



Regular Meeting

Item Number 6 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: November 2, 2023 – 15 minutes

Attachment(s): Leasing Activity Dashboard

PowerPoint(s): None

Annual Financial and Budget Awards

The CalSTRS [*Annual Comprehensive Financial Report*](#) (ACFR) for the year ended June 30, 2022, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. This was the 28th consecutive year that CalSTRS has achieved this prestigious award for our ACFR.

CalSTRS also received the GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting for our [*Popular Annual Financial Report*](#) (PAFR) for the fiscal year ended June 30, 2022. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government popular reports.

In order to achieve the award, a government must publish a PAFR whose contents conform to the program's standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for one year. Since issuing our first PAFR in fiscal year 2013-14, CalSTRS has received this award for nine consecutive years.

[CalSTRS 2023-24 Annual Budget Report](#) was awarded the Distinguished Budget Presentation Award, from the GFOA. The report was prepared in accordance with GFOA standards and guidelines, which are recognized as best practices for governmental financial and budgetary reporting. This award is the highest form of recognition in governmental budgeting. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications device. This was the 6th consecutive year CalSTRS received the Distinguished Budget Presentation Award.

We believe the Annual Comprehensive Financial Report and Popular Annual Financial Report we will prepare for the year ended June 30, 2023, and CalSTRS 2024-25 Annual Budget Report, will continue to meet the requirements necessary to achieve awards in their respective reporting categories. We will be submitting these reports to the GFOA to determine their eligibility for another certificate or award.

Emerging and Existential Risks

At the September 2023 board meeting, the Enterprise Risk Management (ERM) team presented the board with the semi-annual enterprise risk management report that included the Emerging Risk Universe Map. The map reflects emerging and existential risks that management are actively monitoring. See [here](#) to view the board item.

For this update, the risks shown in the Emerging Risk Universe Map have not changed since the September board meeting. However, as part of staff's development of an implementation plan to mature the risk program, staff continue to explore alternatives for how best to communicate, evaluate, and update the Emerging Risk Universe Map to reflect recent events or risks that come up in the news that may have an adverse effect on CalSTRS that would require immediate discussion and mitigation. For example, the emergence of the generative AI, like ChatGPT, is being explored to better understand the risks and benefits of this new technology on CalSTRS operations. These types of imminent risks are monitored and mitigated by the affected business areas as part of our normal course of business, including recognition of the risk(s) in our enterprise risk matrix when appropriate.

The emerging and existential risks that management are actively monitoring, which are included in the Emerging Risk Universe Map, are grouped into the two categories below:

- **Evaluate:** Requires additional investigation to determine if any further risk mitigations are needed.
- **Monitor:** Understand significant changes that may occur that would require a shift in risk approach beyond the significant activity or risk mitigations that are already in place.

Evaluate	
Emerging Risks	Fraud Risk Vulnerability
	Human Capital
	Generative Artificial Intelligence
	Change Management Fatigue
Existential Risks	Shift to Alternate Education
	Artificial Intelligence

Monitor	
Emerging Risks	Ungoverned Software as a Service
	Evolving Sociopolitical Expectations
	Geopolitical Disruptions
	Cyber Insurance Availability
Existential Risks	Comprehensive Pension Reform
	Cybersecurity Event
	Demographic Shift
	Hyperinflation
	Shift in Pension Fund Investment Management

The Enterprise Risk Management team continues to regularly evaluate emerging and existential risks to determine whether these risks require active mitigations, revision to existing mitigations, active monitoring for future consideration or no action needed until the next identification cycle. As events continue to unfold and our understanding of these emerging risks continue to evolve, staff will modify the map accordingly.

Inflation and Supplemental Benefit Maintenance Account Update

The Supplemental Benefit Maintenance Account (SBMA) was created to provide inflation protection to CalSTRS retirees and their beneficiaries. The SBMA provides quarterly supplemental payments to maintain 85% of the purchasing power of a member’s initial retirement allowance.

Eligibility for SBMA quarterly supplemental payments is determined using a measure of inflation based on the All-Urban California Consumer Price Index, calculated by the Division of Labor Statistics and Research in the California Department of Industrial Relations. As required by law, CalSTRS measures inflation each fiscal year by comparing the California CPI for the month of June in successive year.

For fiscal year 2022-23, California inflation was 3.1% which is higher than CalSTRS assumed long term rate of inflation of 2.75% but less than the 8.3% inflation experienced in fiscal year 2021-22. Although members did lose some purchasing power as a result of the 3.1% inflation level, no new members fell below the 85% purchasing power threshold to begin receiving SBMA payments in fiscal year 2023-24. Therefore, payments will continue to be paid to

members who retired in calendar year 2005 or earlier. Members who retired in 2006 or later continue to have a purchasing power above 85%.

The table below compares the number of members and their beneficiaries who received a payment from SBMA in October in each of the last five years as well as the total quarterly amounts paid from the SBMA in October.

Month and Year	Number of members and beneficiaries who received an SBMA payment	Quarterly SBMA payment
October 2019	70,862	\$55.8 million
October 2020	65,705	\$50.1 million
October 2021	67,900	\$63.0 million
October 2022	111,680	\$123.9 million
October 2023	108,128	\$163.7 million

Although the number of members and beneficiaries receiving benefits from the SBMA decreased slightly between 2022 and 2023, the quarterly payments increased from the previous year. This was due primarily to the implementation of Senate Bill 868 (Cortese - 2022) which became effective July 1, 2023, and provides an additional 5% to 15% increase for all members and their beneficiaries that began receiving a benefit prior to 1999. Almost 46,000 CalSTRS members and beneficiaries received an additional increase as a result of SB 868.

Staff continues to monitor inflation levels and their impact on the SBMA. Every two years an actuarial projection of the SBMA is performed to evaluate the long-term sufficiency of SBMA assets and contributions. The next sufficiency projection is currently scheduled for May 2024.

DEI update

Since our last update in September, CalSTRS has focused on the [professional development](#), education, and mental health of our staff. We offered two webinars hosted by Stanford, and continued our work with our DEI partner, Guidehouse. Our Diversity Equity and Inclusion (DEI) site focused on Hispanic Heritage Month in September 2023, National Disability Employment Awareness Month (NDEAM), and Mental Health Awareness Week in October 2023. We are currently highlighting Native American Heritage Month and Thanksgiving on the November 2023 DEI site, which starts the holiday season for many of our staff.

In October our Disability Advisory Committee (DAC) and Talent Acquisition team participated in the NDEAM Job and Resource Fair event hosted by the California Highway Patrol at the State

Capitol. The CalSTRS DAC is a group made up of volunteer staff, who work to promote disability awareness and inclusion, and provide ideas and feedback related to CalSTRS efforts to recruit, retain, and provide upward mobility.

Additionally, to support Mental Health Awareness Week, staff had several resources available to support and engage in activities around mental health available on CalSTRS intranet Be Well site. Staff also had the opportunity to attend a presentation from Stop Stigma Sacramento, offering a conversation on mental health from people sharing their lived experiences.

Stanford's VMware Women's Leadership Innovation Lab offered two sessions which CalSTRS participated in. In September and October, CalSTRS staff participated in a community conversation about Allyship and Shared Sisterhood: How to Take Collective Action for Racial and Gender Equity at Work.

In September, CalSTRS Investments and Sapphire Partners, the fund investing strategy of Sapphire, a specialized technology investment firm announced a partnership to invest in emerging managers focused on early-stage venture capital. As a part of this partnership, Sapphire Partners will assume investment management responsibilities of five CalSTRS "New and Next Generation Manager Funds" existing funds, representing approximately \$1.4 billion in assets under management. Sapphire Partners will also have capital available to continue making commitments to new and emerging venture capital managers.

Guidehouse, CalSTRS DEI partner, continues to progress in helping us grow and strengthen our commitment to DEI. In October, we began closing out Phase 1: Assessment, which involved reviewing and analyzing 500+ pages of documents, assigning a Global DEI Benchmark (GDEIB) level of achievement for 15 categories, and conducting stakeholder interviews consisting of CalSTRS staff, executives, and board members.

In the coming months, we will finalize and close out Phase 1, and transition to Phase 2: Design and Evolve. As part of this transition, we will communicate findings to our various stakeholder groups, the organization, and the board.

Leasing and Occupancy Update

The Waterfront Place Activity dashboard has been updated to reflect our recent leasing activity. Since our last reporting, we have conducted two property tours and have continued interest from two prospects, a state agency and a technology company. The state agency is now working with DGS to determine their square footage need and space program requirements as well as timing for occupancy. The technology company has completed their market tour and is determining next steps and timing to issue Request for Proposals. We are pursuing any opportunities to lease space including temporary uses. We recently submitted the property for a short-term special contract requirement needed by the Department of Corrections and Rehabilitation, but they have since located a space with the project contractor. We continue to track a large state agency who

is currently located in Downtown Sacramento and the building remains an option for a large private company currently located in West Sacramento.

As of the 3rd quarter, market-wide aggregate occupancy losses total 2.98 million square feet from the onset of the pandemic. Downtown's office vacancy increased 60 bps to 22.0% which is elevated compared to the market wide vacancy rate of 20.4%. This increase in vacancy is largely driven by Class B assets in Downtown where vacancy has risen to 25.9%. However, Class A assets maintain a healthier vacancy rate of 16.2%, indicating the flight to quality trend continues to drive demand to newer and well located office product like 100 Waterfront Place.