

RETIREMENT PLAN FOR CTA EMPLOYEES
221 NORTH LASALLE STREET
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MEMORANDUM

TO: All Concerned
FROM: D. R. Perk, Executive Director *D.R. Perk (gmb)*
DATE: July 20, 1993
SUBJECT: Retirement Allowance Committee Meeting

This is to advise that there will be an Investment Subcommittee meeting held on Tuesday, July 27, 1993 at 9:00 A.M. at the Harris Trust & Savings Bank, 111 West Monroe Street, Executive Dining Rooms - 37th floor.

The Retirement Allowance Committee meeting will follow at 10:30 A.M.

RP:gmb

AGENDA

FOR THE 534TH RETIREMENT MEETING OF JULY 27, 1993

1. Meeting will be called to order at 10:30 a.m., Harris Trust & Savings Bank, 111 West Monroe Street, Executive Dining Rooms - 37th floor.
2. Roll call.
3. Approval of the Minutes of the 533rd Meeting held June 22, 1993.
4. Investment Subcommittee report.
5. Real Estate Subcommittee report.
6. Subcommittee on General Administration.
 - a) Announcement of deaths reported since the last meeting.
 - b) Presentation of Pre-Retirement Surviving Spouse Allowances for approval.
 - c) Presentation of new retirement applications for approval.
 - (i) Joseph Lazzara - #03278 - request for retroactivity to 7/1/93.
 - (ii) Luis Montalvo - #13647 - request for retroactivity to 7/1/93.
 - (iii) Keith Willis - #06573 - request for retroactivity to 7/1/93.
 - d) Presentation of Death Benefits for approval.
 - e) Presentation of Refunds of Contributions for approval.
 - f) Presentation of Bills and Remittances for approval.
 - g) Anthony Navarro - #19042 - retirement approved for 7/1/93 - request to choose B-1/2 option.
 - h) Keith Hall - #18887 - retirement approved for 7/1/93 - request for retroactivity from 8/1/86 through 5/8/89.

- i) Gregory Boyd - #8315 - returned to duty on 7/4/93.
- j) Harry Hall, Sr. - #7065 - returned to duty on 6/10/93.
- k) Assignment of new pension seniority date for Stanley A. Howard - 30 day extension to repay refund of \$17,195.00 has expired.
New seniority date for pension purposes only - April 13, 1992.
- l) Assignment of new pension seniority date for Walter F. Walker - 30 day extension to repay refund of \$15,095.89 has expired.
New seniority date for pension purposes only - April 29, 1991.
- m) Request for consideration of former Security workers to receive original pension seniority date.

7. New business.

- a) Contract renewal - The Wyatt Company.
- b) Contract renewal - Ernst & Young.

8. Report by Executive Director.

9. Adjournment.

07/13/93

RETIREMENT PLAN FOR CHICAGO TRANSIT AUTHORITY EMPLOYEES

The 534th Meeting of the Retirement Allowance Committee was held Tuesday, July 27, 1993 at the Harris Trust & Savings Bank, 111 West Monroe Street, Executive Dining Rooms, 37th floor. The following were in attendance:

Mr. I. Thomas, Vice Chairman	Mr. E. Hill, Chairman
J. Forte	W. Buetow
Ms. W. Black	T. Stevens
L. Brown	
T. Collins	

Mr. D. Perk, Executive Director was present. Mr. C. Lang sat in Mr. C. Burrus' stead. Alternates L. Morris, M. Caffery, R. Baughn and D. Washington were present. Messrs. R. Pirovano, W. Ross and Ms. P. Williams of the Pension Office staff were present. Messrs. F. Duda, B. Baker and R. Kinzie of the Harris Trust and Savings Bank were in attendance. Mr. N. Joachimi, Wellesley Group was present. Messrs. K. Lynch and R. Keller, Townsend Group were also present. Messrs. G. Egan and R. Wolkoff of RREEF, Inc. were present. Messrs. R. Goldman, J. Henderson and B. Scholz, pensioner representatives were also in attendance. Mr. R. Burke, Burke, Warren & MacKay were also in attendance.

- (1) The meeting was called to order at 10:50 A.M.
- (2) A roll call was taken which indicated that a quorum of Committee members was present.
- (3) On a motion by Mr. Thomas, seconded by Mr. Collins, the Committee unanimously approved the Minutes of the 533rd Meeting held June 22, 1993.

(4) Mr. W. Buetow, Chairman of the Investment Subcommittee reported on the meeting held July 27, 1993 (copy of meeting Minutes attached). On a motion by Ms. Black, seconded by Mr. Brown, the Committee unanimously agreed to accept the report of the Investment Subcommittee.

The Chairman then stated that the Retirement Allowance Committee meetings are not open to the public and are for conducting business and he has been advised by Plan Counsel that the Committee protect that privacy and anyone who is not a Retirement Allowance Committee Member or Alternate, a Plan Consultant, Plan Counsel or specifically invited by the Chairman or any Subcommittee Chairman, that those individuals not attend the meetings.

Mr. Joachimi then turned the Committee's attention to a recap from the earlier Investment Subcommittee meeting regarding the real estate proposal for 711 Jorie Boulevard. He stated that he wanted to point out to the Committee that the \$7.5M has to be raised from some source and should be coming from a source that is liquid and going to something that can be "put away" for the full 10 year term of the proposed program. He also noted that with the recent arbitration agreement there will be no new pension contributions coming into the Plan for a year which means that the growing benefit payout amounts for retired lives is going to have to come from some source as well and these monies are not going to be raised from real estate, but from the equity and fixed income pool which is the "liquid" portion of the portfolio and this issue must be addressed very soon.

(5) Mr. T. Stevens, Chairman of the Real Estate Subcommittee reported on the meeting held July 20, 1993 at the offices of Burke, Warren & MacKay. The first presentation was by Kennedy Associates given by R. Apodaca and J. Sneider who reported on the Dallas Industrial properties in the portfolio. They noted that this project is on schedule and the properties are 95% leased and slightly over 91% occupied. There is a positive budget variance of \$60,000 with no need for any additional monies.

With regards to the RREEF's proposal for the 711 Jorie property the Chairman stated that he would defer this item until the presentation by RREEF and Townsend was presented to the Committee.

The Country Lakes Apartment complex was reported on and it was noted that Burke's office would execute a contract for the transfer and management of the complex to Capital Associates. There was also a performance measurement report presented by the Townsend group. The Chairman then noted that there was a recommendation by the Real Estate Subcommittee regarding the 711 Jorie property to commit to buying out the mortgage and to retain this "trophy" property. Mr. Hill then turned the report over to the Townsend Group's presentation on the property by Mr. Robert Keller. Mr. Keller then noted that this property is managed by RREEF and is currently valued at \$11.1M. There is a loan on the property from Aetna in the amount of \$9.8M, therefore, the Plan's imputed equity is \$1.3M. He noted that what RREEF is proposing is a capital infusion of \$13.5M. The capital infusion consists of two components: (1) \$7.5M to be used to "pay off" the Aetna loan at a 25% discounted rate. The Plan then owns the property in its entirety. Also, in using this \$7.5M to pay off the \$9.8M loan, the Plan will recover an imputed equity amount of approximately \$2.5M. (2) The remaining \$6M will be used to cover the costs to re-tenant the building and to obtain leases in order to provide cash flow. He also noted that from now through December, 1996 substantially all of the space will be vacated and, as such, the property loses a lot of value unless you can get the leases signed and to get tenants into the building. He noted that what Townsend is recommending based on their review of the RREEF proposal is that the Fund invest \$7.5M to "pay off" the Aetna loan and from this point forward RREEF will "draw down" the additional \$6M as needed for re-tenanting the building and the re-tenanting and re-releasing efforts by RREEF should be monitored as well. He noted that based on RREEF's proposal, the Plan will realize a 15.5% internal rate of return on the \$13.5M. He noted that this proposal is not a brand new transaction involving the Fund but will allow the Fund to recover some of the equity that was lost over the last several years. There were questions posed by Committee members regarding what would be the scenario if the Fund did not invest any additional monies into this project. Mr. Keller pointed out if the Committee decided not to put any additional funds into this in all likelihood, the property would be deeded back to the lender. He also noted that unless the property could be sold between now and the time the loan is due, and keeping in mind that the tenants will be vacating the property and with no cash flow and no tenants, the Fund cannot make the loan payments to Aetna and they will foreclose and the property will go back to the lender and the Fund would lose everything. There was also questions regarding if this will be a speculative 15% return on investments and if the Plan does indeed approve this proposal what if re-tenanting efforts would fail. Mr. Egan then noted that this is not a

guaranteed return and that one of the problems in leasing the building is that there is an image in the brokerage community and the tenant community that RREEF is not for sure able to make a deal because of the financial commitment to the building. He also stated that if a good credit tenant would make a proposal to RREEF today to obtain major leasing space, he would not recommend it because of the debt service on the mortgage. He noted that, nevertheless, this is an attractive and competitive property in a prime location and there was a question asked by a Committee member asking if this is the case why are tenants moving out of the building. He noted that RREEF made every attempt to retain IBM as a tenant in the building, but could not keep IBM and the rest of the tenants that would allow payment of the debt service. IBM would not pay enough monies for the lease that would cover the amount of square footage that they required in order for RREEF to pay the monthly payments. He also indicated that Crown Cork & Seal bought out the division of Continental Can and is relocating out of the city. He noted that the primary concern with this project is the pay off of the balance on the loan and originally the pay off date on the mortgage was July 30th, but RREEF has recently renegotiated with AETNA that the payoff date be extended until the end of the third quarter. Mr. Burke then spoke on this issue noting that the Committee has presented before them a recommendation by both The Townsend Group and RREEF for an initial \$7.5M investment. He feels that it is important to bear in mind what this means in context to the entire portfolio. He stated that this infusion is only 60 basis points of the whole portfolio and the Plan has always lived with risks, pointing out that historically the investment managers have experienced large "swings" in returns to the portfolio and now you have a recommendation by the real estate consultant proposing that if you indeed approve to pay off the mortgage the Fund will be protecting \$1.3M of its equity in this project and will also receive \$2.3M realized from the discount on the loan. He also noted that the Committee's fiduciary obligation is to obtain the best advice that they can, and to see if there is a reasonable basis for this advice and if the Committee is comfortable with this, then they have a safe basis for moving forward. Mr. Joachimi also noted that this deal is not going to endanger or change the Fund, being that it is in a very sound position and this transaction would amount to only 1% of the Fund. Mr. Thomas then indicated that he did not feel comfortable with voting on this issue at the time, indicating that if the Committee has until September 30th or the end of the third quarter before this issue has to be settled he would like to defer this. The Chairman then asked of the Chairman of the Real Estate Subcommittee if he had a problem with deferring this. Mr. Stevens indicated that he did not have a problem with this. Mr. Thomas then made a motion that the report of the Real Estate Subcommittee be accepted and approved with

the exception of the RREEF proposal for the 711 Jorie property. He noted that he would like to defer this issue until the next meeting because of unreadiness. The motion was seconded by Mr. Collins and the Committee unanimously approved.

(6) Mr. T. Collins, Chairman of the General Administration Subcommittee reported on the meeting held Thursday, July 22, 1993 noting that the subcommittee reviewed agenda items 6 (a) - (m).

Mr. Collins then noted that he would like to address agenda item 6(m) regarding the requests of the former security workers to receive their original pension seniority dates. He indicated that these individuals were laid off or terminated from their duties and were given the opportunity to repay their pension contributions in order to retain their pension seniority dates. He also noted that there was a liberal repayment period that was given to these individuals for repayment of their contributions and since these employees did not take advantage of this opportunity, it was recommended by the General Administration Subcommittee that they not be granted the opportunity to repay their pension contributions and, therefore, not retain their original pension seniority dates. He indicated that it was the subcommittee's recommendation to disseminate letters to these individuals indicating to them that they had ample time for repayment and due to the fact that they did not respond to these requests they would not have the opportunity to retain their original pension seniority dates. The Chairman stated that he had asked the Plan Counsel to prepare a response to these employees, and the letters were indeed executed by him but have not gone to the employees, pending full Committee approval of this matter. Mr. Collins noted that one individual, William R. McKenzie, #17903, repaid his pension contributions in full and twelve employees did not repay their amounts. Mr. Collins noted that he had additional items for discussion and would like to hold approval of all issues for an omnibus vote.

Mr. Collins then moved for approval from the Committee for agenda items 6 (a) - (m). The motion was seconded by Mr. Stevens and the Committee unanimously agreed approval of the agenda items.

It was reported that the grade levels that were vacant in the Pension Department and which were recommended by the General Administration Subcommittee are to be filled by the following:

Jo Carol Huston
Leverne Hampton

Mr. Collins noted that, also the salary of the Executive Director needed to be addressed and requested that there be an executive session to address this matter.

On a motion by Mr. Brown, seconded by Mr. Forte, the Committee unanimously approved the report of the General Administration Subcommittee.

(7) The Executive Director then turned the Committee's attention to some new business issues. He noted that there was previous discussion in the General Administration Subcommittee regarding the contract renewal for the Wyatt Company. He indicated that there are no changes in the total fee which runs approximately \$35,000 per year under a 2 year agreement. The other issue is the contract renewal for Ernst & Young who perform the annual audits for the Plan. He indicated that they have requested an annual fee increase in each year of approximately 2%. For 1993, the fees would total \$37,200 and for 1994, they would amount to \$38,000. On a motion by Ms. Black, seconded by Mr. Brown, the Committee unanimously agreed approval for the contract renewals for the Wyatt Company and Ernst & Young.

(8) The Executive Director then turned the Committee's attention to the Report of Deposits, Disbursements and Investments in the Trustee Summary and noted that for the month of June, 1993 the performance for the total Fund was +.82% and the value of the total assets of the Plan as of June 30, 1993 amounted to \$1,199,791,794.00. He noted that as of July 26, 1993 the Fund was valued at \$1,194,468,878.36. As of July 26, 1993 the cash portion of the portfolio was \$2,909,476.37. He also noted that the value of the J. P. Morgan Oil and Gas investment increased 30.3% last year and is generating a good return. He also noted that the value of the PanAgora account as of May 31, 1993 returned \$79.7M, on June 30, the account was valued at \$77,804 and as of July 26, 1993 it was valued at \$78,427,051.32. He also noted that PanAgora had the Plan's portfolio invested 85.6% in stocks and 14.4% in bonds for the month.

The Chairman then requested that it be reflected for the records that Mr. Isiah Thomas has been appointed an additional member of the Investment Subcommittee.

The Plan Attorney then turned the Committee's attention to a handout regarding seminar selection and related travel expense guidelines. He indicated that the Department of Labor is taking an increasingly vigilant viewpoint in regards to the usage of Plan assets by Plan Trustees or Committee members in regards to attending seminars. He noted that the Committee members should digest this material and be prepared to discuss it at the next General Administration Subcommittee meeting.

(9) There being no further business, the Committee unanimously agreed to adjourn to an executive session at 12:02 p.m.

EXECUTIVE DIRECTOR,
RETIREMENT ALLOWANCE COMMITTEE

CHAIRMAN,
RETIREMENT ALLOWANCE COMMITTEE

DATED