

City of Tucson
Independent Audit and Performance Commission

June 21, 2010

Subject: Tucson Regional Economic Opportunities (TREO) Fiscal Year 2010 Contract

City Manager Mike Letcher,

The following is provided in response to your request that the Independent Audit and Performance Commission (IAPC) provide you with a report on TREO's compliance with Fiscal Year 2010 contract deliverables.

Background: In 2004, the City teamed with Pima County and local business and education leaders as participants on a blue ribbon panel created to improve the performance and accountability of regional economic improvement efforts. The panel concluded that public economic development funding should be coordinated, assessed and implemented by establishing a new non-profit regional agency. The Regional Economic Development Corporation was established in 2005. The agency was renamed TREO in 2006. City staff has indicated that at the Agency's inception, the City agreed to provide funding through Fiscal Year 2011. TREO is currently funded by both public and private entities throughout the region, however the City provides the majority of funding (approximately 50% projected for Fiscal Year 2010).

According to City and TREO staff, early year contracts were general in nature, and unlike the current year contract (Attachment 1), included no deliverables. The current contract requires TREO to submit quarterly reports indicating "substantial progress has been made toward its Fiscal Year 2010 deliverables". The contract provides the City the right to withhold or reduce payments if it determines that "services.... were not rendered by the Agency" or the the Agency "failed to provide information or reports as required." The contract provides the City the right to audit TREO at any time.

Commission Actions: The follow summarizes the the IAPC's action regarding its review of TREO:

April 7, 2010 IAPC Meeting: TREO presented an informative overview of their agency and answered questions from Commission members. TREO provided various handouts.

May 5, 2010 IAPC Meeting: City staff communicated your request that the Commission provide you with a report on TREO's performance in meeting contract deliverables. At that meeting Commission members agreed to have the Chair prepare and present a project proposal for action at the June meeting.

June 2, 2010 Meeting: Commission members received Marie Nemerguth's June 2, 2010 memo, linking the receipt of a report from the IAPC to TREO's 4th quarter payment (Attachment 2). At the meeting the project proposal (Attachment 3), requesting TREO provide information on five of the twelve contract deliverables, was approved by the Commission. TREO staff present at the meeting indicated that a response would be available

to the Commission by June 11, 2010. In response, the Commission scheduled a special meeting for June 16, 2010.

June 16, 2010 Meeting: The IAPC reviewed TREO's written responses (Attachment 4) to determine if information was reasonable, logical and consistent with the intent of the contract. Questions were asked of both City and TREO staff.

Commission Findings: After reviewing the information provided by TREO and City staff, the IAPC found the following:

1. TREO maintains a computerized database to support the summary information contained in the reports submitted to the City.
2. Conducting a detailed financial or performance audit of TREO's underlying data requires significant time.
3. The contract provides little specificity concerning deliverable definitions, time frames, and calculations. TREO has established reasonable criteria in defining these elements to generate its responses to contract deliverables.
4. As required under the contract, TREO has submitted all reports in a timely manner.
5. Under the contract, the City can audit TREO at anytime. The City has not conducted audits of TREO data in the past.
6. The City has never reduced or withheld payment to TREO for any reason.

Commission Conclusion: The Commission concluded that TREO had made reasonable progress toward providing the deliverables required in its contract with the City. The conclusion was formalized in a motion by Commissioner McDonald and seconded by Commissioner Oberg:

The Independent Audit and Performance Commission believes, without being able or willing to conduct a full financial and performance audit, that Tucson Regional Economic Opportunities has generally met their contractual obligations to the City of Tucson.

The IAPC unanimously approved the motion (Commission members Cormier, McDonald, Oberg, McNellis, Clark, Tilden present).

Additional Recommendation: City staff has indicated that contracts for economic and workforce development will go to bid in early Fiscal Year 2011 and awarded in January 2011. The IAPC recommends that contracts be clear in terms of how deliverables are defined and calculated.

The Commission appreciates the opportunity to provide comments on this matter. If you have any questions or would like to discuss the findings, conclusions, or recommendation further, please let me know. A mutually convenient time for a meeting can then be arranged.

Respectively Submitted,



David Cormier
IAPC Chair

CITY OF TUCSON
FINANCIAL PARTICIPATION AGREEMENT (FPA)
Fiscal Year 2010
(Contract Number 16541)

THIS AGREEMENT, made and entered into this 9 day of September, 2009, by and between the City of Tucson, a municipal corporation, hereinafter called the "City" and the **Tucson Regional Economic Opportunities, Inc. (TREO)**, hereinafter called the "Agency".

WITNESSETH

WHEREAS, it has been determined that the activities of the Agency are in the public interest, and are as such to improve and promote the public welfare of the City; and

WHEREAS, the Mayor and Council have determined that to financially participate in the promotion of the activities of the Agency is a public purpose in that the activities confer direct benefit of a general character to a significant part of the public.

NOW THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, the parties hereto do mutually agree as follows:

Section 1: Statement Of Purpose

The Agency shall coordinate all regional economic development activities and programs to accelerate the creation of wealth and prosperity for the Tucson Metropolitan Statistical Area (MSA). The Agency will employ a variety of strategies and tactics to achieve sustainable wealth creation. The Agency's Board of Directors developed and adopted the planned economic development activities set forth in this agreement.

Section 2: Services To Be Performed By The Agency

The Agency shall focus on strategies and programs in targeted (non-retail) industries that create wages and per capita personal income that is at or exceeds the national wage average. These targeted industries are Aerospace/Defense/Homeland Security, Environmental/Solar, Bio-sciences, and Transportation and Logistics.

OUTCOMES/DELIVERABLES:

High Skilled/High Wage Job Development

- Increase national/international awareness of the Tucson region as a business location
- Facilitate the creation of jobs for the Tucson region
- Generate 10 % of all job development within the targeted industries
- Generate \$50 million in regional capital investment
- Generate 10% of all capital investment within the targeted industries
- Position the region to capture Foreign Direct Investment (FDI)

Exhibit A to Resolution No. 21387
City of Tucson Contract No. 16541

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Infrastructure Capacity Development

- Align workforce skills and tools to be compatible with targeted industry requirements
- Improve communication and engagement with stakeholders
- Improve market intelligence including trends, analysis, and metrics within the targeted industries
- Increase capabilities to accommodate market needs related to available commercial real estate opportunities

Sustainability

- Measure and evaluate the region's competitiveness
- Increase financial support of economic development

PROGRAMS / INITIATIVES:

1) *High Skilled/High Wage Job Development*

- a) Increase positive awareness of Tucson and develop awareness of targeted industry strengths, in order to generate additional business development leads.

Strategies:

- Lead up to four sales missions/trade shows to attract companies in the targeted industries.
- Position and market Tucson as a leading business center with national site selectors. Tactics include direct communications, e-newsletter and site selector meetings.
- Pursue California Job Creation Program by collaborating with Greater Phoenix Economic Council (GPEC) to recruit California business operations to the region.

- b) Grow Foreign Direct Investment (FDI) level within the region from international resources associated with technology development and/or manufacturing.

Strategies:

- Conduct TREO sales mission to Mexico that would include a corporate meeting with La Costeña officials and additional business meetings with other Mexican business owners regarding potential interest in Tucson region business opportunities.

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- c) Retain and expand local primary employer businesses through increased interaction and support, to maximize community business activity, build awareness and improve communications.

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Strategies:

- Support local company formation as a method to create jobs and capital investment as well as showcase Tucson's innovative strengths. Tactics include coordination and participation in IdeaFunding, a one day entrepreneurship conference, and assisting in the development of early and growth capital funding opportunities for local companies and the promotion of local success stories.
 - Conduct 100 retention meetings with regional businesses to discuss current and future issues associated with operations, workforce, sales, local government, and other important matters. These meetings would focus on businesses within our four targeted industries and primary employers which produce goods and services in excess of what can be consumed by the local market.
- d) Increase positive awareness of the Tucson region as a viable business center, especially in higher wage and targeted industries.

Strategies:

- Conduct national public relations campaign.
- Generate positive local media coverage in business publications, TV and radio regarding Tucson's key strengths.

2) *Infrastructure Capacity Development*

- a) Continue long- and short-term implementation of Economic Blueprint strategies to improve the "product" of Tucson and increase the region's reputation nationally.

Strategies:

- Further develop solid relationships with organizational partners in the Power of Five Mobilization Council.
 - Partner with Downtown Tucson Partnership in identifying key gaps and issues to address in Downtown's progress.
 - Promote and market Downtown.
 - Communicate regular updates about the Economic Blueprint.
 - Deliver "mini" Community Report Card at Annual Luncheon in October 2009.
- b) Develop and promote an annual legislative agenda for economic development for the Tucson region.

Strategies:

- Hold event with Southern Arizona legislative delegation to improve communication with legislators on issues related to economic development.
- Build support for legislative priorities by working with legislative representatives, local government representatives and other community partners.

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- c) Further develop and promote speed to market programs to improve regional responsiveness to expanding and relocating businesses.

Strategies:

- Lead efforts to implement final aspects of a regional “Shovel Ready” program.
- Lead efforts to implement updated Foreign Trade Zone delivery and administration method. Develop a new process to streamline the program and create a competitive advantage for Tucson.

- d) Leverage and improve existing efforts and resources to help build a highly skilled workforce and increase infrastructure capacity to support targeted industries.

Strategies:

- Continue to improve the connectivity between industry and workers through efforts to match employer workforce needs with service provider capabilities in partnership with the U.S. Department of Labor’s Workforce Innovation in Regional Economic Development (WIRED) Initiative.
- Pursue additional methods and means to support infrastructure/workforce needs.
- Pursue support among Regional Partners for workforce resources.
- Pursue renewal of Empowerment Zone authorization.

- e) Generate community leader awareness and consideration of the economic development and business challenges/issues facing the region.

Strategies:

- Support and facilitate implementation of Quality Jobs Through Renewable Industries Program resulting from legislative bill 1403.
- Support and facilitate implementation of recommendations presented by TREO’s Job One.
- Identify and develop policy solutions related to issues of importance and concern to TREO’s business and economic development constituents in the region.

- f) Generate Targeted Industry Strategies with a focus on the solar and bioscience sectors.

Strategies:

- Prepare solar industry economic impact analysis through partnership with UA Arizona Institute for Solar Research (AzRise), local, state and federal government agencies and private sector companies.
- Generate strategies for the promotion and marketing of targeted industries with emphasis on the solar and bioscience sectors.
- Support these strategies with national public relations campaign effort.

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- g) Present and pursue best practices related to the delivery, implementation, and leadership of economic development efforts across the country.

Strategies:

- Lead Leadership Exchange to Albuquerque from September 30 to October 2, 2009 to study best practices of another competitive community.
- Analyze other competitive communities in areas including, but not limited to:
 - Education support
 - Economic development leadership/practices
 - Local business support

- h) Maximize usage of available Federal, State, and local business initiatives, programs, and assistance available to Southern Arizona's businesses.

Strategies:

- Pursue strategies and programs to fill the gap of services previously provided by the State of Arizona.
- Generate community awareness of available programs and initiatives that encourage retention and expansion of business.
- Pursue and lead efforts to effectively utilize federal stimulus funds in support of local economic development efforts.
- Promote programs via web, local networking events, collateral, and personal business contacts to ensure high utilization.

3) Sustainability

- a) Retain and recruit public sector funding and resources through the promotion of a deeper understanding and education of economic development successes and accomplishments with key constituencies.

Strategies:

- Strengthen relationships with local jurisdictions, elected officials, governing committees, and related staff.
- Pursue a model to ensure equitable funding for economic development.
- Continue building greater local awareness of TREO.
- Improve communication with regional stakeholders.
- Maintain and strengthen relationships with public partners and local communities.

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Section 3: Services to be Provided by the City

A cash payment of **One Million Two Hundred Forty Two Thousand Seven Hundred Dollars (\$1,242,700)** will be provided by the City to support the Agency's mission. The funds can be used for administrative and operating expenses and to sub-contract for economic development services, as necessary, in support of the Agency's mission.

Payments to the Agency will be made as noted in Section 13, Method of Payment.

Section 4: Responsibility for Open Records

The Agency agrees to make open to the public all records relating to any funds directly received from the City that the Agency distributes to other organizations or individuals.

Section 5: Evaluation Criteria and Reporting

In order to assess the impact of the Agency, the City reserves the right to evaluate performance and to have access to all pertinent information necessary to make evaluations. The Agency agrees to submit quarterly reports addressing the status of the contract deliverables to the City through the Office of Budget and Internal Audit. The Agency also agrees to meet on a requested basis with a representative from the City Manager's Office to discuss its ongoing progress toward its strategic goals.

Section 6: Accountability

The Agency shall maintain a true and accurate accounting system which meets generally accepted accounting principles, and which is capable of properly accounting for all expenditures and receipts of the Agency on a timely basis. In addition, the Agency shall maintain evidence of its compliance with the nondiscrimination provision of this Agreement. The Agency's accounting system shall permit separate, identifiable accounting for all funds provided by the City pursuant to this Agreement.

The Agency shall provide the Internal Audit Section of the Office of Budget and Internal Audit of the City, within three months after the close of the Agency's fiscal year, a copy of the financial audit of the Agency's operations by an independent certified public accountant, along with any management letter, and, if applicable, the Agency's plan for corrective action.

If the Agency does not have an audit, it shall submit within three months after the close of its fiscal year, a complete accounting of City funds received. This accounting must be approved by the Internal Audit Section of the Office of Budget and Internal Audit of the City as sufficiently descriptive and complete.

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If for good reason the Agency cannot meet the times established for submission of financial reporting, the Agency shall notify the Office of the City Manager and the Internal Audit Section in writing of the reason for the delay, provide an expected completion date, and request a waiver of the due date.

At any time during or after the period of this contract, the Internal Audit Section of the Office of Budget and Internal Audit of the City or a City agent may audit the Agency's overall financial operation or compliance with the nondiscrimination clause of this Agreement for the contract period. The Agency shall provide any financial reports, nondiscrimination policies and procedures, or other documentation necessary to accomplish such audits.

Section 7: Matching Grants

The Agency agrees to obtain Mayor and Council approval prior to applying for any matching grants involving the commitment of City funds.

Section 8: Nondiscrimination

The Agency, in its employment policies and practices, in its public accommodations and in its provision of services, shall obey all relevant and applicable, federal, state, and local laws, regulations and standards relating to discriminations, biases, and/or limitations, such as, but not limited to, Titles VI and VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Arizona Civil Rights Act, the Arizonans with Disabilities Act, the Human Relations provisions of the Tucson Code, and the Mayor and Council policy adopted on September 25, 2000, prohibiting the direct or indirect grant of discretionary City funds to organizations that have a policy of exclusionary discrimination on the basis of race, color, religion, ancestry, sex, age, disability, national origin, sexual orientation, gender identity, familial status or marital status.

Section 9: Subrecipient Funding Agreements

The Agency agrees to include the nondiscrimination provision contained in Section 8 in all of its subrecipient funding agreements.

Section 10: Term of Agreement

This Agreement between parties as described above shall be effective from July 1, 2009 through June 30, 2010.

Section 11: Payment Withholding, Reduction, or Termination

The City may withhold whole or part of the scheduled payment, reduce, or terminate funding allocations to the Agency, if:

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- Services as defined herein were not rendered by the Agency.
- The Agency failed to supply information or reports as required.
- The Agency is not in compliance with agreed upon disbursement documentation and/or other project performance.
- The City has reasonable cause to believe the Agency is not in compliance with the nondiscrimination clause of this Agreement.
- The Agency discontinues functioning as an Arizona non-profit corporation or in any way assigns its responsibilities to another entity.

Such payment reductions or payment termination may result in the Agency receiving a lesser total City allocation under this Agreement than the maximum funding possible. If reasons for withholding payments have been corrected to the satisfaction of the City, any amounts due shall be processed. The City will be reimbursed for any funds expended for services not rendered.

Section 12: Termination of Agreement

Either the City or the Agency may terminate this Agreement with a thirty (30) day written notice to the other party.

Section 13: Method of Payment

The funding allocated in Section 3 shall be paid to the Agency for services as outlined in Section 2. Agency invoices shall be submitted to and approved by the Office of Budget and Internal Audit prior to payment processing. Allowable expenses are those listed in the Agency's proposed budget and incorporated into this agreement by reference. The payment schedule shall be as follows:

- ◆ Initial payment of **\$310,675** to be paid on or after October 1, 2009 upon receipt of an Agency invoice and the Fiscal Year 2009 year-end report of performance;
- ◆ Second payment of **\$310,675** to be paid on or after January 1, 2010 upon receipt of an Agency invoice accompanied by evidence that substantial progress has been made toward its Fiscal Year 2010 deliverables as noted in Section 2;
- ◆ Third payment of **\$310,675** to be paid on or after April 1, 2010 upon receipt of an Agency invoice accompanied by evidence that substantial progress has been made toward its Fiscal Year 2010 deliverables; and
- ◆ Fourth payment of **\$310,675** to be paid on or before June 15, 2010 upon receipt of an Agency invoice accompanied by evidence that substantial progress has been made toward its Fiscal Year 2010 deliverables.

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Section 14: Indemnification

The Agency agrees to indemnify, defend and save harmless the City, its Mayor and Council, appointed boards, committees, and commissions, officers, employees, and insurance carriers, individually and collectively, from all losses, claims, suits, demands, expenses, subrogations, attorney's fees, or actions of any kind and nature resulting from personal injury to any person, including employees of the Agency or of any subcontractor employed by the Agency (including bodily injury and death); claims based upon discrimination and/or violation of civil rights; or damages to any property, arising or alleged to have arisen out of the work to be performed hereunder, except any such injury or damages arising out of the sole negligence of the City, its officers, agents, or employees. Workers' Compensation insurance and/or self-insurance carried by the City does not apply to employees or volunteers acting in any capacity for the Agency.

Section 15: Insurance

The Agency agrees to:

- A. Obtain insurance coverage of the types and amounts required in this section and keep such insurance coverage in force throughout the life of this Agreement. All policies will contain an endorsement providing that written notice be given to the City at least ten (10) calendar days prior to termination, cancellation, or reduction in coverage in any policy.
- B. The Comprehensive General Liability Insurance policy will include the City as an additional insured with respect to liability arising out of the performance of this Agreement.
- C. The Agency will provide and maintain minimum insurance limits as follows:

COVERAGE AFFORDED	LIMITS OF LIABILITY
1. Workers' Compensation	Statute
2. Comprehensive General Liability Insurance -- Including Personal Injury Coverage	\$1,000,000 - Bodily Injury and Property Damage Combined Single Limit
3. Comprehensive Automobile Liability Insurance -- Including Hired and Non-owned Vehicles	\$1,000,000 - Bodily Injury and Property Damage Combined Single Limit

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D. The Agency shall adequately insure itself against claims based upon lawful discrimination and violation of civil rights. The City shall be an additional insured on the policy providing such coverage. The cost of this insurance shall be borne by the Agency.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement for Fiscal Year 2010.

COUNTERSIGNED:

for City Clerk and not personally

CITY OF TUCSON, a municipal corporation

BY: _____
as Mayor and not personally

APPROVED AS TO FORM this
2 of September, 2009

for City Attorney and not personally

**TUCSON REGIONAL
ECONOMIC OPPORTUNITIES (TREG)**

BY: _____
as President/CEO and not personally

Amendment Number 1
To
City of Tucson Financial Participation Agreement (Contract Number 16541)
With
Tucson Regional Economic Opportunities, Inc. (TREO)

This Amendment Number 1 to Contract No. 16541 ("Amendment") is made and entered into this 28 day of January, 2010, by and between the City of Tucson, a municipal corporation hereinafter called the "City" and **Tucson Regional Economic Opportunities, Inc. (TREO)**, an Arizona non-profit corporation, hereinafter called the "Agency".

Whereas, the City and Agency entered into a financial participation agreement for Fiscal Year 2010 on September 9, 2009; and

Whereas, the City has determined that it is facing a multi-million dollar deficit in its Fiscal Year 2010 adopted budget as the result of a drastic national, state, and local economic downturn, and,

Whereas, on January 12, 2010 the Mayor and Council adopted Resolution No. 21469 authorizing the City Manager to renegotiate and amend specific Fiscal Year 2010 outside services contracts to reduce the amount of City funding under those contracts for FY 2010, and to modify the scope of services under those contracts as may be needed as a result of the reduced funding; and

Whereas, City and Agency desire to amend Contract No. 16541 to reflect this renegotiation.

Now therefore, it is agreed as follows:

1. Section 2: Services To Be Performed By The Agency – This section is amended to include the following revisions to the Agency performance measures for Fiscal Year 2010:

"Reductions" in specific OUTCOMES/DELIVERABLES:

High Skilled/High Wage Job Development:

- "Generate 10% of all job development within the targeted industries" is revised to reflect the generation of 8%
- "Generate \$50 million in regional capital investment" is revised to reflect the generation of \$40 million
- "Generate 10% of all capital investment within the targeted industries" is revised to reflect the generation of 8%

Amendment Number 1
To
City of Tucson Financial Participation Agreement (Contract Number 16541)
With
Tucson Regional Economic Opportunities, Inc. (TREO)

“Reduction or Deletion” of a specific PROGRAM/INITIATIVE:

High skilled/High Wage Job Development:

- “Lead up to four sales missions/trade shows to attract companies in the targeted industries” is revised to reflect leads of up to two sales
- Agency will NOT “Grow Foreign Direct Investment (FDI) level within the region from international resources associated with technology development and/or manufacturing.”
- Agency will NOT “Conduct TREO sales mission to Mexico that would include a corporate meeting with La Costena officials and additional business meetings with other Mexican business owners regarding potential interest in Tucson region business opportunities.”
- “Conduct 100 retention meetings with regional businesses to discuss current and future issues associated with operations, workforce, sales, local government, and other important matters” is revised to conduct 80 retention meetings.

Infrastructure Capacity Development:

- Agency will NOT “Partner with Downtown Tucson Partnership in identifying key gaps and issues to address Downtown’s progress.”
- Agency will NOT “Promote and market Downtown.”
- Agency will NOT “Pursue renewal of Empowerment Zone authorization.”
- “Prepare solar industry economic impact analysis through partnership with UA Arizona Institute for Solar Research (AZRise), local, state and federal government agencies and private sector companies” is revised to reflect the deletion of partnering with UA Arizona Institute for Solar Research (AZRise).
- Agency will NOT “Pursue and lead efforts to effectively utilize federal stimulus funds in support of local economic development efforts.”

2. Section 3: Services To Be Provided by the City – This section is amended to reduce the amount of City funding under this agreement by twenty percent (20%) for FY 2010. Per this Amendment, the City will provide: Contract Funds in an amount totaling Nine Hundred Ninety Four Thousand One Hundred Sixty Dollars (\$994,160).

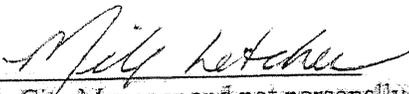
Amendment Number 1
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3. Section 13: Method of Payment – This section is amended to state that the City will provide the Agency with a Third payment of \$186,405 and a Fourth payment of \$186,405. The timing of these payments remains as stated in the original Agreement.

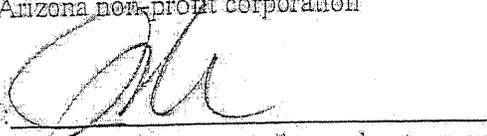
4. All other terms, conditions and provisions of Contract No. 16541 not specifically changed by this Amendment shall remain in effect and be binding upon the Parties.

IN WITNESS WHEREOF, the Parties hereto have executed this Amendment as of the date first above written.

CITY OF TUCSON, a municipal corporation.

BY: 
As City Manager and not personally

TUCSON REGIONAL ECONOMIC OPPORTUNITIES, INC.
an Arizona non-profit corporation

BY: 
As Agency Representative and not personally

APPROVED AS TO FORM this
7th of April, 2010

for City Attorney and not personally



MEMORANDUM

DATE: June 2, 2010

TO: Independent Audit and Performance
Commission (IAPC) Members

FROM: Marie Nemerguth
Program Director
Budget and Internal Audit

SUBJECT: Tucson Regional Economic Opportunities (TREGO): Fiscal Year 2010 Contract

Council Member Kozachik has recently communicated comments/concerns to the City Manager and me regarding TREGO which I have included as an attachment to this memo.

As you know, the IAPC is currently responding to a request from the City Manager to report on TREGO's compliance with Fiscal Year 2010 contract deliverables. Per your May 5 meeting discussion, Commission Chair Cormier will present a proposal at today's meeting that he has prepared to detail a process by which you could meet the City Manager's request. Therefore, I anticipate that it would be helpful if the IAPC take the council member's comments under consideration as part of your review.

Please note that per the terms of the City contract, the fourth and final Fiscal Year 2010 payment of \$186,405 is to be paid on or before June 15, 2010. This timeline was established in order to ensure that final payment was made prior to the close of the City's financial fiscal year on June 30, 2010. However, it is possible to delay this payment by accruing it as an accounts payable until the IAPC has issued its report to the City Manager. Payments are made "upon receipt of an Agency invoice accompanied by evidence that substantial progress has been made toward its Fiscal Year 2010 deliverables." I have provided Jane Prior, Internal Audit Manager, with a copy of TREGO's first quarter FY 2010 report for your review in the event that you are interested in the format of "evidence" that is submitted by TREGO to the Budget Office on a quarterly basis per the contract terms.

Internal Audit staff is available over the next month to follow-up with TREGO as needed regarding IAPC's particular areas of interest. The City Manager and I look forward to the IAPC's subsequent report which will be shared with the Mayor and Council. I am sure that TREGO anticipates a timely review of their compliance with contract deliverables which could then result in the fourth quarter payment being made by the City of Tucson.

c: Mayor and Council
Mike Letcher
Richard Miranda
Sean McBride
Jane Prior
Joe Snell

Council Member Kozachik Comments to City Manager Letcher (5/29/10):

"I understand that TREO sat before the audit commission and made a presentation intended to justify our further funding of the group. I read through the document they presented. I have shared these thoughts with Joe Snell.

The deliverables identified in the report don't match those in their contract, the answers given on #'s 3 & 5 are not responsive to what they're supposed to be measuring, there are multiple sections in the report that suggest initiatives w/o anything to indicate the success they have generated, and they could cut the report down by about 5 pages if they didn't repeat entire sections from one page to another. Maybe I'm just more of a bottom line person, but I come away from the report asking 'so what?'

Lots of studies, meetings, analyses and trips - so where's the beef in terms of relocations, tax dollars and jobs generated? What specific effect did the California initiative deliver? What companies are now in Tucson as a result of the sales/trade missions? Why list (more than once in the report) an initiative whereby companies get their CofO w/in 90 days when that's not happening? Maybe they've got that data, but it's certainly not reflected in the document by which TREO was supposed to be evaluated. They cite 129 leads from the California initiative. How many relocated?

They note 80 retention meetings. Who sees the results of those meetings? I haven't seen any. How can policy makers react if exit interviews are stuffed in a drawer? They note 'continue to advance' the inland port concept. How? What's the progress and the game plan?

We pay them over a million \$\$ p/yr. What the report they presented was were a series of meetings, trips, surveys and initiatives. What was the ROI? Don't get me wrong - I'd vote to triple their contract if the deliverables are being met, but what they have presented doesn't demonstrate that.

They are to compete for further funding through an rfp process. Ahead of that though they are to demonstrate to you that they are meeting current deliverables. Some of those are simply data; objective measures.

Where are you in the process of determining their compliance and what is the basis for your conclusions?

It's simply a question of do they demonstrate an ROI from taxpayer money that is consistent with what they're contracted to do?"

Proposal:
IAPC Review of City of Tucson's Contract
with Tucson Regional Economic Opportunities (TREO)

Manager Request to IAPC: Prepare a report to City Manager as to whether TREO is in compliance with the terms of the City Contract pertaining to outcomes/deliverables.

City/TREO Contract: The contract entered into on September 9, 2009 contains three major outcome/deliverable categories. Twelve specific deliverables are listed under the three major categories. Numerous programs/initiatives are identified in the contract as supporting the attainment of required outcomes/deliverables. In January 2010, the City and TREO amended the contract to reduce funding and to accordingly reduce the scope of services. Outcomes/deliverables remained substantially the same with lowered required attainment levels.

Proposal for IAPC Audit/Review of Contract Outcome/Deliverables: IAPC to audit/review five of the twelve outcomes/deliverables required under the contract. The following deliverables have been selected for review:

1. Generate 8% of all job development with the targeted industries (solar, biosciences, logistics and transportation, and aerospace and defense).
2. Generate \$40 million in regional capital investment.
3. Improve market intelligence including trends, analysis, and metrics within the targeted industries.
4. Increase capabilities to accommodate market needs related to available commercial real estate opportunities.
5. Measure and evaluate the region's competitiveness.

It is noted that the contract does not provide information on how outcomes or deliverables are to be measured or calculated. Additionally, the contract does not provide for programs/initiatives to support each outcome/deliverable.

Proposed Process: TREO has provided the IAPC with a memorandum dated April 7, 2010, containing information on their compliance with contract deliverables. To review compliance with the contract requirements, IAPC will request TREO provide supporting documentation for the five outcomes deliverables listed above.

Since the contract does not specify how outcomes or deliverables are to be calculated or measured, the documentation provided should include the criteria TREO used in determining attainment of deliverables. Documentation should include responses to the following questions:

1. How did TREO determine that it generates 8% all job development with the targeted industries? How is total job development population determined upon which the 8% is calculated?
2. How did TREO determine that it generated \$40 million in regional capital investment? How is regional capital investment defined? How does TREO determine it is responsible for specific

- capital investment?
3. What steps did TREO undertake to improve market intelligence including trends, analysis, and metrics within the targeted industries? What are the examples of these improvements in terms of effectiveness or efficiencies? How has this information been used by the targeted industries?
 4. What initiatives has TREO undertaken to increase capabilities to accommodate market needs related to available commercial real estate opportunities? How are results measured?
 5. What criteria has TREO used to measure and evaluate the region's competitiveness? How is this information being provided to local businesses? Is it useful to them? In what way is this information being used?

Report to City Manager: Following review of documentation, IAPC will prepare a report to the City Manager discussing the review process and findings.



June 11, 2010

Mr. David Cormier
Chair, Independent Audit and Performance Commission (IAPC)
City of Tucson
255 W. Alameda, 10th Floor
Tucson, AZ 85701

Re: Independent Audit and Performance Commission Review

Please find attached TREO's responses to the five follow-up questions presented at the June 2nd meeting of the IAPC, pursuant to your request. This will confirm that the IAPC will meet on June 16, 2010 to review these responses. It is our hope that the IAPC can then issue a contract compliance decision with respect to TREO's performance. I look forward to seeing you on June 16th. Please contact me with any questions you have about these responses or TREO's original performance report submitted in April.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Welsh", is written over a light-colored background.

David Welsh
Executive Vice President

Cc: Mike Letcher, City Manager
Marie Nemerguth, Program Director, Office of Budget and Internal Audit
Jane Prior, Internal Audit Manager, Office of Budget and Internal Audit

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1. How did TREO determine that it generates 8% all job development with the targeted industries? How is total job development population determined upon which the 8% is calculated?

Background Reference:

TREO Contract Deliverable: Generate 8% of all job development within the targeted industries (solar, biosciences, logistics and transportation, and aerospace and defense).

Response:

To date, 82% of the jobs projected to be created are in the targeted industries.

In order to track and evaluate business development attraction, expansion and retention activities, TREO maintains a comprehensive project management database. Prospect interactions and project details are documented on an individual basis and include information regarding specific industry sector association, description of facility function, type of product or service, number of new jobs anticipated by the company, types of job expertise required, average wages, capital investment anticipated, real estate/property requirements, etc. The information contained in TREO's project management database can be quickly and easily extracted for quantified reporting and evaluation purposes.

TREO's reported total job development population (new job development estimates are provided by the client and pertain to new jobs directly related to the project) is determined by extracting information from the project management database, which only outputs information related to TREO client/projects. Therefore, TREO reports related to estimated new targeted industry jobs reflect a summary of overall TREO-managed projects.

Using data extracted from TREO's project management database, in FY 09/10, 225 direct jobs are projected to be generated in the region by 5 company successes. Of these, 185 (or 82% of the jobs projected) are in the targeted industries.

2. How did TREO determine that it generated \$40 million in regional capital investment? How is regional capital investment defined? How does TREO determine it is responsible for specific capital investment?

Background Reference:

TREO Contract Deliverable: Generate \$40 million in regional capital investment.

Response:

To date, \$48.5 million is projected to be generated in the region.

Capital investment is a critical factor to evaluate the community impact of a potential business development opportunity; this is carefully tracked in TREO's project management database mentioned above. Prospect interactions and project details are documented on an individual basis and capital investment is anticipated within the project context of industry sector association, description of facility function, type of product or service, number of new jobs anticipated, types of job expertise required, average wages, real estate/property requirements, etc. The information contained in TREO's project management database can be quickly and easily extracted for quantified reporting and evaluation purposes.

TREO's reported total capital investment (capital investment amount estimates are provided by the client and pertain to project costs associated with anticipated land, building and equipment expenditures) are determined by extracting information from the project management database, which only outputs information related to TREO client/projects. Therefore, TREO reports related to estimated capital investment reflect a summary of overall TREO-managed projects.

Using data extracted from TREO's project management database, in FY 09/10, \$48.5 million is projected to be generated in the region. 97% of the projected capital investment is in the targeted industries.

Note: TREO's FY09/10 ends 6/30/10, and both the job and capital investment numbers may be increased in the final year end TREO Report.

3. (a) What steps did TREO undertake to improve market intelligence including trends, analysis, and metrics within the targeted industries? (b) What are the examples of these improvements in terms of effectiveness or efficiencies? (c) How has this information been used by the targeted industries?

Background Reference:

TREO Contract Deliverable: Improve market intelligence including trends, analysis and metrics within the targeted industries.

Response:

3(a)

- In order to better understand and present the assets of the regional solar manufacturing and power generation sector, TREO conducted an economic impact analysis. This can be found at http://treoaz.org/TREO/media/docs/Press%20Releases/Tucson_Solar_Companies_Economic_Impact.pdf
- Recognizing the potential of transportation and logistics assets in Southern Arizona, in 2007 the City of Tucson requested that TREO develop a comprehensive strategic plan for the regional transportation and logistics sector. Extensive research efforts (led by a Logistics Advisory Council made up of local industry) resulted in TREO's

2009 Tucson Regional Inland Port Strategic Implementation Plan. This plan affirmed the presence of sufficient assets, markets, and opportunities to continue advancing the inland port concept in the Tucson region.

- TREO conducted significant research efforts regarding business development opportunities associated with the Aerospace and Defense sector. The report focuses on industry trends, a SWOT analysis of Tucson's assets and what it will take to successfully expand the current base of the sector.
- TREO promoted and incorporated the research and concepts that were developed in its *Tucson: Job One* report to local and statewide elected officials. Concepts included support for demand-side workforce development and the strategic use of financial incentives for encouraging job creation within targeted industries.
- TREO conducted economic and fiscal impact analysis for University Medical Center on its planned expansion with the new Diamond Children's Medical Center. The Diamond Children's Center (just opened) is a new facility that unites the pediatric resources of UMC and the Steel Children's Research Center. TREO's analysis demonstrated the strength and opportunities associated with the region's bioscience sector.

3(b)

Market intelligence regarding trends, analysis and metrics has been a significant factor to direct TREO's targeted industry business development activities, resulting in efficient and focused activities with highest potential for results. For example, the report compiled on the Aerospace/Defense industry has been shared with Raytheon and other companies in this industry to identify supply chain opportunities, as well as other activities that could support the region's export-based industries.

3(c)

On an ongoing basis, TREO distributes market intelligence and targeted industry trends to government, private sector and media representatives through a variety of channels, including community presentations, the TREO annual luncheon, TREO annual report, web site, social media, email blasts, etc.

In addition, the reports are used by business development clients to evaluate whether to relocate or expand within the Tucson region. Finally, TREO has also utilized the information for incentive development and strategies within the solar manufacturing and power generation sector. (Attached please find a copy of the Tucson Region Aerospace & Defense Growth Strategies and Tucson: Job One reports.)

4. What initiatives has TREO undertaken to increase capabilities to accommodate market needs related to available commercial real estate opportunities? How are results measured?

Background Reference:

TREO Contract Deliverable: Increase capabilities to accommodate market needs related to available commercial real estate opportunities.

Response:

4(a)

- Development and implementation of a rapid response broker/developer community property search notification process, insuring that all local stakeholders have the opportunity to provide real-time availability or future availability of appropriate properties.
- Implementation of a “Shovel Ready” program, which provides the opportunity for brokers/developers to proactively seek approval and guarantee of occupancy in 90 days from appropriate governmental agencies (certified shovel ready sites are posted on TREO’s web site).
- TREO staff visits/tours of available properties/facilities to increase staff site familiarity and infrastructure details associated with individual properties.
- Use of commercial property/demographic software tools to assist TREO staff in rapid response to regional information requests.
- On-going interaction/communication with broker/developer organizations and businesses regarding TREO’s client/project interaction pertaining to Tucson’s property/facility competitiveness outcomes and perspectives.

4(b)

Measurement of the effectiveness of TREO’s efforts to increase efficiency in this area include: available community property/facility search response times, completeness of property/facility search responses and general feedback from the broker/developer community at large.

5. What criteria has TREO used to measure and evaluate the region’s competitiveness? How is this information being provided to local businesses? It is useful to them? In what way is this information being used?

Background Reference:

TREO Contract Deliverable: Measure and evaluate the region’s competitiveness.

Response:

TREO uses multiple criteria to assess Tucson's competitive position relative to other regions that compete with it for jobs, workforce and companies.

In terms of geography, the competitor cities listed below are frequently considered as business locations by firms that also consider Tucson. Comparing Tucson's economic performance to that of these 10 cities gives community leaders a good indication of overall economic competitiveness and also highlights what Tucson needs to do to become more competitive. Although the specific competitor varies by deal, the 10 most common competitor cities are:

Albuquerque	Phoenix
Austin	Portland
Dallas	Salt Lake City
Denver	San Antonio
Las Vegas	San Diego

When a firm or site selector is considering Tucson against competitors, it mostly considers the following Top 10 factors:

1. Workforce Skills/Match
2. Incentives (State)
3. Utility Infrastructure & Cost
4. Incentives (Local)
5. Labor Supply
6. Ease of Permitting & Regulatory Procedures
7. Statewide Tools/Programs (Equity pools/training programs)
8. State and Local Taxes
9. Higher Education Resources
10. Transportation Infrastructure

In light of the above factors and competitor regions, TREO tracks the following criteria to benchmark the Tucson region. Often some of these same data points are requested through TREO clients' RFI/RFP processes for site evaluation, thus used for site selection decision-making.

High-Skilled/High-Wage Jobs:

Taxes per Capita
FDI investment (Foreign Direct Investment)
Net Job Creation by Metro Area
Venture Capital Investment
Export Volume
Wages by Metro Area
Personal Income per Capita, by Metro Area
Percent Population in the Workforce, by age range
Growth in Targeted Industry Establishments/Employment

Educational Excellence:

ACT Scores
University Expenditure R&D Rankings
High School Graduation Rates
Student Retention Rates and Graduate Retention in Tucson (UA)
Percent of Degreed Population
School District Rankings
Math and Science Proficiency Rankings
Expenditures per Pupil

Livable Communities:

Air Quality
Energy Use per Capita
Average Commute Time to Work
Cost of Living Index
Housing Affordability
Poverty Rate
Crime Rates

Beyond using this data in RFI/RFP responses for site selection purposes, TREO uses a variety of avenues annually to communicate this information on a local and national basis, including:

- Annual Luncheon (500-600 attendees)
- TREO Annual Report (general business development trends)
- Monthly Association/Area group presentations (2-3 per month, 50-100 in attendance)
- Press/articles in area business publications and newspapers (see TREO press articles submitted previously with Audit Commission response)
- Broadcast interviews
- Social Media
- TREO web site (Data Center) at <http://www.treoaz.org/Data-Center.aspx>
- "Select Tucson" Site Selection Quarterly Newsletter to 2,500 site selectors
- Monday Memos to TREO Investors and Stakeholders
- Regional Partner presentations and individual meetings with public sector agencies
- Quarterly Pipeline Previews