



Regular Meeting

Item Number 2 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: September 1, 2022 – 15 minutes

Attachment(s): Ombuds Report 2021-22

PowerPoint(s): None

1. 2022 NAGDCA Leadership Recognition Award

We are pleased to announce that CalSTRS has been chosen as a recipient of a 2022 Leadership Recognition Award by the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA). The awards recognize the brightest ideas and most innovative solutions from across the public sector defined contribution industry. Project and campaign nominations from NAGDCA government members were reviewed by NAGDCA's Awards Committee and judged on originality and measurable results.

CalSTRS was selected for its outstanding achievements in the "Covid-19 Response" category and specifically for its work on the CalSTRS Pension2 National Retirement Security Month Campaign, executed by staff in our Retirement Readiness Division. When CalSTRS' member service centers had to close to the public due to the pandemic, staff moved to create a comprehensive webinar series during National Retirement Security Month in order to serve CalSTRS members virtually and showcase how Pension2 can help supplement their retirement income. The webinars were developed around life-stages – new educator, early career, mid-career, and nearing retirement – with a different topic offered each week of October 2021 in an effort to provide targeted information to all audience segments. The series generated a significant number of new enrollments and additional assets contributed to the Pension2 program.

CalSTRS also wishes to thank its recordkeeping partner, Voya Financial, for helping make this recognition possible through their assistance with the overall concept and designs.

2. 2021-22 Annual Ombuds Report

The CalSTRS Office of the Ombuds provides assistance in resolving problems and conflicts that are not solved through the usual CalSTRS channels. Established by law in 1984, the Ombuds position was created to serve as an advocate for CalSTRS members and participants. Pursuant to Education Code section 22302, the CalSTRS Ombuds is required to make recommendations to the CEO regarding complaints made by school employees, members, employee organizations, the Legislature, or the public regarding actions of the employees of the system.

The *Annual CalSTRS Ombuds Report* (attached) provides the public with information regarding services provided by the office and demonstrates how this office serves the CalSTRS membership. The report will be posted on the CalSTRS Ombuds webpage ([CalSTRS.com/ombuds](https://www.calstrs.com/ombuds)). As stated in the report, the Office of the Ombuds had many accomplishments over the past year, including improvements to better the services and experiences for those that contact the office. Some of the accomplishments include:

- Establishing Guiding Principles of Practice
- Redesigning the CalSTRS ombuds webpage
- Implementing a secure online messaging system
- Implementing a case management system
- Adopting professional standards in accordance with the International Ombuds Association

As the Office of the Ombuds celebrates its 39th year, they remain committed to serving CalSTRS and its stakeholders in a capacity that reflects their guiding principles—Independence, Impartiality, Confidentiality, and Informality.

3. Employer Reporting to Final Benefit (ER2FB)

The Employer Reporting to Final Benefit project has accomplished its initial goals related to creating increased organizational focus on improving the employer reporting environment to decrease the risk of adjusted member benefits. Through its workstreams, we have new business processes for the quality management of employer inquiries and service, new methods to pilot for reviewing member accounts for accuracy, improved governance around escalating decisions required to administer employer reporting and guidance, and CalSTRS has requested resources to staff these new processes and concepts to support the project's goals long term. Staff dedicated to the project also concentrated efforts on working collaboratively on legislation sponsored by stakeholders to address their core beliefs, including process improvements not listed above. The project established the foundation to continue the cross-functional partnerships and ongoing stakeholder discussions and relationships around this topic, and new improvements that CalSTRS will pursue. At the project's conclusion, we will remain accountable to its goals through initiatives on the 2022-2025 CalSTRS Strategic Plan related to improving the accuracy of a member's benefit and formalizing the governance body for streamlining administrative decisions around contribution reporting that can impact members and employers.

4. Headquarters Expansion (HQE) Construction Update

Construction is approximately 70% complete. The latest project schedule indicates a revised Substantial Completion Date (SCD) of early April 2023 due primarily to an issue with the curtain wall clips inspection process. Presently, the approved budget is sufficient to cover this schedule shift. Details of the delay is covered in schedule status section below.

The exterior garage metal panel installation remains in process, as well as the construction of the prow fin supports at the north and south side of the building curtain wall. Interior framing/drywall and rough mechanical, engineering and plumbing (MEP) and sprinkler installation continue on all office levels. This month DPR has made good progress on the 3rd floor raised floor installation and the commencement of underfloor air highways and MEP installation on the 4th floor. Next month, we will see this underfloor work progress to the 5th floor. The 1st floor parking level is beginning to take shape as drywall hanging nears completion.

Additionally, final configuration for workstations was determined and coordination of station layouts on all floors is in progress. Procurement of ancillary furniture has begun, and workstation furniture is nearly completed. CalSTRS has also commenced drafting an agreement with the selected childcare provider.

Construction Activities

Construction activities continue and the work planned for this month is below:

Interior Building:

- Ground level P1 Terrazzo installation
- Edge of elevated deck firestopping
- In-wall rough-in at café kitchen
- Overhead MEP inspections and testing at P1
- Close-up inspections, drywall soffits and ceilings on O3/O4/O5
- O4 Continuation of Air Highway installation and MEP underfloor
- All Floors – Shaft Wall sequences continues. Mechanical shafts complete ready for paint (O3-O7, on-going work at O6) by end of month.
- O4 – O7, continuing MEP wall rough-in, installation of sheet rock in a flow up the building. (O3-O5 are primarily complete)
- Frame Stair 21 Exterior Walls
- Hydrotest Fire Sprinklers on O6
- Completion of work at Fire Pump Room
- Pull backbone cabling from existing MDF/IDF to new BDF, overhead and in-wall cabling P2/P3
- Test graywater distribution piping

Exterior Building:

- Install exterior signage supports

- Release steel into fabrication for PV canopy at P5
- Metal panels at west canopy
- O5 courtyard fire sprinkler and fire alarm installation.
- Curtainwall clip replacement
- Penthouse and parapet exterior sheathing

Schedule Status

The current approved schedule has a SCD of January 31, 2023. At the beginning of February 2022, DPR – HQE Construction Contractor, notified Ridge Capital – HQE Construction Manager, that for a variety of reasons, they were having difficulty meeting the SCD. DPR presented a proposed schedule which indicated a SCD of March 17, 2023. Note that this proposed schedule has not yet been formally approved by Ridge Capital nor CalSTRS.

Although DPR was committed to the proposed SCD through July 2022, the delays introduced by ongoing OSFM inspection process and the curtainwall firestop assembly may affect the final SCD. As of August 3, 2022, DPR is forecasting a new SCD of early April 2023. Ridge Capital is working with DPR on a recovery schedule to determine whether there are construction activities and work that can reclaim days, before requesting HQE Executive Steering Committee approval of a final revised SCD. As of now, if this delay materializes, we still anticipate the approved budget to be sufficient to complete the project.

The goal for a schedule recovery continues to focus on a streamlined inspection process. The inspection process has developed into a routine for all members of the project team. The design and construction team continue to work with the OSFM inspector to ensure compliance with building code. It has been discussed that commencing in August, the OSFM will defer some of the rated wall assembly inspections to the Inspector of Record which should streamline these specific inspection processes. When conditions occur that are not specifically addressed by building code, an Engineering Judgement is required. These are prepared by a specialist in fire rated designs and stamped by a licensed fire protection engineer. To date 33 Engineering Judgments have been approved by the OSFM.

Cumulatively these documentation processes present a potential for work to stop while waiting for the documentation and approval. The team has a process to prioritize each item to make sure the ones that could affect the critical path are processed with the highest priority. As issues are identified, any single one can become a significant impact. The team meets weekly to identify larger potential issues to start working towards a resolution before a schedule or cost impact occurs.

Budget Status

The budget status for the month ended July 31, 2022, is summarized below:

Summary Period: 7/31/22			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 256,627,893	\$ 173,594,109	\$ 83,033,785
Hard Cost Contingency	\$ 3,855,351	\$ -	\$ 3,855,351
Soft Costs	\$ 50,353,858	\$ 31,951,675	\$ 18,402,183
Project Contingency	\$ 7,662,898	\$ -	\$ 7,662,898
Totals	\$ 318,500,000	\$ 205,545,784	\$ 112,954,216

Change in Hard Cost Contingency since last report:

- Added metal panel framing supports \$199,373
- Evaluation signs required per OSFM \$20,543
- Replace curtainwall clips to meet UL intent per OSFM \$201,947
- Total \$421,863

Change in Project Contingency since Last Report:

- Scope reduction to IT/AV owner item added to project contingency (\$657,340)
- Fund architecture and engineering costs per schedule delays \$141,000
- Total (\$516,340)

Risk Status

On-going risks associated with the project are:

OSFM Field Inspection Process:

Due to the nature and complexity of the inspection process, this risk remains. Understanding the OSFM's expectations has helped the approval rate to increase up to the 95% range. The design and construction team has been working with the OSFM inspector to streamline the final approval process. It has developed a level of trust that continues to build. In August, the OSFM will defer some of the rated wall assembly inspections to the Inspector of Record, streamlining these specific processes. As more and more of the issues are resolved, this risk will diminish.

Project Schedule:

This risk of project delays remains due to the inspection processes and labor shortages across all trades and supply chain impacts. DPR's efforts to accelerate construction activities will help mitigate the effects on the project's schedule and budget. DPR will continue to manage procurement of all outstanding items and will inform us of issues from any supply chain impacts.

Project Photos



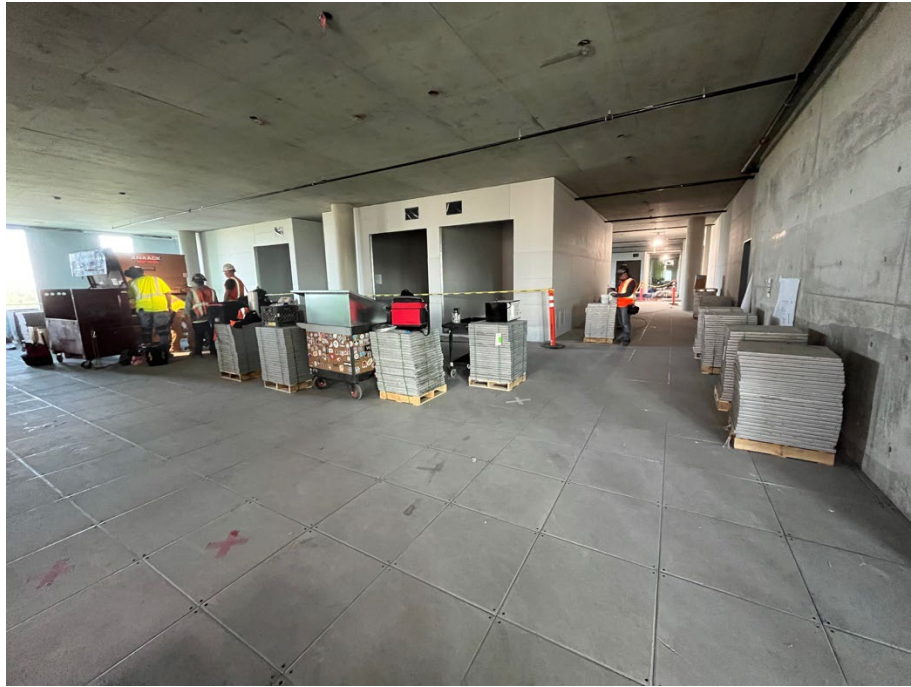
Northwest Corner



Northeast side of building



Southwest Corner



Office level 3 – raised floor

Leasing and Occupancy Update

The leasing opportunities at the existing CalSTRS headquarters building are being handled by Jones Lang LaSalle (JLL). JLL continues to stay on top of leasing interest in the Sacramento area and provides regular updates to CalSTRS on tenant activity. Their recent report indicates tenants are beginning to move away from short-term renewals and committing to long-term renewals. Sacramento saw a slight positive absorption in the second quarter of 2022, following six consecutive quarters of negative absorption.

As of the second quarter of 2022, the downtown office market totals 8,274,099 SF and is currently 19.2% vacant. Traditional downtown tenants have been looking to relocate to the suburbs to be closer to their homes or adopting a hybrid work from home standard. Nearly 95% of new leases have been signed outside the downtown market since the pandemic onset. Tenant activity in our downtown market has been primarily among law firms and lobbyists in the private sector, as well as some State of California smaller leases. The State of California is continuing its consolidation into their new office buildings that have been recently completed or under construction. JLL continues to market our building location, access to amenities and active design and internal layout as features that support increased productivity to potential tenants. There are a couple of requirements that we are still pursuing with the State of California; High Speed Rail at $\pm 25,000$ SF, State Agency (undisclosed), $\pm 90,000$ SF and Legislative Analyst at $\pm 80,000$ SF. More recently, the building has been presented to a utility company, who is considering consolidating offices in the Sacramento area.

5. Enterprise Risk Management Emerging and Existential Risks

As mentioned during the July 8, 2022, CEO report, the listing of emerging and existential risks that management evaluates and monitors will be included in the CEO report as a regular item at every regular board meeting, except for the two meetings that we normally provide the semi-annual Enterprise Risk Management Report to the board. For the September 1, 2022, board meeting, the semi-annual ERM Report, is presented as Item 6. Please refer to this item for a discussion on the emerging and existential risks that management is evaluating and monitoring.