



## Regular Meeting

### Item Number 12 – Open Session

**Subject:** Chief Executive Officer Report

**Presenter(s):** Cassandra Lichnock

**Item Type:** Information

**Date & Time:** September 14, 2023 – 30 minutes

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**Attachment(s):** Attachment 1 – Ombuds Report

Attachment 2 – Waterfront Place Activity Dashboard

**PowerPoint(s):** CalSTRS 2023 Virtuosos Award

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#### **Introducing CalSTRS 2023 Virtuosos**

Virtuosity, CalSTRS recognition program, provides our employees the ability to recognize each other for great work. Seven different award levels offer awards and acknowledgement for individuals and groups focused on daily tasks, consistent behaviors, and accomplishments. Employee recognition contributes to growing a sustainable and engaged workforce and aligns to our diversity, equity, and inclusion efforts, employee wellness and career development.

In addition to our day-to-day award-winning recognition program, the Virtuoso award is the highest honor a CalSTRS employee can receive. The Virtuoso award is reserved for those individuals who deliver superior, sustained performance with a demonstrated impact on the organization. Virtuosos model our core values and competencies and support our mission and vision. Nominations document specific examples of how the nominee meets or exceeds the award criteria. A 12-member Recognition Council, made up of a diverse representation of employees from within the organization, read each nomination and have the challenging job of selecting the most compelling to receive the Virtuoso award.

I am pleased to introduce our 2023 Virtuosos – 11 individuals who have received CalSTRS highest honor:

#### **Janine Thomas – Staff Services Manager II (Supervisor)**

Janine started in 2022 as an analyst on the Classification and Compensation (C&C) team within Human Resources where she was responsible for independently consulting with leadership on all facets of personnel management. Her experience with classification allocations such as

reorganizations, promotions-in-place, hiring, and compensation requests led to her being placed in a leadership role over the C&C team. Janine directed the team's daily activities and worked in close partnership with Talent Acquisition (TA) to support the needs and vision of CalSTRS recruitment and selection strategies. After a few months, Janine was given additional leadership responsibilities to oversee both the C&C and TA teams, and she continued to serve as a subject matter expert in both areas while consulting with leadership on complex issues and policies.

### **Jasmine Davenport – Pension Program Manager I (Specialist)**

Jasmine is a specialist in the Systems, Solutions & Strategic Development Unit within the Retirement Readiness Division (RR) where she is responsible for the planning, development and implementation of change management activities and mission critical projects. As the RR change management lead, Jasmine works independently to develop and implement strategies aimed at minimizing employee resistance and maximizing employee engagement. Jasmine not only leads the review and implementation of programs, materials and systems used to educate members on their CalSTRS benefits, but also represents RR in organizational change readiness assessments and activities.

### **Kelley Tousey – Staff Services Manager I (Supervisor)**

At the beginning of 2022, Kelley served in the role of CalSTRS Onboarding Coordinator where she was responsible for all activities associated with new employee onboarding, including the development, analysis and implementation of onboarding communication and training. Kelley later accepted a leadership role in Human Resources Operations where she oversees the operational workload for the HR division. This workload encompasses HR specific administrative functions as well as pivotal org-wide processes and programs such as telework, background investigations, employee relationships and annual policy recertification. Kelley oversees and develops a wide variety of policies, procedures, and forms, as well as several org-wide operational activities and projects.

### **Laura McCarthy – Financial Accountant III**

As a Financial Accountant III, Laura serves as a technical and functional expert, responsible for supervising staff in the BusinessDirect System Support (BDSS) unit in Financial Services. Besides managing her team, Laura is also responsible for overseeing highly complex information and accounting technology activities associated with the CalSTRS Enterprise Resource Planning system, Business Direct. Laura upholds a strong understanding of numerous programs and facets of the financial system, in order to provide ongoing maintenance and support, monitor all interfaces from internal and external sources, and manage the implementation of system enhancements and modifications to ensure the accuracy of financial reporting results.

**Linda Tran – Associate Governmental Program Analyst**

Linda serves as the Senior Trainer responsible for delivering training in a classroom setting to all new Customer Service employees. She is an expert in creating and maintaining an engaging learning environment that had a direct outcome on the increased retention of training content. Linda is responsible for all phases of the instructional design process including needs analysis, course design and development, facilitation of training and evaluations. This expertise allows her to independently design and develop curriculum aimed at aligning employee performance with Customer Service goals. She continuously goes above her individual responsibilities by serving as a peer mentor, conducting side by side observational instruction, providing feedback and conducting ad-hoc training requests.

**Lisa Williams – Staff Services Manager I (Specialist)**

In the Enterprise Strategy Management (ESM) division, Lisa is a manager specialist providing communication consultation, editing, writing and publication design for our strategic planning, research reporting, sustainability, and enterprise performance management efforts. Her expertise allows her to independently conduct communication activities to support programs housed within the ESM team. Lisa regularly consults with customers and teams to plan, write, edit, design, and develop complex reports tools and templates, while also facilitating meetings related to strategic and business planning across CalSTRS.

**Mark Gini – Career Executive Assignment (Ombuds)**

Mark is CalSTRS Ombuds, where he acts as an advocate for members of the CalSTRS Defined Benefit Program and participants of the CalSTRS Cash Balance Program. He makes recommendations to the Chief Executive Officer (CEO) regarding complaints made by school employees, members, employee organizations, the Legislature, or the public regarding actions of the employees of the system. Mark conducts fair and impartial investigations while also developing options for resolution. He also acts as an independent special advisor to the CEO and Chief Operating Officer (COO), providing management advice, consultation, and recommendations on member issues that are often complex, highly sensitive, or controversial.

**Natalie Paus-Tafoya – Information Technology Supervisor II**

As an Information Technology Supervisor II on the Technology Services Contract, Vendor and Asset Management (CVAM) team, Natalie's role is to work independently to perform Technology Services solicitation and contract purchasing activities. Her role requires a detailed understanding of the technical nature of the vendor's business and Information Technology services. One of her main functions is working directly with CalSTRS Business Contract Managers on vendor management. Additionally, she collaborates on cross organizational Information Technology projects and process improvements.

### **Russell Roach – Pension Program Manager III**

Russell supports and leads critical functions and teams on the Pension Solution project and acts as a liaison from business to all project workstreams, interfaces and sub-projects. The Pension Solution project is one of the top three strategic CalSTRS initiatives, its goal being the implementation of a new pension administration system. Russell is the bond between the project team and customers including all CalSTRS business areas, subject matter experts, senior management and CalSTRS members. Russell works closely with all stakeholders to ensure the needs of the business are met. He identifies, reviews, resolves, or escalates project issues, assesses risks, develops, and implements mitigation approaches and provides guidance to CalSTRS business and vendor project managers and project steering committee while co-leading teams responsible for ensuring CalSTRS operational needs are met.

### **Samantha Kesner – Pension Program Manager I (Specialist)**

As a Legislative Specialist in the Employer Services division (ES), Samantha has expert knowledge of the pension administration system, ES business processes, and CalSTRS policies and procedures. Samantha independently organizes, plans, and conducts the most complicated studies regarding pension administration, in support of legislative changes and related projects. She is responsible for independently and thoroughly researching and analyzing employer related, member related, and legislative issues unique to ES. When issues are found, Samantha develops, recommends, and implements appropriate solutions and effective courses of action as it relates to the identified issue, the division, or the Pension Solution Project.

### **Thu Tang – Financial Accountant II**

In her role in the Financial Services division, Thu acts as a BusinessDirect (BD) system technical and functional specialist where she supports select business areas with BD technical issues. Thu performs as an accounting system technical expert regarding operational system changes and coordinates upgrades and enhancements to BD while ensuring the system remains in compliance with governmental accounting standards. While providing functional support to system users at CalSTRS, she acts as a liaison between the technical team, our system support vendor, and the business areas. Thu evaluates internal controls and maintains the master data elements in BD and supports the fiscal year-end activities that occur annually by offering support to the business areas from a technical perspective.

**2022–23 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 office is staffed by an ombuds (Mark Gini) and ombuds coordinator (Christina Nguyen) who practice in accordance with professional and ethical standards.

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](http://CalSTRS.com/ombuds)).

One of the roles of the ombuds is to provide feedback to executive leadership to proactively address service delivery questions, concerns, and issues. In this way, the office serves as a valuable early warning system for CalSTRS to identify trends and systemic matters to help leadership successfully manage risk and ensure CalSTRS’ values and mission are not compromised.

As the Office of the Ombuds celebrates its 40<sup>th</sup> year, it remains committed to serving CalSTRS and its stakeholders in a capacity that reflects their guiding principles—Independence, Impartiality, Confidentiality, and Informality.

**Decrease in Service Retirements Expected for Fiscal Year 2022–23**

For the second year in a row, CalSTRS saw a decrease in the number of members who retired, as shown below.

Fiscal Year	2018–19	2019–20	2020–21	2021–22	2022–23
Number of service retirements	13,133	12,524	13,558	12,918	11,262
Change in retirements from prior year	0%*	-5%	+8%	-5%	-13%

\*There were 13,072 service retirements in fiscal year 2017–18.

The decrease in the number of retirements in fiscal year 2022–23 was expected due to the demographics of the CalSTRS membership. Plan demographics are one of the key factors driving the number of retirements, but other external factors, such as economic conditions, can have a significant short-term impact as well.

It's also important to note the count of service retirements shown above include inactive members who have retired. Inactive members are members who have not had reported service for at least one prior fiscal year. As such, the counts of service retirements shown above should not be directly interpreted as active teachers leaving the workforce.

### **California State Auditor Report Release**

The State of California Auditor has removed CalSTRS from their 2023 high-risk list due to our significant progress in eliminating our unfunded liabilities. This list had previously reported that CalSTRS continued to be at risk for being unable to fully fund retirement benefits for teachers. CalSTRS was first included on the high-risk list prior to the adoption of the CalSTRS Funding Plan when the fund was projected to run out of assets. CalSTRS remained on the list even after the adoption of the funding plan. This was primarily due to the significant length of time before the State would be able to fully fund the plan, the limited contribution rate setting authority and the reliance on CalSTRS' investments to achieve expected levels of return over the remaining years of the funding plan. The report can be found on the [state auditor's website](#).

Note: The State of California Auditor is authorized by law to develop a state high-risk audit program that investigates statewide issues and to improve the operation of state government by identifying, auditing, and recommending improvements. They target various issues and programs, including those that are experiencing major challenges.

### **SB 868 Ad Hoc Increase to Purchasing Power Payments Scheduled for End of September**

We are pleased to announce the successful implementation of SB 868 (Cortese—2022) providing an additional 5% to 15% increase for all members and their beneficiaries that began receiving a benefit prior to 1999. With all the competing projects here at CalSTRS, including Pension Solution as well as other large legislative implementation efforts (AB 1667—Cooper), this was no simple task. After working through potential issues, staff successfully tested new letters and payments in time to avoid a retroactive implementation. As a result, at the end of September, almost 46,000 CalSTRS members and their beneficiaries will receive the SB 868 increases in addition to their regular increases maintaining purchasing power to keep up with higher-than-normal inflation.

### **DEI update**

At CalSTRS, we value diversity, equity, and inclusion (DEI) as core principles to help fulfill our mission. We believe fostering a workplace culture where all staff are treated with respect and feel like they belong is the way to achieve our strategic goals of becoming trusted stewards, leading innovation, managing change, and creating a sustainable organization. CalSTRS DEI focus is reflected in our core value of Strength – *We ensure the strength of our system by embracing a diversity of ideas and people* and took root as an initiative in the 2012-17 Strategic Plan and continues to evolve and grow and remains a priority in the current 10-year strategic planning. However, our history with diversity began more than 30 years ago with our investment

approach and has evolved to expand our diversity in the management of investments strategy across the total fund. Annually, diversity in the management of investments progress is reported.

In addition to executing on DEI initiatives, CalSTRS has established a DEI site where content is refreshed monthly, with contributions from staff and our Inclusion Council focused on DEI related topics, current events, and celebrations. CalSTRS Inclusion Council includes representation from staff across the organization and meets monthly to create a CalSTRS culture that fosters diversity, equity, and inclusion through respect, understanding, and compassion. Additionally, each month a video is produced focusing on various topics. In August we focused on [Women's Equality in the Workplace](#) and we will highlight Hispanic Heritage in September.

We also support and make every effort to participate in the State of California's DEI efforts, such as California Governmental Operations Agency equity goals, and Governor Newsom's Executive Order N-16-22, which directed state agencies and departments to take additional actions to embed equity analysis and considerations in their mission, policies, and practice.

In August 2023, our Procurement division began requiring new vendors to complete a diversity survey. This survey is designed to assess vendor commitment to DEI, and conveys that DEI is a core principle of CalSTRS. Initial results of this survey are expected in December 2024.

DEI influences employment and work culture, as well as fulfills CalSTRS' mission to its members. Internal survey data suggests positive outcomes are increasing. For example, the item 'At CalSTRS, individuals and their differences are valued,' from the 2023 All-Employee Survey, increased to 72% over the 66% in 2020.

DEI efforts are supported by the executive team, and the board. During the July Board Offsite, a DEI workshop was presented to learn more about the topic. The Executives and Board members participated in a workgroup highlighting the Board's purpose in CalSTRS DEI efforts. CalSTRS' internal and external DEI efforts were also discussed.

We are working with Guidehouse and their DEI consulting team to grow and strengthen our commitment to DEI. Guidehouse is conducting a current-state assessment of CalSTRS DEI efforts, which includes stakeholder interviews with Executives, Board Members, CalSTRS leaders and staff to gather their perspectives on CalSTRS future-state DEI priorities, strategies, initiatives, and metrics. This assessment phase is expected to continue through October 2023, and project completion is slated for December 2024.

We look forward to highlighting more in future CEO Reports as we move through the evolution of DEI at CalSTRS.

### **Information Security Incident Update**

As shared at the July board meeting, on June 8, 2023, a CalSTRS vendor, PBI Research Services (PBI), confirmed CalSTRS data was involved in the mass exploit of a vulnerability in the secure file transfer system of PBI's MOVEit server. No CalSTRS systems, financial account

information, nor 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 by enrolling in a complimentary credit monitoring service provided by Experian® IdentityWorksSM Credit 3B. The letter provided contact information for a dedicated call center staffed by trained Experian representatives to answer questions about the incident and to assist members and beneficiaries with enrollment in the credit monitoring service. As of August 21, just under 69,000 have enrolled in the monitoring service being offered.

At the request of stakeholders, CalSTRS will also send a follow-up letter to the affected retirees and beneficiaries. Letter will highlight a one-month deadline extension to sign-up for credit monitor service, as well as extending the monitoring period from 12 to 24 months at no-cost to our members. If members have already signed up for IdentityWorksSM Credit 3B service, they do not need to take any additional action. The 12 additional months will be automatically added once the sign-up period closes on October 31, 2023.

To minimize high call volumes and avoid long hold times, letters will be mailed in smaller batches over multiple days. Letters will start mailing in mid-September to separate this communication from benefit payments received at the first of the month. Additional information about these extensions will be posted on CalSTRS.com. The CalSTRS Contact Center and Ombuds Office will continue engaging with members to guide them through available tools. External Affairs will continue engaging with member organizations. The Communications division will continue to share pertinent updates to all CalSTRS staff.

### **Headquarters Expansion (HQE) Construction Update**

Construction is approximately 94% complete with this month's schedule update indicating a projected Substantial Completion Date of November 3, 2023. The revised budget for the expansion project is \$318,500,000, which was approved by the board in January 2022. At the time, the additional funding was expected to support the completion of the project through a revised Substantial Completion Date (SCD) of January 31, 2023, but by the time the amendment was signed, the SCD had changed to March 28, 2023.

Currently, CalSTRS and DPR Construction have not reached agreement on a revised SCD. DPR Construction continues to attribute the schedule slippage to the inspection process.

There are ongoing essential construction services included in soft costs, within the owner's portion of the overall \$318.5 million project budget, which will deplete the remaining owner contingency if the schedule slips past the current proposed SCD of November 3, 2023. If this occurs, staff will be returning to the board in November to provide a budget update and a request for a budget augmentation.

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

### **Construction Activities**

As the project team weathers a project schedule in flux, construction milestones continue to be accomplished. In August, kitchen equipment hookup in the café, including install and pretest of fire suppression system was completed. Restroom tiling and plumbing fixtures were installed in the childcare area and delivery and set up of childcare furniture will begin in early October. CalSTRS building signage was completed on the north and south sides of the building. Furniture installation for all office levels is anticipated to be complete by the end of September. CalSTRS is on a path to meet its sustainability objectives with platinum status in LEED NC (Leadership in Energy and Environmental Design New Construction), supporting Living Building Challenge (LBC) Materials Petal and WELL Building Standard certification.

Construction activities completed and ongoing since last update:

#### Exterior Building:

- Completed MP2 Garage Screen Panels at North Elevation
- Installed Coiling Doors at Loading Dock
- Installed West Canopy Light Fixtures Above Door Soffit
- Completed Installation of MM2 Bar Grating at P5 Exterior
- Finished Parapet and Roof at West Manlift Leave Out
- Completed Roof Tie-in at South Prow Roof

#### Interior:

- Multipurpose Rooms – flooring installed.
- Lobby - Terrazzo completed at Stair 21 entry area and security desk set; hard lid soffits taped and painted; Main corridor - wood paneling installation completed.
- Ceiling grid installation in all areas; public restroom tile and plumbing fixtures installed with partition installation pending. Start of installation of GPS5 fire rated glass door openings
- O3-O4 – installed wood doors.
- O3-O5 – set break area cabinets/countertops, tested AV systems.
- O3 - Fitness Center – installation of reclaimed wood at walls/soffit in fitness center area ongoing
- O3 – 07 – installed elevator lobby metal wall panels and installed ceiling grid in vestibules.
- Bridge – Installed light fixtures at soffit; dropped ceiling tile and completed trim out fixtures at bridge interior.
- O6 Underfloor inspections completed and Carpeting/furniture installation in process.
- O7 completed carpeting installation and installation of swirl diffusers; Energize/test Lighting and install mechanical, electrical, and plumbing (MEP) trim at walls.
- Complete Stair 22 sheetrock/tape at penthouse

- Atrium – wood trim caps and seating trim in process; handrail prep continues/wood paneling completed at O7 exterior atrium walls.

**Budget Status**

The budget status for the month ended July 31, 2023, is summarized below:

<b>Summary Period: 7/31/23</b>				
<b>Budget Categories</b>	<b>Total Project Budget</b>	<b>Costs to Date</b>	<b>% Complete</b>	<b>Balance to Complete</b>
Hard Costs (*including retention)	\$ 263,719,413	\$ 249,744,335	94.70%	\$ 13,975,078
Hard Cost Contingency	\$ 1,598,259	\$ -	0.00%	\$ 1,598,259
Soft Costs	\$ 35,463,120	\$ 34,228,856	96.52%	\$ 1,234,264
Owner Costs	\$ 16,857,450	\$ 15,108,817	89.63%	\$ 1,748,633
Project Contingency	\$ 861,758	\$ -	0.00%	\$ 861,758
<b>Totals</b>	<b>\$ 318,500,000</b>	<b>\$ 299,082,008</b>	<b>93.90%</b>	<b>\$ 19,417,992</b>

**CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:**

- P5 added drains \$ 27,447
- Underlayment under Atrium Seating \$ 36,338
- Revised bridge expansion joint cover plate \$ 9,919
- M2 clearance at BFC Column \$ 4,359
- Expansion Joint width modifications \$ 28,828

Total Contractor Contingency Use from last report is: \$ 106,891

**CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT):**

- Inspector of Record\* funding for depletion of budget line item: \$ 141,047
- PG&E Perm power cost: \$ 75,778

Total Project Contingency Use from last report is: \$ 216,825

*\* 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**

The project schedule and budget continue to be at risk, as described above.

DPR Builders and Ridge Capital continue to assess opportunities to accelerate construction activities and streamline OSFM and IOR inspections and related impacts to the project schedule. CalSTRS Executive Steering Committee meets regularly with DPR Construction and Ridge Capital executive leaders to understand the schedule impacts and determine solutions that respond to these risks and the associated issues that have developed from the continued schedule slippage.

### Project Photos:

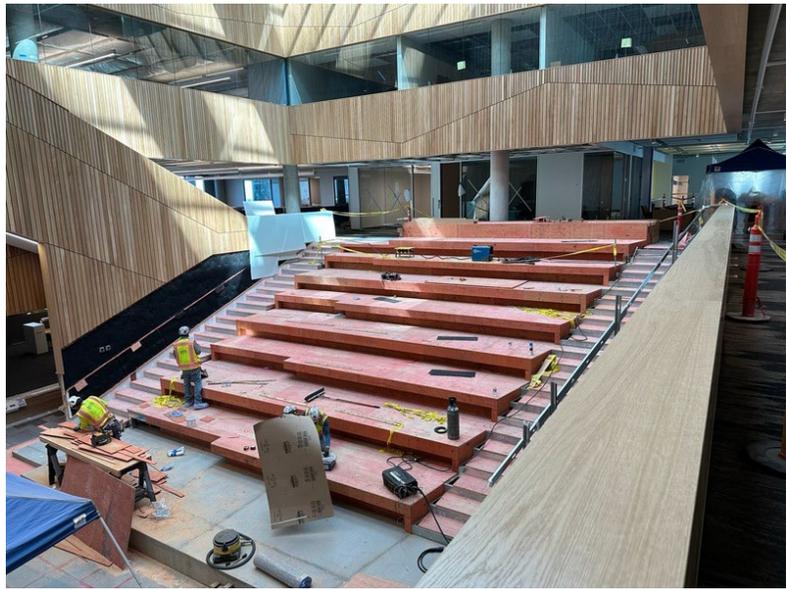
HQE project progress and photos



Elevation, Southwest



New site concrete



Atrium



P5 PV Canopy

### **Leasing and Occupancy Update**

The Waterfront Place Activity dashboard has been updated to reflect our recent leasing activity. While market conditions remain largely unchanged since our last reporting, we have seen an increase of activity at the building with three new prospects, an insurance company and two state agencies. We have had two tours with the insurance company who needs 7,500 to 10,000 square feet with an ideal occupancy date of Q1 2024. The two state agencies are in the very early stages of their market search. One agency currently occupies approximately 90,000 square feet in downtown Sacramento, with an estimated Q1/Q2 2024 timing for occupancy. They have adopted a hybrid work policy and will likely need 50% of the amount of space they currently occupy, approximately two floors at Waterfront Place. The other state agency currently occupies 180,000

square feet in downtown Sacramento. We have not been able to confirm the timing or size of this requirement; however, we anticipate they will need considerably less space than they currently occupy.

Of the three prospects from our last report, we have continued interest from our technology company prospect. We have had two building tours with their team and anticipate receiving a lease proposal soon. We understand they need 15,000-20,000 square feet and would like to occupy space before the end of 2023. The building is still under consideration by a large private company who is currently located in West Sacramento. They are still determining their space needs and budget; however, the requirement would likely need multiple floors and timing is Q4 2024. Our other prospect, a large public agency who currently occupies 75,000 square feet downtown, has narrowed their focus to downtown properties only due to proximity needed to existing data fiber and the State Capitol building.