

Independent Investigation Report

Investigation No. IN24007

Prepared for:

Office of the City Auditor



October 22, 2024

Contents

Scope of Work..... 1

Executive Summary 2

PFM Financial Advisors, LLC 5

Hiring of Canales and Huffman as Consultants 10

Summary of Findings..... 20

Conclusion 26

Exhibits 27

Scope of Work

Weaver and Tidwell, L.L.P. ("Weaver") and Ross Fischer of Ross Fischer Law, PLLC ("Mr. Fischer") were retained by the Office of the City Auditor for the City of Austin (the "City") to conduct an independent investigation into certain allegations received by the Office of the City Auditor involving the hiring of consultants by Jesus Garza during his tenure as Interim City Manager starting in February 2023.¹ Specifically, we were asked to investigate whether ICM Garza violated the City's Code of Ethics with respect to the City's subcontracting of consulting services through Joe Canales ("Canales") and Laura Huffman ("Huffman") through her business Civic Solutions Partnership LLC ("CivicSol").²

We have made our best effort, given the available time and resources, to conduct an impartial, independent and extensive investigation into the allegations against ICM Garza. The following work steps were performed as part of our independent investigation:

- Reviewed information and documentation provided by the Office of the City Auditor by the complainant submitting the allegation against ICM Garza;
- Reviewed contract documents and amendments for the City's contract with PFM Financial Advisors, LLC executed in April 2017;
- Reviewed financial records and data from the City's eCapris system for delivery orders and expenditures associated with the City's contract with PFM Financial Advisors, LLC;
- Reviewed subcontractor agreements and invoices submitted by Canales and Huffman (dba CivicSol) for consulting services;
- Reviewed email communications concerning consulting services provided by Canales and Huffman;
- Conducted background research of relevant individuals, including research of publicly available information, media articles, as well as information from social media;
- Conducted interviews with ICM Garza, Canales, Huffman, individuals from the Office of the City Manager and Treasury Department, as well as representatives from PFM Financial Advisors and PFM Group Consulting;
- Reviewed the City of Austin Code of Ethics and state statutes concerning municipal procurement (and interpretive guidance).

While Weaver performed additional work steps not included above, the above listed work steps reflect the actions performed by Weaver that formed the basis for our observations and findings discussed throughout the remainder of this Report.

¹ City Code requires the City Auditor to hire an external party to investigate allegations of City Code violations by a member of City Council, a member of City Council's direct staff, or the City Manager. *City Code: § 2-3-5 (K)*

² Consulting services for Huffman were subcontracted through her business, CivicSol. Canales provided consulting services as an individual.

Executive Summary

An executive summary of the independent investigation into the allegations that ICM Garza violated the City's Code of Ethics is outlined below.

I. Summary of Findings

Based on the evidence and information reviewed during our investigation, it is our determination that ICM Garza appeared to violate §2-7-62 (I) of the City Code for the reasons outlined below.

a. City Code §2-7-62 (I)

A salaried City official or employee may not use the official's or employee's official position to secure a special privilege or exemption for the official or the employee, to secure a special privilege or exemption for another person, to harm another person, or to secure confidential information for a purpose other than official responsibilities.

b. Basis for Opinion

- ICM Garza, while a salaried City official, used his official position to secure a special privilege for Joe Canales, to wit: he secured a contract for Canales in a manner that avoided City Council approval, disregarded the City's MBE/WBE Procurement Program, and allowed Canales to receive more compensation than he would have been able to receive as a City employee.
- ICM Garza, while a salaried City official, used his official position to secure a special privilege for Laura Huffman, to wit: he secured a contract for Huffman (dba CivicSol) in a manner that avoided City Council approval and disregarded the City's MBE/WBE Procurement Program.

II. Detail of Findings

Detail of our findings in support of our determination that ICM Garza appeared to violate §2-7-62 (I) of the City Code is outlined below.

- Shortly after his appointment as Interim City Manager in February 2023, ICM Garza facilitated the hiring of Canales and Huffman to provide consulting services to the City Manager's Office as subcontractors under the City's 2017 contract with PFM Financial Advisors, LLC ("PFM FA"), through its affiliate PFM Group Consulting, LLC. It was anticipated that Canales and Huffman would provide consulting services during the duration of ICM Garza's tenure as ICM, which was initially expected to be six (6) to eight (8) months.
- ICM Garza facilitated the engagement of Canales and Huffman through communications with representatives from PFM FA, as well as communications with the City's CFO. ICM Garza wished to engage Canales and Huffman due to their breadth of experience with each having worked previously for the City, including in leadership positions under ICM Garza during his tenure as City Manager in the late 1990s and early 2000s. ICM Garza also sought services from Canales and Huffman as they were able to start immediately and neither were looking for a long-term position with the City.

- Canales and Huffman served in the capacity as de facto Assistant City Managers, reporting directly to ICM Garza to support executive transition leadership and provide strategies and design frameworks to address high priority issues facing the City, as well as to review and recommend appropriate organizational changes.³
- Canales received payments from the City (as a subcontractor through PFM Group Consulting) totaling \$268,375 for consulting services provided to the City Manager's Office during the February 2023 – December 2023 time period (based on 1,412.50 hours at an hourly rate of \$190). Consulting payments to Canales averaged \$26,838 per month.
- Huffman received payments from the City (as a subcontractor through PFM Group Consulting) totaling \$285,800 for consulting services provided to the City Manager's Office during the February 2023 – February 2024 time period (based on 1,429 hours at an hourly rate of \$200). Consulting payments to Huffman averaged \$25,982 per month.
- Hourly rates were derived by Canales based on the anticipated annual salary for the Deputy City Manager position (which was vacant at the time) of \$325,000, divided by 2,080 hours and grossed up by approximately 22% to account for estimated benefits that would have been received by an employee.
- While the City Charter limits the purchasing authority of the City Manager to contract amounts up to \$76,000 (as of 2023), the subcontracts for consulting services provided by Canales and Huffman were not submitted to City Council for approval.
- ICM Garza's chief objective in contracting with Canales and Huffman as subcontractors under the City's contract with PFM FA was to onboard them expeditiously to address immediate issues facing the City related to Winter Storm Mara, as well as the pending expiration of the City's long-term contract with the Police Department. ICM Garza also indicated that he felt that a permanent Deputy City Manager and Assistant City Manager should be hired by his successor (i.e., the incoming permanent City Manager).
- It was also determined that Canales was not eligible to be hired as a full-time employee due to his previous retirement from the City and restrictions on working over 29 hours per week under the City's retirement program.⁴ In January 2024, Canales terminated his subcontract with PFM Group Consulting and began providing services to the City Manager's Office as a part-time employee working less than 30 hours per week.
- PFM FA has provided financial advisor services to the City since 1992. In April 2017, the City executed a 60-month contract with PFM FA to provide financial advisor services in an amount not-to-exceed \$1.5 million, with three 1-year extension options of \$300,000 each year (total of \$2.4 million authorized from April 2017 – April 2025).
- While the primary scope of work under the City's contract with PFM FA was to provide services related to bond sales and other debt issuances, the scope of work also allowed for financial planning and other financial consulting related tasks, including assisting with management studies

³ Canales and Huffman each had assigned offices in the City Manager's Office and worked on a full-time basis in their role as consultants for the City.

⁴ Huffman did not previously retire from the City, but indicated that she was not interested in returning to the City in the capacity of a full-time employee.

of various enterprise funds, performing fee studies, and financial evaluation of developer agreements.

- The City's CFO and Treasurer reviewed the scope of work for consulting services to be provided by Canales and Huffman as subcontractors and determined that the services aligned with the scope of work related to "assisting with management studies of various enterprise funds."⁵
- We did not identify any management studies of enterprise funds conducted by Canales and Huffman, and it appeared that their focus was on issues related to organizational health, human resources, and supporting the executive leadership transition as opposed to technical financial issues described in the scope of work for the City's contract with PFM FA.
- The City's contract with PFM FA required approval through the Small and Minority Business Resources Department ("SMBR") to ensure compliance with the MBE/WBE Procurement Program for any services to be provided by subcontractors. It did not appear that the hiring of Canales and Huffman as subcontractors was approved by SMBR.
- PFM FA accommodated the request from ICM Garza to engage Canales and Huffman (dba CivicSol) as subcontractors even though PFM FA received no financial benefit, with 100% of consulting fees passing through PFM Group Consulting from the City to Canales and Huffman. In fact, the subcontracts for Canales and Huffman (dba CivicSol) encumbered over 36% of the \$2.4 million contract amount authorized under the City's contract with PFM FA.⁶

⁵ Based on our interviews of the City's CFO and Treasurer, neither indicated that they were pressured or influenced by ICM Garza in their alignment review of the scopes of work for Canales and Huffman relative to the City's contract with PFM FA.

⁶ The City issued delivery orders authorizing payments to Canales and Huffman up to \$857,000, of which \$554,175 was ultimately expended (\$268,375 in payments to Canales and \$285,800 in payments to Huffman).

PFM Financial Advisors, LLC

PFM Financial Advisors LLC ("PFM FA") is an independent financial advisory firm founded in 1975 and the largest provider of financial advisory services to public entities in the United States. Since 1992, PFM FA has served as the financial advisor for the City of Austin, during which time they worked on various engagements including traditional debt financings and special projects, fee and permit studies, as well as the convention center debt capacity analysis, among other projects.

a. City Contract with PFM FA Executed in 2017

On June 20, 2016, the City's Purchasing Office issued a Request for Qualification Statements (RFQS SMB0301) for financial advisor services and received proposals from four (4) firms, including PFM FA. On September 1, 2016, City Council approved the recommendation from the Purchasing Office for the negotiation and execution of a 60-month contract with PFM FA to provide financial advisor services on an as-needed basis in an amount not to exceed \$1,500,000, with three (3) 12-month extension options in an amount not to exceed \$300,000 per extension option (total contract amount not to exceed \$2,400,000).⁷ In April 2017, the City executed a contract with PFM FA with a 60-month contract period from April 22, 2017 through April 21, 2022 and three (3) 12-month extension options.⁸ A summary of the City's original contract with PFM FA and subsequent amendments is provided in the table below.⁹

Amendment No.	Date	Description of Amendment	Amount
Original Contract	4/22/2017	60-month contract with PFM FA to provide financial advisor services in an amount not-to-exceed \$1.5 million	\$1,500,000
Amendment No. 1	4/25/2017	Incorporated Scope of Services for Colony Park Development Implementation Support	\$0
Amendment No. 2	7/7/2017	Changed the vendor name from Public Financial Management Inc. to PFM Financial Advisors LLC	\$0
Amendment No. 3	5/5/2020	Added Synario as a subcontractor to provide software subscription services for Austin Water budgeting platform	\$0
Amendment No. 4	3/21/2022	Exercised contract extension option to extend contract for the April 22, 2022 – April 21, 2023 time period	\$300,000
Amendment No. 5	2/24/2023	Exercised contract extension option to extend contract for the April 22, 2023 – April 21, 2024 time period	\$300,000
Amendment No. 6	3/1/2024	Exercised contract extension option to extend contract for the April 22, 2024 – April 21, 2025 time period (final extension option)	\$300,000
Total Contract Amount (Including Amendments)			\$2,400,000

⁷ See **Exhibit 1** [Recommendation for Council Action dated September 1, 2016]

⁸ See **Exhibit 2** [Contract between the City and PFM FA dated April 7, 2017]

⁹ Amendments to the City's contract with PFM FA are attached to this Report. See **Exhibits 3-8**

b. Contractor Requirements

The City's contract with PFM FA executed in April 2017 contractor requirements included in the scope of work for financial advisor services.¹⁰

Scope No.	Description of Responsibilities
1. Bond Sales and Other Financing	
1.1	Provide recommendations on the marketing of bonds including methods for enhancing the rating, advice on bond covenants, pledge of revenue, flow of funds, legal coverage requirements, municipal bond market trends, and timing of issuances.
1.2	Provide advice and assistance on the requirements of various financing structures, the principal amount of bonds to be sold, maturity schedules, call and put features, premiums/discounts, basis of awards and types of sales.
1.3	Prepare a distribution list and timeline to include identification of tasks to be completed and those responsible, as well as critical events and deadlines, for each financing undertaken.
1.4	Prepare preliminary and final official statements and other offering documents as applicable to fully comply with all disclosure rules and requirements.
1.5	Coordinate bond ratings for any proposed issuance and participate in the preparation of information required for submission to the bond rating agencies.
1.6	Attend executive staff and City Council meetings and present information concerning issuance as requested.
1.7	Advise, inform and assist the City with the issuance's due diligence conference.
1.8	Provide guidance during pre-pricing and pricing negotiations with underwriters.
1.9	Arrange for delivery of bonds and coordinate with bond counsel and registrar; oversee bond closings with successful bidder/senior underwriter, paying agent registrar, trustee, bond counsel, disclosure counsel, verification agent, and City staff, including instructions for closing, and arrange for printing and mailing of final offering documents with printer.
1.10	Prepare and present a post-issuance report that includes a debt schedule for the issue that includes, at a minimum, principal and interest requirements, the true interest cost, and a written discussion of any circumstances relating to the market or the City's offering that may have impacted the sale results.
1.11	Assist the City as requested in complying with continuing disclosure of financial information and operating data pursuant to all Security and Exchange Commission rules.
2. Financial Planning and Other Tasks	
2.1	Assist in evaluating the performance of remarketing agents and credit facilities for commercial paper programs and variable rate demand notes, including borrowing rates, fees and other costs.
2.2	Evaluate and offer alternative financing techniques and instruments in addition to the traditional methods of financing utilized by the City.
2.3	Provide special financial advice to the City as needed. This may include assistance in the development of alternative financing programs for potential capital projects or assistance with upcoming bond elections, working with citizen committees, evaluating State and Federal legislation for the City, and other tasks as needed.
2.4	Provide financial planning services on a case-by-case basis including assisting with management studies of various enterprise funds, performing fee studies, evaluating consent agreement requests from Municipal Utility Districts, financial evaluation of developer agreements, and other like tasks.

¹⁰ See **Exhibit 2** [Contract between the City and PFM FA dated April 7, 2017]

c. Use of Subcontractors

The contract documents submitted by PFM FA concerning the Minority-And Women-Owned Business Enterprise ("MBE/WBE") Procurement Program indicated that PFM FA did not intend to use subcontractors or sub-consultants to perform the services under the contract. PFM FA also acknowledged that they would comply with the City's MBE/WBE Procurement Program goals and requirements if areas were identified that required the use of subcontractors. Even though no goals were established concerning the MBE/WBE Procurement Program, PFM FA was required to contact the Small and Minority Business Resources Department ("SMBR") to obtain a list of MBE and WBE firms available and make a good faith effort us use available MBE and WBE firms.¹¹

The City of Austin has determined that no goals are appropriate for this project. Even though no goals have been established for this solicitation, the Bidder/Proposer is required to comply with the City's MBE/WBE Procurement Program, if areas of subcontracting are identified.

If any service is needed to perform the Contract and the Bidder/Proposer does not perform the service with its own workforce or if supplies or materials are required and the Bidder/Proposer does not have the supplies or materials in its inventory, the Bidder/Proposer shall contact the Small and Minority Business Resources Department (SMBR) at (512) 974-7600 to obtain a list of MBE and WBE firms available to perform the service or provide the supplies or materials. The Bidder/Proposer must also make a Good Faith Effort to use available MBE and WBE firms. Good Faith Efforts include but are not limited to contacting the listed MBE and WBE firms to solicit their interest in performing on the Contract; using MBE and WBE firms that have shown an interest, meet qualifications, and are competitive in the market; and documenting the results of the contacts.

Will subcontractors or sub-consultants or suppliers be used to perform portions of this Contract?

No If no, please sign the No Goals Form and submit it with your Bid/Proposal in a sealed envelope.

Yes _____ If yes, please contact SMBR to obtain further instructions and an availability list and perform Good Faith Efforts. Complete and submit the No Goals Form and the No Goals Utilization Plan with your Bid/Proposal in a sealed envelope.

After Contract award, if your firm subcontracts any portion of the Contract, it is a requirement to complete Good Faith Efforts and the No Goals Utilization Plan, listing any subcontractor, subconsultant, or supplier. Return the completed Plan to the Project Manager or the Contract Manager.

I understand that even though no goals have been established, I must comply with the City's MBE/WBE Procurement Program if subcontracting areas are identified. I agree that this No Goals Form and No Goals Utilization Plan shall become a part of my Contract with the City of Austin.

PFM Financial Advisors LLC

 Company Name
 Rep. from PFM

 Name and Title of Authorized Representative (Print or Type)
Signature

 Signature

July 11, 2016

 Date

¹¹ See **Exhibit 2** [Contract between the City and PFM FA dated April 7, 2017]

d. PFM Group Consulting, LLC

In December 2022, PFM Group Consulting, LLC (“PFM Group Consulting”) was added to the City’s contract with PFM FA.¹² In an email to the City’s Procurement Office, a Managing Director for PFM FA explained that PFM FA and PFM Group Consulting are both “LLCs under the parent company PFM II.”¹³ The representative for PFM FA also indicated that the two entities are separated for regulatory purposes as PFM FA is regulated by the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB).

e. Expenditures for City’s Contract with PFM FA

During the April 2017 – May 2024 time period, the City issued 42 delivery orders under the 2017 contract with PFM FA totaling \$1,930,285, which were issued to PFM FA and affiliated entities (i.e., PFM Group Consulting and PFM Solutions). For certain projects, PFM FA or its affiliates also engaged subcontractors either through PFM FA or through the affiliated entity. As of May 2024, the City expended \$1,520,400 of the \$1,930,285 in amounts authorized under delivery orders issued for the 2017 contract with PFM FA. A summary of amounts authorized and expended by project / service during the April 2017 – May 2024 time period is provided in the table below.¹⁴

Summary of PFM FA Contract Expenditures by Project / Services (April 2017 through May 2024)				
Project / Services	Contractor	Subcontractor	Authorized Amount	Expended Amount
CMO Consulting Services	PFM GC	Huffman (dba CivicSol)	\$ 440,000	\$ 285,800
CMO Consulting Services	PFM GC	Joe Canales	417,000	268,375
2020 Retiree Benefits Analysis	PFM FA	N/A	207,671	207,671
MLS Consulting Services	PFM FA	Subcontractor A*	205,054	205,054
Software for Austin Water Budgeting	PFM Solutions	Subcontractor B*	155,722	155,722
Project CONNECT Financial Advisory Services	PFM FA	N/A	135,909	135,909
Colony Park Development - Feasibility Analysis	PFM FA	Subcontractor C*	96,529	96,529
Special Events & Cost of Service Fee Analysis	PFM FA	N/A	50,000	50,000
Convention Center - Debt Capacity Analysis	PFM FA	N/A	41,890	41,890
City Pension Analysis	PFM GC	Subcontractor D*	100,000	35,440
EMS Compensation Study	PFM GC	N/A	28,000	28,000
Austin Energy	PFM FA	N/A	10,010	10,010
Police Negotiations	PFM GC	N/A	42,500	-
Total			\$1,930,285	\$1,520,400

* Subcontractor names other than Canales and Huffman (dba CivicSol) have been redacted from this table.

¹² See **Exhibit 9** [Memo to File dated December 12, 2022]

¹³ See **Exhibit 9** [Memo to File dated December 12, 2022]

¹⁴ Weaver’s analysis is based on the review financial records and data from the City’s eCapris system for delivery orders and expenditures associated with the City’s contract with PFM FA during the April 2017 – May 2024 time period.

A summary of expenditures under the 2017 PFM FA contract by year is provided below.

Summary of PFM FA Contract Expenditures by Year (April 2017 through May 2024)										
Project / Services	Expended Amounts by Calendar Year									Total
	2017	2018	2019	2020	2021	2022	2023	2024		
Convention Center - Debt Capacity Analysis	\$ 41,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,890
Colony Park Development - Feasibility Analysis	12,615	83,915	-	-	-	-	-	-	-	96,529
Austin Energy	10,010	-	-	-	-	-	-	-	-	10,010
MLS Consulting Services	-	168,434	33,403	3,217	-	-	-	-	-	205,054
Special Events & Cost of Service Fee Analysis	-	-	-	50,000	-	-	-	-	-	50,000
Synario Software for Austin Water Budgeting	-	-	-	136,687	19,035	-	-	-	-	155,722
2020 Retiree Benefits Analysis	-	-	-	16,684	71,645	71,645	47,698	-	-	207,671
Project CONNECT Financial Advisory Services	-	-	-	-	135,909	-	-	-	-	135,909
City Pension Analysis	-	-	-	-	-	572	13,046	21,822	-	35,440
EMS Compensation Study	-	-	-	-	-	-	28,000	-	-	28,000
CMO Consulting Services - Canales	-	-	-	-	-	-	268,375	-	-	268,375
CMO Consulting Services - Huffman (dba CivicSol)	-	-	-	-	-	-	251,254	34,546	-	285,800
Police Negotiations	-	-	-	-	-	-	-	-	-	-
Total	\$ 64,515	\$ 252,348	\$ 33,403	\$ 206,588	\$ 226,588	\$ 72,279	\$ 609,791	\$ 54,888		\$ 1,520,400

The largest expenditures under the 2017 PFM FA contract pertained to consulting services provided by Canales and Huffman (dba CivicSol) for the City Manager's Office in 2023 and 2024, which collectively totaled \$554,175. Payments to Canales and Huffman (dba CivicSol) represented over 36% of the total expenditures under the 2017 PFM FA contract. Canales and Huffman (dba CivicSol) were engaged as subcontractors under PFM Group Consulting, as an affiliate of PFM FA, which is discussed in more detail in the following section of this Report.

Hiring of Canales and Huffman as Consultants

I. Background

a. Garza Appointed as Interim City Manager in February 2023

During the City Council meeting on February 15, 2023, City Council appointed Jesus Garza to serve as the Interim City Manager effective February 16, 2023 (referred to in this Report as "ICM Garza").¹⁵ Based on our interview of ICM Garza, he initially anticipated his tenure as Interim City Manager would be six (6) to eight (8) months while the City identified a permanent City Manager, but quickly realized his tenure would be longer due to the amount of work needed to be done.¹⁶ ICM Garza also stated that there was a need to move quickly after his appointment as the City was facing pressing issues related to the aftermath of Winter Storm Mara, while also in the midst of negotiations with the police department whose long-term contract with the City was set to expire in March 2023.¹⁷

b. ICM Garza Recruited Canales and Huffman in February 2023

During the first week after his appointment, ICM Garza contacted Joe Canales and Laura Huffman to recruit them to provide consulting services to the City Manager's Office during his tenure as Interim City Manager.^{18,19} Canales had previously worked for the City before retiring in 2006, during which time he served as Garza's Chief of Staff when Garza was the City Manager in the early 2000's.²⁰ Huffman also had prior work experience with the City through 2008, and served as an Assistant City Manager during a portion of Garza's tenure as City Manager.²¹ Shortly after their initial discussions with ICM Garza, Huffman and Canales began providing consulting services to the City Manager's Office on or around February 23, 2023.

¹⁵ Jesus Garza previously served as the City Manager for the City of Austin from 1994 to 2002. After his retirement from the City, Garza served as the Deputy General Manager for the Lower Colorado River Authority and then served as ministry market leader for Ascension Health's Texas and Arizona ministries.

¹⁶ Weaver interview of ICM Garza conducted on May 1, 2024. See **Exhibit 10**.

¹⁷ Weaver interview of ICM Garza conducted on May 1, 2024. See **Exhibit 10**.

¹⁸ Weaver interview of ICM Garza conducted on May 1, 2024. See **Exhibit 10**.

¹⁹ In our interview of ICM Garza, he indicated that he wanted to bring on Canales and Huffman because of the breadth of their experience working with the City, his prior experience working with them, and his belief that they were available and could be onboarded quickly.

²⁰ Weaver interview of Joe Canales conducted on June 17, 2024. See **Exhibit 11**.

²¹ Weaver interview of Laura Huffman conducted on June 17, 2024. See **Exhibit 12**.

II. Canales and Huffman Subcontracts with PFM Group Consulting

a. Discussions between ICM Garza and the City's CFO

Based on our interviews of ICM Garza and the City's Chief Financial Officer ("CFO"), it is our understanding that ICM Garza had a discussion with the CFO during his first week as Interim City Manager to discuss his interest in bringing on Canales and Huffman.²² According to ICM Garza, the CFO presented a "vehicle" for engaging Canales and Huffman as subcontractors under the City's 2017 contract with PFM FA.²³ According to ICM Garza, he was informed by the CFO that the City had engaged subcontractors under the PFM FA contract previously and ICM Garza authorized the CFO to move forward.²⁴ However, we were informed during our interview with the CFO that during the initial discussion it was ICM Garza who proposed the idea of engaging Canales and Huffman as subcontractors under the PFM FA contract as a way to bring them on quickly, and that ICM Garza indicated that this had been done when he was City Manager in the late 1990's and early 2000's.²⁵ We were also informed by the City's CFO that he informed ICM Garza that he would look into whether it were feasible to engage Canales and Huffman as subcontractors under the PFM FA contract following their initial discussion.²⁶

b. Discussions Between the City and PFM FA

During our interview of a representative for PFM FA, it is our understanding that ICM Garza contacted PFM FA in February 2023 to ask if it were possible to engage two (2) consultants to provide services to the City Manager's Office under the City's contract with PFM FA.^{27,28} During his discussion with ICM Garza, the representative for PFM FA informed ICM Garza that he would confer with PFM's legal counsel to determine whether there was a path for PFM to engage the consultants as subcontractors.²⁹ At some point during that call or a subsequent call, the representative for PFM FA informed ICM Garza that the consultants could not be engaged through PFM FA due to industry regulations related to financial advisors providing consulting services, but there was a possibility for the consultants to be engaged through PFM Group Consulting, an

²² Weaver interview of the City's Chief Financial Officer conducted on May 14, 2024. See **Exhibit 13**.

²³ Weaver interview of ICM Garza conducted on May 1, 2024. See **Exhibit 10**.

²⁴ Weaver interview of ICM Garza conducted on May 1, 2024. See **Exhibit 10**.

²⁵ Weaver interview of the City's Chief Financial Officer conducted on May 14, 2024. See **Exhibit 13**.

²⁶ Weaver interview of the City's Chief Financial Officer conducted on May 14, 2024. See **Exhibit 13**.

²⁷ Weaver interview with PFM FA conducted on June 27, 2024. See **Exhibit 14**.

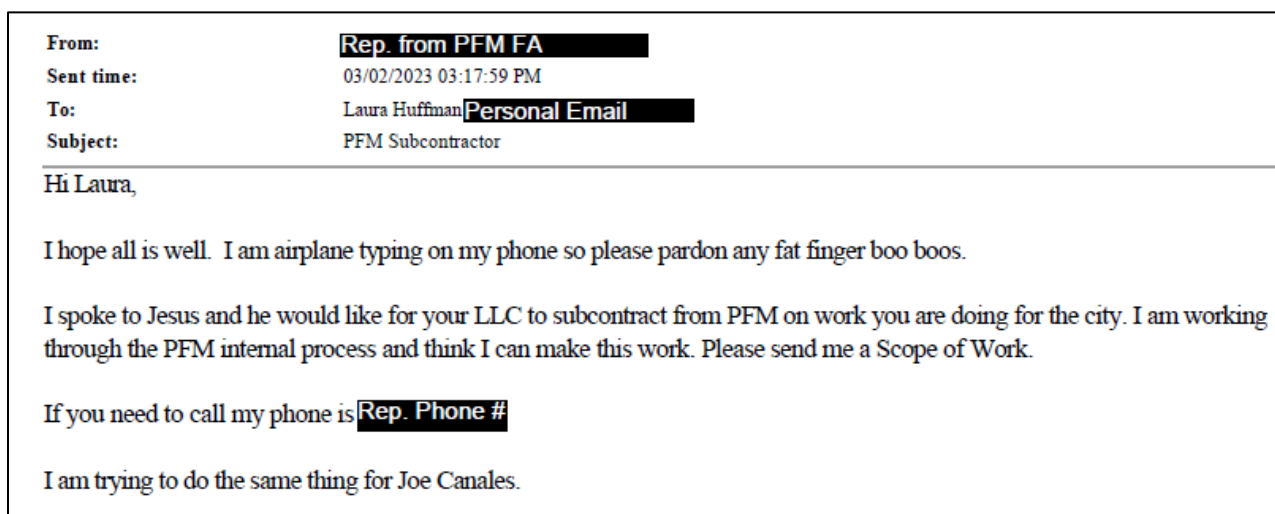
²⁸ The representative from PFM FA is a Managing Director based in Austin and the client representative for the contract with the City. The individual was previously employed by the City until 2005, during which time they served as the City Treasurer during Garza's tenure as City Manager.

²⁹ Weaver interview with PFM FA conducted on June 27, 2024. See **Exhibit 14**.

affiliate of PFM FA.³⁰ The Managing Director for PFM FA also recalled having subsequent discussions with the City's CFO and Treasurer related to contract administration matters in connection with engaging Canales and Huffman (dba CivicSol) as subcontractor consultants through PFM Group Consulting.³¹

c. Discussions Between PFM FA and Canales and Huffman

Shortly after the discussions between ICM Garza and PFM FA about engaging two (2) consultants as subcontractors, the representative for PFM FA emailed Huffman on March 2, 2023 stating that he had spoken to ICM Garza who wanted Huffman (dba CivicSol) to subcontract through PFM on the work she was doing for the City. The representative for PFM FA asked Huffman to provide a scope of work for the subcontract, and mentioned that he was also trying to set up a subcontract for Canales. A copy of the March 2, 2023 email is provided below.³²



d. Subcontractor Scopes of Work for Canales and Huffman

On March 5, 2023, Canales emailed the representative for PFM FA and provided a scope of work for the consulting services to be provided by Canales and Huffman (dba CivicSol).³³ According to the email from Canales, the scope of work was prepared jointly by Canales and Huffman because they "both will be focusing on the same overall issues." A copy of the attached scope of work prepared by Canales and Huffman is provided below.³⁴

³⁰ Weaver interview with PFM FA conducted on June 27, 2024. See **Exhibit 14**.

³¹ Weaver interview with PFM FA conducted on June 27, 2024. See **Exhibit 14**.

³² See **Exhibit 15** [Email from PFM FA to Huffman on March 2, 2023]

³³ See **Exhibit 16** [Email from Canales to PFM FA on March 5, 2023]

³⁴ See **Exhibit 16** [Email from Canales to PFM FA on March 5, 2023]

Proposed Scope of Work with City of Austin for Designated Consultants:

Joe Canales- Special Assistant to the Interim City Manager

Laura Huffman- Special Assistant for Change Management

Scope

Designated Consultants will provide advice and assistance to City of Austin Interim City Manager Jesus Garza in the following areas of work:

- Assessment of organizational health and recommend appropriate workforce initiatives.
- Support executive leadership transition and development for new and existing leaders
- Support labor relations initiatives
- Design frameworks for gaining clear insight into the specifics of high priority problems confronting the City of Austin
- Provide oversight of alignment efforts of the problem statements and subsequent accountabilities and strategies assigned to address these problems
- Support the various processes designed to track and update projects for the City Manager/Mayor and Council/the city organization/media/community
- Review and recommend appropriate organizational changes that can include organizational structure, reporting relationships, program alignments and staffing levels.

Designated Consultants work schedule:

Joe Canales: 40 hour work or less as needed

Laura Huffman: Generally less than full time but will add hours as needed

Work schedule will be determined by City Manager and is subject to change based on work completion or changes to the scope assignment.

Designated Consultants are submitting the following hourly rates based on their years of experience in the levels of work they will be performing: Assistant City Manager and Deputy City Manager plus additional managerial experience and previous billing rates in their consulting roles.

Joe Canales: \$190.00/hr

Laura Huffman: \$200.00/hr.

Designated Consultants start date: February 23, 2023

According to the proposed scope of work, the title for Canales was "Special Assistant to the Interim City Manager" with an hourly rate of \$190 and the title for Huffman was "Special Assistant for Change Management" with an hourly rate of \$200. Based on our interview of Canales, we were informed that the titles for Canales and Huffman were formulated in a way as not to imply that they would be supervising City

employees while allowing them to address the issues needed by ICM Garza and work collaboratively with the Assistant City Managers, directors and employees.³⁵ Canales also informed us that he came up with his hourly rate of \$190 based on his role where he would be informally operating in a capacity comparable to a Deputy City Manager.³⁶ Canales stated that he communicated with the City's Director of Human Resources and determined that the salary range for the Deputy City Manager was \$310,000 - \$325,000, which was a vacant position at that time.³⁷ Specifically, Canales indicated that he derived the hourly rate of \$190 by dividing an annual salary of \$325,000 by 2,080 hours (i.e., the number of hours used to determine an annual salary), and then applying a 22% upwards adjustment to account for estimated benefits that a salaried employee would receive.^{38,39} Canales also informed us that Huffman's hourly rate of \$200 was derived in a similar manner using the salary for a different position, but he was not involved in the specific details of that calculation. Based on our interview of Huffman, she indicated that Canales would be the best source of information for substantiating how that rate was derived but she believed it was based on a Deputy City Manager level salary.⁴⁰

e. Engaging Canales and Huffman as Consultants as Opposed to Employees

Based on our interview of Canales as well as our review of emails sent by Canales, it is our understanding that Canales was engaged as a subcontractor rather than an employee due to his status as a retired employee with the City and restrictions under the City's retirement program rules.^{41,42} Specifically, Canales indicated that he felt the role required him to work over 30 hours per week, which would not have been allowable as a City employee given his status as a retired employee. With respect to Huffman, who had not previously retired from the City, she indicated that she was not interested in becoming a City employee so that was never discussed as a viable option.⁴³ From ICM Garza's perspective, he indicated that his rationale to engage Canales and Huffman as subcontractors was to allow his successor to fill those positions on a permanent basis.

³⁵ Weaver interview of Joe Canales conducted on June 17, 2024. See **Exhibit 11**.

³⁶ Weaver interview of Joe Canales conducted on June 17, 2024. See **Exhibit 11**.

³⁷ Weaver interview of Joe Canales conducted on June 17, 2024. See **Exhibit 11**.

³⁸ Weaver interview of Joe Canales conducted on June 17, 2024. See **Exhibit 11**.

³⁹ \$325,000 divided by 2,080 hours results in an hourly rate of \$156.25. Applying a 22% increase for estimated benefits results in an hourly rate of \$190.63.

⁴⁰ Weaver interview of Huffman conducted on June 17, 2024. See **Exhibit 12**.

⁴¹ Weaver interview of Canales conducted on June 17, 2024. See **Exhibit 11**.

⁴² See **Exhibit 17** [Email from Canales on October 5, 2023]

⁴³ Weaver interview of Huffman conducted on June 17, 2024. See **Exhibit 12**

f. Letter Agreement Between the City, PFM FA and PFM Group Consulting

On March 20, 2023, a representative from PFM FA emailed the City Treasurer a letter agreement for the City to acknowledge and accept that the consulting services to be provided by Canales and Huffman (dba CivicSol) would be subcontracted through PFM FA's affiliate, PFM Group Consulting, under the terms of the City's contract with PFM FA. A copy of the letter agreement is provided below.^{44,45}

March 20, 2023
Dear **Treasurer**

PFM Financial Advisors LLC ("PFMFA") currently provides financial advisory services to the City of Austin ("City") pursuant to a contract between PFMFA and the City, effective as of April 22, 2017 (the "FA Contract"), which FA Contract is currently in full force and effect.

The City has requested that PFMFA provide certain consulting services under the FA Contract, as set forth on Exhibit A attached hereto (the "Services"), and PFMFA will provide such Services through its affiliate, PFM Group Consulting LLC ("PFMGC").

PFMFA and PFMGC each acknowledge and agree that such Services by PFMGC shall be provided pursuant to and under the terms of the FA Contract.

Please have an authorized official of the City sign a copy of this letter agreement and return it to us to acknowledge the terms of this engagement.

Sincerely,
PFM FINANCIAL ADVISORS LLC
By: **Signature**
Name: **Rep. from PFM FA**
Title: Managing Director

PFM GROUP CONSULTING LLC
By: **Signature**
Name: **Rep. from PFM GC**
Title: Managing Director

Accepted by:
CITY OF AUSTIN

Authorized Signature

⁴⁴ See **Exhibit 18** [Email from the City Treasurer to PFM FA on March 20, 2023 containing letter agreement]

⁴⁵ Exhibit A to the March 20, 2023 letter agreement included the scope of services prepared by Canales and Huffman.

Upon receipt of the letter agreement submitted by PFM FA, the City Treasurer forwarded the draft agreement to the City's CFO and asked that he review the scope of work included in the attachment to the agreement. Based on our interviews of the City's CFO and Treasurer, it is our understanding that they compared the scope of work for the consulting services to be provided by Canales and Huffman to the scope of work included in the City's 2017 contract with PFM FA.^{46,47} We were informed by the City Treasurer that she along with the City's CFO made the determination that the scope of work to be provided by Canales and Huffman aligned with scope of work item 2.4 from the City's 2017 contract with PFM FA, as provided below.⁴⁸

**CITY OF AUSTIN PURCHASING OFFICE
SECTION 0500: SCOPE OF WORK
RFQS SMB0301: FINANCIAL ADVISOR SERVICES**

2. Financial Planning and Other Tasks

- 2.1 Assist in evaluating the performance of remarketing agents and credit facilities for commercial paper programs and variable rate demand notes, including borrowing rates, fees and other costs.
- 2.2 Evaluate and offer alternative financing techniques and instruments in addition to the traditional methods of financing utilized by the City.
- 2.3 Provide special financial advice to the City as needed. This may include assistance in the development of alternative financing programs for potential capital projects or assistance with upcoming bond elections, working with citizen committees, evaluating State and Federal legislation for the City, and other tasks as needed.
- 2.4 Provide financial planning services on a case-by-case basis including assisting with management studies of various enterprise funds, performing fee studies, evaluating consent agreement requests from Municipal Utility Districts, financial evaluation of developer agreements, and other like tasks.

Following the review of the scopes of work, the City's CFO emailed back to the City Treasurer on March 20, 2023 to inform her that "*the agreement looks fine*" and authorized her to sign the agreement on behalf of the City.⁴⁹ On March 24, 2023, the City Treasurer returned an executed version of the March 20, 2023 letter agreement back to PFM FA acknowledging and authorizing the consulting services to be provided by

⁴⁶ Weaver interview of the City's Chief Financial Officer conducted on May 14, 2024. See **Exhibit 13**.

⁴⁷ Weaver interview of the City's Treasurer conducted on May 29, 2024. See **Exhibit 19**.

⁴⁸ Weaver interview of the City's Treasurer conducted on May 29, 2024. See **Exhibit 19**.

⁴⁹ See **Exhibit 20** [Email from CFO to Treasurer on March 20, 2023]

Canales and Huffman (dba CivicSol) as subcontractors through PFM Group Consulting under the terms of the City's 2017 contract with PFM FA.⁵⁰

g. Execution of Subcontracts Between PFM Group Consulting and Canales and Huffman

Following the authorization of the March 20, 2023 letter agreement by the City Manager's Office, Huffman (dba CivicSol) executed the subcontractor agreement with PFM Group Consulting on April 5, 2023, which was acknowledged and agreed to by the City Treasurer.^{51,52} On April 10, 2023, the City Treasurer acknowledged and agreed to the subcontractor agreement between Canales and PFM Group Consulting for Canales to provide consulting services to the City.^{53,54}

III. Invoices and Payments for Canales and Huffman as Subcontractors

a. Summary of Invoices and Payments for Canales

Canales submitted a total of 10 invoices for consulting services provided during the February 23, 2023 through December 31, 2023 time period.⁵⁵ Invoices were submitted by Canales to PFM Group Consulting each month, indicating the number of hours of consulting services provided and the total fee based on an hourly rate of \$190. After receiving the invoice from Canales, PFM Group Consulting submitted an invoice to the City for the hours and fees included in the invoices submitted by Canales. The City issued payment to PFM Group Consulting, who then issued a payment for the same amount to Canales. Payments received by Canales for consulting services as a subcontractor for PFM Group Consulting totaled \$268,375, as summarized in the table below.⁵⁶

⁵⁰ See **Exhibit 21** [Email from Treasurer to PFM FA on March 24, 2023 containing executed letter agreement]

⁵¹ See **Exhibit 22** [Subcontract agreement between Huffman (dba CivicSol) and PFM Group Consulting]

⁵² The subcontractor agreement between PFM Group Consulting and CivicSol included the same scope of work as previously prepared by Canales and Huffman, which was also included as part of the March 20, 2023 letter agreement. The effective date of the subcontractor agreement was March 16, 2023.

⁵³ See **Exhibit 23** [Subcontract agreement between Canales and PFM Group Consulting]

⁵⁴ The subcontractor agreement between PFM Group Consulting and Canales included the same scope of work as previously prepared by Canales and Huffman, which was also included as part of the March 20, 2023 letter agreement. The effective date of the subcontractor agreement was March 16, 2023.

⁵⁵ On May 10, 2023, the City issued Delivery Order No. 7400 23051008341 authorizing expenditures up to \$232,360 for consulting services provided by Canales as a subcontractor for PFM Group Consulting. The Delivery Order amount of \$232,360 was calculated based on 1,224 hours multiplied by Canales' hourly bill rate of \$190. The authorized funds under the initial Delivery Order were exhausted in December 2023, at which point the City issued Delivery Order 7400 23121504147 on December 15, 2023 authorizing additional expenditures for Canales up to \$184,440.

⁵⁶ Invoices submitted by PFM Group Consulting to the City for consulting services provided by Canales are included as an attachment to this Report. See **Exhibit 24** [Canales Invoices]

Summary of Subcontractor Invoices for Joe Canales										
Invoices Submitted by Joe Canales to PFM GC						Invoices from PFM GC to City			City Payment Data	
Invoice Date	Invoice No.	Invoice Period	Hourly Rate	Hours	Invoice Amount	Invoice Date	Invoice No.	Invoice Amount	Check Date	Check No.
4/1/23	001	2/23/23 - 3/31/23	\$190	189.0	\$ 35,910	4/28/23	124761	\$ 35,910	5/15/23	4649887
5/1/23	002	4/1/23 - 4/30/23	\$190	146.5	27,835	5/31/23	125109	27,835	7/3/23	75066
6/1/23	003	5/1/23 - 5/31/23	\$190	155.0	29,450	6/6/23	125169	29,450	6/29/23	4655940
7/2/23	004	6/1/23 - 6/30/23	\$190	125.0	23,750	7/6/23	125961	23,750	7/13/23	75164
8/1/23	005	7/1/23 - 7/31/23	\$190	133.0	25,270	8/3/23	126380	25,270	8/11/23	75528
9/1/23	006	8/1/23 - 8/31/23	\$190	155.0	29,450	9/5/23	126691	29,450	9/12/23	75860
10/3/23	007	9/1/23 - 9/30/23	\$190	131.5	24,985	10/20/23	127440	24,985	11/2/23	76475
11/6/23	008	10/1/23 - 10/31/23	\$190	140.5	26,695	12/1/23	128253	26,695	12/13/23	76870
12/4/23	009	11/1/23 - 11/30/23	\$190	127.5	24,225	12/13/23	128533	24,225	12/22/23	76958
1/2/24	010	12/1/23 - 12/31/23	\$190	109.5	20,805	1/8/24	129163	20,805	1/16/24	77195
Total				1,412.5	\$268,375			\$268,375		

On October 5, 2023, Canales notified PFM FA of his intent to terminate his subcontract under PFM Group Consulting effective December 31, 2023, at which point he would transition to a part-time employee effective January 1, 2024. Based on the email from Canales, it appeared that Canales anticipated a reduction in hours required pending the hiring of a permanent Deputy City Manager, which would allow him to work less than 29 hours per week and therefore eligible for part-time employee status.⁵⁷

b. Summary of Invoices and Payments for Huffman (dba CivicSol)

Huffman (dba CivicSol) submitted a total of 11 invoices for consulting services provided during the February 22, 2023 through February 29, 2024 time period.⁵⁸ Invoices were submitted to PFM Group Consulting each month, indicating the number of hours of consulting services provided and the total fee based on an hourly rate of \$200. After receiving the invoice from Huffman (dba CivicSol), PFM Group Consulting submitted an invoice to the City for the hours and fees included in the invoices submitted by Huffman (dba CivicSol). The City issued payment to PFM Group Consulting, who then issued a payment to Huffman (dba CivicSol) for the same amount. Payments received by Huffman (dba CivicSol) for consulting services as a subcontractor for PFM Group Consulting totaled \$285,800, as summarized in the table below.⁵⁹

⁵⁷ See **Exhibit 17** [Email from Canales on October 5, 2023]

⁵⁸ On May 10, 2023, the City issued Delivery Order No. 7400 23051008345 authorizing expenditures up to \$244,800 for consulting services provided by Huffman as a subcontractor for PFM Group Consulting. The Delivery Order amount of \$244,800 was calculated based on 1,224 hours multiplied by Huffman's hourly bill rate of \$200. The authorized funds under the initial Delivery Order were exhausted in December 2023, at which point the City issued Delivery Order 7400 23121504154 on December 15, 2023 authorizing additional expenditures for Huffman up to \$195,200.

⁵⁹ Invoices submitted by PFM Group Consulting to the City for consulting services provided by Huffman are included as an attachment to this Report. See **Exhibit 25** [Huffman Invoices]

Summary of Subcontractor Invoices for Laura Huffman (dba CivicSol)										
Invoices Submitted by Huffman (dba CivicSol) to PFM GC						Invoices from PFM GC to City			City Payment Data	
Invoice Date	Invoice No.	Invoice Period	Hourly Rate	Hours	Invoice Amount	Invoice Date	Invoice No.	Invoice Amount	Check Date	Check No.
3/23/23	1002	2/22/23 - 3/23/23	\$200	176.0	\$ 35,200	4/28/23	124758	\$ 35,200	5/15/23	4649887
5/1/23	1004	3/24/23 - 4/30/23	\$200	216.0	43,200	5/31/23	125108	43,200	7/3/23	75065
6/1/23	1005	5/1/23 - 5/31/23	\$200	216.0	43,200	6/6/23	125167	43,200	6/29/23	4655940
7/1/23	1008	6/1/23 - 6/30/23	\$200	127.0	25,400	7/10/23	126019	25,400	7/14/23	75176
9/1/23	1014	7/1/23 - 8/31/23	\$200	259.0	51,800	10/30/23	127026(RB)	51,800	11/8/23	76507
10/6/23	1028	9/1/23 - 9/30/23	\$200	60.0	12,000	10/20/23	127441	12,000	10/31/23	76465
12/27/23	1042	10/1/23 - 10/31/23	\$200	60.0	12,000	1/8/24	129162	12,000	1/16/24	77193
12/27/23	1043	11/1/23 - 11/30/23	\$200	60.0	12,000	1/8/24	129167	12,000	1/16/24	77194
1/10/24	1045	12/1/23 - 12/31/23	\$200	45.0	9,000	1/19/24	129270	9,000	1/30/24	77324
2/6/24	1047	1/1/24 - 1/31/24	\$200	100.0	20,000	2/14/24	129499	20,000	2/20/24, 2/22/24	77567, 77590
3/5/24	1054	2/1/24 - 2/29/24	\$200	110.0	22,000	3/7/24	129717	22,000	3/14/24	77819
Total				1,429.0	\$285,800			\$285,800		

The final invoice for Huffman (dba CivicSol) was submitted on March 25, 2024, for consulting services provided for February 2024. The subcontractor agreement between Huffman (dba CivicSol) and PFM Group Consulting expired effective March 31, 2024 and was not extended.

Summary of Findings

A summary of our observations and findings based on our investigation into the procurement of consulting services for Canales and Huffman (dba CivicSol) as subcontractors under the City's contract with PFM FA is provided below.

a. ICM Garza Initiated the Subcontracts with Canales and Huffman

Based on our review, it appeared that ICM Garza initiated the engagement of Canales and Huffman (dba CivicSol) to provide consulting services for the City Manager's Office shortly after being appointed as Interim City Manager. ICM Garza had discussions with both Canales and Huffman, as well as representatives from PFM FA and the City's CFO to facilitate the onboarding of Canales and Huffman as subcontractors. Based on discussions with ICM Garza, as well as individuals from the City Manager's Office and PFM FA, expediency in the onboarding of Canales and Huffman was the primary driver in the decision to engage Canales and Huffman as subcontractors under the PFM FA contract as the City was facing time sensitive issues related to Winter Storm Mara and the expiration of the City's contract with the Police Department. ICM Garza indicated that his understanding was that the City's contract with PFM FA had a provision that allowed for consulting services and that consulting services had been provided previously under the contract.

b. Canales and Huffman Served as De Facto Assistant City Managers

During our interview of ICM Garza, he stated that he did not want to hire a permanent Deputy City Manager or Assistant City Manager since it was anticipated that his tenure would only be for six (6) to (8) months, and that it would be better for the future City Manager to fill those roles. As a result, ICM Garza elected to bring on Canales and Huffman as subcontractors to serve as de facto Assistant City Managers, rather than hiring them as City employees. It also appeared that Canales would not have been eligible to be hired as a full-time employee due to his status as a retired City employee. Additionally, Huffman stated that she was not interested in coming onboard as a City employee.

c. ICM Garza Approached PFM FA Regarding Subcontracts for Canales and Huffman

Based on our review, it appeared that ICM Garza had specific conversations with PFM FA to ask if it were possible for PFM FA to engage Canales and Huffman to provide consulting services for the City Manager's Office as subcontractors under the City's contract with PFM FA.^{60,61} Based on the request from ICM Garza, PFM FA worked with their in-house legal counsel to identify options to engage Canales and Huffman.

⁶⁰ See **Exhibit 15** [Email from PFM FA to Huffman on March 2, 2023]

⁶¹ See **Exhibit 16** [Email from Canales to PFM FA on March 5, 2023]

Ultimately, PFM FA determined that Canales and Huffman could not be engaged directly by PFM FA due to industry regulatory issues, however, Canales and Huffman could be engaged through PFM FA's affiliate entity, PFM Group Consulting.

d. PFM FA Accommodated Request from ICM Garza

Based on discussions with PFM FA, it appeared that PFM FA made the decision to engage Canales and Huffman as subcontractors through PFM Group Consulting for purposes of accommodating their client, the City, in response to the request from ICM Garza. Neither PFM FA or PFM Group Consulting derived any financial benefit from the subcontracts with Canales and Huffman (dba CivicSol), as consulting fees were passed through from the City to Canales and Huffman. If anything, the subcontracts with Canales and Huffman (dba CivicSol) were a detriment to PFM FA as they encumbered \$857,000 of the \$2.4 million in authorized funds (over 36%), of which \$554,175 was ultimately expended. Representatives from PFM FA acknowledged that the request from ICM Garza was unusual, which was why they involved PFM FA's in-house legal counsel as part of the internal review and approval process.

e. Alignment of Scope of Work with PFM FA Contract

After the determination by PFM FA that Canales and Huffman (dba CivicSol) could be engaged as subcontractors under PFM Group Consulting, the City's CFO and Treasurer were responsible for reviewing the scope of work for consulting services prepared by Canales and Huffman to evaluate whether the services fell within the scope of the City's contract with PFM FA. The City's CFO and Treasurer determined that the scope of work of consulting services to be provided by Canales and Huffman (dba CivicSol) aligned with scope of work item 2.4 of the PFM FA contract, which states: "*Provide financial planning services on a case-by-case basis including assisting with management studies of various enterprise funds, performing fee studies, evaluating consent agreement requests from Municipal Utility Districts, financial evaluation of developer agreements, and other like tasks.*"

We have not identified any management studies that either Canales or Huffman assisted with concerning "various enterprise funds" as described in PFM FA's scope of work. It appears that City staff adopted a broad reading of the language concerning "*and other like tasks.*" Based on our interviews of the City's CFO and Treasurer, neither indicated that they were pressured or influenced by ICM Garza in their determination. A comparison of the consulting services outlined in the scope of work for the City's contract with PFM FA and the consulting services outlined in the scope of work for the subcontracts with Canales and Huffman (dba CivicSol) is provided in the table below.

City Contract with PFM FA	Subcontracts with Canales and Huffman (dba CivicSol)
<ul style="list-style-type: none"> • Assist in evaluating the performance of remarketing agents and credit facilities; • Evaluate and offer alternative financing techniques and instruments; • Provide special finance advice to the City as needed; • Assistance in the development of alternative financing programs for potential capital projects; • Assistance with upcoming bond elections; • Working with citizen committees; • Evaluating State and Federal legislation for the City; • Assisting with management studies of various enterprise funds; • Performing fee studies; • Evaluating consent agreement requests from Municipal Utility Districts; • Financial evaluation of developer agreements. 	<ul style="list-style-type: none"> • Assessment of organizational health and recommend appropriate workforce initiatives; • Support executive leadership transition and development for new and existing leaders; • Support labor relations initiatives; • Design frameworks for gaining clear insight into the specifics of high priority problems confronting the City; • Provide oversight of alignment efforts of the problem statements and subsequent accountabilities and strategies assigned to address these problems; • Support the various processes designed to track and update projects for the City Manager/Mayor and Council/the City organization/media/community; • Review and recommend appropriate organizational changes that can include organizational structure, reporting relationships, program alignments and staffing levels.

f. Review of Other Subcontractors Engaged Under PFM FA Contract

In addition to the subcontracts with Canales and Huffman (dba CivicSol), we identified at least four (4) other instances in which subcontractors were engaged by PFM FA (or an affiliate) under the City's contract with PFM FA. Based on our review, it appeared that the scopes of work for the other subcontractors were more closely aligned to the scope of work in the City's contract with PFM FA, in comparison to the scopes of work for Canales and Huffman. Most notably, the scopes of services were for financial services that were technical in nature, whereas the services provided by Canales and Huffman were more focused on broad organizational matters within the City Manager's Office. A summary of the scopes of work for other subcontractors is provided in the table below.

Contractor	Subcontractor	Scope of Services
PFM FA	Subcontractor A	Economic and fiscal impact analyses related to potential Major League Soccer (MLS) stadium in Austin
PFM Solutions	Subcontractor B	Purchase of software to be used as a budgeting platform for Austin Water
PFM FA	Subcontractor C	Feasibility analysis and estimate development and land values for the Colony Park project and to assist the City in selecting a preferred developer partner
PFM Group Consulting	Subcontractor D	Actuarial consulting services

g. PFM FA Did Not Obtain Approval from SMBR for Subcontracts with Canales and Huffman

Prior to entering into subcontracts with Canales and Huffman (dba CivicSol), it does not appear that PFM FA contacted the Small and Minority Business Resources Department (“SMBR”) for purposes of identifying potential MBE/WBE firms available to provide consulting services to the City Manager’s Office. When we interviewed the City’s CFO and Treasurer, they did not recall previously seeing the MBE/WBE Procurement Program attachment in the City’s contract with PFM FA. By comparison, when the City entered into Amendment No. 3 to the contract in May 2020 for purposes of subcontracting with Subcontractor B in the table above, we identified email communications showing that SMBR approved the addition of Subcontractor B as a subcontractor for the City’s contract with PFM FA.

h. Hourly Rates for Consulting Services Provided by Canales and Huffman

The hourly rates included in the subcontracts for Canales (\$190/hour) and Huffman (\$200/hour) appeared to have been derived based on the estimated annual salary for the City’s Deputy City Manager position. Specifically, it appeared that the hourly rates were derived based on an estimated annual salary of \$325,000, which was converted to an hourly rate based on 2,080 hours and grossed up by 22% to account for benefits that would have been received by an employee.⁶² Based on our interview of the City’s CFO, the City Manager’s Office made the determination that the hourly rates appeared to be reasonable in comparison to the hourly rates included in the City’s contract with PFM FA for general consulting services, which ranged from \$225/hour for an Analyst to \$350/hour for a Managing Director.⁶³

i. Consulting Services Provided Prior to City’s Approval of Subcontracts

Canales and Huffman (dba CivicSol) both began providing consulting services for the City Manager’s Office in late February 2023, which appeared to be a function of ICM Garza wanting to bring them on expeditiously following his appointment as Interim City Manager due to immediate issues to be addressed. However, the arrangement to bring Canales and Huffman on as subcontractors under the PFM FA contract wasn’t finalized until the approval of the letter agreement on March 24, 2023, and the subcontracts weren’t formally authorized by City staff until April 10, 2024. The delivery orders authorizing the consulting services to be provided under the PFM FA contract were not issued until early May 2023, over two (2) months after Canales and Huffman began providing services to the City Manager’s Office. As a result, Canales and Huffman were paid for services prior to their subcontracts being finalized.

⁶² According to Canales, he determined from discussions with the City’s Director of Human Resources that the projected salary for the Deputy City Manager position, which was vacant at the time, ranged from \$310,000 - \$325,000.

⁶³ The City’s contract with PFM FA (Exhibit C – Fee Schedule) includes hourly rates for general consulting services provided by PFM FA (or its affiliates) not associated with the issuance of debt.

j. ICM Garza Had Prior Professional Relationships with Canales and Huffman

Canales and Huffman had both previously worked under ICM Garza during his tenure as City Manager in the late 1990s and early 2000s, including serving in leadership capacities such as Chief of Staff, Deputy City Manager and Assistant City Manager. According to ICM Garza, he maintained a professional relationship with Canales and Huffman after they left the City, and they were his first choices to bring on as consultants after his appointment as Interim City Manager because he trusted them, knew they had relevant experience with the City, and were available to onboard quickly and willing to serve in a short-term role.

k. ICM Garza Had Prior Professional Relationship with Representative for PFM FA

ICM Garza had a professional relationship with the representative from PFM FA, who previously worked for the City, including serving as City Treasurer during ICM Garza's tenure as City Manager in the early 2000s.

l. Services Provided by Canales and Huffman as Subcontractors

Based on our interviews of Canales and Huffman, as well as individuals within the City Manager's Office, it is our understanding that Canales and Huffman each had assigned offices within the City Manager's Office during the period they were providing consulting services as subcontractors. It is also our understanding that Canales and Huffman were each working at least 40 hours per week as subcontractors, especially during the initial months after ICM Garza's appointment. In general, it is our understanding that Canales and Huffman assisted ICM Garza with various projects ranging from organizational assessments, strategies, labor relations, design frameworks, among other consulting services.

m. PFM FA and PFM Group Consulting Had Limited Interactions with Canales and Huffman

Based on our interviews with Canales and Huffman, as well as representatives from PFM FA and PFM Group Consulting, Canales and Huffman had limited interaction with PFM FA or PFM Group Consulting after the execution of the subcontract agreements in April 2023. Canales and Huffman reported directly to ICM Garza and communications with PFM FA and PFM Group Consulting were limited to administrative matters such as their submission of invoices each month. Additionally, even though Canales and Huffman were technically engaged through PFM Group Consulting, invoices and communications were primarily sent to the representative for PFM FA, which we understand to be due to his being based in Austin and having a relationship with the City.⁶⁴

⁶⁴ The representative for PFM Group Consulting was based in Philadelphia, Pennsylvania.

n. Invoices Submitted by Canales and Huffman Lacked Detail

Invoices were submitted monthly by Canales and Huffman (dba CivicSol), which were billed to PFM Group Consulting, but typically emailed to the representative for PFM FA. Invoices were then submitted by PFM Group Consulting to the City Treasurer, which included a summary page followed by the attached invoice submitted by Canales or Huffman (dba CivicSol). The City's CFO ultimately approved the invoices after being received by the City Treasurer. The invoices submitted contained limited detail, typically showing the total number of hours for consulting services provided for the month, multiplied by their respective hourly rates.⁶⁵ Based on discussions with Canales and Huffman, they were not asked to provide additional detail of hours on their invoices as they were working with the City Manager's Office on a daily basis and thus the City was aware of the services being provided.

o. Subcontracting of Canales and Huffman Circumvented City Council Approval

As of 2023, the City Charter (Article VII – Finance, Section 15) provided authority to the City Manager to contract for expenditures without further approval of City Council for an expenditure that does not exceed \$76,000. City Charter requires a contract or amendment to a contract over \$76,000 annually to be expressly approved by City Council. Additionally, the City Manager may not contract for personal or professional services under the manager's authority if the manager knows or reasonably should know that the contractor's full scope of work will exceed \$76,000. Had the City contracted with Canales and Huffman (dba CivicSol) directly for consulting services to be provided to the City Manager's Office, the contracts would have required approval by City Council as each contract was in excess of \$76,000. Furthermore, by subcontracting consulting services provided by Canales and Huffman (dba CivicSol) through the City's contract with PFM FA (as subcontractors for PFM Group Consulting), the contracts for Canales and Huffman (dba CivicSol) were not expressly approved by City Council, as would be the normal course of action.

⁶⁵ For certain invoices submitted by Huffman (dba CivicSol), the invoice included the same scope of work items included in the subcontractor agreement.

Conclusion

Based on the evidence and information reviewed during our investigation, it is our determination that ICM Garza appeared to violate §2-7-62 (I) of the City Code for the reasons outlined below.

I. §2-7-62 (I)

a. City Code

A salaried City official or employee may not use the official's or employee's official position to secure a special privilege or exemption for the official or the employee, to secure a special privilege or exemption for another person, to harm another person, or to secure confidential information for a purpose other than official responsibilities.

b. Basis for Opinion

- ICM Garza, while a salaried City official, used his official position to secure a special privilege for Joe Canales, to wit: he secured a contract for Canales in a manner that avoided City Council approval, disregarded the City's MBE/WBE Procurement Program, and allowed Canales to receive more compensation than he would have been able to receive as a City employee.
- ICM Garza, while a salaried City official, used his official position to secure a special privilege for Laura Huffman, to wit: he secured a contract for Huffman (dba CivicSol) in a manner that avoided City Council approval and disregarded the City's MBE/WBE Procurement Program.

Exhibits
