



## Regular Meeting

### Item Number 7 – Open Session

**Subject:** Chief Executive Officer Report

**Presenter(s):** Cassandra Lichnock

**Item Type:** Information

**Date & Time:** November 5, 2021 – 15 minutes

---

**Attachment(s):** None

**PowerPoint(s):** None

---

#### 1. Chief Administrative Officer

Melissa Norcia was appointed as CalSTRS' Chief Administrative Officer (CAO) and began her new role on September 15, 2021. She replaces Lisa Blatnick, who became Chief Operating Officer in August 2021.

In her new role, Melissa will lead Human Resources, Procurement, Facilities Management, Business Continuity and Sustainability. She will also partner with the Chief Operating Officer and other executives in overseeing multiple mission-critical projects, such as the expansion of the headquarters office in West Sacramento and management of internal resources that support an investment strategy known as the CalSTRS Collaborative Model, which brings more assets internally to reduce costs.

Melissa has been a proven leader with an unwavering commitment to CalSTRS in her role as the director of Human Resources and she will bring the same level of leadership, skill and passion to the CAO job.

Melissa joined CalSTRS in 2009 as the Equal Employment Opportunity (EEO) Officer and was promoted to various leadership positions before being appointed as director of Human Resources in 2015. As director, Melissa led the human resources division and executed CalSTRS' strategic workforce goals and objectives. She has also served as staff support to the Teachers' Retirement Board Compensation Committee. Her leadership experience includes growing and managing various human resources programs, including EEO, talent management, payroll and benefits, workforce development and planning, executive compensation, diversity and inclusion, organizational development and operations.

Melissa is a native of Sacramento and holds certificates in labor-management relations and human resources development and management from the University of California, Davis.

## **2. Director of Human Resources**

Kristel Turko has been selected CalSTRS' new Director of Human Resources, beginning Monday, October 18. She replaces Melissa Norcia, who became Chief Administrative Officer on September 15. Kristel has been at CalSTRS for 10 years. During that time, she has worked in various human resources leadership roles, including Assistant Director of Human Resources. She has been a human resources leader for approximately 18 years and is well-known and respected by her peers in the industry. She has certifications as a Professional in Human Resources from the HR Certification Institute and as a Senior Certified Professional from the Society for Human Resources Management.

## **3. 2020-21 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 Ombuds is accessible and receives complaints through multiple channels, including through an online messaging system on CalSTRS.com, mail, direct or transferred phone calls, referrals from legislative staff or stakeholder groups, as well as in person at our West Sacramento Member Service Center<sup>1</sup>. Each contact is evaluated to determine if the Ombuds involvement is required or if it could be handled by existing communication processes established in various program areas. The Office of the Ombuds is committed to being truthful and acting with integrity, fostering respect for all CalSTRS members and participants, and advocating for procedural fairness in the content and administration of CalSTRS' practices, processes, and policies.

The Office of the Ombuds is comprised of two staff, the Ombuds and the Ombuds Coordinator. 2020-21 was a year of transition for the Office. Mark Gini assumed the role of Ombuds in January following the retirement of Tom Barrett. Tom had provided exceptional leadership to this program since 2002. Patty Clark, the Ombuds Coordinator, was a tremendous asset during the transition and helped bridge the gap between Tom and Mark. Furthermore, the name of the program was changed to a gender-neutral term. There are several acceptable terms for the position, with Ombuds being the preferred and common term among organizations and association groups.

During the fiscal year, the Office of the Ombuds implemented four guiding principles of practice. These principles were derived from professional standards established by the International Ombuds Association and the United States Ombudsman Association, and reflect a commitment to ethical conduct to maintain the integrity of the Office of the Ombuds.

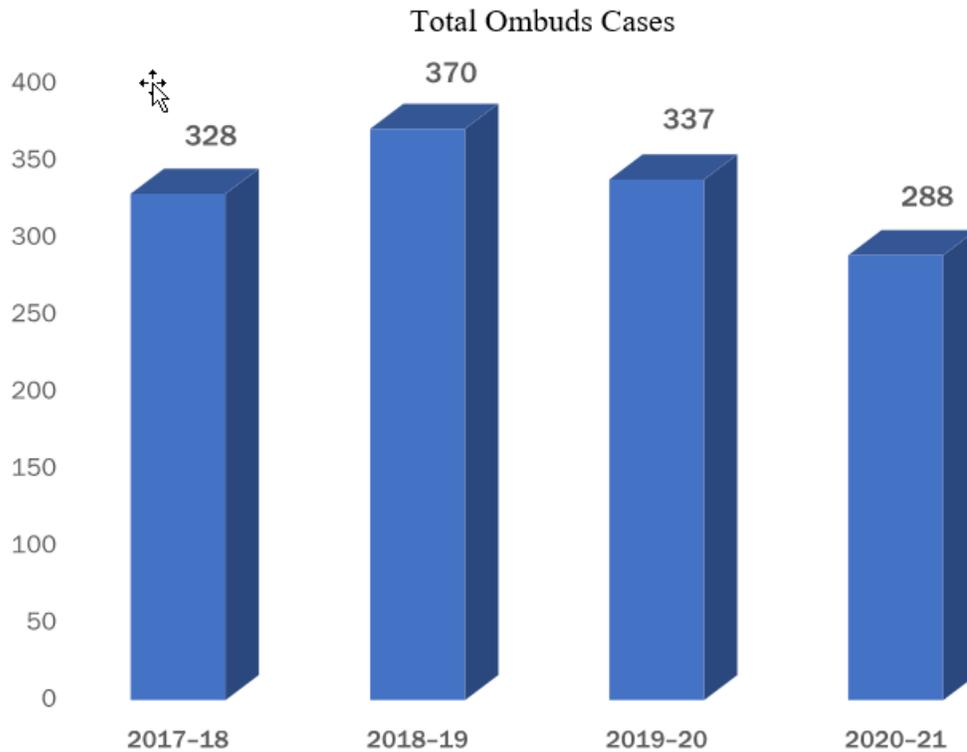
---

<sup>1</sup> The in-person service has been suspended until the reopening of the West Sacramento Member Service Center.

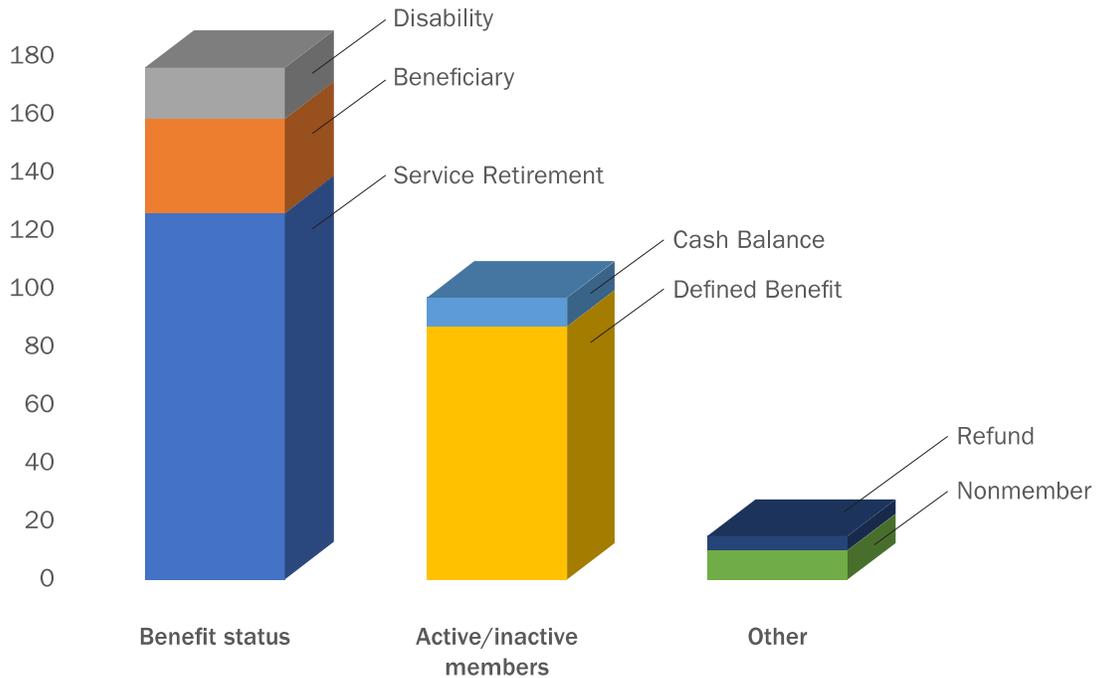
- **Independence:** The Ombuds is independent in structure and function to the highest degree possible within CalSTRS.
- **Impartiality:** The Ombuds is designated as neutral and impartial. The Ombuds will not engage in any situation which could create a conflict of interest.
- **Confidentiality:** The Ombuds holds all communications with those seeking assistance in strict confidence, as required by statutes and policy. Confidential member information will be shared with CalSTRS business areas only when necessary to resolve an issue/complaint.
- **Informality:** The Ombuds does not make binding decisions, mandate policies, or formally adjudicate issues for CalSTRS. The Office of the Ombuds supplements but does not replace any formal complaint or grievance channels at CalSTRS.

Total Cases

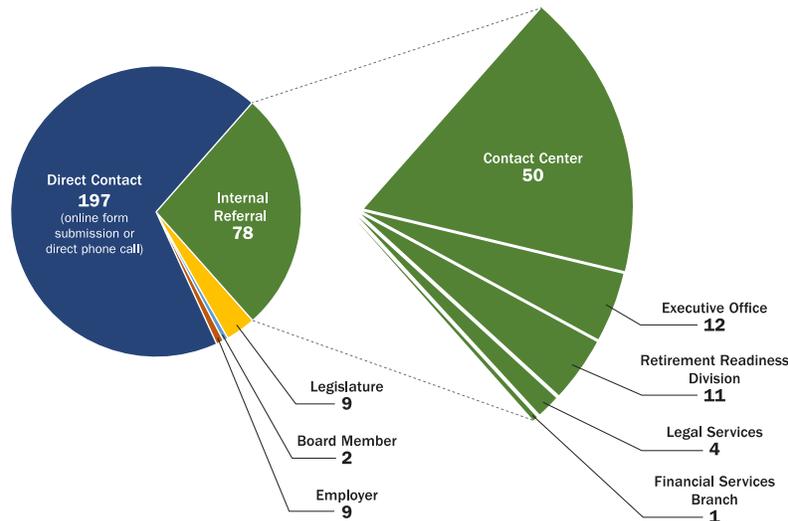
The Office received 288 contacts during the past year. This was a decrease compared to prior years. The business areas have been doing a great job providing excellent service to our members during the past year. This often correlates to less grievances and complaints by our membership.



Below is a breakdown of the population of members that contact the Office of the Ombuds. The majority of contacts are from those in benefit status, specifically receiving a service retirement benefit. The next highest contacts are those that are active or inactive in our Defined Benefit program.



Below is a breakdown of how the inquiries were initiated with the Office. Most of our contacts originate with an inquiry submission through an online form on CalSTRS.com. The second most common is through referrals from other business areas within CalSTRS.

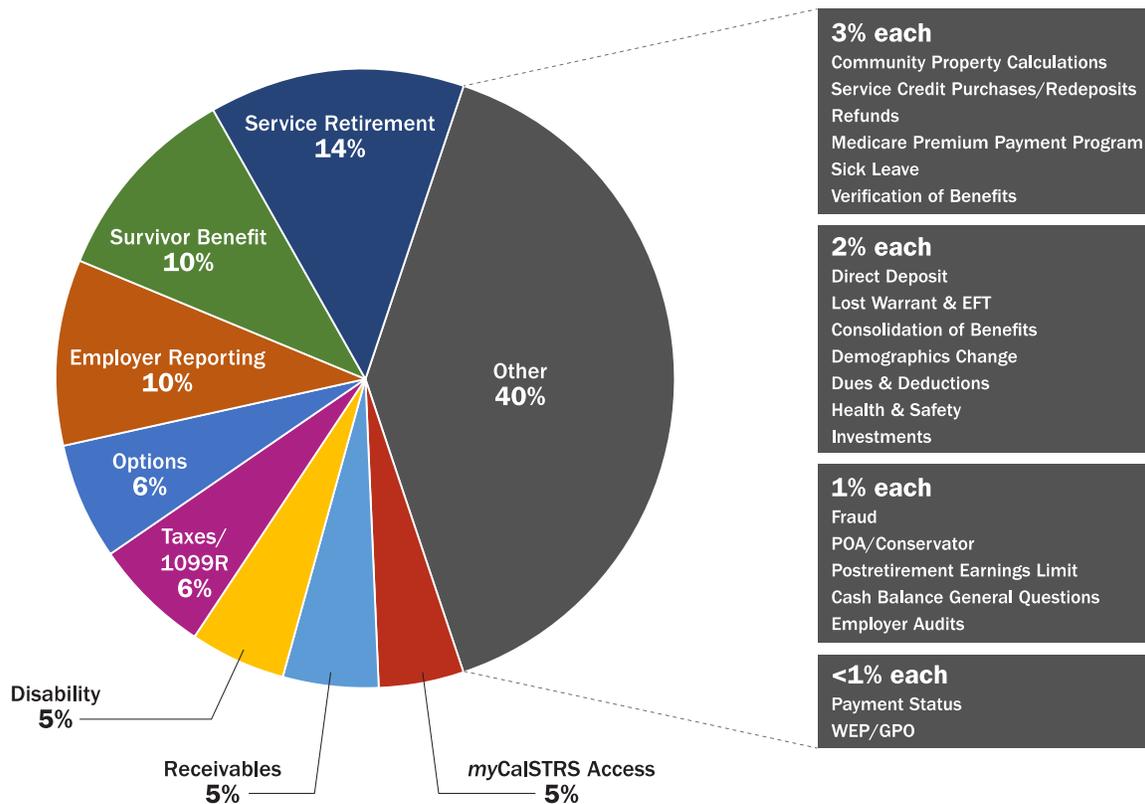


There is often collaboration with business areas due to the interconnected nature of the member experience. While the Ombuds strives to provide a resolution independently, the complex nature of the cases often requires collaboration with the program areas to resolve an issue. Of the 288 total cases, 102 required some collaboration with program areas.

### Types of Cases

There are common themes that the Office of the Ombuds receives, which can be considered natural as our members transition from active employment to preparing for their first retirement benefit. Also, life changing events that result in a disability or survivor benefit is a stressful time for our members and beneficiaries, which sometimes escalate to the level of the Ombuds.

The top three types of cases the Ombuds saw this year were issues related to a service retirement benefit, survivor benefit, or employer reporting. Below is a breakdown of all topics.



### Closing

The Office of the Ombuds provides an alternate channel of communication for all members and constituents to bring forward and resolve issues. One of the roles of the Ombuds is to provide “upward feedback” to leadership to proactively address service delivery questions, concerns and issues. In this way, the Ombuds can serve 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 we celebrate the 38<sup>th</sup> year, the Office of the Ombuds remains committed to serve CalSTRS and its stakeholders in a capacity that reflects its guiding principles—Independence, Impartiality, Confidentiality, and Informality.

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

As of September 30, 2021, the construction of the project is approximately 47% complete, and the Substantial Completion Date (SCD) has stayed substantially the same from the last report with a completion date of December 22, 2022 – this is a total impact to the original schedule of 118 working days.

At the September 2021 board meeting, during the CEO report, the board was informed that the Phase IV permit had been received, but the Fire Protection and the Fire Alarm portions had been removed to ensure that the critical path of the construction project would not suffer any further delays. We are pleased to report that the Fire Protection portion of the permit was received on September 10, 2021 and the Fire Alarm portion is expected to issue in mid-October with no financial impacts to the project based on the comments so far.

The photovoltaic array plans will be the final plan review necessary for permitting by the OSFM and City of West Sacramento and will be submitted once pricing is completed and approved by CalSTRS.

We continue to make great progress on all of the sustainability goals for the project.

#### **Construction Activities**

The most visible progress made this month was the placement of the bridge spine that will connect the two buildings together at the 4<sup>th</sup> floor level and the accompanying bracing to the P5 deck. Additional activities are below:

- Hoist and weld beams in existing office levels 3-4
- Poured over-framing at atrium and elevator 27
- Poured over-framing and curbs on office levels 5-7
- Penthouse structure was completed
- Lobby stair base structure was poured
- Framed walls and placed top and bottom track in office levels 4-5
- Installed stringers and landings in stairwells #21 and #23

#### **Schedule Status**

The schedule included in the GMP document projected an SCD of July 6, 2022, but as stated above, is expected to complete on December 21, 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	07/30/21
Fire Protection Plan Permit	07/29/21	09/10/21

Fire Alarm Plan Permit	08/16/21	Est 10/15/21
P-2 Structure	05/19/20	06/21/21
P-3 Structure	06/23/20	06/29/21
P-4 Structure	07/29/20	06/29/21
P-5 Structure	08/26/20	08/04/21
Exterior Envelope	10/11/21	04/05/22
Lobby Level Interior Improvements	04/26/21	03/28/22
Roof/Skylight Construction	10/25/21	02/28/22
Bridge Construction including interiors	03/26/21	06/21/22
Office Level 03 Interior Improvements	11/24/21	06/13/22
Office level O3 Owner Furniture Installation	06/22/22	08/18/22
Office Level 04 Interior Improvements	12/01/21	07/14/22
Office Level 04 Owner furniture Installation	07/22/22	08/18/22
Office Level 05 Interior Improvements	12/08/21	08/18/22
Office Level 05 Owner Furniture Installation	08/26/22	09/22/22
Office Level 06 Interior Improvements	01/14/22	09/16/22
Office Level 06 Owner Furniture Installation	09/24/22	10/20/22
Office Level 07 Interior Improvements	02/15/22	10/14/22
Office Level 07 Owner Furniture installation	10/20/22	11/19/22
Start-Up and Commissioning	06/09/22	10/14/22
FINAL AHJ Inspections	10/20/22	12/02/22
Estimated Project Completion Date	10/21/19 start	12/22/22

**Budget Status**

COVID-19 COSTS: Yolo County reinstated mask requirements for both vaccinated and unvaccinated persons in indoor settings. Although this does not impact our current protocols for most trades (since they are working outdoors), we will be monitoring further restrictions, such as mandatory testing for non-vaccinated individuals, for additional budget impacts to the project. Currently there is only \$25K earmarked in the project contingency for future COVID-19 costs, based on the removal of the health screening and questionnaire required to start work.

SCHEDULE DELAY COST: There is no additional delay in the SCD since the last board report. The cost associated with the overall delay is approximately 5%-7% of the originally approved budget (\$15M-\$21M) at this time. Included in the completion date are 21 weather days and 30

days of final inspections by authorities having jurisdiction over the project. Although we don't expect to use all of the available weather days (which could improve the schedule on a day-for-day basis), we expect that the additional contingency of 30 days for final inspections will be needed. The project team continues to 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.

Understanding the project is almost 50% complete, the CalSTRS team has also asked the construction team to provide a list of items that have not been already obligated/paid as options to further reduce the overall budget. The criteria that will be used to determine if the item is viable to exchange for a lower cost item, or remove completely from scope will include:

- any impacts to already approved permits
- CalSTRS Green Bond Certification or anything that would impact the tax-exempt lease revenue bond issuance in general
- CalSTRS sustainability goals, including LEED Certification, Well Certification, the Living Building Challenge Material Petal Certification, and Zero Net Energy goals.

We have also investigated the opportunity to refinance the tax-exempt lease revenue bonds (Series 2019 Bonds) to cover the budget shortfall. Based on discussions with our municipal advisor, Montague DeRose and Associates, LLC, we confirmed the following:

- The Series 2019 Bonds with maturities before August 1, 2030 are non-callable and cannot be prepaid.
- The Series 2019 Bonds with maturities after August 1, 2030 may be prepaid. However, it would not be in our economic interest at this time, for various reasons including we would have to issue taxable bonds to refinance the outstanding tax-exempt Series 2019 Bonds.
- We do not need to refinance the Series 2019 Bonds in order to finance the additional costs of the HQE Project in excess of the \$300 million budget. If we want to finance the additional costs, and it's in our economic interest, we can issue new bonds.

Staff has requested our municipal advisor to prepare several financing models to assess the value of issuing bonds to finance the additional costs compared to paying the costs directly from the fund. We will use the results of this analysis to prepare and present a recommendation to the board, at the January board meeting, on the best approach to finance any additional cost for the HQE Project.

The budget status for the month ending September 30, 2021 is summarized below:

<b>Budget Categories</b>	<b>Total Project Budget</b>	<b>Costs to Date</b>	<b>Balance to Complete</b>
Hard Costs	\$ 245,552,716	\$ 117,830,424	\$ 127,722,293

Hard Contingency Cost	\$ 5,593,894		\$ 5,593,894
Soft Costs	\$ 44,759,003	\$ 27,856,265	\$ 16,902,737
Project Contingency	\$ 4,094,387		\$ 4,094,387
<b>Totals</b>	<b>\$ 300,000,000</b>	<b>\$ 145,686,689</b>	<b>\$ 154,313,311</b>

The hard cost contingency was reduced since the last board report by \$121,466. These costs were related to scope gap and additional consulting services needed in the field.

The project contingency was reduced since the last board report by \$233,443 due to monthly costs for COVID-19 safety protocols, OSFM plan check and inspection costs, and increased City of West Sacramento building permit and impact fees.

Once the final portion of the last permit is received, which is expected by the middle of October, staff will work with Ridge Capital to provide the board with cost overage estimates and options for scope modifications. We will be prepared to provide the board with progress at the November board meeting, and we anticipate having a final estimate for board approval in January 2022.

**Risk Status**

On-going risks associated with the project are:

**Public Agency Plan review timeframes** – We received the Fire Protection permit on September 10, 2021 and expect to receive the Fire Alarm permit by mid-October. Although the permitting process is largely complete, the OSFM can require changes in the field which could still impact the schedule and the budget. This risk will remain on the list, although reduced to medium.

**COVID-19** –The impact to construction material supply chains seems to be diminishing as manufacturers resume production. Although Yolo County is still requiring masks regardless of vaccination status while working indoors, it is not anticipated that the State will call for another “shelter in place” directive. Out of an abundance of caution, we will keep this item on the risk list until further notice.

**NEXT STEPS**

At the January 2022 board meeting, we will bring forward a separate HQE Budget item where we will ask the board to take action on a “Not to Exceed Budget” to complete the project as well as details around bond financing options.

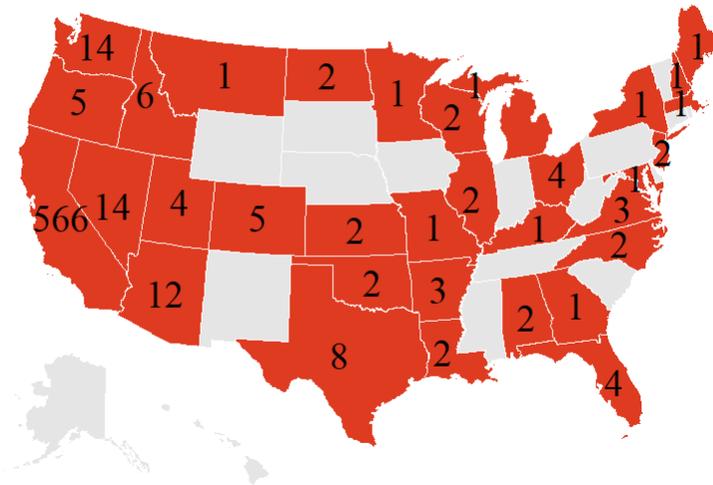
**5. CalSTRS Member COVID Deaths Update**

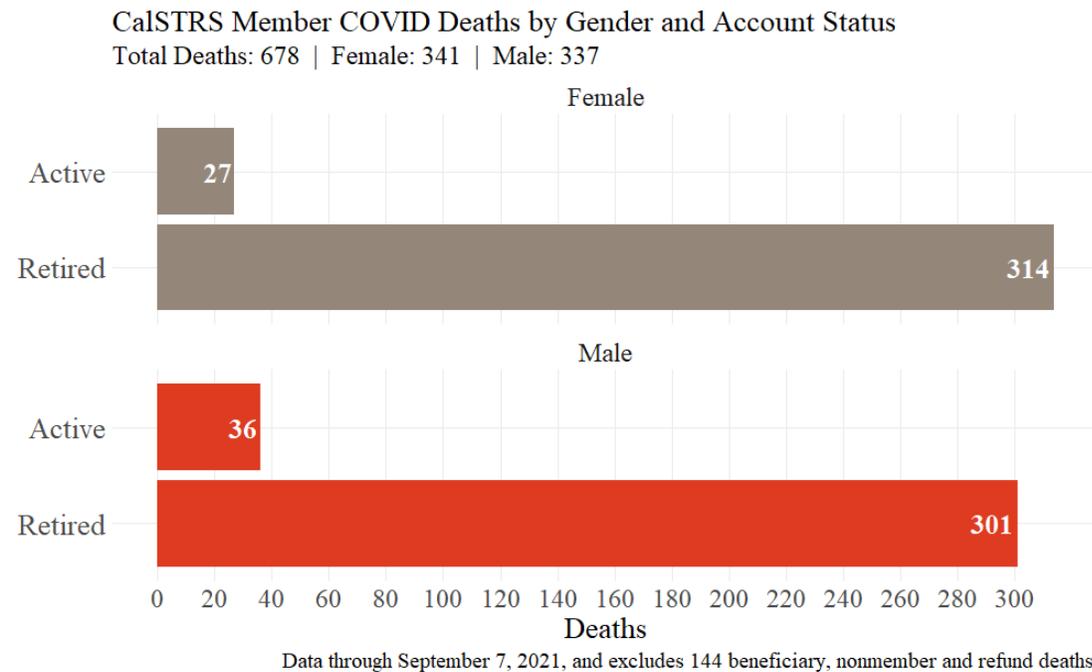
CalSTRS staff continue to monitor COVID-related member deaths each month. Following the statewide spikes in December and January, cumulative deaths have slowed down, reaching 678 through September 7 (the latest date of death reported). Approximately 85% of retired CalSTRS

members live in California, whereas California retired member deaths represent 82% of total retired member deaths in the United States.

CalSTRS Member COVID Deaths through September 7, 2021

Total Deaths: 678 | International: 1 | Female: 341 | Male: 337





## 6. Financial Statement and Budget Awards

The CalSTRS Comprehensive Annual Financial Report for the year ended June 30, 2020, 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 for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual 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 26<sup>th</sup> consecutive year that CalSTRS has achieved this prestigious award.

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, 2020. 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 a Popular Award for seven consecutive years.

CalSTRS 2020–21 and 2021–22 Biennial 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. The Distinguished Budget Presentation Award is valid for the two year reporting period.

#### **7. 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 and after acceptance by DOF, they are posted on CalSTRS.com as required. The most recent accepted biennial report, submitted December 2019, can be viewed [here](#). The update to the implementation plan, due in June 2021, was completed and accepted by the DOF on August 26, 2021. Staff are currently compiling our next biennial report for submittal by December 31, 2021.

#### **8. Global Pension Chief Financial Officer Forum**

On September 23, 2021 our Chief Financial Officer, Julie Underwood, hosted a virtual Global Pension Chief Financial Officer Forum with other pension plan CFOs from around the world, including Singapore, Australia, London, Canada and the U.S. This was an opportunity to network with other pension CFOs and share best practices. We had volunteered to host the in-person conference this year, but had to shift to virtual due to the COVID-19 pandemic.