

**BI-STATE DEVELOPMENT
AUDIT, FINANCE & ADMINISTRATION COMMITTEE MEETING
OPEN SESSION MINUTES
AUGUST 25, 2017**

Committee Members in Attendance

Constance Gully Chair
Vernal Brown
David Dietzel
Vince Schoemehl
Jeffrey Watson (absent)

Other Commissioners in Attendance

None

Staff in Attendance

John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Jim Cali, Director of Internal Audit
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
Jonathan Frederick, Director Accounting & Budget
Michael Gibbs, Accountant Business Enterprise
Gary Smith, Internal Audit Intern
Kathy Brittin, Director Risk Management, Safety & Claims
Kevin Kloever, Manager Insurance & Analysis
Patti Beck, Director Communications
Dianne Williams, Vice President Communications & Marketing
David Toben, Director Benefits
Maryanne Coley, Manager Benefits
Charles Stewart, Vice President Pension & Insurance
Angela Staicoff, Sr. Internal Auditor
Sheah Thompson, Internal Audit
Kelly Schneider, Internal Audit
Kelli Fitzpatrick, Sr. Internal Auditor, Part-time
Andrew Ghiassi, Manager Safety & Loss Control
Virginia Alt-Hildebrandt, Manager Administrative Services
Richard Zott, Chief of Public Safety
Monica Smith, Administrative Assistant
Kristen King, Administrative Assistant
Ted Zimmerman, Director Marketing
Michael Jennings, Manager IT ERP Systems
Diana Bentz, Vice President Organizational Effectiveness

- 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**
8:01 a.m. Roll call was taken.
- 3. Public Comment**
8:02 a.m. There were no public comments.
- 4. Audit, Finance and Administration Committee Open Session Minutes: May 18, 2017**
8:03 a.m. The May, 18, 2017 Open Session Audit, Finance and Administration Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes as presented was made by Commissioner Schoemehl and seconded by Commissioner Gully. **Motion passed unanimously.**
- 5. Contract Modification: Werremeyer, Inc. for Development and Implementation of Marketing Activities**
8:04 a.m. The briefing paper regarding the contract modification was provided in the Committee packet. Larry Jackson, Executive Vice President of Administration, provided an overview. On July 7, 2016, BSD procured services from Werremeyer, Inc. The total contract value as originally presented and approved by the Board of Commissioners was incorrectly stated and needs to be revised to reflect the amounts required and budgeted. The correct amount of the contract is to be for \$2,000,000 for five years inclusive of option years. A motion was made by Commissioner Schoemehl and seconded by Commissioner Brown to approve this agenda item as presented in the briefing paper and forward to the Board for final approval. **Motion passed unanimously.**
- 6. Internal Audit Status Report – 4th Quarter FY2017**
8:05 a.m. The Internal Audit Status Report, 4th Quarter FY17 was provided in the Committee packet. Jim Cali, Director of Internal Audit, provide a brief overview. In addition to tracking the status of current audits and special projects, this report also highlights the follow-up activity related to the implementation of recommendations from prior audits. BKD, the certified public accounting firm that was engaged to perform the audit of BSD’s health insurance claims audit completed their review of the claims for Cigna, Delta Dental, and Express Scripts. Mr. Cali introduced Sheah Thompson, a college student intern, to replace Kailey Braddy the former college student intern who returned to Truman State University to begin her studies to obtain her Masters in Accounting. 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.
- 7. Internal Audit Follow-Up Summary, 4th Quarter FY17**
8:06 a.m. The Internal Audit Follow-Up Summary, 4th Quarter FY17 was provided in the Committee packet. Jim Cali, Director of Internal Audit provided a brief overview. In accordance with Board Policy, the Internal Audit Department (**IAD**) is tasked with doing a follow-up of previously concluded audits. To ensure compliance, IAD regularly monitors the status of recommendations. Each recommendation has been reviewed and its status is either listed as “completed”, “outstanding” or “overdue.” At this time, there are no items overdue and Agency management has done a tremendous job keeping track of the corrective action plans going forward. 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.

8. Treasury-Safekeeping Quarterly Accounts Audit – Ending March 31, 2017

8:07 a.m. The Treasury-Safekeeping Quarterly Accounts Audits for the periods ending March 31, 2017 and June 30, 2017 were provided in the Committee packet. Jim Cali, Director of Internal Audit provided a brief overview. The Internal Audit Department (**IAD**) is tasked with the responsibility to perform a quarterly audit of the Agency's safekeeping funds. IAD reviewed the Treasurer's Reports for the 3rd and 4th Quarters of FY17 to identify the securities classified under the Safekeeping Accounts criteria. IAD independently verified the existence and the investments held by the bank custodians and confirmed all balances presented on the Treasurer's report were fairly presented and no exceptions were noted. As of March 31, 2017, the Agency has approximately \$82 million in U.S. Treasury and Government Agency securities. The sales tax capital represents \$73.2 million, self-insurance funds consist of approximately \$4.8 million, and the remaining securities represent \$3.4 million in internally restricted funds. As of June 30, 2017, the Agency has approximately \$66.5 million in U.S. Treasury and Government Agency securities. The sales tax capital represents \$61.2 million, self-insurance funds consist of approximately \$2.3 million, and the remaining securities represent \$1.9 million in internally restricted funds. This report was informational only and no Committee action was required. A copy of the reports will be kept at the office of the Deputy Secretary.

9. Treasury-Safekeeping Quarterly Accounts Audit – Ending June 30, 2017

8:07 a.m. See agenda item #8.

10. 4th Quarter Financial Statement

8:09 a.m. The 4th Quarter Financial Statements were provided in the Committee packet. Jonathan Frederick, Director Accounting & Budget, provided a brief overview. Bi-State Development (**BSD**) business and self-insurance divisions had combined assets of \$1.4 billion. The 4th quarter, FY17 income before depreciation was \$10.1 million compared to a budget of \$0.6 million for a positive variance of \$9.5 million. The 4th Quarter income from FY16 was \$16.8 million and that is approximately a \$6.7 million decrease in income before depreciation for FY17. The Net Loss after depreciation was \$46.8 million. The financial statement package includes the analysis and financial position of each BSD business division.

Executive Services - Income before depreciation for Executive Services was \$248,464, down \$64,828 or 20.7% from last year. The decrease can be attributed to the increase in wage and benefit, and service expenses.

Gateway Arch – The Arch opened April 19, 2017 with the south tram taking visitors to the top. The north tram was delayed due to flooding of the north tram load zone and opened in July. The loss before depreciation was \$562,677, down \$3 million from FY16.

Riverboats – After some early season flooding, cruise attendance has been strong. Income before depreciation is \$343,840, which is up \$220,290 from last year and 260.9% from budgeted numbers. The entire increase in income can be associated with the increase in cruise revenue. The number of cruises is up 15.1% at total of 909. Total Riverboat Passengers are also up 20.8% over last year at a total of 105,775.

St. Louis Downtown Airport – FY17 year-end Loss before depreciation is \$240,043, which is down \$51,013 from FY16. The increase in expenses can be accounted for in the Services expense line. Aircraft movements have increased 5.3% over last year. Fuel sales have decreased 14.8% from last year.

Metro – In June 2017, BSD broke ground on the new Cortex MetroLink Station. Loss before depreciation is \$2.9 million, which is up \$227,374 from last year. Revenue has increased from the prior year slightly, but is 6.1% under budgeted numbers and this is due to the decrease in passenger revenue. Expenses in total are similar to last year with the exception of Services and Fuel expense. System passengers have decreased 6.9%. Bus ridership decreased 7.9% and MetroLink ridership decreased 5.6%.

St. Louis Freightway – The Freightway held their annual meeting and it was well attended. Loss before depreciation was \$497,543, which was down \$274,082 from last year. An increase in wages and services expense are driving the current year loss increase.

Bi-State Development Research Institute – The Market Kiosks construction is well underway. Those kiosks will be installed in two North St. Louis County locations. Net Income is \$116,424, which is up \$77,015 from the prior year. Increase in grant revenue is the cause for the increase over last year.

Arts-In-Transit – Arts in Transit was one of nine local arts organizations to receive funds through the PNC Arts Alive initiative. Net Income is \$39,121 which is up \$18,808 from the prior year. The increase year over year is attributed to grant revenue received from PNC.

Self-Insurance Funds – As a caveat to the net income or loss, the self-insurance funds should be looked at over a longer time period, typically 5 years, as there are significant estimations done by actuaries, claims adjusters and our in-house accounting staff.

Health – Total expenses for FY17 are \$31.3 million, which is up \$1.3 million from the prior year. This is attributed to an increase in claims.

Casualty SIF – Total expenses for FY17 are \$4.5 million. Expenses are greater than our budgeted numbers due to claims.

Workers' Compensation SIF – Total expenses for FY17 are \$5.5 million. Expenses are greater than our budgeted numbers due to claims.

11. **4th Quarter Performance Indicators**

8:16 a.m. The 4th Quarter Procurement Indicators Report was provided in the Committee packet. Jonathan Frederick, Director of Accounting and Budget, discussed the 4th Quarter Performance Indicators during his presentation of Agenda Item #10. 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. **June Treasury Report**

8:17 a.m. The June Treasury Report was provided in the Committee packet. Tammy Fulbright, Director Treasury Services, provided a brief overview. BSD directed \$189 million in cash and investments; and investments had an average yield of .83% for the month of June. This reflected an increase of .22% since January 2017. Liquidity is more necessary in the summer months for BSD, so the average rate of return is tracking closer to the 1 month treasury rate. In the fall, we are hopeful to get the average rate of return up by about ¼ percent using the six month treasury rate for today. \$47 million in Trustee Directed funds earning an average rate of return of 1.38%. We are able to invest these funds for a longer duration. Currently, we have maturities out as far as September 2028. In June, the Federal Reserve (Fed) raised rates for the fourth time since the

financial crisis. The Fed is expected to raise rates one more time this year, twice in 2018 and 4 times in 2019. This would bring the federal funds rate to the Fed's preferred rate of 3%. The last time we had a Fed rate of 3% was in January of 2008. The 2009 and 2013 Bonds had a credit rating increase in May. All debt is now considered a high grade investment for investors, which allows for lower rates on debt. 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.

13. 4th Quarter Procurement Report

8:23 a.m. The 4th Quarter Procurement Report was provided in the Committee packet. Larry Jackson, Executive Vice President for Administration, provided a brief overview stating that this report was informational only. He noted that the non-competitive or sole source procurement for the quarter was at 16.2% of total purchases and for the twelve months to date was running at 10.4%, which is slightly higher than our goal of being under 10%. 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.

14. FY18 Risk Management Insurance Program Update

8:25 a.m. The FY18 Risk Management Insurance Program Update was provided in the Committee packet. Kathy Brittin, Director of Risk Management, Safety & Claims, provided a brief overview. For FY18, the following improvements were achieved: The property insurance was marketed and placed in a layered program with Lloyds of London as the primary insurance carrier. The terms and conditions of the coverage are comparable to the expiring program with the exception that the flood and earthquake deductibles were lowered from \$250,000 to \$100,000, and \$1,000,000 to \$250,000 respectively. This achieved a 14% savings over the expiring policy. The excess workers' compensation (WC) insurance which is excess over the \$1,000,000 self-insured limit was placed with a new insurance carrier, Arch Insurance. The payroll exposure increased 1.5% and the premium decreased by 8%. Due to last year's insurance carrier no longer writing excess liability for public entities, the lead policy was placed with Argonaut Insurance. The overall savings for the excess liability program was 6%. The Riverboat's marine insurance program was also marketed and resulted in a change in insurance carriers to Endurance Insurance Co. The premium remained the same. Overall, the insurance program was renewed with comparable coverage terms and conditions. The premium savings of \$302,771, a 10% reduction in premium over last year, can be attributed to Risk Management initiatives and marketing efforts of the new insurance broker, McGriff, Seibels & Williams. 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.

15. Pension Plans, 401(k) Retirement Savings Program and OPEB Trust Investment Performance Update as of June 30, 2017

8:30 a.m. The briefing paper regarding the Pension Plans, 401(k) Retirement Savings Program and OPEB Trust Investment Performance Update – June 30, 2017 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 and trustee administration for the retirement system. Throughout the year Mr. Stewart provides reports to help the Board accomplish that goal.

Total 401(k) Program assets are \$49.4M as of the end of the second quarter 2017. Participant contributions into the Plan have been consistent throughout all market environments. Allocations to individual funds and asset types remain relatively unchanged. The Vanguard Index Fund remains the most popular investment option among participants with \$9.6 million in participant money or 21% of total assets. The T. Rowe Price Stable Value Fund (13%) and Dodge & Cox

Balanced Fund (15%) both also have significant participation from employees. The new fixed income manager, MetWest Total Return, has seen positive inflows and current participant exposure of about \$200,000. The T. Rowe Price Lifecycle Funds continue to grow in popularity. Nearly 28% of participant's money is now held in these funds.

As of June 30, total Salaried Plan assets were \$63.4 million. After falling to \$33.4 million during 2008, assets have now steadily grown to new highs, increasing by \$30M since the depths of the financial crisis. Cash flows are positive for the first six months of the year. A total of \$5.9 million of new contributions was offset by outflows of \$2.4 million. In addition, the Plan's strong investment performance boosted market values by \$4.1 million. The Portfolio gained 3.5% during the second quarter, which brought the calendar year 2017 returns to 7.7%. Since inception dating back to 1988, the Total Portfolio has gained 7.6% outpacing its benchmark by 40 basis points. The Portfolio has also outperformed its current actuarial return target of 7.0%. Program investment managers are performing in line with expectations. Asset allocation remains within target guidelines.

As of June 30, IBEW Pension Plan assets are now \$4.7 million, gaining approximately \$400,000 since the beginning of the calendar year. Total Portfolio Market values have steadily increased over the past 7 years – in 2008 the market value fell to \$1.1 million, but has quadrupled since reaching the market bottom. The growth in assets has been the result of strong investment performance as well as the Plan's positive net cash flow over the past several years. The Portfolio has performed well in 2017 calendar year to date, gaining 8.2%. The IBEW Pension Trust has strong long-term performance gaining +5.4% and +8.6% over the trailing 3- and 5-year periods, respectively. Since inception the Plan has gained 6.2%. All of the Portfolio's investment managers are performing in line with expectations. Asset allocation continues to be split between 65% equities and 35% fixed income. In Q2 Ellwood recommended, and the Committee approved, reinvesting \$60,000 of the cash balance in the Dodge and Cox Income Fund in order to reduce cash holdings.

788 Pension Plan assets are now \$131.4 million – up by \$9.3 million since the beginning of the calendar year. Fund flows over the past few years have been consistently negative, and the first six months of 2017 continued this trend. Year to date cash inflows of \$6.7 million were less than outflows of \$8.2 million. However, strong investment gains boosted overall Portfolio values after investment earnings of \$10.7 million. Through June 30, the Portfolio has gained 8.8% as the equity market continued its strong rally. Positive economic data, particularly from overseas markets, acted to strengthen investor optimism and propel equity markets higher. Longer-term performance remains favorable. Over the trailing 3- and 5-year periods, the Portfolio has gained 5.1% and 9.7%, respectively. The asset allocation changes approved by the Committee in 2013 have aided overall performance, and should help to mute the Portfolio's downside volatility during market declines. The Portfolio is in the process of liquidating the Och-Ziff (expected final 2018) and the BlueCrest (expected final 2017) hedge fund investments. In July 2017, the 788 Plan received a significant portion of its investment with Och-Ziff. As a result, Ellwood recommended enhancements to the overall hedge fund exposures, specifically advising the retention of two manager allocations with two complementary strategies. Ellwood recommended, and the Committee approved, retaining Davidson Kempner as an additional hedge fund manager in the portfolio. It was stated that the Portfolio's overall risk and return exposures are not expected to materially change as a result of this recommendation to change from three hedge funds (HBK, Blue Crest and Och-Ziff) to two hedge funds (HBK and Davidson Kempner). All other investment managers are performing in line with expectations.

As of June 30, OPEB Trust total assets were \$27.4 million, higher by \$4.8 million compared to the beginning of the calendar year. The Portfolio is in line with target allocations. In June, Bi-State completed its annual contribution of \$3.0 million. The new cash flow was invested into the broader investment program in accordance with the statement of investment policy. No additional action is required at this time. The OPEB Trust advanced 8.2% during the first two quarters 2017. All of the Portfolio's asset classes have performed strongly – however, notable performers include non-US and domestic equities which gained 15.6% and 8.4% respectively. Hedge funds (+5.9%) and fixed income (+0.9%) were also able to produce solid positive results. All of the Portfolio's investment managers are performing in line with expectations, and no manager changes were advised at this time. Overall, the Portfolio continues to be well positioned to achieve its long-term goal of fully funding its liabilities. The Committee asked that Ellwood review the Plan's asset allocation following the finalization of the upcoming actuarial report.

16. Unscheduled Business

8:42 a.m. John Nations and Brenda Krieger confirmed there was no unscheduled business to discuss.

17. Call of Dates for Future Committee Meetings

8:42 a.m. The Board was advised of the upcoming meetings, as follows:

Board Meeting:	Friday, September 22, 2017, 8:00 a.m.
Operations Committee:	Tuesday, October 17, 2017, 8:00 a.m.
Audit, Finance & Administration Committee:	Friday, October 20, 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).

8:45 a.m.

Pursuant to the requirements of Section 10.080 (D) (1), (10), 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 Schoemehl and seconded by Commissioner Brown. A roll call vote was taken and the Commissioners present, Gully and Schoemehl voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned at 8:45 a.m.**