

AMENDED 03/23/17
BI-STATE DEVELOPMENT
AUDIT, FINANCE & ADMINISTRATION COMMITTEE MEETING
OPEN SESSION MINUTES
JANUARY 27, 2017

Committee Members in Attendance

Missouri

Constance Gully Chair (present @ 8:05 a.m.)
Vernal Brown
Vince Schoemehl (via phone @ 8:17 a.m.)

Illinois

David Dietzel (absent)
Jeffrey Watson (absent)

Other Commissioners in Attendance

None

Staff in Attendance

John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Shirley Bryant, Certified Paralegal
Jim Cali, Director of Internal Audit
Ray Friem, Executive Director Metro Transit
Larry Jackson, Executive Vice President for Administration
Kathy Klevorn, Sr. Vice-President and Chief Financial Officer
Barbara Georgeff, Director of Executive Services
Brenda Krieger, Executive Assistant
Mark Vago, Controller
Tammy Fulbright, Director, Treasury Services
Kent Swagler, Director Corporate Compliance and Ethics
Mandi Myers, Compliance & Ethics Analyst & Training Specialist, Part-Time
Angela Staicoff, Internal Auditor
Kelli Fitzpatrick, Internal Auditor, Part-Time
Amy Olden, Internal Audit Intern
Gary Smith, Internal Audit Intern
Kerry Kinkade, Vice President Chief Information Officer
Karl Tyminski, Internal Auditor, Part-Time
Charles Stewart, Vice President Pensions & Insurance
Virginia Alt-Hildebrandt, Manager, Administrative Services
Kelly Schneider, Manager Procurement Support
David Toben, Director Benefits
Jerry Vallely, External Communications Manager
Maryanne Coley, Manager Benefits
John Wagner, Director Research Institute
Jonathan Frederick, Director Accounting & Budget
Kathy Brittin, Director Risk Management, Safety & Claims
Michael Gibbs, Accountant Business Enterprise

Others in Attendance

None

1. **Call to Order**
8:05 a.m. Chair Gully called the Open Session Audit, Finance and Administration Committee Meeting to order at 8:05 a.m.
2. **Roll Call**
8:05 a.m. Roll call was taken.
3. **Public Comment**
8:05 a.m. There was no public comment.
4. **Finance and Administration Committee Open Session Minutes: August 28, 2016**
8:06 a.m. The August 28, 2016, Open Session Finance and Administration Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Brown and seconded by Commissioner Gully. **Motion passed unanimously.**
5. **Audit Committee Open Session Minutes: October 21, 2016**
8:06 a.m. The October 21, 2016, Open Session Audit Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Brown and seconded by Commissioner Gully. **Motion passed unanimously.**
6. **1st Quarter Financial Statements**
8:07 a.m. The 1st Quarter Financial Statements were provided in the Committee packet. Mark Vago, Controller, and Jonathan Frederick, Director Accounting & Budget, provided an overview. Historically the narrative focused on performance indicators, and revenues/expenses. A section has been added entitled “Fast Facts” that includes non-cash events, new hires, new systems, key meetings, and financial data. Bi-State Development Agency (**BSD**) total assets were \$1.47 billion, which is a slight increase over FY16. The combined statement of revenues and expenses by unit shows income or loss before depreciation of \$8.8 million for the 1st quarter FY17, compared to \$6.4 million for the 1st quarter FY16. Executive Services added two new employees, Ken Franklin, Vice President of Governmental Relations and Policy Initiatives; and Julianne Stone, Vice President of Strategic Initiatives. Income before depreciation was \$302.6 thousand, total revenue was \$1.1 million, and total expenses was \$821.7 thousand, all of which were down from the 1st quarter FY16. The Gateway Arch ongoing construction has shifted ticket sales to the Old Courthouse and a ticket booth near the Arch entrance resulting in increased expenses for additional staff. The Arch is currently closed and is scheduled to open in early March. Income before depreciation was \$1 million; total revenue was \$2.8 million, an increase of \$775.6 thousand over FY16. The Federal Transit Administration (**FTA**) acknowledged Metro as a model for transit asset management, specifically highlighting Metro as a case study in the July 26 *Federal Register*. BSD announced a partnership with the Southwestern Illinois Development Authority (**SWIDA**) and Bywater Development Group for a \$10.5 million affordable senior living development adjacent to the Swansea MetroLink station in Swansea, Illinois. Metro’s income before depreciation of \$7.0 million; total revenue of \$75.3 million; and total expenses of \$68.3 million were all down compared to the 1st quarter of FY16. The decrease is due to a combination of reasons which include

anticipated maintenance, ongoing security issues, custodial services, and fuel prices. The St. Louis Downtown Airport is slated to receive an FAA Safety Improvement Grant for taxiway rehabilitation. The airport also hosted a Legacy Flight Academy which offers a flight orientation program aimed at fostering an interest in aerospace careers among minority youth. Income loss before depreciation was \$38.4 thousand, unfavorable compared to net income of \$55.8 thousand last year. Total revenue was \$384.3 thousand, an increase over FY16. Total expenses of \$422.7 thousand, an increase of \$115,000 over FY16 primarily due to increase in legal and consultant fees. The Riverfront Attractions revenue has more than doubled due to the lack of flood days in July and August that plagued the riverboats in FY15. The riverboats are currently closed and are scheduled to reopen in early March. Total income before depreciation was \$499.9 thousand; total revenue was \$1.3 million compared to \$582.2 thousand last year. Total expenses were \$822.6 thousand compared to \$572.4 thousand last year; and the increased expenses were mainly due to normal operating cost. Mary Lamie, Executive Director of St. Louis Regional Freightway (the "Freightway), has been very busy building the foundational network required to ensure a strong business going forward. The networking included meeting with the U.S. Department of Transportation Federal Highway Administrator and the CEO of the Port of New Orleans. Freightway showed a net income loss of \$60,000; total revenue of \$63.3 thousand received from East West Gateway Council of Government (**EWGCG**) and Leadership Council of Southwestern Illinois; and total expenses of \$123.3 thousand that mainly consist of consulting and wage expenses.

****Commissioner Schoemehl joined via phone at 8:17 a.m.**

The Bi-State Development Research Institute, in partnership with St. Louis County, received approximately an approximately \$1 million grant to operate mobile clinics in the St. Louis area. The Institute showed a net income loss of \$41.5 thousand; total revenue of \$429; and total expenses of \$41.9 thousand. The majority of expenses were for services and materials related to the completion of the Missouri Health Foundation grant, which closed this fiscal quarter. Arts-In Transit dedicated a mural by Catherine Magel and Con Christeson named *Vehicle, Destination, Imagination* at the Forest Park-DeBaliviere MetroLink Station. Net income loss was \$27.8 thousand; total revenue was \$32,000; and total expenses were \$4.2 thousand. The Self-Insurance Fund had a combined net loss of \$97.9 thousand. This report was informational only, and no further Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

7. 1st Quarter Performance Indicators

8:20 a.m. The 1st Quarter Performance Indicators was provided in the Committee packet. Mark Vago, Controller provided a brief overview. Take-offs and landing at the St. Louis Downtown Airport are up 30%. The number of Riverboat passengers for the 1st quarter FY17 was up 82% and resulted in \$53,000 compared to \$29,000 in FY16. The number of cruises was 442 compared to 247 last year. Arch Tram passenger ridership was approximately 283,000 for the 1st quarter FY17 compared to 313,000 last year. In the 1st quarter FY17, Transit had 11.1 million boardings compared to 12.1 million in 2016 and 12.9 million in 2015. Overall ridership is down 8.4%, MetroBus is down 9.7% and MetroLink is down 6.2%. The average fare ending FY16 was at \$1.08 and for the 1st quarter of FY16 it was at \$1.09; the average fare for the 1st quarter of FY17 is \$1.04. Some additional discussion followed regarding strategies to improve ridership. This report was informational only and no additional Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

8. November Treasury Report

8:27 a.m. The November 30, 2016, Treasury Report was provided in the Committee packet. Tammy Fulbright, Director Treasury Services, provided a brief overview. In November, Bi-State directed \$212 million in cash and investments. In the last quarter of FY16, money market reform basically changed prime money markets in three ways. One of which was changing net asset value and how it was calculated, so that instead of valuing assets at cost, it was valued at market. By actually calculating it by market price there was more potential for change in the amount, potentially creating a risk for principal loss. Additionally, in times of distress, prime funds could charge a fee if you took your money out of the funds; and a gate was added providing more time to redeem funds when you requested them. These issues of both principal loss and liquidity resulted in BSD moving out of prime money market funds into U.S. Treasury and U.S. Government Agency securities. The Fed declined to increase rates in November, but did vote to raise the federal funds rate 25 basis points in December. The Fed anticipates three more rate hikes in 2017. This report was for informational purposes only and no further Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

9. 1st Quarter Procurement Report

8:30 a.m. The 1st Quarter Procurement Report was provided in the Committee packet. Larry Jackson, Executive Vice President for Administration, provided a brief overview. The non-competitive procurement trend for the quarter was at 11.3%, and for the last twelve (12) months the Agency was under its 10% goal at 8.6%. This report was for informational purposes only and no further Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

10. Treasury-Safekeeping Quarterly Accounts Audit – Ending September 30, 2016

8:30 a.m. The briefing paper regarding the Treasury-Safekeeping Quarterly Accounts Audit – ending September 30, 2016, was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In accordance with Board Policy Chapter 30, the Internal Audit Department (**IAD**) is tasked with the responsibility to review the custodians that are maintaining Agency safekeeping accounts and confirm the balances. For the 3rd quarter ending September 30, the Agency had \$74.5 million in U.S. Treasury and/or government agency securities held in safekeeping accounts. IAD's review of these accounts showed that the custodians have properly accounted for all of the funds, and the balances reflected on the Treasury's report have been fairly stated in accordance with GASB No. 72 *Fair Value Measurement and Application*.

11. Internal Audit Status Report – 2nd Quarter FY17

8:31 a.m. The briefing paper regarding the Internal Audit Status Report – 2nd Quarter FY17 was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In accordance with Board Policy Chapter 30, IAD prepared the Internal Audit Status Report to show audit activity for the 2nd Quarter of FY17. IAD has worked on a number of audits and issues that will be discussed under Agency Item #12, Internal Audit Follow-Up Summary. During this period BKD, a certified public accounting firm, was engaged to conduct an audit of the health insurance claims through the Agency's self-funded health insurance program. BKD has completed their review of the claims from Cigna and Delta Dental, and in January they began their review of the claims for Express Scripts, the Agency's pharmacy benefit manager. A chart was provided that details all the audits that are underway and the hours spent by IAD and the contract auditors from BKD. The results of the health insurance self-insured audit is expected to be completed and a draft report prepared by BKD by the next Audit, Finance & Administration Committee meeting. This

report was informational only, and no additional Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

12. Internal Audit Follow-Up Summary – 1st Quarter FY17

8:36 a.m. The briefing paper regarding the Internal Audit Follow-Up Summary – 1st Quarter FY17 was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In accordance with Board Policy Chapter 30, IAD was tasked with doing follow-up summaries on all of the audits that have been completed. The follow-up is probably the most important part of the audit process in making sure that management completes the implementation plan for any kind of corrective action that came out of the report. During this period, the 1st Quarter of FY17, IAD was tracking 115 recommendations and 79 were closed out during this quarter. At this point, there are no outstanding items that are overdue. This report was informational only, and no further Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

13. 401(k) Plan Audit Update

8:34 a.m. The briefing paper and attachment regarding the 401(k) Plan Audit Update were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. All audits are up to date, an audit report was issued by Mayer, Hoffman, McCann for the period ending December 31, 2015, and it was a clean audit opinion. Everything identified in terms of management issues were taken care of during the course of the audit. The 401(k) asset balance as of December 31, 2015 was approximately \$40 million. At the next Audit, Finance & Administration Committee meeting, investment performance updates will be presented. This report was informational only and no further Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

14. 2016 Pension Valuations Update (amended 03/23/17)

8:38 a.m. The briefing paper and attachments regarding the 2016 Pension Valuations update were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. Milliman has issued Valuation Reports for FY16 for the three pension plans. As of June 1, 2016, the funded ratio for the Salaried Pension Plan was 71.3% with an unfunded liability of \$24 million. As of April 1, 2016, the funded ratio for the IBEW pension plan was 86.7% and the unfunded liability was \$620,046. As of April 1, 2015, the funded ratio for the Local 788, ATU Pension Plan was 59.9% with an unfunded liability of \$82 million. The salaried pension plan funding ratio was reduced from 78.3% to 71.3% and the reasons are as follows: 1) The salaried compensation plan was changed for salaried individuals; and there were significant raises during this period, that impacted the funding; 2) the actuary rate of return assumed by the actuaries was reduced from 7.5% to 7%, which actually reflected the reality of what the pension plans were earning with their investments. During that period of time, there was a reduction in earnings on plan assets. The actuary recommended company contribution of \$3.6 million. The Salaried Pension Committee approved \$4 million, which is \$1 million per quarter. The \$4million is the company contribution and does not include the 3% the employees, who are still in the plan, are contributing, which is approximately \$500,000 to \$600,000. Although there were changes, there is no real concern about the future of this plan.

The IBEW Pension Plan is by far the best funded plan. Their funding ratio increased from 86.5% to 86.7%. The new January 1, 2014 IBEW contract included an extra \$47.05 per week to be added to this fund in order to bring it to 100% and this is the second year of that increase. The weekly

contributions also increased based on this valuation. The IBEW is a very stable plan at this time with a very stable population. This is the best of the three plans we now operate.

The ATU 788 Combined Plan valuation went up from 59.6% to 59.9% because of the actuary valued assets. There is a smoothing process that takes place in terms of valuing the assets by the actuary versus the market value of the assets. The weekly contribution recommended by the actuary went from \$161 to \$165 per week and that is distributed 70-30 between the company and the employees. Over the last three or four years the trustees for the ATU 788 plan have always recommended a higher contribution level. They recognize that there are problems with their plans, so although the actuary recommended \$165.65, the trustees voted on a rate of \$175. There are now new ATU 788 trustees that were recently voted in based on the union elections that took place in December 2016. The first meeting is in February and we look forward to working with those new trustees.

The Pension Committees went out for bid for new auditors. Mayer, Hoffman, McCann has done audits for both the pension plans and the 401(k) plan since 2016. The selection committee will recommend to the Pension Committees in February that we continue with Mayer, Hoffman, and McCann. This report was informational only, and no further Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

15. Compliance and Ethics “State of the Agency”

8:45 a.m. The briefing paper and the Compliance and Ethics “State of the Agency” report were provided in the Committee packet. Kent Swagler, Director of Corporate Compliance and Ethics, provided a brief overview. The presentation provided the current state of the Agency with respect to meeting its documented compliance requirements for calendar year 2016. Current status of compliance and ethics programs, initiatives, and training programs were also discussed. Compliance status and results of division reviews across the entire Agency were also presented. This report was informational only, and no further Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

16. Unscheduled Business

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

17. Call of Dates for Future Committee Meetings

8:56 a.m. The Board was advised of the upcoming meetings, as follows:

Board Meeting:	Friday, February 24, 2017, 8:00 a.m.
Operations Committee:	Tuesday, March 21, 2017, 8:00 a.m.
Audit, Finance & Administration Committee:	Friday, March 24, 2017, 8:00 a.m.

18. Adjournment to Executive Session

8:57 a.m. 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 pursuant to Bi-State Development Board Policy Chapter 10, Section 10.080(D) Closed Records; Legal under § 10.080(D)(1); Real Estate under §10.080(D)(2); Personnel under § 10.080 (D)(3); Health Proceedings under §10.080(D)(4); Employee Negotiations under § 10.080(D)(5); Data Processing under § 10.080(D)(6); Purchasing and Contracts under § 10.080(D)(7); Proprietary Interest under § 10.080(D)(8); Hotlines under § 10.080(D)(9); Auditors under §

10.080(D)(10); Security under § 10.080(D)(11); Computers under § 10.080(D)(12); Personal Access Codes under § 10.080(D)(13); Personal Information under § 10.080(D)(14); Insurance Information under § 10.080(D)(15); Rail, Bus, or Facilities Safety and Accidents under § 10.080(D)(16) or Protected by Law under § 10.080(D)(17).

Pursuant to the requirements of Section 10.080 (D) (6), (9), (10), (11), and (17) of the Bi-State Development Board Policy, Chapter 10, Section 10.080, Chair Gully requested a motion to allow the Committee to go into closed session. A motion to go into Executive Session was made by Commissioner Brown and seconded by Chair Gully. A roll call vote was taken and the Commissioners present, Brown, Gully and Schoemehl voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned at 8:57 a.m.**

Deputy Secretary to the Board of Commissioners
Bi-State Development