



Regular Meeting

Item Number 6 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: July 9, 2021 – 10 minutes

Attachment(s): None

PowerPoint(s): None

1. Path Forward Update

CalSTRS continues to monitor the changing conditions of the workplace protocols resulting from decisions by regulatory agencies providing direction on mask mandates and physical distancing requirements. On Tuesday, June 15, California fully reopened and lifted stay-at-home orders in alignment with the Center for Disease Control and the Governor amended requirements for face coverings for fully vaccinated individuals. On Monday, June 21, California Department of Human Resources issued direction on how revisions to CalOSHA's emergency temporary standards apply to state employees who are fully vaccinated and those who are not vaccinated.

Fully vaccinated CalSTRS employees may now enter CalSTRS facilities without a face covering. Unvaccinated employees must continue to wear a face covering indoors. Fully vaccinated employees may choose to continue to wear a face covering in settings where they are not mandatory. Physical distancing rules and capacity limits for elevators, training and conference rooms and restrooms are restored to normal.

At the end of May, CalSTRS held a virtual Town Hall meeting to discuss plans to reopen offices in September, phasing staff back in with a measured and conservative approach. This follows over a year of anticipating a reopening date and then shifting the schedule due to COVID-19 levels, tiering and changing conditions.

The Executive Team and Path Forward Task Force used specific criteria to assess an appropriate date:

- Mask coverings no longer required for vaccinated individuals
- Physical distancing eliminated and occupancy capacity restored
- Vaccinations widely available

- Schools anticipated to be back in full session
- Low rates of COVID-19 in the community

In June, we ceased temperature-taking to enter the Headquarters Tower and removed directional signage in elevators and throughout the building. CalOSHA guidelines on wearing masks in the workplace have been updated, and some staff will continue to wear a mask in the building either because they are not vaccinated or due to other circumstances or underlying conditions.

While it has always been our intention to reopen our offices as soon as we could do so safely, throughout the period of remote work we have adapted and kept CalSTRS business running with new approaches. Many of these solutions we will carry forward into a future blended work environment. What we have not been able to recreate are the benefits of being in person with one another, to collaborate, brainstorm, mentor and gain on-the-job learning from co-workers, connect with those outside an immediate business area and other intangible experiences of workplace interactions.

New technologies have been added to meeting rooms to foster integration of on-site and remote attendees in meetings. Executives are working with their directors to design the blended work environment that is appropriate for individual teams and the work they perform. Human Resources is drafting policy to document standard expectations for the entire organization that support the intricacies of a blended work environment, while providing flexibility for individual branches to operate most responsively. This will ensure all staff have a common understanding of organizational guidelines as we move out of a pandemic-induced stay-at-home work requirement and move to a formal blended work structure in the new environment. We do so with the awareness that we will evolve our practices as we learn and that what we fashion initially could look quite different in five years. Organizational Development is preparing change management plans to welcome staff back into the workplace.

We are giving priority to reopening Member Service Centers as soon as possible to support their core function of engaging with our members and providing a convenient in-person experience. In addition, we may bring other business functions back into the building sooner to conduct critical business activities such as user acceptance testing for the Pension Solution project and certain investment roles.

We continue to move forward with great care, considering all of the safety criteria and evaluating as we go, while focused on our core business and mission of serving CalSTRS members in the most effective manner possible.

2. CalPERS Chief Medical Officer

In response to COVID-19 concerns staff expressed in a Town Hall meeting, we invited CalPERS Chief Medical Officer Dr. Julia Logan to participate in the CalSTRS Tonight video segment to discuss vaccines and the current rate of vaccinations in California. During the interview, Dr. Logan reported that almost half of all Californians are fully vaccinated and 57% of adults are fully vaccinated. Over 57% of residents have received at least one dose and 72% of Californians 18 or older have received at least one dose. She highlighted the dramatic drop in infection rates,

hospitalizations and deaths since vaccines were introduced and became widely available to California's adult population. She described the declines as not only substantial but also sustained.

Dr. Logan responded to a question about whether there is a risk of people who are vaccinated infecting an unvaccinated member of their family, either a child or someone who is immunocompromised. She explained that the vaccines are extremely effective in protecting against, mild, severe and asymptomatic viral loads. Vaccinated individuals are well protected, and it is extremely unlikely that a vaccinated person will pass the virus to someone who is unvaccinated. In all cases, it is a matter of personal risk tolerance. A vaccinated individual may choose to wear a mask if they are more comfortable when interacting with others.

She described her own journey in researching the vaccines by referencing medical journals and other scientific resources and stressed the importance of making decisions based on reliable and substantiated data. She cited the statistic that 96% of physicians have been vaccinated. She encouraged everyone who felt hesitant to discuss their concerns with their doctor to help make an informed and appropriate decision for their circumstance.

She spoke to concerns about the virus being transmitted on surfaces by saying the likelihood of that is extremely low and that we have learned much about the virus' transmission since early days. The virus is transmitted through respiratory particles emitted when one coughs or sneezes. Thus, masks were instrumental in minimizing the spread prior to the vaccine.

While herd immunity might be reached if 85% of the population were vaccinated, Dr. Logan emphasized California will only get back to normal when the world is vaccinated. She discussed emerging variants that the Center for Disease Control describe as concerning. The more severe delta variant is on track to become the dominant variant and the unvaccinated are still at high risk.

3. Employee Reporting to Final Benefit Project

The project goal is to build better processes so retired members can feel confident and have peace-of-mind as they make decisions and transition out of their teaching careers into retirement.

CalSTRS is progressing in its internal scan to assess our programs, business areas, processes, and practices, and to synch different perspectives and approaches. Each of the project workstreams is meeting, establishing timelines and assigning activities to be completed. We are currently compiling and analyzing a broader data set regarding benefit adjustments to inform discussions with stakeholders and provide deeper perspective to guide board decisions.

One potential approach would be to finalize member benefits after a set time period has passed subsequent to their retirement, as an overarching way to address benefit adjustments and collection of overpayments. Data analysis will help recommend points in time for consideration.

We know that we share a common goal with member and employer groups. We will work with stakeholder groups to evaluate the concept of finalizing changes to a member's benefits with the aim of bringing certainty and consistency to members. Together we will discuss issues related to setting a time limit for audit impacts on members in benefit status and aligning statute of limitations to adjusted audit guidelines.

Maintaining the current process of recalculating benefits when edits are made to accounts remains an option that all parties will explore. Here the focus would be on how overpayments would be recouped.

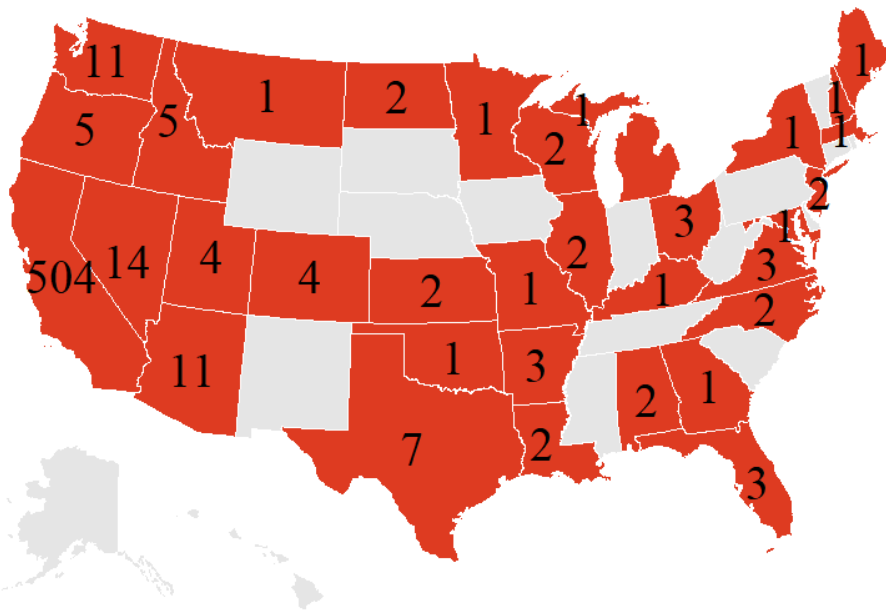
4. CalSTRS Member Sentiment and COVID Deaths Update

We included a question about how the pandemic changed member thoughts about their financial future on the January 2021 Annual Member Survey. Overall, 31% of members indicated the COVID-19 pandemic changed the way they think about their financial future. This response was highest among the 20-29-year-old cohort at 49% and 30-39-year-olds at 40%. CalSTRS members who are retired more than five years were least likely to indicate a change in perception of their financial future, which may be attributable to the secure retirement a stable, lifetime benefit provides. Females reported higher level of agreement than males that COVID changed how they think about their financial future.

CalSTRS staff continue to monitor COVID related member deaths each month. Following the statewide spikes in December and January, cumulative deaths have slowed down reaching 606 through April 18 (the latest date of death reported).

CalSTRS Member COVID Deaths through April 18, 2021

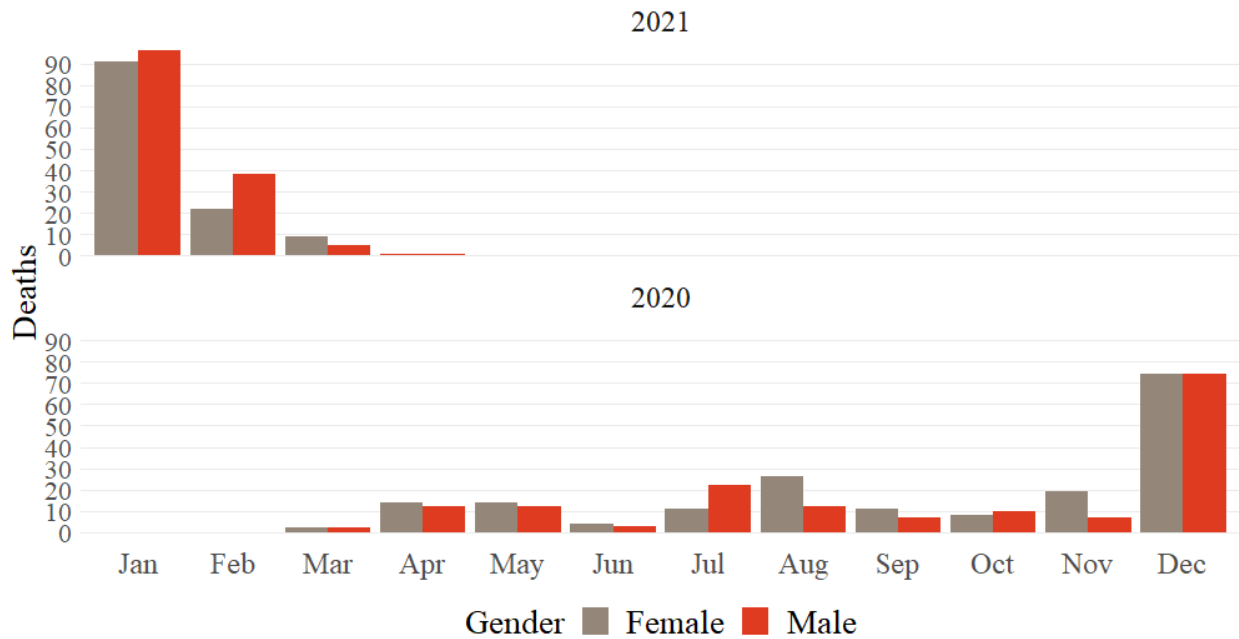
Total Deaths: 606 | International: 1 | Female: 305 | Male: 301



Counts exclude 131 beneficiary, nonmember and refund deaths.

CalSTRS Member COVID Deaths by Gender and Month

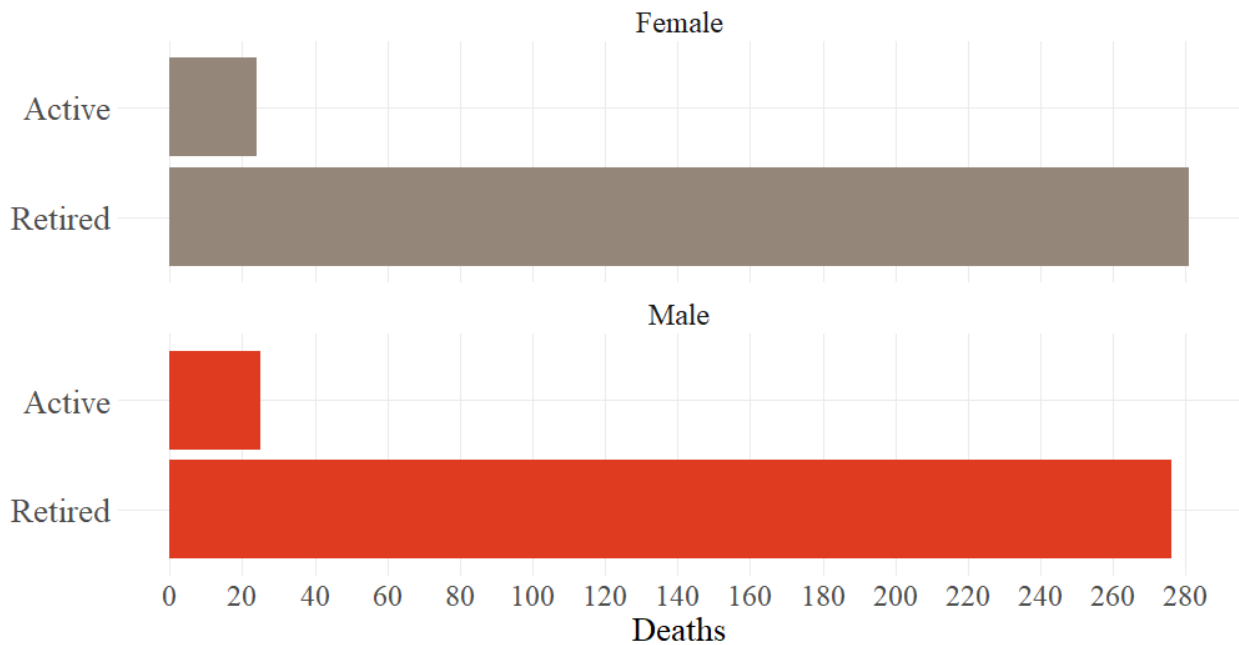
Total Deaths: 606 | Female: 305 | Male: 301



Data through April 18, 2021, and excludes 131 beneficiary, nonmember and refund deaths.

CalSTRS Member COVID Deaths by Gender and Account Status

Total Deaths: 606 | Female: 305 | Male: 301



Data through April 18, 2021, and excludes 131 beneficiary, nonmember and refund deaths.

5. Headquarters Expansion (HOE) Construction Update

As of June 2021, the construction of the project is approximately 42% complete.

Due to the delay in the issuance of the Phase IV Architectural MEP/TI permit, the Substantial Completion Date (SCD) has been moved out another 28 working days from the last update to December 12, 2022. This is a total impact to the original schedule of 106 working days. On April 29, 2021, the CalSTRS project team received the plan check comments from the Office of the State Fire Marshal (OSFM) for the Phase IV permit, providing our response back on May 25, 2021. OSFM is currently reviewing the revised plans; however, the Phase IV approval date has been updated to July 16, 2021 to anticipate multiple rounds of plan check comments.

We are at a point in the construction where we can report the progress on the sustainability goals of the project. The current LEED New Construction scorecard indicates a project status of Platinum. For WELL Building Certification, the current scorecard indicates a project status of Gold, with the possibility of Platinum. We expect to receive the Living Building Challenge, Material Petal, and the project has had an incredible construction waste diversion rate of 98.13%.

The detail below outlines the status of the construction activities, schedule, budget, and associated risks.

Construction Activities

DPR completed the last deck pours on May 12, 2021, and the project is "topped out", as work not held up by permitting continues to move forward. Other construction activities during this period include concrete masonry wall fabrication for levels P2-P4, childcare canopy steel installation at the west side, and framing at the P5 exterior envelope. Elevator installation is in progress and is anticipated to be complete in July.

Schedule Status

The schedule included in the GMP document projected an SCD of July 6, 2022, but as stated above, has been pushed out an additional 28 days from the last report to December 12, 2022. There were zero weather days used since the previous report, and the remaining twenty-one weather impact days are included in the SCD that may or may not be needed. Below are upcoming substantial project milestones:

Project Milestones	Start Date	Completion Date
Phase IV Architectural/MEP/TI Permit/OSFM	03/31/20	Now Estimated: 7/16/21
P-2 Structure	05/19/20	06/24/21
P-3 Structure	06/23/20	07/01/21
P-4 Structure	07/29/20	07/09/21
P-5 Structure	08/26/20	07/16/21
Exterior Envelope	07/19/21	02/24/22

Lobby Level Interior Improvements	04/26/21	01/14/22
Roof/Skylight Construction	08/20/21	12/07/21
Bridge Construction including interiors	04/26/21	01/15/22
Office Level 03 Interior Improvements	10/14/21	05/27/22
Office level O3 Owner Furniture Installation	06/07/22	07/19/22
Office Level 04 Interior Improvements	11/18/21	07/08/22
Office Level 04 Owner furniture Installation	07/18/22	08/26/22
Office Level 05 Interior Improvements	12/20/21	07/12/22
Office Level 05 Owner Furniture Installation	07/20/22	08/30/22
Office Level 06 Interior Improvements	01/20/22	08/09/22
Office Level 06 Owner Furniture Installation	08/17/22	09/28/22
Office Level 07 Interior Improvements	02/17/22	09/07/22
Office Level 07 Owner Furniture installation	10/06/22	11/16/22
Start-Up and Commissioning	06/03/22	10/05/22
FINAL AHJ Inspections	09/29/22	11/09/22
Estimated Project Completion Date	10/21/19 start	12/12/22

Budget Status

With the costs incurred due to the COVID-19 safety protocols and the delay of the Phase IV permit, our overall project budget is at risk. The current ROM for these costs is \$5.3M, which results in a budget deficit of \$800,000. All of the costs related to these two items fall solely on the project or “owner” contingency, as the hard cost contingency contractually does not cover the costs associated with these issues. The hard cost contingency covers scope gaps in the buyout of the work, and market driven price fluctuations. The hard cost contingency balance is approximately \$5.8M, and the project contingency balance is \$4.5M.

COVID-19 COSTS: The Governor relaxed mask requirements for vaccinated persons as of June 15, 2021, and the construction project check-in survey was reduced to a few questions with the elimination of temperature screening. With the amendment to the CalOSHA regulations, it is anticipated that the costs associated with these health protocols will be greatly reduced or even eliminated. We expect in next month’s report the anticipated shortfall to the project contingency due to COVID protocols will be reduced by \$900,000.

SCHEDULE DELAY COST: Currently, there is a recognized schedule delay caused by the extended OSFM plan review timeline.

The schedule is updated based upon the current anticipated OSFM Phase IV permit approval date of July 16, 2021, which results in a construction completion date of December 12, 2022. The cost assumptions have not changed from the prior anticipated scheduled completion date of September 16, 2022. The current estimate of \$4,350,583 represents the schedule delay costs based upon estimated hard and soft costs anticipated for the original 51 added workdays. Included within the additional schedule delay, there are 21 weather days and 30 days of AHJ inspections and approvals. It is unlikely that all of these days will be utilized so the estimate to date has not been increased for the additional 55 workdays of schedule delay. This should not be interpreted to mean the overall project budget will not be impacted. There will be a budget impact associated with the extended project overhead costs for the delayed construction timeline, which are to be determined. Once the permit is issued by OSFM, the team will review activity sequencing to identify ways to compress/overlap tasks; and/or work overtime where it makes sense to shorten the overall project schedule and minimize the added costs associated with the schedule delays. An updated estimate will be included in the next report.

Other costs that could impact the Project Contingency include OSFM plan checking and inspection fees and City plan review fees.

The team also continues to identify cost savings opportunities in all project item categories including owner purchased furniture, AV, and IT integration to offset the added costs described above.

The budget status for the month ending May 31, 2021, is summarized below:

Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 244,961,935	\$ 104,204,817	\$ 140,757,119
Hard Cost Contingency	\$ 5,786,642		\$ 5,786,642
Soft Costs	\$ 44,698,669	\$ 20,960,232	\$ 23,738,437
Project Contingency	\$ 4,552,754		\$ 4,552,754
Totals	\$ 300,000,000	\$ 125,165,049	\$ 174,834,951

The hard cost contingency was reduced since the last board report by \$20,486. These costs were related to minor construction modifications made in the field.

The project contingency was reduced since the last board report by \$110,561 due to monthly costs for COVID-19 safety protocols, and OSFM permitting comments.

Risk Status

On-going risks associated with the project are:

Public Agency Plan review timeframes – Due to the ongoing approval delays, the schedule was updated with the completion date estimated to be December 12, 2022. Further delays in permit issuance could impact the projected completion date on a day for day basis, and therefore, could further impact the overall project cost. The risk level associated with public agency review comments and timeline remains high.

COVID-19 – Although there have been additional costs related to COVID-19, supply chain impacts of construction materials have been minimal. However, based on the continued delays to begin the next phase of the project, construction material costs may increase. The current risk level associated with COVID-19 remains low but could move to medium by the next report.

6. Annual Risk and Internal Controls Awareness Training

CalSTRS staff are required to participate in an annual, one-hour, online *Risk and Internal Controls Awareness Training* to provide all employees with the knowledge and skills to fulfill their risk management roles and responsibilities. We are delighted to report that we achieved 100% participation for the 2021 training (excluding staff who are currently on an extended leave).

At the end of the training, staff are invited to participate in a brief survey to provide participant feedback. Based on last year's feedback, Training Services and the Enterprise Risk Management Team made significant improvements to the 2021 training including a new delivery method that provided more interactive and improved functionality as well as new topics and revised content.

A summary of the survey results for 2021 are:

1. I learned something valuable.
76% agreed/strongly agreed, a 3% increase from last year.
2. I am confident I can manage risks by using internal controls.
94% agreed/strongly agreed, a 2% decrease from last year.
3. I recognize the steps I can take to help manage risks in my work.
94% agreed/strongly agreed, a 2% decrease from last year.
4. If I knew of a risk concern, I would report it.
96% agreed/strongly agreed, a 1% increase from last year.