

TheRide

2.6 Cash and Investments

Monitoring Report for the Period: January 1, 2018 to December 31, 2018

Date of Report: Tuesday, April 2, 2019

Finance Committee Review: Tuesday, April 9, 2019

Board Review: Thursday, April 18, 2019

TheRide Board;

In accordance with the Policy Manual; I present the April Monitoring report on **Executive Limitation Policy 2.6: Cash and Investments** This report consists of an internal report information from staff.

I certify that the information is true and complete.

Matt Carpenter,
CEO
Ann Arbor Area Transportation Authority

Policy being monitored: 2.6 Cash and Investments

Report p.

The CEO will not fail to hold cash for short-term operations or surplus capital for investment according to the Board’s investing priorities: first ensuring safety of principal, next providing adequate liquidity, and third, returning the highest yield compatible with prudent investing.

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Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

2.6.1 Hold AAATA operating cash or surplus capital in insecure instruments, including federally-uninsured checking accounts or non-interest-bearing accounts except where necessary to facilitate ease in operational transactions.

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2.6.2 Deviate from the “Investment Policy to Comply with Michigan PA 20 of 1943” as stated in the Appendices, invest in instruments other than those so authorized, or invest unlawfully with respect to Michigan PA 20 of 1943.

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Executive Limitations Policy 2.6

The CEO will not fail to hold cash for short-term operations or surplus capital for investment according to the Board’s investing priorities: first ensuring safety of principal, next providing adequate liquidity, and third, returning the highest yield compatible with prudent investing.

Conclusion on Compliance

In compliance.

Current Interpretation & Rationale

For the purposes of this policy I understand “cash” to mean liquid financial resources held by AAATA in bank checking and savings accounts to cover operating costs over the next few months, and “surplus capital” to be cash held in investments for use later this fiscal year and next fiscal year.

I must not cause, allow, or fail to correct any holding of cash or capital investment in financial instruments which do not adhere to the priorities set by the Board in Appendix F:

1. The highest priority is to protect the original sum invested (“principal”) from risk of loss.
2. The second priority is to ensure that an amount of capital adequate to meet short-term needs is available (“liquid”) for the Authority’s use.
3. The third priority is to invest in instruments that generate the highest possible financial return (“yield”) keeping in mind the principles of prudent investing as stated in the “*Investment Policy to Comply with Michigan PA 20 of 1943*” from the Board Policy Manual Appendix F.

Evidence

As evidence I present the status of cash and investments as of January 31, 2018. Account statements are available for direct inspection by Board members.

1. AAATA held \$3.7 million in cash, checking, and savings accounts as follows (dollars in thousands):

<u>Account Name</u>	<u>Balance as of 1/31/2019</u>
IMPREST	\$1,287
OPERATING	\$92
PAYROLL	\$65
CHANGERS/PETTY	\$3
PASSES/TOKENS	\$7
CAPITAL	\$10
FLEX SPENDING	\$19
MONEY MARKET SAVINGS	\$1,911
GETDOWNTOWN	\$311
Total Cash	\$3,705

2. AAATA held \$11.26 million in investments as follows (dollars in thousands):

Investment Instrument	Date of Maturity	Interest Rate	Total as of 1/31/2019
Bank of AA - CD	2/20/2019	2.0%	795
Bank of AA - CD	3/20/2019	2.0%	795
Bank of AA - CDARS	3/28/2019	0.7%	2,500
Bank of AA - CDARS	8/1/2019	0.8%	1,500
U.S. Treasury Bill	3/28/2019	2.1%	1,000
U.S. Treasury Bill	9/27/2019	2.3%	1,000
U.S. Treasury Bill	3/25/2020	2.4%	1,000
U.S. Treasury Bill	9/25/2020	2.5%	2,000
RBC Futures Account	Daily	0.1%	555
Key Bank Money Market	Daily	0.1%	5
MERS Retirement Savings			109
Total Investments:			\$ 11,260

Safety of Principal:

Cash was held in drawers and petty cash, and in checking and savings accounts at the Bank of Ann Arbor. Bank accounts are Federal Deposit Insurance Corporation (FDIC) insured. Bank of Ann Arbor has the highest rating for financial stability from BankRate.com, a five-star rating for “safety and soundness,” with equity of \$156.8 million on assets of \$1.54 billion (see <https://www.bankrate.com/banks/bank-of-ann-arbor/2390929/>).

Most of AAATA’s investments were held in U.S. Treasury Bills or FDIC-insured Certificates of Deposit held by Bank of Ann Arbor, or the Certificate of Deposit Account Registry Service (CDARS). CDARS holds investments in multiple banks up to the FDIC-insured limit. The fuel futures commodity account and money market accounts are not FDIC insured, but secure inasmuch as they are held in banks (RBC Bank and Key Bank) with four-star ratings for financial stability from BankRate.com (see <https://www.bankrate.com/banks/rbc-bank-georgia-national-association/3783948/> and <https://www.bankrate.com/banks/keybank-national-association/280110/>).

Adequate Liquidity: Capital held in Certificates of Deposit and U.S. Treasury Bills is available for the Authority’s use within 30 days’ notification to Bank of Ann Arbor. The fuel futures commodity account and money market accounts are immediately available. (MERS retirement savings is not operating capital; it is the funded amount of post-employment benefits for retirees.) Liquidity has been sufficient to meet the operating needs during the monitoring period as evidenced by the fact that AAATA has been able pay its expenses without acquiring any debt.

Highest Yield Compatible with Prudent Investing: Yields on investments (0.01%-2.50%) are the highest rates available considering the priorities for safety and liquidity. In September 2018, the investment strategy was modified to secure higher yields available with U.S. Treasury Bills. AAATA’s portfolio will yield an estimated \$153,421 for FY2019, nearly four times the yield from CDs alone generated in the prior year.

Attestation:

The financial data presented as of January 31, 2019 demonstrates compliance at a single point in time.

Additionally, I attest that cash and investments were held in compliance with this policy throughout the monitoring period.

Executive Limitations Policy 2.6.1

... the CEO shall not ... hold AAATA operating cash or surplus capital in insecure instruments, including federally-uninsured checking accounts or non-interest-bearing accounts except where necessary to facilitate ease in operational transactions.

Conclusion on Compliance

In compliance.

Current Interpretation & Rationale

I understand this policy to mean that capital must be held in bank accounts that are insured by the FDIC to the level of at least \$250,000 for each account, and must be held in accounts which generate interest. This policy allows an exception for capital that needs to be available for immediate use to fund operations, otherwise known as operating cash.

Evidence

I have not caused, allowed, or failed to address any deviation from this policy as supported by the following evidence:

- All funds held in U.S. Treasury Bills are federally-guaranteed.
- Funds managed by Bank of Ann Arbor in CDARS are federally-insured.
- Bank accounts with balances above the FDIC insured limit of \$250,000 are for needed for short term operations, according to the exception in this policy.
- Each is an interest-bearing account, with interest rates listed in the table above.
- Account statements are available to Board Members as source documentation for direct inspection upon request.

Executive Limitations Policy 2.6.2

... the CEO shall not ... deviate from the "Investment Policy to Comply with Michigan PA 20 of 1943" as stated in the Appendices, invest in instruments other than those so authorized, or invest unlawfully with respect to Michigan PA 20 of 1943.

Conclusion on Compliance

In compliance, except as noted.

Current Interpretation & Rationale

I interpret this policy to mean that the AAATA must comply with Public Act 20 of 1943, have the required Board-approved policy, and is limited to investment instruments outlined in that policy.

Public Act 20 requires public agencies to have an adopted policy that states purpose, scope, and objectives, delegates authority to make investments, sets standards for safety, safekeeping and prudent investing, and lists the types of investment instruments that are authorized. AAATA must have a Board-adopted policy for investments that includes the required elements.

The Investment Policy authorizes use of the following investment instruments: Certificates of Deposits, Bonds and other direct obligations of the U.S. (maturity limited to 3 years or less), or Government Mutual Funds. The policy notes that it does not apply to employee pension funds.

Evidence

As evidence of compliance I submit the following:

1. The Board adopted the referenced investment policy including the elements required by Public Act 20 in January 2018. It has now been added to Appendix F of the Board's Policy Manual.
2. Invested funds were/continue to be held in Certificates of Deposit accounts and U.S. Treasury Bills, which are authorized investment instruments.
3. The total investment held in any one financial institution is less than \$4 million, as demonstrated on the account statements, and below 20% of each financial institution's capital/surplus (as demonstrated by descriptions of bank equity from Bankrate.com), as required by the Investment Policy.
4. More than \$4 million is invested in U.S. Treasury Bills, which are federally-guaranteed. Maturities are less than 3 years.
5. Funds invested in the MERS Retirement Savings are pension funds managed by Municipal Employee's Retirement System of Michigan. The investment policy states it does not apply to pension funds.

There is one area where compliance is unclear:

- The use of fuel futures has been a traditional practice at AAATA to hedge against market fluctuations in fuel prices. This account is not federally-insured, and may be insecure as it is subject to volatility in the commodities market. Further, the Auditor's opinion is that it remains unclear whether use of fuel futures complies with Public Act 20 (p. 15 FY2018 annual audit).

Notes: CEO Comments on Written Policy

1. The board may wish to monitor this policy more frequently, such as quarterly with the financial statements.
2. I could use the Board's input and advice concerning the amount of evidence presented for this monitoring report.

Record of Board Decision Regarding Monitoring Report
(To be filled in based on Board action after submission)

Policy: EL 2.6 Cash and Investments

Date Submitted: Feb 28, 2018

Date of Board Response: March 5, 2018

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.~~

Financial Committee Notes

- The traditional practices of fuel futures raised questions. Further discussion is warranted.
- Necessary level of detail in evidence was discussed.
- Challenges noted with frequency of monitoring or understanding more than a snapshot of information.
- Potential to monitor more frequently or coordinate with Quarterly Report discussed.
- Suggestions for more clarity regarding compliance with Appendix F specifically.
- Suggest that Board accept report as a B.

Board notes:

- Board accepted the report as option B.
- The CFO has noted that fuel futures are likely not compliant with this policy and intends to discontinue the practice at the earliest practical time.