

AUDIT/FINANCE COMMITTEE
November 5, 2019
MEETING MINUTES

After determining that a quorum was present, the Audit/Finance Committee of the City of Denton, Texas, met for a regular meeting on November 5, 2019, at 10:30 a.m., in the City Hall Conference Room, at City Hall, 215 E. McKinney Street, Denton, Texas.

PRESENT:

Mayor Chris Watts, Council Member John Ryan, and Council Member Paul Meltzer.

STAFF PRESENT:

Antonio Puente, Chief Financial Officer
Finance

Umesh Dalal, City Auditor

Mack Reinwand, Deputy City Attorney

David Gaines, Director of Finance

Jessica Rogers, Director of Economic Development

Nick Vincent, Assistant Director of

Nancy Towle, Treasury Manager

Madison Rorschach, Staff Auditor

Neeraj Sama, Staff Auditor

Theresa Jaworski, Recording Secretary

OTHERS PRESENT:

Erica Pangburn, President of Denton Chamber of Commerce

Marty Rivers, Chairman of the Economic Development Board

OPEN MEETING:

Council Member and Committee Chair, John Ryan, brought the meeting to order at 10:30 a.m.

1. ITEMS FOR CONSIDERATION:

A. Consider approval of the Audit/Finance Committee minutes of September 17, 2019.

Council Member Paul Meltzer made a motion to approve the September 17, 2019, Audit/Finance Meeting Minutes. Mayor Chris Watts seconded the motion. Motion carried unanimously.

B. Receive a report, hold a discussion, and give staff direction regarding an internal audit of Economic Development - Recruitment and Expansion.

Umesh Dalal, Internal Auditor, presented the audit of the Economic Development Department to the Committee, as scheduled in the 2018-19 Audit Plan. Dalal shared the definition of economic development from the International Economic Development Council as, "a process that influences growth in researching the economy to enhance the economic development of the community". The Economic Development Department offers support and services to businesses in all sectors and of all sizes and has invested \$16.5 million in tax-related incentives since 1999. With a net increase in property and

sales tax revenues in the amount of \$62.5 million and 7,536 created jobs, this plays a very significant role in a city like Denton.

This audit was intended to provide assurance about the adequacy within the City's framework to perform economic development business recruitment and expansion activities, including the recruitment of individual businesses through economic development incentives; and the retention and expansion of individual businesses through economic development incentives and a business visitation program. The most significant audit finding is the lack of clear focus in the current process, limiting the effectiveness of the business expansion and efforts.

Dalal pointed out the seven target industries depicted by the City's tax abatement and incentive policy. Recruitment target industry sectors are not well defined, selected target industry sectors are not supported by analytics-based documentation and generally not aligned with an industry cluster. The current reporting hinders the appraisal of marketing performance. This hinders the appraisal of marketing performance. The suggestion was made to use the Industry Cluster Analysis based on the U.S. Mapping Project's methodology.

Dalal also added that the State of Texas invested substantial resources in developing an automotive corridor from San Angelo to North Texas that the City should take advantage of, as well as the aviation cluster with the University of Texas that is offering an aviation curriculum. These resources are available for economic development efforts. The evaluation is not enough to craft an economic development strategy for the City. Therefore, the recommendation was to get professional help, at the request of Economic Development. City Council has approved that study in this budget.

Dalal explained that the business recruitment activities, primarily performed by the Chamber of Commerce, are without a clear guideline depicted in the City's abatement and incentive policy. Chamber staff reports monthly economic development activities as required but it is difficult to determine if a lead received at the front end results in a site visit and actual recruitment. No connection is made using the available documentation. Because adequate information is not available, evaluation of the effectiveness of the Chamber's contract is not possible. In addition, there does not appear to be a clear marketing and recruitment focus on target industry sectors identified by the City.

The evaluation did not find a clear connection to the Chamber's effort and the target industry. These results may be in part, due to a lack of clear understanding of the target industry sectors. The evaluation found that the City has little to no competitive advantage for some of the targeted industry sectors. Analysis shows that of the current industries, there are no renewable industries in this area, so spending efforts on those industries would not be fruitful. Economic effort depends on the synergies that the market requires to attract business. Denton needs an environment for that business to flourish.

A Committee discussion followed on the Internal Audit Office staff and their experience

in auditing economic development, the standard procedures or best practices that were used in the evaluation findings and conclusions that resulted, the application of the US Cluster mapping program, methodology, with information from DFW Metroplex, Denton County and specifically the City of Denton.

The Committee also discussed the need for a professional study on Economic Development and the audit findings that revealed the need for that initiative, not having a solid economic development strategy prior to the audit, the recommendation to hire an expert, based on the analysis using Best Practices, the advantages in using the cluster mapping, evaluating strengths, critical success factors, leveraging existing resources and recruiting a component industry, starting new cluster and the substantial investment involved, and the need for diversity in economic development, what other cities are doing to succeed in recruiting businesses, the strength of Denton and the strengths of surrounding areas and the possible collaboration for incentivizing with those areas, IEDC and other organizations used for defining and GFOA for accounting incentives, and access to the Chamber staff in the evaluation.

Dalal went over the Incentive Approval Process. This is primarily guided by the City's Tax Abatement and Incentive Policy that identifies economic incentive goals, but does not identify the performance measures for these goals nor does it adequately define what the goals mean. Economic Development has tried to report on the effectiveness of the incentive program in their Annual Incentivized Project Net Revenue Report but not all of the goals outlined in the policy are measured.

The Committee discussed how the conclusions presented were determined in the incentive approval process and advised that the evaluation include a list of specific recommendations to clarify the involvement with City Council, how the Economic Development Partnership Board process should be involved, and the recommendations that are based upon the vantage point from staff with deference to the study Council has approved.

Dalal presented the Business Visitation Program as one where the City staff goes to businesses to retain them or provide services. Findings were the lack of a policy document that defines the goals, performance measures, and evaluation of process or program. There are some performance measures in place but no measure of outputs that would give meaning to the efforts being made by staff. So, business visitation targets and objectives are not well defined and the reporting on business visitation reporting only monitors the program outputs not the outcomes. Internal Audit made 13 recommendations with one to the City Council. Management fully concurred with six recommendations, partially concurred with five, and disagreed with one. They are also waiting for the upcoming study that may change the report. The audit objective was to take the existing procedure and policy to that study.

The Committee discussed the possibility of a more structured, trackable, quantifiable sales process, the Chambers efforts to determine a process to put as many definitions and

measurable deliverables in place with narrative reporting on their efforts, the good working relationship between Economic Development and the Denton Chamber, renewable energy options, and a better job of tracking with follow-up with an updated strategy in recruiting businesses to Denton.

C. Receive a report, hold a discussion, and give staff direction regarding revisions to the City of Denton's Investment Policy.

David Gaines, Director of Finance, stated the City's Investment Policy is a guide in the decision making for investing and managing public funds. Staff brings this policy to the Committee and the City Council annually to be reviewed, as required by the Public Fund Investment Act of Texas. He explained the recent investment activities and the revisions that were the changes which were mostly procedural.

Watts made a motion to recommend the changes to the City's Investment Policy to the City Council with a second by Paul Meltzer. Motion passed unanimously.

D. Receive a report, hold a discussion, and give staff direction regarding revisions to the City of Denton's Debt Service Management Policy.

Gaines explained the Debt Policy as providing guidelines for issuance of debt, the different types of debt the City has with limitations, the reimbursement ordinance process and the relationships with financial advisors and bond counsels, rating agencies relationships, and the revisions in the policy for the Committee's and Council's approval. Gaines updated the Committee on the affordability measures that are laid out each year in the policy.

A discussion followed on the target set for the debt service compared to the net revenues, hybrid liquidity facility, callable commercial paper, and the use of long-term debt.

Watts made a motion to recommend the changes to the Debt Service Management Policy to the City Council with a second by Paul Meltzer. Motion passed unanimously

2. CONCLUDING ITEMS

There were no concluding items to address.

The meeting adjourned at 11:54 a.m.