BI-STATE DEVELOPMENT

BI-STATE DEVELOPMENT
AUDIT, FINANCE & ADMINISTRATION COMMITTEE MEETING
OPEN SESSION MINUTES
MARCH 24, 2017

Committee Members in Attendance
Constance Gully Chair
Vernal Brown
David Dietzel, (absent)
Vince Schoemehl, (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
Tracy Beidleman, Director Program Development & Grants
Monica Smith, Administrative Assistant
Erick Dahl, Director St. Louis Downtown Airport
Jackie Covington, Capital Budget & Program Development Administrator
Theresa Gudowicz Green, Manager Treasury Operations
Jonathan Frederick, Director Accounting & Budget
Michael Gibbs, Accountant Business Enterprise
Adam Schisler, Budget System Administrator
David Sanders, Strategic Business Development Manager
Sarah Clarke, Director Gateway Arch Operations
Charles Pogorelac, Manager Financial Planning & Budget
James T. Dunn, Director Gateway Arch Riverboats
Daniel Hinrichs, Business Analyst
David Allen, Director Arts in Transit
Gary Smith, Internal Audit Intern
Richard Zott, Chief of Public Safety
Kathy Brittin, Director Risk Management, Safety & Claims
Patti Beck, Director Communications
David Toben, Director Benefits
Kerry Kinkade, Vice President Chief Information Officer
Maryanne Coley, Manager Benefits
Ken Franklin, Vice President Government Relations & Policy Initiatives
John Wagner, Director Research Institute

Jenny Nixon, Executive Director Tourism Innovation
Mary Lamie, Executive Director St. Louis Regional Freightway

Others in Attendance
None

1. **Call to Order**
8:00 a.m. Chair Gully called the Open Session Audit, Finance and 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. **Audit, Finance and Administration Committee Open Session Minutes: January 27, 2017**
8:01 a.m. The January 27, 2017, Open Session Audit, Finance and Administration Committee Meeting minutes were provided in the Committee packet. It should be noted that a technical error was identified and a correction was made to Agenda Item #14 regarding the Salaried Pension Committee's recommended contributions. A motion to approve the minutes as presented with the amendment to Agenda Item #14 was made by Commissioner Brown and seconded by Commissioner Gully. **Motion passed unanimously.**

5. **Bi-State Development Operating and Capital Budget FY 2018 - 2020**
8:01 a.m. The briefing paper and the Bi-State Development **(BSD)** Operating and Capital Budget FY 2018 – 2020 budget presentation were provided in the Committee packet. Mark Vago, Controller, provided an overview of the FY18 Operating Budget. The BSD Operating and Capital Budget developed for FY 2018 – 2020 takes into account the current economic conditions and has conservatively estimated the revenue, expenses, and capital replacement and rehabilitation needs. Comparisons to peer transit agencies showed that ridership was down industry wide for rail, bus and van. The National Transit Database listed Metro Transit at the top or near the top of every performance indicator. In putting together the transit operating budget some key assumptions were made; one of which was that farebox revenue for FY18 would decrease 1.4% from the current FY17 projection. FY18 passenger revenue decreased $5.6 million from the FY17 budget and 1.4% from the current FY17 projection. The fare structure remains the same and service miles and hours for all three modes are down a combined 0.2% compared to the FY17 budget. The total FY18 revenue for Metro Transit is $315.4 million; with the largest contributions from St. Louis County, St. Louis City and St. Clair County. The FY18 expenses were $321.1 million and compensation was 62% of that total cost, resulting in a net loss before depreciation of $5.7 million. On a cash basis the transit budget is completely balanced, and a revenue source has been identified to cover what is expected to be spent in FY18. The funds for the St. Louis County Police contract are not included in the FY18 budget because that amount is now being paid directly by St. Louis County. Metro was acknowledged by the FTA in the July 2016 Federal Register for excellence in maintenance in asset management, highlighting the Agency's success in extending the life span of buses by 25% and reducing breakdowns by 85%. BSD also recently secured a $1.2 million grant for Mobile Medical Units in partnership with St. Louis County. Recently the former Secretary of Housing and Urban Development praised BSD for its investment in North County and the Acting Administrator of the FTA acknowledged St. Louis as a model of efficiency due to its expansion of

transit opportunities for its residents. Numerous other awards have been won by Marketing & Communications, Procurement, and the Finance Department. Special awards were presented by the Board to BSD employees acknowledging the courageous and heroic actions exhibited while assisting others in need.

Tracy Beidleman, Director of Program Development and Grants, provided an overview of the FY18 Capital Projects Budget. The Safe, Accountable, Flexible and Efficient Transportation Equity Act **(SAFETEA-LU)** was signed into law August 10, 2005. It was a five year law that was extended to 2012 until Moving Ahead for Progress in the 21st Century **(MAP-21)** became effective. SAFETEA-LU introduced the American Recovery and Reinvestment Act Program **(ARRA)**. Under the ARRA program the Agency received funding to support the rehabilitation of the Eads Bridge as well as rehabilitation of several of its MetroLink facilities and right-of-ways. SAFETEA-LU also introduced the TIGER Grant Program. Under the TIGER program, the Agency was awarded funding to support the construction of a new MetroLink station and expand the current MetroLink station in the Central West End corridor. MAP-21 was signed into law July 6, 2012, and it was a two year law that was extended to 2015 when the Fixing America's Surface Transportation Act **(FAST Act)** became effective. Under MAP-21, there were several changes made to funding programs. One change was the repeal of the bus and bus facility discretionary program. This was a competitive application program to support bus and capital facility needs. Through this source of funding, in the past, the Agency received support for the bus replacement program, which included funding support towards the purchase of the current articulated bus fleet. Under MAP-21, a formula based bus and bus facility program was introduced in place of the discretionary program. MAP-21 also repealed the Jobs Access and Reverse Commute Program **(JARC)** and these funds provided support for transit related operating expenses. It allowed transit agencies to provide customers with better access to jobs through new, late night, or weekend service expansion throughout the service area. As a part of the reverse commute component, it enabled transit agencies to transport customers between the central business district and unserved or underserved outlying areas. The Agency is currently using JARC funds to support operations for the recently opened North County Transit Center. There were some introductions of new programs under MAP-21 and one of those programs was the 5310 Enhanced Mobility of Seniors and Individuals with Disabilities Program. This program combined the previous New Freedom Program which supports activities beyond the Americans with Disabilities Act with the Elderly and Disabled Program which provides funding for not-for-profit agencies that support elderly and disabled transit services. BSD recently received funding through this program to support enhanced way finding signage to be installed throughout the system. Additionally, MAP-21 introduced the State of Good Repair Program and this program replaced the Fixed Guideway Modernization Program, which supported rehabilitation of existing systems and modernization and expansion of systems. The State of Good Repair Program continues to support capital projects that will maintain, replace, and rehabilitate fixed guideway public transportation systems. The State of Good Repair **(SGR)** Program also provides funding to support transit agencies in the development and implementation of transit asset management plans, which is a key component of the program. Now we have the new transportation law, the FAST Act that is a five year law that became effective October 1, 2015, and will extend through September 30, 2020. The FAST Act is intended to provide steady predictable funding over the five year authorization period with an increase in funding for transit programs. The FAST Act maintains funding programs that were authorized under MAP-21, and this includes the Section 5307 Urbanized Area Formula Program, the Section 5337 State of Good Repair Program, the Section 5339 Bus and Bus Facility Formula Program, as well as the Section 5310 Enhanced Mobility of Seniors and Individuals with Disabilities Program. Each of these funding programs are included in the Agency's Capital program. In addition to those programs, the FAST Act reintroduced the bus and bus facility discretionary program which was eliminated in MAP-21. In regard to FTA's overall goal and initiative for transit agencies to maintain their systems in a state of good repair, the FAST Act directs recipients such as Bi-State/Metro Transit to maintain their equipment and facilities in accordance with the transit agencies Transit Asset Management **(TAM)** plans. As a part of our Agency's TAM and SGR efforts we have developed a TAM plan and the capital program has been coordinated with that plan. For the current FY17 budget, the Agency is under a continuing resolution until April 28. At this time, Congress has not passed a Federal spending budget. A partial apportionment was released in January 2017, however it was based on FY16 budget levels. The FY18 to FY20 capital budget has been planned based on the FAST Act estimated apportionment reflecting increases of approximately 2% to 2.5% over budget each year to FY20. Agency staff will continue to monitor the progress of the new federal budget that will fully release the FY17 funds as well as any budget decisions that will impact the FY18 to FY20 Capital Program. The federal funding source provides $512.9 million, and the local funding source provides $168.8 million for a total of $681.7 million.

Mr. Vago continued the presentation discussing the revenue, expenses and capital projects for the following enterprises: 1) Gateway Arch Riverfront, which includes the riverboats, the heliport barge, and the Gateway Arch; 2) St. Louis Regional Freightway; 3) St. Louis Downtown Airport; 4) Executive Services; 5) Bi-State Development Research Institute; and 6) Arts-In-Transit. The Health Self-Insurance Fund, the Casualty Self-Insurance Fund, and the Workers' Compensation Self-Insurance Fund was also discussed.

John Nations, President & CEO, congratulated Mark Vago, Tracy Beidleman, Kathy Klevorn, and the entire team on doing such a great job on the preparation and presentation of the FY18 – FY20 Budget. Mr. Nations further stated that this vote on the budget every year is the most important vote the Board makes. This presentation is an expression of the Agency's values, priorities, and how we are going to turn assets, both personal and financial, into a service that this community can be proud of and that we can all be proud of. Discussions continued regarding a recent tragedy at a MetroLink Station and the security plans to be put in place to assure the Agency's partners and the public about the safety on the system and our commitment to keep riders, and our employees safe.

Mr. Nations advised the Committee that given the security concerns now being expressed about the design of the light rail system and the security components, he may have an amended budget prepared by the time the Board meets on April 28 to consider adoption of the budget.

A motion was made by Commissioner Brown and seconded by Commissioner Gully to approve this agenda item as presented in the briefing paper and forward to the Board for final approval. **Motion passed unanimously.**

6. Sole Source Contracts for Hardware and Software Maintenance

8:45 a.m. The briefing paper regarding the sole source contracts for Hardware and Software Maintenance was provided in the Committee packet. Larry Jackson, Executive Vice President of Administration provided an overview. BSD has made significant investments in its technology platforms to enhance all aspects of its business. Each system requires continued support from the manufacturer/developer to ensure the software functions as expected and remains current with technology updates. BSD has allocated approximately $2.9 million for costs associated with hardware and software contracts. Contracts for less than $100,000 per year don't require Board approval; however there are three providers whose annual costs are anticipated to approach or exceed the $100,000 threshold. Those providers are Kronos, Oracle, and Trapeze. Prior to entering into a contract with these providers, BSD staff will analyze each situation to verify the continued need and appropriate level of support. Management recommends that the Committee 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 BSD's hardware and software systems as required and within the amounts provided for in the FY18 Operating Budget that will be approved by the Board on April 28, 2017. A motion was made by Commissioner Brown and seconded by Commissioner Gully to approve this agenda item as presented in the briefing paper and forward to the Board for final approval. **Motion passed unanimously.**

7. 2nd Quarter Financial Statement

8:47 a.m. The 2nd Quarter Financial Statement was provided in the Committee packet. Jonathan Frederick, Director Accounting & Budget, provide a brief overview. A summary of BSD enterprise funds and the self-insurance funds shows total government wide assets of $1.45 billion; and income before depreciation of $9.5 million for the six months ending December 31, 2016. The FY18 total revenue for the combined enterprise funds was $2.2 million, an increase of $255,000 over the prior year, and income before depreciation was $375.5 thousand. The FY18 total expenses were $1.8 million, an increase of $183,000 over the prior year. The Gateway Arch is closed for the replacement of the motor generators, and will reopen in April. Income before depreciation for FY18 were $532 thousand, and revenue was $3.8 million, an increase of $945.3 thousand over the prior year. The riverboats had a great year, and revenue increased considerably due to the lack of flood days. The boats opened March 4 and had over a $5,000 weekend for the first weekend in operation this year. Income before depreciation was $343,000, total revenue was $1.6 million compared to $986,000 in the prior year. The total expenses for FY18 were $1.3 million compared to $1.1 million in the prior year, mainly due to normal operating cost for running more cruises. In November 2016, the St. Louis Downtown Airport hosted a mass casualties training for first responders from agencies across the metro-east. The Airport had a loss before depreciation for FY18 of $42,000, with total revenue of $767,000, an $8,000 decrease over the prior year. The total expenses were $809,000, an increase of $78,000 over the prior year. Metro Transit's income before depreciation for the six months ended December 31, 2016 was $9.1 million, a decrease of $6 million over the prior year. The total revenue was $145.6 million, down $6.6 million over the prior year. The total expense was $136.5 million, down $6 million from the prior year. Compared to budget, revenue was down 5.1% and total expenses are favorable 10.5%. In December 2016, the former Secretary of the U.S. Department of Housing and Urban Development **(HUD)**, Julian Castro, visited Metro's North County Transit Center and praised the Agency's newest investment in North County, stressing capital investment as a conduit for economic advancement and growth. The St. Louis Regional Freightway had a loss before depreciation of $177,000 and a total revenue of $101,000 and the total expenses were $278,000. The Bi-State Development Research Institute had a net loss of $46,000 and a total revenue of $429, with a total expense of $47,000. Arts-In-Transit had an income of $15.6 thousand, total revenue of $32.5 thousand, and total expense of $16.9 thousand. Mr. Frederick also discussed the Health Self-Insurance Fund, the Casualty Self-Insurance Fund, and the Workers Compensation Self-Insurance Fund.

The Performance Indicators for the 2nd Quarter showed passenger boardings are 7.7% below the FY16 number and 13.2% below FY15 numbers. The total system passengers for FY17 was 21.32 million, a decrease from 23.11 in FY16. 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. **2nd Quarter Performance Indicators 9:00 a.m.** The 2nd Quarter Performance Indicators were provided in the Committee packet. Jonathan Frederick, Director Accounting & Budget, provided an overview of the 2nd Quarter Performance Indicators during his presentation under Agenda Item #7.

9. **January Treasury Report**
9:00 a.m. The January 31, 2017, Treasury Report was provided in the Committee packet. Tammy Fulbright, Director Treasury Services, provided a brief overview. In January, BSD directed funds which included cash, cash equivalent, and investments were approximately $214 million, with an average rate of return of .61%. BSD Trustee Directed Funds was approximately $47 million with an average rate of return of 1.21%. In March, the Fed raised rates, which is the third rate increase since the 2008 financial crisis. If the economy continues to move at its current moderate pace, if consumers continue to spend, companies continue to invest and hire employees, and if inflation stays at 2%, it is anticipated that there will be two more rate increases this year from the Feds and they are projecting three more in 2018 and 2019. We have a better opportunity as long as the economy stays key. The two year Agency bonds are going for a little over 1.25% and a three year at a little over 1.5% so the investments and the short term investments are moving in the right direction resulting in a much bigger return. This report was informational only and a copy of the report will be kept at the office of the Deputy Secretary.

10. **2nd Quarter Procurement Report**
9:01 a.m. The 2nd Quarter Procurement Report was provided in the Committee packet. Larry Jackson, Executive Vice President for Administration, provided a brief overview. The non-competitive or sole source procurement for the quarter was down to 5%, which has been our lowest level for quite some time. We issue credit cards to a limited number of staff to facilitate an easier process and these transactions are monitored very closely. There are approximately 100 cards distributed to various employees and over the last two quarters they have spent approximately $3 million under this card program. The efficiency of using the card is a good asset for the users. The Agency changed the providers for the card program last year from American Express to US Bank. The card program has been with US Bank for almost a year now and in April, the Agency should be receiving its first rebate in excess of $100,000. Agency staff will continue to identify expenditures that can be added to the card program to increase future rebates. 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.

11. **Pension Plans, 401(k) Retirement Savings Program and OPEB Trust Investment Performance Update – December 31, 2016**
9:06 a.m. The briefing paper regarding the Pension Plans, 401(k) Retirement Savings Program and OPEB Trust Investment Performance Update – December 31, 2016 with attachments was provided in the Committee packet. Charles Stewart, Vice President, Pension & Insurance, provided a brief overview. The Board is required to oversee the funding status of the pension retirement plans and to oversee the trustee administration. Throughout the year Mr. Stewart provides reports to help the Board accomplish that goal. The 401(k) program assets are $44.5 million as of the end of the 4th quarter 2016. Participant contributions have been consistent throughout all market environments. The plan had approximately $4 million in new participant contributions in calendar year 2016. Total withdrawals were $3.5 million. The Vanguard Index Fund remains the most popular investment option among participants with $8.8 million in participant money or 21% of

total assets. The second largest investment pool is the T. Rowe Price Lifecycle Funds that continues to grow in popularity with nearly 27% of participant money now held in these funds. Ellwood Associates **(Ellwood)** provided a recommendation for the replacement of Montag & Caldwell strategy. The Committee approved the liquidation of Montag & Caldwell, and adopted T. Rowe Price as the replacement.

The Salaried Pension Plan total assets as of December 31, 2016 was $55.7 million. The portfolio gained 4.4% during calendar year 2016. Since inception, the portfolio has gained 7.5% outpacing its benchmark by 40 basis points, and has outperformed the current actuarial return target of 7.0%. Ellwood Associates **(Ellwood)** recommended that the Committee approve liquidation of Fayez Sarofim and Montag & Caldwell, and replace them with Vanguard S&P 500 Index and T. Rowe Price, respectively. The year to date activity shows that the year started with $54.7 million with contributions of $3.2 million, and withdrawals of $4.6 million. As a result of that, the actuaries recommended a contribution to this plan for 2017 of $3.6 million. The Salaried Pension Plan Trustees have the discretion of deciding what that number should be and they made it $4 million. In addition, the employees that are still in the plan contribute 3% of their salary, so all together that will be about $4.6 million for 2017 which will match the withdrawals. Year to date earnings for 2016 were 4.4%, the benchmark for the investment was 5.7% and the actuarial rate of return is 7%, so we are not meeting that expectation on the earnings and the Trustees are drilling down on that and putting pressure on its investment advisors. To compensate for that in the short term, we have increased the contribution rate.

The IBEW Pension Trust – Local 2 and Local 309 total assets as of December 31, 2016 was $4.3 million gaining approximately $600,000 since the beginning of the calendar year. The portfolio gained 7.4% during 2016 calendar year. All the portfolio's investment managers are performing in line with expectations. Ellwood recommended that the Committee approve reinvesting $80,000 of the cash balance to the Dodge & Cox Income. The Committee also approved the transition of the portfolio's Vanguard S&P 500 Index holdings to a lower share class.

The 788 Pension Plan total assets are $122.2 million, and fund flows to date have been consistently negative with contributions of $13.4 million compared to benefit payments or withdrawals of $16.1 million. This is a mature plan, and the only plan that is still open to new employees. The issue is that any changes to this plan must be collectively bargained. The Pension Committee Trustees are doing a good job in trying to get as much money into the plan as possible, and they have consistently approved the contribution rate in excess of what the actuaries have recommended. During the 4th quarter, the portfolio gained 1.2%, bringing calendar year 2017 returns to 6.8% as compared to a benchmark of 6.3%, and the actuarial rate of return assumption was 7%. Longer-term performance remains favorable. No action to rebalance the portfolio is recommended at this time. The portfolio is in the process of liquidating the Och-Zoff and BlueCrest investments. All other investment managers are performing in line with Ellwood's expectation.

The OPEB Trust asset allocation is in accordance with the policies that have been adopted by the OPEB Trust Committee. The contribution made by the Agency was $3 million, and there were no other contributions or withdrawals. This Trust was set in place to cover the Agency's OPEB liability in future years, so there will be no withdrawal for a considerable amount of time. The OPEB Trust Committee is challenged to make sure this trust is meeting the objectives of the Board of Commissioners, and the Trustees will continue to meet that goal. The asset performance review since inception shows a portfolio gain of 2.6%. These assets are very conservatively invested, and the challenge and achievements have and continue to be lower than the liability associated with this trust. The OPEB Trust has total assets as of December 31, of $22.6 million, higher by $3.7 million compared to the beginning of the calendar year. The portfolio is in line with the target allocations. The investment managers are performing in line with expectations.

12. Unscheduled Business

9:20 a.m. There was no unscheduled business.

13. Call of Dates for Future Committee Meetings

9:20 a.m. The Board was advised of the upcoming meetings, as follows:

Board Meeting:	Friday, April 28, 2017, 8:00 a.m.
Operations Committee:	Tuesday, May 16, 2017, 8:00 a.m.
Audit, Finance & Administration Committee:	Friday, May 19, 2017, 8:00 a.m.

18. Adjournment to Executive Session

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).

9:21a.m. Pursuant to the requirements of Section 10.080 (D) (1), (15), and (16) 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 Commissioner Gully. A roll call vote was taken and the Commissioners present, Brown and Gully voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned at 9:21 a.m.**

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Deputy Secretary to the Board of Commissioners
Bi-State Development