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BI-STATE DEVELOPMENT AGENCY / METRO
FINANCE & ADMINISTRATION COMMITTEE MEETING
OPEN SESSION MINUTES
MAY 15, 2015

Committee Members in Attendance

Missouri
Vernal Brown
Constance Gully (via phone)
Aliah Holman (absent)

Illinois
Tadas Kicielinski, Chair
David Dietzel

Other Commissioners in Attendance
Michael Buehlhorn (via phone)

Staff in Attendance
John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Shirley Bryant, Certified Paralegal/Assistant Secretary
Kathy Klevorn, Sr. Vice-President, Chief Financial Officer
Melva Pete, Vice President, Human Resources
Jim Cali, Director Internal Audit
Brenda Krieger, Senior Administrative Assistant
Tammy Fulbright, Director, Treasury Services
David Toben, Director, Benefits
Kent Swagler, Director, Corporate Compliance & Ethics
Mark Vago, Controller
Larry Jackson, Vice-President, Procurement, Inventory Management & Supplier Diversity
Charles Pogorelac, Manager, Financial Planning and Budget
Reginald Cavitt, ATU 788
Debbie Erickson, Vice President Chief Information Officer
Kerry Kinkade, Director IT Applications Development
Michael Gibbs, Accountant, Business Enterprises
Connie Welch, Manager General Accounting
Charlie Priscu, Director Labor Relations
Charles Stewart, Vice President Pension and Benefits (via phone @ 8:04 a.m.)
Dianne Williams, Vice President Marketing and Communications

Others in Attendance
None

1. **Call to Order**
   8:00 a.m. Commissioner Kicielinski called the Open Session Finance & Administration Committee Meeting to order at 8:00 a.m.

2. **Roll Call**
   8:00 a.m. Roll call was taken.

3. **Public Comment**
   8:00 a.m. There was no public comment.

4. **Minutes of Prior Open Session Finance and Administration Committee Meeting**
   8:01 a.m. The March 27, 2015, Open Session Finance and Administration Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Dietzel and seconded by Commissioner Brown. **Motion passed unanimously.**

5. **Sole Source Contracts for Hardware and Software Maintenance**
   8:03 a.m. The briefing paper regarding the sole source contracts for hardware and software maintenance was provided in the Committee packet. Larry Jackson, Vice President Procurement, Inventory Management & Supplier Diversity, provided a brief overview. The Agency has invested significantly in various technology platforms to enhance all aspects of its businesses. Each system requires continued support from the manufacturer/developer to ensure that the software functions as expected and the systems remain current with technology updates. Historically, contract approvals for technology hardware and software maintenance were submitted individually to the Board for approval. At an October 2013 Operations Committee meeting, it was suggested that the Agency revise this approach and submit annual approval of the required contracts. In compliance with that request, the required contracts are being submitted. Only three (3) of the contracts are expected to approach or exceed the $100,000 amount necessary for Board approval, and they are with Kronos, Oracle and Trapeze. Agency staff will analyze each situation prior to entering into a contract to verify the continued need and appropriate level of support. Some discussion followed regarding an issue in Kronos, and the proper procedures to track timekeeping. Mr. Jackson assured the Board that the Kronos issues that were brought to the attention of the Audit Committee were training and implementation issues that have since been corrected. A motion for the Committee to accept and forward to the Board for approval the request to authorize the President & CEO to enter into sole source contracts for the support of the Agency's hardware and software systems, as required and within the amounts provided for in the FY2016 Operating Budget approved at the April 24, 2015 Board meeting, was made by Commissioner Brown and seconded by Commissioner Dietzel. **Motion passed unanimously.**

6. **Self-Funded Health Plan 2014 Year End Review**
   8:04 a.m. The briefing paper regarding the Self-Funded Health Plan 2014 Year End Review was provided in the Committee packet. David Toben, Director of Benefits, provided a brief overview. The Agency provides three medical plan options administered by Cigna Healthcare **(Cigna)**, a three-tier prescription drug plan administered by Express Scripts; and a two-tier dental plan administered by Delta Dental of Missouri. These plans are self-funded through Agency and participant contributions. The Agency also retains stop loss insurance coverage through Cigna to provide protection against catastrophic individual accumulated medical/prescription drug claims in excess of $600,000. All active full time and disabled employees and their dependents have access to these plans. Retirees and dependent spouses have access to the medical and prescription plans only. When a Retiree becomes Medicare eligible, the Agency medical plan becomes secondary. The Medicare Part D prescription program, sponsored by the Agency, provides federally mandated subsidies to the plan. Due to the implementation of the Health Reimbursement Account **(HRA)** program for Medicare eligible Salaried and IBEW retirees, there

was a reduction in membership; and as a result the costs for the self-funded health plan for 2014 were flat compared to 2013.

Cost savings related to the prescription drug plan prior authorization, drug quantity management and step-therapy programs are expected to save the Agency approximately $250,000. An enhanced medical network savings program will be implemented on July 1, 2015, and that is expected to save $800,000 in full plan year 2016. The Other Post-Employment Benefits **(OPEB)** liability reduction plan is expected to be fully implemented in 2016, providing a further balance sheet reduction of $60 million to $70 million in unfunded liabilities.

The Wellness Program (the "**Program**") has been very successful, and in 2014 the Healthy Savings Program provided employees the opportunity to receive up to a $500 discount off of their required contributions for the medical program. In order to receive that discount, the employees were required to meet four requirements under the program to qualify. With several cost containing opportunities occurring in 2015, it is expected that there will be continued cost reductions in 2016.

Discussion ensued regarding the Wellness Program. Mr. Nations reported that Director of Risk Management, Safety, and Claims, Kathy Brittin, had recently requested that the administration of the Wellness Program be brought in house. Given the gradual success of the Wellness Program, Mr. Nations reported that he has granted the request of Ms. Brittin, who is very encouraged by the Wellness Program results, and strongly believes that it will be cost effective to bring the Program in house. As part of that effort, the Agency's staff will be able to broaden the Program, providing education and coaching, on-site personal training, nutrition counseling, classes, and educational visits to, for example, the grocery store for employees and dependents to better understand and read labels, to gain a better understanding of the health effects of their shopping choices.

This matter was presented for informational purposes only, and no Committee action was requested.

7. Board Compliance and Ethics Training

8:15 a.m. The briefing paper regarding the Board Compliance and Ethics Training along with the Corporate Compliance and Ethics Overview Training PowerPoint presentation were provided in the Committee packet. Kent Swagler, Director Corporate Compliance and Ethics, stated that since the presentation would be given at the full Board meeting, he would defer the presentation until then. The presentation will include compliance and ethics standards requirements, and overviews of the Compliance and Fraud Helpline, which will provide Compliance and Ethics training to the full Board of Commissioners. This material was presented as informational only, and no Committee action was required.

8. 2014 Pension Valuation Update

8:17 a.m. The 2014 Pension Valuation Update was provided in the Committee packet. Charles Stewart, Vice President Pension & Insurance, provided a brief overview. Millman, Inc. issued Valuation Reports for fiscal year ended 2014 for the four pension plans and they were as follows: 1) As of June 1, 2014, the funded ratio for the Salaried Pension Plan was 75.6% and the unfunded liability was $17,900,818. The unfunded liability as of June 1, 2013 versus June 1, 2014 for the Salaried Pension plan went down due to significant transitions to switch to the 401(k) Plan. The actual valuation funding ratio went up from 73.2% to 75.6% and in 2013 the recommended contribution was $3.5 million and the actual contribution was over $4.2 million. This was primarily due to employees, who stayed in the plan, starting to pay 3% of their gross earnings as of January 2014. In addition, the company made a contribution because of the changes to make sure that the valuation stayed up. The recommended contribution of $2.7 million is being implemented. 2) As of April 1, 2014, the funded ratio for the IBEW Pension Plan was 78.9% and the unfunded liability was $780,400. The IBEW plan is stable in terms of the number of employees, and the actuarial value of assets went up by $500,000. The unfunded liability went down from $942,000 to $780,000 with a funding ratio increase from 71.8% to 78.9%. The total Agency contribution is $95.80 per employee and the total employee contribution is $34.34. The contribution rate for 2014 went down, but the IBEW Committee voted not to implement that decrease. All of the Union Pension Committees this year decided to stay with the higher rate from 2013 rather than go with the lower rate from 2014. They recognized that the more money put in the plans, the healthier the plans will be. 3) As of April 1, 2014, the funded ratio for the ATU Division 788 O&M Pension Plan was 56.4% and the unfunded liability was $80,652,790. The number of total participants is stable and the actuarial valuation of assets was increased by $11.8 million, part of that was an increase in investment earnings. The unfunded liability was reduced by $3 million from $83.7 million to $80.7 million. Although the funding ratio went up from 52.5% to 56.4% it needs to be approximately 75% plus to be a healthy plan; and 4) As of April 1, 2014, the funded ratio for the ATU Division 788 Clerical Unit Pension Plan has approximately 122 participants and the actuarial value of assets went up by $400,000. The funded ratio went up from 42.1% to 45%, which is an improvement but again not a very healthy plan. The Agency and Local 788, ATU, AFL-CIO agreed to merge the Division 788 O&M and Clerical Pension Plans, effective April 1, 2015. If the plans would have been merged on April 1, 2014, the funded ratio for the combined plans would have been 55.7% and the unfunded liability $87,076,716. The combined rate for 2013 was $170.50 and that is split between the Agency and the employees, and the rate went down because of the better results in the valuation, but again the pension committee decided not to implement the lower rate. They want to take every opportunity they can to get more money into the plan. Although combining these plans did not make for a healthier plan, it did provide a benefit to the participants and the combination of the contribution rates achieved a $37.06 decrease to their weekly contribution amount. Comparative summaries of valuation results for all four pension plans were included as exhibits. This presentation was informational only, and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

9. 3rd Quarter Financial Statements

8:30 a.m. The 3rd Quarter Financial Statements Report was provided in the Committee packet. Mark Vago, Controller, briefly discussed the combined schedule of revenues, expenses and net income (loss) for the quarter ending March 31, 2015. Executive Services for the first nine months had operating revenues that exceeded operating expenses and net operating income better than prior year results. The Gateway Arch ticket sales revenue was 6.3% lower than last year due to the Arch grounds construction project. The Agency contributed $6.4 million to the National Park Service **(NPS)** to fund the roof for the new museum, water drainage project and corrosion study. The Arch Trams issued 30-year bonds of $7.6 million to fund new motor generator sets for both trams, and to reimburse the Beneficial Fund for approximately half the roof cost. The Arch Tram system is generating a net loss before depreciation of $6.2 million primarily due to the contribution to the NPS. Demolition for the Arch Parking Garage began in December 2014. Non-operating expense included a loss on the disposal of fixed assets of $64,642. The final accounting related to the discontinued operations is expected to be completed by fiscal year end. The Riverfront Attractions attendance and operating revenues were down 48% and 44% respectively due to road closures. The heliport is operating, but the bike rentals have been temporarily discontinued. Riverfront Attractions has an operating loss of $382,000 compared to a net income of $37,000 in the prior year before construction started. The St. Louis Downtown Airport had an operating revenue 18.7% lower than last year due to renegotiated lease agreements for hanger rentals and fewer rented hangers. Operating expenses remain consistent year over year at approximately $1.1 million. The Metro Transit System revenue is up slightly over last year at $46.1 million despite ridership trending down 1.7% through the first nine months of the fiscal year. Non-compensation related operating expenses for the first nine months of FY15 were $63.4 million. Operating Expenses for all units for the first nine months are $199.8 and $195.9 million in FY15 and FY14 respectively. The increase in FY15 was partially attributable to the recent ATU 788 labor contract negotiations. Operating Revenue for all business units for the nine months ending March 31, 2015 was $52.6 million.

Some discussion followed regarding the requirements of GASB-68, which would require the unfunded pension liability be placed on the Agency's balance sheet. This will have some minor effects on the income statement adding $80 to $100 million in liability. Rating agencies are aware of the GASB-68 requirements and they have indicated that they don't foresee any rating issues. This report was informational only, and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

10. 3rd Quarter Performance Indicators

8:45 a.m. The 3rd Quarter Performance Indicators Report was provided in the Committee packet. Mark Vago, Controller, provided a brief overview. There were no major service changes in FY15, however the Agency continues to modify bus routes on a quarterly basis to improve efficiencies in scheduling and to match customer needs. System revenue miles decreased by 0.2% and revenue hours dropped 0.5%. Passenger revenue of $40 million was 1.5% favorable to prior year primarily due to the July 1, 2014 fare increase affecting pricing of MetroLink base and reduced fares and weekly, monthly, and university semester passes. Ridership was down for the first nine months of FY15 by 1.7% from prior year, with MetoBus down 0.7%, MetroLink down 3.3% and Call-A-Ride down 0.8%. Operating expense per passenger boarding increased 4.2% compared to the prior year, but remains 2.8% under budget. Arch Tram ticket sales were down due to the on-going CityArchRiver construction project. The Riverfront Attractions were also affected by the construction project and cruises are down 40%. Operating income for the St. Louis Downtown Airport was $204,949 below budget primarily because of decreased operating revenue. The Arch Parking Garage was closed permanently on December 2, 2014, and the operating loss as of March 31, 2015 was $127,583 unfavorable to budget and $110,940 less than prior year actual. Operating income for Executive Services exceeded the budget by $807,476 as a result of expenses being lower than budget.

Discussion ensued regarding the financial reports. Mr. Nations stated that he has had a concern for some time that the financial reports as presented, while accurately reflecting the finances of the company from a generally accepted accounting principle **(GAAP)** and Federal Transit Administration **(FTA)** perspective, they do not really reflect a good management report on the operation and management of the company. Mr. Nations said that, from a business perspective, the money received from the local jurisdictions (St. Louis County, the City of St. Louis, and St. Clair County) should be included as operating income rather than non-operating revenue, for the reason that the money is actually earned, pursuant to an agreement with the jurisdictions to provide a given level of service in return for the money received. This is in contrast to the grants and assistance which is provided from the Federal Government on the formula, or other basis, as well as from the State of Missouri (such as it is), which is provided without regard to any level of service at all. Moving the revenue from the non-operating revenue portion of the financial statements to operating income drastically changes the view of the company. Mr. Nations also reported that they do not always accurately reflect exactly what the management goals are. For example, Mr. Nations said there is often talk of "farebox recovery" being at a given percentage, in our case, around 19%. Mr. Nations reported that the transit business does not focus on, necessarily, increasing farebox revenue, because it is something that we do not control, and added that St. Louis County, for example, requires service to be provided throughout the County, without regard to ridership, thereby reducing what would be the farebox recovery for the transit system as a whole. Nevertheless, the transit agency is not at liberty to eliminate such less productive service, because it is a service actually requested and paid for by St. Louis County. Mr. Nations said that we also too often focus on the sales tax revenues received by the underlying jurisdictions, which does not have significant effect on our operations. Commissioner Kicielinski said that Mr. Nations's explanation was enlightening. Mr. Nations said that the review of how we are presenting our financial information has been an ongoing project, and the Committee and the Board should anticipate that they will be receiving financial statements in a slightly different format in the not too distant future.

11. March Treasury Report

8:50 a.m. The March 31, 2015 Treasury Report was provided in the Committee packet. Tammy Fulbright, Director, Treasury Services, provided a brief overview discussing the investments, debt management and fuel hedging. The Agency investments had an average yield of .26 basis points as of March 2015. The Bi-State Directed Funds totaled approximately $193 million and the Trustee Directed funds totaled approximately $56 million, for a combined total of approximately $249 million. The LRV Lease/Leaseback 2001 total was $98,683. The Agency successfully sold its $381,225,000 Series 2013A Bonds on July 1, 2013, and the deal closed on August 1, 2013. The effective cost of the funds of 4.44% was achieved, and the effect of the $75 million County loan brought the true interest cost to 3.68%. The bond restructuring of all the Cross County Bonds, with the exception of the $97 million Series 2009 Bonds, achieved important long-term financial objectives for the Agency. St. Louis County approved the appropriation of the 2nd Loan Advance in the amount of $30 million to the Agency in July 2014. The Agency redeemed the Series 2052 bonds in the amount of $30 million on October 1, 2014, lowering the interest rate on the $30 million debt from 4.75% to 1.04%. The Agency closed on the Series 2014 Taxable Arch Tram Revenue Bonds on December 3, 2014, and these bonds have a par value of $7,656,000 and a 30 year term. On December 14, 2014, the Agency and St. Clair County Transit District **(SCCTD)** closed on the $4,160,000 issuance of the Series 2014 Bi-State/St. Clair County MetroLink Extension Project Refunding Revenue Bonds. The Agency has one remaining capital lease for its 2001 LRV Lease. In March, in conjunction with its diesel fuel hedging program, the Agency had a realized loss of $361,000 on the sale of Home Heating Oil #2 futures contracts. This report was informational only, and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

12. Unscheduled Business

8:55 a.m. There was no unscheduled business.

13. Executive Session - If such action is approved by a majority vote of the Bi-State Development Agency's Board of Commissioners who constitute a quorum, the Board may go into closed session to discuss legal, confidential, or privileged matters under §610.021(1); RSMo; leasing, purchase or sale of real estate under §610.021(2); personnel actions under §610.021(3); discussions regarding negotiations with employee groups under §610.021(9); sealed bids, proposals and documents related to negotiated contracts under §610.021(12); personnel records or applications under §610.021(13); records which are otherwise protected from disclosure by law under §610.021(14); records relating to hotlines established for report abuse and wrongdoing under §610.021(16); or confidential or privileged communications with the District's auditor, including auditor work products under §610.021(17).

8:55 a.m. Pursuant to the requirements of Section 610.021(1) 610.021(9), 610,021(12), and 610.021(16) of the Revised Statutes of Missouri, Commissioner Kicielinski requested a motion to allow the Board to go into closed session. A motion was made by Commissioner Gully and seconded by Commissioner Brown. A roll call vote was taken and the Commissioners present, Brown, Gully, Dietzel, Buehlhorn, and Kicielinski voted to approve this agenda item. **Motion passed unanimously.**

14. Call of Dates for Future Committee Meetings

10:05 a.m. An Operations Committee meeting is scheduled for Tuesday, May 19, 2015, at 8:00 a.m.; an Audit Committee meeting is scheduled for Friday, May 22, 2015, at 8:00 a.m.; a Board meeting is scheduled for Friday, June 26, 2015, at 8:00 a.m.; and the next Finance & Administration Committee meeting is scheduled for Friday, August 28, 2015, at 8:00 a.m.

15. Adjournment

10:05 a.m. A motion to adjourn the Open Session Finance & Administration Committee Meeting was made by Commissioner Dietzel and seconded by Commissioner Brown. **Motion passed unanimously.**

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Deputy Secretary to the Board of Commissioners
Bi-State Development Agency / Metro