



Regular Meeting

Item Number 2 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: March 4, 2022 – 15 minutes

Attachment(s): None

PowerPoint(s): None

1. 2020-21 Sustainability Report

The eighth annual [Sustainability Report](#) was released in February 2022. It documents our corporate sustainability approach, engagement and data from July 1, 2020, to June 30, 2021.

We developed the key topics for this report using input from executives and the CalSTRS Corporate Sustainability team. They are:

- Member retirement education
- CalSTRS Funding Plan progress
- Transition to net zero
- Diversity, equity and inclusion

We chose these topics because they have significant environmental, economic, social and governance impacts on CalSTRS, our members, our employees and other stakeholders.

We've also included information on how CalSTRS is building a more resilient and sustainable organization by using lessons learned while serving members and supporting staff during the COVID-19 pandemic.

This edition of the report gives more insight into why our key topics matter in the context of sustainability at CalSTRS and how we are improving our performance in these areas. We include specifics on how sustainability is integrated into our strategy, policies and goals. Our index offers substantial information on employee demographics and governance.

This report has been prepared in accordance with the Global Reporting Initiative Standards. GRI is an independent, international organization that helps businesses and other groups take

responsibility for their impacts on the economy, the environment and people. As of 2020, approximately three-quarters of the largest 250 companies in the world use the GRI Standards to report on sustainability.*

Going forward, CalSTRS is working with our corporate sustainability consultant, ISOS Group, to benchmark best practices and advance our strategy. Our activities include:

- Integrating sustainability goals into the *2022–25 CalSTRS Strategic Plan*.
- Using interviews with executive leaders to update our material topics and define sustainability strategy for the next three years.
- Evaluating internal corporate policies and practices for greenhouse gas impacts.

*Source: [*The KPMG Survey of Sustainability Reporting 2020*](#)

2. Headquarters Expansion (HQE) Construction Update

At the January 2022 Teachers' Retirement Board (TRB) meeting, the board approved additional funding, not to exceed \$18,500,000, utilizing tax-exempt lease revenue bonds, to complete the HQE project. The funding request was due to extended project schedules, permitting delays, cost escalations associated with supply chain shortages and safety measures associated with the prolonged Covid-19 Pandemic. The funding will support the completion of the project. Presently, construction is approximately 57% complete with the latest project schedule indicating a revised Substantial Completion Date (SCD) of January 31, 2023.

The installation of the curtain wall continues as well as the roofing installation. Interior framing and drywall and rough mechanical, electrical, and plumbing continues on all levels, as well as sprinkler and vertical mechanical shafts and stair installation. The inspection process with the Office of the State Fire Marshal (OSFM) has become more efficient and no further delays have been experienced, as of this reporting period.

Construction Activities

Construction activities continue and the work completed this month is below:

- Curtainwall installation continues
- Skylight panel system installed
- Mounted new fire pump skid with integrated ATS
- Installed doors and hardware at concrete masonry unit walls
- Installed fire sprinkler piping and seismic supports on parking level 5 (P5)
- Interior modifications on P2 and Phase I tower office levels 3, 4 & 5 continue, with P2 (Boardroom) anticipated to be completed by the end of February
- Office level 3 work in progress with completion toward the middle of March
- Lobby soffit framing on-going
- Conventional wall framing is ongoing along with sprinkler work for office levels 3, 4, 5, 6 & 7.

- Sheetrocking walls/soffits has started for office levels 3 & 4.
- Terrace glazing installed for office level 4.
- In atrium, communicating stair supports, miscellaneous metals and landing plate shift completed; form/rebar/pour/cure/strip topping slab at seating area

Schedule Status

This report does not include a schedule update. This is due to the recent funding approval by the board which allows DPR to move forward with securing scheduling and pricing for the timeframe beyond the current schedule approval of 11/29/22. DPR is also in the process of sequencing activities to condense the schedule for review. A schedule update will be included in the next board report.

Below are upcoming substantial project milestones:

Project Milestones	Start Date	Completion Date
Exterior Envelope	10/11/21	03/28/22
Lobby Level Interior Improvements	04/26/21	10/14/22
Roof/Skylight Construction	12/09/21	02/01/22
Bridge Construction including interiors	03/26/21	08/25/22
Emergency Power Tie In	03/01/22	03/31/22
Office Level 03 Interior Improvements	08/16/21	07/19/22
Office level 03 Owner Furniture Installation	07/29/22	08/30/22
Office Level 04 Interior Improvements	06/17/21	08/16/22
Office Level 04 Owner furniture Installation	08/31/22	09/30/22
Office Level 05 Interior Improvements	06/17/21	09/21/22
Office Level 05 Owner Furniture Installation	10/04/22	11/03/22
Office Level 06 Interior Improvements	06/17/21	10/19/22
Office Level 06 Owner Furniture Installation	11/04/22	12/08/22
Office Level 07 Interior Improvements	06/17/21	11/16/22
Office Level 07 Owner Furniture installation	12/09/22	01/12/23
Start-Up and Commissioning	05/05/22	11/22/22
FINAL AHJ Inspections	12/6/22	01/19/23
Estimated Project Completion Date	10/21/19 start	1/31/23

Budget Status

This budget status for the month ended January 31, 2022 is summarized below:

Summary Period: 1/31/22			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 256,590,707	\$ 138,290,154	\$ 118,300,554
Hard Cost Contingency	\$ 4,685,713	\$ -	\$ 4,685,713
Soft Costs	\$ 50,870,198	\$ 29,159,177	\$ 21,711,021
Project Contingency	\$ 6,353,382	\$ -	\$ 6,353,382
Totals	\$ 318,500,000	\$ 167,449,331	\$ 151,050,669

In January, the TRB approved additional funding, not to exceed \$18,500,000 to be added to the HQE Project budget. The allocation of these funds was added to the Project Budget as follows:

- Shell Hard Costs: **\$ 5,221,700**
- Soft Costs: **\$ 2,940,301**
- Owner Costs: **\$ 6,078,751**
- Project Contingency: **\$ 4,259,248**
- **TOTAL: \$18,500,000**

Hard Costs has increased for additional general conditions and project requirements associated with the schedule delay for the OSFM permitting and inspection process. The Soft Costs has increased for additional consultant construction administration and inspection costs associated with the schedule delay. The Owner Contingency has increased for anticipated costs associated with potential future delays, the estimated known plan review and field inspection cost impacts as well as unknown field inspection cost impacts.

Risk Status

On-going risks associated with the project are:

OSFM Field Inspections. The OSFM field inspector embraces a narrow interpretation of Underwriter’s Laboratory (UL) listings and design which in many instances requires further UL research, and/or an Engineering Judgment on behalf of the design team. Additionally, the connection between the existing building and the new one has presented challenges in both design and construction in meeting current code fire rating and fire proofing systems. This has caused delays in inspection approvals resulting in schedule delays and cost impacts.

Leasing and Occupancy Update

The Sacramento office market appears to be reacting well to the news of the mask mandate being lifted February 16, 2022. We are seeing old requirements start to engage again and two new potential requirements. Most tenants in the Sacramento area have reduced their original footprints and are reducing their office needs as they adopt a hybrid model of working from home. We plan to present at the May 2022 board meeting the leasing market and CalSTRS strategies.

Greater Sacramento Economic Council (GSEC)* is planning a panel discussion on March 24th at CalSTRS headquarters. Participants will include representatives from GO-Biz, economic development directors, CA Mobility Center, key consultants of GSEC and 5 - 10 top site selectors. This will be an excellent opportunity to showcase the campus, especially among the site selectors.

* The Greater Sacramento Economic Council is a public-private partnership that unites business and community leaders to create one cohesive regional economic development strategy with a focus on growth, sustainability, equity, and competitiveness.

3. Year End Tax Filings Completed

CalSTRS is required to submit various tax filings to our members, their beneficiaries, vendors, the Internal Revenue Service and the State of California by the end of January each year, for certain expenditures paid during the previous calendar year. For calendar year 2021 the following tax filings were completed:

- 456,546 Forms 1099-R reporting \$17,034,119,093.62 in benefit payments, \$1,762,354,296.18 in federal tax withholding, and \$501,936,114.40 in state tax withholding
- 132 Forms 1099-NEC reporting \$121,722,126.00 in payments to vendors
- 31 Forms 1099-MISC reporting \$530,763.12 in payments for non-member benefit payments from the Replacement Benefits Program and two legal settlements
- 367 Forms W-2 reporting \$12,734,401.57 in Replacement Benefits Program payments, \$1,368,031.33 in federal income tax withholding, and \$392,084.82 in state income tax withholding
- IRS Form 945 for Calendar Year 2021, which reconciles federal tax withholding and deposits related to Forms 1099-R, 1099-NEC, and 1099-MISC
- IRS Form 941 for the 4th Quarter of 2021, which reconciles the federal tax withholding reported on Forms W-2
- EDD Form DE-9 for the 4th Quarter of 2021, reporting \$130,530,533.61 in state tax withholding
- Qualified Purchaser Use Tax Return for 4th Quarter 2021 reporting \$5 due on \$3,107 in purchases subject to use tax (total tax liability was \$260; \$255 was paid to vendors, leaving a balance of \$5 to be paid to the state taxing agency)

4. State Leadership Accountability Act (SLAA) Reporting

Government Code sections 13400 through 13407, known as the State Leadership Accountability Act (SLAA), were enacted to reduce the waste of resources and strengthen internal controls. SLAA requires each state agency to maintain effective systems of internal controls, to evaluate and monitor the effectiveness of these controls on an ongoing basis, and to biennially report on the adequacy of the agency's systems of internal controls by December 31 of each odd-numbered year. Additionally, each agency is required to post their biennial SLAA report on their website within five business days of acceptance by the Department of Finance (DOF). If an agency's report includes risks requiring mitigation, the agency must submit an Implementation Plan that describes mitigation efforts and then update the Plan every six months thereafter until all mitigation efforts are implemented. Any efforts not implemented are included in the next biennial report.

CalSTRS uses its Enterprise Risk Management Program documentation to prepare and submit these reports. On December 17, 2021, staff submitted our most recent biennial report, and on January 24, 2022, it was accepted by DOF and posted [here](#), on CalSTRS.com as required. Our first semi-annual Implementation Plan will be due June 30, 2022.

5. Annual Update on Activity of Series 2019 Bonds

In December 2019, CalSTRS successfully secured bond financing for the Headquarters Expansion (HQE) Project with the issuance of \$340.6 million (\$272.6 million par and \$68.0 million original issue premium) in tax-exempt lease-revenue green bonds through a conduit issuer, the California Infrastructure and Economic Development Bank (IBank) ("the bonds"). Since the issuance of the bonds, staff have established a framework for the management of the bonds. The following are noteworthy activities carried out with respect to the management of the bonds during calendar year 2021:

- **Annual Insurance Certification:** Staff submitted the required annual certification of the required insurance coverage for the HQE Project to the IBank in August 2021.
- **Rating Assessments:** The bonds were subject to annual rating assessments. Fitch, Moody's and S&P reaffirmed the original bond ratings of AA, A1 and A+, respectively.
- **Green Bond Certification:** The bonds were issued as green bonds, certified as Climate Bonds by the Climate Bond Initiative (CBI) Standard Board. The Climate Bonds Standard requires an annual update report on the bonds and status of the project financed by the proceeds. Staff submitted the required annual report to CBI in October 2021.
- **Continuing Disclosure Certificate:** Staff submitted the required Continuing Disclosure Annual Report with the Municipal Securities Rulemaking Board. The

report requires copies of the most recent CalSTRS Annual Comprehensive Financial Report, Actuarial Valuation of Defined Benefit Program and condensed financial statements, on an annual basis.

- **Interim Arbitrage Assessment:** Pursuant to the requirement of Tax Certificate and Agreement for the bonds, staff engaged a third-party specialist to perform an interim arbitrage rebate liability assessment for the period of December 19, 2020 to December 19, 2021 for the bonds. Based on the analysis, there is no arbitrage rebate liability with respect to the bonds as of December 19, 2021.
- **Payment of Capitalized Interest:** CalSTRS is required to pay interest on the bonds during the construction period of the HQE Project. This interest was capitalized as part of the bond financing as the proceeds included \$40.8 million for the purpose of paying said interest. All bond interest payments due, totaling approximately \$13.5 million have been paid timely.

As the HQE project progresses, the bond proceeds remain invested in permitted, risk averse investments, available to fund all project expenses as budgeted. Additional information on the bonds payable can be found in CalSTRS June 30, 2021, Annual Comprehensive Financial Report, on pages 70 to 71 and 81 to 82 at CalSTRS.com.

6. CalSTRS.com Modernization

Following the adoption of CalSTRS 2019-22 Strategic Plan, leadership added the modernization of CalSTRS.com to the Business Plan as a key initiative to support Goal 3: Objective D - provide educational opportunities to improve the retirement readiness of CalSTRS' members. In 2021, CalSTRS signed a contract with an external vendor, PensionX, to assist with design, development and hosting.

The CalSTRS Communications division, in partnership with PensionX and Technology Services, planned and implemented the updated website. The project team identified four main goals for the new design:

- Update the look, feel and navigation with modern design principles while reinforcing the CalSTRS brand, mission and vision.
- Center the user's experience with CalSTRS members as the top priority. Other important audiences include member groups, employers and the investment industry.
- Create an easy-to-navigate and mobile-friendly site
- Improve the search function

To achieve these goals, the project team met with CalSTRS business areas to identify important content, surveyed members, and researched best practices from other pensions and the private sector. We also conducted user testing with active and retired members. The new design is focused on members, with separate sections for active educators and retirees. However, the fresh look and

simplified navigation will improve the experience for all visitors. The new platform also uses the latest security and accessibility features.

We are communicating about the launch to members, member groups, employers, the public and CalSTRS staff. The Communications Director presented the new site at the Client Advisory Committee and Employer Advisory Committee meetings. It is available to view now during the soft launch phase. A video tour is available to point visitors to important pages. We are also promoting it on the current site, and via social media, our member newsletters, a news release, and our Pension Sense blog. The newly designed site will launch in mid-March 2022.