

Houston Downtown Management District

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2019



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**Houston Downtown Management District
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December 31, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Houston Downtown Management District
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Houston Downtown Management District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District'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 respective financial position of the governmental activities and each major fund of Houston Downtown Management District, as of December 31, 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 through 15 and 30 through 32 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.

Caru, Riggs & Ingram, L.L.C.

Houston, Texas
June 18, 2020

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

The following discussion and analysis of Houston Downtown Management District's (the District) financial performance provides an overview of the District's financial activities for the year ended December 31, 2019.

Please read in conjunction with the District's financial statements and notes.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Comparative information between the current year and the prior year is included in the MD&A.

Organization

Creation

The District was created in the regular session of the Texas Legislature in the spring of 1995 by legislation co-sponsored by Senator Rodney Ellis and Representative Garnet Coleman. This legislation created a Municipal Management District under Chapter 375 of the Local Government Code and is currently codified in Chapter 3801 of the Texas Special Districts Code. The District became effective on August 2, 1995 and was organized on August 29, 1995. In 1999, the District's boundaries were expanded by the Texas Legislature to include all 1,178 acres that lie primarily within the freeway ring around the City of Houston's (City) center.

Purpose

Building on the momentum of the Houston Downtown Public Improvement District created by the City in 1991, the District's purpose is to continue the pursuit of a plan for downtown's revitalization to make it a diverse, desirable, accessible and perpetually active core of the Houston region.

Board of Directors

The Board of Directors (Board) is made up of a 30-member board with additional ex-officio, non-voting, members that include City department heads from the Police, Public Works, Parks and Recreation, Convention and Entertainment Facilities, and Planning departments, METRO's president and certain chairs of other downtown organizations. Board member qualifications are ownership, tenancy or residence of property within the District or an agent or employee thereof. The Board shall have experience in energy, commercial banking, real estate, finance, insurance, retail, service, utilities and the general issues that the District addresses. Two thirds of the directors shall be City residents. Board members have staggered four-year terms. New appointments and renewals are confirmed by City Council. Unexpired terms with replacements need not be confirmed by City Council.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Powers

In addition to the rights, powers, privileges, authority and functions of a district created under Chapter 375 of the Local Government Code and the aforementioned Chapter 3801 of the Texas Special Districts Code, to accomplish its purposes, the District may employ the rights granted to political subdivisions under Article 16, Section 59, of the Texas Constitution, including those conferred by Chapter 54 of the Texas Water Code, and the powers under Article 3, Section 52, of the Texas Constitution and Chapters 365 and 441 of the Texas Transportation Code. The District does not have power of eminent domain and cannot finance by assessment services or improvements unless a petition has been filed with the Board signed by a requisite number of landowners. As each new service and improvement plan (normally every five years) is put in place, a petition is signed by a requisite number of landowners.

On November 12, 2015, the District's Board of Directors approved the current service and improvement plan which is assessed based on 2015 values in installments annually over each of the five years 2016-2020. This is the fourth year of the service and improvement plan.

The District may levy assessments, ad valorem taxes and/or impact fees. Pursuant to Chapter 3801, the District may incur liabilities, borrow, issue bonds, or other obligations, acquire and dispose of property, construct, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, arts, entertainment, economic development, safety and the public welfare.

Specifically, the District was created to provide services and improvements which supplement those presently provided by the City to promote, develop, encourage, and maintain employment, commerce, economic development, and public welfare within the District in downtown Houston. To that end, the District presently provides services in five main areas of operation:

- Operations (public safety and maintenance)
- Capital Projects
- Economic and Business Development
- Planning
- Marketing and Communications

Bonds and Assessments

The District may issue bonds payable by assessments or ad valorem taxes. The City must approve the bond issue or any capital improvements budget that is financed from a bond issue. The District must hold an election and obtain voter approval to impose a maintenance tax or to issue bonds payable from ad valorem taxes or assessments. At present, the District has no outstanding bonds.

Intergovernmental Agreements

The District is a governmental agency and political subdivision of the State of Texas and may enter into intergovernmental agreements with other units of government at the Federal, state and local level.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Policies and Procedures

The District's Board adopted policies and procedures regarding personnel, procurement, contract administration, disadvantaged business enterprise program, budget, accounting, property ownership, insurance, ethics and investments. The District has contracted with Central Houston, Inc., a 501(c)(6) not-for-profit corporation, for the provision of administrative and managerial personnel, thereby realizing certain economies of operation expense. The District will contract out for all other services in accordance with adopted policies and procedures.

Disadvantaged Business

The District attempts to stimulate the growth of disadvantaged businesses within its boundaries by encouraging full participation in all phases of procurement. The District strives to increase participation of disadvantaged businesses in contract awards. The program is reviewed on an annual basis and a quarterly report is made to the Board.

Torts Claims

On December 31, 2019, there were no known claims.

Assessment Plan

Assessments for 2019 were based on the 2015 certified rolls of the Harris County Appraisal District, as supplemented, for taxable, non-excluded properties within the 1999 expanded boundaries of the Houston Downtown Management District with certain annual revisions pursuant to the Assessment Plan.

FINANCIAL HIGHLIGHTS

Assessment Revenues

The District's assessment rate for 2019 was 11.75¢/\$100 in valuation based on 2015 certified Harris County Appraisal District rolls, as supplemented, within the 1999 expanded boundaries of the District. 10.4¢ was for operations and resulted in net revenues of \$13,933,300. 1.35¢ was for capital and resulted in net revenues of \$1,794,318.

Capital Projects

During 2019, the District completed the capital project to add enhanced lighting in Market Square Park and the Historic District, spending \$39,677 in the current year. Three new capital projects were approved by the Board during 2018 and work on these projects was largely completed during 2019. The first is a street light infill project to improve the lighting for several blocks on the east side of downtown and the District incurred \$687,013 for infrastructure, fixtures and installation. One of the pole locations needed further engineering due to unforeseen underground conditions and the project will not be fully completed until 2020. The second is Phase II of parking lot edge landscaping improvements (fencing, Asian Jasmine, irrigation and sidewalk enhancements) and the District incurred \$339,355 for materials and construction.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

The third is Phase I of the Forms + Surfaces bike racks installed throughout downtown and the District incurred \$4,973 for installation. In addition, capital replacements included: \$31,000 to refurbish the dog park fences at Market Square Park, \$36,644 for paver attic stock, \$44,200 for lighting attic stock, \$13,457 for repairs to the Main Street granite planters, \$9,358 to repair leak damage from the Main Street Fountain in the tunnel, \$38,400 for floral replacements, \$25,972 for various wayfinding and tunnel signage replacements and approximately \$72,000 in other miscellaneous capital replacement items.

Downtown Living Initiative

The District, in conjunction with the City of Houston and the Downtown Redevelopment Authority, created a program in 2012 called the Downtown Living Initiative (DLI), which is designed to incentivize residential development in downtown. Developers are eligible to receive a rebate equal to 75% of the incremental District assessment and City of Houston property taxes generated by the project upon completion for a fifteen-year period up to a maximum of \$15,000 per unit. There was an overall cap of units available to participate in the program of 5,000. The application deadline for the DLI program was June 30, 2016 and the program is now closed.

The District has executed DLI agreements with fifteen developers totaling 4,600 units. Projects opened as of the end of 2019 include: SkyHouse Houston, SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, 1414 Texas, 1711 Caroline, and the Marlowe. Estimated completion dates for the additional development projects range from the first quarter of 2020 through the end of 2023. The residential projects are geographically dispersed throughout several areas of the District, including the Ballpark District, the Historic District and the southern portion of downtown. Developers are required to meet certain deadlines and be in compliance with design guidelines in order to benefit from the incentive program, although extensions may be granted if approved by the Board. The District liability for DLI assessment rebates to developers is contingent upon renewal of subsequent service plans beyond 2020. During 2019, approximately \$504,000 was paid by the District in assessment rebates under the DLI residential program.

Greenlink Circulator Program

In 2012, the District received a federal transportation grant in the amount of \$2,270,000 to purchase seven CNG-powered vehicles to provide clean energy, convenient transportation, free of charge through the key corridors of downtown. The District partnered with Houston First Corporation to fund operation of the Greenlink service. The annual commitment for Greenlink was \$600,000 each for the District and Houston First Corporation. METRO operated the Greenlink vehicles and had an agreement with the District for a four-year term ending June 30, 2020. Total operating costs for the Greenlink Circulator program for 2019 were \$1,647,293.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Houston First notified the District that it will not renew its sponsorship of the Greenlink when its agreement ends in June 2020. Similarly, the District has been unable to procure a corporate sponsor for the service and ridership on the Greenlink has been declining over the past several years. Due to declining ridership, increased competition from rideshare services for short passenger trips and the high cost of operations, the District will discontinue operation of the Greenlink downtown circulator and transfer the seven vehicles to METRO effective May 31, 2020. METRO has agreed to assume the obligations associated with the FTA grant and will incorporate the vehicles and spare parts inventory into METRO's fleet and utilize them for public transit for the remaining useful life of four years. METRO has agreed to provide a transfer payment of \$265,000 to reimburse the unamortized portion of the local match (split 50/50 with Houston First).

Grant Programs

The District awarded an economic development grant in 2013 to Finger-FSC Crawford, Ltd. for construction of a 397-unit residential development on blocks 50 and 51 in the District. Awarded prior to the creation of the DLI program, this grant is equal to 75% of the incremental District assessment generated by the project for a term of fifteen years from the date of completion and its inclusion on the District's tax assessment roll. This residential project, which includes two street level restaurants on Texas Avenue, was completed in 2016 and a reimbursement payment was made in the amount of \$44,552 in 2019 for this project.

The District has a program to support catalytic retail projects. During 2017, a \$140,000 grant was awarded to Bravery Chef Hall which activates the street level of the residential project Aris Market Square and features a food hall concept for rising-star chefs. In 2019, Bravery opened, and the first installment of the grant was paid in the amount of \$70,000. The remaining portion will be paid in equal installments over the next two years.

Downtown Maintenance Agreement

The District is responsible for maintaining improvements (pavers, trees, landscaping, irrigation systems, lighting, etc.) within the public right of way that were installed as part of the various improvement projects (Cotswold, Transit Streets, Dallas Street/Shopping District, Main Street, Market Square Park, and Main Street Square). A signed agreement with the City delineates the maintenance responsibility for the District.

During 2019, the District expended \$249,980 for paver repair work, \$118,618 for street light maintenance, \$634,532 for landscaping/irrigation maintenance, \$429,519 for floral displays, \$188,252 for Main Street Square maintenance, and \$253,973 for Market Square Park maintenance. Adjacent property owners reimbursed the District \$58,860 for Main Street Square fountain maintenance. Rent and utility reimbursements from the food kiosk vendor generated \$43,827 of revenue for Market Square Park.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Street Lighting

In 1999, the District signed a street lighting agreement with the City. The agreement provided for upgraded street lighting to be installed and for the District to pay for the additional power use for the increased lamp wattage and additional streetlights added. During 2019, the District incurred \$160,478 for the additional power usage.

Litter and Trash Program

Maintaining a clean and safe downtown environment is a primary part of the District's mission. During 2019, the Street Team program was funded in the amount of \$2,066,612 to provide litter and trash pick-up on a seven day a week basis, sidewalk pressure washing, graffiti, rat and bird abatement, and a recycle program. The trash subscription program provides \$196,078 in offsetting revenues. Also, the District provided METRO bus stop cleaning services and received \$256,718 in offsetting revenues for this effort.

Downtown Public Safety Guides

The Downtown Public Safety Guide program was created to provide a customer service-oriented visible presence in downtown. Safety Guides assist visitors, connect homeless individuals to social services and act as a deterrent to crime. The District spent \$1,562,813 for the guide program during 2019. In addition, the District engages Off-Duty Houston Police Officers on a part-time basis to deploy in strategic areas. The District spent \$387,144 for the Off-Duty Officer program during 2019. The District added a new element to its public safety program during 2019. Two shifts of two officers each of private security, uniformed and armed, which is contracted through S.E.A.L. Security was added at a cost of \$152,840.

The District is committed to, and funded, programs to reduce homelessness, spending \$849,569 during the past year with the outreach partners Search, Harris Center, and Coalition for the Homeless. The District participated in a new city initiative, the H3 program, designed to use privately contributed funding to provide rapid housing and take approximately 200 individuals off the streets of the downtown area. The District's contribution was \$500,000 out of the total program cost of approximately \$3 million. In addition, the District contributed \$124,250 toward the Public Intoxication Transport Team (PITT) program run by the Houston Recovery Center.

Operations Center

During 2018, the District entered into a fifteen-year lease agreement with LVA4 Greenstreet, LP to relocate the District Operations Center to 1313 Main in space adjacent to the Greenstreet garage. The District was able to approximately double its square footage to accommodate the growth in operations which has added personnel to meet the needs of the emerging 24/7 environment in the District. Construction was completed and the District moved to its new Operations Center facility on April 1, 2019. The District occupies the first floor of the building of approximately 12,500 sqft and has an option on the second-floor space of approximately 11,000 sqft. The District spent a total of

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

\$824,865 for the construction build-out, IT infrastructure, and furnishings for the new operations center. The lease at the 1119 Milam location was terminated and a buyout payment was made during 2019. The District also leases additional warehouse storage space for equipment and extra stock storage. Rent, utilities and supplies for office and warehouse space totaled \$434,838 for 2019.

Banner Poles and Holiday Decorations

The District provides street banners, lighted/landscaped poles and holiday decorations for downtown. A new holiday package was installed for the 2018 season which included: 7 refurbished trees, 24 pole décor treatments, 4 new street overheads, and 1 large "NOEL" installation. During 2019, new holiday pole décor was added in the Historic District. The new décor is on a three-year lease with Always in Season. During 2019, \$551,213 was spent on banner changes, pole/pot maintenance, and installation of holiday decorations.

Wayfinding Maintenance

The District has made a significant capital investment in the 66 vehicular and 109 pedestrian wayfinding signs in the downtown area in the current service plan. A maintenance agreement was established to provide regular cleaning, repairs, and replacement of damaged signs. A total of \$69,549 was spent during 2019 on wayfinding signage maintenance.

Marketing and Communications Program

In 2019, the District continued to publish the *downtown* magazine, engage the public through social media, and produce a weekly e-blast to communicate a variety of events happening in downtown. Work continued on the advertising campaign initiative called "*Meet Downtown.*" Total expenses for marketing and communications were \$983,564 in 2019, with offsetting revenues from the magazine advertising totaling \$7,597.

The District also continued its initiative, Art Blocks, to bring unique smaller-scale public art to the downtown area. The pieces were selected by a committee of local collectors, curators, and philanthropists and consisted of new marquees at the Main Street Market, a mural installation on the Wedge Tower garage and an interactive art installation in Sam Houston Park called "Open House." The District incurred expenses of \$255,094 during 2019 for the ArtBlocks program.

Economic Development

The District is committed to building relationships with the business community in downtown and acting as a resource for information regarding office market trends, commute solutions for the workforce, and the benefits of locating a business downtown. The District spent \$250,790 on its economic development program during 2019, which is conducted in partnership with Central Houston, Inc.

Houston Downtown Management District Management’s Discussion and Analysis (Unaudited)

Planning

The planning efforts of the District were largely focused on planning for the North Houston Highway Improvement Plan, including traffic studies of specific areas impacted by the highway reconfiguration, opportunities for development in the Warehouse District in the northern portion of downtown and potential new city streets/street closures. A total of \$368,244 was spent by the District on the highway planning.

Public Space Programming

The District uses programming to attract visitors to downtown. Programming is extensive at Market Square Park in the Historic District, offering seasonal events such as concerts, culinary evenings, movie nights, blanket bingo, special markets, and other creative offerings. The District spent \$241,266 during 2019 on programming in Market Square Park, drawing visitors not only to the park itself but to the surrounding businesses in the Historic District.

In 2019, the District continued its regular programming at Main Street Square featuring the semi-annual HeartMade Art Market. A total of \$124,884 was spent on programming in Main Street Square during 2019.

A new ticketed event was added in 2019, the Downtown Home Tour, consisting of six residential properties open to the public to visit, capturing the variety of living options in downtown. In addition, programming around Thanksgiving Weekend was expanded to include the Mayor’s Tree lighting on Saturday and a new Friday night event showcasing the holiday lighting and multi-faceted things to do in downtown called “Thing-a-ma-Jingle” which was promoted jointly with the Mayor’s Office of Special Events. The District incurred \$84,048 for these “around downtown” new events, offset by \$24,602 in event revenue.

OVERVIEW OF FINANCIAL STATEMENTS

Under GASB Statement No. 34, the District qualifies as a special purpose government with one program—revitalization of the downtown area.

Government-wide statements report information about the District as a whole using accounting methods similar to those used in private-sector companies. The statement of net position includes all of the District’s assets and liabilities. 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 District on the modified accrual basis, which only account 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 fund statements to the government-wide statements. Explanations for the reconciling items are provided as part of the financial statements.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Statement of Net Position

The statement of net position reflects the District's assets and liabilities using the full accrual basis of accounting and represents the financial position as of the conclusion of the year. Net positions are equal to assets minus liabilities. Unrestricted net position is available to the District for any lawful purpose. Restricted net position has constraints on resources, which are imposed by law through contractual provision of enabling legislations.

The following table reflects condensed information on the District's net position:

<i>December 31,</i>	2019	2018
Capital assets, net	\$ 1,999,774	\$ 1,817,835
Other assets:		
Cash and cash equivalents	12,158,339	13,600,616
Assessments	14,996,743	14,170,220
Accounts receivable and prepaid expenses	539,100	219,211
Inventory	79,148	80,448
Total assets	29,773,104	29,888,330
Total liabilities	1,970,518	2,355,978
Net position		
Invested in capital assets	1,999,774	1,817,835
Restricted for capital projects	4,729,577	4,258,396
Restricted for Greenlink	606,014	1,074,695
Unrestricted	20,467,221	20,381,426
Total net position	\$ 27,802,586	\$ 27,532,352

Assets

As of December 31, 2019, the District's assets totaled \$29,773,104 versus \$29,888,330 as of December 31, 2018. At year end, the District had \$8,250,280 of cash on hand for service plan operations, \$3,019,139 for capital projects and \$888,920 for the Greenlink circulator program. Funds not needed for immediate operations are invested in TexPool Prime accounts. Investments are reviewed quarterly by the Board of Directors. Net capital assets of the District were \$1,999,774 as of December 31, 2019, which reflects \$562,820 of new asset acquisitions, \$19,603 of losses from asset retirements and \$361,278 of depreciation expense from the net capital asset balance of \$1,817,835 as of December 31, 2018. Assessment receivable as of December 31, 2019 totaled \$14,996,743 versus \$14,170,220 as of December 31, 2018.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Liabilities

At December 31, 2019, the District's accounts payable and accrued expenses totaled \$1,770,518 versus \$2,205,978 as of December 31, 2018. In addition, liability balances included unearned revenue of \$200,000 related to the Greenlink Circulator program versus \$150,000 in 2018.

Net Position

Net position at year end in 2019 totaled \$27,802,586. Net position in 2019 is classified as invested in capital assets, restricted for capital projects, restricted for the Greenlink Circulator program and unrestricted, which totaled \$1,999,774, \$4,729,577, \$606,014 and \$20,467,221, respectively. In 2018, net position totaled \$27,532,352 and was classified as invested in capital assets, restricted for capital projects, restricted for the Greenlink Circulator program and unrestricted which totaled \$1,817,835, \$4,258,396, \$1,074,695, and \$20,381,426 respectively.

Net position for the District increased by \$270,234.

Statement of Activities

The following statement of activities identifies operating revenues earned and expenses incurred by the District:

<i>For the years ended December 31,</i>	2019	2018
Revenues		
Assessments, net - service plan operations	\$ 13,933,300	\$ 13,555,352
Assessments, net - capital projects	1,794,318	1,759,916
Greenlink sponsor revenues	575,000	749,924
Other	1,011,779	1,053,330
Total revenues	\$ 17,314,397	\$ 17,118,522

In 2019, revenues totaled \$17,314,397 compared to \$17,118,522 in 2018. Assessment revenues increased by \$412,350 as a result of property values added in the supplemental roll for 2019. Operations revenue has decreased slightly by \$5,984 due to a decrease in the number of METRO trash cans being serviced. Marketing partnership revenue has decreased by \$37,504 due to a decrease in advertising revenue from the magazine and Market Square Park rent. Miscellaneous reimbursements decreased by \$41,760 due to the final payment from METRO on the trash can replacement reimbursement in 2018 and increased by \$7,243 due to changes in staff allocations. Interest income increased by \$36,454 due to an increase in interest earnings rates on investments. Greenlink sponsor revenues decreased by \$299,924 as a result of the loss of grant funding from TCEQ and increased by \$125,000 based on an increase in required contributions from Houston First Corporation and the District.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

<i>For the years ended December 31,</i>	2019	2018
Expenses		
Service plan operations	\$ 13,723,639	\$ 12,179,262
Capital projects	1,423,292	1,383,202
Greenlink expenses	1,897,232	1,883,665
Total expenses	\$ 17,044,163	\$ 15,446,129

In 2019, expenses totaled \$17,044,163 compared to \$15,446,129 in 2018. The total increase in service plan operations over 2018 of \$1,598,034 was primarily due to increased budgets for the following programs: \$455,758 for additional safety personnel including private security, \$132,517 for the buyout of the 1119 Milam lease, \$116,809 in increased rent for the expanded operations center facility at 1313 Main, \$401,252 in homeless programs which included the new H3 housing program, \$235,705 in grant payouts for Downtown Living Initiative program, \$41,109 in programming/events, \$125,000 in additional contributions to the Greenlink Circulator program. There was an increase in capital expenditures of \$38,970 primarily due to the capital portion of the Downtown Living Initiative program and there was a slight increase in Greenlink expenses of \$13,568 due to small variations in METRO service hours and fuel costs.

Budgetary Highlights

Service plan operations

	2019		2018	
	Actual	Budget	Actual	Budget
Revenues	\$ 14,849,421	\$ 14,553,711	\$ 14,479,835	\$ 13,749,372
Expenses				
Downtown feels safe and comfortable	7,350,364	7,864,500	6,254,723	6,870,000
Public realm is charming, inviting, beautiful	2,484,061	2,518,900	2,316,734	2,162,000
Accessible to region and easy to get around	256,898	256,000	333,356	310,500
Vibrant, sustainable mixed-use place	965,332	1,945,850	722,026	1,036,900
Downtown's vision understood by all	1,899,278	2,511,480	1,769,052	2,045,700
District governance known for excellence	767,706	965,452	783,371	874,260
Total expenses	13,723,639	16,062,182	12,179,262	13,299,360
Change in net position	\$ 1,125,782	\$ (1,508,471)	\$ 2,300,573	\$ 450,012

Houston Downtown Management District Management’s Discussion and Analysis (Unaudited)

- Overall 2019 service plan operations revenues were ahead of budget by \$295,710 of which \$313,000 is attributable to revenue from the supplemental roll, \$35,000 due to unanticipated developer reimbursements for construction damage and \$20,000 in interest income due to favorable rates, offset by revenue items under budget in operations of \$9,000, Market Square Park rent of \$31,000 and marketing partnership revenue of \$33,000.
- Service plan operations expenses for 2019 were less than budget by \$2,338,543. Personnel costs were under budget by \$227,124 (8%) primarily due to open positions, operations and maintenance expenses were under budget by \$443,000, marketing by \$980,000 primarily because \$1 million was budgeted for a pop-up retail program and not utilized, economic development by \$32,000, planning and design by \$606,000 and administrative expenses were under budget by \$41,000.

Capital projects

	2019		2018	
	Actual	Budget	Actual	Budget
Revenues	\$ 1,861,364	\$ 1,834,624	\$ 1,863,504	\$ 1,706,300
Expenses				
Downtown feels safe and comfortable	687,013	1,153,000	252,478	890,000
Public realm is charming, inviting, beautiful	21,509	75,000	462,155	525,000
Accessible to region and easy to get around	344,328	1,582,000	491,766	1,705,000
Vibrant, sustainable mixed-use place	63,123	134,000	32,175	132,163
Capital replacement expenditure	307,319	368,000	144,628	399,989
Total expenses	1,423,292	3,312,000	1,383,202	3,652,152
Change in net position	\$ 438,072	\$ (1,477,376)	\$ 480,302	\$ (1,945,852)

- Capital projects revenues for 2019 were slightly ahead of budget by \$26,740, primarily attributable to revenue from the supplemental roll.
- Capital expenditures for 2019 were \$1,888,708 less than budget due to delays of the streetlight infill project of \$240,000, traffic signal enhancement project of \$225,000, Market Square Park Art project of \$75,000, Southeast Sidewalks TxDOT project of \$632,000, sidewalk infill project of \$400,000, Phase II of the bike rack installation project of \$45,000, \$70,000 in retail grants not used, \$18,169 in storefront/streetscape grants terminated for non-use and a favorable variance of \$63,000 in capital replacement expenditures. In addition, \$300,000 budgeted for parking garage signage for the city interactive parking program was not used in 2019 and will be deferred to 2020. Offsetting the savings, 2018 budgeted expenditures of \$40,000 in Market Square Park lighting spent in 2019 and an overage of Phase II parking lot edge projects of \$140,000.

Houston Downtown Management District Management's Discussion and Analysis (Unaudited)

Greenlink

	2019		2018	
	Actual	Budget	Actual	Budget
Revenues	\$ 603,612	\$ 1,104,000	\$ 775,183	\$ 760,000
Expenses				
Vehicle operator expense	1,531,643	1,578,000	1,453,089	1,350,000
Fuel expense	109,000	105,000	101,544	107,000
Marketing expense	1,380	10,000	73,823	75,000
Operating administrative expense	5,270	11,000	5,270	10,000
Depreciation expense	249,939	249,936	249,939	249,936
Total expenses	1,897,232	1,953,936	1,883,665	1,791,936
Change in net position	\$ (1,293,620)	\$ (849,936)	\$ (1,108,482)	\$ (1,031,936)

- Greenlink revenue was less than budget by \$500,388 primarily due to failure to secure a corporate sponsor for the program.
- Greenlink expenditures were under budget by \$56,704. This is about 3% of the budgeted expenditures and represents conservative budgeting for the METRO service hours.

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District'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 Houston Downtown Management District, 909 Fannin, Suite 1650, Houston, Texas 77010.

Houston Downtown Management District Governmental Funds Balance Sheet and Statement of Net Position

December 31, 2019

	Service Plan Operations	Capital Projects	Greenlink	Total	Adjustments	Statement of Net Position
Assets						
Cash and cash equivalents	\$ 8,250,280	\$ 3,019,139	\$ 888,920	\$ 12,158,339	\$ -	\$ 12,158,339
Assessment due from tax collector, net	13,273,713	1,723,030	-	14,996,743	-	14,996,743
Accounts receivable	412,865	-	-	412,865	-	412,865
Prepaid expenses	126,235	-	-	126,235	-	126,235
Inventory	-	-	79,148	79,148	-	79,148
Interfund receivable (payable)	(73,942)	73,942	-	-	-	-
Capital assets, net	-	-	-	-	1,999,774	1,999,774
Total assets	\$ 21,989,151	\$ 4,816,111	\$ 968,068	\$ 27,773,330	\$ 1,999,774	\$ 29,773,104
Liabilities						
Accounts payable and accrued expenses	\$ 1,044,513	\$ 86,534	\$ 162,054	\$ 1,293,101	\$ -	\$ 1,293,101
Due to affiliate	370,018	-	-	370,018	107,399	477,417
Unearned sponsorship payments	-	-	200,000	200,000	-	200,000
Total liabilities	1,414,531	86,534	362,054	1,863,119	107,399	1,970,518
Deferred Inflows of Resources						
Deferred tax assessment	164,021	21,284	-	185,305	(185,305)	-
Fund Balances						
Nonspendable-inventories and prepayments	126,235	-	79,148	205,383	(205,383)	-
Restricted for capital projects	-	4,708,293	-	4,708,293	(4,708,293)	-
Restricted for Greenlink	-	-	526,866	526,866	(526,866)	-
Assigned for catastrophe	800,000	-	-	800,000	(800,000)	-
Unassigned	19,484,364	-	-	19,484,364	(19,484,364)	-
Total fund balances	20,410,599	4,708,293	606,014	25,724,906	(25,724,906)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 21,989,151	\$ 4,816,111	\$ 968,068	\$ 27,773,330		
Net position						
Invested in capital assets					\$ 1,999,774	\$ 1,999,774
Restricted for capital projects					4,729,577	4,729,577
Restricted for Greenlink					606,014	606,014
Unrestricted					20,467,221	20,467,221
Total net position					\$ 27,802,586	\$ 27,802,586
Total fund balances of total governmental funds					\$ 25,724,906	
Amounts reported for governmental activities in statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds					1,999,774	
Compensated absences					(107,399)	
Deferred revenue is not available for current period expenditures and therefore deferred in the funds					185,305	
Net position of governmental activities					\$ 27,802,586	

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

Houston Downtown Management District Governmental Fund Revenues, Expenditures and Changes in Fund Balances and Statement of Activities

For the year ended December 31, 2019

	Service Plan Operations	Capital Projects	Greenlink	Total	Adjustments	Statement of Activities
Revenues						
Assessments, net	\$ 13,861,298	\$ 1,786,764	\$ -	\$ 15,648,062	\$ 79,556	\$ 15,727,618
Project revenue	622,844	-	1,150,000	1,772,844	(575,000)	1,197,844
Interest	293,277	67,046	28,612	388,935	-	388,935
Total revenues	14,777,419	1,853,810	1,178,612	17,809,841	(495,444)	17,314,397
Expenditures/expenses						
Downtown feels safe and comfortable at all times						
Collaboration to maintain low crime rate	2,294,797	-	-	2,294,797	-	2,294,797
Reduced presence of homeless and street persons	942,110	-	-	942,110	-	942,110
Downtown sidewalks are comfortably lighted	311,720	-	-	311,720	-	311,720
Downtown clean and well-kept appearance	4,199,543	-	-	4,199,543	(543,217)	3,656,326
Remove signs of disorder in downtown	36,654	-	-	36,654	-	36,654
Prepare for emergencies	108,757	-	-	108,757	-	108,757
	7,893,581	-	-	7,893,581	(543,217)	7,350,364
Public realm is charming, inviting, beautiful and celebrates the life of the city						
Key pedestrian streets are inviting	459,199	-	-	459,199	-	459,199
Public spaces managed, programmed and delightful	1,075,638	-	-	1,075,638	-	1,075,638
Place of civic celebration	949,224	-	-	949,224	-	949,224
	2,484,061	-	-	2,484,061	-	2,484,061
Accessible to region and easy to get around						
Effective transit access more places, more hours	11,084	-	-	11,084	-	11,084
Convenient circulation without personal vehicle	655,346	-	-	655,346	(575,000)	80,346
Easy to find way around	111,212	-	-	111,212	-	111,212
Connect neighbors and districts inside/outside downtown	38,042	-	-	38,042	-	38,042
Convenient, understandable and managed parking	16,214	-	-	16,214	-	16,214
	831,898	-	-	831,898	(575,000)	256,898
Vibrant, sustainable mixed-use place						
Best place to work in region	250,791	-	-	250,791	-	250,791
Exciting neighborhoods to live in	613,283	-	-	613,283	-	613,283
Competitive shopping place	50,319	-	-	50,319	-	50,319
Remarkable destination for visitors	50,939	-	-	50,939	-	50,939
	965,332	-	-	965,332	-	965,332
Downtown's vision and offering understood by all						
Market to region	1,150,100	-	-	1,150,100	-	1,150,100
Promote downtown's ease of use	23,896	-	-	23,896	-	23,896
Vision/development framework understood by all	603,753	-	-	603,753	-	603,753
Tools to assist continued redevelopment	88,554	-	-	88,554	-	88,554
Develop and maintain information to support downtown	32,975	-	-	32,975	-	32,975
	1,899,278	-	-	1,899,278	-	1,899,278
District governance and service known for excellence						
Engage stakeholders in decision making	628,592	-	-	628,592	8,381	636,973
Communications to owners, tenants and others	17,277	-	-	17,277	-	17,277
Preservation of districts' capital assets	35,225	-	-	35,225	78,231	113,456
	681,094	-	-	681,094	86,612	767,706
Capital improvement and expenditures						
Downtown feels safe and comfortable	-	687,013	-	687,013	-	687,013
Public realm is charming, inviting and beautiful	-	21,509	-	21,509	-	21,509
Accessible to region and easy to get around	-	344,328	-	344,328	-	344,328
Vibrant, sustainable mixed-use place	-	63,123	-	63,123	-	63,123
Capital replacement expenditure	-	274,211	-	274,211	33,108	307,319
	-	1,390,184	-	1,390,184	33,108	1,423,292

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

Houston Downtown Management District Governmental Fund Revenues, Expenditures and Changes in Fund Balances and Statement of Activities (Continued)

For the year ended December 31, 2019

	Service Plan Operations	Capital Projects	Greenlink	Total	Adjustments	Statement of Activities
Accessible to region and easy to get around						
Vehicle operator	\$ -	\$ -	\$ 1,531,643	\$ 1,531,643	\$ -	\$ 1,531,643
Fuel	-	-	109,000	109,000	-	109,000
Marketing	-	-	1,380	1,380	-	1,380
Administrative	-	-	5,270	5,270	249,939	255,209
	-	-	1,647,293	1,647,293	249,939	1,897,232
Total expenditures/expenses	14,755,244	1,390,184	1,647,293	17,792,721	(748,558)	17,044,163
Excess (deficiency) of revenues over expenditures	22,175	463,626	(468,681)	17,120	(17,120)	
Change in net position					270,234	270,234
Fund balances/net position						
Beginning of year	20,388,424	4,244,667	1,074,695	25,707,786	1,824,566	27,532,352
End of year	\$ 20,410,599	\$ 4,708,293	\$ 606,014	\$ 25,724,906	\$ 2,077,680	\$ 27,802,586
Change in total fund balance of governmental funds						\$ 17,120
Amounts reported for governmental activities in statement of activities are different because:						
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset:						
Capital additions						562,820
Loss on retirement						(19,603)
Depreciation expense						(361,278)
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 the governmental funds						(8,381)
Some assessments will not be remitted to the District for several months after fiscal year-end; they are not considered as "available" revenues in governmental funds						79,556
Change in net position of statement of activities						\$ 270,234

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

Houston Downtown Management District Notes to Basic Financial Statements

Note 1: DESCRIPTION OF ORGANIZATION

Houston Downtown Management District (the District), is a municipal management district created under Chapter 375 of the Local Government Code and is currently codified in Chapter 3801 of the Texas Special Districts Code. The District's boundaries include all of the 1,178 acres that lie primarily within the freeway ring around the City of Houston's central business district. The District is governed by a 30-member Board of Directors, representing property owners, managers and tenants in downtown.

The District's main areas of operation are geared towards ensuring that downtown always feels safe and comfortable; public realm is charming, inviting, beautiful and celebrates life of the city; accessible to region and easy to get around; vibrant, sustainable mixed-use place; Downtown's vision and offering understood by all; District governance and service known for excellence; capital projects, and operating the Greenlink transit program. All programs are provided for under a five-year service plan (2016 - 2020) for downtown revitalization.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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 in 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 nonexchange revenues and are usually reported in governmental and internal service funds. Business 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 District does not have any business-type activities.

Under the government-wide financial statements, net position is classified into three components as follows:

Invested in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any bonds, notes, or other borrowings.

Restricted – This component of net position consists of constraints on use placed on net position 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.

Houston Downtown Management District Notes to Basic Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets”.

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 District 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

In government, the basic accounting and reporting entity is a “fund.” A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording financial resources together with all related liabilities, obligations, reserves and equities which are segregated for carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District’s funds include:

Service Plan Operations

The Service Plan Operations fund was established to account for an annual assessment of up to 10.4 cents per \$100 valuation of taxable real property according to the 2015 tax roll of the Harris County Appraisal District, as supplemented. These funds are to be used for operating expenses including public safety, homelessness initiatives, cleanliness, maintenance, landscaping services, urban planning, economic and business development, marketing and communications necessary to build a constituency of support for a thriving, economical and vital downtown. It accounts for all activities except those required to be accounted for in other funds.

Capital Projects

The Capital Projects fund was established to account for an assessment set annually not to exceed 1.35 cents per \$100 valuation of taxable real property according to the 2015 tax roll of the Harris County Appraisal District, as supplemented. These funds are to be used for major capital improvements to revitalize downtown including lighting, parks, streetscape enhancements, wayfinding signage, and retail and catalytic project grants.

Houston Downtown Management District Notes to Basic Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Greenlink

The Greenlink fund was established to create a downtown circulator transit service. These funds are to be used to operate the clean energy transit service, free of charge, which links various downtown activities and destinations. The Greenlink also promotes increased transit usage in general by the downtown community and provides an alternative to the use of personal vehicles for short trips within downtown.

Fund Balance

The difference between fund assets and liabilities is “Net Position” on government-wide financial statements and “Fund Balance” on governmental funds financial statements. The District follows Governmental Accounting Standards Board Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government’s net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

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 District 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 because they are not in a spendable form (not expected to be converted to cash) or are legally required to be maintained intact.

Restricted – amounts where legally enforceable constraints are imposed by an external party such as a creditor, grantor, contributor, or regulations of other governments or constraints imposed by law through contracted provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the Board of Directors, the District’s highest level of decision making authority.

Assigned – amounts where constraints are imposed on the use of resources through the intent of the District for specific purposes but are neither restricted nor committed.

Unassigned – the residual amount of the general fund balance more than amounts that are nonspendable or that are restricted, committed, or assigned to specific purposes within the general fund.

Houston Downtown Management District Notes to Basic Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, the District reserves or designates all or portions of fund balance in the various governmental fund financial statements. The unassigned fund balances for governmental funds represent the amount available for budgeting future operations. The restricted fund balances for governmental funds represent the amount that has been legally identified for specific purposes. The committed fund balances for governmental funds represent balances that have been authorized through formal action by the Board of Directors but not yet spent.

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for a specific purpose may be designated as assigned by authorization of the Board of Directors.

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment functions.

Special Assessment

The District's assessment was levied on November 11, 2015 for a five-year period based on assessed values as of January 1, 2015 for all real property located in the District. These assessments are due in five equal annual installments by January 31 of the years 2016 through 2020 and are delinquent if not paid before February 1 of that year. The District's Board of Directors determines the rate for each year and the combined Service Plan Operations and Capital Projects rate for 2019 was 11.75 cents per \$100 valuation. The District contracts with a tax assessor/collector for assessment collection services.

Budget and Budgetary Accounting

The District's Board of Directors adopts an annual budget for the Service Plan Operations fund, Capital Projects fund and the Greenlink fund. The budget for the Service Plan Operations fund and the Capital Projects fund is based on projected assessments. The budget for the Greenlink fund is based on program sponsorship revenue. Additionally, after adoption, increases and decreases in the budget may be made only upon Board of Directors' approval. A review of revenues and expenditures compared to budget is provided monthly to the Board of Directors with the monthly financial statements.

In addition to approval of the annual budget, the District's Board of Directors must authorize an expenditure more than \$10,000 in advance of the purchase or contract for services. A copy of the check register is provided monthly to the Board of Directors.

Houston Downtown Management District Notes to Basic Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash consists of demand and time deposits, and funds maintained in public funds investment pools. The District considers all deposits with a maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of supplies held for the use of the District and are carried at cost using the first-in, first-out method. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Interfund receivable and payable

Interfund receivable and payable arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The amounts recorded as interfund receivable and payable are considered temporary loans that will be repaid in less than one year. At December 31, 2019, the Service Plan Operations fund owed the Capital Projects fund \$73,942. These receivables and payables are eliminated in the statement of net position.

Capital Assets

In the government-wide financial statements, capital assets are recorded at cost. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from 3 to 10 years. In the fund financial statements, fixed assets used in the governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition.

Unearned Revenue

Unearned sponsorship payments are amounts received in advance for the operation of the Greenlink Circular Program.

Deferred Inflows of Resources

Deferred inflows of resources are a liability of the District and represent billing of special assessments not available within the current period or soon enough thereafter to pay liabilities of the current period. These billings are deferred and recognized as an inflow of resources in the period the amount becomes available.

Houston Downtown Management District Notes to Basic Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

Government Accounting Standards Board Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Effective for the District's calendar year 2022, impact of this standard will be evaluated by management upon adoption.

Federal Grants

Federal grants and assistance awards made based on entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Federal Income Tax

The District 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 District is a publicly-supported organization and is not a private foundation. Under the provisions of Internal Revenue Procedure 95-48, the District is not required to file public information returns on Form 990.

Use of Estimates

The preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Houston Downtown Management District Notes to Basic Financial Statements

Note 3: DEPOSITS AND INVESTMENTS

Under the Texas Local Government Investment Pool (TexPool) Participation Agreement, administrative, and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Fund Investment Act. Audited financial statements of the pool are available at First Public, 12008 Research Blvd. Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller Office. Due to its short-term, highly liquid nature, TexPool investments have been reported as cash equivalents.

As of December 31, 2019, the District held \$10,760,487 in the TexPool Prime fund. The District's investment in the TexPool Prime fund is rated AAA by Standard & Poor's and maintains a weighted average maturity of 60 days or less. The District limits its exposure to interest rate risk by investing in securities that assure safety of public funds, maintain liquidity and achieve the highest rate of return. The TexPool Prime fund invests in a combination of commercial paper, repurchase agreements, variable rate notes, and government securities.

The Board of Directors has adopted a written investment policy regarding the investment of its funds pursuant to Chapter 2256 of the Texas Government Code and Chapter 49 of the Texas Water Code, effective as of December 11, 2014. The investments of the District follow the Board of Directors' investment policy. Such investments may include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) TexPool local government investment pools; and (4) various other items that comply with the Public Funds Investment Act and the District's Investment Policy.

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires pledging of collateral for all bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits and the District has entered into a Collateral Pledge Agreement with J. P. Morgan Chase to provide this service. At December 31, 2019, the carrying amount of the District's deposit totaled \$1,397,852 and the bank balances totaled \$2,040,120. The District's funds were fully insured under FDIC limits or collateral at December 31, 2019.

Houston Downtown Management District Notes to Basic Financial Statements

Note 4: ASSESSMENTS DUE FROM TAX COLLECTOR

Assessments due from tax collector as of December 31, 2019 are summarized as follows:

	Service Plan Operations	Capital Projects	Total
Assessment due from tax collector	\$ 13,273,713	\$ 1,723,030	\$ 14,996,743
Less: allowance for delinquent accounts	-	-	-
	<u>\$ 13,273,713</u>	<u>\$ 1,723,030</u>	<u>\$ 14,996,743</u>

The District reviews its allowance annually and has determined that no allowance was necessary as of December 31, 2019.

Note 5: CAPITAL ASSETS

A summary of changes in capital assets during 2019 is as follows:

	Balance at January 1, 2019	Additions	Retirements	Balance at December 31, 2019
Banners and banner arms	\$ 476,982	\$ -	\$ -	\$ 476,982
Computer software	5,249	-	(5,249)	-
Forklift	5,500	-	-	5,500
Golf carts - street team	56,508	-	-	56,508
Holiday decorations	224,576	-	-	224,576
Operations center 1119 Milam build-out	124,629	-	(124,629)	-
Power lift and generators	75,670	-	(75,670)	-
Street sweeper	9,995	-	-	9,995
Auto Scrubber	-	33,089	-	33,089
Safety guide PDA & printers	22,592	-	(22,592)	-
Emergency surveillance equipment	10,000	-	(10,000)	-
Trolley map stands	20,775	-	-	20,775
Vehicles - Smart Car	18,693	-	-	18,693
Operations center 1313 Main build-out	245,967	398,220	-	644,187
Operations center furnishings	49,167	59,489	-	108,656
Operations generator	-	28,883	-	28,883
Operations IT infrastructure	-	43,139	-	43,139
Greenlink buses	2,999,269	-	-	2,999,269
Total capital assets	4,345,572	562,820	(238,140)	4,670,252
Less: accumulated depreciation	(2,527,737)	(361,278)	218,537	(2,670,478)
	<u>\$ 1,817,835</u>	<u>\$ 201,542</u>	<u>\$ (19,603)</u>	<u>\$ 1,999,774</u>

All property and equipment purchased by the District is the property of the District until the District is terminated. If the infrastructure is integrated in and used as a part of the City's infrastructure, it may be conveyed to the City of Houston, as is the case with the District's capital projects.

Houston Downtown Management District Notes to Basic Financial Statements

Note 6: LEASE RENTAL INCOME

In 2010, the District entered into a five-year lease agreement with a local restaurant to sell food and beverage from the Market Square Park kiosk. The District amended the agreement to extend the term for an additional five years through September 2020. Lease rental income is calculated based on gross sales (6% of the first \$1,000,000 in gross sales and 7% of gross sales in excess of \$1,000,000). Lease rental income was \$35,124 and utility reimbursements were \$8,703 for the year ended December 31, 2019 and is included in Project Revenue in the accompanying financial statements.

Note 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, errors and omissions, personal injuries, and natural disasters. The risk of loss is covered by the Texas Municipal League Intergovernmental Risk Pool. In addition, a portion of the unrestricted fund balance in the amount of \$800,000 has been designated as assigned for catastrophe. There have been no significant reductions in insurance coverage and no settlements.

Note 8: RELATED PARTY TRANSACTIONS

The District has an administrative contract with Central Houston, Inc., whereby Central Houston, Inc. provides certain administrative and management services to the District. The District and Central Houston, Inc. share executive management, office space, and administrative support. Central Houston, Inc. provided staffing services to the District in the amount of \$2,748,878 in 2019. As of December 31, 2019, the District had a due to affiliate of \$477,417.

In addition, the District paid \$507,926 in 2019 to Central Houston Civic Improvement, Inc. mainly for its business development program and NHHIP Civic Opportunities. Such amounts are included in expenses in the accompanying financial statements.

Note 9: COMMITMENTS

Finger-FSC Crawford, Ltd.

In February of 2013, the District entered into an economic development agreement with Finger-FSC Crawford, Ltd. to provide a grant equal to 75% of the incremental District assessment generated by the project for a term of fifteen years from the date of completion of the project and its inclusion on the District's tax assessment roll. The project is for development of approximately 397 residential units and 10,000 square feet of retail on blocks 50 and 51 in the District. In addition, the City of Houston provided a Chapter 380 grant to the owner of the project in the amount that the owner would otherwise be required to pay the City for abandoning the right-of-way of the 1500 block of Prairie Street. The residential property was completed in 2016. The second payment was made to Finger-FSC Crawford, Ltd. in the amount of \$44,552 in 2019.

Houston Downtown Management District Notes to Basic Financial Statements

Note 9: COMMITMENTS (Continued)

Downtown Living Initiative

The District, in conjunction with the City of Houston and the Downtown Redevelopment Authority (DRA), created a program in 2012 called the Downtown Living Initiative (DLI), which is designed to incentivize residential development in downtown. Developers are eligible to receive a rebate equal to 75% of the incremental District assessment and City of Houston property taxes generated by the project upon completion for a fifteen-year period up to a maximum of \$15,000 per unit. There was an overall cap of units able to participate in this program of 5,000 units. The application deadline for the DLI program was June 30, 2016 and the program is now closed.

The District has executed DLI agreements with fifteen developers totaling 4,600 units. Projects opened as of the end of 2019 include: SkyHouse Houston, SkyHouse Main, Block 334, Market Square Tower, the Star, Aris Market Square, Eighteen25, Catalyst, 1414 Texas, 1711 Caroline, and the Marlowe. Estimated completion dates for the additional development projects range from the first quarter of 2020 through the end of 2023. The residential projects are geographically dispersed throughout several areas of the District, including the Ballpark District, the Historic District and the southern portion of downtown.

Developers are required to meet certain deadlines and be in compliance with design guidelines in order to benefit from the incentive program, although extensions may be granted if approved by the Board. The District's liability for DLI assessment rebates to developers is contingent upon renewal of subsequent service plans beyond 2020.

Catalytic Retail Projects

The District has a program to support catalytic retail projects. During 2017, a \$140,000 grant was awarded to Bravery Chef Hall which activates the street level of the residential project Aris Market Square and features a food hall concept for rising-star chefs. In 2019, Bravery opened, and the first installment of the grant was paid in the amount of \$70,000. The remaining portion will be paid in equal installments over the next two years.

Total payments made by the District during 2019 under its economic development, catalytic and DLI grants was \$619,000. Assuming the service plan is renewed in its current form, the District's commitment for future years is as follows:

For the years ending December 31,	
2020	\$ 705,983
2021	757,207
2022	743,873
2023	972,287
2024	1,001,456
Thereafter	10,727,418
	\$14,908,224

Houston Downtown Management District Notes to Basic Financial Statements

Note 9: COMMITMENTS (Continued)

Service Agreements

The District entered into an interlocal agreement with METRO for operation of the Greenlink transit service. The agreement initially covered a four-year term that ended in June of 2016 but since then has been extended for another four years, through June of 2020. Either party may terminate the agreement at any time with 270 days written notice. The District does not intend to renew this agreement when it ends in June 2020. The 2019 expenditure by the District for this service is \$1,640,643.

The District entered into an agreement with Block by Block to provide personnel, equipment and supplies for public safety, cleaning and maintenance services for the District beginning on January 1, 2016. The 2019 expenditure by the District under the existing services agreement is \$3,222,770.

The District has entered into several other smaller service agreements for cleaning, landscaping, engineering, design and various consultants to provide professional services.

Note 10: OPERATING LEASES

The District leases its operations center and warehouse. The warehouse lease expires in December 2020 and the operations center expires in March 2034. Lease rental expense amounted to \$347,765 for the year ended December 31, 2019.

The minimum future lease payments under these lease agreements are as follows:

For the years ending December 31,

2020	\$ 227,439
2021	238,021
2022	239,952
2023	244,962
2024	251,064
2025-2029	1,352,590
2030-2034	1,261,480
	<u>\$ 3,815,508</u>

REQUIRED SUPPLEMENTARY INFORMATION

Houston Downtown Management District Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual (Unaudited)

For the year ended December 31, 2019

	Service Plan Operations	Capital Projects	Greenlink	Total	Budget	Variance Favorable (unfavorable)
Revenues						
Assessments, net	\$ 13,933,300	\$ 1,794,318	\$ -	\$ 15,727,618	\$ 15,388,035	\$ 339,583
Project revenue	622,844	-	575,000	1,197,844	1,740,300	(542,456)
Interest	293,277	67,046	28,612	388,935	364,000	24,935
Total revenues	14,849,421	1,861,364	603,612	17,314,397	17,492,335	(177,938)
Expenses						
Downtown feels safe and comfortable at all times						
Collaboration to maintain low crime rate	2,294,797	-	-	2,294,797	2,698,300	403,503
Reduced presence of homeless and street persons	942,110	-	-	942,110	1,138,000	195,890
Downtown sidewalks are comfortably lighted	311,720	-	-	311,720	325,500	13,780
Downtown clean and well-kept appearance	3,656,326	-	-	3,656,326	3,562,700	(93,626)
Remove signs of disorder in downtown	36,654	-	-	36,654	30,000	(6,654)
Prepare for emergencies	108,757	-	-	108,757	110,000	1,243
	7,350,364	-	-	7,350,364	7,864,500	514,136
Public realm is charming, inviting, beautiful and celebrates the life of the city						
Key pedestrian streets are inviting	459,199	-	-	459,199	429,500	(29,699)
Public spaces managed, programmed and delightful	1,075,638	-	-	1,075,638	1,067,900	(7,738)
Place of civic celebration	949,224	-	-	949,224	1,021,500	72,276
	2,484,061	-	-	2,484,061	2,518,900	34,839
Accessible to region and easy to get around						
Effective transit access more places, more hours	11,084	-	-	11,084	11,000	(84)
Convenient circulation without personal vehicle	80,346	-	-	80,346	73,500	(6,846)
Easy to find way around	111,212	-	-	111,212	123,000	11,788
Connect neighbors and districts inside/outside downtown	38,042	-	-	38,042	33,500	(4,542)
Convenient, understandable and managed parking	16,214	-	-	16,214	15,000	(1,214)
	256,898	-	-	256,898	256,000	(898)
Vibrant, sustainable mixed-use place						
Best place to work in region	250,791	-	-	250,791	283,350	32,559
Exciting neighborhoods to live in	613,283	-	-	613,283	547,500	(65,783)
Competitive shopping place	50,319	-	-	50,319	1,048,000	997,681
Remarkable destination for visitors	50,939	-	-	50,939	67,000	16,061
	965,332	-	-	965,332	1,945,850	980,518
Downtown's vision and offering understood by all						
Market to region	1,150,100	-	-	1,150,100	1,146,480	(3,620)
Promote downtown's ease of use	23,896	-	-	23,896	25,000	1,104
Vision/development framework understood by all	603,753	-	-	603,753	1,219,000	615,247
Tools to assist continued redevelopment	88,554	-	-	88,554	84,000	(4,554)
Develop and maintain information to support downtown	32,975	-	-	32,975	37,000	4,025
	1,899,278	-	-	1,899,278	2,511,480	612,202
District governance and service known for excellence						
Engage stakeholders in decision making	636,973	-	-	636,973	784,973	148,000
Communications to owners, tenants and others	17,277	-	-	17,277	26,500	9,223
Preservation of districts' capital assets	113,456	-	-	113,456	153,979	40,523
	767,706	-	-	767,706	965,452	197,746
Capital improvement and expenditures						
Downtown feels safe and comfortable	-	687,013	-	687,013	1,153,000	465,987
Public realm is charming, inviting, & beautiful	-	21,509	-	21,509	75,000	53,491
Accessible to region and easy to get around	-	344,328	-	344,328	1,582,000	1,237,672
Vibrant, sustainable mixed-use place	-	63,123	-	63,123	134,000	70,877
Capital replacement expenditure	-	307,319	-	307,319	368,000	60,681
	-	1,423,292	-	1,423,292	3,312,000	1,888,708

See independent auditors' report and notes to required supplementary information.

Houston Downtown Management District Schedule of Revenues, Expenditures and Changes in Funds Balances – Budget to Actual (Unaudited) (Continued)

For the year ended December 31, 2019

	Service Plan Operations	Capital Projects	Greenlink	Total	Budget	Variance Favorable (unfavorable)
Accessible to region and easy to get around						
Vehicle operator	\$ -	\$ -	\$ 1,531,643	\$ 1,531,643	\$ 1,578,000	\$ 46,357
Fuel	-	-	109,000	109,000	105,000	(4,000)
Marketing	-	-	1,380	1,380	10,000	8,620
Administrative	-	-	255,209	255,209	260,936	5,727
	-	-	1,897,232	1,897,232	1,953,936	56,704
Total expenses	13,723,639	1,423,292	1,897,232	17,044,163	21,328,118	4,283,955
Change in net position	\$ 1,125,782	\$ 438,072	\$ (1,293,620)	\$ 270,234	\$ (3,835,783)	\$ 4,106,017

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures:

Sources/inflows of resources	\$ 17,314,397
Differences - budget to GAAP:	
The fund balance at the beginning of the year is not a budgetary resource but is a current year revenue for financial reporting purposes	(79,556)
Interfund transfer	575,000
Total revenue as reported on the statement of revenues, expenditures and changes in fund balances	\$ 17,809,841
Uses/outflows of resources	\$ 17,044,163
Differences - budget to GAAP:	
Expenditures budgeted on accrual basis rather than modified accrual basis	(8,381)
Interfund transfer	575,000
Capital outlay	562,820
Loss on retirement	(19,603)
Depreciation expense	(361,278)
Total expenditures' as reported on the statement of revenues, expenditures and changes in fund balances	\$ 17,792,721

See independent auditors' report and notes to required supplementary information.

**Houston Downtown Management District
Notes to Required Supplementary Information (Unaudited)
For the year ended December 31, 2019**

Annual budgets are adopted on a full accrual basis. Reconciliation of budgetary basis to modified accrual is included with the budgetary comparison schedule. The legal level of control is at the fund level.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to December 31, the District's Board will review and approve the operating and capital improvement budgets for the succeeding year. Assessment rates for operations and capital improvements are set in the fourth quarter prior to the first year of a new five-year service plan and prior to each succeeding year of a service plan if changes to the initial rates are to be made.
- b. Budget preparation also involves the following before adoption:
 1. Review of needs and priorities within the District.
 2. Review of draft budget by Board committees.
 3. Review of draft budget by the District's Board.
 4. Receipt of property owner input through Town Hall Meeting or another format.

Prior to December 31, the budget is legally enacted through passage of a Board resolution by the favorable vote of a majority of the members of the Board. No amendments were made to the budget during the year.