CALSTRS

# Regular Meeting

## Item number 4 – Open session

**Subject**: 100 Waterfront Modernization Project – First Reading

**Presenter(s)**: Jeff Isham and Julie Donegan

**Item type**: Action

**Date and time**: November 5, 2026– 45 minutes

---

**Attachment(s)**: None

**PowerPoint presentation(s)**: 100 Waterfront Modernization Project

---

**Item Purpose**
This item provides the Board with an overview of the proposed 100 Waterfront Modernization Project and presents a refined recommendation following the discussion at the July 2026 board offsite meeting. The project establishes a funding framework to address end-of-life infrastructure replacements and related improvements necessary to sustain long-term operations, protect asset value, and support evolving technology and workplace requirements at 100 Waterfront.

**Recommendation**
Staff recommends the Board approve the 100 Waterfront Modernization Project and a $96.7 million funding framework, phased in over five years. The framework covers essential end-of-life replacements together with related modernization improvements, including:

- Infrastructure renewal (mechanical, electrical, plumbing, fire sprinkler enhancements)
- Accessibility updates to align with ADA requirements for accessible design that have evolved since 2009 (e.g., restroom clearances, fixtures, wayfinding)
- Consistent workplace standards, including a conservative buildout of private offices on upper floors and equitable space allocation
- Interior refreshes: lighting, carpet, paint, and furniture
- Technology upgrades: audio-visual meeting solutions and studio capabilities supporting hybrid collaboration
- Design improvements to common areas, including the Mezzanine, Boardroom and Member Service Center
- Coordinated sequencing and swing-space planning to minimize disruption

Completing the work as a single, integrated project reduces repeat relocations, limits rework, preserves flexibility, and provides clearer cost, schedule, and quality control.

If the board does not approve the project at the November 2026 meeting, staff will incorporate board feedback and return in February 2027 for a second reading for approval.

**Background**
Although we recently expanded our campus with the new building at 200 Waterfront Place, our original headquarters at 100 Waterfront Place remains a critical operational asset, and one that CalSTRS owns outright. CalSTRS began occupying 100 Waterfront Place in 2009. After more than 17 years of continuous use, many of its original building systems and interior components have reached or exceeded their lifecycle. Proactive reinvestment is a standard cost of ownership and a responsible asset management practice.

Staff evaluated scope-reduction alternatives—such as limiting the buildout of private offices, removing audio-visual studio improvements, and scaling back common-area renovations. While these changes might produce limited short-term savings, they would not resolve critical end-of-life needs and would reduce the project's ability to support anticipated staff growth and evolving operational models. In consultation with Investments Real Estate experts, staff concluded that the recommended scope best supports the long-term value, reliability, and sustainability of the headquarters asset and will extend the building's useful life by an additional 15 to 20 years.

The project's five-year schedule and associated costs, shown below, reflect both the need to manage swing-space availability (primarily on floor 7) as well as the necessity of sequencing construction floor by floor to keep operations running smoothly. The modernization effort includes updates to 11 floors, the Boardroom, Mezzanine and Member Service Center. This recommendation differs slightly from what was presented at the July board meeting, as the contingency has been reduced from 20% to 10% based on the strong budget adherence and alignment with cost estimates observed in the current tenant-leasing floor remodels, which are progressing smoothly and without major issues, providing greater confidence that a lower contingency is sufficient. This phased approach allows CalSTRS to maintain uninterrupted services without a full building shutdown while meeting required safety, inspection, and commissioning milestones. It also ensures that critical business functions across Technology Services, Legal and Investments continue with minimal disruption.

*Project Considerations:*

- *Alternatives and Cost Timing*
  Technically, the project could be extended beyond five years. However, stretching the timeline does not produce net savings; it increases exposure to market cost escalation, prolongs disruption, and introduces additional risk of failure in aging systems. A coordinated program within the proposed timeframe is the most cost-effective and operationally prudent approach.

- *Staff Impact During Construction*
  Staff will remain on site throughout the project. As each phase begins, affected teams will move into temporary swing space (floor 7 and designated areas on other floors). Moves are timed to avoid peak operational cycles, and sequencing is coordinated to reduce the number of relocations per employee. The goal is simple: keep staff productive and minimize disruption.

- *Space Utilization and Leases*
  Floors 8 and 9 are currently leased to outside tenants. All other floors will meet CalSTRS staffing needs, even with hybrid schedules. While hybrid work (on average, 2-3 days per

week in office) provides flexibility for scheduling construction and shared-space usage, modernization is primarily driven by end-of-life infrastructure and asset stewardship.

- *Accessibility (ADA)*
  Since the building was completed in 2009, various ADA requirements have evolved, including updates to restroom specifications, clearances, fixtures, path-of-travel, and signage/wayfinding. The modernization effort will reassess and update these elements to align with current standards, ensuring the facility is accessible, compliant, and welcoming.

- *Valuation, Depreciation, and Tenant Improvements*
  Tenant improvements (TIs) of this nature are industry standard and integral to maintaining building valuation and performance. They align with normal depreciation cycles by renewing assets as they age, thereby preserving value and reducing the probability of sudden write-downs due to failure. This modernization is a planned reinvestment that supports the building's capital lifecycle and avoids the compounded costs associated with deferral and emergency work.

  While the modernization is not intended as a revenue-generating project, return on investment is realized through:
  - Reliability gains and reduced unplanned downtime
  - Avoided emergency costs and more efficient lifecycle replacement
  - Protected asset valuation and sustained useful life
  - Improved workplace and technology alignment that supports productivity

- *Membership Impact*
  This project ensures a sustainable, reliable headquarters that support the staff and systems CalSTRS relies on to serve members effectively. Better building performance fosters consistent operations, staff engagement and productivity and a professional environment for member-facing functions, including the member service center, and public-facing spaces such as the Boardroom.

- *Potential Budgetary Impacts*
  Funding for the 100 Waterfront Modernization project is not included in the adopted 2026–27 or proposed 2027–28 operating budgets. Should the board approve the project at the November 2026 meeting, staff will revise both operating budgets to reflect the corresponding estimated costs. If approved, funding requirements for fiscal years 2028–29 through 2030–31 would be incorporated into the CalSTRS baseline operating budget for each respective fiscal year.

  The project would be funded from the continuous appropriation, which represents statutory expenditure authorization that exists from year to year without further legislative or board approval. Given the discretionary nature and significance of the proposed investment, staff is seeking board approval to ensure transparency, accountability, and oversight of the project's financial commitments.

In summary, the factors outlined above show that while staff reviewed potential scope reductions—such as removing AV studio improvements, limiting private offices, or scaling back common-area upgrades—these adjustments would not address the underlying end-of-life and workload needs driving the project. The building's aging systems, required ADA updates, operational constraints, leasing commitments, and the need to maintain staff continuity all point to a coordinated, time-bound modernization effort. The recommended approach provides the most practical and cost-effective path to protect the headquarters' long-term performance, valuation, and functionality while minimizing disruption to staff and member services.

**Conclusion**

Modernization is necessary because many of the core building systems, finishes, and workplace components installed in 2009 have reached or exceeded their expected useful life. Deferring the work would increase the likelihood of system failures, elevate operational risk, and expose CalSTRS to higher construction costs as market prices continue to rise. The longer the project is delayed, the more costly and disruptive it is likely to become, particularly as staffing levels increase and the building experiences greater daily use.

The proposed five-year duration reflects an operationally responsible phasing strategy. Work would proceed floor by floor to maintain continuous operations, use floor 7 and designated areas as swing space, and avoid large-scale displacement. This approach balances schedule, risk, and cost control: the duration is long enough to support safe and orderly construction while remaining sufficiently limited to avoid unnecessary cost escalation resulting from prolonged implementation.

The 100 Waterfront Modernization Project represents a strategic reinvestment in a long-serving CalSTRS asset. Implementing a coordinated five-year program would protect the value of the facility, reduce lifecycle risks, and maintain operational reliability while allowing staff to remain onsite and minimizing disruption. The project is a priority because the costs and risks associated with continued deferral are greater than those of the planned modernization. It will also support CalSTRS' ability to deliver services effectively for many years to come. Investments Real Estate staff will be present to address any questions and to support the Board's discussion on the building's valuation and the long-term benefits of the project.

This item is presented as a follow-up to the discussion at the July 2026 board offsite and staff is seeking the Board's feedback and direction. While the project costs will be continuously appropriated, staff is bringing this recommendation forward for Board approval to provide visibility and alignment given the discretionary nature of the expense. If the Board supports the recommended funding framework and the proposed phased approach, it may elect to take action. Otherwise, staff will incorporate the board's feedback and return for a second reading for approval at the February 2027 meeting. Upon approval, staff will revise the 2026-27 and 2027-28 operating budgets to include the first and second year phased costs of $28.16M and $23.16M respectively.

---

Strategic Plan linkage: The modernization project supports Goal 3 of CalSTRS Strategic Plan by strengthening a sustainable, optimized work environment that enhances organizational resilience and contributes to CalSTRS's ability to attract and retain top talent.

Board Policy linkage: The Board Governance Manual includes a principal of "transparency". Seeking Board approval for the modernization project supports this transparency requirement by openly presenting the facility needs, investment rationale, and long-term value implications to members, stakeholders and the public.

---