

COLLECTED BOARD POLICIES
OF THE
BI-STATE DEVELOPMENT AGENCY
OF THE
MISSOURI-ILLINOIS METROPOLITAN DISTRICT

Chapter 30 Audit, Finance and Budget

<u>Section</u>	<u>Page</u>
Section 30.005 Audit Committee Charter	30-1
Section 30.010 Annual Audit	30-5
Section 30.020 Internal Audit	30-5
Section 30.030 Annual Budget.....	30-6
Section 30.040 Banking and Investment.....	30-6
Section 30.050 Financial Reporting	30-14
Section 30.060 Risk Management.....	30-14
Section 30.070 Hedging	30-17
Section 30.080 Debt Issuance and Administration	30-18

Section 30.005 Audit Committee Charter (added 03/25/11, rev. 09/23/11)

A. **GENERAL** (revised 09/23/11). The purpose of the Audit Charter is to assist the Board of Commissioners, through its Audit Committee, in fulfilling its fiduciary oversight responsibilities as follows:

- (1) Audit Committee management and Reporting Responsibilities
- (2) External Audit of the Financial Statements
- (3) Internal Audit Process
- (4) System of Risk Management
- (5) Processes for Monitoring Compliance with Laws and Regulations and the Ethics Policy, Code of Conduct and Fraud Policy
- (6) Special Investigations and Whistleblower Mechanism

Source: Information to develop this Charter is from *The AICPA Audit Committee TOOLKIT: Government Organizations*

B. AUTHORITY. The Audit Committee (“committee”) has the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to perform the following functions, which are numbered according to the purposes listed above.

1. Audit Committee Management and Reporting Responsibilities

- Each member of the Committee should be appointed by the Chairman of The Bi-State Development Agency (“Bi-State”) Board of Commissioners.
- At least one member of the Committee should have financial experience.
- The Committee should review this Charter annually, reassess the adequacy of the Charter, and recommend any proposed changes to the Board of Commissioners. It should consider changes that are necessary as a result of new laws, regulations, or accounting and auditing standards, including *Government Auditing Standards* (Yellow Book) issued by the Comptroller General of the United States.
- The Committee should meet at least four times per year, and at additional times when necessary. These meetings may be combined with regularly scheduled meetings, or may be held more frequently as circumstances may require. The Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- Conduct executive sessions with the independent auditors, Chief Executive Officer (CEO), Chief Financial Officer (CFO), Director of Internal Audit, General Counsel, outside counsel, Director of Accounting and Budget, and anyone else as desired by the Committee.
- The Committee shall be authorized to hire professional consultants as necessary.
- Review and concur on the appointment, replacement, reassignment, or dismissal of the Director of Internal Audit.
- Oversee the appointment of the independent auditors to be engaged for external reporting, and establish the related audit fees.
- If the audit organization provides any non-audit services, determine that the audit organization has considered and documented its consideration of how providing these non-audit services does not violate the requirements that the audit organization (a) not provide services that involve performing management functions or making management decisions, and (2) not audit their own work, as stipulated in *Government Auditing Standards*.
- Review and evaluate the performance of the independent auditors.
- Review with the full Board of Commissioners any proposed discharge of the independent auditors.
- Review with the full Board of Commissioners any proposed discharge of the independent auditors.
- Review with the independent auditor, the CFO, the Director of Accounting and Budget and the Director of Internal Audit, the audit scope and plan of the internal auditors and the independent auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

- The Committee should evaluate the independent auditors and internal auditors.
- The Committee should review its effectiveness.
- Create an agenda for the ensuing year, or review and approve the agenda submitted by the Director of Internal Audit.

2. External Audit of the Financial Statements

- Review with management and the independent auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending.
- Review with the independent auditor that performs the financial statement audit:
 - a. All critical accounting policies and practices used by Bi-State.
 - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with Bi-State's management, the ramifications of each alternative, and the preferred treatment.
- Review all significant written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
- Review with management and the independent auditors:
 - a. The Bi-State Development Agency's annual financial statements, related footnotes, and management's discussion and analysis;
 - b. The independent auditor's audit of the financial statements and their report thereon;
 - c. The independent auditors' judgments about the quality, not just the acceptability, of Bi-State's accounting principles as applied in its financial reporting;
 - d. The independent auditors' single audit of the federal awards administered by Bi-State and their reports thereon;
 - e. Any significant changes required in the independent auditors' audit plan;
 - f. Any serious difficulties or disputes with management encountered during the audit. Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, *Communication With Audit Committees* (AICPA, *Professional Standards*, vol. 1, AU Sec. 380), as amended; U.S. Government Accountability Office's *Government Auditing Standards*; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.
- Review with the General Counsel and the Director of Internal Audit legal and regulatory matters that, in the opinion of management, may have a material

impact on the financial statements and compliance with federal, state, and local laws and regulations.

3. Internal Audit Process

- Review with management the policies and procedures with respect to Bi-State management's use of expense accounts, public monies, and public property, including for example, their use of Bi-State's vehicles. Consider the results of any review of these areas by the Internal Auditor or the independent auditors.
- Consider, with management, the rationale for employing audit firms other than the principal independent auditors for services that Bi-State or the independent auditor determines would not be appropriate for the principal independent auditor to perform.
- Review with management and the Director of Internal Audit:
 - a. Significant findings on internal audits during the year and management's responses thereto.
 - b. Any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work on access to required information.
 - c. Any changes required in the scope of their internal audits.
 - d. The Internal Audit Department budget and staffing.
 - e. The Internal Audit Department charter.
 - f. The Internal Audit Department's compliance with applicable standards (for example, *Government Auditing Standards*, or the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing).

4. System of Risk Management

Inquire of management, the Internal Audit Department, and the independent auditors about significant risks or exposures facing Bi-State; assess the steps management has taken or proposes to take to minimize such risks to Bi-State; and periodically review compliance with such steps.

Inquire of the CEO and CFO regarding the fiscal health of Bi-State, as well as the financial status of Bi-State in relation to its adopted budget.

Review with the independent auditors and Director of Internal Audit:

- a. The adequacy of Bi-State's internal controls including computerized information system controls and security;
- b. Any related significant findings and recommendations of the independent auditors and internal auditors together with management's responses thereto.

5. Organization's Processes for Monitoring Compliance with Laws and Regulations and the Ethics Policy, Code of Conduct and Fraud Policy
 - a. Periodically review Bi-State's code of conduct to ensure that it is adequate and up to date.
 - b. Review with the Director of Internal Audit and General Counsel the results of their review of compliance monitoring with the code of conduct.

Section 30.010 Annual Audit

A. Policy. (revised 5/22/09) It is the policy of the Agency to submit its books and records to annual audit by a nationally recognized CPA firm. The firm selected shall have broad experience in auditing large local government and/or agencies in compliance with relevant federal rules and regulations such as the Single Audit Act. The firm, and any principal/s of the firm, shall have no direct or indirect personal or financial interest in the fiscal affairs of the Agency, or of any officer of the Agency. The Agency shall not engage any firm, or any lead or concurring audit partner connected with that firm's provision of audit services to the Agency, for a contract term in excess of five (5) consecutive years.

B. Reporting. This firm reports its findings and conclusions to the entire Commission each year and may meet with the Audit Committee at any time during the year. Upon receipt of the final management letter, the President & CEO will promptly forward a response to the Audit Committee indicating the status of each recommendation or finding.

Section 30.020 Internal Audit

A. Policy. It is the policy of the Agency to employ an Internal Auditor who shall report directly to the Board of Commissioners. The Internal Auditor shall supervise and direct the staff of the Internal Audit Department. The Internal Audit Department shall provide independent objective analysis and recommendations to assist the President & CEO and management in effectively discharging their administrative responsibilities. The Internal Audit Department shall perform routine audits of compliance of Agency divisions with internal Agency rules and regulations. The Internal Audit Department shall at all reasonable times have access to the accounts, books and records of the Agency, and the Department may in relation to such interview the President & CEO and other employees of the Agency.

B. Work Plan. The Internal Auditor shall be responsible for preparing an annual Audit Work Plan. Additionally, Commissioners and Senior Managers shall identify potential areas for review by the Internal Audit Department. Upon completion of the Audit Work Plan, the Internal Auditor shall present the Plan to the Audit Committee for their review and approval pursuant to these Board Policies.

C. Special Reviews. From time to time the President & CEO may assign to the Internal Auditor special reviews designed to assure continuous quality improvement of Agency operations.

Section 30.030 Annual Budget

A. General. Each year the President & CEO shall prepare an annual budget for the forthcoming fiscal year that will be presented to the Board of Commissioners. The President & CEO will work with the Board in setting strategic objectives, update the Agency's long range planning document, and prepare both an operating and capital budget. The operating budget shall include proposed expenditures for current operations during the ensuing fiscal year and the method of financing such expenditures. The capital budget shall include capital expenditures during the ensuing fiscal year and the proposed method of financing such expenditures.

B. Approval. The President & CEO will present the annual budget at a regularly scheduled meeting of the Board of Commissioners. The Board of Commissioners shall approve annual operating and capital budgets prior to the beginning of the ensuing fiscal year.

Section 30.040 Banking and Investment (rev. 06/23/06, 11/19/10, 09/28/12)

A. General. This policy directs the investment of all operating, self-insurance restricted, capital and debt service funds of all entities of the Bi-State Development Agency not expressly controlled by Revenue Bond Trustees.

The preservation of funds is the first consideration in determining the investment of Agency cash. Thereafter, the highest yield consistent with safety is required, provided the maturities are short enough to maintain operational liquidity. Banks and other financial institutions, which meet the criteria below, will be selected for investments only on a competitive basis. The number of demand deposit non-interest bearing accounts will be kept to the minimum for operational efficiency and safety.

Notwithstanding the following authorized investments, it is the Board's intent to have the majority of the available funds invested in local institutions provided the institutions meet the minimum credit standings set out below and yields are competitive.

The Board also directs management to refrain from investing Agency funds in any financial institutions or businesses that conduct business with governments deemed unacceptable by the Federal Government through executive order or enacted legislation.

B. Authorized investment categories (revised 4/24/09 and 11/19/10)

1. Demand Deposit, Negotiable Order Withdrawal (NOW), Bank Money Market, Certificate of Deposit and Savings Accounts - issued by local banks or thrifts where the account or investment is either collateralized with direct obligations of the U.S. Government or its instrumentality's, or covered by FDIC insurance, or other AAA rated surety.
2. Negotiable Certificates of Deposit - provided that the institution maintains a Fitch rating of B or better and / or a Moody's Investor Services short-

term rating of P-1. The institutions selected will have a minimum of \$100 million in combined capital and unimpaired surplus.

3. Bankers Acceptances - provided that the institution maintains a Fitch rating of B or better and / or a Moody's Investor Services short-term rating of P-1. The institutions selected will have a minimum of \$100 million in combined capital and unimpaired surplus.
4. Direct Obligations of the United States Government, U.S. Government Agencies or U.S. Government Instrumentality's.
5. Commercial Paper - Commercial paper at the time of purchase shall have ratings of A-1 by Standard and Poors Rating Services and P-1 by Moody's Investors Services. Commercial paper of firms doing business within the St. Louis metropolitan region may have ratings of A-2 by Standard and Poors Rating Services and P-2 by Moody's Investor Services.
6. Repurchase Agreements (revised 11/19/10) - Repurchase agreements (repos) are acceptable, using any of the securities listed in paragraphs B-4 above as collateral. Also, the firm with whom the repo is executed must be a credit acceptable bank, or broker-dealer. A credit acceptable bank or broker-dealer is defined as one whose senior debt rating is A- by one of the three nationally recognized ratings agencies (Standard & Poor's, Moody's, or Fitch). Banks in the Agency's service area that do not have a Standard & Poor's, Moody's or Fitch rating, may also be authorized repo counterparties, provided that they meet the "well capitalized" standard, as defined by the Federal Deposit Insurance Corporation. A written repurchase agreement, substantially modeled on, but in no case less restrictive than, the Securities Industry and Financial Markets Association's "Master Repurchase Agreement", shall be completed for each repo counterparty. Such agreements shall be updated periodically, but no less than once every five years. In all cases, repo collateral shall have a market value of 102% of the dollars invested, plus accrued interest. If the repo term is longer than an overnight maturity, the collateral must be delivered to a third party custodian, and priced-to-market weekly to assure correct collateral value coverage.

The Director of Treasury Services shall obtain approval from the Chief Financial Officer before authorizing a repo counterparty. Before approval, documentation shall be furnished that the authorized counterparty meets the required criteria. The Director of Treasury Services will also monitor continued compliance with the criteria. The current authorized repo counterparties are:

Bank of America
Merrill Lynch Capital Markets

UMB Bank
Commerce Bank
U.S. Bank
Jefferson Bank & Trust

7. Money Market Funds - Acceptable funds shall be institutional money market funds having over \$500 million in net assets and be rated AAA by Standard and Poor's, Moody's and/or Fitch rating services.
8. Reverse Repurchase Agreement - A reverse repurchase Agreement or short-term borrowing (180 days or less), using securities in the Agency's portfolio as collateral, is acceptable. However, the firm with whom the borrowing is executed must meet the same requirements as stated previously for repurchase agreements. Also, the borrowed funds may be used to purchase other securities as an investment arbitrage. In this case, the new investment maturity date must match (+/- one week) the maturity date of the reverse repo, and those instruments must be delivered into the Agency's safekeeping account and held there until maturity. The Board shall be notified of all such transactions through the Treasurer's monthly report.

C. Banking Services. Banks will be negotiated with periodically for demand deposits and other banking services for the greater advantage to the Agency. Any two of the following may open bank accounts, subject to the approval of the Board of Commissioners through a confirming motion at the next meeting of the Board of Commissioners:

Chair, Board of Commissioners	President & CEO
Vice Chair, Board of Commissioners	Chief Financial Officer
Treasurer, Board of Commissioners	

The Treasurer, President & CEO and Internal Audit will monitor the potential for conflict of interest.

D. Investment Performance. Management will provide the Treasurer of the Board of Commissioners with a monthly list of deposits, investments, yields, monthly summary of the prior 12 months' funds experience, and the average amount of non-interest bearing deposits at each institution.

E. Investment Transaction Criteria: (revised 4/24/09)

1. Safekeeping Accounts - Securities purchased are delivered against payment and held in a custodian safekeeping account. Tri-party custodian agreements maintained with third party trust companies as well as the Federal Reserve Bank are acceptable. Hold-In-Custody repurchase agreements for fourteen days or less will be processed through special transaction control accounts. These accounts will be audited quarterly by

Internal Audit and the results reported through the Treasurer, to the Board of Commissioners.

2. Maturity Limitations - To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. Unless matched to a specific cash flow requirement, no funds shall be invested for more than five years from the date of settlement. The weighted average maturity of the portfolio shall at no time exceed eighteen months.

For Securities that are subject to redemption (call) before final maturity, the final maturity date shall be used both for compliance with the five year limitation and in calculating the weighted average maturity.

3. Diversification –
 - a. Unlimited investment in the following:
 - U.S. Government obligations
 - U. S. Government Agency obligations
 - U. S. Government Instrumentality obligations
 - Repurchase Agreements – secured by the 3 U. S. obligations noted immediately above.
 - Money Market Funds – Institutional money market funds having over \$500 million in net assets and rated AAA by Standard & Poor’s, Moody’s and/or Fitch rating services.
 - b. Investments not to exceed \$5.0 million par value from any one issuer:
 - Bankers Acceptances
 - Commercial Paper
 - Negotiable Certificates of Deposit
 - c. All investments must be paid for before they may be sold.

F. Authorized Individuals. (Rev. 01/04/08) The following individuals are authorized to conduct investment transactions for the Agency:

Chief Financial Officer	Treasury Specialist
Director of Treasury Services	Debt Analyst

G. Agency Debt. Agency debt may be incurred only by the specific authority of the Board of Commissioners through special action. Notwithstanding Sections B or E above, all funds under such debt resolutions or indentures of trust shall be controlled by the investment set forth in such documents.

H. Check Signatories (rev. 01/04/08)

1. All General Operating Funds Including Self-insurance Fund

- a. Under \$501 for insurance settlement drafts - One signature from the following:

Claims Adjuster	Manager of Claims
Supervisor of Claims	Director of Risk Management

- b. Under \$7,500 - One signature from the following:

Treasurer, Board of Commissioners (including facsimile signature)
or in the event of a vacancy in the Treasurer's position,
Secretary, Board of Commissioners (including facsimile signature)
President & CEO Director of Treasury Services
Chief Financial Officer Director of Passenger Revenue
Controller Treasury Specialist

- c. \$7,501 to \$100,000 - Two signatures from the following:

Treasurer, Board of Commissioners (including facsimile signature)
or in the event of a vacancy in the Treasurer's position,
Secretary, Board of Commissioners (including facsimile signature)
President & CEO Treasury Specialist
Chief Financial Officer Director of Treasury Services
Controller

- d. \$100,001 to \$500,000 - Two signatures from the following:

Chair, Board of Commissioners	Treasurer, Board of Commissioners
President & CEO	Director of Treasury Services
Chief Financial Officer	Treasury Specialist
	Controller

- e. \$500,001 to \$1,000,000 - Two signatures from the following:

Chair, Board of Commissioners	Treasurer, Board of Commissioners
President & CEO	Director of Treasury Services
Chief Financial Officer	Controller

- f. \$1,000,001 and above - Two signatures, one each from Group A and Group B:

<u>GROUP A</u>	<u>GROUP B</u>
Treasurer, Board of Commissioners President & CEO	Chair, Board of Commissioners Vice Chair, Board. of Commissioners Secretary, Board of Commissioners

2. Employee Medical Self Insurance Account

- a. Under \$25,000 -- Approved Officer of Service Provider (including facsimile signature)
- b. \$25,001 to \$100,000 - Two Signatures, one each from Group A and Group B:

<u>GROUP A</u>	<u>GROUP B</u>
Approved Officer of Service Provider (including facsimile signature)	President & CEO Chief Financial Officer Director of Treasury Services Treasury Specialist Controller

- c. \$100,001 to \$500,000 - Two signatures, one each from Group A and Group B:

<u>GROUP A</u>	<u>GROUP B</u>
Approved Officer of Service Provider	Treasurer, Board of Commissioners President & CEO Chief Financial Officer Director of Treasury Services Controller Treasury Specialist

- d. \$500,001 to \$1,000,000 – Two signatures, one each from Group A and Group B:

<u>GROUP A</u>	<u>GROUP B</u>
Approved Officer of Service Provider	Treasurer, Board of Commissioners President & CEO Chief Financial Officer Director of Treasury Services Controller

I. Wire Transfer Authority (rev. 01/04/08)

- 1. Wire Transfers and Automated Clearing House Transactions (ACH) are authorized for the transfer of funds between checking, investment and

savings accounts, payment of services, equipment, construction in process, a well as payroll related expenditures that are authorized by and in the name of the Bi-State Development Agency.

2. Wire Transfer and Automated Clearing House Transactions (ACH) authority is limited to the below listed individuals. Wire transfers of a non-repetitive nature require the authority of any two of the below listed individuals:

Chief Financial Officer	Treasury Specialist
Director of Treasury Services	Controller
Manager of Accounts Payable	Debt Analyst

3. Authorization to create new repetitive Wire Transfers and Automated Clearing House Transactions (ACH) requires approval of any two of the following:

President & CEO
 Chief Financial Officer
 Chair, Vice Chair, Treasurer, Secretary, Board of Commissioners

J. Authorized Signatories for the Release of Pledged Collateral:

Chief Financial Officer	Director of Treasury Services
Treasury Specialist	Debt Analyst

K. Authorized Signatories for Self Insurance Related Letters of Credit Requests for Letters of Credit must be submitted to the Treasury Section. Treasury personnel will obtain the Letter of Credit and submit the application to one of the following for authorization.

\$49,999 and Below	-	Chief Financial Officer
\$99,990 and Below	-	President & CEO
\$100,000 and Above	-	Chair, Vice Chair, Treasurer of the Board of Commissioners

L. Authorized Agency Bank Accounts: (revised 8/15/07, 09/28/12)

<u>Bank</u>	<u>Account Numbers</u>	<u>Funds (Purpose)</u>
Bank of America	XXXXXXXXXXXX90 -	Operating (Payroll)
-	XXXXXXXXXXXX91 -	Transit Pass Revenue
-	XXXXXXXXXXXX21 -	Transit Operating, Sales Tax, & Internally Restricted
-	XXXXXXXXXXXX34 -	Transit Farebox Revenue

-	XXXXXXXXXXXX58 -	Arch Garage Operations & Maintenance
-	XXXXXXXXXXXX48 -	Transit MetroLink Revenue
-	XXXXXXXXXXXX62 -	Regular Self Insurance
-	XXXXXXXXXXXX96 -	Investment Transitory
-	XXXXXXXXXXXX17-	Transit Revenue (TVM credit card)
-	XXXXXXXXXXXX46-	Call-A-Ride Revenue
-	XXXXXXXXXXXX13-	Accounts Payable EFT
-	XXXXXXXXXXXX39-	Accounts Payable
-	XXXXXXXXXXXX26-	Regular Self Insurance Claims
Jefferson Bank & Trust	XXXXXXXXXXXX15 -	Non-Transit Repo
J.P. Morgan Chase	XXXXXXXXXXXX66-	Cigna Medical Self Insurance Claims (funded by Metro, admin. By Cigna)
PNC	XXXXXXXXXXXX74- XXXXXXXXXXXX66-	Arch Revenue Riverboat Revenue
UMB Bank	XXXXXXXXXXXX25 - XXXXXXXXXXXX28 -	Arch Garage Revenue Transit Operating
Regions Bank -	XXXXXXXXXXXX41 -	Airport Revenue
US Bank -	XXXXXXXXXXXX24 -	Metroride Store Revenue

Section 30.050 Financial Reporting (revised 09/25/09)

A. Policy. It is the policy of the Agency to prepare the financial results of each operating company as required by specific agreement, but not less than quarterly. Financial statements for the Board of Commissioners shall be prepared quarterly, and include the following statements:

1. Transmittal letter of noteworthy variations, including disclaimer
2. Balance Sheet
3. Statement of Revenue, Expense Income (Loss)
4. Cash Receipts and Disbursement Schedule
5. Capital Expenditures for Active Projects
6. Statement of Cash Flows
7. Aged Receivables

Disclaimer:

The following disclaimer shall be included in each transmittal letter of noteworthy variance:

“These interim financial statements are not in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) due to the following reasons: Depreciation is not shown as an operating expense, but as other non-operating expense; capital contributions and total net assets are now shown on the Statement of Revenue, Expense, Income (Loss); and there are no accompanying footnote disclosure requirements or Management Discussion and Analysis (MD & A) sections included.”

Section 30.060 Risk Management (effective 2/25/2000)

A. General. One of the Agency's primary objectives is to provide safe, reliable, and cost-effective transportation services while complying with federal, state, and local laws. In support of that objective, the Agency will develop and maintain an effective, integrated risk management program. This policy applies to all exposures to risk of loss that are fortuitous and result from external causes. These exposures include, but are not limited to, fires, collisions, theft, windstorm, construction accidents, workers' compensation claims, and auto or general liability claims as well as associated lawsuits against the Agency.

B. Authority and Responsibility. The Director of Risk Management is responsible for recommending the overall direction of the Agency's risk management program as specified in the Agency's Management Policies & Procedures.

C. Self-Insurance. The Agency will self insure and self administer those routine risks associated with its core transit operations. Risk exposures above the self-insured retention will be covered by excess insurance if such excess insurance is available and affordable.

D. Insurance. Primary property and liability insurance will be purchased for unique or special risks of loss, for major construction projects, and when required by law or by contract. A Broker of Record will perform the insurance marketing function under the direction of the Director of Risk Management.

E. Self-Insurance Fund. The Agency will maintain an asset account, referred to as the “Self-Insurance Fund”, as authorized by the Board of Commissioners on October 1, 1982, to support liabilities accrued as a result of its self-insured losses. The Chief Financial Officer of the Agency will maintain the Self-Insurance Fund, complying with prudent business practices and all applicable governmental pronouncements, and determine the amount of annual funding required. The fund is subject to following guidelines:

1. The current balance will be sufficient to pay estimated judgments, settlements, losses, and expenses for a three (3) year time period.
2. The amounts held in the Self Insurance Fund shall be used solely for the purpose of paying such liabilities and expenses.
3. The Chief Financial Officer, with concurrence of the President & CEO, is authorized to borrow amounts from the Self Insurance Fund to pay expenses of the Transit System in anticipation of routine operating subsidies and capital grants. All amounts borrowed from the Self Insurance Fund shall be reimbursed to such Fund as soon as possible with normal Agency revenues such as Farebox revenue, sales tax revenues, interest earnings and operating subsidy funds. The Board of Commissioners is to be notified, in writing, of any borrowing, outlining the amount borrowed.

F. Excess Judgment Fund. The Agency will maintain an additional asset account, referred to as the “Excess Judgment Fund”, as authorized by the Board of Commissioners on July 7, 1989, to provide supplemental cash flow to the Self-Insurance Fund, in the event of a large or catastrophic loss that is greater than 50 % of the Agency’s Self-Insured retention amount for that year. In addition, this fund will provide temporary or emergency funds for property losses that are equal or greater than \$ 500,000 and where the insurer has delayed payment or is questioning coverage under its policy. The Chief Financial Officer of the Agency will maintain the Excess Judgment Fund, complying with prudent business practices and all applicable governmental pronouncements. The fund is subject to following guidelines:

1. The goal is to attain and maintain a \$5,000,000 fund balance.
2. A minimum of \$250,000 shall be appropriated annually by the Board as part of the budget process until the fund goal of \$5,000,000 is reached.
3. Interest earned by monies in the fund shall inure exclusively to the fund on a cash basis until the fund goal of \$5,000,000 is reached.
4. Monies appropriated to the fund shall be deposited in the account at the beginning of the Fiscal Year, or as received from the funding jurisdictions.

5. This unencumbered balance of this fund may be used as collateral for short-term debt obligations.
6. The Chief Financial Officer, with concurrence of the President & CEO, is authorized to borrow amounts from the Excess Judgment Fund to pay expenses of the Transit System in anticipation of routine operating subsidies and capital grants. All amounts borrowed from the Excess Judgment Fund shall be reimbursed to such Fund as soon as possible with normal Agency revenues such as farebox revenue, sales tax revenues, interest earnings and operating subsidy funds. The Board of Commissioners is to be notified, in writing, of any borrowing, outlining the amount borrowed.

G. Claim Settlement Authorization. The Board of Commissioners must approve defense settlements exceeding \$250,000. Authorization granted by the Board of Commissioners is deemed to include an additional contingency amount, equal to 20% of the actual authorization granted, for extraordinary use by the President & CEO. This additional authorization may be granted by the President & CEO as trial approaches or during the actual trial. .

H. Litigation Management and Board Notification. In addition to requests for settlement, authorization, the Board of Commissioners will be notified by management about large claims or lawsuits that may significantly impact the Agency's financial stability, its assets, or its public image.

1. The Director of Risk Management will regularly provide informational briefs to the Board on claims and lawsuits that fall into the following classifications:
 - a. Fatalities & severely disabling injuries.
 - b. Jury verdict range or settlement range is expected to exceed \$100,000.
 - c. Documented special damages exceeding \$75,000.
 - d. Other unusual or sensitive claims which may be of particular interest to the Commissioners.
 - e. Final results on claims where the Board has extended settlement authorization.
2. The briefing to the Board will contain:
 - a. Facts & background of the case.
 - b. Summary of injuries & special damages.
 - c. Assessment of liability and expected outcome.
 - d. Litigation history and status if in suit.
 - e. Opinion of legal counsel (if assigned).
 - f. Recommendations and strategy for an appropriate resolution.

3. The Director of Risk Management will maintain a written litigation management program, attorney billing guidelines, and procedures for selecting and retaining defense counsel as specified in more detail in the Agency's Management Policies & Procedures.

I. Review of Agency Contracts and Documents. The Director of Risk Management, in consultation with the Agency's General Counsel as needed, will review Agency contracts, leases, agreements, easements or other documents that transfer risk, specify indemnity obligations, or require specific insurance from one or more of the parties.

Section 30.070 Hedging (effective 2/23/2001; revised 11/20/15)

A. General. Because of the nature of its responsibilities to the St. Louis Metropolitan region, the Bi-State Development Agency (Agency) manages financial risks attributed to the price variability of diesel, electricity and natural gas usage. This risk can be managed effectively through the use of hedging techniques. The purpose of this policy is to generally outline how the Agency will manage these risks, what techniques will be employed, and the general guidelines to be followed.

B. Definition. A hedge is a financial tool used to reduce the risk associated with normal business activities of buying diesel, electricity and natural gas as well as financial lending or borrowing activities. Speculation, on the other hand, does not reduce the risk associated with the Agency's normal business activities, and will not be utilized at any time.

C. Instruments. The financial instruments that are available to be used include over-the-counter (OTC) instruments known as options and swaps and the various combinations of such products caps, collars, costs less collars, futures contracts and weather hedges. Exchange traded futures are permissible under this policy.

D. Risk Management. The Agency will engage only in financial hedge transactions that are consistent with prudent risk management practices related to the Agency's principal business, including the operation of diesel buses and vans, LRV electric propulsion and lighting for its facilities; and natural gas for heating and propulsion. Accordingly, only existing assets and liabilities and foreseeable future purchase requirements will be hedged with financial instruments.

Wherever appropriate, the Agency will modify existing practices or establish new approaches as a means of reducing financial risks. When use of external tools is appropriate, the selection of the appropriate hedging tool to be employed will be determined on a case by case basis.

When executing financial hedge instruments through a financial institution, the counter party must maintain an investment grade rating for hedge instruments with a duration of less than one year. For hedge instruments with a duration of one year or longer, a high grade credit rating of AA or equivalent is required.

E. Oversight. A Hedge Committee will oversee the activities of this program. Oversight includes monitoring the economic conditions to determine appropriate strategies for risk mitigation through hedge products, ratio hedged, and length of maturity. The Committee shall include the Executive Director of Metro Transit, Chief Financial Officer, and the Vice President of Procurement, Inventory Management & Supplier Diversity.

The role of the Hedge Committee will be to determine whether a proposed transaction is consistent with this Hedge Policy and review the performance of the hedging activity on a periodic basis. The Hedge Committee will meet no less than quarterly. The Manager of Cash and Investments will provide the Board of Commissioners with a summary of its activity through the monthly Treasurer's Report.

Section 30.080 Debt Issuance and Administration (revised 6/26/09)

A. The Agency. The Bi-State Development Agency of the Missouri-Illinois Metropolitan District (the "**Agency**") is a body corporate and politic created and existing by reason of a joint compact (the "**Compact**") between the States of Missouri and Illinois (Sections 70.370 *et seq.* of the Revised Statutes of Missouri, as amended, and Illinois Compiled Statutes, Chapter 45, Act 100, as amended) and approved by the United States Congress and the President.

B. Powers to Issue Debt. *RSMo Section 70.373; 45 ILCS 110/1 Ratified by Congress January 7, 1959; further amended and ratified by Congress January 3, 1985*

1. *To borrow money for any of the authorized purposes of the Agency and to issue the negotiable notes, bonds or other instruments in writing of the Agency in evidence of the sum or sums to be borrowed;*
2. *To issue negotiable refunding notes, bonds or other instruments in writing for the purpose of refunding, extending or unifying the whole or any part of its valid indebtedness from time to time outstanding, whether evidenced by notes, bonds or other instruments in writing;*
3. *To provide that all negotiable notes, bonds or other instruments shall be payable, both as to principal and interest, out of the revenues collected for the use of any facility or combination of facilities owned and operated by the Agency, or out of any other resources of the Agency, and may be further secured by a mortgage or deed of trust upon any property owned by the Agency. All notes, bonds or other instruments in writing issued by the Agency as herein provided shall mature in not to exceed thirty years from the date thereof, shall bear interest at a rate not exceeding fourteen percent per annum, and shall be sold for not less than ninety-five percent of the par value thereof. The Agency shall have the power to prescribe the details of such notes, bonds or other instruments in writing, and of the issuance and sale thereof, and shall have power to enter into covenants with the holders of such notes, bonds or other instruments in writing, not inconsistent*

with the powers herein granted to the Agency, without further legislative authority;

4. *To issue bonds for industrial, manufacturing or commercial facilities located within the Bi-State metropolitan district upon the security of the revenue to be derived from such facilities; and, or upon any property held or to be held by it.*

C. Revenue Bonds.

I. General Management Policies

The Agency will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting and fare-setting process.

- A. In recognition of periodic changes in the cost of providing service to system users, service costs and fees will be reviewed annually and adjusted commensurately.
- B. The Agency will present any proposed adjustments to existing fares, rates, fees and charges at public meetings, and will consider recommendations and input from the public as it relates to such proposed changes.
- C. All Agency funds will be invested according to the Investment Policies of the Agency.
- D. Necessary appropriations for annual debt service requirements will be routinely included in the Agency's annual budget.
- E. The Agency will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible rates.
- F. The Agency may appoint a special committee of local financial experts to assist management as it develops financial plans.
- G. Fund co-mingling and inter-fund borrowing.

The transit system is presently comprised of the following funds:

- Revenue Fund
- Operating Fund
- Internally Restricted Fund (Special Sales Tax Capital Fund)
- Sales Tax Capital Fund
- Prop M Fund
- Self Insurance Fund
- Stabilization Fund

The Agency maintains one bank depository account for operational and working capital purposes, which is comprised of the Operating, Internally Restricted, Sales Tax Capital, and Stabilization Funds. While these funds are co-mingled in a single bank account, specific accounting is maintained on the Agency's books at the fund level.

Transit operations have little seasonality and are generally consistent throughout the year. The annual appropriation process for state, local and federal formula funding, which combined provides approximately 75% of the Agency's funding, commences after the fiscal year begins. Local appropriations are subject to the legislative process, and Federal appropriations can be delayed up to 12 months. Consequently, Agency staff is authorized to transfer (borrow) funds within the groups identified above in order to maintain operational liquidity and adequate working capital.

In the event the above funds are exhausted, temporary operating deficits may be funded by unencumbered Self Insurance and Prop M Funds. Staff shall inform the Board any time the local funding jurisdictions fail to provide funds within ninety days of the beginning of the fiscal year. Management shall recommend a course of action up to and including service interruption for the jurisdiction in question.

Furthermore, the Agency utilizes the Transit Operating Fund (Accounts Payable Account) as the single disbursement account for the payment of both transit and business enterprise obligations. Liability accounts shall be maintained for the recording of all payments made by Transit for Business Enterprises, and Business Enterprises shall reimburse Transit, in the following month, for any such payments.

II. Financial Management Policies

The Agency utilizes a comprehensive planning process to determine its long-term capital needs. The Agency evaluates each capital project in relation to established federal, state and local grants and assistance programs and levels of reserves, current rate structure, expected asset life/replacement timeline, and available revenue sources to ensure that adequate financial resources are available to support the Agency's financial obligations. The Agency's Debt and Financial Management, Investment, and Swap Policies are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such the following policies outline the Agency's approach to debt management:

- A. The Agency will evaluate financing for each capital project on a case-by-case basis. The Agency will seek to pay for all capital projects from current revenues, federal grants and assistance programs and available reserves prior to or in combination with the use of debt.
- B. The Agency will seek to issue debt only in the case where there is an identified source of repayment. Bonds will be issued to the extent that (i) projected fixed revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such fixed revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

- C. Debt issuance for a capital project will not be considered unless such issuance has been incorporated into the capital improvement plan (Long Range Financial Plan).
- D. The Agency may designate a pool of qualified investment banking firms (or underwriters). The pools may be used for designating underwriting syndicates for a period extending through April 30, 2014. The Finance Division may terminate or extend the pools at any time prior to this date. The Finance Division may also periodically update the pools of underwriters, including the addition of firms that may submit their qualifications after the initial deadline. In addition, the Finance Division may request additional information or additional qualifications at any time from firms in the pools of underwriters. Expiration of the underwriting pool will not affect any previously designated syndicate(s) with which there are active negotiations for a bond sale.

III. Debt and Capital Management Policies

The following policies formally establish parameters for evaluating, issuing, and managing the Agency's debt. The policies outlined below are not intended to serve as a list of rules to be applied to the Agency's debt issuance process, but rather to serve as a set of guidelines to promote sound financial management.

In issuing debt, the Agency objectives will be to:

1. Achieve the lowest cost of capital;
2. Maintain high credit ratings and access to credit enhancement;
3. Preserve financial flexibility.

IV. Standards for Use of Debt Financing

When appropriate, the Agency will use long-term debt financing to: achieve an equitable allocation of capital costs/charges between current and future system users; to provide more manageable rates in the near and medium term; and to minimize rate volatility.

- A. For growth related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system.
- B. The Agency shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life.
- C. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

- D. Lease Agreements and Installment Sale Agreements shall be considered as an alternative to long-term debt. Although these forms of alternative financing are subject to annual appropriation, they shall be considered as long-term fixed rate debt for the purposes of this policy until maturity.

V. Financing Criteria

Each debt issuance should be evaluated on an individual basis within the framework of the Agency's Long Range Financing Plan, as well as within the context of the Agency's overall financing objectives and current market conditions.

The Agency will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

- A. Credit Enhancement – The Agency will consider the use of credit enhancement on a case-by-case basis. Only when clearly demonstrable savings can be realized shall credit enhancement be utilized.
- B. Cash-Funded Reserve vs. Surety – The Agency may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous.
- C. Call Provisions – In general, the Agency's securities should include optional call provisions. The Agency will generally avoid the sale of non-callable long-term fixed rate bonds, absent careful evaluation of the value of the call option.
- D. Additional Bonds Test/Rate Covenants - The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and these policies.
- E. Short-Term Debt – The Agency may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity.
- F. Use of Variable Rate Debt - The Agency will not issue variable interest rate debt unless: the proposed debt is converted to a fixed rate or hedged (for an interim period or to maturity) by use of a put-type mode, swap agreement or hedging mechanism (e.g., interest rate cap); outstanding un-hedged variable rate debt, including any proposed new variable debt, does not exceed the Agency's "hedge position" (defined herein) in aggregate; or, interest is capitalized during the expected term that bonds will be outstanding in a variable rate mode. For this purpose, the Agency's hedge position will be calculated as the Agency's cash reserves multiplied by 125%. Notwithstanding the above, the Agency will refrain from issuing new variable rate debt (including synthetic variable rate debt), whether hedged or un-hedged, which exceeds 20 percent of the Agency's aggregate debt outstanding.

- G. Use of Swaps & Derivatives - The use of any swap agreement in conjunction with the issuance or management of debt instruments will be governed by the Agency's Swap Policy. The use of swaps to create synthetic fixed rate debt should generally be considered only such synthetic fixed rate debt would result in a 20% reduction in debt service vs. traditional fixed rate bonds.
- H. Investment of Bond Proceeds - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction, unless further restricted or limited in the Agency's Investment Policy. The preservation of funds, notwithstanding, the Agency will seek to maximize investment earnings within the investment parameters set forth in each respective bond indenture. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

VI. Refinancing Outstanding Debt

The Agency shall have the responsibility to evaluate potential refunding opportunities presented by underwriting and/or financial advisory firms. The Agency will consider the following issues when analyzing potential refinancing opportunities:

- A. Debt Service Savings – The Agency shall establish a target savings level equal to 3% (current refunding) to 5% (advance refunding) of par refunded on a net present value (NPV) basis. These figures should serve only as a guideline, the Agency must evaluate each refunding opportunity on a case-by-case basis, and must take into consideration: the time to maturity, size of the issue, current interest rate environment, annual cash flow savings, and the value of the call option. Economic savings resulting from a refunding will generally be structured to occur on a level basis over the life of the refunding bonds. The decision to take all savings upfront or on a deferred basis must be explicitly approved by the Agency's Finance and Audit Committee and Board of Commissioners.
- B. Restructuring - The Agency may seek to refinance a bond issue on a non-economic basis in order to restructure debt, mitigate irregular debt service payments, accommodate revenue shortfalls, release reserve funds, comply with and/or eliminate rate/bond covenants, or terminate a swap.
- C. Term/Final Maturity – The Agency may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary outcome, provided that such extension is permissible under the Agency's Compact and Federal tax law. The term of the bonds should not extend beyond the reasonably expected useful life of the asset being financed. The Agency may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity should guide these decisions.

- D. Escrow Structuring - The Agency shall utilize the least costly securities available in structuring each escrow. A certificate will be required from a third party agent who is not acting as a broker-dealer, stating that the securities were purchased through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Series Securities (SLGS), and that the price paid was reasonable and within Federal guidelines. The Agency retains the right to use SLGS at any time in structuring its escrows.

When evaluating the economic viability of an economic versus legal defeasance, the Agency shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The Agency shall take all necessary steps to optimize its escrows and to avoid negative arbitrage in any refunding.

VII. Method of Issuance

The Agency will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

- A. Competitive Sale – In a competitive sale, the Agency’s bonds shall be awarded to the bidder providing the lowest true interest cost (“TIC”), as long as the bid adheres to requirements set forth in the official notice of sale.
- B. Negotiated Sale – Due to the unique nature of the Agency’s funding arrangements, the Agency recognizes that many of its transactions are best sold through negotiation. In consideration of a negotiated sale, the Agency shall assess the following circumstances that weigh toward the use of a negotiated sale:
1. Issuance of variable rate or taxable bonds;
 2. Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort;
 3. Significant par value, which may limit the number of potential bidders;
 4. Unique/ proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process;
 5. Market volatility, such that the Agency would be better served by flexibility in the timing of its sale in a changing interest rate environment;
 6. When an Underwriter has identified new financing opportunities or presented alternative structures that financially benefit the Agency;
 7. As a result of an Underwriter’s familiarity with the project/financing, which enables the Agency to take advantage of efficiency and timing considerations.
- C. Private Placement – From time to time the Agency may elect to issue debt on a private placement basis. Such method shall generally be considered only if it is demonstrated to result in cost savings or provide other advantages relative to other

methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

- D. Conduit Issuance – The Agency may elect to enter into financing agreements with other issuers, including but not limited to the City of St. Louis, St. Louis County, and the Missouri Development Finance Board, to permit debt to be issued on the Agency’s behalf. The Agency will consider this approach if such an arrangement is expected to produce lower borrowing costs, enhance the flexibility of the Agency, or provide other operational efficiencies.

VIII. Market Communication, Debt Administration and Reporting Requirements

Rating Agencies and Investors – The Chief Financial Officer shall be responsible for maintaining the Agency's relationships with Moody's Investors Service, Standard & Poor's Ratings- Services, Fitch Ratings or any other nationally-recognized rating service. The Agency may, from time to time, choose to deal with fewer than all of these agencies as circumstances dictate.

In addition to general communication, the Chief Financial Officer shall: (1) meet with Credit Analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls with Agency analysts in connection with the planned sale.

- A. Board Communication – The Chief Financial Officer shall include in an annual report to the Finance and Audit Committee and the Board of Commissioners feedback from rating agencies and/or investors regarding the Agency's financial strengths and weaknesses and recommendations for addressing any weaknesses.
- B. Continuing Disclosure – The Agency shall remain in compliance with Rule 15c2-12 or any successor rule or regulation by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the Agency. While also relying on a timely audit and preparation of the Agency's annual report, the Chief Financial Officer will ensure the Agency's timely filing with each Nationally Recognized Municipal Securities Information Repository.
- C. Record-Keeping – A copy of all debt-related records shall be retained at the Agency’s offices. At minimum, these records shall include all official statements, bid documents, bond documents / transcripts, resolutions, trustee statements, leases, and title reports for each Agency financing (to the extent available). To the extent possible, the Agency shall retain an electronic copy of each document - preferably in Adobe Acrobat-compatible or CD-ROM format.
- D. Arbitrage Rebate – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code arbitrage rebate requirements. The Chief Financial Officer shall ensure that all bond proceeds and

investments are tracked in a manner which facilitates accurate calculation; and, if rebate is due, such payments are made.