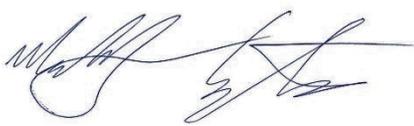
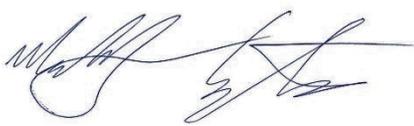
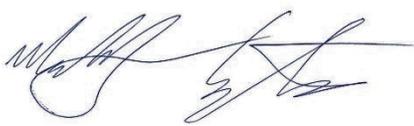


**ISSUE BRIEF:**  
**Monitoring Report for Policy 2.4 Financial Planning/Budgeting**

**Due to the Board in September 2021**

**Board Meeting Review Date: September 23, 2021**

<b>INFORMATION TYPE:</b>		
Decision		
<b>RECOMMENDED ACTION(S):</b>		
<p>That the Board consider accepting this monitoring report as either level:</p> <ul style="list-style-type: none"> <li>• A – In compliance, OR</li> <li>• B – In compliance, except for item(s) noted.</li> </ul>		
<b>ISSUE SUMMARY:</b>		
<p>TheRide’s Board of Directors establish policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.</p> <p>I certify that the information is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%; text-align: center; vertical-align: top;"> <p><b>CEO’s Signature</b></p>  <p>_____</p> </td> <td style="width: 40%; text-align: center; vertical-align: top;"> <p><b>Date</b></p> <p style="margin-top: 20px;">September 17, 2021</p> <p>_____</p> </td> </tr> </table>	<p><b>CEO’s Signature</b></p>  <p>_____</p>	<p><b>Date</b></p> <p style="margin-top: 20px;">September 17, 2021</p> <p>_____</p>
<p><b>CEO’s Signature</b></p>  <p>_____</p>	<p><b>Date</b></p> <p style="margin-top: 20px;">September 17, 2021</p> <p>_____</p>	
<b>BACKGROUND:</b>		
<p>Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0). A Policy-Governance-consistent Monitoring Process is:</p> <ol style="list-style-type: none"> <li>1. CEO sends Monitoring Report to all board members</li> <li>2. At Board meeting, Board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)</li> </ol>		
<b>IMPACTS OF RECOMMENDED ACTION(S):</b>		
Governance: Perform key Policy Governance process		
<b>ATTACHMENTS:</b>		
<ol style="list-style-type: none"> <li>1. Monitoring report for Policy 2.4 Financial Planning/Budgeting</li> <li>2. FY2022 Recommended Operating and Capital Budget</li> </ol>		

## Table of Contents

POLICIES	Page #	Compliance
<b>2.4 FINANCIAL PLANNING AND BUDGETING</b>  Financial Planning for any fiscal year or the remaining part of any fiscal year shall not deviate from Board’s Ends priorities, risk fiscal jeopardy, or fail to be derived from a strategic multi-year plan. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not cause, allow or fail to address budgeting that:	3	
2.4.1 Risks incurring those situations or conditions described as unacceptable in the Board policy “Financial Condition and Activities.”	4	
2.4.2 Fails to place business decisions in a comprehensive, strategic context that illustrates progress towards Ends and compliance with Executive Limitations.	5	
2.4.3 Omits credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.	7	
2.4.4 Is unclear about long-term funding needs and growth projections.	8	
2.4.5 Causes deficit spending.	10	
2.4.6 Does not provide for adequate reserves.	11	
2.4.7 Provides less for Board prerogatives during the year than is set forth in the Cost of Governance policy.	12	
2.4.8 Funds ongoing operations via debt or creates unfunded future obligations.	13	

 Fully Compliant  
  Partially Compliant  
  Non-Compliant  
  Cannot be determined

## Preliminary CEO Interpretations and Evidence

### 2.4 FINANCIAL PLANNING AND BUDGETING

Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate from Board’s Ends priorities, risk fiscal jeopardy, or fail to be derived from a strategic multi-year plan. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not cause, allow or fail to address budgeting that:

**Degree of Compliance: Fully Compliant**

#### Interpretation

I interpret this policy to be listing parameters and expectations for the recommended annual budget and budgeting for the future. Compliance with this overall policy will be demonstrated by compliance with the following sub-policies. Throughout this monitoring report, references are made to the published budget document attached and will be posted on the web site upon Board approval of the budget.

#### Evidence

The evidence of compliance throughout this Monitoring Report comes from the process by which the annual budget was developed, and the resulting document – the Recommended FY2022 Budget (herein also referred to as “the budget”). Additional evidence comes from corporate strategy documents and previously published Auditor reports and Quarterly Financial Reports that are publicly available on TheRide’s website and have already been supplied to the Board. These documents are cited as evidence of compliance with sub-policies in this section.

- See monitoring reports for sub-policies.

**2.4.1 Risks incurring those situations or conditions described as unacceptable in the Board policy “Financial Condition and Activities.”**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that I must consider budgeting elements of Policy 2.5 Financial Conditions and Activities that are not otherwise covered in policy 2.4. Additional requirements are:

- **2.5.6 Contracts in the budget** - I interpret this policy to mean that anticipated contracts greater than \$250,000 must be listed in the budget to be considered approved as part of the budget. Any contract not included in this list over \$250,000 will come to the board for approval.
- **2.5.9 Adjustment of fares or tax rate** - I interpret this policy to mean that staff may not change fares or tax rates without Board approval. Neither the CEO nor the Board has the power to change the tax rate (mill rate). The Board must approve any proposed change which is then voted on by residents.
- **2.5.10 Real estate** - I interpret this policy to mean that staff may not buy, sell, or borrow against real estate without Board approval.

**Evidence**

- **2.5.6 Contracts:** a list of all anticipated contracts and their dollar value is included in Appendix 3, page 45, of the budget.
- **Fares and Taxes:** The budget includes proposed fare changes, which are provided in detail in Appendix 4, Table 4.1 (p. 43), of the budget document. Policy compliance for changing fares has been demonstrated in the Monitoring Report for 2.5.12 Adjust Passenger Fares.  
  
Primary property tax rates in Ann Arbor and Ypsilanti are unchanged in the budget. The expansion millage in Ann Arbor, Ypsilanti, and Ypsilanti Township were restored after voters approved renewal of the 0.7 mill rate in August 2018; see page 26 for property tax millage rate details. Millage rates are automatically reduced by state law (Headlee Amendment).
- **Real Estate:** The budget does not anticipate land acquisition for FY 2022. The CEO acknowledges that only the Board can make the decision to purchase real estate. Staff are prohibited by Policy 2.5.9 from buying land without Board approval.

**2.4.2 Fails to place business decisions in a comprehensive, strategic context that illustrates progress towards Ends and compliance with Executive Limitations.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that the budget should be accompanied by a multi-year corporate plan that illustrates how a single year fits into a longer-term approach to advancing the Board’s policy goals, while also meeting expectations for risk management and prudent management of the agency’s resources.

Together, the corporate plan and the budget must provide clear goals and priorities, illustrate how recommended efforts advance the policy goals of the Board, address all aspects of TheRide’s business, and help the organization become more compliant with Board policies.

**Evidence**

**Strategic Context:** The strategic context for the annual budget has been guided in recent years by the Corporate Business Plan. At the onset of the pandemic, the COVID-19 Recovery Plan established a new multi-year plan to guide the organization during and after the pandemic. This plan illustrates strategic context for the budget by:

- Aligning priorities and resources towards the Board’s written policy goals, and providing clear objectives for the recommended annual budget (pp. 7-9, 13, 19, 28-30, 40-41),
- Establishing a situational awareness of the current status of the agency (pp. 11-18), and
- Explicitly connect proposed initiatives with specific policy goals of the Board (pp. 40-41).

A key missing piece of strategic context is a clear long-term plan for transit services. The need for this is recognized in the budget on page 38. Long-term financial context is provided on page 29. Completion of this planning effort is expected in mid-2022.

**Comprehensiveness:** The budget encompasses all elements of TheRide’s business. It combines the operating budget (pp. 19-30) and capital budget (pp. 31-35) in one document. Existing services and infrastructure are funded and maintained (see “State of Good Repair” budget on p. 31, and details on pp. 32-33).

Risk is addressed in several parts of the recommended FY 2022 Budget, for example:

- Ensuring adequate reserves (pp. 14-15),
- A focus on addressing deferred maintenance (see “Facilities Rehabilitation,” p. 43),
- Strengthening against risks of uncertainty and contingencies (pp. 27-28),
- Adjustments within various budget line times too numerous to list, and
- By placing the budget in the context of the [Service Recovery Plan](#).

Both the CEO and CFO attest that, to the best of their knowledge, there are no elements missing from the budget. This confidence comes, in part, from a collaborative effort to develop the budget where staff, the public and Board members have been consulted during budget development (p. 10).

**2.4.3 Omits credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that each recommended annual budget must include realistic estimates of future costs and revenues, sufficient to contextualize the annual budget and demonstrate longer-term financial implications.

In this context, a “credible projection” is an extrapolation of future costs and revenues based historic financial evidence, identified risks, and reasonable and realistic assumptions about future circumstances (i.e. inflation, ridership trends, anticipated economic changes, etc.). In this context the forecasted cash flow is presented as annualized totals.

Furthermore, forecasts must clearly distinguish operating and capital expenses. The time horizon for operating forecasts will cover at least the next 5-year millage cycle, while capital costs are projected over a ten-year timeframe due to longer project-development and implementation cycles.

**Evidence**

- **Operations:** The operating budget and 7-year forecast of revenues, expenses and cash flow for operating costs are presented on page 30 of the budget. Projections are based on several factors, including historic trends (found on page 12), known business changes, estimated impacts of post-pandemic recovery, and implementation of agency initiatives. Detailed revenue and expense assumptions are described starting on page 19 of the budget. As illustrated in Figure 3 on page 13, revenues will be heavily supplemented with pandemic relief funds in fiscal years 2021 to 2023 to provide funding for the Service Recovery Plan, as described on pages 19-20, which in turn increases operating expenses in 2022 to pre-pandemic levels. Once pandemic relief funds are depleted in fiscal year 2023, forecasted revenues are will once again fall below anticipated expenses and are expected to continue to recover at a slower rate than expenses in the post-pandemic environment. Revenue projections are expected to increase at about 3.5% after 2024 and expense projections at to grow approximately 4% each year after 2022.
- **Capital:** The capital budget and 10-year forecast of capital expenses are presented on p. 33 of the budget. Planning assumptions for each project are summarized in Appendix 2, pp. 42-44.

**2.4.4 Is unclear about long-term funding needs and growth projections.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that the budget must anticipate and clearly account for the funding required in future years to 1) provide for services, 2) maintain assets as per policy 2.8: Asset Protection, 3) mitigate against foreseeable risks, and 4) implement plans for change adopted by the agency (e.g. expansion plans, new services, etc.).

In this context I believe that “needs” will be clear when specific priority expenditures (e.g. projects, initiatives, line items, etc.) are identified in the budget, and when the scope and rationale for the expenditures is provided and is acceptable for the full Board. Clarity also requires:

- Realistic estimates of future costs,
- Adjustments for inflation and other reasonable assumptions about future economic conditions,
- Accounting for full-year costs of earlier partial-year initiatives, and
- Anticipation of operating costs that accompany new capital projects (e.g. utilities for a new building).

I interpret a “growth projection” to mean forecasts of changes in expenditures and revenues which are used to guide budget development.

I believe that “long-term” for budgeting purposes means that operational needs will be illustrated for at least a rolling five-year period, and capital for a rolling ten-year period. A longer-range forecast/plan can be adopted if helpful, for example based on a long-range service plan.

**Evidence**

- **Operating Needs:** The budget contains the expenditures necessary to restore transportation services to pre-pandemic levels due to implementation of the Service Recovery Plan as described in the “operations overview” on pages 19-20. As noted, the *Service Recovery Plan* was implemented which increases services to pre-pandemic levels with a reorganized and simplified network of routes for essential travel. The plan will affect all routes, along with A-Ride, GoldRide, FlexRide, and Night/Holiday service. Forecasts of operational revenues and costs for 2022-2028 are provided on page 29, preceded by historic trends on page 28.
- **Capital Needs:** As illustrated on pp. 31-33 of the budget, ten years’ worth of projected capital needs have been organized into four categories: State-of-Good-Repair, Value Added, Expansion, Research and Development. The first two categories are well populated with projects for maintaining and improving existing services and infrastructure. The “Expansion” category is populated by projects that meet longer-term expansion plans established before the pandemic. Impacts of capital projects on

the operating budget are discussed on p. 38.

- Risk:** Risks and mitigations are discussed in the budget on page 27. Ongoing uncertainty related to further waves of COVID variants may impact the time period of anticipated ridership recovery. Cost of service, specifically related to challenges with operations and maintenance staff could drive overtime costs to meet service requirements. Additionally, escalating insurance costs for market driven increases due to increased liability risk are concerns for the budget. Finally, there is still risk with federal and state formula funds as well as local property tax revenues which can be impacted by a variety of factors. As a mitigation of these risks, the recommended budget is a careful, conservative baseline budget that can be amended as necessary to address new risks and opportunities during the fiscal year. Staff will continue to evaluate ways to reduce risk by reviewing contracts as well as look for alternative solutions to reduce exposure to market risks as it relates to cost of insurance. Finally, Federal relief funding is available to fund unexpected pandemic-related costs and provide for recovery of expenses and lost revenues for the next couple of years.
- Corporate Strategy:** The operational and capital projections in the budget are further contextualized by the pandemic implications, timelines, work plan, and service restoration discussion provided in the Service Recovery Plan and the Corporate Business Plan.

#### 2.4.5 Causes deficit spending.

**Degree of Compliance: Fully Compliant**

#### Interpretation

I interpret this policy to mean that the TheRide should not risk financial jeopardy or services to existing passengers by budgeting or allowing overall spending to exceed revenue (i.e. deficit spending). For annual budgeting, this means that:

- Proposed expenses (operating and capital) in the recommended annual budget must be equal to or less than anticipated revenues,
- New expenses cannot create unfunded liabilities in future years.
- We cannot use reserves to pay for ongoing operating costs, and
- Should debt-financing be recommended as a part of an annual budget, the costs of financing a debt will be clearly articulated and will not cause operating deficits.

It is not acceptable to increase short-term spending by creating future financial burdens that are imprudent or excessively risky, or not clearly identified for the Board. Specifically, ongoing operating costs cannot be funded by debt, drawing down the reserve (unrestricted net asset), or under-funding capital or maintenance activities. While multi-year forecasts can show projected deficits as part of the financial planning exercise, the CEO will not recommend an annual budget for approval that includes deficits.

Furthermore, during a fiscal year should it become apparent that total annual expenses will actually exceed total revenue, the CEO is required to adjust spending or revenue to avoid deficit spending.

**Evidence**

The FY2022 Budget:

- Is balanced (no deficit) with total revenues meeting or exceeding total expenses (p. 28).
- Creates no unfunded liabilities in fiscal years 2022-2028. There are no anticipated unfunded liabilities such as unfunded pensions or post-employment benefits in the budget.

As illustrated on p. 28, funding sources (i.e. revenues) do not include any contribution from the reserve or debt financing. The reserve (unrestricted net asset) is expected to remain at or above the reserve level target sufficient to support 2.5 months of operations (p. 37).

The AAATA carries no debt. This is validated by the 2020 audit conducted by UHY LLC (see Board Packet for February 18, 2021), demonstrated on the balance sheets of the Quarterly Financial Reports, and most recently the Third Quarter reports from presented to the Board on August 19, 2021. These documents are available on TheRide’s website.

**2.4.6 Does not provide for adequate reserves.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that TheRide must have enough liquid financial resources available to prevent interruption to regular operations in the event of a temporary disruption to funding sources. For example, we need to have enough money to make payroll should funding from the State of Michigan or federal government be delayed (as has occurred in the past). Processing errors and federal government shutdowns have caused such delays in the past.

I define “adequate” to mean 2.5 months’ worth of regular operating expenses (excluding one-time expenses). We will consider TheRide to have adequate reserves when we have a minimum of 2.5 months of operating expense in reserve for 12 consecutive months. A ratio is preferable to a fixed dollar amount as it will keep pace with budget changes. The specific threshold of 2.5 months is considered reasonable based on government finance standards and agency history.

**Evidence**

According to the 2021 Third Quarter Financial Statements (August 2021), operating reserves were \$10.7 million, or 3.0 months of operating expenses. The reserve balance has been at or slightly above the target for four consecutive quarters and is forecasted to remain at target level (see Projected Reserve Balance, p. 37) throughout FY2022 and beyond. As noted under Policy 2.4.6 above, there are no plans to use the reserve to cover long-term revenue shortfalls resulting from the pandemic, because federal pandemic relief funding is available for this purpose.

The Government Finance Officers Association (GFOA) best practice recommends, at a minimum, that governments maintain at least two months of regular operating expenditures in reserve. However, several factors should be considered including the predictability of revenues, volatility of expenditures, and other considerations. The CEO and CFO believe that 2.5 months should continue to be TheRide’s objective based upon GFOA’s recommendations and considering that state and federal grant funding can be unpredictable, especially during these times of economic uncertainty.

**2.4.7 Provides less for Board prerogatives during the year than is set forth in the Cost of Governance policy.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that the budget must include funds for the Board to do its work and that the amount of funding be determined by the Governance Committee. Examples of past expenses in this area have included group and individual education and training, facilitators, and governance advisory consultation.

**Evidence**

For FY2022 the Governance Committee accepted a staff recommended budget of \$35,000, which is consistent with the FY2021 budget. This amount is included within the “other expenses” category shown in the budget. While this line item is not called out specifically in the budget, the amount is budgeted in account 300-509-017 (Board Governance & Training), and can be utilized for meetings, policy development, and board recruitment and development expenses. Prior and current year expenditures have included governance coach fees, policy governance training, and advertising costs for Board recruitment.

**2.4.8 Funds ongoing operations via debt or creates unfunded future obligations.**

**Degree of Compliance: Fully Compliant**

**Interpretation**

I interpret this policy to mean that, with respect to recurring operating expenses, the AAATA must live within its means and avoid over-extending ourselves financially. Using debt or creating future obligations (e.g. unfunded pension liabilities, etc.) in order to allow more spending today are not a transparent means of paying for existing services, and are prohibited. Specifically, we cannot borrow funds or otherwise leverage the Authority for the purpose of paying for ongoing operating costs such as payroll, fuel, bus services, geographic coverage, etc. Furthermore, we cannot create new expenses that will cause forecasted expenses to exceed reasonably foreseeable revenues. (This policy does not apply to capital projects where debt may be a reasonable means of financing large projects.)

**Evidence**

AAATA has no debt, as is indicated in the FY2020 audited financial statements, liabilities, (see p. 8 of the [audit report](#)).

The multiyear forecast presented in the budget (pp. 29-30) demonstrates that the CEO has not caused new obligations for the AAATA that cannot be funded with reasonably foreseeable revenues. While new costs have emerged from the pandemic, they are anticipated to be fully funded with pandemic relief funds, including CARES Act, CRRSAA and ARP funds.

## Board's Conclusion on Monitoring Report

### Guidance on Determining “Reasonableness” of CEO Interpretations

The International Policy Governance Association has developed the following guidance for Board members to use in deciding whether a CEO's interpretation is “reasonable”:

*An interpretation is deemed to be reasonable when it provides an operational definition which includes defensible measures and standards against which policy achievement can be assessed...*

*Defensible measures and standards are those that:*

- *Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena.)*
- *Are relevant and conceptually aligned with the policy criteria and the board's policy set.*
- *Represent an appropriate level of fulfillment within the scope of the policy.*

- *“What makes an Interpretation Reasonable and What are the Expectations for the Operational Definition: Policy Governance Consistency Framework Report Number 2”.* International Policy Governance Association. June 11, 2016. Available on the IPGA website.

### Board's conclusion after monitoring the report.

Following the Board's review and discussion with the CEO, the Board finds that the CEO:

- A. **Is in compliance.**
- B. Is in compliance, except for item(s) noted.
- C. Is making reasonable progress toward compliance.
- D. Is *not* in compliance or is *not* making reasonable progress toward compliance.
- E. Cannot be determined.

**At the September 23, 2021 Board Meeting, the Board approved this monitoring report for Policy 2.4 as in compliance (A).**



# OPERATING & CAPITAL BUDGET FOR FY2022

Version 1.0

*Staff Recommended Budget*

*Fiscal Year 2022*

2022

*Dedicated  
to  
Supporting  
Community  
Recovery*

ANN ARBOR AREA TRANSPORTATION AUTHORITY



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**Ann Arbor Area Transportation Authority  
Michigan**

*For the fiscal year beginning October 1, 2019*

**Government Finance Officers Association (GFOA)  
Distinguished Budget Presentation Award**

The award, presented to TheRide for its *FY2020 Operating and Capital Budgets*, is a significant achievement which reflects the commitment of the Board of Directors and staff to meeting the highest principles of governmental budgeting. TheRide's budget satisfied nationally recognized guidelines for effective budget presentation, including how the document serves as a policy document, a financial plan, an operations guide, and a communication device.

# Table of Contents

1. <a href="#">About TheRide</a> .....	4-5
2. <a href="#">Letter from the CEO and CFO</a> .....	6
3. <a href="#">Executive Summary</a> .....	7-8
4. <a href="#">Introduction</a> .....	9-10
5. <a href="#">The State of TheRide</a> .....	11-18
6. <a href="#">2022 Budget</a> .....	19-35
7. <a href="#">Impacts of 2022 Budget</a> .....	36-38
8. <a href="#">Appendices</a>	
8.1 <a href="#">2022 Initiatives</a> .....	40-41
8.2 <a href="#">2022 Capital Descriptions</a> .....	42-44
8.3 <a href="#">2022 Contracts</a> .....	45
8.4 <a href="#">2022 Fares</a> .....	46-52
8.5 <a href="#">State and Federal Grants Primer</a> .....	53-55
8.6 <a href="#">Adopting Resolution</a> .....	56
8.7 <a href="#">Glossary</a> .....	57-61

# 1. About TheRide

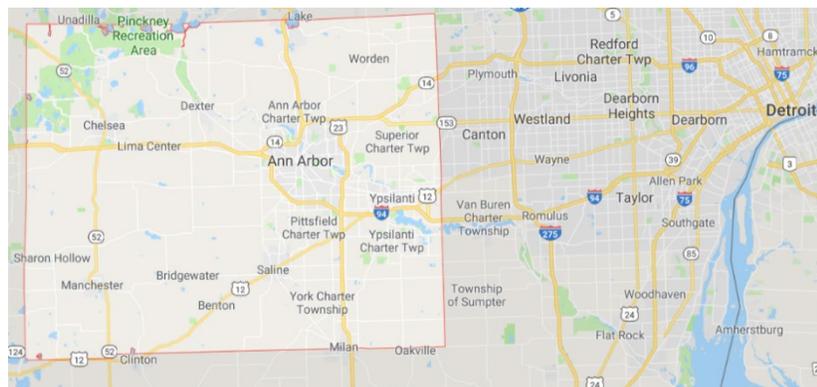


The Ann Arbor Area Transportation Authority (TheRide) was chartered in 1969 by the City of Ann Arbor, Michigan, as a not-for-profit unit of local government. The city of Ypsilanti and Ypsilanti Township were added as charter members to the authority in 2013.

TheRide operates public transportation services for the greater Ann Arbor-Ypsilanti area, enabling the area's residents to reach their destinations at a reasonable cost, and offers the region efficient, environmentally sound transportation alternatives.

The service area is home to the University of Michigan, Eastern Michigan University, Concordia University, and Washtenaw Community College. The region's economy is driven by education, medical, and technology sectors, as well as the area's proximity to Detroit.

Ann Arbor is the county seat for Washtenaw County, which also includes the city of Ypsilanti and the townships (Ann Arbor, Pittsfield, Scio, Superior, Ypsilanti) which make up TheRide's service area. The service area covers 110 square miles, with a service area population of 228,574 people. TheRide delivers approximately 400,000 hours of revenue service, driving more than 5.6 million revenue miles, and carries more than 6.9 million passenger trips on transit services annually during a typical year.



*Washtenaw County, Michigan*

TheRide operates fixed-route buses, A-Ride paratransit services, service to Detroit Downtown, FlexRide on-demand service, ridesharing, van pools, and other services (some services are suspended for the pandemic).

TheRide operates from three facilities. The Dawn Gabay Operations Center is the headquarters, administration offices, maintenance facility, and bus garage. Passenger terminals are located in downtown Ann Arbor (Blake Transit Center) and Ypsilanti (Ypsilanti Transit Center).

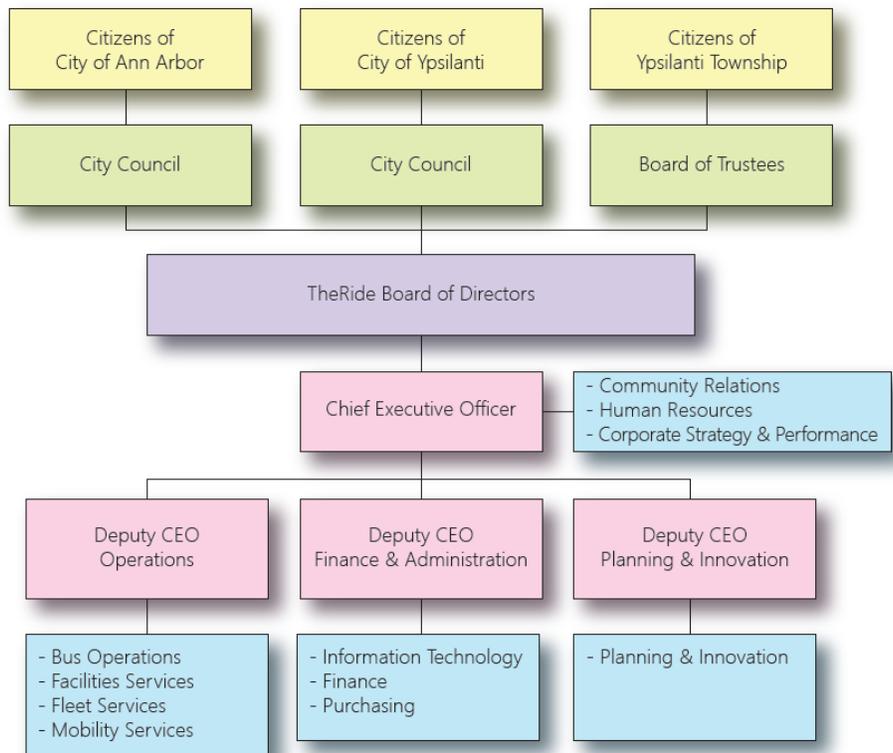
### Board of Directors

Michael Allemang  
Rich Chang  
Raymond Hess  
Roger Hewitt  
Ryan Hunter  
Eric Mahler, Chair  
Jesse Miller  
Kathleen Mozak  
Susan Pollay  
Kyra Sims, Secretary

### Executive Team

Matt Carpenter, Chief Executive Officer  
Dina Reed, Deputy CEO/Finance & Administration  
Bryan Smith, Deputy CEO/Operations  
Forest Yang, Deputy CEO/Planning & Innovation

### Organization Chart



### Senior Management Staff

Mike Blackston, Manager of Information Technology  
Donald Bowlin, Manager of Bus Operations  
Troy Lundquist, Manager of Fleet Services  
Gail Roose, Manager of Facilities Services  
Michelle Whitlow, Manager of Procurement & DBE Liaison

Mary Boonin, Manager of Community Relations  
Sue Fickau, Manager of Mobility Services  
Gwyn Newsome, Manager of Human Resources  
LaTasha Thompson, Manager of Finance

## 2. Letter from the CEO and CFO



Dawn Gabay Operations Center  
2700 S. Industrial Highway  
Ann Arbor, MI 48104

734-973-6500 **Phone**  
734-973-6338 **Fax**  
TheRide.org **Online**

September 17, 2021

On behalf of the Executive and Management teams at the Ann Arbor Area Transportation Authority (TheRide), we are pleased to submit this 2022 Recommended Budget for review by our riders, stakeholders, and Board of Directors.

In 2022, TheRide will continue focusing on helping our communities recover by increasing transportation services to pre-pandemic levels, with significant assistance of federal relief funding. The recommended budget supports the strategic priorities of supporting community recovery, planning for the future, serving customers and rebuilding ridership, and modernizing the organization.

The 2022 recommended budget has been prepared in accordance with the Michigan Uniform Budgeting and Accounting Act of 1968, Generally Accepted Accounting Principles (GAAP), and Board Governance Policies. The Board has delegated to the Chief Executive Officer (CEO) the responsibility to prepare a balanced budget which achieves the Board's objectives ("Ends") and avoids deficit spending and fiscal jeopardy. The budget achieves both requirements while positioning TheRide to continue providing excellent service to our communities and constituents. This recommended budget is presented to the Board of Directors for consideration of adoption.

Handwritten signature of Matt Carpenter in black ink.

Matt Carpenter  
Chief Executive Office

Handwritten signature of Dina Reed in black ink.

Dina Reed  
Deputy CEO, Finance & Administration

## 3. Executive Summary

The Fiscal Year 2022 (FY2022) Budget was developed with alignment to the business plan and Board objectives of supporting community recovery, planning for the future, serving customers, and modernizing TheRide. The coronavirus pandemic significantly impacted the world, our state and communities directly beginning in March 2020. Financial and operating impacts were unparalleled and uncertain, with fare revenues and transit ridership losses in the millions. Throughout 2021 federal relief funding has stabilized and provided millions of dollars to transit agencies to recover financial losses due to the pandemic. Additionally, the broad acceptance of public safety measures, including the wide availability of coronavirus vaccinations has restored much public confidence in the ability to return to normal societal behaviors. As a result, the FY2022 Corporate Business Plan focuses on supporting this recovery and the draft FY2022 Budget has been prepared to carry out the priorities represented in this new plan.

The FY2022 Budget is a balanced budget that supports recovery efforts by providing funding to increase services to pre-pandemic levels, as well as restoring some services at a premium level. The budget is supplemented by reimbursable federal relief funding to restore lost revenues and additional expenses incurred due to the pandemic. Consequently, a portion of local revenues are anticipated to provide a surplus in FY2022, which will provide additional funding for previously unfunded capital infrastructure projects critically important for service to our communities.

Two years ago, forecasted budgets showed the emergence of deficits, with their eventual growth to unsustainable levels. Cost-cutting measures, such as staffing and service reductions due to the pandemic, and the utilization of federal aid provided by pandemic relief funds have provided short-term relief with respect to the operating budget. Service recovery, inflationary growth and other cost pressures are a reality and present challenges that will need to be addressed in the future, however, TheRide currently remains in a financially stable position.

As with previous budgets, this recommended budget is guided by a strategic business plan— [Supporting Community Recovery](#)—which outlines the strategic priorities. This plan is aligned with the Board of Directors' expectations—supporting community recovery from the pandemic, planning for the future, serving customers and rebuilding ridership and modernizing TheRide (See *Board's Ends Policies*, in the [Board Policy Manual](#)).

This FY2022 Recommended Budget presents a balanced financial plan to restore most of our core services and to follow the board approved strategy of dedicating local revenues to capital projects for service enhancement in the future.

Highlights of the recommended FY2022 Budget:

- Overall operating expenses are **\$55,765,850** and **\$10,840,000** in capital investments
- Avoids deficit spending while utilizing federal funding for COVID-19 recovery
- Restores GoldRide services
- Addresses the long-term financial picture by presenting 7-year operating plan

- A portion of local funds will be eligible to fund the capital reserve
- Funds the priorities from the *Supporting Community Recovery Plan*
- Presents a 10-year capital plan, and programs federal and state funding for major projects:
  - Replacement and rehabilitation of fixed-route buses
  - Capital maintenance for the bus garage
  - Planning and design work for future renovations of the Ypsilanti Transit Center and the Blake Transit Center

# 4. Introduction

## Budget Document Orientation

This document contains five sections:

- The **Introduction** will orient the reader to the overall direction, strategic goals, and executive limitations established by TheRide’s Board, as well as the budgeting schedule and process.
- **The State of TheRide** establishes financial context, discusses the challenges, opportunities, and priorities for developing the budget, and presents ridership performance.
- The **Budget** summarizes the operating and capital budgets for FY2022 and presents financial forecasts for subsequent years.
- **Impacts of the 2022 Budget** discusses how the budget will affect the fund balance and the reserve, as well as the impact of capital investments upon the operating budget.
- The **Appendices** include details on initiatives and capital projects, anticipated contracts, fare schedule, a grant funding primer, recommended Board resolution for adoption, and a glossary.

This document uses multiple-year forecasting. Although financial information is presented for years beyond 2022, it is important to note that forecasted years are provided *only for context*, do not represent a commitment, and are likely to change. Each year, the Board of Directors adopts a budget for a single year rather than a multiple-year budget.

## Corporate Strategic Plans

The FY2022 Budget is the funding plan for achievement of goals established by TheRide’s Board of Directors. Corporate strategic planning establishes the programs and initiatives to help the organization achieve these Ends. As of mid-2021, the dominant issue is pandemic recovery. Society is still recovering from the pandemic and the next 12 months are not entirely clear. While vaccinations have reduced infections, it may take several more years to reach herd immunity, and virus variants continue to threaten global health. Nevertheless, our communities are reopening; normal economic and social activities are restarting and TheRide needs to support these activities. Consequently, the FY2022 Budget includes funding for service recovery as well as other initiatives referenced in the FY2022 Corporate Business Plan.

## Financial Executive Limitations Policies

TheRide’s Board of Directors controls and directs the organization via written policies. The full manual of these policies is available on the [website](#). Many of the policies have a direct effect on shaping the annual budget. For example, the Board has set clear limitations upon Financial Planning and Budgeting (Policy 2.4), Financial Conditions and Activities (Policy 2.5), Cash and Investments (Policy 2.6), Compensation and Benefits (Policy 2.3), and Asset Protection (Policy 2.7).

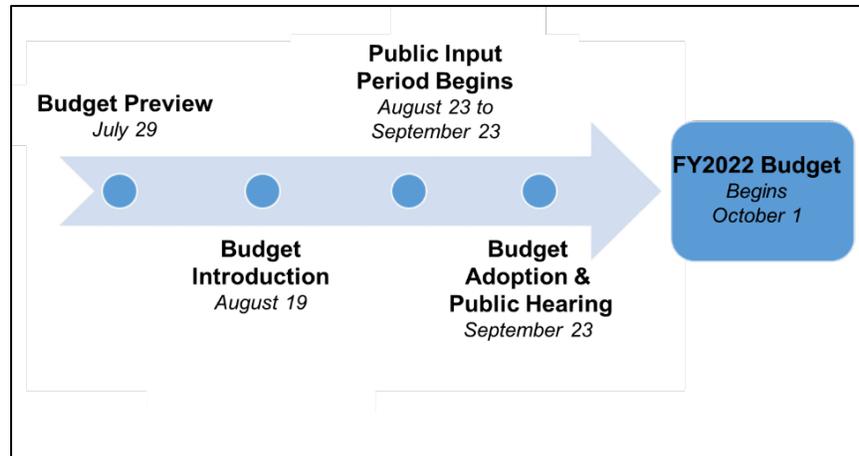
These policies require financial planning and budgeting to align with the Board’s Ends, be developed using sound financial practices, and incorporate strategic and multi-year planning. The Board’s policies

require practices that meet Generally Accepted Accounting Principles (GAAP), comply with federal, state, and local laws, describe practices for handling cash and investments, and require Board authorization for adjusting passenger fares, property tax rates, or buying or selling real estate. Other Board policies guide treatment of the public and employee relations.

## Budget Process and Timeline

The timeline for review and adoption of the FY2022 Budget is shown below.

**Figure 1:**



- **May/June:** The Finance Manager, Grant and Revenue Coordinator and Deputy CEO of Finance and Administration drafted a budget with many inputs, including Board policies, budget reviews with department managers, staffing requests, collective bargaining agreement, fleet and facilities plans, and other plans.
- **July/August:** An early draft of the operating and capital budget with a multi-year forecast was provided at Board Committee meetings. Both the capital program and operating budget preview were made available for public review starting August 13th, through budget adoption on September 23rd.
- **August:** The draft budget will be formally introduced to the Board of Directors at its August 19<sup>th</sup> meeting and public input period begins August 23rd.
- **September:** The recommended budget is presented the Board of Directors for adoption and a public hearing, as required by state law, will be held during the September 23<sup>rd</sup> meeting. An additional public hearing meeting was held on September 7<sup>th</sup>. The Michigan Uniform Budgeting and Accounting Act of 1968 requires Board adoption prior to any expenditures being made in the fiscal year.
- **October:** Fiscal Year 2022 will begin October 1, 2021, with the newly adopted budget.
- **FY2022:** As necessary and with board approval, budget amendments may be made throughout the new fiscal year to adapt to changing needs and conditions.

# 5. The State of TheRide

## Financial Condition

TheRide is financially stable and is expected to remain so through FY2022. TheRide is set to end FY2021 with revenue and costs significantly below the budget because of fare revenue losses and service reductions from the pandemic. The reserve balance was strengthened last year and will remain strong, as federal pandemic relief funds will support ongoing operations and service recovery. This aid will also support revenue losses, pandemic-related costs, and allow local funds to be dedicated to a capital reserve for future capital projects. While there is a great deal of uncertainty due to the pandemic, some financial strengths include:

- No risks of service cuts or lay-offs in 2022.
- Continuing to operate within the budget and available resources.
- Operating reserve funds at target levels.
- Newly established capital, operating, and insurance reserves.
- No indebtedness or significant liabilities.
- No significant legacy costs such as unfunded pension liabilities.

In addition, the agency has a track record of strong audit results, as was the case again with the 2020 financial statement audit. Working with the CFO, the Finance Manager is working to improve cost accounting and financial management practices, such as modernization of timekeeping and payroll processes. Preserving and building on these strengths will be important going forward into the next fiscal year, particularly in dealing with financial challenges arising from the pandemic including economic recession and lower fare revenue.

## Fund Description, Structure, and Balances

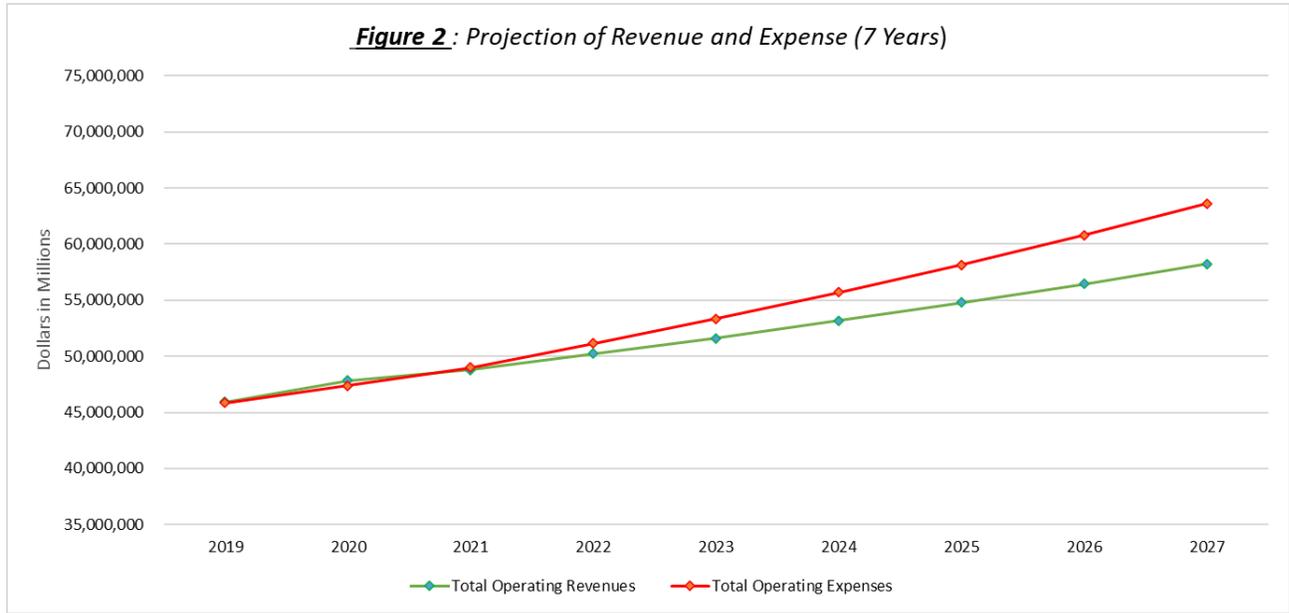
TheRide operates with one general fund through which operating, capital, and investing cash flows occur during the fiscal year. The term *fund balance* is used to describe the net position of the general fund as calculated by GAAP, presented at a particular point in time. It is the net position on the statement of net position (balance sheet).

A positive fund balance with very low liabilities (particularly no significant unfunded pension liabilities) going into FY2022 will bolster the organization against the risks of uncertain funding ahead. The expected effect of the FY2022 budget upon the fund balance is discussed in the [Impacts of the 2022 Budget](#).

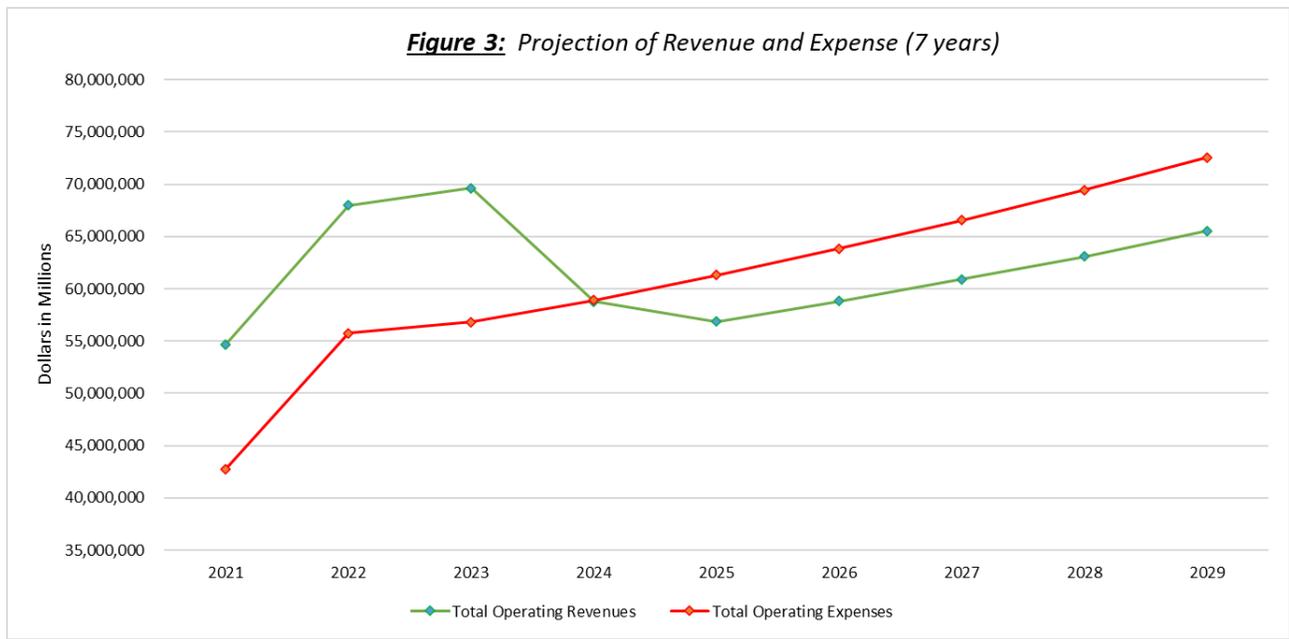
## Financial Challenges: Structural Deficit

Before the pandemic, TheRide was already anticipating financial challenges. In 2019, budget forecasting showed deficits starting in FY2021 because expenses were growing faster than revenue. Audited financials from 2015-2019 revealed that costs grew on average 6.1% annually, while revenue growth averaged 4.8%. This audited data demonstrated that the property tax millage which funded service expansion in 2014 was insufficient to cover expansion costs as indicated in the Five-Year Transportation Improvement Plan

(5YTIP), in effect [TheRide was operating beyond its means](#). Deficits were forecasted to grow from \$190,000 in FY2021, or 0.4% of budgeted expenses, to more than \$5.4 million in FY2027, 8.5% of total costs. The graph below illustrates the gap in revenues and expenses as projected through FY2027 at that time. In early 2020, cost control measures were under way.



Once the pandemic emerged, TheRide’s financial situation suddenly appeared much more precarious and immediate cost saving measures were deemed necessary, including significant suspension of service and layoffs affecting 42 employees. Those immediate pandemic-related changes in combination with significant contributions of federal relief funding provided immediate relief for FY2021, and TheRide has since returned to full services. The remaining federal relief is now anticipated to project a balanced budget through FY2024. While none of this resolved the pre-existing structural deficit, the onset was delayed from 2021 to 2024. One-time federal funding provides short-term relief but cannot offset ongoing operating costs for the long-term. It is important to acknowledge that as service recovers to pre-pandemic levels and federal relief funding is depleted, the underlying structural deficit problem still exists and will need to be addressed. In the seven-year forecast presented below, an emerging operating deficit is again predicted for FY2024, caused by expenses growing faster than revenue. Deficits are forecasted to grow from about \$143,000 in FY2024 to \$7.0 million in FY2029. TheRide will need to consider a variety of solutions to address the projected operating deficit.



## Financial Opportunities

TheRide’s budget for fiscal year 2022 will ensure the continued delivery of high-quality services, demonstrate careful stewardship, and provide transparency of future challenges with the seven-year budget forecast. Development of the 2022 Budget was guided by the following principles:

- Budget for the priorities outlined in the *Supporting Community Recovery* corporate business plan.
- Compliance with budgeting policies adopted by the Board of Directors to ensure financial stability.
- Support safe operation of transportation services.
- Maximize value provided to riders/customers and taxpayers.
- Ensure funding for ongoing operations remains stable.
- Ensure TheRide’s assets are maintained in a state of good repair and expansion efforts are planned for the future.
- Continuously improve cost accounting and financial management.

Ensuring adequate operating reserves, utilizing federal pandemic relief funding, and the capital investment focus for TheRide’s assets are priorities which warrant additional brief discussion, as follows.

## Ensuring Adequate Operating Reserves

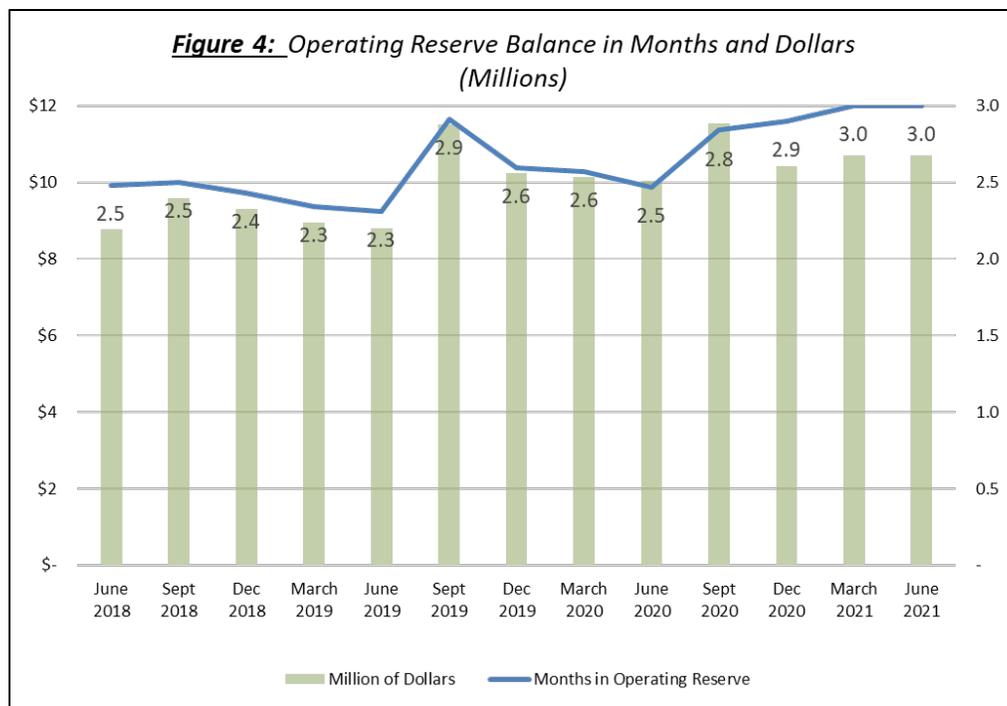
A reserve is an important part of a healthy agency budget. Its purpose is to buffer the agency from the risk of unexpected costs or disruptions to revenues. Without an adequate reserve, the agency would risk insolvency in an emergency, such as the COVID-19 pandemic.

Board Policies (2.4.6, 2.5.8) require budgeting to provide reserves adequate to cover near-term operating expenses. Adopted in April 2021, TheRide established the following reserves and target levels:

- Operating reserve with the target level of 2.5 months.
- Worker’s compensation insurance reserve of \$500,000.

### Operating Reserve

Steps taken in recent years have strengthened the operating reserve after it had fallen below this target due to investing in expanded services. TheRide was able to gradually restore the reserve and consistently maintain the target level since the end of FY2019. Due to the pandemic and associated federal relief funds, the operating reserve cash position has improved in FY2021 as shown in the chart below. The projections for the operating reserve are included in the [Impacts of 2022 Budget](#) section.



### Worker’s Compensation Insurance Reserve

The worker’s compensation insurance reserve was created to fund worker’s compensation claims and manage budget risk. The worker’s compensation insurance reserve is fully funded as of June 2021.

### Utilizing Federal Pandemic Relief Funding

Since April 2021, TheRide has been apportioned the following federal pandemic relief funds totaling \$58.7 million for reimbursable eligible costs:

- \$20,704,090 in Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- \$15,771,805 in Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- \$22,269,092 in American Rescue Plan (ARP) funding (Net of 20% available retained by RTA)

This federal aid is provided to assist with coronavirus-related operating expenses such as replacement of lost revenue, purchase of Personal Protective Equipment (PPE), cleaning and sanitation supplies, increased janitorial services, paid employee leave, and other costs. New costing accounts have been added to the accounting system for pandemic-related services, materials, and supplies, as well as for the federal pandemic relief revenue.

This budget demonstrates that pandemic relief funds are being utilized to support reimbursable eligible costs throughout the pandemic and after, and through service recovery.

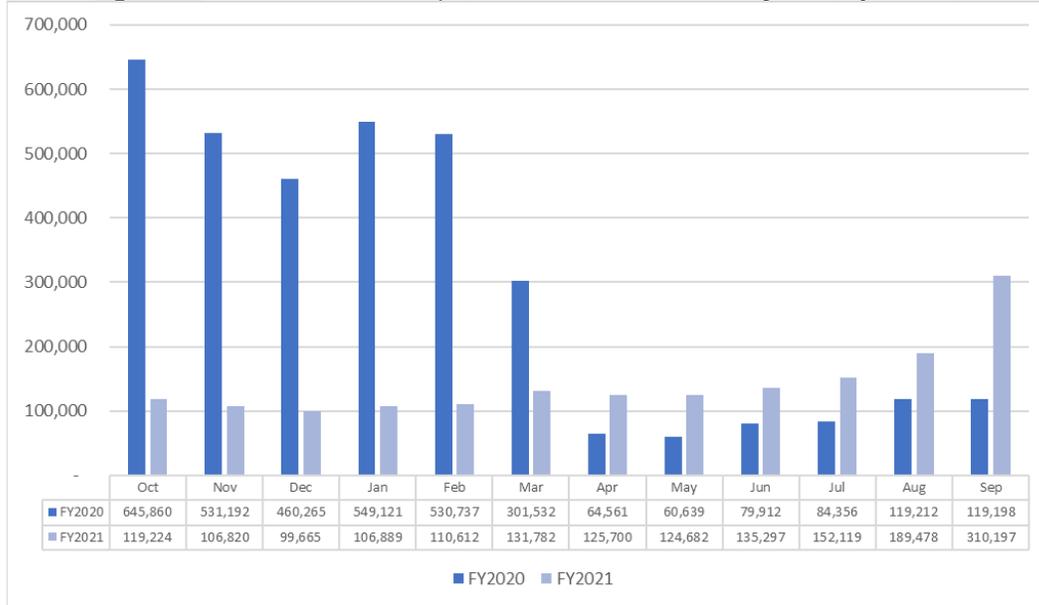
### **Capital Investment Focus**

Maintaining facilities, vehicles, equipment, and other assets continues in the FY2022 budget. In alignment with federal regulation, the Transit Asset Management (TAM) Plan helps ensure assets are in good condition and ready to support TheRide's services. While TheRide's fleet and equipment are in a good state of repair overall, facilities need attention. Additional resources are included in capital budgeting to address needs at the bus garage, including roof and HVAC replacement, and other needs. Planning is also scheduled to continue in FY2022 to replace and expand the Ypsilanti Transit Center (YTC) as well as a Blake Transit Center (BTC) expansion.

### **Fixed-Route Ridership**

[Fixed-route bus service](#) operated by TheRide includes bus routes in Ann Arbor, Ypsilanti, nearby townships as shown on the [System Map](#) and [GroceryRide](#). Ridership growth peaked in 2018 then declined slightly in 2019 and early 2020 when coronavirus emerged in mid-March. Ridership losses were then sudden and severe, dropping by nearly 90% and many fixed-route services were suspended due to lower demand and public safety. Services were gradually restored to 60% of the full-service level and full-service levels on August 29, 2021. Total annual fixed route ridership is projected to decline by 49% for FY2021 vs. FY2020, with 1.7 million passenger trips expected compared to 3.5 million passenger trips last year. Projections show gradual ridership growth as service is recovered.

**Figure 5: Fixed Route Ridership (2020 Actual and 2021 Projected, by Month)**



For 2021, October through August ridership is actual; September is projected.

[ExpressRide](#) commuter bus service from Canton, Chelsea, and Ypsilanti Township to Ann Arbor and the University of Michigan campuses was suspended in mid-March 2020 due to the pandemic. Annual ridership for 2020 was 12,479 passenger trips, down 57% from 29,070 passenger trips in 2019. Service is not budgeted to resume in 2022.

### AirRide & D2A2

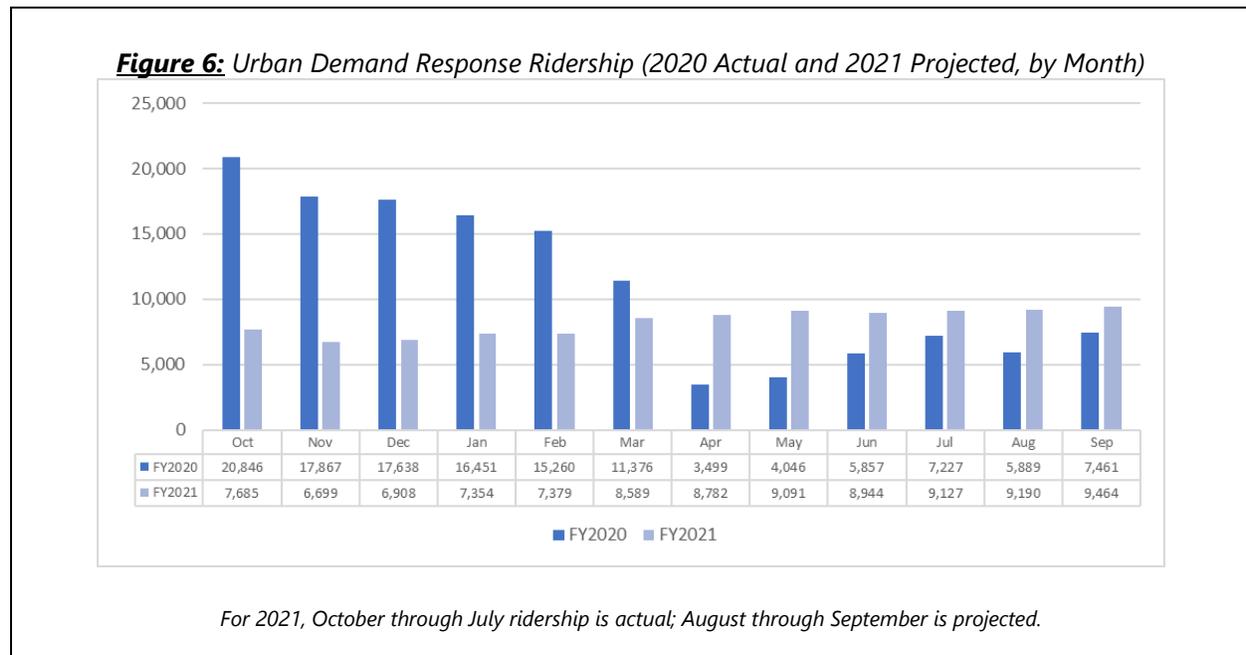
[AirRide](#) bus service from Ann Arbor to the Detroit Metro Airport was continuing its growth trend in 2020 with 5% ridership gains through February, before operations were suspended. TheRide launched [D2A2](#), Detroit-to-Ann Arbor commuter bus service, in partnership with and funded by the Regional Transit Authority (RTA) in March 2020. The much-anticipated service operated for only a few weeks before service was suspended due to the pandemic. In FY2020, the ridership for D2A2 was 119 for the short operation period.

AirRide is now operated by Michigan Flyer who will now be tracking ridership and revenues on their financial records. D2A2 is expected to resume operations in October 2021. The D2A2 service is a partnership between TheRide and the RTA. TheRide will operate the service via a contractor while the RTA funds the service via a state grant. The RTA funds flow through TheRide to the contractor. No funding from TheRide is used although staff time is contributed. Connections to metro Detroit is a Board Ends policy (1.3.4).

## Urban Demand Response

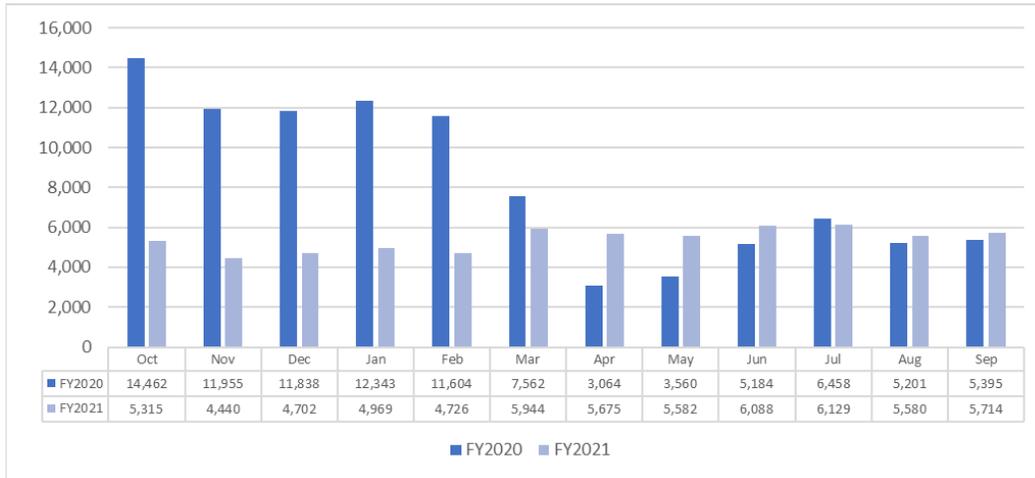
Demand response services cover a range of accessible, flexible, on-demand services operated by TheRide, including A-Ride, GoldRide, [NightRide and HolidayRide](#), [FlexRide](#), and [MyRide](#). Service was reduced and ridership declined sharply in March 2020. A-Ride trips were limited to paratransit services minimally required by the Americans with Disabilities Act (ADA). NightRide and HolidayRide services were consolidated with FlexRide in August 2020. MyRide mobility management services were suspended upon the onset of the pandemic but anticipated for restoration in FY2022 if possible.

2021 Ridership is projected 28% lower, at 96,777 passenger trips compared to 133,417 in 2020. Ridership comparisons for all demand response services combined are shown in the chart below.



A-Ride is an ADA-required paratransit service, available for people with disabilities who are unable to use the fixed-route system. In prior years, A-Ride had also incorporated GoldRide, a shared-ride on-demand service for persons age 65 or older. Several changes were made in 2020 in response to the pandemic. GoldRide was suspended to ensure adequate capacity was available for ADA-required trips. (GoldRide passengers are still provided free rides on fixed-route services.) GoldRide has been approved to be expanded in August 2021 and will be separated from A-Ride service. Ridership is projected at 64,914 trips for 2021, down 34% from 98,626 riders in 2020, as shown in the chart below.

**Figure 7: A-Ride/GoldRide Ridership (2020 Actual and 2021 Projected, by Month)**



*For 2021, October through July ridership is actual; August through September is projected.*

# 6. 2022 Budget

## Budget Overview

The following sections outline the FY2022 operating and capital budgets. The initiatives outlined in this budget help advance the priorities identified in the *Supporting Community Recovery Plan* (i.e., supporting community recovery, planning for the future). This budget also provides multi-year forecasts and context.

Highlights of the FY2022 Budget include:

- Restoration of fixed-route and paratransit services.
- Balanced operating and capital budgets.
- Continuing work on a long-range service plan.
- GoldRide service changes.
- Funding for new A-Ride contractor.
- Fare change proposal for daily and monthly passes along with removing the NightRide and Holiday surcharge.
- Leverages Federal pandemic relief funds for financial stability.
- Leverages local revenue for capital investment.

In addition, the budget continues to advance many of the capital initiatives that have been started in recent years. Examples of significant 2022 initiatives include:

- Replacement and rehabilitation of fixed-route buses and support fleet
- Ongoing investment in facility rehabilitation
- Ongoing investments in technology modernizations
- Planning and design for future renovation and/or expansion of transit centers

## Operations Overview

Many of the TheRide's services were reduced or suspended upon the pandemic outbreak in 2020 and a *temporary service plan* was developed that expired on August 28, 2021. At that time, the *Service Recovery Plan* was implemented which increases services to pre-pandemic levels with a reorganized and simplified network of routes for essential travel. The plan will affect all routes, along with A-Ride, GoldRide, FlexRide, and Night/Holiday service. As a result, the amount of services (i.e., hours of service) provided by TheRide has fluctuated recently.

It is important to note that the *Service Recovery Plan* was developed in compliance with federal regulations and Board's policy relative to service change, public involvement, and operating requirements. The process included extensive public review and input, and a board review to determine how resources would be best allocated during service recovery.

The following tables present vehicle revenue hours (hours in service) and ridership, with comparisons between FY2020 actual performance and the projected 2022 levels. FY2021 projected results are also presented.

**Figure 8:** Projected Vehicle Revenue Hours for 2022 vs. 2020, Actual, 2021 Projected

<b>Service Hours:</b>	<b>Actual 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>% Change (2022 vs. 2020)</b>
Local Fixed Route	250,492	205,240	274,928	10%
ExpressRide	972	-	-	-100%
AirRide & D2A2**	5,010	-	7,540	50%
Urban Demand Response	73,522	52,900	111,849	52%
<b>Total</b>	<b>329,996</b>	<b>258,140</b>	<b>394,317</b>	<b>19%</b>

**Figure 9:** Projected Ridership for 2022 vs. 2020, Actual, 2021 Projected

<b>Passenger Trips:</b>	<b>Actual 2020</b>	<b>Projected 2021</b>	<b>Projected 2022</b>	<b>% Change (2022 vs. 2020)</b>
Local Fixed Route	3,546,585	1,712,465	4,379,800	23%
ExpressRide	12,479	-	-	-100%
AirRide & D2A2**	50,213	-	22,620	-55%
Urban Demand Response	133,417	99,212	168,465	26%
<b>Total</b>	<b>3,742,694</b>	<b>1,811,677</b>	<b>4,570,885</b>	<b>22%</b>

Note: Urban Demand Response includes A-Ride, GoldRide, HolidayRide, NightRide, FlexRide and MyRide. AirRide is currently not operated by TheRide, and no data is included in 2021 or 2022 for this Service Line.,

## Operating Budget

The following tables and charts illustrate the elements of the FY2022 Operating Budget. Budgeted expenses and revenues are presented below and are compared to FY2020 because this is the most recent budget year with full operating service levels and a more normalized operating environment. Comparisons to FY2021 would be distorted because there were significant reductions in service as well as changes in how services were provided (in-house versus contracted) as the agency coped with residual impacts of service-related issues due to the COVID pandemic.

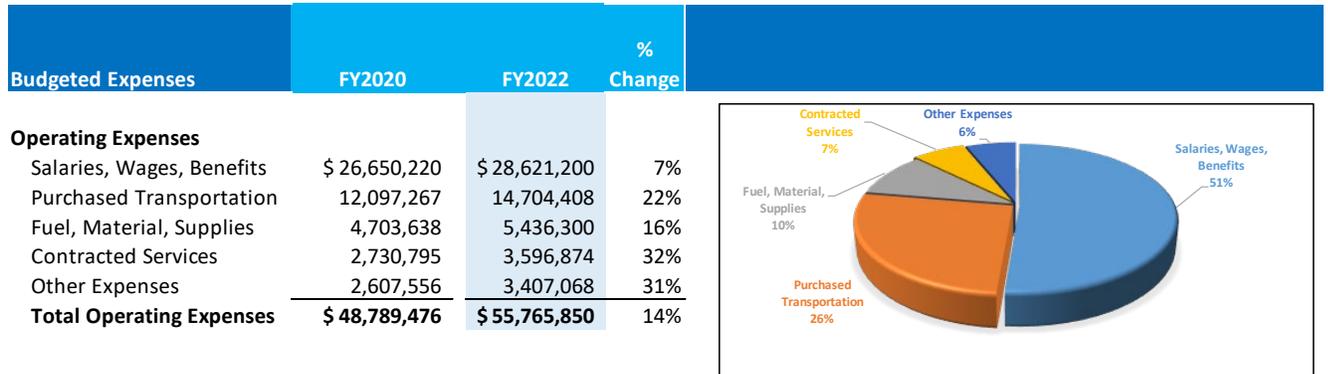
As a result, inflationary factors are slightly exacerbated in percentage variances as we are comparing a two-year time period instead of the typical year-over-year comparison.

Additionally, as of the end of FY2021 and the beginning of FY2022, TheRide initiated the Service Recovery Plan which have several impacts on operations and the FY2022 Budget. First, fixed route services are restored to pre-pandemic levels. Second, while A-Ride was temporarily performed as an in-house service during the heart of the pandemic, A-Ride will return to operation as a contracted service. Third, FlexRide service will decrease from FY2021 levels but is expanded from FY2020 based on the re-evaluation of service routes for FY2022. Finally, GoldRide services are being restored and expanded from previous levels. FY2022 Budgeted Operating expenses and revenues reflect these changes and additional explanations of key assumptions and budget impacts are described in more detail throughout this section.

## Operating Expenses

As illustrated in Figure 10, FY2022 Operating Expenses are budgeted at **\$55,765,850**, 14% higher than FY2020.

**Figure 10: FY2022 Expenses (with FY2020 Comparison)**

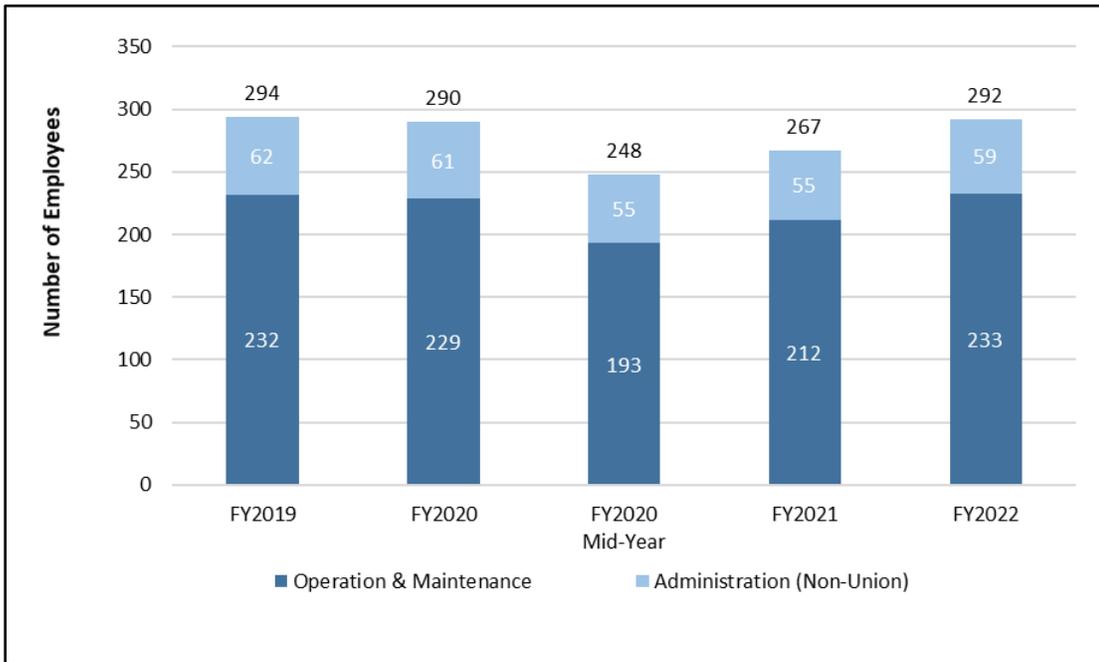


As discussed above, operating expenses include the impacts of the implementation of the Service Recovery Plan and two years of inflationary impacts. In addition, descriptions of expenses and key budget assumptions are as follows:

- Salaries and wages include contractual pay rate increases for bargaining unit employees. Non-union staff will also receive similar adjustments and that rate has been benchmarked with the [American Society of Employers \(ASE\) Annual Salary Budget Survey](#).

Figure 11 illustrates staffing levels from FY2019 to FY2022. The significant reduction in FY2020 was a result of workforce reductions due to the pandemic. Operations staffing levels were partially restored in FY2021 as some services were temporarily provided with in-house staff. In FY2022 budgeted staffing levels are restored to pre-pandemic levels to meet service requirements.

**Figure 11: Staffing Levels FY2019 to FY2022**



- *Fringe benefit* costs are estimated based on historical actual costs and adjusted for anticipated inflationary rates. Figure 12 provides a comparison of the detailed fringe expenses and key benefits assumptions.

**Figure 12: Benefits Summary**

Type of Fringe	FY2020	FY2022	\$ Change	% Change
FICA	\$ 1,437,246	\$ 1,580,659	\$ 143,413	10%
Pension	1,589,905	1,868,431	278,527	18%
Healthcare	2,803,048	3,011,496	208,448	7%
Worker's Compensation	131,150	185,281	54,131	41%
Dental/Vision	321,128	289,106	(32,022)	-10%
Disability (Long-Term/Short-Term)	164,491	176,858	12,367	8%
Life Insurance	61,992	64,824	2,832	5%
Other*	618,776	674,196	55,420	9%
<b>Total Fringe Benefits</b>	<b>\$ 7,127,736</b>	<b>\$ 7,850,851</b>	<b>\$ 723,116</b>	<b>10%</b>

\*Other includes Post-Retirement, EAP, and unemployment expenses

- FICA (Federal Insurance Contributions Act) or U.S. federal payroll taxes are based statutory rates. For 2021, the rates were 7.65% for earnings up to \$142,800 and 1.45% afterward. FY2022 assumptions are budgeted consistent with the prior year.

- Pension expense is based contractual (union) or established rates (non-union) for eligible employees. For eligible employees, the pension expense is 9% of wages and is budgeted accordingly.
- Healthcare expense is based on historical medical insurance premium cost and the assumption of 10% increase in premiums due to previous average annual increases in these costs.
- TheRide is self-insured for worker’s compensation. The budgeted expense is based on historical average cost per employee.
- Purchased transportation expenses, as shown in Figure 10, are 22% higher than FY2020 due to the implementation of a new A-Ride contract inflation, restoring and expanding GoldRide service and the expansion of FlexRide compared to FY2020. As described above, A-Ride services are performed by an outside contractor. While the new contract is more costly than the previous, the anticipated benefits are higher quality service, mitigation of reporting risk and reduced operating risk.
- Fuel, materials, and supplies expenses, as shown in Figure 10, are up 16%, primarily due to a change in reporting for fuel costs related to A-Ride services. In prior years, fuel related to A-Ride services was embedded in the cost of the contractor fees that were billed to TheRide under purchased transportation. However, TheRide can purchase fuel at a lower rate than an outside contractor, so beginning in FY2022 fuel purchased for A-Ride services will be recorded under this account, which increases the budgeted expense by \$500,000. The remaining increase in fuel, materials and supplies is related to service recovery costs, pandemic-related costs, and normal inflationary factors. One-time pandemic related costs total \$212,000.

Contracted services expenses are increasing by 32%, primarily due to one-time and semi-annual costs in consulting, public education efforts, and pandemic-related services. Variances in contractual services are illustrated in Figure 13 and described in further detail below.

**Figure 13: Contracted Services Summary**

Type of Contracted Services	FY2020	FY2022	\$ Change	% Change
Consulting	\$ 479,133	\$ 820,000	\$ 340,867	<b>71%</b>
Contracted Maintenance Service	907,266	772,500	(134,766)	-15%
Pandemic-Related Services	-	521,400	521,400	<b>100%</b>
Security Services	404,077	302,200	(101,877)	-25%
Legal & Auditing Fees	214,000	231,000	17,000	8%
Local Property Tax Collection Fees	175,126	221,734	46,608	27%
Custodial Service	192,402	205,000	12,598	7%
Agency Fees (Marketing Design)	80,700	172,340	91,640	<b>114%</b>
Internet Services & Other	278,091	350,700	72,609	26%
<b>Total Contracted Services</b>	<b>\$ 2,730,795</b>	<b>\$ 3,596,874</b>	<b>\$ 866,079</b>	<b>32%</b>

- Consulting expenses are increasing by \$340,867, or 71%, due to additional planning efforts required to initiate and complete the 2045 long term plan, semi-annual surveys due in FY2022, and one-time efforts for the following key organizational initiatives:
  - Millage renewal education consulting services, \$75,000. Every five years TheRide’s millage must be renewed. In those years there are increased costs to support an educational campaign to inform voters about the nature of the millage, as is legally allowed. TheRide does not fund any political campaigns.
  - Propulsion study (evaluation of electric vehicles), \$100,000. One of the Board’s Ends goals is for TheRide to reduce its own pollution footprint. TheRide is engaging a consultant to help evaluate the costs and benefits of various zero-emissions propulsion technology for buses.
  - Equity consulting (exploration of internal staff equity), \$100,000. Inspired by recent social movements, TheRide would like to spend additional resources exploring and advancing internal equity. The specific scope of work has not yet been determined.
- Agency Fees are expenses for public education and engagement that are performed by an outside firm. Projected expenses for FY2022 are \$91,640, or 114%, higher than budgeted in FY2020 due to additional services required to provide additional public information related to the 2045 long term plan, millage renewal, and implementing the service recovery plan.
- Pandemic-related services include funding for cleaning, media, vehicle maintenance, mobile ticketing, etc. and are budgeted based on expenses incurred in FY2021. These expenses are reimbursed through federal pandemic relief funding and are not expected to be required at the same levels in FY2023.
- Other expenses are projected to increase by 31%, primarily due to higher insurance premiums, utility charges, and equipment and parking lot rental fees. Variances in other expenses are illustrated in Figure 14 and described in further detail below.

**Figure 14: Other Expenses Summary**

Type of Other Expenses	FY2020	FY2022	\$ Change	% Change
Casualty & Liability Insurance	\$ 958,365	\$1,450,000	\$ 491,635	51%
Utilities	537,648	675,200	137,552	26%
Media	366,500	321,088	(45,412)	-12%
Employee Training & Travel	280,519	319,250	38,731	14%
Equipment & Parking Lot Rental	96,724	196,560	99,836	103%
Uniforms	138,000	140,000	2,000	1%
Other	229,800	304,970	75,170	33%
<b>Total Other Expenses</b>	<b>\$ 2,607,556</b>	<b>\$3,407,068</b>	<b>\$ 799,512</b>	<b>31%</b>

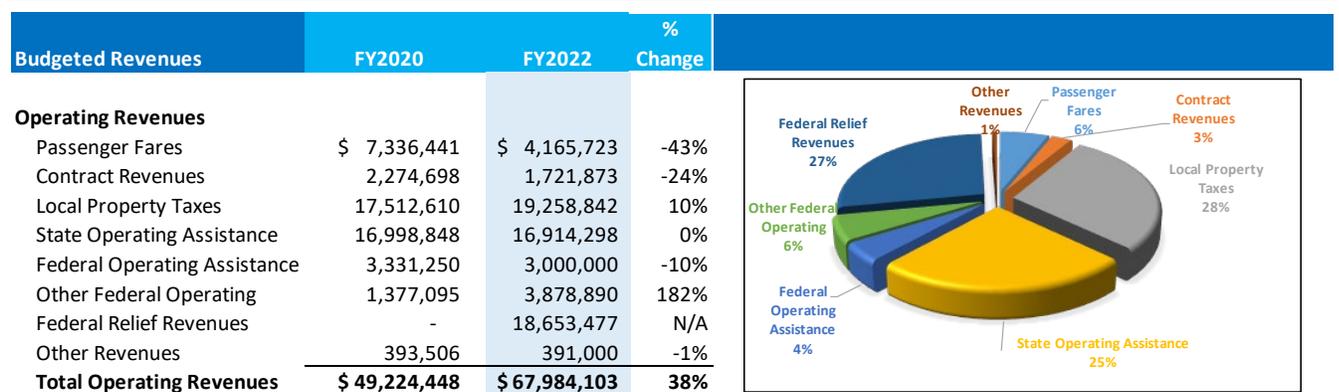
- Higher casualty and liability insurance premiums are mainly due to 15-20% market increases per year since FY2020. These market increases are consistent with recent national trends for fully insured transportation agencies.

- Utilities expenses have been increased to reflect consistency with actual expenditures and are based on a historical trending analysis spanning the past several years. Actual utility costs for FY2020 and FY2021 were approximately \$600,000 and \$700,000, respectively.
- Equipment & parking lot rental expenses are increased to reflect pass-through expenses for D2A2. These costs are incorporated into TheRide’s budget on a line-item basis. Expenses are fully recovered from federal and state funding and any changes in the projected expense will also decrease revenues directly associated with the reimbursement.

## Revenues

As illustrated in Figure 15, FY2022 Operating Revenues are budgeted at **\$67,984,103**, a 38% increase from the FY2020 budget year.

Figure 15: FY2022 Revenues (with FY2020 Comparison)



Operating revenues are primarily generated by a combination of user fees, contractual service agreements and several sources of public funding. Descriptions of major revenue sources and key budget assumptions are as follows:

- **Passenger fares:** TheRide collects fares according to a Board-approved fare structure, paid either by passengers or by organizations (TheRide’s purchase-of fare partners) on their behalf. As detailed in the *Appendix Four*, fares vary based on service type (fixed route, A-Ride, etc.), rider category (Full Fare, Reduced Fare-Youth/Senior/Disability, etc.), and fare product (Token, 30-Day Pass, etc.). Fares may be paid by purchasing a token, pass, or mobile ticket in advance; by presenting an organization-paid pass; or by paying cash upon boarding. Purchase-of-fare partners are eligible to receive bulk purchase discounts and often provide additional discounts or free fares to their members. The FY2022 budget anticipates purchase-of-fare partnerships with Ann Arbor Downtown Development Authority (DDA), Ann Arbor Public Schools, Eastern Michigan University, University of Michigan, Washtenaw Community College, and several employers participating in the getDowntown go!pass program.

In addition, staff are recommended fare reductions in four fare categories:

- **Reduce 30-Day Pass from \$58 to \$45** – A convenience for customers, this pass appears to be priced somewhat high. A lower price could switch some passengers from paying cash, reduce dwell times, and possible encourage more frequent travel (End 1.0).

- **Reduce (Fixed-Route) 30-Day Value Passes (Seniors, low-income, disability, student) from \$29.00 to \$22.50.** – Federal law requires a 50% discount for seniors and persons with disabilities, so this discount is triggered by the reducing of the full priced 30-Day pass. TheRide has historically pegged prices for students and low-income riders to the same rate and seniors, so this will continue unchanged (End 1.0, 1.1).
  - **Reduce (Fixed-Route) Day Pass from \$4.50 to \$3.00** – Although the fare study recommended eliminating the pass because it wasn't well used, staff feel that there may be untapped potential in this category to attract tourists and visitors (End 1.3.3). The \$3.00 price point is equal to two full priced fares (\$1.50) whereas a visitor would have had to ride three times to equal the current price. Staff are recommending lowering this fare to see if the price point was to reason it wasn't used. If successful, this change may induce additional ridership, but not revenue. If this is not successful, this fare may be eliminated in the future.
  - **Eliminate NightRide Surcharge (Zone charge from outside Ann Arbor) from \$2.00 to \$0.00** – Historically, the overnight service, NightRide, has imposed a zone/transfer fee on passengers entering Ann Arbor (\$2.00). This fee now appears to impede labor mobility (End 1.3.1) and may be discriminatory (End 1.1, EL 2.1.2).

As described in detail in Appendix Four, these recommendations are being made to increase ridership, equity, or labor mobility (Ends), and were identified through an earlier study of TheRide's fare structure. These changes may result in a loss of fare revenue, but any loss appears minimal and is anticipated to be offset by increased ridership. The potential benefits are expected to justify the costs. Further details on the fare changes are included in [Appendix Four](#). Passenger fare revenue is expected to be 43% less than the FY2020 budget because of lower ridership than pre-pandemic levels. Fare revenue is expected to grow with returning ridership. The impact of recommended fare changes has also been included in the passenger fare revenue.

- Contract Revenues: TheRide enters into purchase-of-service agreements with Pittsfield, Scio, and Superior Townships to provide fixed-route and/or demand-response services in their communities. An additional contract with the Ann Arbor Downtown Development Authority supports getDowntown program operations. Pass-through contract revenue for nonurban service provided by People's Express and Western-Washtenaw Area Value Express (WAVE) is associated with state-led rural programs and offset by both agencies' operating expenses without a net impact on TheRide's budget.

Contract revenue decreased 24% from FY2020 primarily due to local funding contribution changes for non-urban services.

- Local property taxes: TheRide receives property tax revenue from the Cities of Ann Arbor and Ypsilanti and the Charter Township of Ypsilanti ("Ypsilanti Township"). There are two sources of revenue received from the City of Ann Arbor (a perpetual 2.5 mill levy written into the city's Charter in 1974, and a .7 mill tax (2018 public transportation improvement millage)). There are also two sources of revenue received from the City of Ypsilanti (a perpetual .9789 mills written into the city's Charter for public transit purposes in 2010, and a .7 mill tax (2018 public transportation

improvement millage)). There is one source of revenue received from Ypsilanti Township (a .7 mill tax (2018 public transportation improvement millage)).

The Board of Directors authorizes the levy of ad valorem property taxes, as required to be adjusted for the Headlee Amendment (Headlee) under Michigan State Law, for the purpose of providing public transportation services for fiscal year 2022 as follows:

- City of Ann Arbor, 3.1862 mills:
  - 2.5 by charter (actual levied amount will be subject to reduction by Headlee and is to be determined), and
  - 0.6862 (0.7 mills by 2018 approved millage, as adjusted by Headlee)
- City of Ypsilanti, 1.6651 mills:
  - 0.9789 by charter (actual levied amount will be subject to reduction by Headlee and is to be determined), and
  - 0.6862 (0.7 mills by 2018 approved millage, as adjusted by Headlee)
- Charter Township of Ypsilanti, 0.6862 mills (0.7 mills by 2018 approved millage, as adjusted by Headlee)

Property tax revenues for 2022 are anticipated to be approximately 4.7% higher than projected actual property tax revenues of \$18.4 million in 2021, due to the most recent three-year average of estimated increases in taxable property values for the member cities.

- State operating assistance: revenue is relatively flat compared to FY2020 due to a decreased preliminary state reimbursement rate for FY2022 eligible expenses. See *Appendix Five* for further details on State and Federal funding sources.
- Other federal operating assistance: will increase due to funds passed through RTA for the D2A2 service if the service is restored, as well as higher federal grants for nonurban services.
- Federal relief revenues: Federal pandemic relief funds (CARES Act, CRRSAA and ARP funding) will be utilized to reimburse all eligible operating expenses and to replace lost fare revenues related to the coronavirus pandemic. The estimated use of federal pandemic relief funds is \$18.65 in FY2022. The use of federal pandemic relief funds is anticipated to result in a surplus of \$12.98 million of local property tax funds, which will be transferred to reserve.

## Contingencies

There is still a fair amount of pandemic-related uncertainty regarding revenues and expenses, particularly regarding federal, state, and local funding and how quickly and the degree to which services can be fully recovered. The following revenues and expenses are key areas that could change during FY2022:

- The appointment of federal pandemic relief funds could be higher or lower than anticipated.
- Fare revenue and contract revenue will vary based upon ridership recovery and service levels.
- Property tax collections could be higher or lower than anticipated.

- State operating and capital contributions will depend upon the state’s budget adoption, which isn’t likely to occur until late September.
- Purchased transportation costs could decline if D2A2 is unable to relaunch, or the expected ridership levels are not attained.
- Pandemic-related costs could be higher or lower than anticipated.

The assumptions in the recommended FY2022 budget represent the staff’s best attempts to make financial projections using the economic inputs available to us from our industry, local, state, and federal leaders. State law allows adopted budgets to be amended, offering adequate flexibility to accommodate changing budgetary needs as the year progresses.

The following table illustrates the details of the recommended FY2022 budget, along with comparisons to previous years. Please note the variance column (% change) compares 2022 to 2020, in order to compare years with full-service expenses and revenues.

**Figure 16: 2022 Operating Budget Detail (with Prior Year Comparisons)**

	FY2020 Audited Actuals	FY2020 Adopted Budget	FY2021 Projected Actuals	FY2022 Recommended Budget	2022 vs. 2020 Change		FY2021 Amended Budget
					\$	%	
<b>OPERATING REVENUE</b>							
Passenger Revenue	\$ 3,627,820	\$ 7,336,441	\$ 1,500,000	\$ 4,165,723	\$ (3,170,718)	-43%	\$ 2,088,234
Local Property Tax Revenue	17,841,235	17,512,610	18,387,071	19,258,842	1,746,232	10%	16,265,739
POSA & other Governmental Partners	1,622,806	2,274,698	1,750,000	1,721,873	(552,825)	-24%	1,806,389
State Operating Assistance	13,200,321	16,998,848	11,366,983	16,914,298	(84,550)	0%	12,062,516
Federal Operating Assistance	2,570,000	3,331,250	3,000,000	3,000,000	(331,250)	-10%	3,000,000
Other Federal Conditional Assistance	1,228,679	1,377,095	1,312,436	3,878,890	2,501,795	182%	2,075,700
CARES/CRRSAA/ARP	1,404,979	-	17,100,314	18,653,477	18,653,477	n/a	17,100,314
Advertising, Interest, and Other	511,414	393,506	303,000	391,000	(2,506)	-1%	303,000
<b>TOTAL REVENUES</b>	<b>\$ 42,007,254</b>	<b>\$ 49,224,448</b>	<b>\$ 54,719,804</b>	<b>\$ 67,984,103</b>	<b>\$ 18,759,655</b>	<b>38%</b>	<b>\$54,701,892</b>
<b>OPERATING EXPENSES</b>							
<b>PERSONNEL</b>							
Operations Salaries & Wages	\$ 11,772,569	\$ 10,952,286	\$ 11,416,502	\$ 11,958,963	\$ 1,006,677	9%	11,416,502
Other Salaries & Wages	2,923,462	3,090,623	2,838,455	3,412,308	321,685	10%	3,117,550
Administration Salaries & Wages	3,601,772	5,479,575	4,110,000	5,399,078	(80,497)	-1%	5,341,657
<b>Subtotal - Personnel</b>	<b>\$ 18,297,803</b>	<b>\$ 19,522,484</b>	<b>\$ 18,364,958</b>	<b>\$ 20,770,349</b>	<b>\$ 1,247,865</b>	<b>6%</b>	<b>\$19,875,709</b>
Fringe Benefits	6,570,296	7,127,736	6,703,210	7,850,851	723,115	10%	6,882,543
<b>Total Salaries &amp; Wages</b>	<b>\$ 24,868,099</b>	<b>\$ 26,650,220</b>	<b>\$ 25,068,167</b>	<b>\$ 28,621,200</b>	<b>\$ 1,970,980</b>	<b>7%</b>	<b>\$26,758,252</b>
<b>OTHER EXPENSES</b>							
Purchased Transportation	8,429,684	12,097,267	5,800,000	14,704,408	2,607,141	22%	5,722,139
Diesel Fuel and Gasoline	1,009,525	1,880,000	1,150,000	2,400,000	520,000	28%	1,500,000
Materials and Supplies	2,256,631	2,823,638	2,350,000	3,036,300	212,662	8%	2,981,434
Contracted Services	2,269,291	2,730,795	3,000,000	3,596,874	866,079	32%	3,116,121
Utilities	601,093	537,648	700,000	675,200	137,552	26%	608,344
Casualty & Liability Insurance	1,114,209	958,365	1,300,000	1,450,000	491,635	51%	1,300,000
Other Expenses	591,505	1,111,543	600,000	1,281,868	170,325	15%	777,001
<b>Subtotal - Other Expenses</b>	<b>\$ 16,271,939</b>	<b>\$ 22,139,256</b>	<b>\$ 14,900,000</b>	<b>\$ 27,144,650</b>	<b>\$ 5,005,394</b>	<b>23%</b>	<b>\$16,005,040</b>
<b>TOTAL EXPENSES</b>	<b>\$ 41,140,038</b>	<b>\$ 48,789,476</b>	<b>\$ 39,968,167</b>	<b>\$ 55,765,850</b>	<b>\$ 6,976,374</b>	<b>14%</b>	<b>\$42,763,292</b>
<b>Surplus (Deficit)</b>	<b>867,217</b>	<b>434,972</b>	<b>14,751,637</b>	<b>12,218,253</b>	<b>11,783,281</b>	<b>2709%</b>	<b>11,938,600</b>
Operating Reserve Transfer	(867,217)	(434,972)	(2,813,037)	-	-		
Capital Reserve Transfer			(11,938,600)	(12,218,253)	(11,783,281)		(11,938,600)
<b>Operating Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>

## Basis of Budgeting

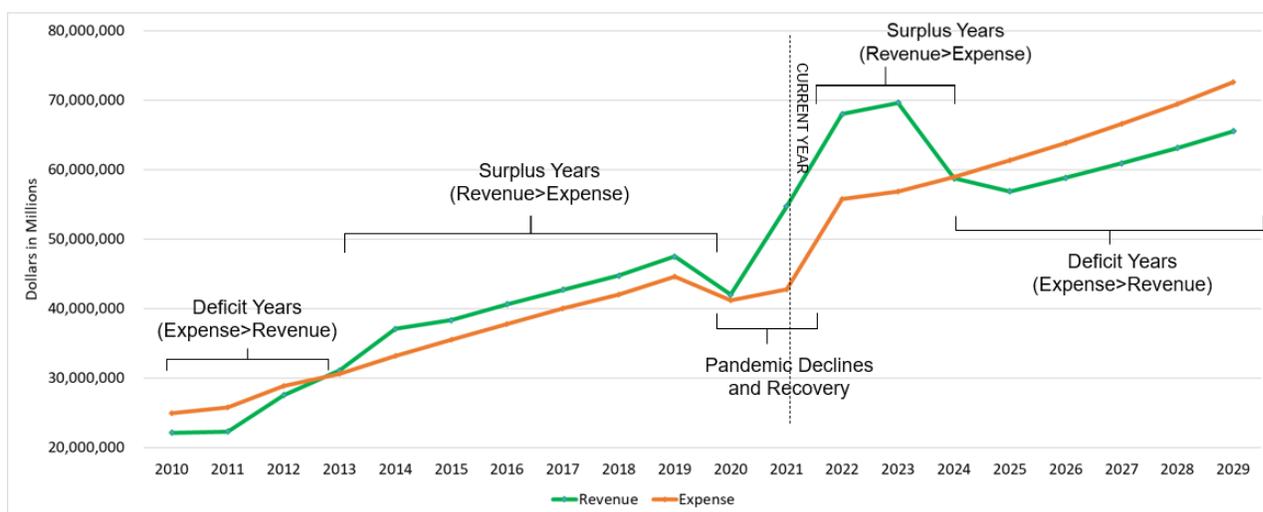
The 2022 operating and capital budget has been prepared on the full accrual basis of accounting, which is the same method used for accounting for the general fund, and for the production of the financial statements. The only difference between the financial statements and the budget is that depreciation expense is not included in the operating budget since it is a booked expense which does not affect the general fund balance, operating reserve, or capital budget. Depreciation expense is included in the annual audited financial statements.

## Long-Term Financial Context: 2022-2029

The Board’s policies require the annual budget to be contextualized within a multi-year forecast of costs and revenues (Policy 2.4). The FY2022 budget and 7-year forecast for subsequent years is detailed on the next page.

The graph below compares historic (10-year actuals), FY2021 projected actuals, and forecasted financials to provide context for the FY2022 budget. After historical operating deficits consumed much of TheRide’s financial capacity prior to 2013 as the organization expanded, new funding helped restore fiscal strength until just before the pandemic outbreak. TheRide’s reserve coffers were finally at the policy target in late FY2019 after experiencing low balances for several years.

**Figure 17: Financial Performance (Historic, Current, Forecast)**



At the onset of the pandemic in 2020, revenues declined and cost-cutting measures including staff reductions and suspended transit service were enacted in response. Federal pandemic relief funds helped to gradually restore service in late FY2020 continuing through FY2021, and helped assure mid-term financial sustainability. By 2022, service recovery to pre-pandemic levels is planned. Operating surpluses are projected from FY2021 to FY2023 with the surplus local funds being rededicated to the established capital reserve. However, operating deficits are predicted from FY2024 to 2029 that will need to be addressed soon.

The following table details projected operating revenue and expense projections for the next seven years.

**Figure 18: 2022 Operating Budget (with 7 Year Forecast)**

<b>Operating Revenues</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
Passenger Fares	2,088,234	4,165,723	5,811,855	6,120,552	6,313,699	6,515,267	6,725,730	6,945,599	7,175,415
Contract Revenues	1,806,389	1,721,873	1,812,252	1,908,708	2,011,784	2,122,113	2,240,253	2,366,810	2,502,436
Local Property Taxes	16,265,739	19,258,842	19,932,902	20,630,553	21,352,623	22,099,964	22,873,463	23,674,034	24,502,625
State Operating Assistance	12,062,516	16,914,298	17,125,908	17,746,091	18,500,261	19,300,336	20,155,488	21,064,855	22,046,759
Federal Operating Assistance	3,000,000	3,000,000	3,000,000	3,500,000	4,050,364	4,050,434	4,050,507	4,050,582	4,172,099
Other Federal Operating	2,075,700	3,878,890	4,152,116	4,020,142	4,112,336	4,211,727	4,318,887	4,434,434	4,560,552
CARES/CRRSAA/ARP	17,100,314	18,653,477	17,277,770	4,308,448	-	-	-	-	-
Other Revenues	303,000	391,000	517,313	526,939	536,803	546,910	557,267	567,881	578,757
<b>Total Operating Revenues</b>	<b>54,701,892</b>	<b>67,984,103</b>	<b>69,630,115</b>	<b>58,761,434</b>	<b>56,877,869</b>	<b>58,846,750</b>	<b>60,921,595</b>	<b>63,104,194</b>	<b>65,538,645</b>
<b>Operating Expenses</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
Salaries, Wages, Benefits	26,758,252	28,621,200	29,011,321	29,847,846	30,706,729	31,591,062	32,501,418	33,436,972	34,411,377
Purchased Transportation	5,722,139	14,704,408	15,883,410	16,498,378	17,364,686	18,296,170	19,297,951	20,375,563	21,534,977
Fuel, Material, Supplies	4,481,434	5,436,300	5,432,332	5,649,485	5,875,325	6,110,198	6,354,466	6,608,504	6,872,704
Contracted Services	3,116,121	3,596,874	2,827,285	2,897,425	2,979,744	3,056,437	3,145,711	3,229,794	3,326,927
Other Expenses	2,685,346	3,407,068	3,679,426	4,011,205	4,384,543	4,805,269	5,280,065	5,816,596	6,423,655
<b>Total Operating Expenses</b>	<b>42,763,292</b>	<b>55,765,850</b>	<b>56,833,774</b>	<b>58,904,339</b>	<b>61,311,028</b>	<b>63,859,136</b>	<b>66,579,611</b>	<b>69,467,429</b>	<b>72,569,641</b>
<b>Surplus (Deficit)</b>	<b>11,938,600</b>	<b>12,218,253</b>	<b>12,796,341</b>	<b>(142,906)</b>	<b>(4,433,159)</b>	<b>(5,012,385)</b>	<b>(5,658,016)</b>	<b>(6,363,235)</b>	<b>(7,030,996)</b>
Capital Reserve Transfer	(11,938,600)	(12,218,253)	(12,796,341)	-	-	-	-	-	-
<b>Operating Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (142,906)</b>	<b>\$ (4,433,159)</b>	<b>\$ (5,012,385)</b>	<b>\$ (5,658,016)</b>	<b>\$ (6,363,235)</b>	<b>\$ (7,030,996)</b>

**10-Year Capital Plan and FY2022 Recommendations**

“Capital” expenditures are defined as assets purchased with an initial cost of more than \$5,000 and an estimated useful life greater than one year. Such assets include land, buildings, vehicles, and equipment, which are recorded at historical cost. Improvements expected to extend the useful lives of existing assets are capitalized. The costs of normal maintenance and repairs are not capitalized.

Every year TheRide produces a rolling 10-year plan to help organized anticipated major capital expenses. While a 10-year perspective is helpful context, the Board only authorizes one year of expenditures at a time, in this case for FY2022. The remaining nine years are considered placeholders and are subject to change. During the coming year, the 10-year capital plan may need to be adjusted to better reflect the final priorities of the ongoing Long-Range Plan.

The table below summarizes the recommended capital program for FY2022 and beyond until FY2031. While projects advance the *Supporting Community Recovery* priorities, here their purpose is further organized by priorities of State of Good Repair, Value Added, Expansion, or Research and Development. The priority for capital investments is to maintain State of Good Repair as the highest priority, and Value Added and Expansion as the second highest priorities, funds permitting.

**Figure 19: Capital Plan Projects and Funding Sources**

CAPITAL PROJECTS	FY2022 Budget	FY2023-FY2031 Program
State of Good Repair	\$8,900,000	\$82,859,300
Value Added	\$665,000	\$37,553,980
Research & Development	\$25,000	\$225,000
Expansion	\$1,250,000	\$146,917,406
<b>TOTAL EXPENSES</b>	<b>\$10,840,000</b>	<b>\$267,555,686</b>

FUNDING SOURCES	FY2022 Budget	FY2023-FY2031 Program
State & Federal Grants	\$10,438,931	\$114,237,327
Local Capital Reserve/Share	\$401,069	\$36,677,125
Unidentified Funding	\$0	\$116,641,234
<b>TOTAL REVENUE</b>	<b>\$10,840,000</b>	<b>\$267,555,686</b>

UNIDENTIFIED FUNDING PORTION	FY2022 Budget	FY2023-FY2031 Program
Unidentified Funding %	0%	44%

There are three major changes in the 10-Year Plan. First is the inclusion of aspirational but unfunded major projects in later years (e.g., buildings, bus rapid transit). These projects account for the large expansion of the total costs in the 10-Year Plan. The second is the recognition that anticipated (but not guaranteed) funding from competitive federal programs should be represented with the inclusion of a funding source entitled "Unidentified Funds". The third is the recent creation of TheRide's first locally funded Capital Reserve, which is also introduced as a funding source this year.

The detailed 10-year Capital Plan is outlined in the table below:

**Figure 20: 10-Year Capital Plan**

All figures in \$		FY22 Budget	FY23-31 Program										
Category	Project Description	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	Total	
STATE OF GOOD REPAIR	Vehicles	4,820,000	4,942,000	5,090,260	5,242,968	5,400,257	5,562,265	5,729,132	5,901,006	6,078,037	6,260,378	55,026,302	
	Equipment	405,000	345,000	321,000	409,000	412,000	425,000	501,000	516,030	531,511	547,456	4,412,997	
	Existing Facilities	3,440,000	5,890,000	2,390,000	2,190,000	2,690,000	2,690,000	2,690,000	2,690,000	2,690,000	2,690,000	30,050,000	
	Information Technology	235,000	435,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	2,270,000	
	<b>Category Total</b>	<b>8,900,000</b>	<b>11,612,000</b>	<b>8,001,260</b>	<b>8,041,968</b>	<b>8,702,257</b>	<b>8,877,265</b>	<b>9,120,132</b>	<b>9,307,036</b>	<b>9,499,548</b>	<b>9,697,834</b>	<b>91,759,300</b>	
VALUE ADDED	Technology Upgrades [ITS, TSP, Smart Card]	450,000	500,000	870,000	2,150,000	2,150,000	2,150,000	2,150,000	150,000	150,000	150,000	10,870,000	
	Zero-Emission Vehicles [Costs Pending Study]	-	-	-	-	-	-	-	-	-	-	-	
	Bus Stop Improvements	215,000	395,927	310,000	77,879	185,000	191,000	197,000	202,910	208,997	215,267	2,198,980	
	Bus Lane Planning & Construction	-	50,000	50,000	50,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	-	25,150,000	
	<b>Category Total</b>	<b>665,000</b>	<b>945,927</b>	<b>1,230,000</b>	<b>2,277,879</b>	<b>7,335,000</b>	<b>7,341,000</b>	<b>7,347,000</b>	<b>5,352,910</b>	<b>5,358,997</b>	<b>365,267</b>	<b>38,218,980</b>	
RESEARCH & DEVELOPMENT	Emergent R&D	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	250,000	
	<b>Category Total</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>250,000</b>	
EXPANSION	Bus Garage	Land Acquisition	-	-	-	1,000,000	-	-	-	-	-	1,000,000	
		Planning, NEPA, & Design	-	650,000	1,950,000	3,900,000	-	-	-	-	-	-	6,500,000
		Construction	-	-	-	-	43,333,333	21,666,667	-	-	-	-	65,000,000
		<b>Garage Subtotal</b>	<b>-</b>	<b>650,000</b>	<b>1,950,000</b>	<b>4,900,000</b>	<b>43,333,333</b>	<b>21,666,667</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,500,000</b>
	Ypsilanti Transit Center	Land Acquisition	-	1,000,000	-	-	-	-	-	-	-	-	1,000,000
		Planning, NEPA, & Design	1,100,000	772,622	-	-	-	-	-	-	-	-	1,872,622
		Construction	-	-	10,396,523	5,198,261	-	-	-	-	-	-	15,594,784
	<b>YTC Subtotal</b>	<b>1,100,000</b>	<b>1,772,622</b>	<b>10,396,523</b>	<b>5,198,261</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,467,406</b>	
	Blake Transit Center	Planning, NEPA, & Design	150,000	150,000	-	-	-	-	-	-	-	-	300,000
		Construction Contribution	-	4,000,000	-	-	-	-	-	-	-	-	4,000,000
	<b>BTC Subtotal</b>	<b>150,000</b>	<b>4,150,000</b>	<b>-</b>	<b>4,300,000</b>								
	Bus Rapid Transit	Planning, NEPA, & Design	-	-	-	-	-	-	2,000,000	8,000,000	6,000,000	-	16,000,000
		Construction & Vehicles	-	-	-	-	-	-	-	9,150,000	11,150,000	16,600,000	36,900,000
	<b>BRT Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000,000</b>	<b>17,150,000</b>	<b>17,150,000</b>	<b>16,600,000</b>	<b>52,900,000</b>	
	<b>Category Total</b>	<b>1,250,000</b>	<b>6,572,622</b>	<b>12,346,523</b>	<b>10,098,261</b>	<b>43,333,333</b>	<b>21,666,667</b>	<b>2,000,000</b>	<b>17,150,000</b>	<b>17,150,000</b>	<b>16,600,000</b>	<b>148,167,406</b>	
<b>EXPENSE TOTAL</b>		<b>10,840,000</b>	<b>19,155,549</b>	<b>21,602,783</b>	<b>20,443,108</b>	<b>59,395,590</b>	<b>37,909,931</b>	<b>18,492,132</b>	<b>31,834,946</b>	<b>32,033,545</b>	<b>26,688,101</b>	<b>278,395,686</b>	
<b>Funding Sources</b>		<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>Total</b>	
<b>FORECASTED:</b>													
5307 Federal + State Match		5,751,396	10,197,087	15,246,991	7,175,182	8,270,698	7,431,189	7,691,469	7,916,342	9,355,050	9,629,479	88,664,881	
5339 Federal + State Match		2,122,931	1,665,443	1,261,919	1,299,145	1,337,470	1,376,925	1,417,545	1,459,362	1,502,413	1,546,735	14,989,888	
CMAQ Federal + State Match		2,089,604	1,667,790	1,716,990	1,767,641	1,819,786	1,873,470	1,928,737	1,985,635	2,044,211	2,104,516	18,998,381	
5310 Federal + State Match		100,000	-	-	-	-	-	-	-	-	-	100,000	
STBG Flex Federal + State Match		175,000	350,230	300,000	77,879	-	-	-	-	-	-	903,109	
State Initiatives (TSP)		200,000	250,000	570,000	-	-	-	-	-	-	-	1,020,000	
Local Capital Reserve/Share		401,069	5,025,000	2,506,883	10,123,261	18,896,980	25,000	25,000	25,000	25,000	25,000	37,078,194	
<b>UNIDENTIFIED:</b>													
Other		-	-	-	-	29,070,656	27,203,347	7,429,382	20,448,607	19,106,870	13,382,372	116,641,234	
<b>REVENUE TOTAL</b>		<b>10,840,000</b>	<b>19,155,549</b>	<b>21,602,783</b>	<b>20,443,108</b>	<b>59,395,590</b>	<b>37,909,931</b>	<b>18,492,133</b>	<b>31,834,946</b>	<b>32,033,545</b>	<b>26,688,101</b>	<b>278,395,686</b>	

## FY2022 Recommended Capital Budget

The table below lists the recommended capital investments for FY2022 only. Details for each project can be found in the *Appendix (page 39)*.

**Figure 21: Recommended FY2022 Capital Plan**

Category	Project Description	FY2022
<b>State of Good Repair</b>	Vehicles	\$4,820,000
	Equipment	\$405,000
	Existing Facilities	\$3,440,000
	IT Hardware and Software Replacement	\$235,000
	<b>Sub-total</b>	<b>\$8,900,000</b>
<b>Value Added</b>	Technology Upgrades	\$450,000
	Bus Stop Improvements	\$215,000
	<b>Sub-total</b>	<b>\$665,000</b>
<b>Research and Development</b>	Emergent R&D Projects	\$25,000
	<b>Sub-total</b>	<b>\$25,000</b>
<b>Expansion</b>	Ypsilanti Transit Center: Planning & Design	\$1,100,000
	Blake Transit Center: Planning & Design	\$150,000
	<b>Sub-total</b>	<b>\$1,250,000</b>
<b>Capital Costs Total</b>		<b>\$10,840,000</b>

Recommended capital projects and funding sources for FY2022 and the entire 10-year plan are explained in more detail in Appendices two and five.

Key highlights for the FY2022 recommendations include:

- Replacement of equipment that has reached the end of its lifecycle (\$8.9 million).
- Improvements to technology, bus stops and some research and development (\$690,000).
- An acceleration of planning for two major bus terminal projects (\$1.25 million). These latter are important as the projects may lead to greater capital investments in the future. Sources of Capital Funding.

## Sources of Capital Funding

The capital program is funded through a combination of local, state, and federal sources as listed at the bottom of the table on the previous page and summarized below for FY2022. Additional information is available in the *State and Federal Grants Primer*, see the *Appendix (page 53)*.

**Figure 22: Capital Funding Sources**

<b>Sources of Capital Funds:</b>	<b>FY2022</b>
<p><b>Local Capital Reserve/Share</b> TheRide’s own cash and investments budgeted for YTC planning and research and development projects in FY2022. A capital reserve was established in FY2021 with local funds as a result of additional pandemic relief that has been and will be received.</p>	\$401,069
<p><b>Federal STBG Flex</b> Federal Surface Transportation Block Grant (STBG) funding provided to states and localities for road projects. Washtenaw Area Transportation Study (WATS) has transferred a portion to FTA Section 5307 for pedestrian/bus stop improvements.</p>	\$140,000
<p><b>State Initiatives (TSP)</b> State funding MDOT awarded for the Transit Signal Priority project, continuing work started last year. Project listed in the Technology Upgrades line.</p>	\$200,000
<p><b>State Capital Match</b> State Comprehensive Transportation Fund (CTF) capital funding for 20% local share required by federally funded capital projects (STBG, 5307, 5310, 5339, CMAQ, Discretionary).</p>	\$2,047,786
<p><b>Federal 5307 Formula</b> Federal urbanized formula support for transit capital projects. Supports state of good repair projects, technology upgrades, and YTC/BTC planning.</p>	\$4,601,117
<p><b>Federal 5310 Formula</b> Federal formula for mobility of seniors and people with disabilities. Supports capital purchases and operating activities designed to serve these populations.</p>	\$80,000
<p><b>Federal 5339 Formula</b> Federal formula for buses and bus facilities, will support state of good repair vehicle replacements and facility rehabilitations.</p>	\$1,698,345
<p><b>Federal CMAQ</b> Federal highway funding for Congestion Mitigation/Air Quality (CMAQ) improvement, transferred by the Southeast Michigan Council of Governments (SEMCOG) for transit projects in Washtenaw County. Supports large bus replacements.</p>	\$1,671,683
<p><b>Unidentified/Discretionary</b> A placeholder in the capital budget for federal discretionary awards, also known as competitive FTA grants, that will support capital projects.</p>	\$0
<b>Total:</b>	<b>\$10,840,000</b>

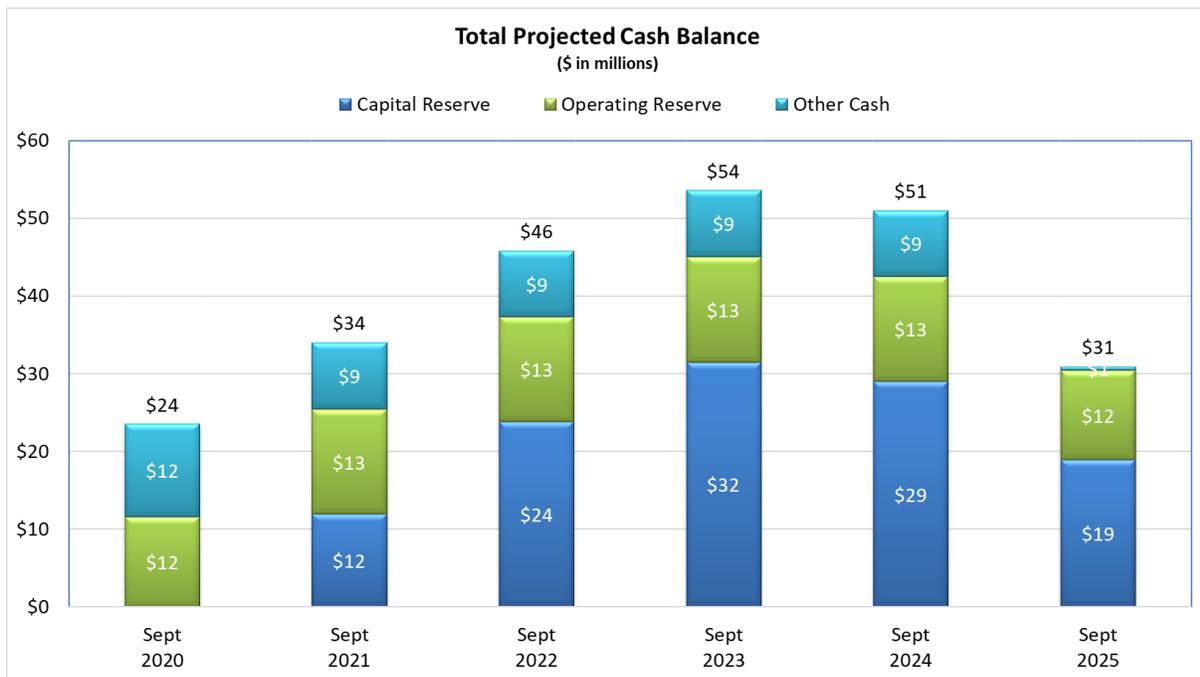
# 7. Impacts of 2022 Budget

## Projected General Fund and Cash Balances

The fund balance will start the new fiscal year (October 1, 2021) near the net position of \$82 million with most assets in capital, cash, and investments. The FY2022 closing fund balance is expected to grow about \$12 million based on the projected FY2022 operating surplus amount and continuation of low liability balances. The growth in the fund balance is a direct result of the Board-approved strategy to establish a capital reserve with local funds as federal pandemic relief funds are utilized for operating purposes.

TheRide’s cash balance is anticipated to fluctuate through the year with the highest levels in August and September, with gradual spending over the fiscal year. Figure 23 illustrates the total projected cash balances at the end of fiscal years 2020 through 2025 (in September). In addition to total projected cash, the stacked bar chart shows the projected capital reserve, operating reserve, and other cash balances. Other cash represents the insurance reserve of \$500,000, cash needed for daily operations, and any restricted cash. See further details on the operating reserve and capital reserves below.

**Figure 23: Projected Cash Balances**

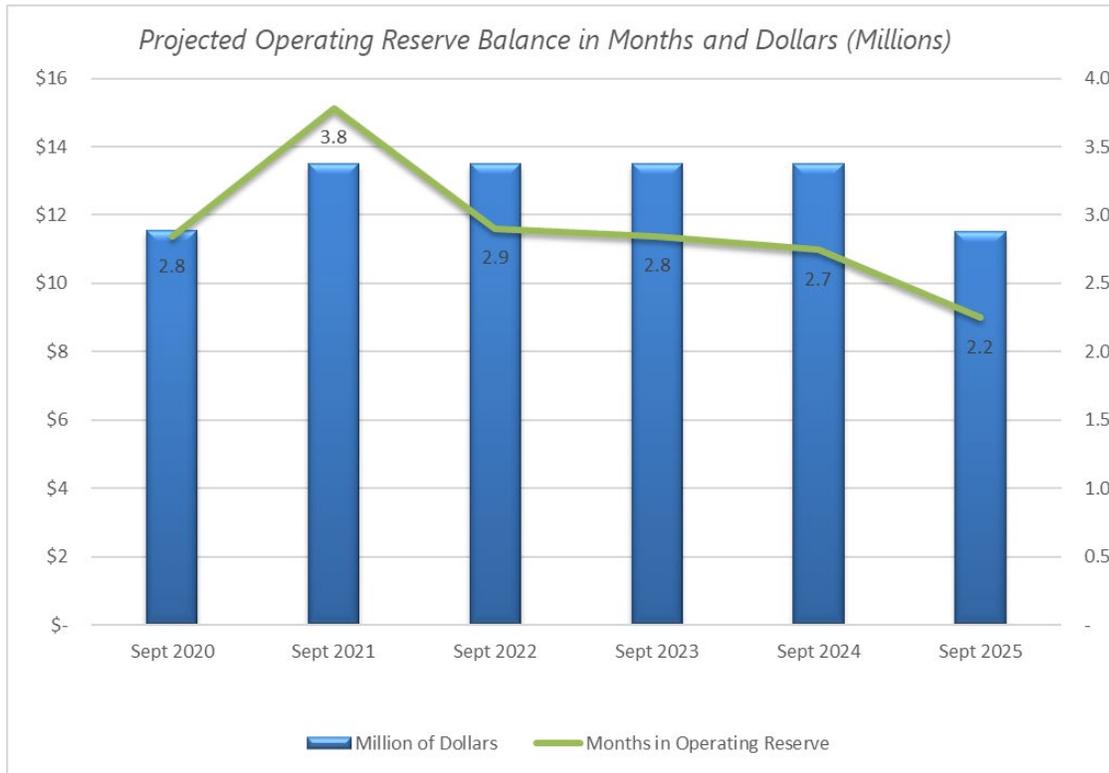


## Projected Operating Reserve Balance

The projected operating reserve is the cash and investment balance of the unrestricted net position on the statement of net position (balance sheet) that has been committed to operational use. TheRide expresses the reserve in terms of a dollar amount (balance) and the number of months of operations it can support. The Government Finance Officers Association (GFOA) recommends that reserve balances in

the public sector should be able to support 2 to 3 months of operations. TheRide’s target reserve balance is 2.5 months, which is \$11.6 million to support a \$55.8 million budget as recommended for FY2022. This target level is expected to be reached at the end of FY2021 with \$13.5 million projected as the operating reserve and is expected to be maintained until FY2025 to accommodate growing expenses through that time.

**Figure 24: Projected Operating Reserves**



### Projected Capital Reserve Balance

The projected capital reserve is the cash and investment balance of the unrestricted net position that has been committed to capital use. The capital reserve will be funded from local operating surplus dollars from FY2021 to FY2023 as federal pandemic relief funds are used for operating purposes. The below table represents the expected capital reserve funding timing, use of funds, and the remaining capital reserve balance from FY2021 to FY2026. See the 10-year Capital Plan for more details on the capital projects that will utilize these funds.

**Figure 25: Projected Capital Reserve Activity**

<i>In Thousands of Dollars</i>	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Total
<b>Capital Reserve Transfer (from Operating Surplus)</b>	\$ 11,939	\$ 12,218	\$ 12,796	\$ -	\$ -	\$ -	<b>\$36,953</b>
<b>Capital Reserve Use</b>	\$ -	\$ 401	\$ 5,025	\$ 2,510	\$ 10,123	\$18,894	<b>\$36,953</b>
<b>Remaining Capital Reserve Amount</b>	<b>\$ 11,939</b>	<b>\$ 23,756</b>	<b>\$ 31,527</b>	<b>\$ 29,017</b>	<b>\$ 18,894</b>	<b>\$ -</b>	<b>\$ -</b>

## Impacts of Capital Investments on the Operating Budget

Capital investments can impose significant impacts upon the operating budget. These have been considered in development of the FY2022 budget and are summarized in this section.

- **Large Bus Replacement:** TheRide awarded a contract to Nova Bus, a new vendor, in 2019 and eight buses were ordered. These buses were delayed by the manufacturer due to the pandemic and the buses were received in August 2021, funded with prior-year capital dollars. For the FY2022 operating budget, higher costs were anticipated for investment in parts inventory and training for the new style of buses. However, new buses avoid larger repair bills for the old buses they replace.
- **Bus Components:** Major bus components such as engines, transmissions, hybrid drives and batteries, and other major parts can be replaced as capital improvements to equipment. These capital investments are made to maintain a state of good repair in equipment and result in lower maintenance costs.
- **Facilities Rehabilitations:** A backlog of preventive and corrective maintenance needs has resulted in increased operating expenses for service of HVAC systems and the roof of 2700 S. Industrial Highway. Replacement of these systems began in 2019 and will continue through 2023, resulting in lower ongoing maintenance costs when complete. Other facility rehabilitations, such as higher efficiency HVAC systems and lighting replacement campaigns will lower utility expenses when completed.
- **Facility Expansions:** While there are no expansion costs in FY2022, there are expenses for continued planning efforts for replacement of the Ypsilanti Transit Center, expansion of the Blake Transit Center, and an expansion of garage space in the 10-Year Capital Plan. While there is little operating impact for 2022, additional costs for contract services (security, snow removal, janitorial), and utilities which will be necessary once facilities are constructed.

## 8. Appendices

## 8.1 FY2022 Initiatives

This section provides descriptions of operating and capital initiatives that will help to advance the priorities of the *Supporting Community Recovery Plan* and achieve the Board's *Ends Policies*. Initiatives below are listed under the priorities of Supporting Community Recovery, Planning for the Future, Serving Customers and Rebuilding Ridership and Modernizing TheRide.

**Support community recovery:** One of the major priorities of the TheRide in FY 2022 is to support the community recovery from the pandemic.

- **Service Recovery:** The recovery of pre-pandemic service will begin in August 2021 and should be complete in early FY 2022 (Policy 1.0).
- **Mobile Ticketing Assessment:** TheRide launched a pilot project for mobile ticketing called EZfare at the end of 2020. For 2022, in coordination with work on fare strategy, staff will evaluate the pilot project's results for adoption, including effects on promoting safer, socially distant fare payments, attracting new riders, equity impacts, and return on investment. (Policies 2.1, 2.2, 2.5.11, 3.2.9)

### Planning for the Future:

- **2045 Long-Range Plan:** Development of a new long-term vision for public transit in the Ann Arbor/Ypsilanti area is needed to guide TheRide's future. TheRide will continue planning with our communities, riders, and stakeholders to create a service plan. (Policies 2.4, 2.5, 3.1.4)
- **Ypsilanti Transit Center and Blake Transit Center Planning:** TheRide will begin planning and design efforts for the replacement of the Ypsilanti Transit Center and expansion of the Blake Transit Center. See section 2 of the Appendix – FY2022 Capital Descriptions for further details. (Policies 1.0, 2.1, 2.2, 2.4, 2.7, 2.10, 2.12)

**Serving Customers and Rebuilding Ridership:** Providing safe, reliable services has been at the core of TheRide's mission. Most transit agencies lost most of their ridership during the pandemic. Rebuilding our ridership by providing genuinely attractive services and calming residual fears will be a key part of helping our communities. Key initiatives are:

- **Fare Change Proposal:** Based on the Fare Study and other strategic factors, the proposed fare changes have been included in this draft budget. The fare changes include reducing the daily and monthly bus passes, introducing a reduced day pass, and eliminating the NightRide and HolidayRide surcharge. See the proposed fare changes in the Fare Section (4) of the Appendices. (Policies 1.0, 2.5.12, 3.2.9)
- **GoldRide Service:** The premium GoldRide service will be restored as of August 2021 with a new fare structure as approved by the Board in 2021. See the fare structure in the Fare Section (4) of the Appendices. (Policies 1.0, 2.5.12, 3.2.9)

- **External Relations Strategy:** Started in 2021 and planned for completion in 2022, TheRide will conduct a review of its approach external relations including updating priorities, clarifying roles, improving effectiveness, and ensuring appropriate resourcing. (Policies 2.1, 2.10)
- **Modernizing TheRide:** This priority ensures TheRide has a strong platform for delivering service in the community.
  - **Paratransit:** Continued work to bring efficiencies in A-Ride paratransit and related services will take place in 2022. The service transitioned from in-house operations to a third-party contractor in late FY2021. (Policies 1.1, 2.1.2)
  - **Timekeeping and Integrated HRIS and Payroll:** Staff initiated work to modernize and replace human capital management, timekeeping, and payroll systems in FY2020, and hired an outside expert to guide the project. The Operations Division began implementation of Trapeze OPS to streamline timekeeping-related functions, bidding, scheduling, and dispatching for Motor Coach Operators. For the rest of the organization, TheRide is procuring a provider for both HRIS and payroll, with implementation expected by the end FY2022. (Policies 2.2)
  - **Technology Upgrades:** State funds are programmed to continue work begun in 2022 on Transit Signal Priority along with technology upgrades (Policies 1.0, 2.1, 2.2, 2.4, 2.7).
  - **Bus Propulsion Study:** A study will be implemented in FY2022 to determine the costs and benefits of pursuing a zero-emissions bus fleet. (Policies 1.2.2, 2.4)

Other notable initiatives in the Operating Budget:

- **FTA Triennial Review:** A three-year audit of TheRide's compliance with federal regulations is due in FY2022. See [FTA's website](#) for details. (Policies 2.0, 2.4, 2.7)

## 8.2 FY2022 Capital Descriptions

This section provides further details on the projects included in the **10-Year Capital Plan**. It should also be noted that the 10-Year Capital Plan may be undated during FY2022 to better align with the consultation of the Long-Range Planning Process. To be consistent with the Capital Plan, it is further organized by priorities of State of Good Repair, Value Added, Expansion, or Research and Development. This year, it is important to highlight the Expansion projects for both terminals, so that information is presented first.

**Expansion:** Projects in this category add capacity to implement new services or add other capacities to the organization.

- **Ypsilanti Transit Center and Blake Transit Center Planning:** Longstanding aspirations, the expansions of the two bus terminals have been highlighted in budget documents since FY2018. This year staff are seeking Board authorization to move forward with more specific implementation planning for separate work on each facility. Both projects may require formal Board approval during FY2022 and significant capital costs in the future, although the planning work in the FY2022 Budget does not obligate the Board to continue with either project (Policies 1.0, 2.1, 2.2, 2.4, 2.7, 2.10, 2.11).
  - **Ypsilanti Transit Center (YTC):** \$1.1 million to support formal NEPA studies (environmental impact studies) necessary to refine the facility design and prepare the project to compete for federal funds and land acquisition. This will include discussions with the City, adjacent landowners, and the public.
  - **Blake Transit Center (BTC):** TheRide has been working with the Ann Arbor Housing Commission and City of Ann Arbor to jointly develop a vision for redeveloping the Y Lot adjacent to the BTC. This vision has advanced rapidly and TheRide staff are requesting \$150,000 to engage our own consultants and continue to conduct work in support of this effort. It is very likely that during FY2022 City Council may approve this vision, at which point TheRide Board may need to make a final decision about future expenses beyond FY2022 to pay for TheRide's portion of the project. Present estimates in the 10-Year Capital Plan assume an additional \$4.15 million to support construction.

**State of Good Repair:** Board Policy 2.7 requires the CEO to ensure that the physical assets of TheRide are not risked or under-maintained. To meet this requirement and to comply with federal regulation, TheRide follows a comprehensive Transit Asset Management (TAM) Plan. Updated annually, this plan establishes performance targets to ensure state of good repair for the fleet, equipment, and facilities operated by TheRide and its grant subrecipients. FY2022 projects:

- **Vehicle Replacement:**
  - **Large Bus Replacement:** Eight large transit buses that have reached the end of their useful life will be replaced to maintain service levels and avoid additional maintenance costs. TheRide has resumed its fleet replacement schedule following a deferral in FY2021

due to the pandemic. The 8 clean-diesel replacement buses will be purchased under the current Nova Bus contract. Budget: \$4,400,000 (Policies, 2.1, 2.4, 2.7).

- **Small/Medium Bus Replacement:** The purchase five small cutaway buses for the A-Ride paratransit service and one small bus for the GroceryRide shopping access service are planned to maintain TheRide’s accessible mobility services fleet. The replacement vehicles will be procured in FY2022 in accordance with fleet replacement plans. Budget: \$420,000 (Policies 2.1, 2.4, 2.7).
- **Equipment:**
  - **Bus Components:** Vehicle refresh schedules call for replacement of bus components such as engines, transmissions, hybrid drives and batteries, seats, and other major parts needed to maintain the fleet in a state of good repair. Budget: \$305,000 (Policies 2.1, 2.4, 2.7).
  - **Shop Equipment:** A budget for replacement of maintenance equipment and tooling used by mechanics and service crew. Budget: \$100,000 (Policies 2.2, 2.4, 2.7).
- **Existing Facilities:**
  - **Facility Rehabilitation:** Funding is budgeted to address priority maintenance issues at The Dawn Gabay Operations Center (DGOC), the Blake Transit Center (BTC), the Ypsilanti Transit Center (YTC), and TheRide’s park-and-ride lots. A backlog of maintenance needs at the DGOC will continue to be addressed, including administrative facility interior renovations and replacement of the HVAC systems and roof over the maintenance facility using funds set aside in 2020 and 2021. Budget: \$4,000,000 (Policies 2.1, 2.2, 2.4, 2.7).
  - **Architecture & Engineering:** Facility rehabilitation projects will be guided by architecture and engineering design consultants who will provide design, engineering, bidding support, and project management. Budget: \$250,000 (Policies 2.1, 2.2, 2.4, 2.7).
  - **Furniture Replacement:** In the last several years, it has been a priority to replace outdated and poor condition furnishings at the DGOC. Significant progress has been made, and furniture replacements will continue to modernize workspaces, improve ergonomic function, and enhance TheRide’s objective to be a workplace of choice. Budget: \$40,000 (Policies 2.2, 2.4, 2.7).
- **Information Technology:**
  - **IT Hardware and Software Replacements:** Capital funds are budgeted for the replacement of obsolete or at-risk computers, servers, software, fare collection equipment, and other technology infrastructure aboard buses and in facilities. Budget: \$235,000 (Policies 2.1, 2.2, 2.4, 2.7).

**Value Added:** Projects in this category are focused on finding innovative ways to enhance services, or an existing part of TheRide’s operations. Projects include:

- **Technology Upgrades:** State funds are programmed for the Transit Signal Priority project, and additional IT infrastructure investments in switches, firewalls, storage systems, and network monitoring software are planned. Budget: \$450,000 (Policies 1.0, 2.1, 2.2, 2.4, 2.7).

- **Bus Stop Improvements:** Each year investment is needed for replacement and improvement of bus stop infrastructure such as concrete landing pads, safe pedestrian paths, shelters, and other amenities, all with an eye toward ensuring accessibility for riders with disabilities. Staff are coordinating with WATS and Washtenaw County staff to prioritize and plan enhancements along Washtenaw Avenue and throughout TheRide’s service area. Budget: \$215,000 (Policies 2.1, 2.4, 2.7, 2.10).

**Research and Development:** Capital funds are reserved for new projects that may develop in 2022. This is a budget placeholder for exploratory projects that could advance the organization’s Ends by leading to new services, infrastructure, or business relationships. Budget: \$25,000 (Policies 1.0, 2.1, 2.2, 2.4, 2.7, 2.10).

## 8.3 Contracts

The Board's Executive Limitations Policy (Policy 2.5.6) authorizes the CEO to award contracts with a value up to \$250,000 and disallows the splitting of purchases or contracts into smaller amounts to avoid this limitation. Listed below are the contracts that are anticipated to be awarded in FY2022. When adopting the budget, the Board may opt to accept all contracts with a value greater than \$250,000 as listed by including them in the budget adoption or may call out specific contracts that the Board wishes to consider for deliberation before acceptance. The largest contract to be awarded in FY2022 is for the replacement of the roof over the bus maintenance section of 2700 S. Industrial Hwy.

**Table 3.1: Budgeted Contracts Summary**

CONTRACT DESCRIPTION	CURRENT PROVIDER	RENEWAL DATE	VALUE OF AWARD (ESTIMATED)	FY2022 BUDGETED EXPENSE
Maintenance Roof Replacement	New	10/1/2021	\$ 5,000,000	\$ 2,000,000
Vanpool Services (5 Year Agreement)	Enterprise	6/30/2022	4,035,000	725,000
D2A2 Express Bus Service	Indian Trails, Inc., dba Michigan Flyer, LLC	12/31/2021	2,500,000	2,110,000
Gasoline and Diesel Fuel	Multiple Providers	10/1/2021	2,400,000	2,400,000
Ypsilanti Transit Center Planning	New	10/1/2021	1,872,622	1,100,000
Blake Transit Center Planning	New	10/1/2021	300,000	150,000
Unarmed Security Guard Services	D.K. Security	4/1/2022	1,090,000	218,200
Transit Signal Priority Project	New	10/1/2021	1,020,000	200,000
Bus Engines and Installation	Cummins	10/1/2021	1,000,000	250,000
HVAC Services	Dunbar	9/13/2022	700,000	175,000
Uniforms for Transit Employees	Superior Uniform Sales	8/1/2022	697,000	140,000
Small/Medium Bus Replacement	New	10/1/2021	420,000	420,000
Bus Stop Shelters and Concrete Pads	Saladino	6/16/2022	328,000	40,000
Employee Benefits and Consulting Services	Gallagher Benefit Services	7/1/2022	300,000	60,000
Park& Ride Lot Repairs	New	10/1/2021	300,000	300,000
Retirement Investment Advising and Consulting	Action Point Retirement Group	12/1/2021	270,000	45,000
Survey Research Services	CJI Research Group	8/25/2022	250,000	140,000

## 8.4 Fares

A 2018 Fare Study (Fare Study) was conducted to provide an independent analysis of TheRide's fare structure. The Fare Study determined that the current fare structure has developed organically over many years and is not optimized to advance the Board's Ends. Since the initial study was completed in 2018, it does not include analysis that consider impacts of the pandemic. As a result, staff contracted with Four Nines to refresh the fare model with current assumptions and modeling and to evaluate proposed fare changes. In April 2021 Four Nines provided a Fare Model Refresh Report to staff, which was the basis of information included in the Issue Brief regarding proposed fare changes provided to the Board in June. Based on all information and analysis, staff are beginning to bring forward recommended changes to slowly reorient the fare structure.

Table 4.1 presents current year fares and proposed fares for the new fiscal year. As proposed, most fares will not change. There are four changes recommended for FY2022:

- **Reduce 30-Day Pass from \$58 to \$45** – A convenience for customers, this pass appears to be priced somewhat high. A lower price could switch some passengers from paying cash, reduce dwell times, and possibly encourage more frequent travel (End 1.0).
  - **Reduce (Fixed-Route) 30-Day Value Passes (Seniors, low-income, disability, student) from \$29.00 to \$22.50.** – Federal law requires a 50% discount for seniors and persons with disabilities, so this discount is triggered by the reducing of the full priced 30-Day pass. TheRide has historically pegged prices for students and low-income riders to the same rate and seniors, so this will continue unchanged (End 1.0, 1.1).
- **Reduce (Fixed-Route) Day Pass from \$4.50 to \$3.00** – Although the fare study recommended eliminating the pass because it wasn't well used, staff feel that there may be untapped potential in this category to attract tourists and visitors (End 1.3.3). The \$3.00 price point is equal to two full priced fares (\$1.50) whereas a visitor would have had to ride three times to equal the current price. Staff are recommending lowering this fare to see if the price point was too high it wasn't used. If successful, this change may induce additional ridership, but not revenue. If this is not successful, this fare may be eliminated in the future.
- **Eliminate NightRide Surcharge (Zone charge from outside Ann Arbor) from \$2.00 to \$0.00** – Historically, the overnight service, NightRide, has imposed a zone/transfer fee on passengers entering Ann Arbor (\$2.00). This fee now appears to impede labor mobility (End 1.3.1) and may be discriminatory (End 1.1, EL 2.1.2).

As described more below and in detail in other reports, these recommendations are being made to increase ridership, equity, or labor mobility (Ends), and were identified through an earlier study of TheRide's fare structure. These changes may result in a loss of fare revenue, but any loss appears minimal and may be offset by increased ridership due to lower fares. The worst-case loss of fare revenue from these changes is relatively small (\$60,000, or 0.001% of total operating expenditures) and would not have a major negative impact on TheRide's net budget situation going forward. Such a small loss will not contribute to, or prevent, the onset of operating deficits. The potential benefits are expected to justify the costs.

Federal law may introduce a complication for approval of the proposed fare changes. Once fare changes have been identified and are the basis for an equity analysis, the transit agency is required to approve or reject all reviewed elements as a bundle and cannot pick and choose as a menu of options. More than one option can be identified but each set of alternatives must be reviewed in the context of an equity analysis for each alternative and presented accordingly.

All fare categories and prices recommended for FY2022 are listed in the table below. Proposed fare changes are highlighted in grey and are anticipated to be implemented in the second quarter of the fiscal year (January to March 2021).

<b>Table 4.1 - FARES</b>		
<b>FIXED ROUTE FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b><i>Cash Fares</i></b>		
Full Fare Cash	\$1.50	\$1.50
Transfer	Free	Free
<b><i>Reduced Cash Fares</i></b>		
Youth (Grades K-12)	\$0.75	\$0.75
Children (5yrs & Younger)	Free	Free
Fare Deal Card	\$0.75	\$0.75
A-Ride Card	Free	Free
GoldRide Card	Free	Free
<b><i>Passes and Tokens</i></b>		
Day Pass	\$4.50	\$3.00
Reduced Day Pass	N/A	\$1.50
30 Day Pass	\$58.00	\$45.00
30 Day Value Pass (Senior)	\$29.00	\$22.50
30 Day Value Pass (Income Elig.)	\$29.00	\$22.50
30 Day Value Pass (Disability)	\$29.00	\$22.50
30 Day Value Pass (Student)	\$29.00	\$22.50
Full Fare Token	\$1.50	\$1.50
Reduced Fare Token	\$0.75	\$0.75
<b>SPECIAL SERVICES FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b><i>GroceryRide</i></b>		
GroceryRide	\$0.75	\$0.75
<b><i>NightRide</i></b>		
NightRide (Full Fare)	\$5.00	\$5.00
NightRide (go!Pass)	\$3.00	\$3.00
NightRide (Reduced Fare)	\$2.50	\$2.50
NightRide (Surcharge/outside A2)	\$2.00	\$0.00
NightRide (Child age 5 & under)	Free	Free
<b><i>HolidayRide</i></b>		

HolidayRide (Full Fare)	\$5.00	\$5.00
HolidayRide (go!Pass)	\$3.00	\$3.00
HolidayRide (Reduced Fare)	\$2.50	\$2.50
HolidayRide (Surcharge/outside A2)	\$2.00	\$0.00
HolidayRide (Child age 5 & under)	Free	Free
<b>FootballRide</b>		
One-Way	\$1.50	\$1.50
Round Trip	\$3.00	\$3.00
<b>EXPRESSRIDE FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b>Cash Fares</b>		
One-Way Cash	\$6.25	\$6.25
Transfer from Fixed Route	\$4.75	\$4.75
<b>Passes and Tickets</b>		
30 Day Commuter Pass	\$125.00	\$125.00
10-Ride Ticket	\$62.50	\$62.50
<b>Reduced Passes</b>		
MRide	\$62.50	\$62.50
go!Pass	\$62.50	\$62.50
<b>*ExpressRide service has been suspended due to the pandemic.</b>		
<b>A-RIDE FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b>Cash Fares</b>		
Advance Reservation	\$3.00	\$3.00
Same Day Reservation	\$4.00	*\$4.00
Will Call return Trip	\$3.00	\$3.00
Companion Fare	\$3.00	\$3.00
Companion Fare (Youth K-12)	\$1.50	\$1.50
Companion Fare (Age 5 & Under)	Free	Free
Personal Care Assistant	Free	Free
<b>Scrip Coupons</b>		
Booklet of 10	\$30.00	\$30.00
<b>*Same day reservation has been suspended due to the pandemic.</b>		
<b>AIRRIDE FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b>Advance Reservation</b>		
Standard One-Way Fare	\$12.00	\$12.00
Standard Round Trip	\$22.00	\$22.00
Seniors One-Way	\$6.00	\$6.00
Seniors Round Trip	\$11.00	\$11.00
Disabled One-Way	\$6.00	\$6.00
Disabled Round Trip	\$11.00	\$11.00

Youth (Ages 2-17) One Way	\$6.00	\$6.00
Youth (Ages 2-17) Round Trip	\$11.00	\$11.00
<b>Walk-On Fares</b>		
Standard One-Way Fare	\$15.00	\$15.00
Seniors	\$7.50	\$7.50
Disabled	\$7.50	\$7.50
Youth (Ages 2-17)	\$7.50	\$7.50
<b>D2A2 FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
<b>Advance Reservation</b>		
Standard One-Way Fare	\$6.00	\$6.00
Senior/Disability One-Way Fare	\$4.00	\$4.00
Book of 10 Rides (\$5 Each Trip)	\$50.00	\$50.00
<b>Walk-On Fares</b>		
Standard One-Way Fare	\$8.00	\$8.00
Senior/Disability One-Way Fare	\$4.00	\$4.00
<b>FLEXRIDE FARES</b>	<b>Current FY2021</b>	<b>Proposed FY2022</b>
Standard Adult One-Way	\$1.00	\$1.00
Students (K-12, ages 6-18)	\$0.50	\$0.50
Children (Age 5 & Under)	Free	Free
Fare Deal Card	\$0.50	\$0.50
A-Ride Card	Free	Free
GoldRide Card	Free	Free
30-Day Value Pass (Fare Deal)	Free	Free

### Information Required by Board Policy

Per section 2.5.12 of TheRide's Board Policy Manual (version 2.18):

*...the CEO shall not request authorization to adjust passenger fares without (a) incorporating the request into a budget or budget amendment for board consideration, (b) providing data that demonstrates the fare adjustment is fiscally responsible and aligned with achievement of the board's Ends, and (c) providing data that supports an informed decision by the board – including but not limited to clearly articulated information about the following: (Sections A-F, below).*

In this section staff provides the information required by the Board's policy. Staff have presented some of this information earlier in DRAFT budget proposals, or in pre-pandemic briefings on the fare study. Rather than restate this information, this section includes references, citations and links to other documents where the full information can be found (Fare Study, Equity Analysis, earlier budget presentations) and which are available on TheRide's website.

TheRide staff has presented the proposed fare changes for FY2022 by incorporating the request in the [DRAFT Operating and Capital Budget for FY2022](#) at the August 19, 2021 Board Meeting (the DRAFT Budget) and in the [Recommended Operating and Capital Budget for FY2022](#) (the Recommended Budget)

presented for approval on September 23, 2021. Before the pandemic, the Fare Study was discussed several times with the Board, although time has passed since those briefings.

To further demonstrate that the proposed fare adjustment is fiscally responsible and aligned with achievement of the Board's Ends, staff has presented the following data and information to support an informed decision by the Board:

A. *A clear listing of all proposed fare categories/types and prices, along with supporting information.*

This information is provided above in Table 4.1 and was also provided in the DRAFT Budget presented to the Board in August ([Aug. 19, 2021 Board Packet. Draft Budget, Appendix 4, pgs. 41-44](#)) Further information describing more detail of the fare categories and types is the 2018 Fare Study Report (Section 2.1, Current Fare Structure). Additional information is contained in this Appendix.

B. *The Fare discounts to be provided for low-income residents and other vulnerable populations and rationale for how residents qualify for fare discounts.*

These fares are identified in Table 4.1 above, as well as in the Draft Budget ([Aug. 19, 2021 Board Packet. Draft Budget, Appendix 4, pgs. 41-44](#)). Eligibility rationale is below.

TheRide's Fare Deal program is designed to provide low-income residents of member jurisdictions (Ann Arbor, Ypsilanti, and Ypsilanti Township) with discounted fares. Riders in these communities have access to a discounted passenger fare for the fixed-route service that is equal to or better than the 50% discount required of all transit agencies by the Federal Transit Act. Eligibility for the program is determined by being able to present a Medicare or Medicaid card and a valid State ID. This is seen as a reasonable proxy for income without invasive questions and minimizes the administrative burden.

- Medicare eligibility is based on state of residence, age, disability and/or chronic illness. Each state has different eligibility requirements. However, Medicare users are often 65 years old and above.
- Medicaid eligibility are those who do not qualify for Medicare (16-64 years) and have an income at or below 133% of the federal poverty level (\$16,000 for a single person or \$33,000 for a family of four), are not pregnant and reside in Michigan may qualify for Medicaid also known as the Healthy Michigan Plan in Michigan.

To determine eligibility for income-based Fare Deal programs, income verifications are performed by third party agencies that routinely and consistently qualify low-income individuals for reduced fee programs.

The rationale for how residents' qualify for fare discounts is further described in the Fare Study Report (Section 3.3, Discount Fare Programs). As described in Section 3.3 of the Study, fare discounts offered by TheRide meet and often exceed FTA requirements and peer transportation agency programs.

C. *The impact of the proposed adjustment on equity among different fare categories.*

As it relates to fare changes, The Federal Transit Administration (FTA) requires most transit agency to conduct a Fare Equity Analysis prior to approving any change in transit fares This is done to determine if a change will have a disparate impact on minorities protected by Title VI of the Civil

Rights Act of 1964 or place a disproportionate burden on persons with low income as defined in Presidential Executive Order 12988.

To that end, TheRide engaged an independent consultant to complete an [Equity Analysis for the Proposed Fare Changes](#) above. The study concluded that:

- Equity analysis calculations show that there are no disproportionate burdens or disparate impacts created by the proposed changes,
- The fare change proposals comply with federal requirements, and
- The fare change proposals comply with board policies.

D. *The implication of the proposed fare adjustment on ridership.*

Impact to the proposed fare adjustments on ridership were presented to the Board during the Board meeting on June 17, 2021, in agenda item [4.2 Issue Brief Fare Changes](#). In Attachment 3, of the agenda item (page 77 of the Board packet), there is a detailed discussion of the projected impacts of the proposed fare changes on ridership and revenue. An independent consultant fare modeling concluded the following key points regarding impacts on ridership:

- for FY2022, fixed-route ridership is projected to increase by 0.8%; NightRide/HolidayRide is projected to increase by 2.3%, and
- the anticipated impact on reducing cash boarding numbers cannot be understated. The repriced 1-Day Pass can help reduce the number of transfers issued as well as enable riders to purchase 1-Day Passes on the beginning of the day. Cash handling is reduced by eliminating the need to pay cash again for return trip.

E. *The implications of the proposed adjustment on the authority's budget and the financial trade-offs required.*

Because a reduction in price can result in more sales (elasticity), it is difficult to predict financial impacts with certainty. An updated detailed analysis of fares and ridership demand, by fare type, was conducted as an update to the Fare Study and includes impacts of proposed fare changes. The modeling estimates that the TheRide could lose about \$60,000 per year (worst case). This represents 1.4% of passenger fare revenues (\$4.1 million) and 0.1% of total operating expenditures (\$55.7 million), as budgeted for FY2022. Staff does not believe that this relatively small amount represents a serious risk to TheRide's financial stability. While a loss of fare revenue could contribute to the ongoing operating deficit, the contribution would so small as to make no meaningful discernable difference. Stated another way, keeping fares the same will not prevent or delay the onset of deficits. Staff also feel that the recommended price reduction may induce higher ridership, as supported by updated fare revenue modeling performed by an independent consultant and our professional judgement. Further staff feel that the potential benefits of pursuing the Ends with these recommended changes outweigh the risks.

Previously, information on financial impacts were presented at board committee meetings between July 29<sup>th</sup> and August 10<sup>th</sup>, and during the Board meeting on August 19, 2021 as part of agenda item [4.4 FY2022 Draft Budget](#). In summary, illustrations provided on page 133 of the August 19, 2021 board meeting packet demonstrate (presentation) that the budgetary impact of the fare change proposal is minimal and that financial trade-offs are directly tied to advancing Board Ends.

The budget presented for board approval in September is a balanced budget and includes the impacts of the proposed fare changes. Performance of ridership recovery and trends regarding

fare types utilized will be closely monitored by staff and, if necessary, modifications may be provided to the Board for future consideration.

F. Opportunities that users, residents, Legal Owners, and stakeholders had to provide feedback on the proposed fare adjustment, the nature of their feedback and how their feedback has been addressed.

This information is provided in the [2021 June Public Outreach Public Feedback Summary](#) dated July 15, 2021 (on page 72 of the July 22, 2021 Board packet). TheRide hosted several meetings to present the final August Service Recovery Plan and receive feedback from the Fare Change Proposal. As outlined in more detail in the summary document, staff engaged the public and solicited public comments in the following manner:

- TheRide hosted six virtual meetings (via Zoom) to present and receive feedback from the Fare Change Proposal
- The meetings were held during typical lunch break and post-workday schedules
- Comments could also be provided via phone, e-mail, TheRide's online platform, and regular mail

In all, there were 59 unique individuals with a total of 96 comments received for consideration regarding the August Service Recovery Plan and the Fare Change Proposal, combined.

In summary, there were very few comments regarding the fare change proposal and there was no underlying theme. There were no objections to the proposed changes. There were four comments expressing concern about A-Ride fares increasing, which is not a consideration in the fare change proposal.

### **Federal Transit Administration (FTA) Fare Change Requirements**

As it relates to fare changes, The Federal Transit Administration (FTA) requires every transit agency with more than 50 fixed route buses and receiving federal funding conduct a Fare Equity Analysis prior to approving any change in transit fares or fare media. The purpose of the Fare Equity Analysis is to determine if the change in fares will have a disparate impact on minorities protected by Title VI of the Civil Rights Act of 1964 or place a disproportionate burden on persons with low income as defined in Presidential Executive Order 12988.

To that end, TheRide engaged an independent consultant to complete an [Equity Analysis for Proposed Fare Changes](#) in July 2021 that evaluated the proposed fare changes, with respect to FTA requirements, as presented in the FY2022 Proposed Budget. The study concludes that there are no disparate impacts or disproportionate burdens created by the proposed changes and that the fare change proposal complies with the federal requirements.

Additionally, FTA requires the agency to ensure that minority, low-income, and limited English proficient communities have an equal opportunity to participate in the public involvement process preceding a decision to change service and fares.

To that end, TheRide staff held six virtual meetings throughout the month of June to inform the public and solicit public involvement regarding service and fare changes. Out of the six virtual meetings, TheRide had 34 unique public attendees, where some chose to attend multiple meetings. TheRide received a total of 96 comments from 59 unique individuals. There were very few comments about the fare change proposal, and no underlying theme. Additional information is provided in the [2021 June Public Outreach Public Feedback Summary](#) on page 72 of the July 22, 2021 Board Packet.

## 8.5 State and Federal Grants Primer

The following provides a brief description of federal and state funding sources.

### Federal Funding

**Requirements:** To be eligible for federal funding, projects must be included in a long-range plan (20-years) and four-year Transportation Improvement Program (TIP) approved by the Federal Transit Administration (FTA). Each is first approved by the Washtenaw Area Transportation Study (WATS), the Southeast Michigan Council of Governments (SEMCOG), and the Michigan Department of Transportation (MDOT). There are many other federal requirements, particularly dealing with award management and procurement. FTA conducts a compliance audit every three years (Triennial Review) and the AAATA submits annual applications for grant awards for approval by the FTA.

### Funding for Urban Service

**Section 5307 and 5339 Formula Funds:** Urbanized area formula funds are appropriated annually by Congress to the FTA, which apportions Sec. 5307/5339 funding to the Ann Arbor urbanized area. The apportionment of FY2021 funds available for budgeted activities in FY2022 and subsequent years is about \$7.9 million in Sec. 5307 funds and \$0.9 million in Sec. 5339 funds. The Regional Transit Authority (RTA) is the Designated Recipient of formula funds and has the authority to approve AAATA applications for these funds (as the Direct Recipient). By law, the funds can only be spent in the Ann Arbor urbanized area.

- **Capital Funding:** Sec. 5307 and 5339 funds are primarily available for capital asset procurement. The federal share is 80% for most capital projects. Funds apportioned in one year are available for three (Sec. 5339) or five (Sec. 5307) additional years, which provides the AAATA with some flexibility to manage its capital program (e.g., funds may be held and combined with other annual appropriations for a larger capital purchase).
- **Operating Assistance:** The amount of Sec. 5307 funding eligible for operating assistance is limited by law. AAATA is currently able to use up to about \$4.3 million in federal formula 5307 funds for urban operating assistance per year at a 50% federal share. If the full amount of eligible funding is not utilized for operating budget, the remaining amount is able to be used for capital purposes. In addition, there are other limited categories of operating expenses which are eligible for grant funding—preventive maintenance, capital cost of contracting, and planning—at 80% federal funding.

**Discretionary Funding:** There are other discretionary federal grant programs from which the AAATA has the opportunity to receive funding. Discretionary spending is subject to the appropriations process, whereby Congress sets a new funding level for each fiscal year. Typically, these funds are awarded on a competitive basis, in which recipients submit projects for consideration and award. These include:

- **Capital Investment Grants (Section 5309):** Discretionary funds awarded in a competitive application process to fund major transit investments for rail projects and bus rapid transit.

- Buses and Bus Facilities and Low or No Emission Grants (Section 5339 Discretionary): The Sec. 5339 program includes two competitive grant opportunities. 5339(b) funds are awarded for the purchase of buses and related equipment, and to rehabilitate or build bus-related facilities. 5339(c) grants support low and zero-emission vehicle projects.
- RAISE (Rebuilding American Infrastructure with Sustainability and Equity): This USDOT program, formerly known as BUILD and TIGER, awards funds on a competitive basis for investment in transportation infrastructure. Funding can support roads, bridges, transit, rail, ports, and intermodal transportation for projects that have significant local or regional impact.
- CMAQ (Congestion Mitigation and Air Quality Improvement): Southeast Michigan receives an annual allocation of CMAQ funds authorized by the Clean Air Act, for which SEMCOG conducts a competitive application process. AAATA is an eligible applicant. If successful, funds are transferred to FTA from the Federal Highway Administration (FHWA) for administration. For FY2022, a CMAQ grant for \$1.6 million for replacement buses has been programmed.
- JARC (Job Access/Reverse Commute) and New Freedom: These two programs provided formula funds for work transportation and transportation for people with disabilities beyond the requirements of the Americans with Disabilities Act (ADA) from 2006-2012. The programs have since expired; however, New Freedom has been incorporated into the Section 5310 formula program. AAATA has one active grant, which is being used for mobility management services until the grant is ready for closeout in 2022.

Planning: Planning activities in the AAATA planning work program are eligible for grant funding. SEMCOG and WATS each pass through to AAATA about \$50,000 per year. As access to regional planning funds increased, the use of formula grant funds (Section 5307) for planning was phased out in FY2020 to focus investment of these funds into capital assets

Section 5310: Formula funds for “Enhanced Mobility for Seniors and People with Disabilities” are apportioned annually to the Ann Arbor urbanized area, which the RTA allocates through a competitive call for projects and AAATA is responsible for administering. Funds are eligible to be used for traditional purposes such as replacement of vans and buses, and for non-traditional purposes such as operating assistance and mobility management. AAATA works with the RTA, WATS, and local non-profit agencies through the Washtenaw Transportation Coordinating Council (TCC) to coordinate the use of funds.

### **Funding for Nonurban Service**

Operating Assistance (Section 5311): AAATA passes through federal operating assistance funds for service outside of the urbanized area that is allocated by the Michigan Department of Transportation (MDOT). MDOT receives a single statewide federal grant and distributes it to eligible agencies. For the last several years, the Sec. 5311 rate has been about 18% of nonurban operating expenses, with an additional 18% provided from pandemic relief funding for FY2020-2022. AAATA passes these funds to Western Washtenaw Area Value Express (WAVE) and People’s Express to fund their service in the nonurban area.

Capital Assistance: Federal, nonurban capital assistance comes through MDOT which submits a single statewide application to the FTA. WAVE and People’s Express are eligible to apply directly and have

received and managed their own grants for buses and equipment. AAATA has not received federal non-urban capital assistance.

### **Federal Pandemic Relief Funds**

A total of \$62.8 million in reimbursable federal relief funding is available to the AAATA from the CARES Act, CRRSAA, and ARP as follows:

- \$20,704,090 in Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- \$15,771,805 in Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- \$26,338,769 in American Rescue Plan (ARP) funding (anticipated after RTA split – 5%)

This federal aid was provided to help agencies respond to the pandemic and maintain transit services while facing lost revenue and increased expenses for Personal Protective Equipment (PPE), cleaning and sanitation supplies, increased janitorial services, paid employee leave, and other costs. The funding was apportioned to TheRide through the Sec. 5307 program and is available for 100% share of eligible operating expenses.

### **State Funding**

Requirements: AAATA is required to submit an annual application for operating and capital assistance by February each year for the next fiscal year (beginning in October). At some point the RTA may submit a combined application including AAATA, but so far, the AAATA application is submitted separately to RTA and MDOT at the same time.

Statutory Operating Assistance – Urban: Each year, MDOT provides urban operating assistance equal to a fixed percent of eligible expenses. The maximum authorized level is 50% of eligible expenses. The actual amount is much lower, about 32%. The percentage depends first on the amount of funding appropriated by the legislature. It also depends on the eligible expenses of all the transit systems in the state because the funds are distributed among them at the same percent of eligible operating expenses. These funds for all southeast Michigan, including Ann Arbor, may go to the RTA for distribution in the future, and they could change the distribution formula.

Statutory Operating Assistance – Nonurban: For service outside of the urban area, state operating assistance works the same way, but the percentage is different. The maximum authorized level is 60% of eligible expenses; the actual amount has been about 38%. The AAATA applies for and receive funds to pass through to WAVE and People's Express for their service in the nonurban area.

Matching Funds for Capital Grants: MDOT provides all or part of the match for federal capital grants (e.g., Sec. 5307, 5339, 5310, CMAQ, discretionary). Historically, MDOT has always provided the entire 20% local (non-federal) share for capital grants, so no local funds were required. By law, MDOT is only required to provide 2/3 of the non-federal share.

Specialized Service: MDOT provides limited funds for service for seniors and people with disabilities. The Washtenaw County allocation has remained at about \$200,000 per year since 2020. About \$110,000 per year pays a portion of the cost for eligible demand response trips in the AAATA service area. The AAATA also administers or passes these funds through to private, non-profit service providers in the County.

## 8.6 Adopting Resolution

Resolution 11/2021

ADOPTION OF FY 2022 OPERATING AND CAPITAL BUDGET

### **RESOLUTION OF THE BOARD OF DIRECTORS OF THE ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**WHEREAS**, the Ann Arbor Area Transportation Authority (AAATA) Board of Directors (Board) is required by the Michigan Uniform Budgeting and Accounting Act of 1968 to adopt a balanced operating budget on or before September 30 for its next fiscal year, which begins on October 1, and

**WHEREAS**, AAATA staff have developed a FY 2022 Operating and Capital Budget that furthers Board Ends Policies within Executive Limitations and provides multi-year context, and

**WHEREAS**, the AAATA is required to develop a fiscally constrained four-year program of projects for inclusion in the Transportation Improvement Program (TIP) to be submitted to the Washtenaw Area Transportation Study (WATS) in order to be eligible for federal funds, and

**WHEREAS**, the AAATA is required to submit the capital program for FY 2022 to the Federal Transit Administration (FTA) as part of the annual application for FY 2022 federal funding, and

**WHEREAS**, the AAATA is required to submit the capital program and operating budget for FY 2022 to the Michigan Department of Transportation (MDOT) as part of the annual application for FY 2022 state funding, which is amended by this resolution.

**NOW THEREFORE, BE IT RESOLVED**, that the Board of Directors hereby approves the FY 2022 Operating and Capital Budget as its general appropriations act with total expenditures as follows:

- **\$55,765,850** for operations, and
- **\$10,840,000** for capital investment.

**BE IT ALSO RESOLVED** that the Ann Arbor Area Transportation Authority Board of Directors hereby adopts the capital projects listed herein as updates to the FY 2020-2023 TIP, of which FY 2023 and beyond are subject to amendment in future years.

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Eric A. Mahler, Chair

September 23, 2021

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Kyra Sims, Secretary

September 23, 2021

## 8.7 Glossary

**A-Ride** – A shared ride ADA paratransit service that supplements the fixed route bus service operated by TheRide.

**Accounting System** – The total structure of records and procedures which identify, record, classify, summarize, and report information on the financial positions and results of operations of a government.

**Accrual Basis of Accounting** – The method of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

**ADA** – See Americans with Disabilities Act.

**AirRide** – A commuter bus service operated as a public-private partnership with Michigan Flyer between Ann Arbor and the Detroit Metro Airport.

**Americans with Disabilities Act (ADA)** – This federal act gives civil rights protections to individuals with disabilities that ensure equal opportunity and access and prohibit discrimination.

**Appropriation** – An authorization made by the Board of Directors to make expenditures of resources for specific purposes within a specific time frame.

**Assessed Value** – The current market value of real estate as determined by city and township treasurers' offices.

**BTC** – An acronym for the Blake Transit Center, TheRide's passenger terminal in downtown Ann Arbor.

**Balanced Budget** – A budget in which revenues are equal to or greater than expenditures.

**BikeShare** – Public bike sharing service in which bicycles are made available for shared use to individuals on a short-term basis for a fee.

**Budget** – A plan of financial operation comprised of an estimate of proposed expenditures for a fiscal year and the proposed means of financing those expenditures to fund services in accordance with adopted policy.

**Budget Year** – The fiscal year for which the budget is being considered, that is, the fiscal year following the current year. TheRide's fiscal year is October 1 through September 30.

**CAFR** – See Comprehensive Annual Financial Report.

**Capital** – Wealth in the form of money or other assets owned by TheRide, or available or contributed for a particular purpose.

**Capital Budget** – The annual plan of appropriations for the amount necessary to carry out capital project expenditures during the year budgeted.

**Capital Outlay** – Expenditures which result in the acquisition of, or addition to, fixed assets. Any item with an expected useful life of more than five years and a value of more than \$5,000 (such as a vehicle, equipment, or facility) is considered a capital outlay.

**Capital Program** – The annual updated plan or schedule of project expenditures with estimated project costs, source of funding, and timing of work over a ten-year period. For financial planning and general management, the capital program is a plan of work and expenditures and is the basis for annual appropriations.

**Capital Project** – A governmental effort involving expenditures and funding for the creation of usually permanent facilities and other public assets having a relatively long life. Certain planning studies, consultant fees, vehicles, major equipment, furniture, and fixtures necessary to operate facilities may also be considered part of capital projects.

**CARES Act** – Federal law enacted by Congress in April 2020 to provide economic relief in response to the COVID-19 pandemic. CARES is an acronym for the Coronavirus Aid, Relief, and Economic Security Act.

**CEO** – See Chief Executive Officer

**Chart of Accounts** – A uniform list of accounts that standardizes accounting and supports the preparation of standard external reports. It assists in providing control over all financial transactions and resource balance.

**Chief Executive Officer** – The highest-ranking staff member at TheRide, ultimately responsible for managerial decisions to carry out the Board’s expectations for TheRide.

**Constituents** – This word means a “part of a whole.” In the context of local governments like TheRide, constituents are the people who are legal or moral owners of the TheRide.

**Comprehensive Annual Financial Report (CAFR)** – The official annual report of a government.

**Costing Center** – The smallest unit for which costs are collected and reported upon.

**COVID-19** – A disease caused by a new strain of coronavirus which emerged in humans in 2019 and caused a global pandemic in 2020. ‘CO’ stands for corona, ‘VI’ for virus, and ‘D’ for disease.

**COVID-19 Recovery Plan** – A multi-year plan that establishes the strategic priorities for the budget in response to the coronavirus pandemic which emerged in 2020.

**CRRSA** – A secondary stimulus federal law enacted by Congress on December 27, 2020, to provide economic relief in response to the COVID-19 pandemic. CRRSA is an acronym for the Coronavirus Response and Relief Supplemental Appropriations Act.

**Current Year** – The fiscal year immediately preceding the fiscal year for which the budget is being prepared.

**D2A2** – Shorthand for “Detroit to Ann Arbor,” name for commuter bus service between the two cities jointly operated by TheRide and RTA.

**Debt** – Money that is owed or due to another party typically from borrowing or bonding activities; does not include short term payables.

**Deficit** – The amount by which budget outlays exceed receipts for a given period, usually a fiscal year.

**Demand Response** – Public transit service in which passenger trips are generated by calls from passengers to schedule trips with a transit operator, who then dispatches a vehicle to perform the trip.

**Department** – A categorization of organizational unit, indicating management responsibility for an operation or a group of related operations within a functional area, subordinate to the division level of organizational unit.

**Depreciation** – An allocation made for the decrease in value of physical assets through wear, deterioration, or obsolescence.

**Disbursement** – The expenditure of monies from an account.

**Distinguished Budget Presentation Award Program** – A voluntary program administered by the Government Finance Officers Association (GFOA) to encourage governments to publish efficiently organized and easily readable budget documents and to provide peer recognition and technical assistance to the fiscal officers preparing them.

**Division** – A major administrative unit which indicates overall management responsibility for an operation or a group of related operations within a functional area.

**Ends** – Board policies that define the results, outcomes, or benefits that the organization should achieve for specific beneficiaries at a certain cost or relative priority; from Policy Governance.

**Executive Limitations** – Board policies that put out-of-bounds operational means that are illegal, imprudent, unethical, or outside of the will of the Board of Directors; from Policy Governance.

**Expenditure** – The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate an obligation. Where accounts are kept on an accrual or modified accrual basis, expenditures are recognized whether or not cash payment has been made. Where accounts are kept on a cash basis, they are recognized only when cash payments have been made.

**Expense** – The outflow of assets or the incurring of liabilities (or both) during a period as a result of rendering services, delivering or producing goods, or carrying out other normal operating activities.

**Fare** – the money a passenger pays to use transit services.

**Fare Media** – The transit industry’s term for the cards, passes, tickets, tokens, and mobile device applications used to pay for rides on transit services.

**Fiscal Year** – Any yearly accounting period, regardless of its relationship to a calendar year. The fiscal year for the AAATA begins on October 1 of each year and ends on September 30 of the following year; it is designated by the calendar year in which it ends. For example, the fiscal year 2022 begins on October 1, 2021 and ends on September 30, 2022.

**Fixed Assets** – Assets of a long-term character which are intended to continue to be held and used. Examples of fixed assets include items such as land, buildings, vehicles, computer hardware, furnishings, and equipment.

**Fixed-Route Bus** – A form of public transit bus service that does not regularly deviate from a defined course or schedule.

**FlexRide** – A shared-ride service operating on-demand in limited-service areas to connect passengers to their destinations or by transfer to the fixed-route bus system.

**Fringe Benefits** – For budgeting purposes, fringe benefits are employer payments for social security, retirement, group health, dental, disability, and life insurance.

**FTE** – See Full-Time Equivalent.

**Full-Time Equivalent (FTE)** – A measure of authorized personnel calculated by dividing hours of work per year by the number of hours worked per year by a full-time employee.

**Fund** – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out specific activities or attaining certain objectives. TheRide has one general fund.

**Fund Balance** – Used to describe the net position of governmental funds calculated with GAAP; net position is calculated as assets minus liabilities.

**FY** – See Fiscal Year.

**GAAP** – See Generally Accepted Accounting Principles.

**GASB** – See Governmental Accounting Standards Board.

**General Fund** – The general operating fund that is used to account for all financial resources except for these required to be accounted for in another fund.

**Generally Accepted Accounting Principles (GAAP)** – Uniform minimum standards for financial accounting and recording encompassing the conventions, rules, and procedures that define accepted accounting principles as determined through common practice or as promulgated by the Governmental Accounting Standards Board, Financial Accounting Standards Board, or various other accounting standard-setting bodies.

**GFOA** – An abbreviation for Government Finance Officers Association.

**GoldRide** – A service provided to non-disabled people age 65 and older which allows free travel on fixed-route buses and shared-ride trips in sedans and small buses.

**Governmental Accounting Standards Board (GASB)** – An organization established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.

**Grant** – A county, state or federal financial assistance award making payment in cash or in kind for a specified program.

**HVAC** – An abbreviation for heating, ventilation, and air conditioning equipment.

**Infrastructure** – The physical assets of AAATA (facilities, bus stops, shelters, bike racks, etc.) upon which the continuance and growth of service depend.

**Intergovernmental Revenues** – Revenues from other governments in the form of grants, entitlement, shared revenues, or payments in lieu of taxes.

**Investments** – Capital held for the production of revenues in the form of interest, dividends, rentals, or lease payments.

**Levy** – (Verb) To impose taxes or special assessments for the support of governmental activities. (Noun) The total amount of taxes or special assessments imposed by a government.

**Liabilities** – Debts or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date.

**Long-Term Debt** – Debt with a maturity of more than one year after the date of issuance.

**MCO**– See Motor Coach Operator.

**Michigan Uniform Budgeting and Accounting Act** – State law passed in 1968 known as Act 2, to establish uniform charts of accounts and reports in local units of government.

**Millage** – A millage rate is the tax rate used to calculate local property taxes and represents the amount per every \$1,000 of a property's assessed value.

**Mobility** – The ability to move or be moved freely and easily. The ability to change one's social or socioeconomic position in a community and to improve it.

**Modernizing or Modernization** – A strategic initiative to bring systems, policies, procedures, and practices to an improved state of excellence.

**Motor Coach Operator** – A bus driver.

**MyRide** – A mobility management service that provides coordination of transportation services for individual riders within a network of services in Washtenaw County and select areas of Jackson, Lenawee, Livingston, Monroe, Oakland, and Wayne counties.

**Obligations** – Amounts which a government may be required legally to meet out of its resources. They include not only actual liabilities, but also un-liquidated encumbrances.

**Operating Budget** – See Budget.

**Operating Expenditures** – Costs other than capital outlays and depreciation. Examples of operating expenditures include salaries and fringes, office supplies, telephone expense, consulting or professional services, and travel expenses.

**Other Expenses** – In a summary analysis of expense types, this refers to all expenses not included within specifically defined categories. Within TheRide's operating budget this category consists of utilities, phone service, insurance premiums, postage, dues and subscriptions, conference travel and meetings expenses, media costs, employee development, employee appreciation, recruiting, Guaranteed Ride Home Program reimbursements, and equipment and parking lot lease payments.

**PPE** – Acronym for Personal Protective Equipment. Refers to protective clothing, helmets, gloves, face shields, goggles, masks, respirators, and other equipment designed to protect the wearer from injury or exposure to infection or illness.

**Pandemic** – A disease outbreak that spreads across countries or continents, as compared to an epidemic, which is a disease outbreak affecting a large number of people within a contained area.

**Paratransit** – A type of scheduled or on-demand transit service that supplements the fixed-route system by providing access for people with disabilities who are unable to use the fixed-route system.

**Passenger** – An individual on board, boarding, or alighting from a vehicle used in public transportation, not including the transit operator, employees, or contractors who are onboard to provide service.

**Pension** – A regular payment made during a person's retirement from an investment fund to which the individual or their employer has contributed during their work life.

**Per Capita** – Per unit of population; by or for each person.

**Performance Measurements** – See Management Indicators.

**Permanent Employee** – An employee who is hired to fill a position anticipated to have a continuous service duration of longer than one year, whose compensation is derived from administrative personnel position classifications.

**Personnel (Costs)** – Expenditures which include salary costs for full-time, part-time, hourly, and contract employees; overtime expenses; and all associated fringe benefits.

**POFA** – Acronym for “Purchase of Fare Agreement;” a third-party contract with a party that purchases fares from TheRide, either through the sale of fare media or the use of third-party issued photo identification cards.

**Policy Governance** – An integrated board leadership paradigm created by Dr. John Carver designed to empower boards of directors to fulfill their obligation of accountability for governance.

**POSA** – Acronym for “Purchase of Service Agreement;” a third-party contract with a township to provide public transportation services in the township funded by the general revenues of the township.

**Prior Year(s)** – The fiscal year(s) immediately preceding the current year.

**Program Area** – A group of activities and/or work programs based primarily upon measurable performance.

**Projections** – Estimates of budget authority, outlays, receipts, or other budget amounts extending several years into the future. Projections are generally intended to dictate the budgetary implications of existing or proposed programs.

**Property Tax** – A tax levied on all real and certain personal property, tangible and intangible, according to the property’s assessed valuation.

**Public Transportation** – Regular and continuing general or special transportation provided to the public, not including school buses or charter, intercity bus, or rail service provided by the private sector.

**Purchase Order** – A document which authorizes the delivery of specified merchandise or the rendering of certain services and the making of charge for them.

**Purchased Transportation** – Transportation service provided to TheRide from a public or private transportation provider based upon a written contract.

**Reimbursement** – A sum (1) that is received by the government as a repayment for commodities sold or services furnished either to the public or to another government account and (2) that is authorized by law to be credited directly to specific appropriation and fund accounts.

**Reserve** – The unrestricted net assets from TheRide’s financial statements.

**Resolution** – A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance or statute.

**Revenue** – Monies received or collected by TheRide as income, including such items as tax payments, passenger fares, fees from specific services, receipts from other governments, and interest income.

**Revenue Hours/Miles** – The time (hours) or distance traveled (miles) when a vehicle is available to the general public for the carrying of passengers; a key measure of service provided by a transit agency.

**Revision** – Shifting of all or part of the budget authority in one appropriation or account to another, as specifically authorized by law.

**Self-Insurance** – Refers to participation in a self-insurance fund. Self-insurance allows an organization to closely realize its actual claim experience, as well as pool its insurance buying power with other participating agencies.

**Surplus** – The amount by which TheRide’s budget receipts exceed its budget outlays for a given period, usually a fiscal year.

**TIP** – Acronym for Transportation Improvement Program, a federally-required 4-year program of projects for federal funding.

**Tax Base** – All forms of wealth under TheRide’s jurisdiction that are taxable.

**Tax Rate** – The amount levied per \$1,000 of assessed property value on property.

**Temporary Employee** – An employee who is hired to fill a position anticipated to have a continuous service duration of less than one year.

**Transfer** – See Revision.

**User Fees** – Payments for direct receipt of a public service by the party benefitting from the service. Also known as user charges. Fares are an example.

**YTC** – An acronym for the Ypsilanti Transit Center, TheRide’s passenger terminal in Ypsilanti.