

**Regional Transportation Authority  
Pension Plan  
(A Pension Trust Fund of the  
Regional Transportation Authority)**

Financial Report  
Year Ended December 31, 2016



**Regional Transportation Authority  
Pension Plan**

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## Independent Auditor's Report

RSM US LLP

To the Plan Administrator, the Trustees, and Retirement Committee of the Regional Transportation Authority Pension Plan, and the Board of Directors of the Regional Transportation Authority  
Chicago, Illinois

### Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Transportation Authority Pension Plan ("Plan"), a pension trust fund of the Regional Transportation Authority ("RTA"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective plan net position of the Regional Transportation Authority Pension Plan, Illinois, as of December 31, 2016, and the respective changes in plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

As discussed in Note 1 to the financial statements, the financial statements present only the Regional Transportation Authority Pension Plan and do not purport to, and do not, present fairly the financial position of the Regional Transportation Authority as of December 31, 2016, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Required Supplementary Information:*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-5) and the schedule of changes in net pension liability, schedule of net pension liability, schedule of investment returns and schedule of contributions (pages 18-20) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*RSM US LLP*

Schaumburg, Illinois  
June 5, 2017

## **Regional Transportation Authority Pension Plan**

### **Management's Discussion and Analysis**

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This section provides an overview and analysis of the basic financial statements of the Regional Transportation Authority ("RTA") Pension Plan ("Plan") for the year ended December 31, 2016. We encourage readers to consider information in the financial statements and required supplementary information that follow this document.

#### ***Overview and Analysis of the Financial Statements***

The RTA Pension Plan annual financial report consists of four parts – the independent auditor's report; management's discussion and analysis (this section); the financial statements, including notes to financial statements; and the required supplementary information. The basic financial statements of the Plan are the Statements of Plan Net Position and the Statements of Changes in Plan Net Position. These statements provide information about the nature and amount of investments available to pay the pension benefits of the Plan. The Statements of Changes in Plan Net Position account for all additions to and deductions from the net position restricted for pension benefits. These statements measure the success of the Plan in increasing the net position available for pension benefits during the year.

#### **Financial Highlights**

- The Plan's net position at December 31, 2016 was \$261.7 million
- Employer contributions of \$10.8 million decreased by \$66.3 million from the prior year
- Benefit payments were \$15.1 million, resulting in a \$0.6 million decrease from FY 2015
- The total net investment gain was \$20.0 million

#### **2016**

The Statement of Plan Net Position and Statement of Changes in Plan Net Position measure the value of plan net position and the changes to them. As of December 31, 2016, the plan net position increased to \$261.7 million. The increase in net position of \$15.3 million resulted primarily from investment gains of \$20.0 million offset by benefits paid of \$15.1 million and administrative expenses of \$467 thousand.

#### **2015**

The Statement of Plan Net Position and Statement of Changes in Plan Net Position measure the value of plan net position and the changes to them. As of December 31, 2015, the plan net position increased to \$246.4 million. The increase in net position of \$51.9 million resulted primarily from employer contributions of \$77.1 million offset by net investment loss of \$9.1 million, benefits paid of \$15.7 million and administrative expenses of \$407 thousand. There was an additional discretionary contribution approved by the Pension Trustees in the amount of \$63.5 million in fiscal year 2015.

**Regional Transportation Authority  
Pension Plan**

**Management's Discussion and Analysis**

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**Plan Net Position** — The following table summarizes the Plan's Statements of Net Position:

|                                      | <u>2016</u>           | <u>2015</u>           |
|--------------------------------------|-----------------------|-----------------------|
| Assets                               |                       |                       |
| Cash and investments                 | \$ 261,806,104        | \$ 246,486,236        |
| Other receivables                    | 80,091                | 45,342                |
|                                      | <u>261,886,195</u>    | <u>246,531,578</u>    |
| Total assets                         |                       |                       |
| Liabilities                          |                       |                       |
| Accrued expenses                     | 104,928               | 64,927                |
| Other liabilities                    | 70,690                | 26,384                |
|                                      | <u>175,618</u>        | <u>91,311</u>         |
| Total liabilities                    |                       |                       |
| Net position restricted for pensions | <u>\$ 261,710,577</u> | <u>\$ 246,440,267</u> |

In 2016, the plan net position increased by 6% (\$15 million). The increase is primarily from employer contributions of \$11 million offset by net investment gain of \$20 million, benefits payments and administrative expenses of \$15.5 million. In 2015, the plan net position increased by 27% (\$51.9 million). The increase is primarily from employer contributions of \$77.1 million offset by net investment loss of \$9.1 million, benefits payments and administrative expenses of \$16.1 million.

**Changes in Plan Net Position** — The following table summarizes the Plan's Statements of Changes in Plan Net Position:

|  | <u>2016</u>          | <u>2015</u>          |
|--|----------------------|----------------------|
| Additions:   |                      |                      |
| Employer contributions                               | \$ 10,834,166        | \$ 77,095,094        |
| Net investment gains (losses)                        | 19,970,262           | (9,100,344)          |
|  | <u>30,804,428</u>    | <u>67,994,750</u>    |
| Total net additions                                  |                      |                      |
| Deductions:  |                      |                      |
| Benefit payments                                     | 15,067,599           | 15,658,298           |
| Administrative expenses                              | 466,519              | 406,616              |
|  | <u>15,534,118</u>    | <u>16,064,914</u>    |
| Total deductions                                     |                      |                      |
| Net increase in net position restricted for pensions | <u>\$ 15,270,310</u> | <u>\$ 51,929,836</u> |

In 2016, the Plan incurred a net investment gain of \$20 million, compared to a loss of \$9 million in 2015. In 2016, the net investment gain increased by \$29 million from 2015. The increase in net investment income in 2016 was the result of upward movement in the securities market. The increase in administrative expenses is due to an increase in the volume of actuarial and audit services provided to the plan. There was an additional discretionary contribution approved by the Pension Trustees in the amount of \$6.5 million in fiscal year 2016.

**Regional Transportation Authority  
Pension Plan**

**Management's Discussion and Analysis**

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CONTACTING THE FINANCIAL MANAGEMENT OF THE RTA PENSION PLAN

This financial report provides a general overview of the net position of the Regional Transportation Authority Pension Plan. Users of this report should address questions concerning the information contained herein, or requests for additional financial information, to the Regional Transportation Authority, 175 West Jackson Blvd., Suite 1650, Chicago, Illinois 60604.

**Regional Transportation Authority  
Pension Plan**

**Statement of Plan Net Position  
December 31, 2016**

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|                                      |                              |
|--------------------------------------|------------------------------|
| Assets                               |                              |
| Cash and cash equivalents            | <u>\$ 4,911,803</u>          |
| Investments, at fair value           |                              |
| Corporate fixed income mutual fund   | 60,681,495                   |
| Equity mutual funds                  | 138,460,425                  |
| Common stocks                        | 14,773,350                   |
| Venture capital                      | 8,071,760                    |
| Balanced funds                       | <u>34,907,271</u>            |
| Total investments                    | <u>256,894,301</u>           |
| Receivables                          |                              |
| Accrued interest                     | 891                          |
| Accrued dividends                    | 3,489                        |
| Pending investment sales             | <u>75,711</u>                |
| Total receivables                    | <u>80,091</u>                |
| Total assets                         | <u>261,886,195</u>           |
| Liabilities                          |                              |
| Accrued expenses                     | 104,928                      |
| Pending investment purchases         | <u>70,690</u>                |
| Total liabilities                    | <u>175,618</u>               |
| Net position restricted for pensions | <u><u>\$ 261,710,577</u></u> |

See Notes to Financial Statements.

**Regional Transportation Authority  
Pension Plan**

**Statement of Changes in Plan Net Position  
Year Ended December 31, 2016**

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|  |                       |
|--|-----------------------|
| Additions:   |                       |
| Investment gain  |                       |
| Net appreciation (depreciation) in fair value of investments | \$ 16,286,994         |
| Interest and dividends                                       | 4,185,588             |
|  | <hr/>                 |
| Total investment return / (loss)                             | 20,472,582            |
|  | <hr/>                 |
| Less investment expenses                                     |                       |
| Investment managers  | 320,695               |
| Trust fees   | 4,125                 |
| Investment advisor   | 177,500               |
|  | <hr/>                 |
| Total investment expenses                                    | 502,320               |
|  | <hr/>                 |
| Net investment gain / (loss)                                 | 19,970,262            |
|  | <hr/>                 |
| Contributions:   |                       |
| METRA pension contributions                                  | 5,062,642             |
| PACE pension contributions                                   | 3,479,971             |
| RTA pension contributions                                    | 2,291,553             |
|  | <hr/>                 |
| Total contributions  | 10,834,166            |
|  | <hr/>                 |
| Total net additions  | 30,804,428            |
|  | <hr/>                 |
| Deductions:  |                       |
| Benefit payments   | 15,067,599            |
| Administrative expenses                                      | 466,519               |
|  | <hr/>                 |
| Total deductions   | 15,534,118            |
|  | <hr/>                 |
| Change in net position                                       | 15,270,310            |
|  | <hr/>                 |
| Net position - beginning of year                             | 246,440,267           |
|  | <hr/>                 |
| Net position - end of year                                   | <u>\$ 261,710,577</u> |

See Notes to Financial Statements.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 1. Description of the Plan**

The following description of the Regional Transportation Authority (“RTA”) Pension Plan (“Plan”) provides only general information. Participants should refer to the plan document for a more complete description of the Plan’s provisions.

**General**—The Plan, which became effective July 1, 1976, is a governmental, cost-sharing multiple-employer, defined benefit pension plan. The Plan is considered a multiple-employer plan with regard to financial reporting requirements, but not under the Internal Revenue Code (IRC). The Plan has three participating employers and covers substantially all employees of the RTA and its Commuter Rail and Suburban Bus Divisions (“Metra” and “Pace”, respectively), collectively referred to hereinafter as the Employers, who are not otherwise covered by a union pension plan. The responsibilities for administering the Plan are divided among a Board of Trustees, a Retirement Committee, a Plan Administrator, and the RTA Board of Directors (“RTA Board”). The Plan’s Board of Trustees consists of seven members, including three employee trustees, made up of one employee member from each of the three employer entities and four non-employee trustees, whom are appointed by the RTA Board.

The Plan is a pension trust fund sponsored by the RTA and has no component units.

The financial statements present only the Regional Transportation Authority Pension Plan and do not purport to, and do not, present fairly the financial position of the Regional Transportation Authority as of December 31, 2016, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Plan is classified as a “governmental plan” and is, therefore, exempt from the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”). The Plan is subject to certain qualified retirement plan provisions of the Internal Revenue Code.

**Participation**—Employees are eligible for participation on the first day of the month coincident with or next following their date of employment. At January 1, 2016, the number of participants was:

|   |                     |
|---|---------------------|
| Inactive plan members (or their beneficiaries) currently receiving benefits | 670                 |
| Inactive plan members entitled to but not yet receiving benefits            | 480                 |
| Active plan members   | <u>1,114</u>        |
| Total   | <u><u>2,264</u></u> |

**Pension Benefits**—Participants are entitled to annual pension benefits upon normal retirement at age 65, generally a percentage of the average annual compensation in the highest three years of service, whether consecutive or not, multiplied by the number of years of credited service.

The Plan provides that, upon retirement, benefits will be reduced by a defined percentage for participants who received credit for prior service with an eligible employer.

The Plan permits early retirement with reduced benefits at age 55 after completing ten years of credited service. As a result of the August 1, 1999 amendment to the Plan, participants may receive their full vested benefits if they are at least 55 years of age and their combined age at retirement and credited years of service equals eighty-five or higher (known as “Rule of Eighty Five Early Retirement”).

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 1. Description of the Plan (Continued)**

The Plan provides for benefit payments to beneficiaries subject to the election of the participant. In addition, the lump sum payment form is no longer an optional form of payment for participants that have not earned credited service prior to January 1, 2011. This change did not affect the valuation results.

**Disability Benefits**—An employee is eligible for a disability pension if he or she becomes disabled after the completion of ten years of credited service, and is no longer receiving long-term disability benefits under a separate RTA benefit plan, or after reaching age 65, whichever is later.

**Contributions and Vesting**—The Plan is funded solely by employer contributions, which are actuarially determined under the projected unit credit method.

For the purpose of determining contributions, the Plan uses an asset smoothing method which smooths asset gains and losses over a 5-year period. The minimum contribution is the sum of the normal cost and the 30-year amortization of the unfunded liability.

If participants terminate continuous service before rendering five years (ten years prior to January 1, 1987) of credited service, they forfeit the right to receive the portion of their accumulated benefits attributable to employer contributions. All forfeitures are applied to reduce the amount of contributions otherwise payable by the employer.

The 2016 required contributions were determined as part of the January 1, 2016 actuarial valuation, using the entry age actuarial cost method. The actuarial assumptions at January 1, 2016 included (a) 7.5% for 2016 investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases ranging from 3.25% to 8.75% per year depending on age and service, attributable to seniority/merit, and (c) RP2014 Mortality Table. The actuarial value of plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of total payroll on a closed basis over 30 years.

**Related-Party Transactions**—There were no securities of the RTA, Metra, Pace or related parties included in the Plan's assets.

**Subsequent Events**—The Authority has evaluated subsequent events for potential recognition and/or disclosure through June 1, 2017, the date the financial statements were available to be issued.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 2. Summary of Significant Accounting Policies**

**Basis of Presentation**—The accompanying financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America.

**Cash Equivalents**—Cash equivalents consist of money market accounts with original maturities of three months or less.

**Investments**—Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fair value for the majority of fixed income securities is determined by using quoted market prices by independent pricing services. Investments that do not have an established market are reported at net asset value, these include commingled funds, private equity funds and hedge funds. The alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Holdings are generally valued by a general partner or investment manager on a quarterly basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of judgement.

Purchases and sales of securities are accounted for on the trade dates. For purposes of determining realized gains or losses on the disposal of investments, the average cost of investments sold, determined at the time of sale, is used.

Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date.

**Administrative Expenses**—The RTA provides the Plan with certain administrative services, such as accounting and office facilities, at no cost to the Plan. Further detail relative to the Plan's administrative expenses is provided in Note 6.

**Income Tax Status**—The Internal Revenue Service ("IRS") has issued a letter of determination dated September 19, 2011, stating that the Plan was designed in compliance with Section 401(a) of the Internal Revenue Code ("Code"). The Plan has been amended since receiving the determination letter; however, the Plan Administrator believes the Plan is currently designed and operated in compliance with the applicable requirements of the Code and is therefore exempt from federal income taxes under the provisions of Section 501(a) of the Code. As of December 31, 2016, an updated Determination Letter request is pending before the IRS.

**Management's Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of Plan assets available for benefits and the actuarial present value of accumulated plan benefits as of the date of the financial statements. Actual results could differ from those estimates. The Plan uses an actuary to determine the actuarial present value of accumulated plan benefits. A change in the actuarial assumptions used could significantly change the amount of the actuarial present value of accumulated plan benefits reported in the accompanying financial statements.

**Risks and Uncertainties**—The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and those such changes could materially affect the amounts reported in the Statement of Plan Net Position.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 3. Investments**

**Investment Policy** – The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the RTA Pension Plan Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Trustee’s adopted asset allocation policy as of December 31, 2016:

| Asset Class                          | Target Allocation |
|--------------------------------------|-------------------|
| Large Cap U.S. Equity                | 15.0 %            |
| Small/Mid Cap Equities               | 8.0               |
| International Equity                 | 10.0              |
| Emerging Market International Equity | 6.0               |
| Core Bonds                           | 15.5              |
| Multi-Sector Fixed Income            | 12.5              |
| Private Equity                       | 8.0               |
| Private Real Assets                  | 5.0               |
| Real Estate (Core)                   | 8.0               |

**Risk Posture** – The RTA evaluated the assets and liabilities of the Pension Plan in order to determine an asset allocation that provides a high likelihood of achieving the responsibilities noted above. The obligations of current and future beneficiaries were evaluated under various market scenarios to develop an allocation that can be expected to generate a solid rate of return without incurring undue risk. In general, the risk posture of the Pension Plan is such that the portfolio is structured to maintain funding requirements and modestly grow assets through a low to moderate level of risk.

**Custodial Credit Risk** – Custodial credit risk is the risk that in the event of a bank failure, the RTA’s pension deposits and investments may not be returned to it. The RTA’s Pension Plan policy does not explicitly address custodial credit risk. As of December 31, 2016, none of the Plan’s cash and investments was exposed to custodial risk.

**Interest Rate Risk** – Per the RTA’s Pension Plan investment policy, the duration of the fixed income portfolio should be within 20% of the duration of the benchmark index.

As of December 31, 2016, the RTA’s pension investments were as follows:

| Investment Type             | Fair Value    | Weighted Average Maturity (Months) |
|-----------------------------|---------------|------------------------------------|
| Mutual funds - fixed income | \$ 60,681,495 | 97                                 |
| Money market fund           | 4,911,803     | 1                                  |

**Credit Risk** — The RTA’s pension policy for credit risk states at least 85% of the fixed income investments should be limited to securities with ratings of at least investment grade as defined by both Moody’s and Standard & Poor’s. Split rated bonds are to be governed by the lower rating. Unrated securities of the U.S. Treasury and government agencies are a permissible investment. No more than 15 percent of the portfolio may be invested in investment-grade securities of foreign entities domiciled in countries included in the Citigroup World Government Bond Index.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 3. Investments (Continued)**

As of December 31, 2016, the credit ratings for RTA pension investments were as follows:

| <b>Investment Type</b>      | <b>Total Fair Value</b>     | <b>Credit Rating (where available)</b> |                              |              |
|-----------------------------|-----------------------------|--|------------------------------|--------------|
|                             |                             | <b>Moody's</b>                         | <b>Standard &amp; Poor's</b> | <b>Fitch</b> |
| Mutual funds - fixed income | \$ 60,681,495               | NR                                     | NR                           | NR           |
| Money market fund           | <u>4,911,803</u>            | Aaa-mf                                 | AAAm                         | NR           |
| <b>Total</b>                | <u><u>\$ 65,593,298</u></u> |  |                              |              |

NR – Not rated

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The RTA's pension investment policy states that fixed income securities of a single issuer (excluding obligations of the United States Government and its agencies) should be limited to 5% of the fixed income portfolio, measured at market value. The RTA's pension policy states the asset allocation policy has been developed based on the objectives and characteristics of the pension liabilities, capital market expectations and asset-liability projections. This policy is long-term oriented and consistent with the risk posture. As of December 31, 2016, the pension fund did not have any investments in a single issuer which were greater than 5% of the Plan's investment portfolio.

**Rate of Return** – For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.3 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 3. Investments (Continued)**

**Fair Value Measurement**

The Trust categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

- Level 1** Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.
- Level 2** Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.
- Level 3** Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The Trust's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Investments measured at fair value using net asset value per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy; however, separate disclosures for these investments are required.

Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical investments.

Fixed income investments classified in Level 2 of the fair value hierarchy are normally valued based on price data obtained from observed transactions and market price quotations from broker dealers and/or pricing vendors. Valuation estimates from service providers' internal models use observable inputs such as interest rates, yield curves, credit/risk spreads and default rates. Matrix pricing techniques value securities based on their relationship to benchmark quoted prices.

Fixed income investments classified in Level 3 (if any) include valuations using significant unobservable inputs, valuations using proprietary information, inputs that cannot be corroborated by observable market data and securities valued with last trade date due to limited trading volume.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

**Note 3. Investments (Continued)**

The following table summarizes the valuation of the Plan's investments by the fair value hierarchy levels as of December 31, 2016:

|  | <u>Fair Value Measurements Using</u> |   |  |  |
|--|--------------------------------------|---|--|--|
|  | <u>Fair Value</u>                    | <u>Quoted Prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs (Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs (Level 3)</u> |
| <b><u>Investment by Fair Value Level</u></b> |                                      |   |  |  |
| Fixed income investments                     |                                      |   |  |  |
| Mutual funds - fixed income                  | \$ 60,681,495                        | \$ 60,681,495   | \$ -   | \$ -   |
| Equity investments                           |                                      |   |  |  |
| Common Stock                                 | 14,773,350                           | 12,875,358  | 1,897,992  | -  |
| Mutual funds - equity                        | 16,630,420                           | 16,630,420  | -  | -  |
| Collective equity funds                      | 121,830,005                          | -   | 121,830,005  | -  |
| Total Equity Investments                     | 153,233,775                          | 29,505,778  | 123,727,997  | -  |
| Commingled funds                             |                                      |   |  |  |
| Balanced funds                               | 34,907,271                           | 34,907,271  | -  | -  |
| Total investments by fair value level        | <b>\$ 248,822,541</b>                | <b>\$ 125,094,544</b>   | <b>\$ 123,727,997</b>  | <b>\$ -</b>  |

**Investment Measured at the Net Asset Value (NAV)**

|  |                       |
|--|-----------------------|
| Hedge funds                              | \$ 8,071,760          |
| Total Investments measured by fair value | <b>\$ 256,894,301</b> |

Investments measured at the NAV per share (or its equivalent) are as follows:

**Investments Measured at the Net Asset Value (NAV)**

|                             | <u>Fair Value</u> | <u>Unfunded<br/>Commitments</u> | <u>Redemption<br/>Frequency (if<br/>Currently Eligible)</u> | <u>Redemption<br/>Notice Period</u> |
|-----------------------------|-------------------|---------------------------------|---|-------------------------------------|
| Hedged Funds <sup>(1)</sup> | \$ 8,071,760      | -                               | Quarterly - Biannually                                      | 65 - 90 days                        |

(1) *Hedge Funds* - This type invests in 2 hedge funds which managers employ bottom-up stock picking, seeking returns in excess of public markets. Some of these managers have the ability to employ dedicated exposure to a particular sector in which they exhibit expertise.

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 4. Net Pension Liability**

The components of the net pension liability at December 31, 2016, were as follows:

| Fiscal Year<br>Ending<br>December 31, | Total<br>Pension<br>Liability | Plan Net<br>Position | Net Pension<br>Liability | Plan Net<br>Position as a %<br>of Total Pension<br>Liability |
|---------------------------------------|-------------------------------|----------------------|--------------------------|--|
| 2016                                  | \$ 299,514,354                | \$ 261,710,577       | \$ 37,803,777            | 87.38%   |

**Actuarial assumptions:** The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

|                               |   |
|-------------------------------|---|
| Actuarial Cost Method         | Entry Age Normal  |
| Amortization Method           | Level Dollar Closed   |
| Remaining Amortization Period | 28 years  |
| Asset Valuation Method        | 5 years smoothed market   |
| Inflation                     | 2.75%   |
| Salary Increases              | 3.25% to 8.75% including inflation  |
| Investment Rate of Return     | 7.50%   |
| Retirement Age                | Age-based table of rates that are specific to the type of eligibility condition   |
| Mortality                     | RP2014 Employee Mortality table, sex-distinct, for pre-retirement mortality and the RP2014 Healthy Annuitant Mortality table, sex distinct, for post-retirement mortality.  |
| Other Information             | Ordinance No. 2016-16, which was approved on April 21, 2016, and is effective July 1, 2016, provides for additional pre-retirement death benefits for the survivors of plan members and provides additional forms of benefit payment options. The actuarial assumptions and the actuarial cost method remain unchanged from the prior actuarial valuation as of January 1, 2015, except for the conversion factors used to calculate future projected lump sum benefits in the actuarial valuation. |

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 4. Net Pension Liability (Continued)**

**Long-term expected return on plan assets:** The assumed rate of investment return was adopted by the Plan's trustees after considering input from the Plan's investment consultant and actuary. Additional information about the assumed rate of investment return is included in the actuarial valuation report as of January 1, 2016 and experience study for the period January 1, 2010 through January 1, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of January 1, 2016, these best estimates are summarized in the following table:

| <b>Asset Class</b>                   | <b>Long-Term Expected<br/>Real Rate of Return</b> |
|--------------------------------------|---|
| Large Cap U.S. Equity                | 5.92%   |
| Small/Mid Cap Equities               | 6.71%   |
| International Equity                 | 6.95%   |
| Emerging Market International Equity | 9.49%   |
| Core Bonds                           | 1.17%   |
| Multi-Sector Fixed Income            | 2.76%   |
| Private Equity                       | 8.73%   |
| Private Real Assets                  | 6.54%   |
| Real Estate (Core)                   | 4.62%   |

**Single discount rate:** - A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the future expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at the actuarially determined contribution rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the Plan's net pension liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

| <b>1% Decrease<br/>6.50%</b> | <b>Current Single<br/>Discount Rate<br/>Assumption 7.50%</b> | <b>1% Increase<br/>8.50%</b> |
|------------------------------|--|------------------------------|
| \$ 68,641,936                | \$ 37,803,777  | \$ 11,285,584                |

**Regional Transportation Authority  
Pension Plan**

**Notes to Financial Statements  
Year Ended December 31, 2016**

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**Note 5. Plan Termination**

While it is the intent to maintain the Plan permanently, in the event the Plan terminates, the rights of all participants affected by such termination and their beneficiaries become vested to the extent of the assets then remaining.

**Note 6. Administrative Expenses**

The Plan's administrative expenses for the year ended December 31, 2016, consist of the following:

|                               | <u>Amount</u>            |
|-------------------------------|--------------------------|
| Actuarial                     | \$ 109,043               |
| Legal                         | 70,959                   |
| Audit                         | 54,218                   |
| Other                         | <u>232,299</u>           |
| Total administrative expenses | <u><u>\$ 466,519</u></u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

**Regional Transportation Authority  
Pension Plan**

**Schedule of Required Supplementary Information  
Schedule of Changes in Net Pension Liability**

| Fiscal year ending December 31,                           | 2016           | 2015           | 2014           |
|---|----------------|----------------|----------------|
| <b>Total pension liability</b>                            |                |                |                |
| Service cost  | \$ 6,692,541   | \$ 6,252,511   | \$ 6,284,525   |
| Interest on the total pension liability                   | 21,028,519     | 19,738,906     | 19,632,252     |
| Changes of benefit terms                                  | 655,607        | -              | -              |
| Difference in expected and actual total pension liability | 5,508,647      | 6,131,683      | -              |
| Changes in assumptions                                    | (388,675)      | -              | (2,545,057)    |
| Benefit payments  | (15,067,599)   | (15,658,298)   | (11,360,171)   |
|   |                |                |                |
| <b>Net change in total pension liability</b>              | 18,429,040     | 16,464,802     | 12,011,549     |
|   |                |                |                |
| <b>Total pension liability—beginning</b>                  | 281,085,314    | 264,620,512    | 252,608,963    |
|   |                |                |                |
| <b>Total pension liability—ending (a)</b>                 | \$ 299,514,354 | \$ 281,085,314 | \$ 264,620,512 |
| <b>Plan fiduciary net position</b>                        |                |                |                |
| Contributions - METRA                                     | \$ 5,062,642   | \$ 39,848,577  | \$ 6,466,096   |
| Contributions - PACE                                      | 3,479,971      | 33,844,343     | 5,579,076      |
| Contributions - RTA                                       | 2,291,553      | 3,402,174      | 1,644,024      |
| Pension plan net investment income                        | 19,970,262     | (9,100,344)    | 3,377,443      |
| Benefit payments  | (15,067,599)   | (15,658,298)   | (11,360,171)   |
| Pension plan administrative expense                       | (466,519)      | (406,616)      | (456,151)      |
|   |                |                |                |
| <b>Net change in plan fiduciary net position</b>          | 15,270,310     | 51,929,836     | 5,250,317      |
|   |                |                |                |
| <b>Plan fiduciary net position—beginning</b>              | 246,440,267    | 194,510,431    | 189,260,114    |
|   |                |                |                |
| <b>Plan fiduciary net position—ending (b)</b>             | \$ 261,710,577 | \$ 246,440,267 | \$ 194,510,431 |
|   |                |                |                |
| <b>Net pension liability - ending (a) - (b)</b>           | \$ 37,803,777  | \$ 34,645,047  | \$ 70,110,081  |

**Note to the Schedule of Changes in Net Pension Liability:**

The Plan implemented GASB 67 in FY 2014. Information is not available prior to 2014. Additional years will be added to future reports as schedules are required to show 10 years of historical data.

**Regional Transportation Authority  
Pension Plan**

**Schedule of Required Supplementary Information  
Schedule of Net Pension Liability as of Fiscal Year-End**

| Fiscal Year | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as a % of Total Pension Liability | Covered Payroll | Net Pension Liability as a % of Covered Payroll |
|-------------|-------------------------|-------------------|-----------------------|---|-----------------|---|
| 2016        | \$ 299,514,354          | \$ 261,710,577    | \$ 37,803,777         | 87.38%  | \$ 88,663,051   | 42.64%  |
| 2015        | 281,085,314             | 246,440,267       | 34,645,047            | 87.67%  | 83,485,618      | 41.50%  |
| 2014        | 264,620,512             | 194,510,431       | 70,110,081            | 73.51%  | 74,809,822      | 93.72%  |

**Note to the Schedule of Net Pension Liability as of Fiscal Year-End:**

The Plan implemented GASB 67 in FY 2014. Information is not available prior to 2014. Additional years will be added to future reports as schedules are required to show 10 years of historical data.

**Schedule of Investment Returns**

| Fiscal Year | Money Weighted Rate of Return |
|-------------|-------------------------------|
| 2016        | 8.3%                          |
| 2015        | -4.8%                         |
| 2014        | 1.8%                          |

**Note to the Schedule of Investment Returns:**

The Plan implemented GASB 67 in FY 2014. Information is not available prior to 2014. Additional years will be added to future reports as schedules are required to show 10 years of historical data.

**Regional Transportation Authority  
Pension Plan**

**Schedule of Required Supplementary Information  
Schedule of Contributions**

| Fiscal Year | Actuarially<br>Determined<br>Contribution | Actual<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Actual<br>Contribution<br>as a % of<br>Covered Payroll |
|-------------|---|------------------------|--|--------------------|--|
| 2016        | \$ 9,534,000                              | \$ 10,834,166          | \$ (1,300,166)                         | \$ 88,663,051      | 12.22 %  |
| 2015*       | 13,599,000                                | 77,095,000             | (63,496,000)                           | 83,486,000         | 92.34  |
| 2014        | 13,689,196                                | 13,689,196             | -                                      | 74,810,000         | 18.30  |
| 2013        | 14,795,180                                | 14,795,180             | -                                      | 70,634,459         | 20.95  |
| 2012        | 13,493,395                                | 13,493,395             | -                                      | 67,176,064         | 20.09  |
| 2011        | 12,547,000                                | 12,547,000             | -                                      | 66,490,058         | 18.87  |
| 2010        | 11,288,000                                | 11,288,000             | -                                      | 68,389,409         | 16.51  |
| 2009        | 10,827,000                                | 10,827,000             | -                                      | 66,010,613         | 16.40  |
| 2008        | 9,195,000                                 | 9,195,000              | -                                      | 61,364,198         | 14.98  |
| 2007        | 9,137,000                                 | 9,137,000              | -                                      | 61,357,214         | 14.89  |

**Notes to the Schedule of Contributions**

**Actuarial assumptions:** The actuarially determined contribution for fiscal year 2016 was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions:

|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method           | Level Dollar Closed  |
| Remaining Amortization Period | 30 years, as of January 1, 2015  |
| Asset Valuation Method        | 5 years smoothed market  |
| Inflation                     | 2.75%  |
| Salary Increases              | 3.25% to 8.75% including inflation   |
| Investment Rate of Return     | 7.50%  |
| Retirement Age                | Age-based table of rates that are specific to the type of eligibility condition  |
| Mortality                     | RP2014 Employee Mortality table, sex-distinct, for pre-retirement mortality and the RP2014 Healthy Annuitant Mortality table, sex distinct, for post-retirement mortality. |

\*The three participating employers of the RTA Pension Plan made voluntary supplemental contributions of \$63.5 million during plan fiscal year 2015.