

TheRide

2.6 Investments

Monitoring Report for the Period: February 1, 2017 to January 31, 2018

Date of Report: Wednesday, March 7, 2018—Revised After Finance Committee

Board Survey due: Monday, March 5, 2018 (Prior Version)

Finance Committee Review: Tuesday, March 6, 2018

Board Review: Thursday, March 15, 2018

TheRide Board;

In accordance with the Policy Manual; I present the March Monitoring report on **Executive Limitation Policy 2.6: Investments** This report consists of an internal report information from staff. Though this policy is very new, I have assembled this report as if it were in effect over the monitoring period.

I certify that the information is true and complete.

Matt Carpenter,
CEO
Ann Arbor Area Transportation Authority

Policy being monitored: 2.6 Investments

Report p.

The CEO will not fail to invest or hold AAATA capital 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 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 invest or hold AAATA capital 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.

Current Interpretation & Rationale

For the purposes of this policy I understand "capital" to mean all liquid financial resources to be invested by AAATA for the mid- or long-term. It does not include accounts used to temporarily hold operating funds before they are used. I must not cause, allow, or fail to correct any investment or holding of capital in financial instruments which fails to 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 investments as of January 31, 2018. The listed investment instruments were utilized throughout FY2017, and continued through January 2018. Account statements for the period reported are available for direct inspection by Board members.

INVESTMENTS SUMMARY:				1/31/2018	
TYPE OF	PURCHASE	DATE OF MATURITY	INTEREST RATE	TOTAL	Annualized Interest
Bank of AA - CDARS		2/15/2018	0.10%	\$8,000,000.00	\$8,000.00
RBC Futures Account		Daily	0.10%	\$615,764.58	\$615.76
KEY BANK MONEY MARKET		Daily	0.10%	\$5,405.28	\$5.49
BANK OF AA MONEY MARKET SAVINGS		Daily	0.20%	\$2,513,812.76	\$5,027.63
MERS Retirement Savings				\$105,894.65	
TOTAL INVESTED				<u>\$11,240,877.27</u>	<u>\$13,648.88</u>

Safety of Principal: Most of AAATA's investments (\$8 million) were held in Federal Deposit Insurance Corporation (FDIC) insured Certificates of Deposit. The fuel futures commodity account and money market accounts are not FDIC insured, but secure inasmuch as they are held in banks (KeyBank and Bank of Ann Arbor) with the highest rating for financial stability from BankRate.com, which has published independent reviews of financial institution stability since 1976. Bank ratings are available for direct inspection by Board members.

Adequate Liquidity: Capital held in Certificates of Deposit 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.

Highest Yield Compatible with Prudent Investing: Yields on investments (0.10%-0.20%) are the highest rates available considering the priorities for safety and liquidity. The Bank of Ann Arbor's Certificate of Deposit Account Registry Service (CDARS) which allows AAATA funds to be distributed to various banks to ensure funds remain under the FDIC limit continues to be used to ensure safety of principal, evidence of prudence. The CEO acknowledges that higher yields for investments could be available in the marketplace; additional research is needed.

Conclusion on Compliance

In compliance.

Executive Limitations Policy 2.6.1

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

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 invested funds were held in Certificates of Deposit managed by the Bank of Ann Arbor throughout FY2017 and through January, FY2018. CDARS allows AAATA funds to be distributed to various banks to ensure funds remain under the FDIC limit. This is facilitated by the Bank of Ann Arbor.
- Accounts that were not FDIC insured were all used for day-to-day working capital including a fuel futures commodity account and a money market account.
- MERS Retirement Savings is not operating capital and was/continues to be managed by Municipal Employee's Retirement System of Michigan.
- Each is an interest-bearing account as listed above.
- Account statements are available to Board Members as source documentation for direct inspection upon request.

Conclusion on Compliance

In compliance.

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.

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.

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 which are authorized investment instruments. Funds were invested through Bank of Ann Arbor, a "MI-based, FDIC-insured bank dating back to 1996" according to Bankrate.com. The account statement dated January 18, 2018 lists FDIC-insured depository institutions around the country where AAATA's funds are invested, demonstrating that in each case the amount held is below the \$250,000 FDIC insurance maximum.
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).

Conclusion on Compliance

In compliance.

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. Is it necessary to include the bank statements, or would it be sufficient for these to be provided regularly to the Finance Committee for inspection and made available for other Board members upon request?

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

Policy: EL 2.6 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.

Board notes: