the Novare Group-SkyHouse Houston for development of a 24-story, 336-unit high-rise residential

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

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

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 fifth installment under the grant was paid in fiscal year 2019.

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 first and second installments under the grant were paid in fiscal year 2019.

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 third installment under the grant was paid in fiscal year 2019.

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 first installment under the grant was paid in fiscal year 2019.

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 third installment under the grant was paid in fiscal year 2019.

A sixth grant was approved under this program to Skyhouse Main (Skyhouse Houston II, LLC) 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 third installment under the grant was paid in fiscal year 2019.

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 is scheduled to break ground by December of 2019 but is still in compliance with the timeline required in the grant agreement through two extensions that have been approved by the Authority board.

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

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

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

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 \$1.5 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 estimated to be \$9.5 million over the term of the grant.

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 required to create at least twenty-five new full-time jobs and 7,000 square feet of retail space for soft goods in order to receive the rebate. The hotel was completed and opened in October 2017.

723 Main/AC Collection by Marriott

In June 2016, the Authority entered into an Economic Development Agreement with Supreme Bright Houston, LLC for the development of a 194-room AC Collection by Marriott 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 received the first installment of its grant in the amount of \$500,000.

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 \$20 million. The site is currently under construction.

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

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

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

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 Authority. In February 2019 the Authority board agreed to provide financial support for construction in the amount of \$2.5 million over two years.

Consultants

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

Operating 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 project is currently in the design phase and construction will commence in early 2020. The Authority will construct improvements on the property to convert the site to a public park.

For the years ending June 30,

2020	\$ 355,992
2021	355,992
2022	355,992
2023	355,992
2024	364,893
2025-2029	1,967,769
2030-2034	2,164,527
2035-2039	2,380,947
2040-2044	2,619,069
2045-2049	2,723,289
	\$ 13,644,462

For the fiscal year ended June 30, 2019, rent expense for the ground lease totaled \$88,998.



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

NOTE 11: 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. \$626,624 for these services for the year ended June 30, 2019.

NOTE 12: 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
AND
OTHER 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**

<i>For the year ended June 30, 2019</i>	Original and final budgeted amounts	Actual amounts (budgetary basis)	Variance with final budget
Budgetary fund balances - beginning of year	\$ 40,874,779	\$ 41,093,913	\$ 219,134
Resources			
Tax increments	26,632,163	22,743,297	(3,888,866)
Miscellaneous revenue	125,000	54,893	(70,107)
Grant proceeds	3,000	-	(3,000)
Interest income	50,562	805,981	755,419
Total available resources	67,685,504	64,698,084	(2,987,420)
Expenses			
Management consulting services	369,000	354,069	14,931
Project costs and capital expenditures	17,656,327	11,453,970	6,202,357
Debt service	4,277,331	4,277,331	-
Other interfund transfers:			
HISD educational facilities	2,513,658	2,595,881	(82,223)
Municipal services - public safety	2,045,000	2,045,000	-
Administrative fees	1,089,702	905,838	183,864
HHFC payment	750,000	750,000	-
Total uses of resources	28,701,018	22,382,089	6,318,929
Budgetary fund balances - end of year	\$ 38,984,486	\$ 42,315,995	\$ 3,331,509
Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenses			
Sources/inflows of resources:			
Actual amounts (budgetary basis)			\$ 64,698,084
Differences - budget to GAAP			
The fund balance at the beginning of the year is a budgetary resource			
current year revenue for financial reporting purposes			(41,093,913)
Budgeted revenues include HISD educational facilities transfers, City administrative			
charges and the annual payment to HHFC, while the Authority's funds report			
revenues net of these transfers			(4,251,719)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances			\$ 19,352,452
Uses/outflows of resources			
Actual amounts (budgetary basis)			\$ 22,382,089
Differences - budget to GAAP			
Budgeted expenditures include HISD educational facilities transfers, city administrative			
charges and the annual payment to HHFC, while the Authority's funds report			
revenues net of these transfers			(4,251,719)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances			\$ 18,130,370

See independent auditors' report.

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

<i>For the year ended June 30, 2019</i>	Vendor	Budget	Actual Expenditures	Variance
<u>Management Consulting Services</u>				
Administrative Support	Central Houston, Inc.	\$ 280,000	\$ 286,745	\$ (6,745)
Office Expenses	Various	24,000	15,714	8,286
Insurance	CNA Insurance	2,500	285	2,215
	Philadelphia Insurance	-	2,665	(2,665)
	W. M. Jones & Company	-	5,828	(5,828)
Accounting	Melissa Morton, CPA	11,000	-	11,000
	TNC CPAs	-	263	(263)
Auditor	Carr, Riggs & Ingram, LLC	16,500	16,200	300
Bond Services	Bank of New York Mellon	10,000	8,269	1,731
Financial Advisor	First Southwest	-	1,400	(1,400)
	Hilltop Securities	-	3,500	(3,500)
Taxroll Advisor (ITM)	Marvin Warren	-	-	-
Economic Impact Consulting	Impact Data Source	-	6,000	(6,000)
Total administration and overhead		344,000	346,869	(2,869)
Legal	Bracewell	25,000	7,200	17,800
Total management consulting services		\$ 369,000	\$ 354,069	\$ 14,931

Capital Expenditures and Developer/Project Reimbursements

Developer/Project Reimbursements:

Aris Market Square Residential	HM Market Square, LLC	\$ 344,048	\$ 438,408	\$ (94,360)
GreenStreet	Central Houston, Inc.	-	1,286	(1,286)
412 Main	Central Houston, Inc.	-	2,620	(2,620)
Buffalo Bayou Park	Buffalo Bayou Partnership		3,916,718	
	Central Houston, Inc.		1,829	
Total Buffalo Bayou Park		2,354,187	3,918,547	(1,564,360)
The Star Residential	Provident Realty - The Star	329,154	874,032	(544,878)
806 Main (JW Marriott)	806 Main Hotel, LLC	220,902	262,902	(42,000)
Downtown Living Initiative	Central Houston, Inc.	-	14,635	(14,635)

See independent auditors' report.

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

<i>For the year ended June 30, 2019</i>	Vendor	Budget	Actual Expenditures	Variance
Younan Square Development/1111 Main	The Fransen Company	\$ 75,000	\$ 62,592	\$ 12,408
Economic Development Retail	Central Houston, Inc.	-	29,660	(29,660)
SkyHouse Houston Residential	Skyhouse Houston, LLC	338,163	228,173	109,990
SkyHouse Main Residential	Skyhouse Houston II LLC	315,258	247,900	67,358
Block 334 Residential	Alliance Realty Partners, LLC	119,480	128,422	(8,942)
Market Square Tower Residential	Woodbranch Tower LLC	463,500	574,770	(111,270)
Hotel Alessandra	Central Houston, Inc.	103,000	745	102,255
1616 Main (Holiday Inn Hotel)	HDT Hotel, LLC		85,834	
	Central Houston, Inc.		1,580	
Total 1616 Main (Holiday Inn Hotel)		63,635	87,414	(23,779)
Fairfield Residential	Central Houston, Inc.	-	1,835	(1,835)
Hike and Bike Trails East of Allen's Landing		470,000	-	470,000
Future Project Development		1,000,000	-	1,000,000
Kellum/Noble House	Central Houston, Inc.	-	1,028	(1,028)
108/110/114 Main	Central Houston, Inc.	-	514	(514)
Post HTX	Bracewell		11,900	
	Central Houston, Inc.		5,514	
Total Post HTX		850,000	17,414	832,586
723 Main (Marriott AC Collection Hotel)	Central Houston, Inc.	-	3,487	(3,487)
Mass Challenge	Mass Challenge, Inc.	-	500,000	(500,000)
Total Developer/ Project Reimbursements		\$ 7,046,327	\$ 7,396,384	\$ (350,057)

See independent auditors' report.

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

<i>For the year ended June 30, 2019</i>	Vendor	Budget	Actual Expenditures	Variance
<i>Capital Improvement Projects:</i>				
T-0307 Southern Downtown Pocket Park	Lauren Griffith Associates		\$ 324,116	
	Central Houston, Inc.		92,867	
	Project For Public Spaces		75,419	
	Legacy Trust		61,605	
	Broadway Bank		27,393	
	Weston Solutions		26,285	
	Fence Master		24,647	
	A La Carte		8,000	
	Various		10,867	
Total T-0307 Southern Downtown Pocket Park		\$ 3,540,000	651,199	\$ 2,888,801
T-0308 Jones Plaza				
	Houston First Corp		490,000	
	Central Houston, Inc.		5,343	
Total T-0308 Jones Plaza		2,000,000	495,343	1,504,657
T-0312 Main Street Upgrades	Jerdon Enterprise		189,670	
	Central Houston, Inc.		22,809	
Total T-0312 Main Street Upgrades		-	212,479	(212,479)
T-0314 Shopping District Upgrades	Central Houston, Inc.		5,076	(5,076)
T-0319 Allen Parkway	Bartlett Tree Experts, Inc.		2,400	
	Central Houston, Inc.		9,692	
Total T-0319 Allen Parkway		-	12,092	(12,092)
T-0325 Bagby Street	Jones & Carter		1,787,225	
	Page Southerland Page, Inc.		498,620	
	Central Houston, Inc		143,288	
	Precision Graphics		1,447	
	Houston Public Library		406	
Total T-0325 Bagby Street		4,800,000	2,430,986	2,369,014
T-0326 NHHIP Civic Opportunities	Central Houston Civic Improvement		250,000	
	Houston Public Library		411	
Total T-0326 NHHIP Civic Opportunities		250,000	250,411	(411)
T-0399 Concrete Panel Replacement		20,000	-	20,000
Total capital expenditures		10,610,000	4,057,586	6,552,414
Total capital expenditures and developer/project reimbursements		\$ 17,656,327	\$ 11,453,970	\$ 6,202,357

See independent auditors' report.

**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, 2019**

	Estimated Total Costs	Total Expenditures	Remaining Balance
Project costs			
Infrastructure improvements			
Roadways and streets	\$ 22,500,000	\$ 36,814,288	\$ (14,314,288)
Infrastructure, mobility, transit improvements	18,334,450	27,712,337	(9,377,887)
Total Infrastructure improvements	40,834,450	64,526,625	(23,692,175)
Real property improvements	57,520,266	22,045,701	35,474,565
Parking facilities	10,156,417	-	10,156,417
Historic preservation improvements	26,351,008	15,522,789	10,828,219
Parks and recreational	32,044,167	5,749,158	26,295,009
Theater district improvements	11,504,799	5,310,151	6,194,648
Cultural and public facility improvements	10,000,000	1,503,555	8,496,445
Economic development programs	166,800,000	30,633,492	136,166,508
Institutional facilities	22,000,000	10,678,800	11,321,200
Total project costs	377,211,107	155,970,271	221,240,836
Operating and financing costs			
Financing costs	21,650,000	21,571,169	78,831
Administration	6,934,426	6,068,901	865,525
Total operating and financing costs	28,584,426	27,640,070	944,356
Educational facilities	82,541,820	43,909,837	38,631,983
Project plan total	\$ 488,337,353	\$ 227,520,178	\$ 260,817,175

See independent auditors' report.