BI-STATE DEVELOPMENT
FINANCE & ADMINISTRATION COMMITTEE MEETING
OPEN SESSION MINUTES
MARCH 18, 2016

Committee Members in Attendance

Missouri
Vernal Brown
Constance Gully
Aliah Holman

Illinois
Tadas Kicielinski, Chairman
David Dietzel (absent)

Other Commissioners in Attendance
Michael Buehlhorn (via phone @ 8:25 a.m.)
Irma Golliday (via phone)

Staff in Attendance
John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Brenda Krieger, Executive Assistant
Dixie Dahlke, Temporary Assistant – Program Development and Grants
Kathy Klevorn, Sr. Vice-President and Chief Financial Officer
Mark Vago, Controller
Jim Cali, Director, Internal Audit
Erick Dahl, Director, St. Louis Downtown Airport
Jackie Covington, Capital Program Analyst
David Beal, Capital Budget & Program Development Administrator
Charlie Pogorelac, Manager, Financial Planning & Budget
Dan Hinrichs, Business Analyst
Adam Schisler, Budget System Administrator
Tracy Beidleman, Director, Program Development & Grants
Tammy Fulbright, Director, Treasury Services
Tom Dunn, Director, Gateway Arch Riverboats
Jonathan Frederick, Director, Accounting & Budget
Michael Gibbs, Accountant-Business Enterprises
Charles Stewart, Vice President Pension & Insurance
Kent Swagler, Director, Corporate Compliance
Francoise Lyles-Wiggins, Supplier Diversity Manager
Larry Jackson, Executive Vice President for Administration
Melva Pete, Vice President, Human Resources
Kathy Brittin, Director, Risk Management Safety & Claims
Dianne Williams, Vice President, Communications & Marketing
David Toben, Director, Benefits
Kerry Kinkade, Vice President, Chief Information Officer
Jerry Vallely, External Communications Manager
Patti Beck, Director, Communications
Ray Friem, Executive Director Metro Transit
John Wagner, Project Manager, Economic Development
Barbara Georgeff, Director of Executive Services

Others in Attendance

None

1. **Call to Order**
   8:05 a.m. Chairman Kicielinski called the Open Session 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. **Minutes from August 28, 2015 Finance and Administration Committee Meeting - Open Session**
   8:06 a.m. The August 28, 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 Holman and seconded by Commissioner Gully. **Motion passed unanimously.**

5. **Fiscal Year 2017 Fare Recommendation**
   8:07 a.m. The briefing paper regarding the Fiscal Year 2017 Fare Recommendation was provided in the Committee packet. A brief overview was provided by Ray Friem, Executive Director Metro Transit. The *Moving Transit Forward Long Range Plan* (the **"Plan"**) was adopted in 2010 by Bi-State Development **(BSD)** and East West Gateway Council of Governments **(EWGCG)**. The Plan included a financial model on projected growth of all sources of revenue. Passenger revenue growth along with the appropriate levels of capital and operating support provided for a restored and expanded transit system for the metropolitan area over a twenty (20) year period. BSD implemented fare increases in FY11, FY13, FY15, and one is scheduled for FY17. In FY15, changes in ridership began to emerge due primarily to the combination of regional events, lower fuel prices, and the FY15 fare increase. These changes resulted in a negative trend on the system's ridership and revenues. In the current operating environment, an increase in fares in FY17 would erode an already fragile ridership base resulting in additional revenue losses. Due to the ridership loss and the deployment of the smart card system, management's recommendation is not to implement a fare increase in FY17. This would give BSD an opportunity to re-establish better ridership levels and new technologies. A motion for the Finance & Administration Committee to approve and recommend to the Board that no fare increase be implemented in FY17; and that the issue be reviewed again in the operational and business planning for the FY18 budget was made by Commissioner Gully and seconded by Commissioner Holman. **Motion passed unanimously.**

6. **Sole Source Contract Award: Gateway Fire Protection Systems, Inc.**
   8:08 a.m. The briefing paper regarding the Sole Source Contract Award to Gateway Fire Protection Systems, Inc. report was provided in the Committee packet. Ray Friem, Executive Director of Metro Transit, and Larry Jackson, Executive Vice President of Administration, provided a brief overview. A bid was issued on January 6, 2016, seeking companies to replace the Illinois Bus Facility Underground Loop Fire Suppression System. One bid was received on February 9, 2016, from Gateway Fire Protection Systems, Inc. **("Gateway")**. This bid was compared to the Independent Cost Estimate, prepared by the Transit Operations Division, and invoices received from Gateway for like services provided to their customers. Based on this review, it was determined that the bid was fair and reasonable. A motion for the Finance and Administration Committee to approve and forward to the Board for approval to award a sole source contract in the amount of $346,511 to Gateway Fire Protection Systems for an Underground Loop Fire

Suppression System was made by Commissioner Gully and seconded by Commissioner Brown. **Motion passed unanimously.**

7. Disadvantaged Business Enterprise Program Update

8:10 a.m. The briefing paper regarding the Disadvantaged Business Enterprise Program Update was provided in the Committee packet. Larry Jackson, Executive Vice President of Administration, introduced Francoise Lyles-Wiggins, Manager, Office of Supplier Diversity, to provide a brief overview. Ms. Lyles-Wiggins discussed the three-year Disadvantaged Business Enterprise **(DBE)** goal of 20%, for the period of October 1, 2015, through September 30, 2018. The U.S. Department of Transportation 49 CFR, Part 26 ensures that DBE firms are afforded viable opportunities to participate on BSD projects agency-wide. The BSD Office of Supplier Diversity **(OSD)** administers the DBE Program, and as a recipient of federal financial assistance through the Federal Transit Administration **(FTA)**, BSD is required to maintain a DBE Program. OSD sets BSD's three-year goals and monitors progress toward goal attainment. BSD's report submitted to the FTA on December 28, 2015, projected that BSD would achieve overall 20% DBE participation with 15% of the goal achieved through race neutral means and 5% through race conscious means. The FTA approved BSD's 2016 – 2018 DBE goal on January 20, 2016. BSD exceeded its projected goal of 16% during Federal Fiscal Year **(FFY)** 2012 and 2013, and as a result an adjustment to the use of contract goals was implemented. The adjustment resulted in a shortfall at the end of FFY15 and as required a shortfall analysis report was developed and submitted to FTA for review and approval. The analysis outlined OSD's corrective action plan and implementation of the plan has begun. A motion for the Finance and Administration Committee to discuss and forward to the Board for approval BSD's revised three-year DBE goal of 20%, for the period of October 1, 2015 through September 30, 2018 was made by Commissioner Brown and seconded by Commissioner Golliday. **Motion passed unanimously.**

8. Bi-State Development Operating and Capital Budget FY 2017 – 2019

8:15 a.m. The briefing paper regarding the Bi-State Development Operating and Capital Budget FY 2017 – 2019, and the draft Budget were provided in the Committee packet. Tracy Beidleman, Director of Program Development & Grants, and Mark Vago, Controller, provided a brief overview. Mr. Vago stated that the 2017 – 2019 Budget incorporates the rebranding as Bi-State Development, relocating the headquarters, reorganizing BSD and implementing three internal service funds. John Nations, President & CEO, and Ray Friem, Executive Director, Metro Transit were featured in an article in *Mass Transit Magazine* discussing the economic benefits of mass transit. This is just one of the industry related magazines in which articles about Metro have been featured. BSD/Metro Transit has been recognized internationally for its world class vehicle maintenance program; and in the past 12 months BSD has won awards in procurement, marketing, communications, finance and other areas of the company. Mr. Nations was awarded the 2015 Good Scout Award for his many contributions to the region.

The annual budget is presented in accordance with Board Policy and the funding source for the Operating and Capital Budget includes operating revenue of each entity, local, state, and federal funding sources. The FY17 – FY19 Operating and Capital Budgets take into account the current economic conditions and conservatively estimate revenue, expense, and capital replacement and rehabilitation needs. BSD has focused its expertise on resources for regional economic development through the St. Louis Regional Freightway and the Research Institute. The opening of the North County Transit Center, rehabilitating infrastructure, modernizing the bus and rail fleet and equipment, and collaborating with CityArchRiver project renovations will enhance the customer's experience. The transit operating and non-operating revenues total $309.4 million, with the largest contributions from St. Louis County, St. Clair County, St. Louis City, and passenger revenue. The transit operating and non-operating expenses total $310.8 million, with compensation making up the largest portion. Source of funds for the Capital Budget for FY17 - FY19 are $159 million from local funding and $474.9 million from federal funding for a total of $633.9 million.

****8:25 a.m. Commissioner Buehlhorn joined the meeting via phone.**

Ms. Beidleman discussed the new transportation law that was recently enacted, the Fixing America's Surface Transportation **(FAST)** Act that was signed by President Obama on December 4, 2015. It became effective October 1, 2015, and will extend through September 30, 2020. The FAST Act was intended to provide steady predictable funding over the five (5) year authorization period with an increase in funding to transit programs. FAST maintains other formula based funding source programs authorized under the prior transportation law, MAP-21. In addition, several discretionary programs have been maintained including the Congestion Mitigation and Air Quality and Surface Transportation programs. One of the biggest changes was the reintroduction of the Bus and Bus Facility Discretionary Program. Funding was reestablished to support competitive grant opportunities. There will be $55 million per year set aside to provide funding to support Low and No Emission vehicles that support clean air efforts. The change to Section 5307 Urbanized Area Formula Program eliminates the 1% Enhancement set aside. Physical art was eliminated from the program under MAP-21. FAST now makes the incremental costs of incorporating art into a project or incorporating non-functional landscaping into facilities, as well as the cost of an artist on a design team, an ineligible expense. BSD will have to identify other funding options to support artist collaboration and facility landscaping needs. BSD will also be required to maintain equipment and facilities in accordance with the transit asset management plan. Approximately 69% of the federal funding is planned from formula programs that include 5307 Urbanized Area Formula, 5337 State of Good Repair, 5339 Bus and Bus Facility funding and the remaining funding previously apportioned under the Fixed Guideway program. Approximately 31% of the funds are planned from various discretionary sources such as the TIGER program, CMAQ program, STP, Enhanced Mobility of Individuals and Seniors with Disabilities, and Homeland Security, as well as funding previously appropriated under the New Freedom and JARC programs. The Missouri local sales tax makes up approximately 57% of the local match required for capital projects. The Illinois local match, including funding from SCCTD and grant funds through IDOT, make up 8.9% of the planned local funds to support Illinois related capital projects. These capital funds will be allocated to capital activities and planned major project expenditures over the next three years.

Some discussion followed regarding fare enforcement infrastructure changes. Mr. Friem advised the Board that he would provide a link to the independent analysis that would show that there would be no return on this type of investment. The physical barrier equipment is estimated to cost approximately $40 million. MetroLink was designed to be open with multiple walk up points. BSD would have to build ADA compatible ingress and egress and a plaza at every station to eliminate track access. The new smart card system is expected to make fare enforcement easier and reduce losses. Although the smart card system return on investment is difficult to quantify, management believes it would provide better revenue enforcement, control discounts, offer customer convenience, and greatly reduce transfer abuse.

The presentation also included a discussion regarding Tourism Innovation that includes the Gateway Arch, the Riverboats, and the Heliport. The Gateway Arch Tram System total revenue was $7.6 million, and the total expenses were $5.5 million. The Other Expense category was up because of additional promotional and advertising related to the opening of the Arch. The net income totaled $2.1 million before depreciation. Discussions continued regarding the Gateway Arch Tram System capital projects. The Riverboat sightseeing and dinner cruise ticket prices increased by $2 for both children and adults. Based on historical trends, 18 flood days were included in the financial statements for the 2017 budget; and there was one capital project related to the engine rebuild for the Becky Thatcher riverboat. The Riverfront Attractions for the 2017 budget had revenue of $2.7 million, which includes the increases related to the change in ticket prices. The Heliport rental is $5,500 per month. In addition, when receipts reach certain thresholds, BSD receives a percentage of those receipts. The expenses were $2.6 million, resulting in a net income of approximately $100,000 before depreciation. The St. Louis Downtown Airport **(Airport)** revenue was $1.5 million, total expenses were $1.6 million, with a net income loss before depreciation of $122,214. Discussions followed on plans to better improve revenue at the Airport.

A motion for the Committee to approve and refer to the Board to approve the FY17 – FY19 Operating and Capital Budget was made by Commissioner Gully and seconded by Commissioner Brown. **Motion passed unanimously.**

9. 2nd Quarter Financial Statements

9:10 a.m. The 2nd Quarter Financial Statements Report was provided in the Committee packet. This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

10. 2nd Quarter Performance Indicators

9:10 a.m. The 2nd Quarter Performance Indicators Report was provided in the Committee packet. This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

11. 2nd Quarter Procurement Report

9: 18 a.m. The 2nd Quarter Procurement Report was provided in the Committee packet. This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

12. January Treasury Report

9:19 a.m. The January 31, 2016, Treasury Report was provided in the Committee packet. Tammy Fulbright, Director, Treasury Services provided a brief overview. The total Bi-State Development directed investments were $194 million, and the average rate of return was 44 basis points or .44%. In comparison to June 2015, we had about $200 million of BSD directed investments, with an average return of 28 basis points or .28%. It is a good sign that the average rate of return is improving. Trustee Directed Funds are $50 million with an average rate of return of 1.39%. BSD is able to invest these funds for a longer duration. The Federal funds rate was increased from the 0 to .25% range to .25% to .50% range. For the consumer and corporate borrowing, the increase results in higher cost of borrowing. Speculation is that the rates may increase twice this year. The short term rates as of January 31, 2016, for T Bill was .44%, Agency Discount Notes was .68%, and Collateralized CD was .65%. The long term rate for 2 year Agency Bonds was 1.00%, and for 3-year Agency Bonds was 1.25%. The current rates for March are about the same with the exception of Treasury bills. In anticipation of a possible Fed increase, Treasury bills were up about a quarter percent. 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.

13. Pension Plan & 401(k) Retirement Savings Program Investment Performance Update as of 12/31/15

9:21 a.m. The briefing paper and attachments regarding the Pension Plan and 401(k) Retirement Savings Program Investment Performance Update as of 12/13/15 were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. Mr. Stewart discussed the year-ended December 31, 2015 Pension Plan and 401(k) Retirement Savings Program Investment Performance Reports that were presented to the respective trustees by Ellwood Associates, at the February 2016 trustee meetings.

Salaried Pension Plan: The Salaried Pension Plan total assets as of December 31, 2015 were $54.7 million. After falling to $33.4 million in 2008, assets have steadily grown, increasing by over $20 million since the financial crisis. Weak investment performance, together with modestly negative cash flows have resulted in a lower 2015 Portfolio value. Total assets are lower by $1.1 million, and the portfolio experienced a net spending outflow of $800,000 since the beginning of 2015. During the fourth quarter, the Salaried Pension Portfolio had a 2.4% rate of return. The Portfolio declined by 40 basis points for calendar year ended December 31, 2015. Since inception the total portfolio has a 7.6% average annual rate of return outpacing its benchmark by 40 basis points. The portfolio's investments are in line with its target allocations. The portfolio investment managers are performing in line with expectations.

401(k) Retirement Savings Program: The total assets for the 401(k) Program are $40.3 million as of the end of the fourth quarter 2015. Participant contributions have been consistent throughout the market environment. The Program had $3.5 million in new contributions during 2015. Allocations to individual funds and asset types remain relatively unchanged from the beginning of the year. The T. Rowe Price Lifecycle Funds continue to grow in popularity. No changes to the investment manager lineup was recommended. Each investment is performing in line with Ellwood's expectations.

IBEW Pension Trust – Local 2 and Local 309: The total assets as of December 31, 2015, were $3.7 million, gaining approximately $200,000. Total portfolio market values have steadily increased. The portfolio rallied strongly following the sell-off that occurred during the third quarter. All Portfolio investment managers are performing in line with expectations, and no recommendations for replacement were advised. Asset allocation continues to split with 65% equities and 35% fixed income. Ellwood recommended rebalancing $70,000 of the Plan's cash balance. The Committee approved purchasing $50,000 of Harbor International and $20,000 of Vaughn Nelson.

788 Pension: The total assets are $116.9 million. Fund flows to date have been modestly negative with contributions of $13.3 million compared to benefit payments of $14.8 million. This trend is consistent with previous calendar years. The fourth quarter rate of return was 2.5%. Longer term performance remains favorable. The Portfolio's current real estate allocation is modestly overweight. Underweight exposures to equities and hedge funds offset the real estate allocation. No action to rebalance the portfolio is recommended at this time. In November 2015, BlueCrest announced their decision to close their business to outside investors. BlueCrest returned 75% of the Trust's money by the end of January 2016, with an additional 15% to be received by the end of March. A 10% reserve will be withheld until July 2016, when the Fund completes its audit. Due to the fund closure, Ellwood recommended redeploying the proceeds from the BlueCrest redemption to the existing hedge fund managers (approximately $2 million each). The existing managers (HBK and Och-Ziff) are adequately diversified, and should retain the hedge fund portfolio's expected risk/return profile. All other investment managers are performing in line with Ellwood's expectations. No additional recommendations were advised. These reports were informational only and no Committee action was required. A copy of the reports will be kept at the office of the Deputy Secretary.

14. Pension Audit Update

9:40 a.m. The briefing paper and Pension Audit Update Report were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. The Pension Data Audit, issued by Bi-State Development's Internal Audit Department **(IAD)** in March 2012, identified policy, procedures, recordkeeping and internal control deficiencies that affected both financial reporting and the general administration of the pension plans. A recommendation was made by IAD for the pension trustees to engage an independent certified public accounting firm to perform an annual financial statement audit. This recommendation was implemented and the audit reports reflect significant progress in addressing the deficiencies noted by IAD. The four pension plans financial audit reports for fiscal years 2007, 2008, 2009, and 2010 were issued by Mayer, Hoffman, McCann, PC **(MHM)** in September 2012. Audit reports for fiscal years 2011 and 2012 were issued in February 2014; for fiscal years 2013 and 2014, the reports were issued in May 2015; and for fiscal year 2015, in September 2015. The financial audit report for the 401(k) Plan for fiscal years 2006 to 2012 was issued in September 2014; and issued for fiscal years 2013 and 2014 in February 2016. At the February 2016 Pension Committee meetings, the Pension Trustees for all committees voted to seek audit proposals for the next round of annual audits. MHM issued clean audit opinions for fiscal year ended 2015 for all four pension plans; and for 2013 and 2014 for the 401(k) Retirement Savings Program. 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.

15. 2015 Pension Valuation Update

9:43 a.m. The briefing paper and attachments regarding the 2015 Pension Valuation Update were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. As of June 1, 2015, the funded ratio for the Salaried Pension Plan was 78.3%, and the unfunded liability was $16,062,541. As of April 1, 2015, the funded ratio for the IBEW Pension Plan was 86.5% and the unfunded liability was $559,229. As of April 1, 2015, the funded ratio for the Local 788 Pension Plan was 59.6% and the unfunded liability was $80,003,001. ATU Local 788 agreed to merge the Division 788 O&M and the Clerical Pension Plans, effective April 1, 2015. As of April 1, 2014, the funded ratio for Local 788 O&M Pension Plan was 56.4% and the unfunded liability was $80,652,709. For the Clerical Plan, the funded ratio was 45.0% and the unfunded liability was $6,424,007. If the Plans had been merged on April 1, 2014, the funded ratio for the combined plans would have been 55.7% and the unfunded liability would have been $87,076,716. 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.

16. Pension & Insurance – Internal Service Funds Update

9:53 a.m. The briefing paper and Pension and Insurance Internal Service Funds Update were provided in the Committee packet. Charles Stewart, Vice President Pension and Insurance, provided a brief overview. The accounting, reporting, and management of the Self-Funded Health Insurance, General Liability and Worker's Compensation programs, which includes the current activities of the Benefits and Risk Management Departments, are being reorganized to achieve the accountability objectives of the Board. The Finance and Internal Audit Departments are playing significant roles in the development of the infrastructure and the financial reporting processes for this reorganization. The three Internal Service Funds established are: 41- Health Self-Insurance Internal Service Fund; 42 – Casualty Self-Insurance Internal Service Fund; and 43 – Workers Compensation Self-Insurance Service Fund. Mr. Stewart has been given full authority and responsibility for all operations relating to these Internal Service Funds. 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.

17. Health Care Reform Impact Update

10:00 a.m. The briefing paper regarding the Health Care Reform Impact Update was provided in the Committee packet. Dave Toben, Director of Benefits, provided a brief overview. The Benefits Department along with a health and welfare plan consultant are engaged in monitoring the guidance being released by the U.S. Health and Human Services **(HHS)** Department enacting this legislation. Major impacts from the legislation began to be felt in 2014 for individuals and in 2015 for employer groups. Mr. Toben's remarks highlighted the state and federal Health Care Exchanges as well as employer mandates. 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.

18. Other Post-Employment Benefits (OPEB) Trust Review

10:12 a.m. The briefing paper regarding Other Post-Employment Benefits **(OPEB)** Trust Review was provided in the Committee packet. Dave Toben, Director of Benefits, provided a brief overview. On May 30, 2008, the Board passed a resolution authorizing the establishment of an OPEB trust. By establishing an OPEB trust, certain initiatives were addressed. On May 10, 2010, a trust was established naming the Bank of New York Mellon Trust Company N.A. as the custodial trustee and the initial contribution was $3 million. In June 2013, the trustees retained Ellwood Associates as investment advisor and established a formal Statement of Investment Policy **(SOIP)** effectively moving the trust asset management responsibility from the BSD Treasury Department to Ellwood Associates. As of June 30, 2010, the total OPEB Unfunded Actuarial Accrued Liability **(UAAL)** was $188,244,000. Primarily through modifications made to our retiree health plan for those post-65 participants that become Medicare eligible, as of June 30, 2015, the OPEB UAAL was reduced to $64,846,100. 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.

19. Unscheduled Business

10:21 a.m. There was no unscheduled business.

20. Call of Dates for Future Committee Meetings

10:21 a.m. The next Board meeting is scheduled for Friday, April 22, 2016; the next Finance and Administration Committee meeting is scheduled for Friday, May 13, 2016.

21. Executive Session - If such action is approved by a majority vote of the Bi-State Development'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 reporting 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).

10:21 a.m. Pursuant to the requirements of Section 610.021(1) of the Revised Statutes of Missouri, Chairman Kicielinski requested a motion to allow the Committee to go into closed session. A motion to go into Executive Session was made and seconded. A roll call vote was taken and the Commissioners present, Gully, Brown, Holman, Buehlhorn, Kicielinski and Golliday voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned.**

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Deputy Secretary to the Board of Commissioners
Bi-State Development