



Regular Meeting

Item Number 7 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: January 28, 2022 – 15 minutes

Attachment(s): None

PowerPoint(s): None

1. Path Forward

A decision was made to postpone the return to a blended environment date until April 1, 2022. This shift in direction occurred after receiving workplace public health recommendations related to the omicron variant of COVID-19 and monitoring trends and health directives.

In December 2021, Governor Newsom announced a statewide indoor mask mandate, irrespective of individual vaccination status, effective December 15, 2021 through January 15, 2022. This mandate has recently been extended through February 15, 2022, based on the spike in the omicron infection rate throughout California.

Subsequently, on December 16, 2021, the Occupational Safety and Health Standards Board (OSHSB) introduced revisions to Emergency Temporary Standards, which were later approved and went into effect January 14, 2022.

A brief highlight of those revisions affecting our return include:

- The definition of “face covering” was modified to require that tightly woven fabric or non-woven material must not let light pass through.
- The recommended isolation and quarantine periods have changed, affecting return to work and masking criteria.

Surges expected post-holiday season were also part of our decision-making process to delay our scheduled return. Below are the case rates for each geographical area that CalSTRS resides in for the two-week period after the holiday:

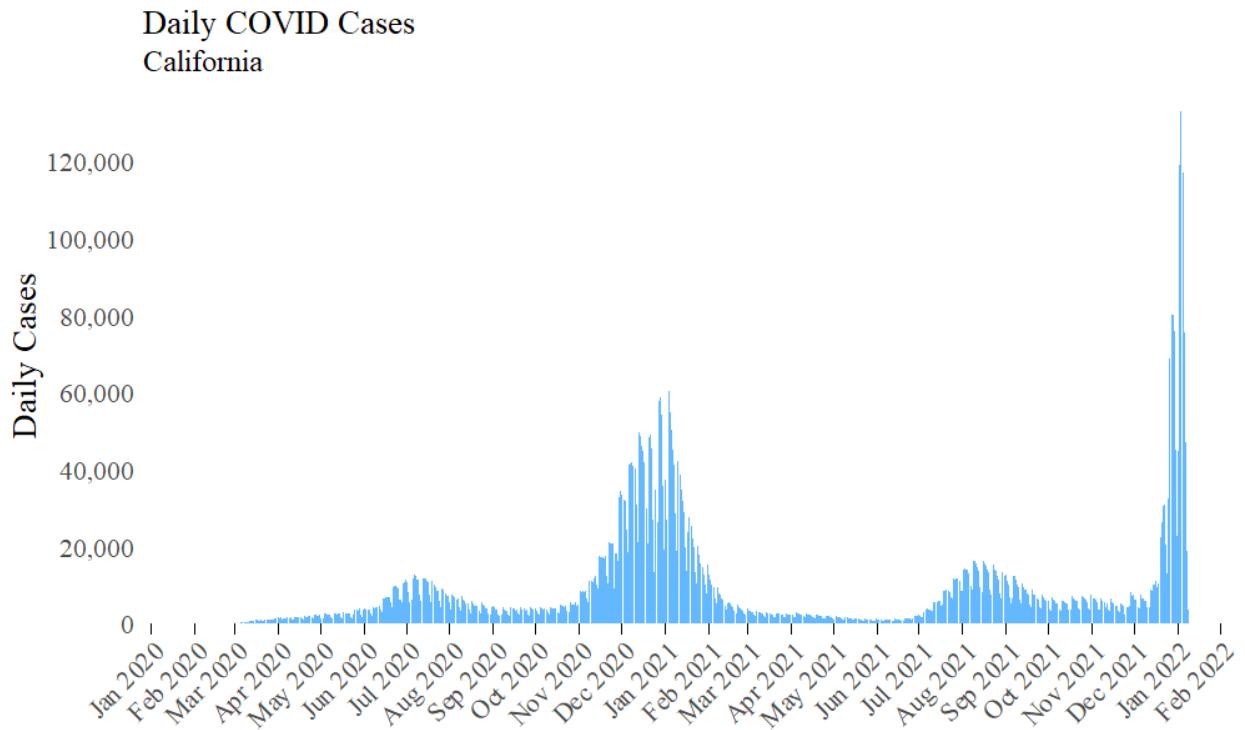
Case Rates per 100,000	12/27/21-1/2/22	1/2/22-1/9/22
Yolo HQ	25.5	105.4
Sacramento	24.1	90.5
MSC's		
Fresno	16.5	58.9
Glendale	76.5	226
Irvine	37.1	151.2
Riverside	43.3	139
San Diego	64.5	187.4
Santa Clara	30.9	115.5

Additionally, the Governor extended the sunset of [AB 361](#), which the Governor signed in September to extend the flexibilities provided in a prior executive order enabling public agencies to meet remotely during the COVID-19 emergency. Under the order signed, state bodies are permitted to continue holding public meetings via teleconference through March 31, 2022.

2. Daily COVID Cases and Deaths in California

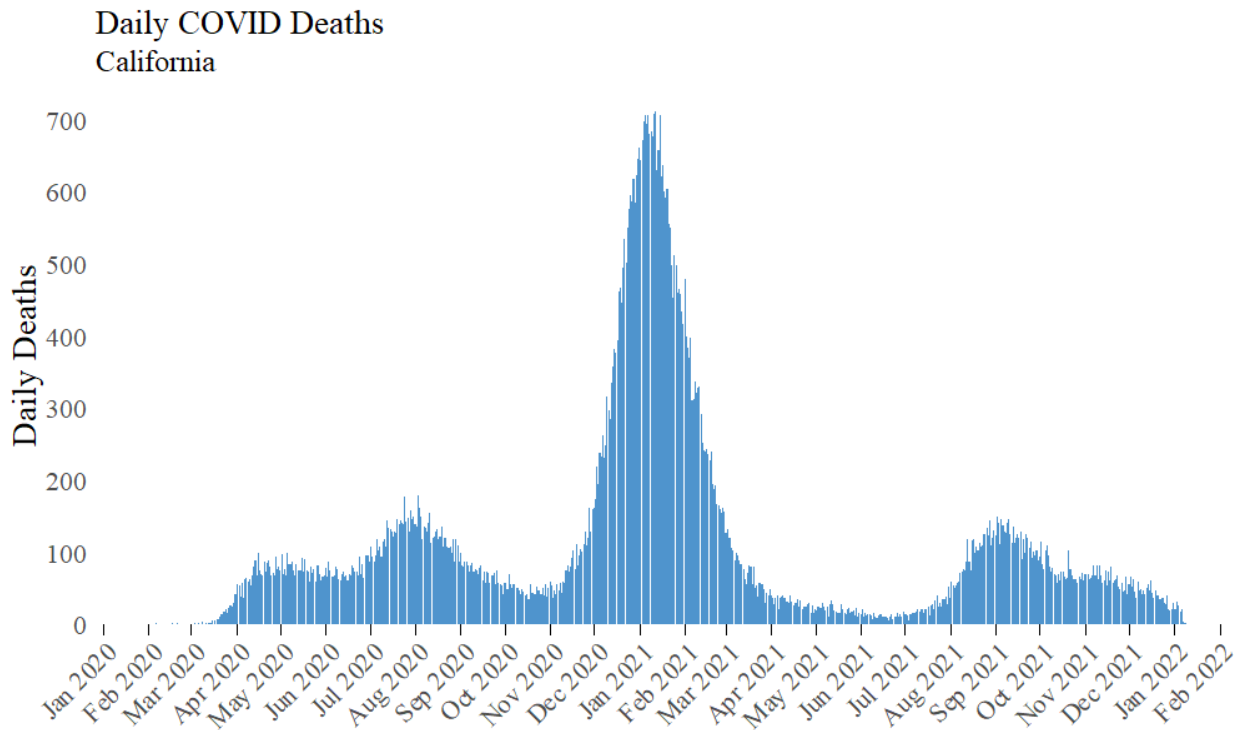
In late December 2021, California experienced a significant spike in cases, as shown in Figure 1 below. Unlike the statewide rise in December 2020 and January 2021, a corresponding increase in deaths has yet to emerge, as shown in Figure 2 below.

Figure 1



Source: California Health and Human Services Open Data Portal (<https://data.chhs.ca.gov>)

Figure 2

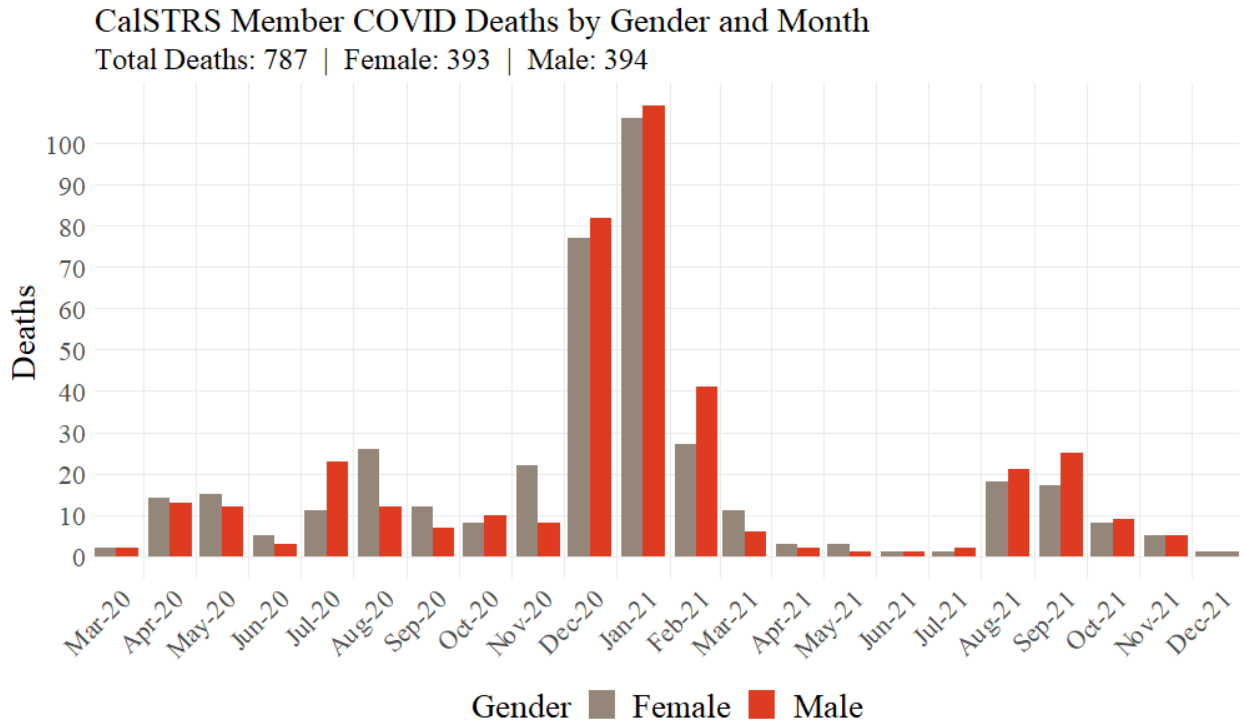


Source: California Health and Human Services Open Data Portal (<https://data.chhs.ca.gov>)

CalSTRS Member COVID Deaths Update

CalSTRS staff continue to monitor COVID-related member deaths each month. Following the statewide rise in December 2020 and January 2021, cumulative deaths have slowed, reaching 787 through December 2, 2021—the latest date of death reported—as shown in Figure 3 below.

Figure 3



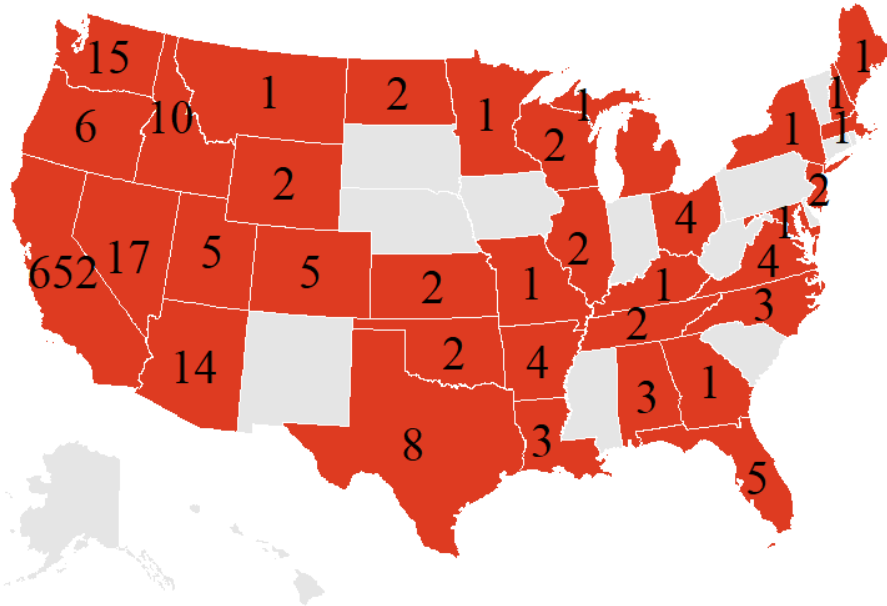
Data through December 2, 2021, and excludes 154 beneficiary, nonmember and refund deaths.

Approximately 85% of retired CalSTRS members live in California, whereas California retired member deaths represent 81% of total retired member deaths in the United States. Deaths by state are shown in Figure 4 below.

Figure 4

CalSTRS Member COVID Deaths through December 2, 2021

Total Deaths: 787 | International: 2 | Female: 393 | Male: 394



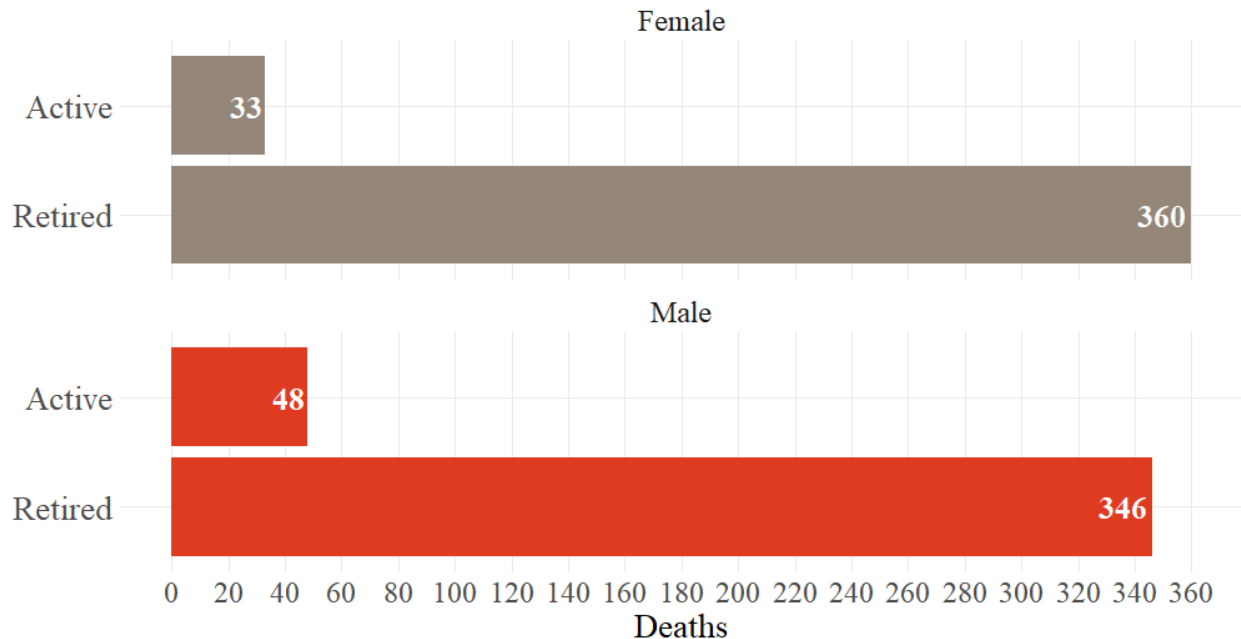
Counts exclude 154 beneficiary, nonmember and refund deaths.

Retired member deaths represent 90% of CalSTRS member deaths—706 retired deaths compared to 81 active deaths. The member population is split approximately 70% female and 30% male, while the proportion of deaths is split 50% female and 50% male. The average age of COVID-related death is 85 for retired females and 82 for retired males. The average age of death is 54 for active females and 60 for active males. Deaths by gender and account status are shown in Figure 5 below.

Figure 5

CalSTRS Member COVID Deaths by Gender and Account Status

Total Deaths: 787 | Female: 393 | Male: 394



Data through December 2, 2021, and excludes 154 beneficiary, nonmember and refund deaths.

3. Headquarters Expansion (HQE) Construction Update

As of November 30, 2021, the construction of the project is approximately 50% complete, and the Substantial Completion Date (SCD) has again shifted due to the schedule delay associated with the UL approval required by the Office of the State Fire Marshal on the assembly of the exterior curtain wall. The new completion date is January 31, 2023 and is a total impact to the original schedule of about 143 working days.

The photovoltaic array pricing was received and reviewed and approved by CalSTRS. The plans were sent for plan review and permitting on December 23, 2021 to the OSFM and are pending submittal to the City of West Sacramento.

We continue to make great progress on all of the sustainability goals for the project.

Construction Activities

Construction activities are in high gear and the work completed this month is below:

- Commenced curtain wall installation
- Poured landscaping curbs on office level 4 & 5
- Started parking level 3 & 4 (P3 & P4) interiors
- Painted interior concrete masonry unit walls on P2-P4
- Poured stairwell #21 P1-P5 treads and landings
- Poured stairwell #22 P1-P5
- Welded clips to steel in hoistways for office elevators
- Installed stringers and landings in stairwells #21 and #23
- Fire rated wall framing and fire sprinkler rough in on Office Floors O4-O7

Schedule Status

The schedule included in the GMP document projected an SCD of July 6, 2022, but as stated above, is expected to complete on January 31, 2023, due to OSFM permitting reviews and final confirmation of the curtain wall assembly timeframes. There were zero weather days used since the previous report, and at this point in the construction, the contractor was comfortable with crediting back nine days to CalSTRS, leaving 12 days remaining in the current schedule forecast. These days may or may not be needed. Additionally, there are 30 working days included in the SCD for inspection contingency that may or may not be needed.

Below are upcoming substantial project milestones:

Project Milestones	Start Date	Completion Date
Exterior Envelope	10/11/21	03/28/22
Lobby Level Interior Improvements	04/26/21	10/14/22
Roof/Skylight Construction	12/09/21	02/01/22
Bridge Construction including interiors	03/26/21	08/25/22
Emergency Power Tie In	03/01/22	03/31/22
Office Level 03 Interior Improvements	08/16/21	07/19/22
Office level O3 Owner Furniture Installation	07/29/22	08/30/22
Office Level 04 Interior Improvements	06/17/21	08/16/22
Office Level 04 Owner furniture Installation	08/31/22	09/30/22
Office Level 05 Interior Improvements	06/17/21	09/21/22
Office Level 05 Owner Furniture Installation	10/04/22	11/03/22
Office Level 06 Interior Improvements	06/17/21	10/19/22

Office Level 06 Owner Furniture Installation	11/04/22	12/08/22
Office Level 07 Interior Improvements	06/17/21	11/16/22
Office Level 07 Owner Furniture installation	12/09/22	01/12/23
Start-Up and Commissioning	05/05/22	11/22/22
FINAL AHJ Inspections	12/6/22	01/19/23
Estimated Project Completion Date	10/21/19 start	1/31/23

Budget Status

The budget status for the month ending November 30, 2021 is summarized below:

Budget Categories	Total Approved Project Budget	Costs to Date	Balance to Complete
Hard Costs (HC)	\$ 251,294,793	\$ 127,600,914	\$ 123,693,880
HC Contingency	\$ 4,759,927		\$ 4,759,927
Soft Costs	\$ 41,816,501	\$ 28,489,162	\$ 13,327,339
Project Contingency	\$ 2,128,779		\$ 2,128,779
Totals	\$ 300,000,000*	\$ 156,090,076	\$ 143,909,924*

The hard cost contingency was reduced since the last board report by \$833,967. These costs were directly related to trade partner impacts due to permitting delays and additional inspections by the OSFM.

The project contingency was reduced since the last board report by \$1,965,608. These costs are associated with increased OSFM plan check and inspection costs, and soft costs related to the project delay.

*Note: The overall impact to the total project budget will be addressed in the Regular Board Meeting, Item #9, where the board will be asked to approve a not to exceed budget to complete the construction of the expansion project.

Risk Status

On-going risks associated with the project are:

OSFM Field Inspections – The OSFM field inspector embraces a narrow interpretations of UL listings and design which in many instances requires further UL research, and or an engineering judgment (EJ) on behalf of the design team. Additionally, the connection between the existing building and the expansion has presented challenges in both design and construction in meeting current code fire rating and fire proofing systems. This has caused delays in inspection approvals resulting in overall project schedule delays. Although we are currently in good communication and working constructively with the OSFM, this risk will remain high until the critical construction milestones are completed. This activity has been considered in the not to exceed budget being provided to the board for their approval at the January 2022 Regular Board Meeting.

Public Agency Plan Review Timeframes – All major permits have been issued for building construction at this time, including the Fire Alarm Permit that was issued on January 11, 2022. The recently approved PV package will also require permits from OSFM and the City of West Sacramento. The timeframe for obtaining these permits is likely 3-4 months. Neither one impact the construction critical path, and any comments should not impact the plans or construction. This risk is low but will remain on the list until all permits are received.

COVID and Supply Chain Impacts – Although COVID infection rates have not impacted the construction workforce so far, and most of the major construction materials have been received, there is a risk that the infectious nature of the most recent omicron variant could have an impact to the schedule and the ability to receive supplies in a timely manner. This risk is low but important to track for now.

Leasing and Occupancy Update – The market remains quiet as we move out of 2021. However, we are expecting a bit more interest as we transition into the new year. We are one year away from moving out of the tower and the timing is perfect to find a tenant in mid-2022 for a move-in during early 2023. Multiple engineering firms in the market are looking, and we are confident our marketing materials will be ready to go when the market heats up. CalSTRS operations team is moving forward with tower preparations to start leasing, as we have just finalized our contract addendum with JLL that includes assisting us with lease management and development of our floor vestibules remodel and elevator upgrades.

Project Photos

Lobby View to Waterfront Place



Communicating Stair Installation at Atrium Board-form Concrete



SW Corner at 3rd and Waterfront Place



Aerial View of Curtain Wall at 3rd Street



4. Financial Statement and Mileage Rate Changes

- **Financial Statement Reports:** The CalSTRS Annual Comprehensive Financial Report is published annually to provide a detailed review of CalSTRS' financial, investment and actuarial related activities for the year. The annual report for the year ended June 30, 2021 is now available online at [CalSTRS.com](https://www.calstrs.com) and was submitted timely to the Government Finance Officers Association for the Certificate of Achievement for Excellence in Financial Reporting program.

CalSTRS also published an electronic Popular Annual Financial Report, which provides a summary of the information found in the Annual Comprehensive Financial Report. The PAFR for the year ended June 30, 2021 is now available online at [CalSTRS.com](https://www.calstrs.com) and was submitted to the Government Finance Officers Association for the PAFR Award program.

- In October 2021, the Governmental Accounting Standards Board issued Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replaces instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for the *comprehensive annual financial report* sounds like a profoundly objectionable racial slur. The new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged. CalSTRS will early adopt this Statement with the June 30, 2021 Annual Comprehensive Financial Report.
- **Mileage Rate Changes:**
The standard mileage rate will increase to **58.5** cents per mile (up from 56.0 cents for 2021) for business travel beginning on January 1, 2022.

5. Employer Reporting to Final Benefit Project Update

Since the update provided to the Board in November, the Employer Reporting to Final Benefit project continues to make progress on piloting concepts related to quality, refining existing creditable compensation regulations and regulations related to member appeals arising from an audit. Staff started piloting new processes to monitor employer reporting at a milestone after a district's audit, researching methods to analyze contribution data for active members to identify potential risk, and implementing a quality management program that will shift the most complex employer inquiries to a dedicated team and perform quality control of responses to other employer inquiries for consistency and adherence to standards. Additionally, staff are currently modeling an approach and potential resource requirements for reviewing members' accounts when they apply for retirement to reduce the risk of adjustments due to contribution reporting data changes after retirement.

In the coming weeks, project staff are finalizing the updated appeal regulations related to audited members and those members affected by audit findings. These will be shared with stakeholders. Staff have also identified creditable compensation regulations requiring update and will continue

to compile clarifying changes to the existing regulations and gather stakeholder feedback before submitting them as part of a regulatory package. Staff has checked in with employer and member stakeholder groups to provide updates.

6. West Sacramento Update

Resulting from a September special election, Dawnte Early is the newest member of the West Sacramento City Council. Her first City Council meeting was in October 20, 2021

The City of West Sacramento remains committed to improving the Riverwalk area to the north and south of the CalSTRS campus. In November, the City Council approved a North Riverwalk Trail Extension Project. Within a few blocks north of the CalSTRS campus, West Sacramento intends to transform the existing tower, located northwest of the B street and 3rd Street intersection, into an art installation. At the December City Council meeting, the 2024 Plan to improve the riverfront in the Bridge District, just south of the CalSTRS campus along the Sacramento River between the Tower Bridge and Pioneer Bridge, were approved. The improvements focus on high quality public access to the riverfront, creation of inter-connected riverfront parks, open space, trails, and amenities. The final proposed 2024 Plan will develop an additional 3.4 acres of new riverfront parks and open space, add amenities to the existing River Walk, and create 4.2 additional acres of finished, “shovel ready” riverfront parcels. And, there are ongoing discussions to include a farmers market.

7. Proposed State Budget for FY 2022-23

On January 10, 2022 Governor Newsom released his proposed budget for California for fiscal year 2022-23. The budget includes \$3.7 billion, that will be paid from the General Fund, to cover the statutorily required annual state contribution to CalSTRS. Per the proposal, this is approximately \$156 million less than the 2021 Budget Act, primarily due to the removal of the one-time \$174 million General Fund supplemental payment made in 2021-22.

The CalSTRS board will be setting the 2022-23 state contribution rate at the May 2022 meeting. As was reported to the board in November, as part of the Review of Funding Levels and Risks report, it is likely the board will be in a position where the state contribution rate could be lowered below its current level and still allow the state to eliminate its share of the unfunded actuarial obligation by 2046. However, considering the various risks CalSTRS faces that could impact its ability to reach full funding, the board will likely be presented with options regarding the state contribution rate for fiscal year 2022-23, including an option to not lower the state contribution rate. For its 2022-23 budget, the state has anticipated the state contribution rate will not be reduced and will remain unchanged.

For the last 3 years, the state provided CalSTRS with additional contributions above the statutorily required contributions using Proposition 2 revenues to reduce their unfunded actuarial obligation and they also provided additional contributions towards contribution rate relief for employers. For fiscal year 2022-23, the state is not proposing additional contributions using Proposition 2 revenues and they are not providing contributions for any contribution rate relief for employers.

The legislature has until June 15, 2022 to approve the state’s budget.