
CHIEF EXECUTIVE OFFICER REPORT

Attachment(s): Leasing Activity Dashboard Q2 2023

PowerPoint(s): None

CALSTRS 2023-24 ANNUAL BUDGET REPORT

CalSTRS released its [2023–24 Annual Budget Report](#) in July 2023. The report was prepared in accordance with the Government Finance Officers Association of the United States and Canada standards and guidelines, which are recognized as best practices for governmental financial and budgetary reporting.

CalSTRS received the GFOA Distinguished Budget Presentation Award for its [2022-23 Annual Budget Report](#). To achieve the Distinguished Budget Award, the document must serve as an operational and policy guide, financial plan and communications device.



The *2023-24 Annual Budget Report* provides a comprehensive summary of the system’s total budget and strategic plan initiatives over the next year. Report features include information about CalSTRS’ total board approved budget, including substantive detail on the key drivers of budgetary growth for fiscal year 2023–24. In addition, it provides an overview of CalSTRS’ primary initiatives, key accolades and branch level information.

CalSTRS’ total 2023–24 budget is \$799.5 million, including 1,370 authorized positions. The 2023–24 budget largely fosters CalSTRS’ 2022–25 Strategic Plan goals and initiatives and supports enterprise-wide growth. Highlights include additional funding for the Pension Solution Project to continue 2023–24 system implementation activities, 56 authorized positions to address workload management across the organization, and various technology service contracts.

INFORMATION SECURITY INCIDENT

On June 4, 2023, a CalSTRS vendor, PBI Research Services (PBI), advised CalSTRS that PBI’s MOVEit server was involved in the recent mass exploit of a vulnerability in the secure file transfer system.

On June 8, 2023, PBI confirmed that the incident involved the unauthorized acquisition of files containing the personal information of some CalSTRS retired members and beneficiaries. This incident did not involve unauthorized access to CalSTRS’ network. CalSTRS immediately began

an investigation and worked to identify the retired members and beneficiaries whose information was involved.

CalSTRS methodically examined the files PBI reported were involved and, on June 16, 2023, determined that they contained the name, Social Security number, date of birth, and ZIP code of 415,457 CalSTRS members and option beneficiaries. No financial account information or information that would allow access to myCalSTRS accounts was involved in this incident. Pension payments are not affected by this incident.

The retired members and beneficiaries whose information was involved were sent a letter the week of June 26 identifying resources available to them to help protect their personal information, as well as contact information for a dedicated call center staffed by trained Experian representatives who can assist in answering questions about the incident and enroll members and beneficiaries in one year of Experian IdentityWorks credit monitoring service. Additional information has been posted on CalSTRS.com, and the CalSTRS contact center and Ombuds office have been engaging with members to guide them through available tools. External Affairs has been engaging with member organizations and Communications posted an internal communication to all staff.

EMERGING AND EXISTENTIAL RISKS UPDATE

At the March 2023 board meeting, the Enterprise Risk Management (ERM) team presented the board with the semi-annual enterprise risk management report that included the Emerging Risk Universe Map. The map reflects emerging and existential risks that management are actively monitoring. Click [here](#) to view Regular Meeting item 5.

For this update, the risks shown in the Emerging Risk Universe Map have not changed since the March board meeting. However, as part of staff's development of an implementation plan to mature the risk program, staff continue to explore alternatives for how best to communicate, evaluate, and update the Emerging Risk Universe Map to reflect recent events or risks that come up in the news that may have an adverse effect on CalSTRS that would require immediate discussion and mitigation. For example, the emergence of the generative AI, like ChatGPT, is being explored to better understand the risks and benefits of this new technology on CalSTRS operations. These types of imminent risks are monitored and mitigated by the affected business areas as part of our normal course of business, including recognition of the risk(s) in our enterprise risk matrix when appropriate.

The emerging and existential risks that management are actively monitoring, which are included in the Emerging Risk Universe Map, are grouped into the two categories below:

- **Evaluate:** Requires additional investigation to determine if any further risk mitigations are needed.

- **Monitor:** Understand significant changes that may occur that would require a shift in risk approach beyond the significant activity or risk mitigations that are already in place.

Evaluate	
Emerging Risks	Fraud Risk Vulnerability
	Human Capital
	Change Fatigue
	Cost of Computing Spike
Existential Risks	Shift to Alternate Education
	Artificial Intelligence

Monitor	
Emerging Risks	Ungoverned Software as a Service
	Evolving Sociopolitical Expectations
	ESG Opposition
	Geopolitical Disruptions
	Inflationary Pressures
	Commercial Real Estate Surplus
	Cyber Insurance Availability
Existential Risks	Comprehensive Pension Reform
	Cybersecurity Event
	Demographic Shift
	Hyperinflation
	Shift in Pension Fund Investment Management

The Enterprise Risk Management team continues to regularly evaluate emerging and existential risks to determine whether these risks require active mitigations, revision to existing mitigations, active monitoring for future consideration or no action needed until the next identification cycle. As events continue to unfold and our understanding of these emerging risks continue to evolve, staff will modify the map accordingly. An updated Emerging Risk Universe Map will be provided to the board at the next semi-annual ERM risk report in September 2023.

ANNUAL ENTERPRISE RISK AND COMPLIANCE TRAINING

CalSTRS staff are required to participate in an annual, 75-minute, online Enterprise Risk and Compliance Awareness Training designed to provide all employees with the knowledge and skills to fulfill their risk management roles and responsibilities. We are delighted to report that we achieved 100% participation for the 2023 training (excluding staff who are currently on an extended leave). The 2023 training included video messages from the Chief Executive Officer, the Chief Financial Officer, the Director of Enterprise Risk Management and Compliance Services, the Assistant Director over Enterprise Risk Management, and the Senior Manager of

Compliance Services. In addition, this year’s training included a new module that covered Enterprise Compliance Services specific content.

At the end of the training, employees are invited to participate in a survey to provide feedback. This year we were pleased to receive over 500 responses to the survey. This survey helps us to evaluate the quality of the training and gauge employee awareness and perception of risk culture. A brief summary of some of the survey results include:

- 70% of respondents agreed/strongly agreed that “I learned something valuable.”
- 90% of respondents agreed/strongly agreed that “I am confident I can manage risks effectively by using internal controls.”
- 92% of respondents agreed/strongly agreed that “I recognize the steps I can take to help manage risks in my work.”
- 92% of respondents agreed/strongly agreed that “If I know of a risk concern, I would report it.”

The Enterprise Risk and Compliance teams have already begun brainstorming ideas for next year’s training to better demonstrate to CalSTRS employees the value and connection of how the annual risk and compliance training relates to their work and our overall strategic initiatives.

BUSINESS INTELLIGENCE & DATA WAREHOUSE IMPLEMENTATION PROJECT UPDATE

Phase 1 of the Business Intelligence and Data Warehouse (BI&DW) implementation project launched in March 2022, following a comprehensive evaluation of CalSTRS' business intelligence and data warehousing capabilities. The assessment encompassed identifying potential business use cases, designing the technical and business architecture of the data warehouse, and developing an implementation roadmap.

In February 2023, the BI&DW implementation project team accomplished phase 1 milestones by successfully delivering business use cases for Actuarial Resources, Customer Service, and Investments Real Estate on a newly implemented analytic data platform, including the creation of interactive intelligence reports and dashboards. The project team, comprised of both internal staff and technical resources, exceeded expectations by completing these deliverables ahead of schedule while maintaining exceptional quality. Moreover, the project was executed at approximately 25% of the cost typically associated with engaging a traditional implementation vendor.

The feedback received from business users and stakeholders has been overwhelmingly positive, underscoring the project's success and promoting support for maintaining momentum with the next phase of work. Phase 2 will include designing and implementing use cases for Financial Services, Disability & Survivor Benefits, Service Retirement, and Audit Services, as well as developing BI dashboards for Benefits & Services and enhancing previously implemented use cases. Furthermore, the BI&DW project team has plans to research, evaluate, and implement

data integration tools to further enhance CalSTRS' data platform and strengthen data governance practices.

This project supports CalSTRS' strategic goal #2: Leading Innovation and Managing Change. By enhancing analytic-driven decision-making throughout the organization, CalSTRS is empowered to make more informed business decisions to grow resiliency and efficiency in service of our members. The continued progress of the BI&DW implementation project reflects CalSTRS' commitment to leveraging advanced business intelligence capabilities to drive innovation and improve operational efficiency across the organization.

PENSION SOLUTION PROJECT

We are pleased to provide you with an update on the progress of the Pension Solution Project and a newly planned implementation date. The CalSTRS Pension Solution team has been working closely with Sagitec on a contract to move us beyond the Interim Services Period (ISP), which includes a new project schedule with key testing activities beginning July 1, and an estimated implementation date of Fall 2025. The next full board meeting is scheduled for September 13-14, at which time, we will request your formal approval of the new contract.

Until then, we want to resume the critical activities that will get us to our new implementation date. Therefore, we have exercised an extension based on language included in the original Interim Services Period (ISP) contract that allows us to continue our current contractual relationship with Sagitec through the September board meeting. We are providing you this information today on the contract extension for your visibility, which is contained in the Regular Meeting Agenda Item 11. While the extension is on the ISP contract, we have closed out all ISP activities as of June 30 and begun work on the agreed upon project schedule activities as of July 1, to drive us toward our new implementation date.

The major accomplishments of the closeout were:

- Piloted a test approach that will produce more efficient testing efforts going forward.
- Resolved all critical data conversion defects that were identified at the beginning of the ISP.
- Improved project tools to better track progress going forward.
- Established formal communication channels and cadence to ensure team is better informed.
- Improved system deployment lifecycle to reduce issues after fixes are completed.
- Prioritized design specifications to be included in the new project schedule, solidifying the project scope.

- Closed 25% more defects than required in the ISP monthly project goals and reduced the beginning inventory of defects by over 50%

We have also released the Request for Proposal to bring in vendors to support the CalSTRS team on various activities as we move the project forward. These Implementation Support Services Vendors will be assisting CalSTRS with project management, data conversion, testing, training and change management activities. Questions on the RFP were due June 30th and we received inquiries from several vendors, showing there is a significant amount of interest in our proposal. The final bids are due July 28th, and we expect to conduct interviews and score the proposals in the month of August and have the vendors on board by this Fall.

We have also completed the recruitment process for our State Project Manager position and are conducting interviews. We hope to have this position on boarded in the month of August.

The team is excited to have a new project schedule and go live date to march towards and have confidence the latest accomplishments will lead us to a successful implementation in Fall 2025. We look forward to your formal approval of the contract at the September board meeting and sharing our progress to date on our critical activities. The team is excited to have a new project schedule and go live date to march towards and have confidence the latest accomplishments will lead us to a successful implementation in Fall 2025. We look forward to your formal approval of the contract at the September board meeting and sharing our progress to date on our critical activities.

HEADQUARTS EXPANSION (HQE) CONSTRUCTION UPDATE

The California State Teachers' Retirement System is in the latter construction phase of its headquarters expansion project. Currently construction is approximately 93% complete with this month's schedule update indicating further delays and a projected Substantial Completion Date (SCD) of October 27, 2023. Details regarding schedule slippage is included in the Schedule Status section.

This month, furniture installation began on office level 6 and will continue for the next several weeks. The office level 7 underfloor was cleaned with inspections still occurring and flooring installation commencing. Furniture installation for this level will commence towards the middle of July. Office levels 6 and 7 continue to have ceiling grid, lighting, decorative panels, and door/window frames installed. Installation of the "stadium" seating framing at the Atrium is complete with handrail installation preparation underway. The remaining scaffolding in the atrium will be removed mid-July. The Atrium wood paneling at office level 4 and on the exterior communicating stair is completed except for handrail locations. At the lobby level, terrazzo, wood paneling and ceiling work continues, as well as painting of soffits and finished walls. Site work on the north and west sides continues, with the sidewalk framing the building.

Construction Activities

Construction activities completed and ongoing since last update:

Exterior Building:

- Waterproofing at Stair 21 East, Soffit Framing and MP4 Panels
- Phase I PV - PG&E inspection, provisional approval received, new meter installed
- Parapet Sheathing and Roof Tie-in at North Prow Roof nearly complete
- Sunshades installed on the south elevation – east side.
- Stair 21 Soffit Framing and MP4 Ceiling Installation
- Complete Parapet Caps at Roof
- Building Signage installation commenced on north side
- Form and pour sidewalks at north and west side

Bridge:

- Installation of Bridge Column Cladding
- Complete Electrical Rough-in at Bridge Cane Detection Platforms, Install Balance of Drywall and Drop Ceiling Tiles
- Installed overhead mechanical ducting and fire sprinkler pipe at Bridge

Interior:

- In Café: Taped and Painted walls, Installed Ceiling Grid, Lights, MEP at Grid Ceiling at Linear Wood Paneling at High Walls; Installed Kitchen Hoods; Hung Drywall at Walk-in Cooler Room
- Paint and Install Wood Ceilings at Café
- Cooler Start-up at Café Kitchen
- Install Operable Partition and Wood Wall Panels at Multi-purpose Rooms
- Childcare – Sheetrock, Tape and Paint at Small Office and Restrooms
- Childcare – Drop Ceiling Tile at Classrooms
- Installation of Wood Panel Panels and G21 Glazing at Corridor 120
- Installation of Lobby Glass Doors
- Complete Lobby Terrazzo Installation
- Complete Rated Walls at Portal and Set Door Frame
- Install Casework at O3 Breakrooms Following AHU Start-up
- Start Wood Door & Hardware Installation at O3/O4
- Complete Install of Toilet Partitions Men's/Women's Restrooms
- Install Stainless Steel Runner and Raised Flooring at Atrium
- Contractor Fire Alarm Ring-out and Visual Fire Alarm Device Walk at O5/O6/O7 & Atrium
- Complete Tile Installation at O7 Men's and Women's Restrooms
- Complete O6 Owner Furniture Installation
- Drop Tile at O7 ACT Rooms
- Install Flooring and Topset Base at O7
- O7 Ready for Owner Furniture Installation

- Install Remaining Light Fixtures, Test and Energize Lighting at O7

Garage Levels:

- Install South Entrance Coiling Door and Stainless-Steel Wall Panels
- Complete Perimeter Cabling Installation
- Contractor Fire Alarm Ring-out, Device Walk and Candela Check
- Start IOR Fire Alarm Device Testing
- Installation of EV Charging Stations

Schedule Status

In September 2022, CalSTRS approved a revised project schedule with DPR Construction (DPR), the project’s contractor, agreeing to a SCD of March 28, 2023. Shortly after agreeing to the revised schedule, DPR notified Ridge Capital, the project’s construction manager, that the schedule had slipped to April 21, 2023, due to inspection process challenges. At the May board meeting, the schedule and SCD had slipped to the end of July 2023. Since then, the schedule has varied week to week with a SCD of mid to late August, and then mid to late September dates as projections. Although DPR continues to attribute the schedule slippage to the inspection process, it is incumbent upon their ability to pass construction inspection requirements to sustain a proposed SCD.

The latest weekly schedule issued July 3, 2023, indicates the following: interior construction materially completed by August 24th, a temporary certificate of occupancy issued on September 28th, final sitework completion and SCD projected to be October 27, 2023. This SCD is an additional month later than previously stated on the June 1 schedule.

The reason for the latest delay of the issuance of the temporary certificate of occupancy reflects DPR’s revised sequencing for the air balancing, final testing acceptance of the smoke control system, final testing and acceptance of the fire alarm system, and relocation of the existing fire command center into the schedule with proper durations and schedule dependencies. Weekly meetings are occurring between DPR, the inspection team, and the subcontractors to confirm the final inspection process.

Lisa Blatnick, CalSTRS Chief Operating Officer will provide a verbal update on the project schedule status during the CEO Report.

Budget Status

The budget status for the month ended June 30, 2023, is summarized below:

Summary Period: 6/30/23				
Budget Categories	Total Project Budget	Costs to Date	% Complete	Balance to Complete
Hard Costs (*including retention)	\$ 263,612,522	\$ 246,326,756	93.44%	\$ 17,285,766
Hard Cost Contingency	\$ 1,705,150	\$ -	0.00%	\$ 1,705,150
Soft Costs	\$ 35,322,073	\$ 33,977,103	96.19%	\$ 1,344,970
Owner Costs	\$ 16,781,672	\$ 14,521,489	86.53%	\$ 2,260,183
Project Contingency	\$ 1,078,583	\$ -	0.00%	\$ 1,078,583
Totals	\$ 318,500,000	\$ 294,825,348	92.57%	\$ 23,674,652

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

- Cover water damage from 9/19/2022..... \$ 62,867
- Backing at curtain wall stack joints..... \$ 8,380
- Cover water damage from 12/10/2022..... \$ 47,687
- Elevator front clarifications..... \$ 34,397
- Trench drains..... \$ 17,850
- Sealant inside EMT conduits..... \$ 14,234
- Added acoustical wall penetrations..... \$ 45,403
- Office level – restroom light taping..... \$ 21,889
- Atrium HSS and SS trim at stairs..... \$ 85,667
- Change to childcare glass..... \$ 2,677
- Atrium caulking at glazing channels \$ 17,319
- Removal of scaffolding through 05 terrace..... \$ 10,927
- Scope gap site work/landscaping,,,,,..... \$ 8,613

Total Contractor Contingency: \$377,910

CHANGE IN PROJECT CONTINGENCY SINCE LAST REPORT:

- Inspector of Record* funding for depletion of budget line item (April, May, June) \$ 458,079
- PG&E temp power funding for depletion of budget line item (April, May, June) \$ 52,801
- PG&E Perm power funding for depletion of budget line item (June).....\$ 43,030
- Owner General Liability Insurance extension..... \$ 36,777
- Owner Builders’ Risk Insurance extension.....\$ 48,891
- OSFM interpretation of rigid supports resulting in added costs..... \$ 80,906

- Added Fire Alarm battery back up in HQ..... \$ 65, 502

Total Project Contingency: \$785,986

** The IOR (Inspector of Record) is the Lead Project Inspector to ensure that all code-prescribed inspections and administrative duties are completed including supervision of assistant project inspectors and monitoring of special inspectors.*

Risk Status

Ongoing risks associated with the project:

Project Schedule:

DPR and Ridge Capital continue to assess opportunities to accelerate construction activities and streamline OSFM and IOR inspections. DPR and Ridge Capital are performing a thorough assessment of the project schedule and related impacts. CalSTRS Executive Steering Committee meets regularly with DPR and Ridge Capital executive leaders to understand the schedule impacts and determine solutions that respond to this risk. The board will receive an update on approved project schedule revisions during the CEO report.

Project Budget:

The board approved an increase to the project budget in January 2022 for \$18.5 million, bringing the project’s revised budget total to \$318.5 million. CalSTRS has requested that DPR and Ridge Capital perform a thorough assessment of the project schedule revisions, budget related impacts, as well as options to resolve these impacts, before submitting a final project schedule for review.

Project Photos:

HQE project progress and photos



Leasing and Occupancy Update

The Waterfront Place Activity dashboard has been updated to reflect our recent leasing activity and the skyline vacancy as of the 2nd quarter of the year. The Tenant who we had been actively negotiating with since December 2022, for the 8th floor and partial floor, has decided to focus on another building located on Capitol Mall in Downtown Sacramento. We have learned the Tenant's two main decision drivers were cost and timing. The Tenant was interested in a turn key option, and the other building had agreed to bear all of the Tenant's improvement cost.

We have submitted the property to three new Tenant prospects, a public agency and two private companies. One of the prospects, a technology company, has an initial building tour scheduled on Wednesday, July 5. They are interested in leasing up to a full floor with occupancy before the end of the year. The other two prospects are in preliminary stages of surveying the market and determining space needs but could potentially need multiple floors in the building. Occupancy timing for these larger prospects are 4th quarter of 2024 and 1st quarter of 2025.

The vacancy in the Downtown Skyline has remained largely flat over the quarter, with the only notable change to occupancy levels. Occupancy decreased 1% overall from 83% in the first quarter to 82% in the 2nd quarter. Rental rates have remained steady with an average asking rate of \$3.45 per square foot. As we enter the second half of the year, we anticipate market fundamentals will remain largely unchanged in skyline properties. However, strong competition is mounting among second-tier properties that have completed significant renovations this year and offer large contiguous blocks of space. These properties include 660 J St, 97,000 square feet available, 1130 K St, 130,000 square feet available, 830 K St, 43,000 square feet available, and 630 K St, 63,000 square feet available. While the asking rates for these properties range between \$2.75-3.55 per square foot, the leasing incentives being offered include 1-2 months of free rent per year of lease term and turn-key (no cost) Tenant Improvements.

With our LEED Platinum designation, quality of building and views, parking and common area amenities, Waterfront Place offers a value proposition to its prospective tenants that these properties cannot. We remain confident that the building is well positioned to attract the right tenants that will find value in these attributes. We are encouraged by these recent Tenant prospects and continue to engage with all possible Tenants in the region and more broadly.