



CITY AUDITOR'S OFFICE

Economic Development Programs

August 17, 2021

AUDIT REPORT NO. 2114

CITY COUNCIL

Mayor David D. Ortega

Tammy Caputi

Tom Durham

Vice Mayor Betty Janik

Kathy Littlefield

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August 17, 2021

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Economic Development Programs*, which was included on the Council-approved FY 2020/21 Audit Plan as a contingency audit. This audit was conducted to review performance measures and cost-effectiveness of economic development programs.

The audit found that the department spent 22% of its small business assistance pandemic relief funds and can improve its business contact information. Further, business attraction and retention activities can be more effectively evaluated, and performance measures and metrics could be better used to evaluate outcomes.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

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AUDIT HIGHLIGHTS

Economic Development Programs

August 17, 2021

Audit Report No. 2114

WHY WE DID THIS AUDIT

The Economic Development Programs audit was performed to review performance measures and cost-effectiveness of economic development programs. The audit was included as part of the City Council-approved audit plan for fiscal year (FY) 2020/21.

BACKGROUND

The Economic Development department, within the Planning and Economic Development division, is responsible for working to attract new businesses to the City and retain and expand existing businesses. The department was also responsible for managing \$3.5 million in COVID-relief funds designated by City Council for business assistance programs. The department is limited in the type of direct assistance it can provide to businesses due to the Arizona Constitution's "gift" clause and the City Charter's "anti-subsidy" clause. Both require a specified public benefit and value received in return. The department consists of 6 full-time positions, and it spent about \$1.35 million for FY 2020/21. The department updates its strategic plan every five years and identifies goals, target industries and strategies to pursue.

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WHAT WE FOUND

The department spent 22% of its small business assistance pandemic relief funds and can improve its business contact information.

- Out of \$3.5 million, \$625,000 in reimbursement grants was provided to 194 businesses, training classes were attended by 109 businesses and 413 businesses contacted the Small Business Assistance Center, but programs were not continued to assist additional businesses.
- The department does not maintain a complete database of City businesses, hindering its efforts to contact them to offer assistance.

Business attraction and retention activities can be more effectively evaluated.

- The department can follow up timelier with new business leads, strengthen efforts to visit existing businesses, and review the effectiveness of its marketing program.

Performance measures and metrics could be better used to evaluate outcomes.

- Reported performance measures are not supported, and additional performance measures may provide a more complete picture of the department's activities.

WHAT WE RECOMMEND

We recommend the department:

- Develop further business assistance programs making available the additional funds designated by City Council or report to the Council on why further programs are not necessary. Also, maintain a complete business database to allow timely communication.
- Follow up with leads timely, develop criteria and a multi-year schedule for visiting existing businesses, and create a comprehensive marketing and social media program.
- Accurately track and report data for performance measures and evaluate the mix of reported metrics.

MANAGEMENT RESPONSE

The department agreed with the recommendations and plans to implement changes by June 2022.

BACKGROUND

The Economic Development department's mission is to support the City's economic health and vitality by providing services directed at retaining, expanding, and attracting businesses to the City. Specifically, the Economic Development department focuses on:

- Developing and deploying programs, services, and products to assist, retain and expand existing businesses.
- Developing and executing initiatives to attract quality firms and jobs in targeted sectors.
- Conducting outreach and marketing to raise awareness of City assets and enhance the Scottsdale corporate brand.
- Supporting efforts to retain and attract talent (employees).
- Maintaining, developing, and analyzing data sets to make an effective case for the retention and attraction of targeted industry sectors.

Economic development is the intentional practice of improving a community's economic well-being and quality of life. It includes a broad range of activities to attract, create, and retain jobs, and to foster a resilient, pro-growth tax base and an inclusive economy. The practice of economic development comprises of a collaborative effort involving industry, government, and myriad community stakeholders.

Source: International Economic Development Council

The department is also responsible for managing \$3.5 million in funding designated to support businesses in response to the COVID-19 pandemic. On March 27, 2020, the federal government passed the Corona Aid, Relief and Economic Security (CARES) Act, which created the Coronavirus Relief Fund to provide federal assistance to domestic governments. Arizona received \$1.8 billion in CARES funding to distribute to municipalities with a population less than 500,000 for eligible healthcare and public safety expenditures. Through these distributions, Scottsdale received \$29.6 million and recorded the monies into a separate AZ Cares Fund. Subsequently, the City Council approved the proposed programs and key areas to receive funding, including the department's business assistance programs.

Arizona public entities' economic development activities are limited by the Arizona Constitution, which includes a "gift clause" prohibiting public funds from being gifted or public credit being loaned to private entities.

Neither the state, nor any county, city, town, municipality, or other subdivision of the state shall ever give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation, or become a subscriber to, or a shareholder in, any company or corporation, or become a joint owner with any person, company, or corporation, except as to such ownerships as may accrue to the state by operation or provision of law or as authorized by law solely for investment of the monies in the various funds of the state.

Arizona Constitution, Article 9, Section 7

Similarly, the Economic Development department is also generally prohibited by the anti-subsidy clause in the Scottsdale City Charter from providing direct assistance to private businesses except in limited circumstances.

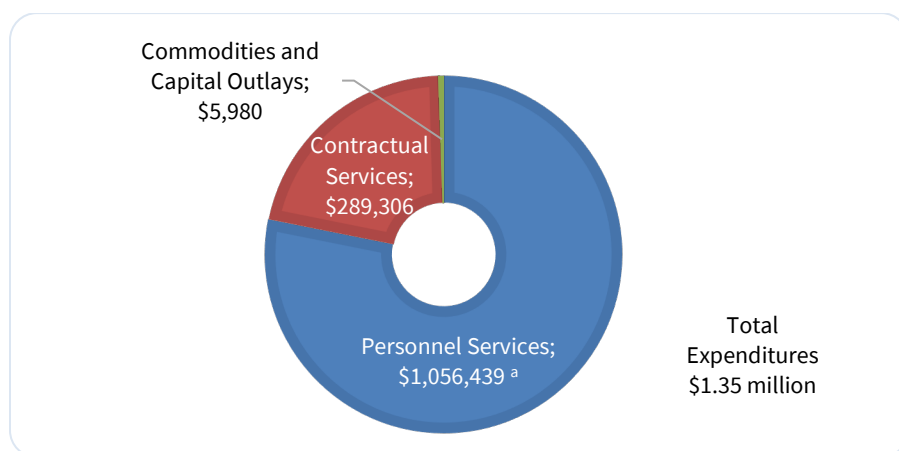
The city shall not give or loan its credit in aid of, nor make any donation, grant or payment of any public funds, by subsidy or otherwise, to any individual, association, or corporation, except where there is a clearly identified public purpose and the city either receives direct consideration substantially equal to its expenditure or provides direct assistance to those in need.

Scottsdale City Charter, Article 1, Section 3(O).

The Economic Development Director stated because of these restrictions, the department is limited in its efforts to encourage businesses to locate and remain in Scottsdale when financial incentives are requested.

As Figure 1 illustrates, the department in fiscal year 2020/21 spent about \$1.35 million, mostly for Personnel Services and Contractual Services. Contractual services include the department's contracts for various services and data service subscriptions, organizational memberships and sponsorship fees.

Figure 1. Economic Development Expenditures - Fiscal Year 2020/21



^a Personnel Services include \$544,554 in expenditures charged to the AZ Cares Fund cost center for Business Assistance staff time.

SOURCE: Auditor analysis of SmartStream reports for FY 2020/21, as of August 6, 2021.

As shown in Figure 2, on page 5, the Economic Development department, which is within the Community and Economic Development division, is staffed by 6 full-time employees. The department

director, who is a Certified Economic Developer, manages 5 department staff assigned to specific service areas, including business retention, marketing, and business attraction.¹

Figure 2. Economic Development Organization Chart



SOURCE: Auditor analysis of Economic Development organizational structure as of July 2021.

Accreditation

The department reported that it is one of 68 economic development organizations recognized as an Accredited Economic Development Organization (AEDO) by the International Economic Development Council (IEDC). The department first achieved AEDO status in 2017 and was reaccredited in December 2020.

Strategic Plan

The Economic Development department aims to focus its efforts through its strategic plan, updated every five years and approved by the City Council. To prepare the strategic plan, including its most recent April 2021 update, the department worked with an outside consultant and a steering committee composed of City staff, local business leaders, and representatives from local professional organizations, such as the Scottsdale Area Chamber of Commerce and Scottsdale Rising Young Professionals. The process included benchmark comparisons to fourteen other cities with similar size, demographics, and economics.

¹ The International Economic Development Council grants the Certified Economic Developer designation.

The current strategic plan specifies six key goals:

1. Grow Scottsdale's existing industries to foster economic vitality.
2. Attract investment to diversify the City's economy.
3. Bolster Scottsdale's startup ecosystem.
4. Make inclusion and diversity an economic development priority.
5. Build Scottsdale into the premier destination for talent in the Southwest.
6. Enhance the City's brand for business, capital and talent.

Based on these goals and City demographics, the strategic plan identifies six target industries:

Economic Development Target Industries

1. **Corporate Headquarters.** A city with an exceptional quality of life, Scottsdale's share of corporate HQs is 13% greater than the U.S. average.
2. **IT Services and Software.** With a competitive advantage two times the U.S. average, Scottsdale is a magnet for technology development.
3. **Financial and Insurance Services and Technology.** Employing 13,000, the City's Financial and Insurance Services sector offers a foundation for future innovation and enterprise development.
4. **Healthcare Services and Innovation.** With an array of leading healthcare institutions, Scottsdale is one of the country's premier healthcare centers.
5. **Logistics Management.** This fast-growing sector boasts an employment base of 3,000 in Scottsdale and has access to ASU's top-ranked Department of Supply Chain Management.
6. **Tourism.** Scottsdale's tourism and hospitality industry is an important employment base for the City and essential for maintaining the community's quality of life appeal.

Source: Economic Development Five-Year Strategic Plan – April 2021

According to the strategic plan, most business growth in cities like Scottsdale comes from the expansion of existing businesses. The plan also notes that ... "developing relationships with these enterprises, understanding their needs and supporting their growth offers a systematic approach to creating new job opportunities for Scottsdale residents."

(continued on next page)

Performance Measures

The department tracks eleven performance measures, as shown in the textbox, and reports seven of these in the City's Budget Book.

Economic Development Department Performance Measures

Reported annually in the City's Budget Book:

- Number of jobs created or retained with material departmental assistance
- Average wage of jobs created or retained with material departmental assistance
- Total five-year direct economic impact of projects created or retained with material departmental assistance
- Number of total sessions on ChooseScottsdale.com website
- Special events and programs (focus groups, educational seminars, tours, or other programs coordinated and executed)
- Overall attendance of special events and programs
- Number of business retention and expansion visits

Additional tracked measures:

- Number of businesses recruited or retained with City assistance
- New capital investment into the community
- Square footage constructed or absorbed
- Total 5-year direct revenue impact of projects

OBJECTIVES, SCOPE, AND METHODOLOGY

The *Economic Development Programs* audit was included on the City Council-approved fiscal year (FY) 2020/21 Audit Plan as a contingency audit. The audit objective was to review performance measures and cost-effectiveness of economic development programs.

To gain an understanding of economic development programs, we reviewed the following:

- Applicable laws and regulations, including:
 - City of Scottsdale – City Charter Article 1, Section 3 (O).
 - Arizona Revised Statute §9500.11 – *Expenditures for economic development; requirements; definitions.*
- Contracts with external partners, including Scottsdale Industrial Development Authority and Greater Phoenix Economic Development Council.
- The department's financial information including Budget Book information for fiscal years 2016/17 through 2019/20 and Smart Stream reports for fiscal years 2015/16 through 2020/21.
- Department reports, including strategic plans, City Council Economic Development Subcommittee reports, International Economic Development Council reports, Scottsdale Small Business Program reports, and Scottsdale Economic reports.
- Other local governments' audits of their economic development programs.

To gain an understanding of Economic Development program policies and controls and staff roles and responsibilities, we interviewed the Economic Development Director and the Business Retention Program Manager. We also reviewed related City of Scottsdale Administrative Regulations (AR), including AR 102 – *Social Media and Social Networking*; AR 205 – *Business Meeting Expenditures*; AR 210 – *City Travel Expenditures*; and AR 220 – *Purchasing Card Use and Administration*.

To evaluate controls, performance measures and cost-effectiveness, auditors:

- Analyzed performance measures and supporting documentation.
- Reviewed the business retention program, including program manuals, business outreach data, and related documentation.
- Analyzed the department's AZ Cares Fund financial data, small business reimbursement grant program and related documentation, and small business training materials.
- Reviewed the department's coordination with internal and external entities.
- Compared employee turnover data and information provided to external partners as departmental contacts.

Our audit found that the department spent 22% of its small business assistance pandemic relief funds and can improve its business contact information, business attraction and retention activities can be more effectively evaluated, and performance measures and metrics could be better used to evaluate outcomes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from March 2021 to July 2021.

FINDINGS AND ANALYSIS

1. The department spent 22% of its small business assistance pandemic relief funds and can improve its business contact information.

In response to the economic crisis created by the COVID-19 pandemic, the City Council received \$29.6 million from the state through the Federal CARES Act funding. As part of the City's total program, the City Council approved \$5 million for business assistance programs, with \$3.5 million budgeted for the Economic Development department's small business assistance programs as shown in Table 1.

Table 1. AZ Cares Fund Expenditures – Small Business Assistance Programs

	Budgeted	Actual Expenses	Percent Expended
Small Business Assistance Programs	\$3,500,000		
Small Business Reimbursement Grant Program		\$700,011 ^a	n/a
Small Business Training Courses		\$74,000	n/a
Totals	\$3,500,000	\$774,011	22%

^a Amount includes the \$75,000 administration fee paid to the Scottsdale Industrial Development Authority.

Note: An additional \$544,554 for Business Assistance-related staff time was recorded in a separate AZ Cares Fund cost center. Also, the current FY 2021/22 budget carries forward the remaining balance of about \$2.7 million for business assistance programs.

SOURCE: Auditor analysis of SmartStream reports obtained on August 5, 2021.

- A. **Small Business Reimbursement Grant program** — Of the \$3.5 million designated for small business assistance, about \$625,000 in reimbursement grants were provided to 194 businesses, plus a \$75,000 administrative fee.

The program was developed to reimburse Scottsdale small businesses for public-health related expenses for COVID-19 precautions. Reimbursement-eligible cost examples included personal protective equipment, such as masks and gloves; cleaning and sanitizing supplies; and installation of protective barriers. Program eligibility was limited to Scottsdale-located businesses with fewer than 100 employees that could document having been in business for at least three years. The businesses were also required to have previously applied for pandemic funding from either county, state or federal sources.

The Economic Development department selected the Scottsdale Industrial Development Authority through an RFP process and paid them \$75,000 to administer the program, including creating the application form, evaluating the business applications, and distributing the funds.

1. The department promoted this program through a press release, social media posts, and emails. The program received media coverage in the local newspaper, newsletters, and a local television station. The department emails went to its subscriber list of approximately 4,300 addresses. However, this number is far fewer than the 15,000 businesses in the City's Tax and License database. Also, according to the Economic Development Director, the department's subscriber list is not just City businesses; it includes anyone who chooses to sign up.

Due to the lack of direct contact information, the department could not be sure how many City businesses were made aware of the program's availability on a timely basis.

2. Program applications were only accepted for 19 days, from August 21 until September 8, 2020, and other criteria was restrictive. The business was required to have fewer than 100 employees and have been in operation for at least 3 years prior to March 2020. Applicants also had to submit detailed documentation showing that they had already purchased and received the reimbursable supplies and equipment, proof of having applied for other financial assistance programs, and a detailed plan for retaining all funded safety measures through December 31, 2020.²

The requirement to have previously applied for other financial assistance programs was established despite the department's Business Needs Assessment Survey performed in August 2020 that found between 41% and 86% of respondents had not done so and thus would not be eligible for the City program. Only 232 businesses submitted applications, and 194 were approved for reimbursements.

3. Despite the limited number of participants and distributed reimbursement grants, the department did not reopen the program with adjustments, such as allowing additional time to submit documentation or modifying the years-in-business criteria to potentially allow more businesses to qualify.

During the City Council Economic Development Subcommittee meetings on September 10, 2020, and February 25, 2021, these City Council members expressed concern about the amount of remaining funds and encouraged the department to find ways to use the funds to support local businesses. During the September meeting, the Economic Development director noted that they would be reviewing program feedback, but he was not currently prepared to make recommendations.

In November 2020, the department director proposed a second round of small business grants with modified criteria: allowing businesses only in operation for two years to apply, possibly eliminating the requirement to have applied for other financial assistance programs and removing the requirement for the funds to be restricted to COVID-19 reimbursements. Due to challenges in trying to fulfill the Charter requirement for the City to receive substantially equal direct consideration, this option was not pursued. Similarly, an earlier proposal considered in April 2020 to provide loan guarantees to facilitate low-interest loans to businesses was also determined to not meet the Charter anti-subsidy restriction.

² Other financial assistance programs included the Small Business Administration (SBA) Payroll Protection Program or Economic Injury Disaster Loan (EIDL), Maricopa County Relief Grant, or other grants, loans, or line of credit.

No additional documentation was provided for any proposals developed after November 2020 for COVID-related business assistance programs that would comply with the Charter restrictions. During the February 25, 2021, Economic Development Subcommittee meeting, the director commented that the City Charter restriction on donation or grants of public funds limited the ability to distribute funds, but the department could consider continuing some of the previous programs.

As of the June 10, 2021, Economic Development Subcommittee meeting, the department had not proposed new or extended business assistance programs. The Economic Development director stated they would be reviewing the data from a business community survey and providing recommendations to the City Manager.

In contrast, the Town of Gilbert allocated \$18 million of its \$29.2 million in CARES funding to establish a #GilbertTogether business recovery program providing grants of up to \$35,000, recovery loans, training classes and mentorship opportunities.

These business assistance grants were available to businesses operating in Gilbert for at least one year and having no more than 3 Gilbert locations and no more than \$15 million in 2019 revenue. To be funded, a business had to show at least a 5% quarterly decline in “gross revenue or gross profits” caused by the pandemic. Through the first two rounds of funding, Gilbert reported receiving 491 applications and approving 437 grants totaling \$9.35 million. The Town also recently held a third round of funding.

Table 2. Pandemic Relief Business Assistance Programs Comparison

	Scottsdale	Gilbert ¹
Business Assistance Grant Allocation	\$3,500,000	\$11,000,000
Maximum Grant Amount	\$5,000	\$35,000
Number of Grant Applications	232	491
Number of Grants Awarded	194	437
Total Grants Awarded	\$625,000	\$9,350,000

¹ Numbers reported through the first two rounds of the #GilbertTogether program, October 2020 – March 2021. Applications for the third round of the program were accepted from May – June 2021.

SOURCE: Auditor analysis of Scottsdale Economic Development records and Town of Gilbert Open Data Portal as of June 30, 2021.

Training — As part of the City’s effort to help small businesses survive the pandemic-caused economic downturn, the department also contracted with Local First Arizona to provide free small business training for Scottsdale businesses. For \$74,000, the not-for-profit organization’s proposal included providing one-on-one technical assistance consulting for 50 small businesses; 14 COVID-specific workshops for up to 30 businesses per workshop; and 8

restaurant bootcamp trainings including up to 8 hours each of one-on-one technical assistance for 20 restaurants.

The department promoted the program through its social media channels and on its website. It also used the available business email contact information from the City's tax and license database to send 7,184 emails promoting these training opportunities. Based on the email statistics, only 1,285 of the emails were opened. Eventually 109 unique businesses participated in the trainings, with some attending more than one session and 2 attending 9 different events.

In comparison, the Town of Gilbert allocated \$2 million for business training programs and subsequently contracted with four different organizations for a total of \$483,800. According to the Town, 346 businesses registered for the training programs and 129 received one-on-one specialized training.

Small Business Assistance Center (SBAC) — The department created SBAC to assist Scottsdale businesses with information regarding federal, state and other government funding programs and connecting to these critical resources. The SBAC was staffed by four library employees and one human services employee loaned from their departments plus one volunteer. Despite sending out more than 15,000 postcards announcing the SBAC, only 413 businesses used the service and only 52 later reported receiving funding through the various relief programs.

As the department director commented to the Economic Development subcommittee in February 2021, the City Charter restriction on donations or grants of public funds limits the ability to distribute funds. As well, the state constitution limits all Arizona governmental entities' subsidies. For the state constitution's restrictions on subsidies, Arizona Supreme Court decisions have applied a two-part test: 1) any gift of public funds must have a public purpose and 2) the government must receive consideration that is roughly equal to the expenditure. Similarly, the Scottsdale Charter's anti-subsidy clause allows public funds to be given to private entities when there is a clearly identified public purpose and the direct consideration is substantially equal in value.

While there are subsidy limitations, the Economic Development department did not extend its approved pandemic assistance programs. As well, it has not yet developed additional business support programs designed to operate within these limitations.

- B. With only about 2,100 business records in its Customer Relationship Management (CRM) database, Economic Development does not maintain a complete list of City businesses. After business assistance funding was approved, the department obtained permission from the City Manager to use the City's tax and license contact information to try to communicate with the more than 15,000 listed Scottsdale businesses.
- New business license information including names and addresses is already made publicly available and updated weekly through the City Library. Although the Economic Development director stated that sometime in the past few months the department started receiving the library's business license updates, the department's 2018 *Business Retention and Expansion Program Manual* already stated that new businesses should be identified on a regular basis by accessing the library information at least every three months and by using information from other sources, including Hoover's business database, the Maricopa Association of Governments, LinkedIn, the Phoenix Business Journal Top 100 List, and others. Had Economic Development been using these

resources to update the CRM system, the department would have had more complete information readily available to contact Scottsdale's businesses.

- The department used the City's tax and license database contact information to send emails promoting the funded training opportunities and postcards promoting its SBAC. While the database contained approximately 15,000 Scottsdale businesses, fewer than 7,200 had provided an email address. Based on the email's statistics, the message had a 24.3% "bounce" rate and was only successfully delivered to 5,436 recipients. Further, fewer than 1,300 of those were opened. While the open rate is higher than the overall industry average, the bounce rate, or unsuccessful delivery, is more than three times the average.³ With more frequent interaction with the City's businesses, the department would be able to request and potentially expand the accuracy and availability of contact information in its CRM system.

Recommendations:

The Economic Development department director should:

- A. Develop further business assistance programs making available the additional funds that the City Council has designated for this purpose or report to the City Council why further programs are not necessary.
- B. Develop and maintain a complete list of Scottsdale businesses with mail or email contact information to allow timely communication with the business owners.

2. Business attraction and retention activities can be more effectively evaluated.

The Economic Development department is responsible for retaining, growing, and attracting businesses that support the City's economic health and vitality. However, the department can more effectively follow up with new business leads, strengthen efforts to visit existing businesses and work to evaluate the effectiveness of its marketing campaigns.

- A. Current CRM data indicates the department can improve its follow through on business attraction leads.

The department's Business Attraction program seeks leads on businesses within the targeted industries that may be interested in relocating or expanding to Scottsdale. The department works with various resources, such as the Greater Phoenix Economic Council (GPEC), Arizona Commerce Authority (ACA), real estate brokers and business relocation specialists, and direct inquiries, to identify businesses that may be interested in moving to the City. These leads are recorded in the CRM database, along with notes on follow-up contacts and responses. The department then classifies each lead's status; Active and Open leads are summarized in Table 3 on page 16.

³ As of June 2021, Constant Contact reports the open rate average for all industries at 19.84% and the bounce rate average at 9.42%.

Table 3. Business Attraction Open Leads, Summarized by Most Recent Recorded Contact

Time Since Last Contact	Active Leads	On-Hold Leads
1 to 30 days	0	0
31 to 60 days	0	0
61 to 90 days	2	0
91 days to 6 months	8	0
> 6 months to 1 year	13	0
> 1 year to 2 years	23	0
> 2 years to 3 years	6	4
> 3 years to 4 years	2	1
> 4 years to 5 years	1	10
> 5 years	0	7
Total Open Leads	55	22

SOURCE: Auditor analysis of the Economic Development CRM system as of May 28, 2021.

Open Lead Types

Active - An organization that has the potential to become a net new employer to the City where investment, real estate requirements, annual payroll, time frame and other project details are unknown. If no action has occurred in six months, the lead is considered dormant.

On-Hold – An organization that has paused its plans to relocate but may still be interested.

SOURCE: Economic Development department sales process definitions

Based on the department's CRM data as of May 28, none of the 55 business attraction leads classified as Active had been contacted in the past 60 days and 23 have been contacted in the past year. The remainder have not been contacted in one to nearly five years. Additionally, of the 22 On-Hold leads, 4 have been contacted in the past three years, and 7 have not been contacted in more than five years. Without regular contact, the department may miss out on the opportunity to attract these businesses to Scottsdale.

According to the department handbook, the Project Manager should follow up regularly on all leads. Specifically, leads should be followed up on every 30 days, and all activity and communication should be tracked in the CRM system. If there is no response or communication from the business after 90 days, or if the business confirms it will not be moving forward, the department staff should mark the lead as cancelled or no longer interested. A core business attraction and marketing metric recommended by the International Economic Development

Council (IEDC) is the number of “active” prospects in the pipeline. However, this metric cannot be accurately calculated without maintaining up-to-date status information for business leads.

Unlike the department’s stated policy, the Economic Development director explained that leads are left open for 2 to 3 years before being closed. Further, he explained that the department has not had a full-time Business Attraction Manager since August 2018, when he was promoted to Acting Director. During the pandemic, they shifted primarily to business support efforts, and therefore, rely on GPEC to maintain contact with the leads it provides.

However, as discussed in the previous finding, the department contracted with outside organizations to carry out two of the City’s business assistance programs. Maintaining contact with potential business leads could serve as a reminder that the City is still interested in welcoming them when they are again considering relocation. Further, the department cannot expect other agencies to emphasize Scottsdale to business prospects as the department itself would do.

- B. While the department’s goal is to perform at least 100 business retention and expansion visits each year, including a selection of the City’s largest employers, available data indicates the goal is not met.
 1. The Business Retention Manager tracks information about the City’s largest employers in a separate business outreach list outside the department’s CRM system.
 - This list includes 93 businesses but only 38 have been visited since 2014.
 - File data shows that the department has no record of visiting 34 of the listed employers.
 - Business records have not been created in the CRM system for 19 of the employers on the list.

The program’s primary purpose is to help retain existing and locally founded businesses in the City. According to the department’s *Business Retention and Expansion Program Manual*, “The purpose of the Business Retention Program is to support and encourage growth among the existing companies in Scottsdale. Locally founded companies have evolved into the largest employers in Scottsdale. They face different challenges than traditional national companies newly entering the Scottsdale market. It is essential to have a program designed to keep in touch with these companies, identify emerging trends in the community and address any concerns brought forward.” The manual further defines the visits as shown in the text box on page 18.

The Director indicated that the staff does not typically meet with chain hotels, restaurants, or retailers. However, departmental policies do not exclude those categories and tourism is one of the six target industries identified in the department’s Strategic Plan. The *IEDC Economic Development Reference Guide* states “business retention programs assist small businesses to prevent their relocation and to help them survive in difficult times.” According to the IEDC, business retention programs can include periodic surveys, interviews, and visitations which are used to establish relationships between community businesses and economic developers that can be used to establish early warning systems to flag at-risk businesses that require assistance and ensure that public programs meet local business needs.

The aims of business retention and expansion visits include:

- 1. Obtaining specific company information:**
 - a. Number of employees
 - b. Annual revenue
 - c. Size of facilities
 - d. Industry sector
 - e. Venture capital and other investment
 - f. Growth prospects (employees, sales, facilities)
 - g. Potential expansion or lease expiry
- 2. Identifying company concerns**
 - a. Specific city issues (parking, trash collection, transportation)
 - b. Workforce issues (talent attraction)
 - c. Market developments
 - d. Pending legislation
- 3. Identifying industry trends**
 - a. Whether this company's growth reflects the overall sector's
 - b. Whether the company is one of a number expanding or moving into the area
 - c. Whether its concerns (talent for example) reflect the general situation
- 4. Providing information on economic development programs of interest**
 - a. Relocation Guide
 - b. Talent Attraction Program
 - c. Small Business Guide
 - d. State (ACA) incentive programs
 - e. Site assistance in the event of expansion

The meeting should occupy a reasonable amount of time, 45-minutes to an hour. ...Questions should start with the area of focus that is the most important to achieve the City's strategic objectives.

SOURCE: Economic Development Department *Business Retention and Expansion Program Manual*

2. Over the past seven calendar years, available data shows the department made between 23 and 121 business retention visits annually.

To determine the annual number of business retention visits, we combined those in the separate business outreach file with the visits tracked in the CRM system. After eliminating the duplicate visits recorded in both systems, we summarized the business retention visits in Table 4 on page 19.

Table 4. Business Retention and Expansion Visits by Calendar Year

2015	2016	2017	2018	2019	2020	2021	Unknown
93	121	100	103	79	23 ^a	8 ^b	36

^a This number excludes 250 SBAC contacts and 6 businesses participating in a Large Employer Roundtable that do not meet the department's definition as business retention visits.

^b This number is through May 28, 2021.

SOURCE: Auditor analysis of the Economic Development CRM system and the Business Retention Program Manager's Outreach List.

While in-person visits were curtailed in 2020 due to the global pandemic, there are no records of Economic Development attempting to schedule virtual meetings or phone calls to expand its contact with local companies. Further, as part of its 2020 performance measure for Business Retention and Expansion Visits, the department included 250 calls the Small Business Assistance Center (SBAC) received from businesses seeking information about pandemic relief. These contacts responded to incoming calls and did not collect more comprehensive information for the department's business retention and expansion efforts.

Without ongoing and regular communication with existing businesses, Economic Development is unable to address issues or concerns that may cause businesses to relocate out of the City.

C. The department's marketing campaigns, social media, and website jobs board are not evaluated for effectiveness and improvement.

1. The department director stated that they attempt to target the same geographic markets that the City's destination marketing contractor, Experience Scottsdale, targets. Nonetheless, the director noted that the two groups have not yet collaborated on joint marketing campaigns.

The IEDC recommends economic development organizations partner with other groups to promote more business development opportunities. The department's 2021 strategic plan states that it should "continue to collaborate with Experience Scottsdale in the co-creation of messaging at the interaction of business and tourism" although the department has not analyzed the value of targeting the same markets or whether a formal partnership should be pursued.

2. The department's social media postings are sporadic and do not appear to have consistent themes. In its 2020 Strategic Marketing Plan, the department stated the use of social media is "pivotal to accomplishing our public relations and communications goals." Yet the plan does not set criteria or measures to evaluate success in meeting those goals. Best practices for social media recommend scheduling content so that an account releases updates on a regular basis.

The department manages the City's LinkedIn account and has its own Facebook, Instagram, Twitter and YouTube accounts, as summarized in Figure 3 on page 20.

Figure 3. Economic Development Social Media Accounts



SOURCE: Auditor analysis of the Economic Development social media accounts as of July 22, 2021.

Despite stating that YouTube “has been paramount in promoting Scottsdale’s climate, workforce and business climate,” the department has posted sporadically to its channel and has gone as many as 109 days between posts.⁴ On 15 occasions, between two and seven videos highlighting different businesses were posted on the same day. Posting individual videos over several days could achieve greater impact by encouraging viewers to follow the department’s YouTube channel for regular content releases.

While the department posted more frequently on Facebook, LinkedIn and Twitter, there does not appear to be an established or recurring schedule for these posts.

⁴ The 2020 Strategic Marketing Plan and the Scottsdale Economic Development Three Year Strategic Action Plan published 2017.

Additionally, unlike other departments, Economic Development rarely reposts City news articles to its social media accounts. Since January 2021, the department only posted three City news updates although there were relevant articles related to the Planning Department, Scottsdale Airport, Valley Bike Month, bond refinancing, Scottsdale resident survey results, and the new Mayor and Councilmembers' swearing-in ceremony.

3. In its newly adopted 2021 Five Year Strategic Plan, Economic Development has established a key goal of making inclusion and diversity an economic development priority. According to the strategic plan, "many companies and talented workers looking to make location and relocation decisions expect cities like Scottsdale to make inclusion and diversity an economic development priority, helping to ensure that all residents and businesses have the opportunity to thrive." Additionally, the IEDC recognizes that population diversity is an important measure of quality of life and notes that young workers like diversity in race, nationality and culture when selecting a place to work and live.

Prior to this, the department has not prioritized diversity in its marketing efforts. Of the department's social media postings since January 2020, about 3% include minority representation. In addition, the department only briefly mentioned the City's recently adopted anti-discrimination ordinance, despite strong support from the business community and unanimous approval by the City Council, in a Twitter post highlighting its strategic plan.



Also, the department has only mentioned Hispanic Heritage Month one time in its social media posts since the accounts' inception. And it has not posted about Pride or African American History Month despite the City's news releases and social media posts regarding all these events.

4. The department has not evaluated the cost-effectiveness of a local jobs board maintained on its website.

In FY2017/18, Economic Development contracted with a company to add a local job listing board to its Choose Scottsdale website. The company designed the job board for economic development organizations to support their local businesses by helping them find employees. Since that time, the City has paid \$32,300 for the service, which allows local companies to post job openings, or it can scrape job listings from the local company websites.

- Currently, only 127 of the 15,000 local companies are registered to post on the board. Economic Development has chosen to not post local jobs from company websites

without receiving permission from those companies. However, they have not followed up with additional companies to enhance use of the jobs board.

- While the department tracks job board data for postings, views and applications submitted through the site, they have not asked the participating companies to report how many applicants were found through the job board. Without knowing how many qualified applicants used the site or surveying participating businesses about the perceived value of the job board, Economic Development cannot evaluate whether the program is providing a cost-effective service to Scottsdale businesses.

Recommendations:

The Economic Development department director should ensure the department:

- A. Follows up with leads timely and records activities in the CRM system. Further, the department should review all leads older than three years to determine whether the lead is still active or should be closed.
- B. Develop criteria and a multi-year schedule for scheduling business retention and expansion visits and ensure that the information is maintained in one database.
- C. Create a comprehensive social media and marketing plan that includes:
 1. Evaluating its practice of targeting markets based on the destination marketing contractor.
 2. Scheduling social media posts to drive higher engagement and promote specific campaigns.
 3. Ensuring that promotional campaigns are inclusive and promote diversity. Consider aligning campaigns with diversity events and reposting related City news content.
 4. Evaluating whether the jobs board is cost-effective. If it is, seek to include other companies on the board.

3. Performance measures and metrics could be better used to evaluate outcomes.

While the department generally measures its performance using metrics that track outcomes, some of these reported performance measures are not supported by verifiable data. Further, additional performance measures may provide a more complete picture of the department's activities.

- A. The department's report of company job claims lacked supporting documentation, and its estimated economic impacts are based on these unconfirmed inputs.
 - For five of the six projects reviewed, the department did not have supporting documentation for the initially estimated jobs, investment, and payroll amounts that it reported in its annual report as "projects won."
 - The department uses an economic impact model to estimate the five-year direct impact and total impact amounts of new jobs. The department uses the undocumented jobs information as input into the model to develop its reported economic impact.

- The department does not ask companies for the actual realized jobs data to compare to the initial job estimates and impacts.

These job claims and the related economic impacts are reported in the department's annual performance measures. However, without supporting data, these metrics may not be reliable indicators of the department's performance.

The IEDC recognizes that reliable data is crucial to measuring performance of economic development organizations and communicating these results to decision makers to help ensure the department is spending its time on high-value activities. Also, the IEDC recommends that economic development organizations track the number of jobs and compare actual and promised jobs per project. Without a process to ensure accurate reporting of performance measures and metrics, the department could misstate its performance toward achieving the City's economic development goals and potentially provide misleading information.

- B. The department's website performance measure, number of visitor sessions, provides limited value for evaluating its effectiveness.

The number of web sessions as a performance metric is not a good measure of engagement since the website, ChooseScottsdale.org, has a high "bounce" rate. From FY2017/18 to FY2020/21, its bounce rate has increased from 67% to 80%. According to *Google Analytics for Government*, the average bounce rate for lead-generation sites is 30-50%, and "as a general rule for content provider sites, a bounce rate in the [sic] 40% or below is good, 50% and up is bad." This report further explains that a high bounce rate on a navigation page could reveal a problem as it indicates users are not engaging with the page.

As shown in Figure 4 on page 24, the reported measure, number of sessions on the department's website, increased from 13,100 to 21,100. However, average session duration decreased from 1 minute, 33 seconds to 56 seconds, indicating less visitor engagement with the website. After adjusting the number of sessions for the bounce rate, the number of multi-page sessions has remained fairly level over the past four years.

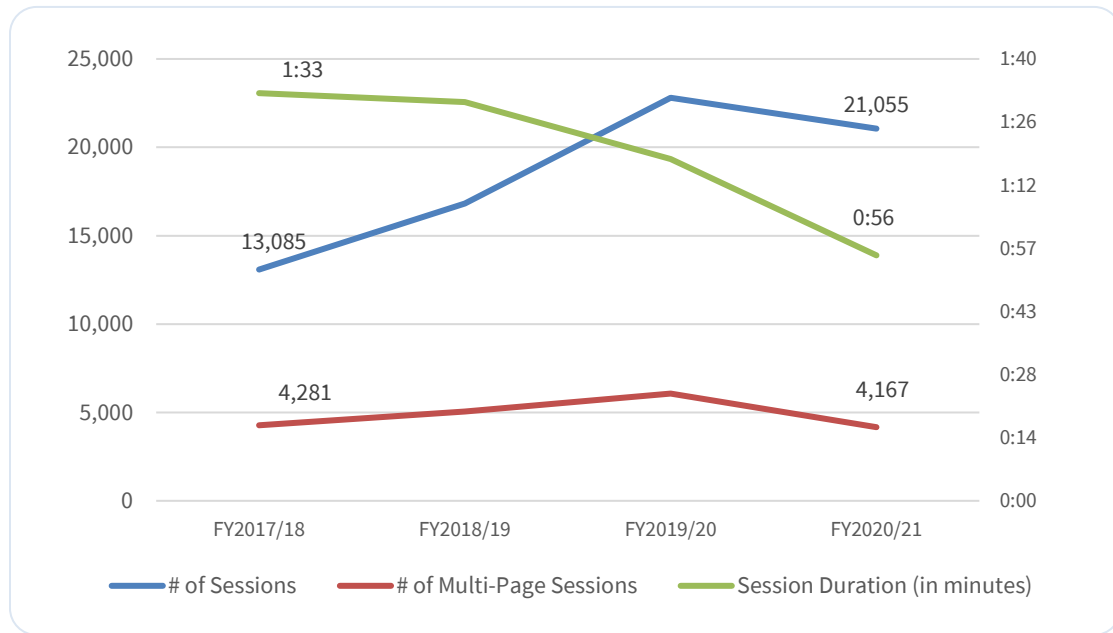
Bounce Rate

A bounce rate indicates the number of visitors to the website that leave without clicking on any page other than the one they initially landed on. This often occurs when visitors reach a site they did not intend to visit. The bounce rate is calculated by dividing the website's single-page visits by its total visits.

Source: Google Analytics

(continued on next page)

Figure 4. Department Website Traffic Analytics



SOURCE: Auditor analysis of department website analytics reports.

By only reporting the number of website sessions without additional measures like session duration or pages per session, the effectiveness of the department's web site may be overstated.

- C. Additional performance measures and metrics may provide a more complete picture of the department's operations and activities.

Seven of the department's 11 current performance measures and metrics focus on outcomes of past performance. However, the IEDC recommends a mix with "leading indicators" that may help foretell future performance in addition to "lagging indicators" of past performance. The IEDC also identifies specific metrics that a department should consider for a more complete picture of both past performance and anticipated future results:

Lagging Indicators	Leading Indicators
Percent of business leads that choose to locate in city	"Active" prospects in the pipeline
Percent of "jobs at risk" retained	Targeted marketing campaigns undertaken Presence and quality of direct programs locally to assist new firms Number of calls made for business attraction Number of general business assistance requests Number of individuals trained in entrepreneurial training programs

In addition, the department does not benchmark its performance over time or against other economic development organizations. The IEDC recognizes the importance of developing performance measurements that allow for meaningful comparative analysis. This analysis can be over time or in comparison with others.

Recommendations:

The Economic Development department director should ensure the department accurately tracks data for and reports performance. Further, the department should evaluate a mix of output and outcome metrics and benchmark its performance measures and metrics over time and against other economic development organizations.

MANAGEMENT ACTION PLAN

1. The department spent 22% of its small business assistance pandemic relief funds and can improve its business contact information.

Recommendations:

The Economic Development department director should:

- A. Develop further business assistance programs making available the additional funds that the City Council has designated for this purpose or report to the City Council why further programs are not necessary.
- B. Develop and maintain a complete list of Scottsdale businesses with mail or email contact information to allow timely communication with the business owners.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The Economic Development department will evaluate additional potential small business support programs and provide recommendations to the City Manager on remaining business assistance pandemic relief funds. The department will also implement standard operating procedures for adding new Scottsdale business license registration data to its CRM system and continue to work with the Communications and Public Affairs and Tax and License Departments in seeking ways to increase business contact information and communications.

RESPONSIBLE PARTY: Rob Millar, Economic Development Director

COMPLETED BY: 6/30/2022

2. Business attraction and retention activities can be more effectively evaluated.

Recommendations:

The Economic Development department director should ensure the department:

- A. Follows up with leads timely and records activities in the CRM system. Further, the department should review all leads older than three years to determine whether the lead is still active or should be closed.
- B. Develop criteria and a multi-year schedule for scheduling business retention and expansion visits and ensure that the information is maintained in one database.
- C. Create a comprehensive social media and marketing plan that includes:
 1. Evaluating its practice of targeting markets based on the destination marketing contractor.
 2. Scheduling social media posts to drive higher engagement and promote specific campaigns.

3. Ensuring that promotional campaigns are inclusive and promote diversity. Consider aligning campaigns with diversity events and reposting related City news content.
4. Evaluating whether the jobs board is cost-effective. If it is, seek to include other companies on the board.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The Economic Development department implemented a new CRM system on July 1, 2021 that allows for greater lead tracking and associated activity monitoring. As a component of the system migration process, all lead records have been reviewed and updated. A standard operating procedure for the development of an annual business retention and expansion plan will be implemented and an update to the 2020 Marketing Plan will be conducted.

RESPONSIBLE PARTY: Rob Millar, Economic Development Director

COMPLETED BY: 6/30/2022

3. Performance measures and metrics could be better used to evaluate outcomes.

Recommendation:

The Economic Development department director should ensure the department accurately tracks data for and reports performance. Further, the department should evaluate a mix of output and outcome metrics and benchmark its performance measures and metrics over time and against other economic development organizations.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The Economic Development department implemented a new CRM system on July 1, 2021 that will allow for greater accuracy in tracking data and evaluating departmental performance. The department will evaluate a mix of output and outcome metrics and performance measures that allow for measuring against other economic development organizations.

RESPONSIBLE PARTY: Rob Millar, Economic Development Director

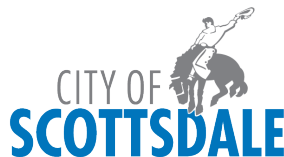
COMPLETED BY: 6/30/2022

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