

APPROVED ON 11/15/2021



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
REGULAR MEETING MINUTES**

**One Civic Center
Community Development 1 Conf. Rm.
7447 E. Indian School Rd., Ste. 105
Scottsdale, Arizona 85251**

Monday, August 30, 2021

PRESENT: Kathy Littlefield, Chair
Tom Durham, Councilmember
Solange Whitehead, Councilwoman

STAFF: Sharron Walker, City Auditor
Paul Christiansen, Senior Auditor
Brad Hubert, Senior Auditor
Shelby Trimaloff, Executive Asst. to City Auditor
Brent Stockwell, Assistant City Manager
Michael Clack, Development Services Director/Chief Development Officer
Brad Carr, Planning and Development Area Manager
Rob Millar, Economic Development Director

CALL TO ORDER

The meeting was called to order at 4:04 p.m. A formal roll call confirmed the presence of all Committee Members as noted above.

PUBLIC COMMENT

No written comments were submitted, and no members of the public had requested to speak.

REGULAR AGENDA

1. Approval of Minutes, Regular Meeting, June 21, 2021

Chair Littlefield called for changes to/approval of the minutes.

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE JUNE 21, 2021 REGULAR MEETING AS PRESENTED. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

2. Discussion and possible direction to staff regarding Building Advisory Board of Appeals Sunset Review

Paul Christiansen, Senior Auditor, stated that the Board's purpose is to hear and decide appeals of orders, decisions or determinations made by the building official related to building code interpretations. The requested action is to evaluate whether the Board is serving its intended purpose, whether the purpose should be maintained or modified, and whether the purpose has been served or is no longer required. The Audit Committee is then to recommend to City Council whether to continue or terminate the Board. He noted that the Board's staff representative Michael Clack was available.

Councilmember Durham noted there was only one meeting during 2020 and one in 2019. Michael Clack, Development Services Director, clarified that the Board does not meet very often. It exists to act upon any appeals or interpretations of decisions by the building official. Matters rarely reach this point, as parties are typically able to work out interpretations or alternate methods of construction for compliance with the code. However, the main purpose the Board currently is serving is to review proposed building code revisions and make a recommendation to the City Council about their adoption.

Chair Littlefield asked about the volume of changes to the codes on an annual basis. Mr. Clack stated that the building codes, which are developed on a national basis and voted on by building officials throughout the country, are published every three years. So they are currently considering the 2021 edition of the codes. The City skipped the 2018 edition updates and is currently working from the 2015 edition of the codes. There are quite a few changes in the 2021 code edition that is being reviewed, including language clarifications and other more substantive changes.

Mr. Clack explained that he participated in a meeting this morning with a representative from the National Homebuilders Association regarding some proposed amendments for the City of Scottsdale. He wants some time to evaluate the requests as they would be a deviation from the national code but could be appropriate. Chair Littlefield asked for an example of such deviation. Mr. Clack provided the example of insulation requirements in homes. The City is located in Area 2 and has insulation requirements in concealed spaces of R-13 in the floor joists. At the national level, they want more stringent requirements, which makes sense up north.

In response to a question from Councilwoman Whitehead, Mr. Clack confirmed that the International Green Construction Building Code is also considered as part of the code update process. Others include the International Residential Code, Energy Code, Mechanical Code, Plumbing Code, Electrical Code and the Fire Code.

COUNCILMEMBER DURHAM MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE BUILDING ADVISORY BOARD OF APPEALS. COUNCILWOMAN WHITEHEAD SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

3. Discussion and possible direction to staff regarding Board of Adjustment Sunset Review

Mr. Christiansen stated that the Board's purpose is to hear all applications for:

- Variances from zoning ordinance provisions
- Appeals of the Zoning Administrator's ordinance interpretations or other decisions
- Requests for disability accommodation made pursuant to the zoning ordinances
- Appeals of the General Manager's interpretations and decisions under the Land Divisions Ordinance

While Arizona Revised Statutes require the City Council to establish by ordinance a Board of Adjustment, it also allows the ordinance to specify the legislative body as that board. The Audit Committee is to evaluate whether the Board being reviewed is serving its intended purpose, whether the purpose should be maintained or modified, and whether the purpose has been served or is no longer required. Specifically, the Audit Committee is to recommend to the City Council whether to continue or terminate the Board. Mr. Christiansen noted that Brad Carr, staff liaison, was available for the Board.

Councilwoman Whitehead noted that the Board's processes are appreciated by citizens and the Board performs absolutely necessary services.

COUNCILWOMAN WHITEHEAD MOVED TO RECOMMEND TO THE CITY COUNCIL TO CONTINUE THE BOARD OF ADJUSTMENT. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

4. Discussion and possible direction to staff regarding Audit No. 2114, Economic Development Programs

Brad Hubert, Senior Auditor, stated that the Economic Development department is responsible for working to attract new businesses to the City and to retain and expand existing businesses. Over the past year, the department was also responsible for managing \$3.5 million in COVID relief funds designated by City Council for business assistance programs.

The Arizona Constitution's gift clause restrictions and the City Charter's anti-subsidy clause limit the department in the type of direct assistance it can provide to businesses. Both clauses require a specified public benefit and value received in return.

The audit noted that the department spent approximately \$774,000, or 22 percent of the \$3.5 million designated for small business assistance from the City's pandemic relief funds. Among the efforts were three programs:

First, the department contracted with the Scottsdale Industrial Development Authority to administer a grant program to provide reimbursement of up to \$5,000 each to local businesses for their documented COVID-related expenses, such as masks and gloves, cleaning supplies and protective barriers. Eligibility was limited to Scottsdale businesses that had been in business for three years or more and had fewer than 100 employees. Applications were accepted for 19 days, from August 21 to September 8, 2020. The department paid the Industrial Development Authority a \$75,000 administrative fee to manage the program, which ultimately provided \$625,000 in grants to 194 local businesses.

For the second program, the department paid \$74,000 of the COVID-relief funding to contract with Local First Arizona, a nonprofit organization, to provide free small business training for Scottsdale businesses. For the various training opportunities, 109 businesses participated.

The department also established a Small Business Assistance Center to provide local businesses with information regarding federal, state and other government pandemic-related funding programs. Library and Human Services employees on loan from their departments staffed the Center, receiving calls from 413 businesses.

Despite the limited number of participants and the remaining \$2.7 million in business assistance funds, the department did not reopen the reimbursement grant program or adjust the program to allow more businesses to qualify. When asked by Council's Economic Development Subcommittee about what additional programs were planned, the department director stated that they were limited in what they could do because of the anti-subsidy clause in the City Charter. As of June 10th, the most recent Subcommittee meeting, no new programs had been proposed and the previously approved programs had not been reopened or extended.

During this period of attempting to contact Scottsdale businesses, the department faced some challenges. Because Economic Development has only about 2,100 records in its customer relationship management (CRM) system, they obtained permission from the City Manager to receive contact information from the City's Tax and License database, which included more than 15,000 City businesses. Using this information, the department sent postcards and emails to promote the programs, however, many of the business emails were not valid and less than 1,300 messages were opened. The department also promoted the programs via social media and received coverage on a local television station and in various newsletters. Had the department been following its own policies to identify new businesses on a regular basis, it would have had more complete information available to contact businesses in Scottsdale.

The audit also noted that business attraction and retention activities can be evaluated more effectively. The department is not meeting its goal of following up with potential

business attraction leads every 30 days and has not recorded contact with some open leads in more than five years. The department does not always achieve its goal of visiting 100 existing businesses each year, and the CRM system does not reflect any visits to 34 of the City's largest 100 employers over the past eight years. Further, marketing campaigns, social media and the website jobs board are not evaluated for effectiveness and to identify potential improvements. The International Economic Development Council (IEDC) states that business retention programs assist small businesses to prevent their relocation and to help them survive in difficult times.

The third area noted that performance measures and metrics could be used better to evaluate outcomes. Supporting documentation was not available for the initially estimated job claims data, yet the department's reported economic impacts of new jobs and companies relies on this information. Additionally, the department does not ask companies later for their actual realized jobs data to compare to the initial numbers and projected impacts. The IEDC recommends tracking the number of jobs and comparing actual and promised jobs per project.

In isolation, the reported website performance measure may overstate the website's effectiveness, and additional performance measures and metrics, with leading and lagging indicators, may provide a more complete picture of the department's operations and activities.

The audit recommended the department develop further business assistance programs using the remaining funds designated by City Council or report to the Council on why further programs are not necessary. It also recommended the department maintain a complete database of City businesses to allow for timely communication. Further, the audit recommended the department follow up with business attraction leads in a timely fashion, develop criteria and a multi-year schedule for visiting existing businesses for business retention purposes, and create a comprehensive marketing and social media program. Finally, the audit recommended the department accurately track and report data for performance measures and evaluate the mix of reported metrics. The department agreed with the recommendations and stated that they plan to implement the suggested improvements by June 30th.

Rob Millar, Economic Development Director, stated he agreed with the recommendations and thanked the audit team. Councilwoman Whitehead said she would like to see creative ways to spend the available funding in the most impactful way for small businesses.

Councilmember Durham asked what will happen to any unused funds and whether the City has to return it. Mr. Millar stated that the City does not have to return the money, however there are challenges with the CARES Act funding with respect to the City's charter amendment. The department is preparing a new small business entrepreneur program that will be \$150,000 over the next two years. Brent Stockwell, Assistant City Manager, added that the CARES Act money came to the City through the State. The remaining funds are still available for use and do not have to be returned to the federal government. The monies from the State were used for public safety, so this was now the City's money. If this had been money directly from the federal government, there could have been a stronger legal argument that we could have passed those through as direct purpose funds. We did the first tranche through the IDA, and then the Local First program in December/January as the new administration was coming on board. We were moving

toward a second tranche of the funding and the City Manager told us to put that on hold. The funds are still available if we could find an allowable use for them.

Councilmember Durham asked how the Department was able to distinguish between grants the City was able to make consistent with the gift clause, and grants they were unable to make. Mr. Stockwell stated that the City Attorney's Office agreed that if the business was being reimbursed for hard costs for safety and health improvements, this would be acceptable.

Councilwoman Whitehead said that reducing the required number of years in business was a good decision in order to increase participation. She also commented that giving the money to small businesses that may ultimately fail should be less of a concern than making the money work for the community. Mr. Stockwell responded that the ultimate concern was not knowing how long the pandemic may last and once the money was spent, it was not available to spend at another time.

Ms. Walker and Mr. Hubert clarified that while the department had discussed reducing the required number of years a business must be in operation, this change was never implemented. The program was not reopened to businesses in operation less than three years or held open for a longer period than 19 days.

Mr. Millar and Mr. Stockwell commented that the City has the anti-subsidy charter provision and so tends to be more conservative. Mr. Stockwell added that the exception to allow assistance to those in need has always been interpreted to mean individuals, not businesses, and clarification of that may require returning to the voters.

In response to Councilmember Whitehead's question about whether a Council or executive staff discussion could accomplish it, Mr. Stockwell suggested asking the City Attorney. Chair Littlefield commented that Charter amendments go to the citizenry for approval as that is to protect them from changes.

Mr. Christiansen commented that the City had also provided grants to arts and culture programs, which are not typically individuals but groups and organizations. Mr. Stockwell agreed, noting that was a separate program. For the larger organizations, they similarly tied it to reimbursements for improvements made for public health and safety.

Chair Littlefield commented that, related to another point in the audit, it was disturbing to know that the website is not up to date. The website is the first look that new businesses have when they think about moving. It needs to be vibrant with current information in order to be attractive to new entrepreneurs who are looking to expand or move. She commented that it was not up to Scottsdale standards. Potential businesses do not want to see 3-year old information. Chair Littlefield also noted that the department should have all business addresses, locations and types in Scottsdale as that information is basic to the department's purpose. In addition, there are no verifiable actions that resulted in economic growth. The department should have information that is verifiable by the auditors. Further, Chair Littlefield acknowledged that having \$3.5 million available while City businesses were going under must have been frustrating for them as it was for her. That is a problem that should be looked at by the department, the City Manager, the City Attorney, and possibly the Audit Committee or Auditor. Her list includes the department having information on all businesses in Scottsdale as they are the department's clients and having a standout, sparkly website that will bring businesses in.

Councilwoman Whitehead asked if the department has a means of targeting complementary business – if it focuses its resources toward businesses the City would want, who might be interested. Mr. Millar responded that the department has target industries, though it would only not accept businesses that are not a good fit for the City. While there is not a single resource for businesses thinking about moving, the department works with a consultant and partners with organizations to find out where the opportunities lie. The department has not been fully staffed in almost three years. There are some additional databases available through the partner organizations.

Mr. Millar also acknowledged that there are frustrations in obtaining all the business data, however, there is a City regulation that prevents the department from obtaining the City's registration data because it contains protected information. Mr. Millar noted that he met with City Treasurer Sonia Andrews who said when she was in Peoria they had a way of sharing the non-sensitive information and they hope to be able to implement something similar here. Mr. Millar also explained that since July 1 they have a new more functional CRM system that they started implementing before the pandemic. Also, the department's website is going to be updated, though it is in line behind two others. And they recently completed a brand refresh in April, which will be shared with the Economic Development Subcommittee next week. That new brand will be implemented throughout the new website.

Chair Littlefield asked if the department works with other organizations, such as Experience Scottsdale, Chamber of Commerce, Better Business Bureau, Scottsdale Rising and Charros, who may be able to assist. Mr. Millar confirmed that they do work with these organizations, which helps leverage the department's limited staff. They also work with the Arizona Association of Economic Development, which is the statewide organization. We also go to the brokerage community and want them to see the value add that we lend so they will call us.

COUNCILWOMAN WHITEHEAD MOVED TO ACCEPT AUDIT REPORT NO. 2114, ECONOMIC DEVELOPMENT PROGRAMS. COUNCILMEMBER DURHAM SECONDED THE MOTION, WHICH CARRIED 3-0 WITH CHAIR LITTLEFIELD, COUNCILMEMBER DURHAM, AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE.

5. City Auditor updates, including status of FY 2021/22 Audit Plan

Ms. Walker reported that they are progressing as expected for this time of year. A September meeting will not be needed, and she is anticipating the next meeting will be October 18.

Ms. Walker commented that she is addressing the next agenda item at the same time. For the October meeting agenda, both the school district project and the golf course lease audits have timing challenges. So if those are going to be delayed, the next meeting will move into November. That meeting will either be November 8th or 15th, depending on when the financial audit report is available. We are trying to get the financial audit to the City Council in November rather than delaying it all the way until December. So that causes the timing of the November to be in question. As soon as we know which of those two dates will work, we will update you.

Ms. Walker commented that this is the information she had for both item 5 and item 6, and these update items do not require any kind of motion.

6. Discussion and Possible Direction to Staff Regarding Potential Agenda Items for Next Audit Committee Meeting

Discussion combined with agenda item 5.

Adjournment

With no further business to discuss, being duly moved by Councilwoman Whitehead and seconded by Councilmember Durham, the meeting adjourned at 5:05 p.m.

SUBMITTED BY:

eScribers, LLC