

MICHAEL R. REID

CITY OF ANN ARBOR
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2008 OCT -8 PM 5:00

October 7, 2008

Ann Arbor City Council
150 South Fifth Avenue
Ann Arbor, MI 48104

Hon. Mayor and Members of Council;

Please use this letter as formal tender of my resignation as Treasurer of the Ann Arbor / Ypsilanti Local Development Finance Authority, Chair of the LDFA Audit Committee, and from the LDFA Board of Directors effective immediately.

On September 16, 2008 the LDFA Audit Committee received a copy of the final independent audit report from Abraham & Gaffney PC. The independent audit examined agreed upon procedures contained in the LDFA's 2007-2008 no-bid contract with Ann Arbor SPARK and cited pervasive contractual deficiencies in the areas of time sheets, billing records, undisclosed conflict of interest, geographic eligibility of companies served pursuant to the Tax Increment Financing plan and Joint Operating Agreement, documentation of client engagements, timely submission of required reports, and internal control policies and procedures. My resignation is submitted in dissent over recent LDFA Board decisions that refused to demand immediate repayment for known instances of over-billing, instances where contemporaneous time records were never kept at all, and instances where employees or family members of employees were paid to consult for their own companies.

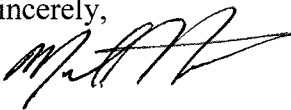
The audit report findings are indicative of system-wide internal control failures that obscure the LDFA board's ability to provide basic oversight and create conditions where misuse of public funds or outright fraud could easily go undetected. Incredibly, the public reaction of Ann Arbor SPARK's senior management in the press and in our board meetings has been to defend their practices as operating in "gray areas" and issue statements to the effect that strict compliance with the contractual terms they had a hand in creating would be "crippling". Ann Arbor SPARK's statements to the contrary notwithstanding, willful neglect of mutually agreed upon terms does not constitute good faith and the time for forbearance to accommodate their self-described "growing pains" has long since passed. That we reflexively seek by our actions to insulate Ann Arbor SPARK from the consequences of unsound management practices reflects disordered priorities of the stakeholder interests we are appointed to protect and a sub-optimal approach to stewardship of public funds.

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Had these revelations come as a complete and total surprise to the LDFA board, a more measured response concerning remedial actions would have been understandable. Insofar as the audit report cites many deficiencies first brought to the LDFA board's attention more than a year ago in a memorandum dated July 16, 2007 (following the city's internal staff audit of our 2006-2007 contract with Ann Arbor SPARK) and later in the course of our periodic board meetings, I can only regard my continued participation as a board member to be tacit approval of ethically questionable contract practices and correspondingly, an irreconcilable breach of duty to the citizens of Ann Arbor as an appointed official. I do not regard preparation of yet another report and reconvening the audit committee as an adequate initial response given the scope and severity of the audit findings. Equally alarming is the inescapable conclusion these deficiencies result in diminished capacity to generate the data needed to produce meaningful reports that gauge the effectiveness of programs and services funded at taxpayer expense.

As one of two board members that has served since the formation of the LDFA in July of 2002 and as a past Chair, I have been deeply committed to the mission and vision of enabling high tech job formation, building local tax revenue, and leveraging entrepreneurial economic development opportunities in partnership with the two premier research universities located in the Ann Arbor/Ypsilanti SmartZone™. With steadfast insistence that publicly funded contracts produce measurable results and accompanied by diligent oversight from appointed officials, I remain hopeful the foundational vision can yet come to fruition. Much work needs to be done.

Sincerely,



Michael R. Reid, CFA

Cc: Richard King, LDFA Board Chair
Jacqueline Beaudry, Ann Arbor City Clerk