

ISSUE BRIEF:
Monitoring Report for Policy 2.5 Financial Condition & Activities

Finance Committee Review Date: March 8, 2022

Board Meeting Review Date: March 17, 2022

Table of Contents

POLICY TITLE: ASSET PROTECTION:	Page #	Compliance
2.5 With respect to the actual, ongoing financial condition and activities, the CEO will not cause, allow or fail to address the development of fiscal jeopardy or deviation of actual expenditures from Board priorities established in Ends policies. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:	4	
2.5.1 Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.	5	
2.5.2 Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.	6	
2.5.3 Receive, process, or disburse funds under controls that are insufficient to meet the Board-appointed auditor's standards.	7	
2.5.4 Compromise the independence the Board's audit or other external monitoring or advice.	8	
2.5.4.1 Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.	9	
2.5.4.2 Fail to provide the Board with information and access to internal controls that allows Board review of fraud, suspected fraud or financial mismanagement.	10	
2.5.5 Allow expenditures that exceed the overall Board-approved budget.	11	
2.5.5.1 Allow cost overruns on capital projects.	12	
2.5.6 Authorize contracts not anticipated in the current budget with a value greater than \$250,000.	14	
2.5.6.1 Split purchases or contracts into smaller amounts in order to avoid the above limit.	15	
2.5.7 Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages.	16	
2.5.8 Adjust tax rates assessed by the Authority.	17	
2.5.9 Acquire, encumber, or dispose of real estate.	18	
2.5.10 Encumber the agency with financial debt without previous authorization from the Board.	19	
2.5.11 Adjust passenger fares.	20	
2.5.11.1 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	21	

<p>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:</p> <ul style="list-style-type: none"> A. A clear listing of all proposed fare categories/types and prices, along with supporting information. B. The fare discounts to be provided for low-income residents and other vulnerable populations and rationale for how residents qualify for fare discounts. C. The impact of the proposed adjustment on equity among different fare categories. D. The implication of the proposed fare adjustment on ridership. E. The implications of the proposed adjustment on the authority’s budget and the financial trade-offs required (e.g. tax rate increase/decrease, increased/decreased services, impact on reserve or deficit, etc.). 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. 		
<p>2.5.11.2 Let the traveling public, residents and businesses be without reasonable advance notice of approved changes to fares.</p>		<p>N/A</p>

 Compliant
  Partially Compliant
  Non-Compliant

Preliminary CEO Interpretations and Evidence

EXECUTIVE LIMITATIONS POLICY 2.5:

With respect to the actual, ongoing financial condition and activities, the CEO will not cause, allow or fail to address the development of fiscal jeopardy or deviation of actual expenditures from Board priorities established in Ends policies. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Degree of Compliance: Partial Compliance

EXECUTIVE LIMITATIONS POLICY 2.5: Interpretation

I interpret this policy to mean I am responsible for ensuring the implementation of the Board-approved budget and ensuring sufficient internal control and risk management for financial matters. In addition, I am responsible to address unforeseen events resulting in any significant deviations from budgeted expenditures, or requiring use of reserves to cover shortfalls, as well as those that disrupt service delivery or delay or cancel approved initiatives. I must take all reasonable precautions to prevent and/or mitigate financial risks (fiscal jeopardy) that result from human error, fraud, or external economic conditions that bear upon the Authority. Further, all TheRide's activities and costs must be demonstrably related to accomplishing the Board's Ends. Compliance with this overall policy will be demonstrated by compliance with the following sub-policies.

EXECUTIVE LIMITATIONS POLICY 2.5: Evidence

- See monitoring reports for sub-policies.

EXECUTIVE LIMITATIONS POLICY 2.5.1:

Operate without policies, processes and procedures that are necessary to meet generally accepted standards for financial management, cash handling, and accounting.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.1: Interpretation

I interpret this policy to mean TheRide will meet Governmental Accounting Standards Board (GASB) and Internal Control (cash handling, fund handling, and financial management) standards. On an annual basis, an external audit firm will assess TheRide's policies, processes, and procedures for compliance and appropriateness. I will incorporate auditor's suggestions when appropriate.

EXECUTIVE LIMITATIONS POLICY 2.5.1: Evidence

Financial management, cash handling, and accounting policies and procedures are described in detail in TheRide's *Internal Control System Manual*, which adopted by the CEO in 2019. The manual was developed to ensure compliance with Federal standards and these Board policies. In October 2021, the manual was updated by Finance staff to reflect routine process and terminology changes.

GASB is the source of accounting reporting standards and generally accepted accounting principles used by local governments in the United States. Finance personnel follow the accounting standards established by GASB.

Financial auditors recently completed an audit for the FY2021 financial statements. Auditors test internal controls and accounting standards during the process of their audit. While they "do not express an opinion on the effectiveness of" internal controls (Audit 2021, pp. 52-53), they do report upon any material weaknesses they find in accounting, financial reporting, and internal controls. No such material weaknesses in internal control were found in the 2021 audit.

EXECUTIVE LIMITATIONS POLICY 2.5.2

Operate in a manner that would jeopardize federal and state funding, including an up-to-date procurement manual.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.2: Interpretation

AAATA will operate in compliance with regulations, master agreements, federal circulars, and state manuals associated with funding. AAATA will take care in its administration of grants. Federal compliance will be tested annually by an independent audit firm, and federal compliance every three years by a Federal Transit Administration auditor (this last occurred in 2018; the 2021 review was deferred by FTA due to the pandemic, but will be completed in 2022). AAATA will utilize a procurement manual that includes the latest requirements.

EXECUTIVE LIMITATIONS POLICY 2.5.2: Evidence

Federal Compliance: The auditors stated that AAATA “complied, in all material respects, with the types of compliance requirements ... that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021” (p. 55).

FTA Triennial Review: The FY2018 Triennial Review found that AAATA was fully compliant in 15 of 20 areas reviewed. Findings of non-compliance resulted in 5 areas of review, including financial management, grants management, oversight of subrecipients, procurement, and the Disadvantaged Business Enterprise (DBE) program. Findings were for outdated procedures, policies and procedures missing required elements, late or missing reports, and missing clauses in contracts. All findings have been corrected, corrections have been accepted by FTA, and no jeopardy to federal funding has resulted.

State Compliance: Grant agreements from the Michigan Department of Transportation are fully awarded and executed for FY2021 and for FY2022, with no findings of non-compliance reported by MDOT.

Procurement Manual: TheRide’s Procurement Manual was updated and adopted by the CEO in FY2021. Procurement thresholds established in federal regulations and Board policy were updated to reflect improved processes and procedures, and current terminology and references. The Board was provided information regarding updated manual in the CEO Report of the September 23, 2021 Board Meeting.

EXECUTIVE LIMITATIONS POLICY 2.5.3:

Receive, process or disburse funds under controls that are insufficient to meet the Board-appointed auditor's standards.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.3: Interpretation

I understand this policy to mean that staff are prohibited from handling the AAATA's funds while using internal controls that are insufficient to meet the Board's auditor's standards. Internal controls are defined as processes designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This is the most widely accepted definition and comes from the Committee of Sponsoring Organizations (COSO). It focuses upon the fiduciary responsibilities of the Board of Directors, management, and other personnel, given that AAATA is a local government entity that handles public funds.

EXECUTIVE LIMITATIONS POLICY 2.5.3: Evidence

Receipt, processing, and disbursement of funds is controlled by procedures identified in TheRide's *Internal Control System Manual*, which was updated and adopted by the CEO as an administrative policy in FY2019. Subsequent updates by staff had no material impact on controls that required additional CEO approval. The three types of internal controls included in the manual are:

1. **Environmental Controls:** the set of policies, standards and procedures that provide the Board's expectations for carrying out the internal control system. Board policies, executive and management leadership, the organization structure, personnel policies and practices, insured risks to cover losses, and monitoring for "red flags" are all examples of environmental controls.
2. **Administrative Controls:** are managerial policies, standards, and procedures that interpret and put into practice internal controls. Examples are internal control standards that cover the authorization of transactions, separation of duties, access to software and records, procedures to run trial balances and reconcile accounts, physical audits, documentation, record retention, and security of sensitive information.
3. **Other Administrative Controls:** Several other documents exist which inform internal controls including employee handbooks and the collective bargaining agreement, the Procurement Manual, IT Policies, the Award Management Procedure (for managing federal and state grants), the Transit Asset Management Plan, and the Public Transportation Agency Safety Plan (PTASP).

Internal controls were reviewed and tested as described by the FY2021 Audit report and no findings resulted.

EXECUTIVE LIMITATIONS POLICY 2.5.4:

Compromise the independence the Board’s audit or other external monitoring or advice.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4: Interpretation

I understand this policy to mean that staff should in no way hinder any Board inspection of financial information. The Board’s audit, and other inquiries, should be truly independent opinions free of staff influence. The CEO shall not engage the auditing firm to be advisors or consultants. CEO and staff are resources to the auditor, not supervisors or authors of audit opinions. The Board shall have direct and unfettered access to the auditing firm through the firm’s pre-audit communication and a post-audit communication as required by U.S. Generally Accepted Auditing Standards, in addition to an auditor’s presentation to the Board at a public meeting.

EXECUTIVE LIMITATIONS POLICY 2.5.4: Evidence

Financial auditors recently completed an audit on FY2021 Financial Statements and Federal Programs, following Generally Accepted Auditing Standards, which include stringent independence standards. The Auditors held an Audit kick-off meeting with the Board’s Audit Task Force on December 1, 2021. The Audit Task Force was provided the direct contact information of the auditors and unfettered access to the auditing team throughout the duration of the audit. The Draft Independent Auditor’s Report has been provided to the Audit Task Force, and the auditor will present the final audit results to the Board of Directors in March, 2021. The auditing firm, UHY LLC, does no consulting or advising with AAATA.

From the Auditor’s Management Letter (pp. 1-2):

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

EXECUTIVE LIMITATIONS POLICY 2.5.4.1:

Fail to provide the Board with timely information regarding fraud, suspected fraud or financial mismanagement.

Degree of Compliance: Not In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Interpretation

I interpret this policy to mean that I am to inform the Board in a timely manner upon becoming aware of fraud, suspected fraud, or financial mismanagement. Fraud is defined as “wrongful or criminal deception intended to result in financial or personal gain.” Financial mismanagement refers to manners of handling AAATA’s finances that could be characterized as without due regard for future implications, as well as “wrong, bad, careless, inefficient or incompetent,” whether deliberate or not.

EXECUTIVE LIMITATIONS POLICY 2.5.4.1: Evidence

An effective internal control system is in place to guard against fraud, recognizing that it is easier to prevent fraud than it can be to detect it. Internal controls identify and mitigate risks of fraud through policies and procedures that act as checks and balances to make it difficult for a person to commit fraud without detection. The internal control system also establishes the responsibility for employees to report fraud when it is suspected or detected and clarifies the reporting and investigation procedure.

The CEO is required by this policy and by the Internal Control System to brief the Board about any instances of fraud. Further, fraud is required to be reported to auditors, and to other regulatory bodies such as FTA and the U.S. Department of Transportation’s Office of Inspector General.

The primary means of avoiding financial mismanagement is the fiduciary oversight provided by the Board of Directors and the Finance Committee, who review financial statements quarterly. The CEO, Deputy CEOs, department managers, and others hold accountability for financial performance within the costing centers/business units they manage, with close fiduciary oversight provided by the CEO, CFO, and Manager of Finance.

Check fraud was discovered in October 2021. The fraud consisted of an unknown individual intercepting a legitimate check from AAATA to a vendor, altering the check and cashing the check. Subsequently, additional alterations were made to the same check and successfully cashed in two separate instances. All transactions occurred in September 2021, within a two-week period, and the total amount of the three fraudulent checks was \$86,810.16. Interactions with our financial institution resulted in full reimbursement to AAATA. Additionally, the Finance Department now participates in a program with our bank that provides additional security measures for clearing checks presented to the bank.

The check fraud incident was being investigated during the week of October 18th, 2021. On October 23rd, 2021, the organization experienced the cyber-attack incident. Although the check fraud incident was resolved without consequence to AAATA, the impact of the cyber-attack

greatly overshadowed the check fraud incident and was not communicated timely to the Board. The check fraud was reported to the external auditor as part of the FY2021 annual audit and there were no findings associated with the incident.

I attest that neither I, nor the CFO, nor the Manager of Finance are aware of any other occurrences of fraud, suspected fraud, or financial mismanagement during the monitoring period, or since I began my work as CEO.

EXECUTIVE LIMITATIONS POLICY 2.5.4.2:

Fail to provide the Board with information and access to internal controls that allows Board review of fraud, suspected fraud or financial mismanagement.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Interpretation

I interpret this policy to mean that I must make available any financial information the Board and its auditors request, including internal controls.

EXECUTIVE LIMITATIONS POLICY 2.5.4.2: Evidence

The Board's primary mechanism to review for fraud and financial mismanagement is the annual financial audit governed by the Audit Task Force. Per the evidence provided previously, in monitoring for Policy 2.5.4, the CEO and staff cooperated by making available financial information and internal controls requested by the auditor.

There have been no other times when the Board, as a whole, has requested access to this information. There are no motions or resolutions on-record requesting such information.

EXECUTIVE LIMITATIONS POLICY 2.5.5:

Allow expenditures that exceed the overall Board-approved budget.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.5: Interpretation

I interpret the phrase “Board-approved budget” to refer to the operating budget for the fiscal year. I interpret the word “overall” to mean that the Board is most concerned that the bottom line of the budget is not exceeded, and I am allowed some discretion in permitting variances among the contributing categories of expenses that comprise the total budget. For example, I have latitude to allow overruns in some line items, or shift resources between types of expenses within the budget, as long as total expenditures do not exceed the approved amount. Non-compliance would therefore be indicated if total expenses exceed the overall budgeted amount.

EXECUTIVE LIMITATIONS POLICY 2.5.5: Evidence

- For FY2021, the board approved operating expenditures of \$42,763,292 (Resolution 03/2021), and an amendment to the budget originally adopted (Resolution 07/2020). The amendment was to decrease expenses for continued pandemic impacts and to modify sources of revenues for additional federal pandemic relief funds.
- FY2021 final operating expenses (before depreciation) are shown in the audited financials to be \$40,046,521, which is less than FY2021 budgeted expenses due to continued service reductions (most of the year), lower ridership, and workforce supply shortages, all as a result of the coronavirus pandemic. Please see page 41 of the FY2021 audit. (Total operating expenses were \$46,697,464, including \$6,650,943 in depreciation expense. The adopted operating budget does not include depreciation.)

EXECUTIVE LIMITATIONS POLICY 2.5.5.1:

Allow cost overruns on capital projects.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Interpretation

I interpret this policy to mean that I cannot spend more money on improvements to capital assets than the amount approved by the Board in annual budgets or budget amendments. Additional expenditures may be approved by the Board, if they see fit.

A capital asset is a significant piece of property typically having a one-time purchase price or ongoing leasing cost, and is distinct from ongoing operating costs such as labor, fuel, services, office supplies, training, etc. Examples of capital assets include land, buildings and their major mechanical components, vehicles and buses, sidewalks and bus pads, bus ways and changes to streets, bus shelters and street furniture, office furniture, tools, computers and in-field technologies, printers, etc. having a value greater than \$5,000. This does not include financial capital, such as money held in a bank account, which are covered under other policies.

I define an *improvement* to a capital asset as substantial change such as initial acquisition, construction, expansion, renovation, or replacement of facilities, vehicles, or equipment. I believe that the emphasis of this policy is on reducing the financial risk from overruns on large projects, such as bus purchases or facility construction, rather than smaller overages on routine purchases, such as replacing computers.

Capital projects, especially larger ones, often take multiple years to deliver after they are approved. Natural cash flow variances within the course of implementing a project can cause costs to occur earlier or later than originally expected without jeopardizing the final cost of the project. Such low-risk fluctuations are called “timing variances” and must be noted in this report.

I will also note that policy 2.11, adopted in 2020, establishes additional executive limitations that apply to certain capital construction projects, including construction of a new building or facility or a major renovation to an existing facility.

EXECUTIVE LIMITATIONS POLICY 2.5.5.1: Evidence

For FY2021, the Board adopted an amended capital budget with a program of projects totaling \$6,449,880 (Resolution 07/2020).

As noted in the interpretation, capital projects typically span more than one fiscal year, The table below illustrates actual expenditures and variances from the approved capital budgets for projects that were active in FY2021. In some cases, it may appear that budget is exceeded, when in fact, the project budget is within budget. For example, the expenditures for bus replacements exceed the amounts budgeted in FY2021 but are within the Board approved

budgets for bus replacements programs. The variances are due to timing issues related to funding and timing of bus delivery, not exceeding the program budget. To accurately demonstrate budget comparisons, the table below includes budgeted funds from previous years, as appropriate.

FY2021 Capital Budget and Expenditures

Category	Capital Program	2021 Budget	Budget from Prior Years (FY18-FY20)	Total Project Budget	Expenditures	Variance from Budget Over/(Under)	Cost Overruns?
State of Good Repair	Large Bus Replacement	\$ -	\$ 4,443,735	\$ 4,443,735	\$ 4,244,563	\$ (199,172)	No
	Small/Medium Bus Replacement	-	1,814,326	1,814,326	524,384	(1,289,942)	No
	Non-Revenue Vehicle Replacement	106,000	120,196	226,196	-	(226,196)	No
	Facilities Rehabilitation	3,500,000	2,451,718	5,951,718	72,361	(5,879,357)	No
	Architecture and Engineering	150,000	687,052	837,052	-	(837,052)	No
	Furniture Replacement	40,000	74,258	114,258	86,761	(27,496)	No
	IT Hardware and Software	230,000	888,776	1,118,776	1,093,044	(25,732)	No
	AOS System Replacement	670,000	-	670,000	-	(670,000)	No
	Maintenance Equipment	100,000	-	100,000	15,733	(84,267)	No
Communications Equipment	30,000	-	30,000	25,833	(4,167)	No	
Value Added	Rider Amenities/Accessibility	327,880	203,698	531,578	8,384	(523,194)	No
Expansion	Land Acquisition	1,000,000	-	1,000,000	-	(1,000,000)	No
	Garage Expansion A&E	271,000	-	271,000	-	(271,000)	No
Research and Development	R&D Projects	25,000	-	25,000	-	(25,000)	No
Total		\$ 6,449,880	\$ 10,683,759	\$ 17,133,639	\$ 6,071,062	\$ (11,062,576)	No

Going forward, capital budgets will incorporate the anticipated expenditures by year to reflect timing of capital expenditures and improve budget comparisons more accurately.

EXECUTIVE LIMITATIONS POLICY 2.5.6:

Authorize contracts not anticipated in the current budget with a value greater than \$250,000.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.6: Interpretation

I interpret this policy to mean that I must obtain Board approval for expenditures with a value greater than \$250,000 that are not specifically listed in the budget document. A list of authorized contractual expenditures was included in the FY2020 budget's appendices on page 39. I can authorize unbudgeted contracts valued at \$250,000 or below without additional approval by the Board. I can also accept revenue contracts (incoming funds) at any value without Board approval.

EXECUTIVE LIMITATIONS POLICY 2.5.6: Evidence

The following budgeted contracts valued at greater than \$250,000 were awarded in FY2021:

CONTRACT DESCRIPTION	DATE AWARDED	VENDOR	AWARDED AMOUNT	BOARD APPROVAL OBTAINED
A-Ride Paratransit Services	May 10, 2021	MV Transportation, Inc.	\$3,961,927 Annually	Yes, adopted with budget
Janitorial Services	March 10, 2021	JNS Facility Maintenance	\$1,200,000	Yes, adopted with budget
General Services A & E	May 26, 2021	Sidock Group	\$ 750,000	Yes, adopted with budget
Payroll & HRIS Service Provider	December 21, 2020	UKG/Kronos	\$ 400,000	Yes, adopted with budget
Electrical Services	February 21, 2021	Shaw Systems & Integration	\$ 300,000	Yes, adopted with budget
Gasoline and Diesel Fuel	N/A	Multiple Providers	\$1,500,000	Yes, adopted with budget

No unbudgeted contracts greater than \$250,000 were awarded in FY2021.

EXECUTIVE LIMITATIONS POLICY 2.5.6.1:

Split purchases or contracts into smaller amounts in order to avoid the above limit.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Interpretation

I interpret this policy to mean that the staff and I cannot attempt to avoid the requirements of Policy 2.5.6 by splitting expenditures into smaller amounts less than \$250,000.

EXECUTIVE LIMITATIONS POLICY 2.5.6.1: Evidence

The Purchasing Manager found no purchases or contracts were split to avoid the requirements of this policy in FY2021.

EXECUTIVE LIMITATIONS POLICY 2.5.7:

Operate without a reserve policy that covers near-term core operating expenses in case of funding shortages.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.7: Interpretation

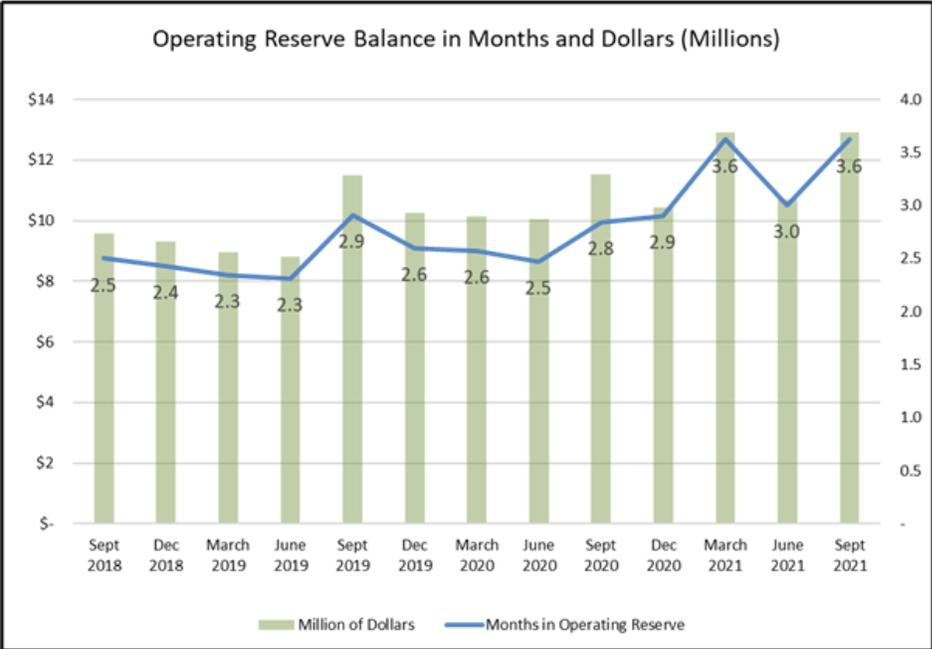
I understand this policy to mean that I must establish an administrative policy that identifies an appropriate level of operational reserve funding that would insulate the AAATA from financial disruptions or emergencies. Furthermore, this reserve fund must be fully funded and ready to be used if needed.

In the recent past, near-term core operating expenses was defined as unrestricted net assets available to support 2.5 months of normal operations. Retained “unrestricted net assets” comprise the “reserve fund.”

Staff and I have since determined that our reserve policy target should remain at 2.5 months of operating expenses available for operations. Research on public sector practices has confirmed that 2.5 months is a reasonable standard. It is my interpretation that we will be in compliance with this policy when AAATA’s quarterly financial statements demonstrate a reserve balance of at least 2.5 months of operating expenses quarterly for a period of one year.

EXECUTIVE LIMITATIONS POLICY 2.5.7: Evidence

According to the balance sheet as of September 30, 2021, AAATA ended the year with a reserve balance of \$12.9 million, capital sufficient to support 3.6 months of operations. The reserve balance finished the year above the target of 2.5 months and has consistently been above this target for 24 continuous months for the first time in many years. This level of operating reserve was deemed sufficient to prepare for the significant increase in expenses approved in the FY2022 budget. In FY2022 the operating reserve coverage to is anticipated to be 2.8 months.



EXECUTIVE LIMITATIONS POLICY 2.5.8:

Adjust tax rates assessed by the Authority.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.8: Interpretation

Tax rates refers to local property taxes levied upon property owners who live in our taxation districts. The CEO must bring any fare or tax adjustments to the Board for approval. In Michigan, taxes may be changed only with signature of the Board Chair and Secretary on Michigan Form L4029. Tax proposals and renewals must be approved by governance bodies and voters.

EXECUTIVE LIMITATIONS POLICY 2.5.8: Evidence

Property tax rates were not adjusted in FY2021. The Board of directors last approved a rate change when the restoration rate of 0.7 mills was authorized in April 2018 (Resolution 8/2018).

EXECUTIVE LIMITATIONS POLICY 2.5.9:

Acquire, encumber, or dispose of real estate.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.9: Interpretation

I understand this policy to mean that staff are prohibited from purchasing or selling land, buildings or any other fixed physical asset without prior Board authorization. Furthermore, prohibited encumbrances include saddling real estate with debt or mortgages, leasing or selling rights to AAATA-owned property, and making encumbrances to real estate which would limit or restrict its use by the AAATA.

Specifically, this Policy applies to three real estate properties owned by the AAATA:

1. Dawn Gabay Operations Center
2. Blake Transit Center
3. Ypsilanti Transit Center

Should the AAATA need to acquire, encumber, or dispose of real estate, I understand this Policy to mean that the Board’s approval would be required first. This policy does not apply to renting property, buildings or facilities needed to facilitate AAATA operations or implementation of Board policies.

EXECUTIVE LIMITATIONS POLICY 2.5.9: Evidence

The FY2021 Statements of Net Position (Annual Audit, p. 9, also Note 7, p. 24) demonstrate that there has been no change in the valuation of land and improvements (\$2,270,821 for FY2021 compared to FY2020.) This is evidence that no real estate was acquired or disposed of in FY2020.

Mortgages, leases, and land contracts are recorded at the Washtenaw County Clerk’s Office. A search of the online register will find no such records to date for the Ann Arbor Area Transportation Authority. No properties were encumbered through leasing, mortgaging, or transfer of rights to other parties. All AAATA-owned real estate is available for the Authority’s use.

EXECUTIVE LIMITATIONS POLICY 2.5.10:

Encumber the agency with financial debt without previous authorization from the Board.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.10: Interpretation

I understand this policy to mean that I am prohibited from issuing bonds, which is the only legal form of debt financing available to AAATA under Act 55, without Board approval, or acquiring any other means of indebtedness such as bank loans on behalf of the Authority. I understand that this policy does not apply to trade payables or credit card expenses which are necessary transactions resulting from day-to-day operations and do not encumber the AAATA with debt.

EXECUTIVE LIMITATIONS POLICY 2.5.10: Evidence

Revenue Bonds: AAATA did not issue any bonds in FY2021. No Board resolutions approving the issuance of bonds occurred in FY2021.

Annual Audit: As a regular task during the financial audit, the auditor requires local banks to confirm the balance of all bank accounts reconciles with AAATA's financial statements. This confirmation also inquires about the existence of bank debt. No debt was reported in the FY2021 audited financials.

EXECUTIVE LIMITATIONS POLICY 2.5.11:

Adjust passenger fares.

EXECUTIVE LIMITATIONS POLICY 2.5.11.1:

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:

- A. A clear listing of all proposed fare categories/types and prices, along with supporting information.
- B. The fare discounts to be provided for low-income residents and other vulnerable populations and rationale for how residents qualify for fare discounts.
- C. The impact of the proposed adjustment on equity among different fare categories.
- D. The implication of the proposed fare adjustment on ridership.
- E. The implications of the proposed adjustment on the authority's budget and the financial trade-offs required (e.g. tax rate increase/decrease, increased/decreased services, impact on reserve or deficit, etc.).
- 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.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.5.11 & 2.5.11.1: Interpretation

I understand this policy to mean that the CEO and staff cannot adjust fare rates without prior approval from the Board.

Compliance will be demonstrated when any proposal to change fares is part of a formal budget document sent to the Board for consideration and addresses the elements A-F listed above.

Further, it is my interpretation that the CEO can temporarily suspend and resume fare collection in the event of a public emergency.

EXECUTIVE LIMITATIONS POLICY 2.5.11 & 2.5.11.1: Evidence

Although no fare changes occurred in FY2021, the Board did approve fare changes as required by this policy during FY2021 as part of the [FY2022 Budget](#).

All elements of Policy 2.5.11 & 2.5.11.1 were addressed as part of the FY2022 Budget presentation to the Board and can be reviewed in Appendix 8.4, pp. 49-52 of the [budget document](#). While the Board approved Fare Policy 2.5.12.1 as partially compliant ([September 23, 2021 Board Meeting Minutes](#), pp. 4-6), all elements of this policy were addressed and fare changes were approved by the Board in the adoption of the FY2022 budget.

The approved fare changes will be implemented in August 2022.

EXECUTIVE LIMITATIONS POLICY 2.5.11.2:

Let the traveling public, residents and businesses be without reasonable advance notice of approved changes to fares.

Degree of Compliance: N/A

EXECUTIVE LIMITATIONS POLICY 2.5.11.2: Interpretation

I interpret this policy to mean that the CEO and staff will inform the public of fare changes at least 30 days in advance of implementing new fares through various communication media, following established communications protocols, including postings in the bus terminals.

EXECUTIVE LIMITATIONS POLICY 2.5.11.2: Evidence

In FY2021 no fare changes were implemented, therefore, monitoring is not applicable. Fare changes approved in FY2021 will be implemented in FY2022 and the public will be notified in accordance with this policy interpretation.

Monitoring Policy 2.5 Financial Condition & Activities

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 on monitoring report

The Board has received and reviewed the CEO’s Monitoring Report references above. Following the Board’s review and discussion with the CEO, the Board makes the following conclusions:

Executive Limitations Report (select one)

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.

Board notes: (If applicable)

The Board found the CEO to be (B) in compliance, except for item 2.5.4.1 as noted in the March 17, 2022 AAATA Board Meeting.