



Operating & Capital Budget

As Adopted September 20, 2018

2019





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Ann Arbor Area Transportation Authority
Michigan**

For the Fiscal Year Beginning

October 1, 2017

Christopher P. Morrill

Executive Director

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

The award, presented to TheRide for its *FY2018 Operating and Capital Budget*, 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 communications device.

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Leadership Team & Organization

Board of Directors

Michael Allemang
 Eli Cooper, Treasurer
 Sue Gott
 Prashanth Gururaja
 Roger Hewitt
 Larry Krieg
 Eric Mahler, Chair
 Jesse Miller
 Kathleen Mozak-Betts
 Kyra Sims, Secretary

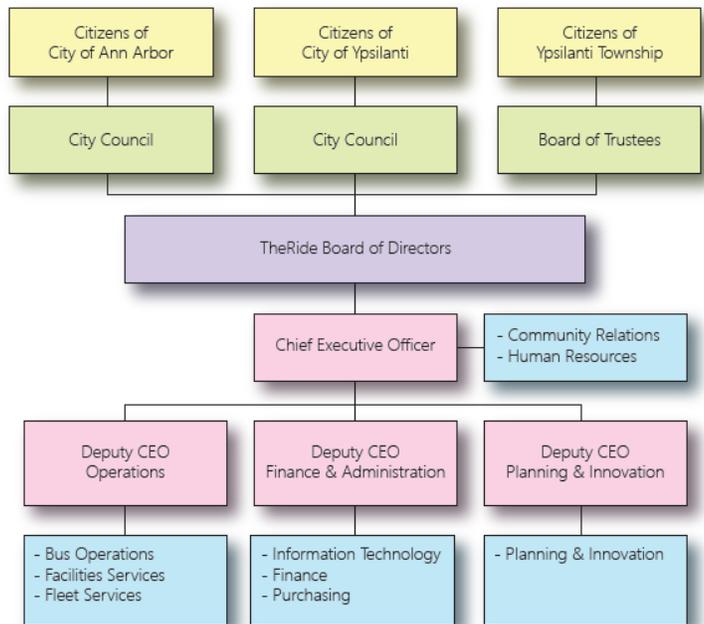
Senior Management Staff

Geri Barnstable, Executive Administrative Assistant
 Jan Black, Manager of Information Technology
 Terry Black, Manager of Fleet Services
 Ron Copeland, Manager of Transportation
 Sarah Pressprich Gryniewicz, Business Analyst
 Gwyn Newsome, Manager of Human Resources
 Mary Stasiak, Manager of Community Relations
 Gail Roose, Manager of Facilities Services
 Phil Webb, Controller / Manager of Finance
 Michelle Whitlow, Manager of Purchasing

Executive Team

Matt Carpenter, Chief Executive Officer
 John Metzinger, Deputy CEO/Finance & Administration
 Bryan Smith, Deputy CEO/Operations

Organization Chart



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CEO Letter



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September 21, 2018

2019 is TheRide's 50th year of serving the Ann Arbor area. This year we celebrate how far we have come and prepare for an exciting future.

On behalf of the Executive and Management teams at the Ann Arbor Area Transportation Authority (TheRide), we are pleased to submit this 2019 Budget as adopted September 20, 2018.

The 2019 budget has been prepared in accordance with the Michigan Uniform Budgeting and Accounting Act of 1968, Generally Accepted Accounting Principles (GAAP), and Board of Director's Policy Manual. 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.

Handwritten signature of Matt Carpenter in black ink.

Matt Carpenter
Chief Executive Officer

Handwritten signature of John Metzinger in black ink.

John Metzinger
Deputy CEO/
Finance & Administration

Executive Summary

As TheRide enters our 50th year, the Board of Directors has established a clear direction and results they expect the agency to achieve—such as providing access to destinations, and contributing to the area’s social, environmental, and economic vitality at a cost that demonstrates value and stewardship. TheRide’s future will be guided by these overall goals.

To achieve those goals, a new *Strategic Business Plan* has been developed that identifies a path towards success based on the priorities of Planning for Growth, Serving Customers and Modernizing TheRide. This FY 2019 Budget is the first step in implementing these plans and moving towards our goals. The proposed budget is presented here for the Board of Directors’ consideration of adoption.

The FY2019 budget presents a balanced financial plan which continues to fund the services our community has come to rely upon. TheRide’s services will continue, with no major service changes or fare increases in 2019, after passage of the renewal millage in August with strong support by voters. The budget is aligned with the overall direction established for the organization by the Board of Directors and the *Strategic Business Plan*.

Highlights of the proposed Fiscal Year 2019 Budget are:

- Funding for major projects including:
 - Development of the short-term and long-term service plans,
 - Pilot projects to test new mobility options and new services,
 - Award of a new 5-year contract for the purchase of buses in 2020 to 2025,
 - Maintaining our fleet and facilities in a state of good repair,
 - Upgrades to in-field communications systems,
 - Improvements to the web site and real-time passenger information systems, and
 - Increase by 50% funding for bus stop amenities.
- Overall operating expenses of \$45,857,698 and \$8,660,500 in capital expenditures.
- Avoids deficit spending and addresses long-term financial stability by presenting a 7-year operating plan and 10-year capital plan.
- Assures continued strong financial performance without debt or unfunded pension liabilities.
- Continues to control growth in operating expenses to replenish reserve funds.
- Increases the number of Motor Coach Operators, includes a Transportation Supervisor added in 2018, and maintains other staffing levels.
- Recognizes TheRide’s 50th Anniversary celebration.

Introduction

Budget Document Orientation

The remainder of the 2019 Budget document contains four sections: Introduction, The State of TheRide, Budget, and Appendices.

- The **Introduction** will orient the reader to the overall direction, strategic goals, and executive limitations established by TheRide’s Board of Directors, and the budgeting schedule and process.
- **The State of TheRide** establishes the financial context for the budget and discusses the strengths, challenges, and opportunities considered in drafting the budget.
- The **Budget** summarizes the operating and capital budgets for 2019.
- The **Appendices** include details on revenue and expenses in the operating budget, a list and descriptions of the projects included in the 2019 Work Plan and Capital Plan, an inventory of contracts anticipated in fiscal year 2019, and a primer on State and Federal grant funding.

This document puts an increased emphasis on the future with the use of multi-year forecasting. Although this document refers to years beyond 2019, it is important to note that those forecasted years are provided *for context only*, do not represent a commitment, and are likely to change. Each year, the Board of Directors adopts a budget for a single year. TheRide does not use “multi-year budgeting.”

Strategic Business Plan

The FY 2019 Budget is the implementation of the first year of a multi-year plan to achieve the goals set out by TheRide’s Board of Directors. That larger plan is contained in a separate document called the *Strategic Business Plan*. That Plan’s main purpose is to assure that the agency’s work aligns with the Board’s direction and expectations. It also helps increase transparency and accountability by setting out the logic and assumptions that drive decisions. It is a rolling five-year “plan of plans,” which establishes programs and initiatives to help the organization achieve the Board’s Ends. The *Strategic Business Plan* is available on our website [here](#). The plan identifies three broad priority goals for the near future and the FY 2019 Budget:

1. **Planning for Growth**
2. **Serving Customers**
3. **Modernizing TheRide**

The background and details of how TheRide establishes its overall strategic direction are provided in the *Strategic Business Plan*. Without going into detail here, it is worth noting that TheRide’s Board of Directors controls and directs the organization via written policies. These policies will occasionally be referenced in this document. Many of the Executive Limitations policies developed by the Board have a direct effect on shaping the annual budget. For example, the Board has set clear expectations for Financial Planning and Budgeting (Policy 2.4), Financial Conditions and Activities (Policy 2.5), Cash and Investments (Policy 2.6),

Treatment of Staff (Policy 2.2), Compensation and Benefits (Policy 2.3), and Asset Protection (Policy 2.8), to name a few. The full manual of these policies is available on our website (www.TheRide.org).

Budget Process and Timeline

The timeline for review and adoption of the 2019 Budget:



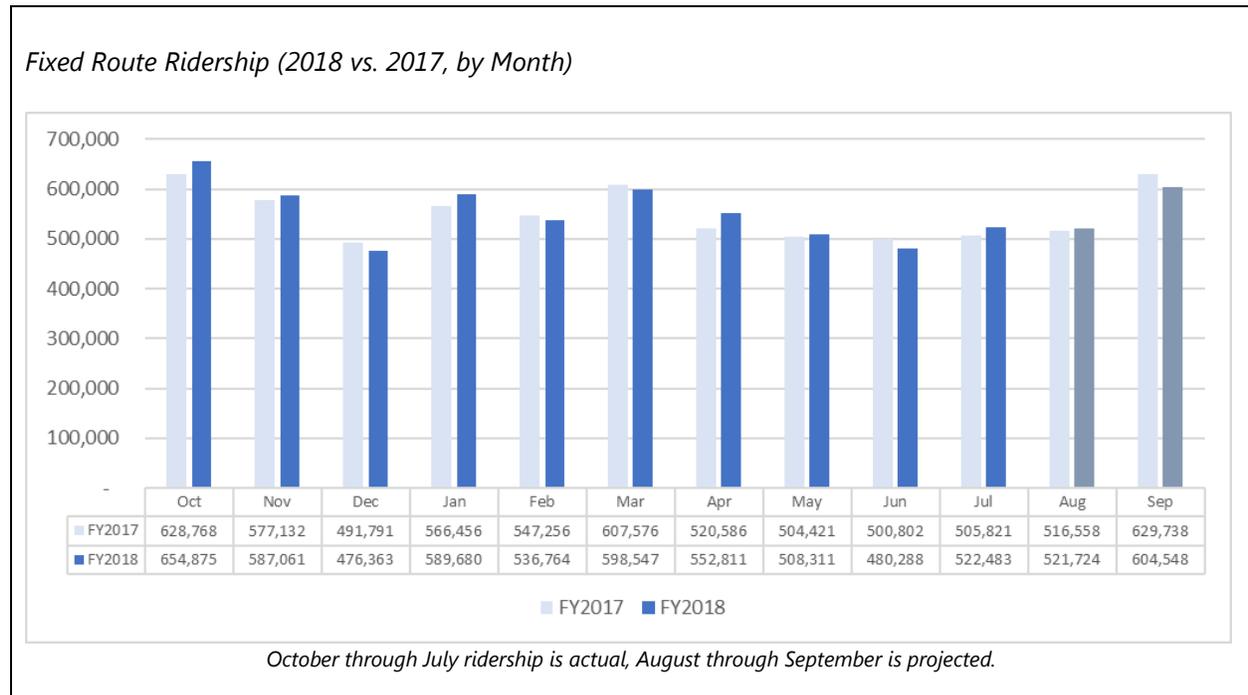
- **January:** The budget process began with a Board Retreat to consider the organization’s future direction. The retreat launched a Board Task Force to develop updates to the Ends Policies, which were adopted by the Board on June 21, 2018.
- **April/May:** The Finance Department and Executive Team gathered many inputs, including Board Policy, project requests and budget reviews with department managers, staffing requests, collective bargaining agreement, fleet replacement plan, facilities plans, and other capital plans.
- **June:** After the Board adopted its Ends Policies, the CEO released drafts of the *Strategic Business Plan* for internal review. The Executive Team deliberated over budget inputs, and the Finance Department began drafting a recommended budget that would maximize compliance with Board Policy and alignment with the *Strategic Business Plan*.
- **July:** The draft *2019 Operating and Capital Budget* and *Strategic Business Plan* were introduced to the Board of Directors, staff, and public for review and comment on July 16, 2018. Comments from the public were received online and at public meetings held in Ann Arbor and Ypsilanti.
- **August:** The proposed budget was formally introduced to the Board of Directors at the August meeting. A Public Hearing, as required by state law, was held at this meeting.
- **September:** The Board adopted the budget at the September board meeting. The Michigan Uniform Budgeting and Accounting Act of 1968 requires that the appropriate legislative body (the Board of Directors) adopt an annual budget prior to any expenditures being made in the fiscal year.
- **October:** Fiscal Year 2019 begins October 1, 2018.

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The State of TheRide

Record Ridership Since Expansion

Last year, after several years of expansion, fixed-route ridership surpassed TheRide’s previous historical high. FY2018 ridership growth has decelerated but is expected to slightly exceed 2017’s performance and set a new record high. As shown in the chart below, fixed-route ridership is projected at 6.63 million trips for FY2018, up 1% over FY017, and total system ridership is projected to top 7 million rides (see p. 15). This is indicative that performance after expansion has reached a point of maturation, establishing a new baseline upon which future expansion can build.



Financial Condition

TheRide is set to end FY2018 in strong financial condition, on budget, with the position of reserve funds strengthened compared to last year. Significant changes were adopted with the FY2018 budget, and those decisions are demonstrating positive results. Financial strengths include:

- Continuing to operate within the budget,
- Strengthening the status of reserve funds and making progress toward the reserve goal,
- No indebtedness or significant liabilities, and
- 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 once again with auditing of the 2017 financial statements. Preserving and building on these strengths will be important going forward into the next fiscal year.

Millage Renewal/Restoration

In August, voters overwhelmingly supported renewal and restoration of TheRide's supplemental millage, which funds new services implemented since 2014. The 0.7 mill property tax was approved with 83% of voters supporting the measure overall and was won by large margins in every voting precinct in Ann Arbor, Ypsilanti, and Ypsilanti Township.

Financial Opportunities

TheRide can make decisions with the budget for fiscal year 2019 that can ensure the continued delivery of high-quality services, demonstrate wise stewardship, and ensure ongoing financial stability. Development of the 2019 Budget was guided by the following principles:

- Preserve existing services, before expansion.
- Maximize value provided to riders/customers and taxpayers.
- Ensure funding for ongoing operations remains stable.
- Reinforce the budgeting policies as adopted by the Board of Directors to help ensure future financial stability.
- Ensure TheRide's assets are maintained in a state of good repair.
- Budget for the priorities and initiatives outlined in the *Strategic Business Plan*.

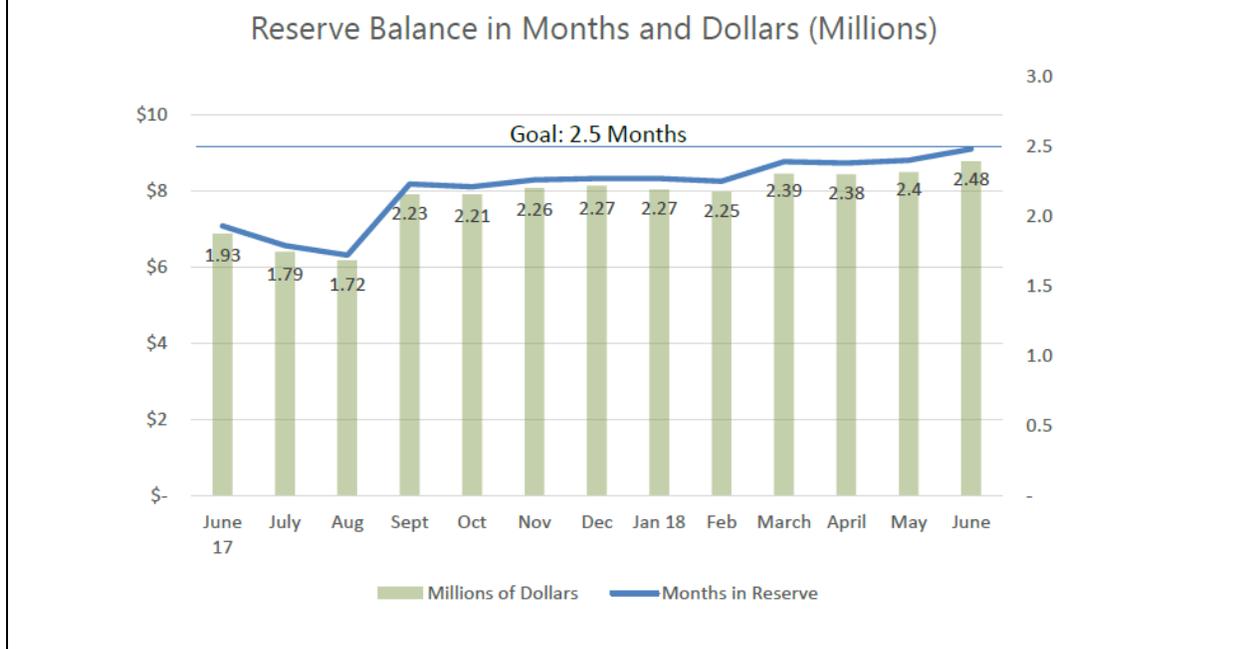
Replenishing the Reserve

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 might have to cut services in a financial emergency. In recent years, as explained in the 2018 budget, TheRide's reserve fell below the levels of established policy.

Steps taken this year to begin replenishing the reserve are beginning to show promising results. Gradually, the reserve is growing toward the target of 2.5 months of operating expense. (\$9.6 million in reserve is needed to fund 2.5 months of expense for a \$46 million annual budget.)

As shown in the chart below, TheRide is making progress toward the reserve goal but has not yet achieved it. We will consider this goal to be achieved when the reserve balance is at the target level for 12 consecutive months.

2018 Progress on the reserve balance compared to goal (in months' operating expense on hand)



Increase Revenues

Revenue growth will be essential to carry out the longer-term priorities and initiatives identified in the *Strategic Business Plan*. TheRide has several options available to increase revenues, including raising operating revenue (fares and fees), increasing property tax revenue, growth in grant formula funds, and pursuit of discretionary grant opportunities. The most impactful options to increase revenue are:

- Revenue from Operations:** TheRide's fares have not increased since 2010. While no fare increase is budgeted for 2019, a formal fare study will be completed in late 2018 and will recommend changes to fare structure and pricing. Next year, Finance and Planning staff will implement new modeling techniques for analysis on the effect of fare changes upon revenue and ridership. It is likely that new fare options will be ready to present to the public in late 2019.
- Property Taxes:** Property tax and millage funding is projected to grow due to growth in assessed property valuation (not a rate increase). No changes to property tax rates are currently planned but could be recommended for the future if long-term planning indicates there is a need.
- State and Federal Grants:** TheRide uses federal and state grants for both operating and capital costs (see Appendix 4 for a primer on federal and state grants). Formula funds are expected to grow at inflationary rates. TheRide will compete with other transit agencies for discretionary grants such as federal Bus and Bus Facilities Grants, federal BUILD Grants (formerly TIGER), Michigan's Mobility Challenge Grants, and other opportunities.

Achieve and Maintain State of Good Repair

Taking care of the facilities, vehicles, equipment, and other assets owned by TheRide is a significant focus in the FY2019 budget in alignment with new federal regulation which emphasizes the good condition of federally-funded assets. The Transit Asset Management (TAM) Plan to be developed in September will guide TheRide to ensure that assets are in good condition to support the services that we provide. While TheRide's fleet and equipment are in a reasonable state of repair overall, our facilities need attention. Additional resources have been included in capital budgeting to address needs at the Dawn Gabay Operations Center at 2700 South Industrial Highway, Ann Arbor, including roof and HVAC replacement and other needs. Additionally, planning continues for future improvements to the Ypsilanti Transit Center, and TheRide is working with the City of Ann Arbor on potential options to improve the Blake Transit Center.

SWOT Analysis

At the outset of the budgeting process for FY2019, the Board of Directors and the Executive Team performed an analysis of the agency's Strengths, Weaknesses, Opportunities, and Threats (SWOT Analysis). The SWOT analysis was the basis for development of revised ends along with the strategies and tactics identified in the business plan.

- Results of the SWOT analysis are included in the *Strategic Business Plan*.

Strengths of TheRide include strong community support, assets and resources in reasonable condition, and an engaged Board and staff. The organization is future-oriented and willing to innovate. After a period of rapid expansion, the organization is modernizing its internal processes, clarifying its future direction, and striving for improvement.

Opportunities abound for TheRide, including rapid technological advancements in the industry, demographic, economic, and societal trends that align with our objectives, and a growing population.

While TheRide has considerable strengths and opportunities, there are also weaknesses and challenges to be acknowledged. Weaknesses include a limited ability to raise new funds for expansion, a need to improve focus upon long-term goals, and a need for greater receptivity to new ideas and new ways of doing things. Challenges include growing demands, traffic congestion, on-time performance of some fixed route services, and facility constraints which limit the ability for expansion.

Additional detail on the State of TheRide is contained in the *Strategic Business Plan*.

2019 Budget

Budget Overview

The following sections outline the operating and capital budgets for fiscal year 2019. The initiatives outlined in this budget are intended to help advance the priorities identified in the *Strategic Business Plan* (i.e. Planning for Growth, Serving Customers, and Modernizing TheRide). This budget also provides multi-year forecasts and context for today's decisions.

Highlights of the FY2019 Budget include:

- Balanced operating and capital budgets, with no shortfalls.
- Services to customers/riders are preserved
- Fares and property tax rates remain unchanged.
- Continued replenishment of the operating reserve.
- Start to reduce a backlog of capital maintenance at TheRide's garage.

In addition, the budget continues to advance many of the operating and capital initiatives that have been started in recent years. Examples of significant 2019 initiatives include:

- Implementation of high-frequency service on Route 4 on Sundays, beginning January.
- Initiation of a new long-range service planning effort.
- Implementation of a new bus replacement plan and 5-year bus purchase contract.
- Continuation of work on the Ypsilanti Transit Center, fare policy, and paratransit improvements.

Budget Inputs and Outcomes

The 2019 Budget includes a consistent level of service for fixed-routes since the implementation of the Five-Year Transit Improvement Plan (5YTIP), and an expansion of Sunday service on Route 4. Due to the increased demand for the service, the budget for A-Ride is increased. A consistent level is budgeted for Air Ride, MyRide, VanRide and non-urban demand response services, with no significant service cuts planned. Ridership is presently growing and is forecasted to continue to grow 1.1%. The following assumptions are made for revenue service hours and expected ridership, compared to 2018 projections:

Projected Service Hours for 2019 vs. 2018

Service Hours:	Projected 2018	Proposed 2019	% Change
Local Fixed Route	279,200	279,700	0.2%
ExpressRide	2,100	2,100	0.0%
AirRide	9,000	9,000	0.0%
Urban Demand Response	126,100	128,200	1.7%
Total	416,400	419,000	0.6%

Projected Ridership for 2019 vs. 2018

Passenger Trips:	Projected 2018	Proposed 2019	% Change
Local Fixed Route	6,636,500	6,702,900	1.0%
ExpressRide	26,800	27,300	1.9%
AirRide	93,700	98,400	5.0%
Urban Demand Response	176,400	179,400	1.7%
Total	6,933,400	7,008,000	1.1%

Note: Urban Demand Response includes A-Ride, GoldRide, GroceryRide, HolidayRide, NightRide, FlexRide and MyRide.

Operating Budget

The following tables and charts illustrate the elements of the 2019 Operating Budget, as well as how the proposed 2019 budget compares with the 2018 approved budget.

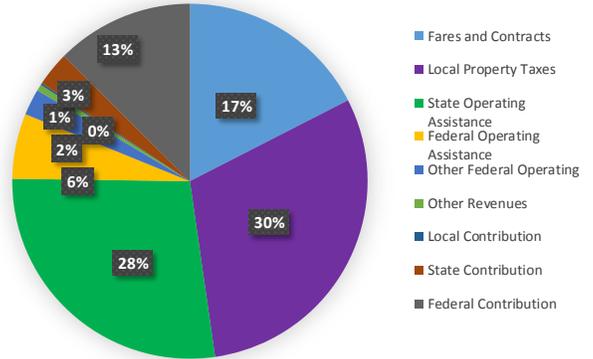
- Revenue is budgeted at \$45,951,245, up 3.9% over 2018 budgeted.
- Operating expense is budgeted at \$45,857,698, up 5.4% over 2018.
- 2019 budgeted revenue is higher than budgeted expense.
- There is a budgeted surplus of \$93,547, which will be directed to the operating reserve.
- Local property tax revenues will grow due to growth in assessed valuation of property. State operating assistance will grow in proportion to operating expenses. Other federal conditional assistance is reduced due to the completion of several federally-funded planning projects.
- Wages and salaries are increasing by 2.2 to 3.9% depending on job classification. Growth in fringe benefit costs has been held flat, resulting in total personnel costs going up 2.5%.
 - The total number of full time equivalent (FTE) employees will grow as additional Motor Coach Operators are needed to cover shifts currently operated with overtime and a new field supervisor position added in 2018 is formalized.
 - Some vacant positions in fleet maintenance have been eliminated from the budget.
 - No change to administrative FTE levels.
- The largest budgeted increase is for biodiesel fuel, which is budgeted at \$2.20 per gallon. \$1.80 was the budgeted rate for 2018, and the cost proved to be higher than expected.
- Contracted services are reduced by 7.4% from 2018, as several consultant-lead planning projects will be completed.

2019 Operating Budget

Revenues

Budgeted Revenues	FY2018	FY2019	% Change
Operating Revenue			
Fares and Contracts	\$ 9,150,470	\$ 9,539,115	4.2%
Local Property Taxes	15,566,300	16,528,289	6.2%
State Operating Assistance	14,354,497	15,009,608	4.6%
Federal Operating Assistance	3,250,000	3,250,000	0.0%
Other Federal Operating	1,597,302	1,304,983	-18.3%
Other Revenues	318,000	319,250	0.4%
Total Operating Revenues	\$ 44,236,569	\$ 45,951,245	3.9%
Capital Revenues			
Local Contribution	\$ -	\$ 97,500	0.0%
State Contribution	1,113,100	1,712,600	53.9%
Federal Contribution	3,992,400	6,850,400	71.6%
Total Capital Revenues	\$ 5,105,500	\$ 8,660,500	69.6%
TOTAL REVENUES	\$ 49,342,069	\$ 54,611,745	10.7%

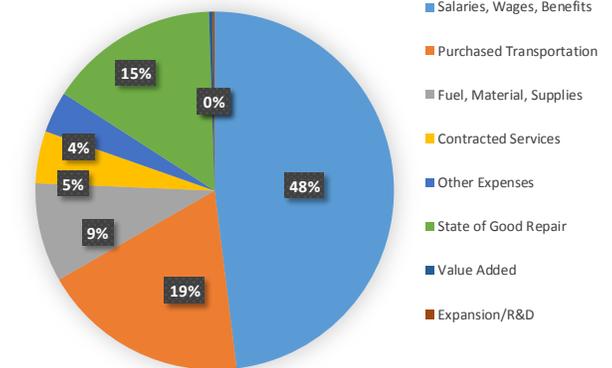
2019 Revenues:



Expenses

Budgeted Expenses	FY2018	FY2019	% Change
Operating Expenses			
Salaries, Wages, Benefits	\$ 25,548,073	\$ 26,193,918	2.5%
Purchased Transportation	8,981,777	10,189,900	13.5%
Fuel, Material, Supplies	4,207,072	4,867,800	15.7%
Contracted Services	2,773,344	2,567,909	-7.4%
Other Expenses	1,997,540	2,038,171	2.0%
Total Operating Expenses	\$ 43,507,806	\$ 45,857,698	5.4%
Capital Expenses			
State of Good Repair	\$ 3,122,500	\$ 8,381,000	168.4%
Value Added	103,000	182,000	76.7%
Expansion/R&D	\$ 980,000	\$ 97,500	-90.1%
Subtotal Capital Expenses	\$ 4,205,500	\$ 8,660,500	105.9%
Federal Planning Expenses	900,000	-	-100.0%
Reserve Fund Retainage	\$ 778,763	\$ 93,547	-88.0%
TOTAL EXPENSES	\$ 49,392,069	\$ 54,611,745	10.6%

2019 Expenses:



2019 Operating Budget (Prior Year Comparisons)

	FY2017 Audited	FY2018 Adopted	FY2018 Projected	FY2019 Proposed	% Change 2019 vs. 2018 Budgeted
OPERATING REVENUE					
Passenger Revenue	\$ 6,939,087	\$ 6,848,660	\$ 7,013,544	\$ 7,146,591	4.4%
Local Property Tax Revenue	15,514,970	15,566,300	16,046,883	16,528,289	6.2%
POSA & other Governmental Partners	2,320,516	2,301,810	2,045,257	2,392,524	3.9%
State Operating Assistance	13,795,594	14,354,497	14,358,696	15,009,608	4.6%
Federal Operating Assistance	1,780,000	3,250,000	2,400,000	3,250,000	0.0%
Other Federal Conditional Assistance	2,227,624	1,597,302	2,397,746	1,304,983	-18.3%
Advertising, Interest, and Other	133,273	318,000	354,822	319,250	0.4%
TOTAL REVENUES	42,711,064	44,236,569	44,616,948	45,951,245	3.9%
OPERATING EXPENSES					
PERSONNEL					
Operations Salaries & Wages	11,775,337	11,948,811	11,849,211	12,536,190	4.9%
Maintenance Salaries & Wages	2,936,253	3,339,840	3,067,040	3,197,590	-4.3%
General Admin Salaries & Wages	3,092,328	3,149,323	3,065,539	3,287,807	4.4%
Subtotal - Personnel	17,803,918	18,437,974	17,981,790	19,021,587	3.2%
Fringe Benefits	6,351,327	7,110,099	6,621,950	7,172,331	0.9%
Total Salaries & Wages	24,155,245	25,548,073	24,603,740	26,193,918	2.5%
OTHER EXPENSES					
Purchased Transportation	8,038,434	8,981,777	9,647,968	10,189,900	13.5%
Diesel Fuel and Gasoline	1,318,898	1,515,600	1,724,179	1,950,500	28.7%
Materials and Supplies	2,026,269	2,691,472	2,601,717	2,917,300	8.4%
Contracted Services	2,489,763	2,773,344	2,555,593	2,567,909	-7.4%
Utilities	487,126	510,948	529,066	515,988	1.0%
Casualty & Liability Insurance	759,881	919,300	866,577	898,800	-2.2%
Other Expenses	697,689	567,292	683,138	623,383	9.9%
Depreciation (2017)	780,356	-	-	-	
Subtotal - Other Expenses	16,598,416	17,959,733	18,608,238	19,663,780	9.5%
TOTAL EXPENSES	40,753,661	43,507,806	43,211,978	45,857,698	5.4%
Reserve Retainage	\$ 1,957,402	\$ 728,763	\$ 1,404,970	\$ 93,547	-87.2%

Notes

- FY2018 budget amounts were amended to include \$200,000 in additional revenue and expense along with a \$50,000 in-kind contribution of staff time for administration of the Bikeshare program. Work is underway to award a new contract for BikeShare operation in late 2018.
- There is a projected surplus of revenue over expense of \$1.4 million in FY2018.

Basis of Budgeting: The 2019 Operating Budget is prepared on the full accrual basis of accounting, which is the same as our audited financial statements. The only two differences between the audited financial statements and the operating budget are capital contribution revenue and depreciation expense are not included in the operating budget, since these items do not affect operating reserves and affect only the capital budget.

2019 Operations Work Plan

The FY 2019 Budget preserves all current services while advancing several initiatives first identified in the *Strategic Business Plan*. Key operational initiatives for 2019 include:

Planning for Growth

- **Long-Range Plan** – There is a need for a new long-term vision for public transit in the Ann Arbor/Ypsilanti area.
- **Follow-ups: Paratransit Study, Fare Study, Washtenaw Ave Transit Priority Study** – Next steps and/or implementation of results from 2018 studies which are anticipated to conclude in early FY 2019.
- **New Mobility Pilot** – This initiative is a placeholder and includes some modest operating and capital funding that is set aside to help fund a pilot project utilizing new technologies. No project has yet been identified and staff will be working to develop such a project in 2019. Timing is uncertain.
- **Terminal Planning** – Follow up steps from an ongoing 2018 study of the Ypsilanti Transit Center, and possibly other projects.
- **Advocacy Strategy (Land Development)** – Begin to develop an approach to advocating for development of land in ways that complements transit.

Serving Customers

- **Short-Range Improvements** – Implementation of tweaks to existing fixed-route services to address quality-of-service concerns, including implementing improved frequency of Sunday service on Route 4.
- **Service Pledge** – Create and distribute a promise to riders and customers about the quality of service they can expect to receive from us.
- **Customer Management Software** – Purchase and implement a new customer relations software package to enable better tracking of, and responsiveness to, customer concerns.
- **Website Improvements** – A variety of back-office improvements and enhancements to the underlying technology for the website.
- **Expand Real-Time Information** – Invest in new tools to enable Google Transit and other real-time features for mobile devices.

Modernizing TheRide

- **Budget Software** – Select and implement a new corporate budgeting software package.
- **IT Strategy** – This internal study will help administrative staff better understand what technology options to pursue and what resources will be required.
- **50th Anniversary Celebration** – TheRide was born in 1969, and 2019 will be our 50th Anniversary. A variety of promotions and celebrations are planned.

Detailed descriptions for each initiative can be found in Appendix 2. A rolling multi-year work plan is provided in the *Strategic Business Plan* and provides additional context for 2019 initiatives.

Long-Term Financial Context: 2019-2025

The Board's policies require the annual budget to be contextualized within a multi-year forecast of costs and revenues (Policy 2.4). The following table illustrates forecasts of future operating budgets, assuming the adoption of the 2019 Budget. Key observations include:

- There are no deficits foreseen through the next millage cycle (2019-2024).
- Annual inflationary increases are anticipated at the average rate of 2.5%.
- No fare increase is required in this plan; however, a fare increase could be implemented after further analysis.

- Other than improving Sunday service frequencies on route 4, no significant service changes are considered. This may change when the Long-Term Service Plan is completed.

These forecasts help contextualize the 2019 Budget. It should be understood, however, that these projections are for context only, they will likely change, and are not approved as part of the 2019 Budget by the Board of Directors.

Risks and Uncertainties

While it is important to make reasonable allowances for risks and uncertainties, significant consideration has been given to limiting the amount of contingency funding in the proposed 2019 budget. There is a contingent margin of just over \$1.3 million in FY2019 budgeted expenses compared to FY2018 projected costs, accounting for inflation. At 2.8% of the total proposed budget, this is a reasonable margin of error.

TheRide faces many uncertainties, especially in federal funding. While the future of some federal programs is uncertain right now, the routine formula funding for transit which our budget relies upon is generally seen as reliable. Most congressional districts receive this funding and there is strong political support for these programs. There has been no mention from Congress or the White House of changing these formula grants. However, in the event of a prolonged federal government shutdown or other disruption, overall cash flow for operations and capital funding would be disrupted.

Other uncertainties which can affect the budget include service disruptions and detours, property and casualty losses, legal claims, and others. TheRide's CEO, Executive Team, and Risk Management Team work continually to mitigate risks where possible as the Board directs in Policies 2.5, 2.6, and 2.8.

Operating Budget (7 Year Forecast)

Budget FY 2019	PROJECTED BUDGETS						SEVEN YEAR TOTAL	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025		
OPERATING REVENUES:								
Passenger Revenue	\$7,146,591	\$7,325,256	\$7,508,387	\$7,696,097	\$7,888,499	\$8,085,712	\$8,287,855	\$53,938,396
Local Property Tax Revenue (applied)	16,528,289	16,941,496	17,365,034	17,799,159	18,244,138	18,700,242	19,167,748	\$124,746,107
POSA & Other Governmental Partners	2,392,524	2,452,337	2,513,646	2,576,487	2,640,899	2,706,921	2,774,594	\$18,057,408
State Operating Assistance	15,009,608	15,384,848	15,769,469	16,163,706	16,567,799	16,981,994	17,406,544	\$113,283,968
Federal Formula Operating Assistance	3,250,000	3,331,250	3,414,531	3,499,895	3,587,392	3,677,077	3,769,004	\$24,529,148
Other Federal Conditional Assistance	1,304,983	1,337,608	1,371,048	1,405,324	1,440,457	1,476,468	1,513,380	\$9,849,268
Advertising, Interest and Other	319,250	327,231	335,412	343,797	352,392	361,202	370,232	\$2,409,517
TOTAL REVENUES	45,951,245	47,100,026	48,277,527	49,484,465	50,721,577	51,989,616	53,289,356	\$346,813,812
OPERATING EXPENSES:								
PERSONNEL:								
Operations Salaries & Wages	12,536,190	12,849,595	13,170,835	13,500,105	13,837,608	14,183,548	14,538,137	\$94,616,018
Maintenance Salaries & Wages	3,197,590	3,277,530	3,359,468	3,443,455	3,529,541	3,617,780	3,708,224	\$24,133,587
General Admin Salaries & Wages	3,287,807	3,370,002	3,454,252	3,540,609	3,629,124	3,719,852	3,812,848	\$24,814,494
Total Salaries and Wages	19,021,587	19,497,127	19,984,555	20,484,169	20,996,273	21,521,180	22,059,209	\$143,564,099
Fringe Benefits	7,172,331	7,351,639	7,535,430	7,723,816	7,916,911	8,114,834	8,317,705	\$54,132,667
Subtotal - Personnel	26,193,918	26,848,766	27,519,985	28,207,985	28,913,184	29,636,014	30,376,914	\$197,696,766
OTHER EXPENSES:								
Purchased Services	10,189,900	10,444,648	10,705,764	10,973,408	11,247,743	11,528,937	11,817,160	\$76,907,558
Diesel Fuel and Gasoline	1,950,500	1,999,263	2,049,244	2,100,475	2,152,987	2,206,812	2,261,982	\$14,721,263
Materials and Supplies	2,917,300	2,990,233	3,064,988	3,141,613	3,220,153	3,300,657	3,383,174	\$22,018,118
Utilities	515,988	528,888	542,110	555,663	569,554	583,793	598,388	\$3,894,383
Casualty & Liability Insurance	898,800	921,270	944,302	967,909	992,107	1,016,910	1,042,332	\$6,783,630
Contracted Services	2,567,909	2,632,107	2,697,909	2,765,357	2,834,491	2,905,353	2,977,987	\$19,381,114
Other Expenses	623,383	638,968	654,942	671,315	688,098	705,301	722,933	\$4,704,940
Total Other Expenses	19,663,780	20,155,375	20,659,259	21,175,740	21,705,134	22,247,762	22,803,956	148,411,006
TOTAL EXPENSES	45,857,698	47,004,140	48,179,244	49,383,725	50,618,318	51,883,776	53,180,871	\$346,107,772
CONTINGENCY/RESERVES (DEFICIT)	93,547	95,886	98,283	100,740	103,258	105,840	108,486	\$706,039

2019 Capital Budget

The table below includes capital expenditures for FY2019; details for each project can be found in the Appendices. While all capital initiatives advance one of the *Strategic Business Plan's* three priorities, here their purpose is further categorized as State of Good Repair, Value Added, Expansion, or Research and Development.

Category	Project Description	FY 2019 Expenditure
State of Good Repair (Maintaining Existing Services and Assets)	Large Bus Replacement (8 Buses)	\$4,053,000
	Facilities Rehabilitation	\$2,000,000
	Bus Components, Tools and Equipment	\$1,050,000
	IT – Hardware and Software	\$668,000
	Small/Medium Bus Replacement	\$180,000
	Architecture and Engineering	\$180,000
	Furniture Replacement	\$150,000
	Non-Revenue Vehicle Replacement	\$100,000
	Sub-total	\$8,381,000
Value Added (Make Things Work Better)	Rider Amenities and Accessibility	\$150,000
	IT - Hardware and Software	\$32,000
	Sub-total	\$182,000
Expansion	New Mobility Pilot	\$47,500
	Sub-total	\$47,500
Research and Development	R&D Projects	\$50,000
	Sub-total	\$50,000
Capital Costs Total		\$8,660,500

Capital expenditures are defined as assets purchased with an initial cost of more than \$1,000 and an estimated useful life greater than one year. Capital 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.

There are two important capital initiatives beginning this year that will have important implications for the longer-term capital outlook. Both are important in maintaining a state of good repair, serving customers, and maintaining long-term financial sustainability.

- **Large Bus Replacement:** A new fleet plan for bus replacements begins a new approach of replacing eight buses each year. In addition, in 2019 a new 5-year contract for replacement buses will be competitively bid. These steps will help level a previously volatile cash flow for bus replacements.
- **Facility Rehabilitation:** Investments to rehabilitate TheRide's main garage (Dawn Gabay Operations Center) will begin in 2019. The Operations Center is in urgent need of rehabilitation to address backlog of deferred maintenance, and to ensure a state of good repair in compliance with federal regulation. The planned repairs will help to ensure the building is able to continue to support operations and administration activities. Investments will be made over three years, in 2019, 2020 and 2021, before capital funding for facilities will be returned to usual levels for ongoing preventative maintenance activities.

Higher capital costs over the next three years will be partially funded by consolidating residual Federal carryover funds from earlier years. Additionally, TheRide will pursue discretionary grant opportunities to assist these projects.

10-Year Capital Plan

As with the operating forecasts, the 10-year Capital Plan represents an expectation of future costs and will likely change. It is provided for context only and is not a part of the 2019 Budget approved by the Board of Directors. Planned over the next several years are necessary and long-needed facility rehabilitations for the Dawn Gabay Operations Center, including replacing the roof and HVAC systems, interior rehabilitation, and renovation of the Control Center. TheRide will pursue discretionary grant funds, if available, to assist these projects. Expenditures for facility rehabilitations in FY2020 and 2021 are illustrative; architecture and engineering designs and cost estimations will be completed in FY2019.

Category	Project Description	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	TOTAL	
State of Good Repair	Large Bus Replacement	\$4,053,000	\$4,175,000	\$4,300,000	\$4,429,000	\$4,562,000	\$4,699,000	\$4,840,000	\$4,985,000	\$5,135,000	\$5,289,000	\$46,467,000	
	Small/Medium Bus Replacement	\$180,000	\$185,000	\$191,000	\$197,000	\$203,000	\$209,000	\$215,000	\$221,000	\$228,000	\$235,000	\$2,064,000	
	Non-Revenue Vehicles	\$100,000	\$100,000	\$103,000	\$106,000	\$109,000	\$112,000	\$115,000	\$118,000	\$122,000	\$126,000	\$1,111,000	
	Bus Components, Tools and Equipment	\$1,050,000	\$720,000	\$447,000	\$320,000	\$330,000	\$340,000	\$350,000	\$361,000	\$372,000	\$383,000	\$4,673,000	
	Facilities Rehabilitation	\$2,000,000	\$3,800,000	\$2,100,000	\$369,000	\$380,000	\$391,000	\$403,000	\$415,000	\$427,000	\$440,000	\$10,725,000	
	Architecture & Engineering	\$180,000	\$380,000	\$210,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$770,000
	Furniture Replacement	\$150,000	\$75,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$225,000
	IT Hardware and Software	\$668,000	\$164,000	\$169,000	\$174,000	\$179,000	\$184,000	\$190,000	\$196,000	\$202,000	\$208,000	\$208,000	\$2,334,000
	Sub-total	\$8,381,000	\$9,599,000	\$7,520,000	\$5,595,000	\$5,763,000	\$5,935,000	\$6,113,000	\$6,296,000	\$6,486,000	\$6,681,000	\$6,681,000	\$68,369,000
Value Added	Rider Amenities and Accessibility	\$150,000	\$155,000	\$160,000	\$165,000	\$170,000	\$175,000	\$180,000	\$185,000	\$191,000	\$197,000	\$1,728,000	
	IT Hardware and Software	\$32,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$32,000	
	Sub-total	\$182,000	\$155,000	\$160,000	\$165,000	\$170,000	\$175,000	\$180,000	\$185,000	\$191,000	\$197,000	\$1,760,000	
Expansion	New Mobility Pilot	\$47,500	\$49,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$96,500	
	Sub-total	\$47,500	\$49,000	\$0	\$96,500								
Research and Development	Emergent R&D Projects	\$50,000	\$52,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$102,000	
	Sub-total	\$50,000	\$52,000	\$0	\$102,000								
Capital Costs Total		\$8,660,500	\$9,855,000	\$7,680,000	\$5,760,000	\$5,933,000	\$6,110,000	\$6,293,000	\$6,481,000	\$6,677,000	\$6,878,000	\$70,327,500	

Sources of Capital Funds:	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	TOTAL
Local Share	\$97,500	\$101,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$198,500
State Share	\$1,712,600	\$1,950,800	\$1,536,000	\$1,152,000	\$1,186,600	\$1,222,000	\$1,258,600	\$1,296,200	\$1,335,400	\$1,375,600	\$14,025,800
Federal Formula	\$5,558,136	\$6,118,629	\$3,696,747	\$3,195,908	\$3,291,945	\$3,389,911	\$3,491,368	\$3,595,477	\$3,704,597	\$3,816,287	\$39,859,005
Federal Discretionary (CMAQ, etc.)	\$1,292,264	\$1,684,571	\$2,447,253	\$1,412,092	\$1,454,455	\$1,498,089	\$1,543,032	\$1,589,323	\$1,637,003	\$1,686,113	\$16,244,195
Total:	\$8,660,500	\$9,855,000	\$7,680,000	\$5,760,000	\$5,933,000	\$6,110,000	\$6,293,000	\$6,481,000	\$6,677,000	\$6,878,000	\$70,327,500

In Closing

While TheRide prepares to celebrate its 50th anniversary, there is reason for great optimism about the future of public transportation in Ann Arbor, Ypsilanti, Ypsilanti Township, and surrounding areas.

The 2019 Budget includes recommendations for preserving expanded levels of service, ensuring state of good repair of assets, planning, delivering high-quality customer service, and modernizing our organization, consistent with the Board's *Ends Policies* and the *Strategic Business Plan*.

The CEO and staff look forward to receiving comments from the Board and public as we move toward adopting a balanced budget for FY2019, which will ensure that we can keep promises made in the past and move us toward a promising future.

APPENDICES

1. 2019 Operating Budget Detail

Revenues

Fares and Contracts

Fare and contract revenues are increasing due to projected ridership increases in AirRide (\$105,000), University of Michigan MRide (\$82,800), Fixed Route (\$66,200) and A-Ride (\$34,600), along with new contracts for sharing the costs of BikeShare (\$200,000).

Local Tax Revenue

The projected City of Ann Arbor July 2019 property tax levy includes both the original millage of 2.0 and the renewal millage of 0.7 mills. The property tax revenue is increasing due to the 5.3% increase in taxable value in the City.

The projected City of Ypsilanti July 2019 property tax levy includes both the original 0.973 transit millage and the new 0.7 millage. The property tax revenue is increasing due to the 3.8% increase in taxable value in the City.

The Charter Township of Ypsilanti July 2019 property tax levy is 0.7 mills on an additional 7.9% in taxable value in the Township.

State Operating Assistance

The State Urban Operating Assistance is lower at 32.35% (2018 was 33.05%), but it is calculated using higher budgeted urban eligible expenses.

Federal Operating Assistance

TheRide uses a portion of urban area formula funds as operating assistance to pay for motor coach operator wages. The amount for FY2019 will remain \$3.25 million. Other federal conditional assistance will decrease after federal planning grants are fully expended. In FY 2019, planning work will be locally funded, reducing the time and cost of planning grant administration. The result is budget neutral.

Expenses

Salaries, Wages and Benefits

Non-union wages are increasing 3.0%, based upon the *2018 Supervisory, Managerial, and Professional Compensation Survey* published by the American Society of Employers (ASE). Union wages are increasing at rates defined in the collective bargain agreement (2.2 to 3.9% based upon job classification). Fringe benefits are budgeted to increase at inflationary rates.

Purchased Transportation

The amount for A-Ride and GoldRide are based on the contract effective May 1, 2017 with increasing ridership demand anticipated. Purchased Transportation includes \$1.2 million for AirRide service between

Ann Arbor and the Detroit Metro Airport, which is funded from State operating assistance and passenger fares. New for FY2019 are BikeShare contracting expenses of \$250,000 (\$50,000 of which is in-kind).

Diesel Fuel and Gasoline

We are expecting ultra-low sulfur biodiesel fuel (#2 B10%) prices to increase to \$2.20 per gallon, based on current trends. We plan to use 846,500 gallons of biodiesel fuel in our buses and 15,000 gallons of gasoline in our service trucks, supervisor vehicles and shuttle vehicles during the new fiscal year.

Contracted Services

Contracted maintenance includes snow removal, electricians, services on vehicle hoists, HVAC systems maintenance, and consulting. The budgeted amount for consultant fees is decreasing since work on the Ypsilanti Transit Center, Paratransit Review, Fare Study, and Washtenaw Avenue Transit will be complete in FY 2018.

Other Expenses

Other expenses include vehicle and other insurance coverage, utilities, employee development and training, media expenses, uniforms and postage. Costs are anticipated to be consistent with FY2018 levels.

Explanations for Variances in 2018 Projections:

The table on Page 17 includes projections for 2018 revenue and expenses. This section explains some of the variances between budgeted and projected amounts.

Revenue: Federal operating assistance was over budgeted in 2018 at \$3.25 million (only \$2.4 million in federal operating assistance was programmed in grants). Other federal conditional assistance is higher due to capital costs of contracting for the vanpool program after contracting with Enterprise, and grant reimbursements for planning projects.

Expense: Projected costs for salaries, wages, and fringe benefits are down due to vacancies and employee turnover (due to turnover, some budgeted costs were not expended because new unionized employees are not eligible for benefits for 90 days) and lower-than-expected health premiums and worker's compensation claims.

2. Work Plan & Capital Descriptions

This section provides detailed descriptions of operating and capital initiatives that will help to advance the priorities of the *Strategic Business Plan* and achieve the Board's Ends policies.

Notable 2019 Events

- Adjustments to improve efficiency and performance of fixed-route services; to be implemented in 2019 because of short-term service review currently underway. This includes improved service frequencies on Sundays for Route 4.
- Award of a new 5-year contract for the purchase of up to 40 large fixed-route buses for purchase in years 2020 to 2025; anticipated to be valued near \$21 million; procurements will use state and federal grants.
- Receive report from the Federal Transit Administration (FTA) Triennial Review to be conducted in September 2018; implement improvements to ensure ongoing regulatory compliance.

Operating/Work Plan Initiatives

Planning for the Future

Long-Range Plan

With recent major transit studies completed, there is a need for a new long-term vision for public transit in the Ann Arbor/Ypsilanti area. Beginning in early 2019, TheRide will begin planning with our communities, riders and stakeholders to create that guiding vision. The efforts will take 1-2 years. (Policies 1.0, 2.1, 2.4, 2.10, 2.11).

- Budgeted Funds: Staff time in Planning and Innovation.

Fare Strategy

The Fare Study (to be completed by the end of FY2018) is developing options and recommendations for fare levels, collection technology, administration, and media, and will deliver a model that Planning and Finance staff can use to predict outcomes of fare changes upon revenue and ridership. As fixed-route fares were last adjusted in 2010, staff will evaluate changes to TheRide's fare structure and recommend changes for public and Board consideration. No changes to fares are budgeted for 2019. Staff have planned for a high level of involvement and transparency in the review and in planning for the implementation of any recommended changes. (Policies 1.0, 2.1, 2.4, 2.10, 2.11).

- Budgeted Funds: Staff time in Finance, Planning and Innovation.

Paratransit Review

A comprehensive study of A-Ride service will be completed by the end of 2018 and will make recommendations for scheduling, service operation, fares, eligibility certification process, as well as provide an assessment of use by seniors and the integration of paratransit with accessible fixed-route service. Further review of the study's results and impact on service will be conducted in 2019, with possible implementation of some of the study's recommendations. Goals will be to continue and improve the level and quality of transportation services for people with disabilities and seniors at a sustainable cost. Staff have planned for a high level of involvement and transparency in the review and in planning for the implementation of any recommended changes. (Policies 1.0, 2.1, 2.4, 2.10, 2.11).

- Budgeted Funds: Staff time in Transportation, Planning and Innovation.

Washtenaw Avenue Transit Priority Study

Using the existing ReImagine Washtenaw plans and RTA planning, consultants and staff will prepare plans to improve operations on Washtenaw Avenue including design drawings for selected superstops, queue jump lane planning, and transit signal priority design. Goals include: improving the reliability and customer convenience on TheRide's highest ridership route, consistent with long-term plans for BRT. (Policies 1.0, 2.1, 2.4, 2.10, 2.11).

- Budgeted Funds: Staff time in Planning and Innovation

Ypsilanti Transit Center Planning

Began in 2017, Staff and a consultant are analyzing and evaluating potential solutions to meet operational requirements, customer needs, and broader community aspirations at a conceptual level; along with budget implications for various alternatives. Goals include: alternatives that can be used for grant applications and input into a facility design. (Policies 2.1, 2.4, 2.10, 2.11).

- Budgeted Funds: Staff time in Planning and Innovation

Advocacy Strategy (Land Development)

As a part of the broader Long-Range Plan, we will develop an approach to advocating for development of land in ways that complements transit. This will need to be done in concert with the local municipalities that control land-use regulation. Timing is uncertain. (Policies 1.2.2.1, 2.8.5.6, 2.10, 2.10.2, 2.11).

- Budgeted Funds: Staff time from Executive Team, Finance, Planning and Innovation

Express Bus Proposal

Working with local partners, TheRide is pursuing a potential project for a new express bus service. It is not clear yet whether this idea will become a proposal. More information will be available in the near future. (Policies 1.3.5, 2.10, 2.11)

- Budgeted Funds: Staff time from Executive Team, Finance, Planning and Innovation

Serving Customers

Short Range Improvements

Implementation of tweaks to existing fixed-route services to address quality of service concerns. (Policies 1.0, 2.1).

- Budgeted Funds: Staff time in Planning and Innovation.

Service Pledge

Create and distribute a promise to riders and customers about the quality of service they can expect to receive from us. This will be linked to performance measures and public reporting. (Policies 1.1.4, 2.1, 2.10.5).

- Budgeted Funds: Staff time from Executive Team, Transportation

Customer Management Software

Purchase and implement a new customer relations software package to enable better tracking of, and responsiveness to, customer concerns. This tool is coupled with the new Customer Service Officer position created in 2018. (Policies 1.1.4, 2.1).

- Budgeted Funds: \$75,000 (Operating)

In-Field Communications

Replacement of dispatch-to-bus communications functions that were inadvertently lost during implementation of the CAD/AVL system. Will improve responsiveness, customer services and emergency response. This project will take 1-2 years. (Policies 1.1.4, 2.1, 2.2).

- Budgeted Funds: \$404,000 (Capital)

Modernizing TheRide

Budget Software

Presently, TheRide's annual budget is developed and administered with a variety of legacy software programs, including Excel. To improve quality and transparency, and reduce the risk of error, we will select and implement a new corporate budgeting software package. This project may take 1-2 years to implement. (Policies 1.3.7, 2.4, 2.5, 2.8).

- Budgeted Funds: \$20,000 (Capital), \$40,500 (Operating)

IT Strategy

Like many businesses, TheRide is increasingly dependent on back-office information technology. This study, conducted by external experts, will help administrative staff better understand what technology options to pursue and what resources will be required, as well as establish a strategy for IT. (Policies 2.2, 2.4, 2.8.5.6).

- Budgeted Funds: \$150,000 (Operating)

50th Anniversary Celebration

TheRide was born in 1969, and 2019 will be our 50th Anniversary. A variety of promotions and celebrations are planned. A report on the history of TheRide is being developed. (Policies 2.2.1, 2.4.2).

- Budgeted Funds: \$39,100 (Operating)

Capital Plan Initiatives

State of Good Repair / Maintain Existing Service and Assets

Board Policy 2.8 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 will produce a comprehensive Transit Asset Management (TAM) Plan by September 2018. This plan will establish performance targets to ensure state of good repair for the fleet, equipment, and facilities operated by TheRide and its grant subrecipients. This section also includes efforts proposed to help preserve existing services.

Large Bus Replacements

In 2019, 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. \$506,625 is budgeted for each clean-diesel bus.

These are the last buses to be ordered from the current contract before a new contract award is made for buses to be purchased in years 2020-2025 (Policies 2.4, 2.8.2(B)).

- Budgeted Funds: \$4,053,000 (capital)

New 5-Year Contract for Large Bus Replacements

In FY2019 TheRide will award a new 5-year, competitively bid contract to purchase eight, clean-diesel buses each year. Several existing Board policies dictate how this, and all other contracts should be structured and handled (e.g. Policies 2.0, 2.5, 2.7, 2.8.5.1, and 2.8.5.2). Over the life of the contract, costs for bus replacements are expected to be about \$21 million. In addition, TheRide will attempt to future-proof this contract by seeking “options” (i.e. optional pricing) for purchasing articulated buses and alternative propulsion systems. However, extra costs for those options would need to be approved by the Board at a future date.

As discussed in Appendix 3, the Board has a choice of how to handle the award of larger purchasing contracts. In the past, the Board has been content to pre-authorize the CEO to award contracts via a blanket authorization as part of the annual budget. If that is how this 5-year bus replacement contract were authorized, the final award would be made by the CEO (in accordance with existing Board policies). It could also require the CEO to provide regular updates to the Board on the procurement process and decision as part of policy 2.11.1.5(c). Alternately, the Board can also, by vote, indicate that it would like to approve the award of the contract itself later.

- Budgeted Funds: Contract award is for future bus procurements; no FY2019 expenditure.

Small/Medium Bus Replacement

Replacement of two small buses for A-Ride that have reached the end of their useful life, and replacement of small/medium buses used by local non-profit agencies providing eligible human services transportation as subrecipients of Federal Section 5310 program funds (Policies 2.4, 2.6.2(B), 2.10.1).

- Budgeted Funds for Replacement of A-Ride Vehicles: \$180,000 (capital)
- Budgeted Funds for Replacement of Subrecipient Vehicles: \$145,000 (capital)

Non-Revenue Vehicle Replacement

TheRide requires a small fleet of utility vehicles (trucks, vans, etc.) to support regular operations. These vehicles are used for a variety of functions such as shuttling drivers, snow clearing, on-road repairs, business meetings, etc. One service truck and one supervisor van will be replaced in 2019 (Policies 2.4.5, 2.8.2(B)).

- Budgeted Funds for 1 Service Truck: \$50,000 (capital)
- Budgeted Funds for 1 Supervisor Van: \$50,000 (capital)

Bus Components, Tools and Equipment

Each year major bus components such as engines, transmissions, hybrid drives and batteries, and other major parts are needed to maintain the fleet in a state of good repair. Tools and equipment are also necessary to maintain the fleet. In 2019, Fleet Services will conduct a campaign to improve ergonomic safety for Motor Coach Operators by enhancing buses with power steering systems. (Policies 2.2, 2.8.2(B)).

- Budgeted Funds for Engine Replacements: \$280,000 (capital)
- Budgeted Funds for Battery Refresh Kits: \$350,000 (capital)
- Budgeted Funds for Electric Steering Replacement in Bus Fleet: \$420,000 (capital)

Facilities Rehabilitation

TheRide owns three major facilities: The Dawn Gabay Operations Center (DGOC), the Blake Transit Center (BTC) and the Ypsilanti Transit Center (YTC). These funds are being set aside to assure funding to address priority maintenance issues. A backlog of preventative and corrective maintenance needs at the DGOC will begin to be addressed in 2019, most notably replacement of HVAC systems, administrative office roof, parking lot expansion and asphalt replacement, high-speed garage doors, and a new fire suppression system in the computer server room (Policies 2.2, 2.8.2(B)).

- Budgeted Funds: \$2,000,000 (capital)

Architecture and Engineering

Facility rehabilitation projects will be guided by architecture and engineering design consultants who will provide design, engineering, bidding support, and project management for replacement of HVAC systems and the administration office roof. Additional A&E work will be needed in 2019 to plan a future administrative office interior rehabilitation and renovation of the Control Center (Policies 2.8.2(B)).

- Budgeted Funds: \$180,000 (capital)

Furniture Replacement

Many of the furnishings at DGOC are original to the facility, purchased in 1984, and need to be replaced due to poor condition. Furniture replacements, along with planning for interior renovation, are necessary to modernize workspaces, improve ergonomic function, and enhance TheRide's objective to be a workplace of choice (Policies 2.2.1, 2.8.2(B)).

- Budgeted Funds: \$150,000 (capital)

IT – Hardware and Software

Capital funds are budgeted for the replacement of obsolete or at-risk computers, network servers, software and other technology infrastructure aboard buses and in facilities. Notable projects include updates to A-Ride scheduling software, radio communications between the Control Center and Motor Coach Operators, and replacement of security cameras at the YTC (Policies 2.1, 2.2, 2.4.5, 2.8.2(B)).

- Budgeted Funds for State of Good Repair: \$668,000 (capital)

Value Added / Make Things Work Better

Initiatives in this category are focused on finding innovative ways to enhance services, or an existing part of TheRide's operations.

Rider Amenities and Accessibility

The bus stop is where riders access TheRide's services. Each year investment is needed for replacement and improvement of bus stop infrastructure including concrete landing pads and other amenities, all with an eye toward ensuring accessibility for riders with disabilities. Staff in the Planning and Innovation Division are developing a list of priority locations for enhancement in 2019. The budget for this item is being increased by \$50,000 from 2018 Budget levels (Policy 2.1.1).

- Budgeted Funds: \$150,000 (capital)

IT – Hardware and Software

More than ever, TheRide and our riders rely on technology in delivery of public transportation. As part of the initiative to improve customer service, more real-time information tools online are planned for 2019. Planned enhancements include improved trip planning, bus tracking, additional bus tracking through Third-Party Apps, viewing route and schedule information, viewing live maps, and texting for bus stop information, all using the General Transit Feed Specification (GTFS) (Policies 2.1.3).

- Budgeted Funds for Expansion: \$32,000 (capital)

Expansion / Implementing New, Approved Service

New Mobility Pilot

The Planning and Innovation Division has assigned one employee full time to the planning and testing of innovative New Mobility Toolbox options with value-added pilot services. The objective is for TheRide to learn how new mobility options such as on-demand services may be best implemented. Investment will be made in non-traditional modes connecting with fixed-route transit that may help lower costs and indicate a sustainable future direction (Policies 1.0, 2.8.5.6, 2.11).

- Budgeted Funds for New Mobility: \$47,500 (capital), \$47,500 (operating)

Research and Development / Explorations to Advance Innovation

Emergent R&D Projects

Capital funds are reserved for emergent research and development projects that may develop in 2019. This is a budget placeholder for exploratory projects that could advance the organization's Ends by leading to new services, infrastructure, or business relationships. The Board's policies require the CEO to explore opportunities for innovation (2.8.5.6) and collaborative relationships (2.10).

- Budgeted Funds for Research and Development: \$50,000 (capital)

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 FY2019 sorted from the highest value to the lowest value.

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 FY2019 is a new five-year contract to replace up to 40 public transit buses, anticipated to be valued near \$21 million.

CONTRACT DESCRIPTION	CURRENT PROVIDER	RENEWAL DATE	VALUE OF AWARD (ESTIMATED)	FY 2019 ESTIMATED EXPENDITURE
Replace 40' Buses (up to 40, in years 2020-25)	Gillig	8/31/2019	\$21,000,000	\$0
Unarmed Security Guard Services	D.K. Security	3/31/2019	\$1,085,000	\$217,000
Communications and Marketing Services	Various	TBD	\$540,000	\$108,000
2700 Roof Replacement (Administration Facility)	New	TBD	\$500,000	\$500,000
Infield Communications (VOIP 2.0)	Clever Devices/Various	TBD	\$388,000	\$388,000
Small/Medium Buses	New	TBD	\$325,000	\$325,000
Insurance Brokerage Services	Marsh USA	2/28/2019	\$280,000	\$56,000
Consultant Review: Information Technology Strategy	New	TBD	\$150,000	\$150,000
Office Furniture	New	TBD	\$150,000	\$150,000
Batteries	Wonch	TBD	\$125,000	\$25,000
2700 HVAC Replacements	New	TBD	\$120,000	\$120,000
Auditing Services	Plante & Moran	8/31/2019	\$110,000	\$27,500
Consultant Review: Non-Union Compensation and Benefits	New	TBD	\$100,000	\$100,000
Non-Revenue Vehicles	New	TBD	\$100,000	\$100,000

Bus Transfers	Electronic Data Magnetics	9/13/2019	\$90,000	\$18,000
New Mobility Pilot Projects	New	TBD	\$90,000	\$90,000
Towing Services	Brewer's Towing	TBD	\$85,000	\$17,000
Janitorial Supplies	Various	TBD	\$75,000	\$15,000
CRM System	New	TBD	\$75,000	\$75,000
Budget Modernization Software	New	TBD	\$60,500	\$60,500
Web Site Improvements	New	TBD	\$47,400	\$47,400
Real-Time Information Improvements	New	TBD	\$41,000	\$41,000
Bus Stop Sign Posts and Supplies	Unistrut	7/2/2019	\$25,000	\$5,000
Bus Stop and Route Number Signs	Dornbos	7/25/2019	\$12,500	\$2,500
Postage Meter Machine	Pitney Bowes	12/18/2018	\$6,000	\$1,200

4. State and Federal Grants Primer

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

Federal Funding

Requirements: In order to be eligible for federal funding, projects must be in a long-range plan (20-year) and four-year Transportation Improvement Program (TIP) approved by the Federal Transit Administration (FTA). Each of these documents is first approved by the Washtenaw Area Transportation Study Committee (WATS), then the Southeast Michigan Council of Governments (SEMCOG), and then the Michigan Department of Transportation (MDOT). There is a wide variety of other federal requirements, particularly dealing with grant management and purchasing. FTA conducts a compliance audit every three years (Triennial Review). The AAATA submits annual applications which are approved by the FTA in August or September.

Funding for Urban Service

Section 5307/5339 Formula: Urbanized area formula funds are allocated annually by Congress to the Ann Arbor urbanized area. The allocation will be about \$6.9 million in Sec. 5307 funds and \$1 million in Sec. 5339 funds in FY2019. The Regional Transit Authority (RTA) is the designated recipient of formula funds and has the authority to approve AAATA applications for these funds. By law the funds can only be spent in the Ann Arbor urbanized area. These funds are primarily for capital purchases and projects, but general operating assistance and some specific types of operating expenses are also eligible for Section 5307 (see "operating assistance," below). The federal share is 80% for most types of projects. Funds allocated in one year are available for four years. This provides the AAATA with some flexibility to manage its capital program (e.g. saving money for up to four years for a large bus or facilities purchase).

Operating Assistance: AAATA is currently eligible to use up to about \$3.6 million in federal formula 5307 funds for urban operating assistance per year. In addition, there are other specific 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 federal grant programs from which the AAATA has received funding in prior years that are discretionary rather than mandatory. 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.
- Congestion Mitigation/Air Quality (CMAQ): 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 FY2019, a CMAQ grant for \$1.3 million for replacement buses has already been programmed.

- JARC (Job Access/New Freedom) 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. AAATA has two active grants with funds remaining for mobility management. The programs have since expired, however New Freedom has been incorporated into the Section 5310 formula program.

Planning: Planning activities in the AAATA planning work program are eligible for grant funding. The Southeast Michigan Council of Governments (SEMCOG) passes through to AAATA about \$50,000 per year. The remainder of the planning work program has been funded with Section 5307 formula funds. The use of formula grant funds (Section 5307) for planning is being phased out in the FY2019 budget.

Section 5310: Congress apportions an annual allocation of funds for “Enhanced Mobility for Seniors and People with Disabilities” to the Ann Arbor urbanized area, which AAATA is responsible for administering. For FY2019, approximately \$200,000 will be allocated to AAATA. Funds are eligible to be used for traditional purposes such as replacement of vans and buses, and for non-traditional purposes such as trip assistance and mobility management. AAATA works with WATS and local non-profit agencies to coordinate the use of funds.

Funding for Non-Urban Service

Operating Assistance (Section 5311): AAATA receives federal operating assistance for service outside of the urbanized area through the Michigan Department of Transportation (MDOT). MDOT receives a single statewide grant and distributes it to eligible agencies. For the last several years, the rate has been between 16%-18% of nonurban operating expenses. AAATA utilizes non-urban funding for certain Express Bus services and passes through non-urban operating assistance to WAVE and People’s Express to fund their service in the non-urban area.

Capital Assistance: Federal, non-urban 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.

State Funding

Requirements: AAATA is required to submit an annual application for operating and capital assistance by February for the fiscal year beginning the following 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, currently just over 30%. 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 does not directly operate any nonurban service currently but does apply for and receive funds to pass through to WAVE and People's Express for their service in the non-urban area.

Matching Funds for Capital Grants: MDOT provides all or part of the match for federal capital grants. 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.

Matching Funds for Section 5310: MDOT provides the entire non-federal share of cost for the capital portion of 5310 grants.

Specialized Service: MDOT provides limited funds for service for seniors and people with disabilities. The statewide amount has not changed for many years, and the Washtenaw County allocation has remained at about \$180,000 per year. About \$78,000 per year pays a portion of the cost for A-Ride service in Ypsilanti, Ypsilanti Township and Superior Township. The AAATA also administers these funds for private, non-profit service providers in the County.

5. Adopting Resolution

Resolution 10/2018

ADOPTION OF FY 2019 OPERATING AND CAPITAL BUDGET

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 2019 Operating and Capital Budget that furthers Board Ends Policies within Executive Limitations and provides multi-year context;

WHEREAS, the AAATA is required to develop a fiscally-constrained four-year program of capital 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 2019 to the Federal Transit Administration (FTA) as part of the annual application for FY 2019 federal funding, and

WHEREAS, the AAATA is required to submit the capital program for FY 2021 – FY 2023 to the Michigan Department of Transportation (MDOT) as part of the annual application for FY 2020 state funding.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors hereby approves the AAATA FY2019 Operating and Capital Budget as its general appropriations act with total expenditures as follows:

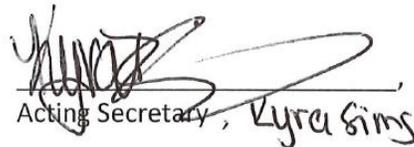
- \$45,857,698 for operations.
- \$8,660,500 for capital investment.

BE IT ALSO RESOLVED, that the Ann Arbor Area Transportation Authority Board of Directors hereby adopts the attached FY 2019-2023 Capital Program, of which FY 2020 and beyond is subject to amendment in future years.



Eric A. Mahler, Chair

September 20, 2018



Acting Secretary, Kyra Sims

September 20, 2018