



Regular Meeting

Item Number 7 – Open Session

Subject: HQE Update & Budget Approval

Presenter(s): Lisa Blatnick

Item Type: Action

Date & Time: November 2, 2023 – 20 minutes

Attachment(s): None

PowerPoint(s): Headquarters Expansion Budget Summary

Item Purpose

The purpose of this item is to update the board on the status of the Headquarters Expansion (HQE) Project, to request a \$2.9 million budget augmentation to the HQE Project budget resulting in a revised budget of \$321.4 million to complete the HQE Project and approval for staff to revise the HQE Project budget by an additional not-to-exceed \$1 million for any further unanticipated expenditures above the requested \$2.9 million budget augmentation.

Recommendation

Staff recommends the following:

1. Approval of a \$2.9 million budget augmentation to the HQE Project budget bringing the revised HQE Project budget to \$321.4 million. Funding for the additional \$2.9 million will come from any available excess interest earned from the tax-exempt lease revenue bonds and to the extent that is not sufficient, the balance will be funded by the Teachers' Retirement Fund.
2. Approval for staff to revise the HQE Project budget by an additional not-to-exceed \$1 million, upon Chief Executive Officer approval, to complete the HQE Project, for any further unanticipated expenditures above the requested \$2.9 million that would otherwise delay construction completion if not approved prior to the next board meeting.

Background/Summary

In November 2018, the board approved the construction of an expansion structure at a cost not to exceed \$300 million utilizing tax-exempt lease revenue bond financing. The budget and schedule

were established, and a project contract was executed on November 16, 2019, with a completion date of July 6, 2022.

Towards the end of calendar year 2021, the project needed additional funding due to extended project schedules, cost escalations associated with supply chain shortages and safety measures because of the prolonged Covid-19 Pandemic. In January 2022, the board received an update on the project budget, including a bond financing analysis. During the meeting, the board approved an additional \$18.5 million, financed through a second issuance of tax-exempt lease revenue bonds, to complete the HQE Project. This brought the revised HQE Project budget to \$318.5 million. The additional funding was expected to support the completion of the HQE Project through a revised Substantial Completion Date (SCD) of January 31, 2023. Shortly after board approval, the construction contractor, DPR Construction (DPR) notified CalSTRS that the schedule had slipped and both parties agreed that the SCD would be revised to March 28, 2023, with no additional funding required. However, since that time, the SCD continues to be delayed and DPR continues to cite the inspection process as the primary reason for the continued delays, although CalSTRS has not formally agreed to any revised SCD beyond March 28, 2023.

The most current SCD of November 9, 2023, was presented at the September board meeting, and as of this writing, has slipped further, to December 13, 2023. Although the project is approximately 96% complete, CalSTRS has no confidence in DPR's ability to meet any completion date that is published since the dates continue to be pushed out weekly. An updated SCD will be presented at the November meeting.

Due to the continued schedule slippage, CalSTRS is projected to be over budget by \$2 million if the project is completed in December 2023. This projected overage is due to the non-discretionary expenditures such as inspection fees, insurance and temporary power. Since the schedule is still not stable, staff is recommending an additional contingency of \$900,000 bringing the budget augmentation request to \$2.9 million.

Project Schedule Status

HQE project construction is approximately 96% complete. DPR indicates the reason for the latest schedule delay pertains to the inability to close-up floors due to the extensive inspection process, which hampers the ability to perform air balancing activities. The entire project team, including inspectors are meeting to determine workarounds to recover from this new SCD.

Below is the Project Milestones chart that tracks the approved contract dates, as well as the current schedule update which reflects the current SCD of December 13, 2023.

Project Milestones	Start Date	Approved Schedule (dtd 08/29/22) Completion Date	Schedule Update dtd 10.13.23
Exterior Envelope All Complete		03/21/23	11/15/23
Lobby Level Interior Improvements	04/21/21	12/30/22	11/10/23

Childcare Improvements including punchlist			11/07/23
Kindercare IT/Furniture Installations			10/6/23-10/30/23
Lobby Level Furniture Installation (café/mezz/training Rms)	02/15/23	03/16/23	11/13-14/23
Café Improvements including punchlist			11/16/23
Kitchen Equipment – Cooler/Freezer start-up	01/04/23	01/18/23	10/26/23
Bridge Construction including interiors	03/26/21	02/27/23	11/13/23
Office Level 03 Interior Improvements	08/16/21	01/26/23	11/21/23
Fitness Center Equipment Installation	01/12/23	01/26/23	10/31/23
Office Level 04 Interiors Complete inc. Atrium	06/17/21	12/28/22	11/14/23
Office Level 05 Interior Improvements	06/17/21	01/12/23	11/08/23
Office Level 06 Interior Improvements	06/17/21	01/24/23	11/16/23
Office Levels 04-07 Finish Installations/ Final Clean (per MTA)	01/25/23	02/21/23	10/20/23-11/03/23
Office Level 07 Interior Improvements	06/17/21	02/15/23	11/17/23
Start-Up and Commissioning (Final Report)	11/08/22	03/24/23	01/17/24
FINAL AHJ Inspections	03/01/23	03/28/23	12/13/23
Temporary Certificate of Occupancy			12/13/23
Substantial Completion Date		03/28/23	12/13/23

HQE Costs Update:

In January 2022, when the board approved additional funding for the HQE Project, the contingency of nearly \$6.4 million was expected to support construction changes due to the inspection process, cost escalations for owner purchases still in procurement and installation days that impacted the SCD, which was anticipated to be March 28, 2023. Since that time, the project contingency was also leveraged for non-discretionary expenses (such as insurance, inspection fees and temporary power) and as a result, the project contingency is nearly depleted as of September 30, 2023.

The summary table below reflects the current HQE Project budget for Hard Costs, Soft/Owner Costs and CalSTRS (Project) Contingency and costs to date. Hard Costs include the direct construction expenses included in the DPR Construction GMP agreement. Included in Soft/Owner Costs are architectural, engineering, permits and fees (including consultant fees, inspection fees, insurance and temporary power), network and audio-visual equipment, sustainability fees and furniture.

Hard Costs (including retention)	\$ 263,930,091	\$ 255,595,352	96.84%
Hard Cost Contingency	\$ 1,422,522	\$ -	0.00%
Soft/Owner Costs	\$ 52,992,957	\$ 50,586,342	95.46%
Project Contingency	\$ 154,430	\$ -	0.00%
Totals	\$ 318,500,000	\$ 306,181,694	96.13%

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

- M2 clearance at BFC Column..... \$ 68,681
- Expansion Joint width modifications \$ 18,051
- Glass changes at childcare, impacting electrical..... \$ 2,702
- Added power for elevator systems..... \$ 9,798
- Site Christy box replacements..... \$ 27,517
- Door W-107B location revision..... \$ 17,264
- Cable barrier gaps at southeast corners P4 and P5..... \$ 16,488
- Metal panel support at P1 SE entry canopy..... \$ 15,236

Total Hard Cost Contingency Use from last report is: \$ 175,737

CHANGE IN PROJECT COST CONTINGENCY SINCE LAST REPORT:

- Additional evacuation signage as required by OSFM..... \$ 34,940
- 3rd Party Special Inspections for depletion of budget line item..... \$ 52,756
- Inspector of Record * funding for depletion of budget line item..... \$ 240,994
- OSFM inspection funding due to depletion of budget line item..... \$ 54,500
- Interior plants deposit..... \$ 193,393
- Temp construction power..... \$ 72,774
- Extension of Owner General Liability/Builders’ Risk Insurance..... \$ 57,971

Total Project Contingency Use from last report is: \$ 707,328

*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.

Although the \$318.5 million budget is not fully expended, as detailed in the table above, current budget projections reflect an approximate \$2 million budget augmentation is needed to complete the HQE Project in December. The augmentation will provide funding to cover additional non-discretionary expenditures, as well as increases in furniture, fixtures and equipment costs that would have been funded from the project contingency if it had not been depleted by the non-discretionary expenses. In addition, since the schedule is still not stable, staff is recommending an additional contingency of \$900,000 bringing the budget augmentation request to \$2.9 million. If the project continues to be delayed past December, staff will come back at the January board meeting to provide an update.

Of the \$2.9 million budget augmentation requested, \$2 million is allocated for Soft/Owner Costs and \$900,000 is requested for the project contingency for additional unanticipated expenditures. The revised budget of \$321.4 million would be as follows:

Budget Categories	Total Project Budget as of 9/30/23	Budget Augmentation Requested	Revised Budget
Hard Costs (including retention)	\$ 263,930,091	\$ -	\$ 263,930,091
Hard Cost Contingency	\$ 1,422,522	\$ -	\$ 1,422,522
Soft/Owner Costs	\$ 52,992,957	\$ 2,000,000	\$ 54,992,957
Project Contingency	\$ 154,430	\$ 900,000	\$ 1,054,430
Totals	\$ 318,500,000	\$ 2,900,000	\$ 321,400,000

Additional budgetary authority

Since the schedule continues to be delayed and staff has no confidence in the most recent SCD, staff is requesting approval from the board for staff to revise the HQE Project budget by an additional not-to-exceed \$1 million, upon Chief Executive Officer approval, for any further unanticipated expenditures above the requested \$2.9 million that would otherwise delay construction completion if not approved prior to the next board meeting. In the event the HQE Project budget is revised per this authority, staff will inform the board outlining the revisions at the next meeting.

Excess Interest from bond financing

When the bonds were issued to finance the HQE Project, they were net funded, meaning we issued less bonds than the total budgeted amount needed, assuming the interest earned from investing the proceeds in principal preserving securities would be sufficient to cover the total amount needed for the project. Due to various market factors, along with the extended project schedule, the proceeds earned much more interest income than what was anticipated. As of today, approximately \$1.4 million is available in excess interest earnings and another \$0.3 million is projected to be earned by the time the last construction payment is needed. Therefore, we project we may have up to \$1.7 million available to partially fund the budget augmentation with the remaining amount funded from the Teachers' Retirement Fund to complete the project.

Strategic Plan Linkage: Goal 1: Ensure a well-governed, financially sound trust fund.
